

**Extracted from pages 16 through 20 of the:
“RUS Bulletin 1738-1Rural Broadband Access Loan and Loan Guarantee
Program Application Guide”**

These are the elements that RUS feels are necessary to support loans from them. Highly similar items would be required from most bonding authorities and concerns. They might be helpful in understanding what is necessary for a good feasibility study.

RESEARCH DATA AND MARKET ANALYSIS (Schedules K-1 and K-2)

Market research is critical in determining the interest and demands of the targeted communities for the services offered. This research provides the applicant with knowledge of market potential, an understanding of competition, and knowledge of the needs/demands of the potential customer base. But most important market research supports feasibility studies and strategic planning goals.

Therefore, a market survey, satisfactory to RDUP, shall be conducted by the applicant in *each* community proposed to be served over the 5-year forecast period. The market survey will collect data from potential subscribers (both residential and business) on the existing service offerings and the respective rates to determine the levels of interest in the services and rate plans to be offered by the applicant.

Market surveys can be conducted through the following mediums:

1. Direct mail;
2. Telephone;
3. Door-to-door interviews; and
4. Town Meetings
 - i) Coordination with local government officials
 - ii) Coordination with local Chamber of Commerce
 - iii) Announcements by local TV, radio, and newspapers

The applicant must capture a representative sample of both the residential and business sectors of each community proposed to be served over the 5-year loan forecast period regardless of whether the communities are being funded by loan funds or other sources.

The survey questionnaire used for conducting the market survey should, at a minimum, capture the following information:

1. Ownership of computers and Internet usage (including time online);
2. Existing service provider, rate plans (both price and transmission rate), satisfaction with current provider;
3. Proposed services offered by applicant, the respective rate plans (including any one-time fees), and the timeline for providing those services;

Market surveys will only be accepted if they were conducted within 6 months preceding the date of submission of the application to RDUP.

4. Incentive/introductory packages offered by the applicant;
5. Interest in switching service providers and reasons for switching (price, service level, customer service/local presence); and
6. Economic and social demographics including age, income level, and family/household members.

A. Research Data (Schedule K-1)

Schedule K-1 shall contain the methodology for conducting the market survey and the tabulated results for each community.

The results shall include:

1. Total number of surveys sent;
2. Total number of respondents;
3. Number and percent of responses to each question; and
4. Cross-tabulations for income levels, computer ownership, Internet usage.

The applicant shall include a copy of the questionnaire used in the market survey.

B. Market Analysis (Schedule K-2)

Schedule K-2 shall contain an analysis of the research data.

The applicant will draw conclusions regarding projected subscriber levels across the different service levels/rates for each community for each year of the financial forecast. The results will clearly differentiate business subscribers from residential subscribers. The results will be based on the tabulated data from the market survey, as well as other market data gathered with respect to existing and potential competition, and demographics of each community.

The results shall be for each community taking into account each community's individual circumstances and shall be based on the number of households/businesses in each community and not the population of the community.

The applicant must clearly explain the methodology behind the final subscriber projections. Subscriber projections based on population numbers and national/state

statistics are not acceptable on their own. Projections must be supported from the research data provided in this section.

BUSINESS PLAN (Schedule L)

It is management's responsibility to present the business plan of the project. The discussions below provide only a guide to indicate some of the information RDUP can require in order to make a loan determination.

The business plan should include:

A. General Overview

1. How loan funds will be used – This section should describe the use of the funding request and support how the broadband investment will provide services that will meet the needs of the RDUP program and the targeted rural communities.
2. Detail of sufficient working capital – The business plan must detail the working capital requirements of the business throughout the construction and the five-year project period. It must be clearly substantiated that the business will meet its projections, supported by the market analysis, meet its operating expenses through the ramp-up periods and maintain profitability.
3. Investments in the company – This section should describe the investments made for the proposed project. In conjunction with the above two narratives, the capital investment in the project must support the total capital required including the investments in the project, working capital, and the complete financial needs of the proposed project.
4. Management – This section should include management's narrative of its past performance and the company's ability to meet the oversight and management of the additional business in the proposal.

B. A statement of the business purposes

1. Services/goods the company intends to offer – This section should include the details of the goods and services the proposal will provide to the rural communities. Include all package programs, pricing objectives and service strategies. This section should describe highlights or features that will attract rural community customers to subscribe to your offerings.
2. Current state of development of goods and services – This section should detail the current state of your offerings and any necessary plans, investments and developments required to bring the proposed project to the market.

3. Status of licenses/regulatory approvals required to conduct business must be described including all terms and conditions that support your offerings. All supporting documentation and agreements must be provided in Schedules T-1 through T-7.
- C. Evaluation of main competitors
- Detail the companies competing in your target markets, provide comparisons of service offerings and pricing, and describe the quality of services. Any details on the investments competitors have made will be important.
- D. An analysis of the market for the applicant's business
1. A description of the primary market
 - a. Geographic area to be served should agree with the rural communities detailed in Schedule D-2.
 - b. Factors affecting market growth should be described including how they will impact your plans, and how you will mitigate risks and penetrate the current markets.
 2. Include in this section the current status, prospects, and trends influencing the industry that your target communities should consider.
 3. The customers you are targeting should be detailed including the key factors that influence their service selection decisions. This should be substantiated from your market analysis.
 4. Product pricing – This section should describe your pricing strategy and your pricing goals for the short- and long-term. This section should show your ramp-up and your market share.
 5. Advertisement and Promotion (How your business will reach the most customers and deter competitors) – This section should describe your approach to advertisement and promotion of services. It should include a description of your advertisement and promotions strategy, your marketing plan, the cost to execute your marketing plan, and the messages you will provide to your target markets. It should compare your marketing approach to the current marketing programs competitors are pursuing or are likely to pursue.
- E. Detailed Financial Information in Schedules N-1 through N-5 – This section should include management's narrative presentation of the financial position of the company (include its parent and subsidiary financial considerations when

applicable). This section should include financial ratio analysis and management's review and understanding of its financial commitments.

1. Refinancing: For broadband loans that include funds to refinance an outstanding telecommunications loan made under the RE Act, the applicant must provide satisfactory evidence for RDUP to determine that the benefits realized from the refinancing will further enhance broadband service in rural areas. The amount requested for refinancing cannot exceed 40% of the requested loan amount. The applicant should also include the details of the notes that are being proposed to be refinanced.
2. Acquisitions: For broadband loans that include funds to acquire facilities, the applicant must provide satisfactory evidence for RDUP to determine that the acquisition is necessary and incidental to furnishing or improving broadband service in rural areas. Applicants must submit an appraisal, for the facilities to be acquired, from a qualified entity to determine the reasonableness of the acquisition price. This appraisal should be attached to Schedule Q-11, Breakdown of Acquisition Cost.

The business plan must tie-in to the pro forma financial information and the marketing analysis.

MANAGEMENT AND COMPENSATION (Schedule M)

This schedule should include information on the management or key personnel that will be in charge of the project. At a minimum, the following information should be provided:

- Duties and responsibilities
- Experience
- Salaries
- Stock Ownership
- Bonus Plans
- Individual Equity Investments

In addition, the following two questions should also be addressed in this Schedule:

- Has management worked together?
- How do management skills complement each other?

FINANCIAL POSITION (Schedules N-1 through N-5)

RDUP will approve a loan only if, in RDUP's sole judgment, the loan will be repaid according to its terms and within the time agreed upon. It is the applicant's responsibility

to provide RDUP with sufficient financial information to determine that the loan will be feasible and adequately secured. Long-term forecast analysis should be based on knowledge of the external and internal factors that affect a company's operations. Historical and projected financial statements should be prepared by a consultant, accountant or individual familiar with preparing these types of financial statements. If your organization chooses someone outside of a consultant or accountant, that individual's qualifications, indicating their ability to prepare such financial statements, should be included with the application.

A. Historical Financial Statements (Schedule N-1)

Certified financial statements of the applicant for the last three (3) years, or for as long as the applicant has been in business if less than three (3) years, must be provided. The financial statements must include the balance sheet, income statement and statement of cash flow. If at all possible, please include audited financial statements.

The historical financial statements of the parent company and/or subsidiary company are also required. If another affiliated or unaffiliated company is providing operations and management services to the applicant, that company's historical financial statements should also be included.

In this section, you should also provide evidence of the credit support and/or cash requirement that was addressed in Schedule I. Evidence of existing assets can be obtained from the historical balance sheet. Evidence of the cash requirement can be in the form of firm commitments from entities providing the cash (along with financial statements indicating their ability to meet the requirement) or bank statements indicating that the cash is available.

B. Subscriber Projection Tables (Schedule N-2A to N-2C)

Subscriber projections shall be provided on a yearly basis for five (5) years. The subscriber projections must be broken down by community (both existing and proposed as shown on Schedule D-1) and by the type of services offered. **THE PROJECTIONS MUST CORRESPOND WITH THE RESULTS OBTAINED FROM THE MARKET ANALYSIS.** If broadband service is proposed to be offered in a "green field" area, the application must include information that justifies the subscriber penetration rates since no market information is available.

Sample tables have been provided to serve as a guide for the type of information that is required. Feel free to add additional lines, columns, etc. as needed. A separate table shall be included in Schedule N-2 for each type of service proposed (data, voice, and video).

C. Pro Forma 5-Year Financial Forecast (Schedule N-3A to N-3D)

This forecast must cover at least 5 years and be inclusive of **ALL** operations of the applicant, existing and proposed. It should be detailed, taking into account your best estimates for start-up costs (if any), revenues, expenses, ability to make

<u>Revenues to Consider:</u>	<u>Expenses to Consider:</u>
<ul style="list-style-type: none"> ◆ Broadband Revenues <ul style="list-style-type: none"> - cable modem - DSL - Wireless ◆ Sales Revenues ◆ Cablevision Revenues ◆ Telecom Revenues <ul style="list-style-type: none"> - Local and Long Distance ◆ Dial-Up Internet Revenues ◆ Access/Connecting Company Revenues ◆ Web Hosting/Storage Revenues ◆ Any Other Related and Non-Related Revenues 	<ul style="list-style-type: none"> ◆ Cost of Goods Sold ◆ Access Fees ◆ Programming Expenses ◆ Cable and Spectrum Leases ◆ Connecting Company Fees ◆ Depreciation Expense ◆ Interest Expense ◆ Salaries/Payroll Expenses ◆ Rent/Leases ◆ Miscellaneous <ul style="list-style-type: none"> - Utilities - Supplies - Insurance - Taxes - Advertising - Maintenance - Professional Fees ◆ Management Agreement Expenses ◆ Any Other Related and Non-Related Expenses

a profit and all financial data related to any subsidiaries. The financial forecast must include a balance sheet, income statement, statement of cash flow and detailed assumptions.

Samples of each statement have been provided as a guide for format as well as content. The account categories shown on the samples were based on the Uniform System of Accounts (USOA) which is required for use by existing RDUP Telecommunications Borrowers. At the time of application, it is not required for applicants to follow the USOA; however, it would be very helpful if the historical and projected financial information is presented in similar fashion.

The detailed assumptions must be in narrative format. They must clearly address each revenue and expense line item. When reviewing the assumptions, RDUP must have a clear picture of exactly how the figures were derived. We must be able to use your assumptions and recreate your projected revenues and expenses through the 5-year forecast period. Sample assumptions are provided in Attachment 1 to this guide.

NOTE: In order to determine feasibility, RDUP will require the applicant to achieve a projected TIER of at least 1.25 by the end of the forecast period. *TIER* is defined in the regulation and means Times Interest Earned Ratio. TIER is the ratio of an applicant's net income (after taxes) plus interest expense, all divided by interest expense. For the purpose of this calculation, all amounts will be annual figures and interest expense will include only interest on debt with a maturity greater than one year.

D. Depreciation Schedule (Schedule N-4)

A depreciation schedule should be provided as Schedule N-4. This schedule should list all the different categories of equipment and facilities in the "Total Project Cost" column on schedule Q-1, Summary of Project Costs, and the expected useful life. The useful life should be based on the manufacturers' recommended useful life.

E. Total Outstanding Indebtedness (Schedule N-5)

Existing RDUP Indebtedness

Include a listing of all outstanding RDUP indebtedness, including loan maturity and interest rates.

Existing Non-RDUP Indebtedness

Include a listing of outstanding non-RDUP indebtedness, including loan maturity, interest rates and conditions. Also, include as part of this schedule a copy of all loan documents related to non-RDUP indebtedness (notes, loan contracts, mortgages, etc.).

SYSTEM DESIGN (Schedule O)

The System Design of the application shall include all the technical information on the applicant's existing and proposed systems. The following information shall be included in this schedule:

1. A description of the applicant's existing service area (if any) and the proposed service area.

2. A description of the types of services to be provided (data, voice, video, etc.) and the number of subscribers projected for each type of service over the 5-year forecast period.
3. A detailed description of the type of technology to be used to deliver the broadband services. If more than one technology is proposed in the application, then this description should clearly state which technologies will be used in each community. This description should also address distance or coverage limitations with the proposed technology.
4. A detailed description of the applicant's existing system (if any). This description should be inclusive of the applicant's entire system and not just the broadband portion. The "Existing Network Diagram" provided in Schedule P should correlate with this description.
5. A detailed description of the proposed system to be built over the 5-year forecast period with loan funds and other sources of funding. This description should correlate with the "Proposed Network Diagram" provided in Schedule P.
6. A description of all the licenses/agreements required to operate the proposed system. These licenses/agreements shall be included as Schedules S and T.
7. A proposed build-out schedule on an annual basis.

Systems Design Certification - The System Design may be prepared by qualified personnel on the applicant's staff or by consultants. If the applicant chooses a consultant that is not a registered engineer licensed in the state in which the facilities will be constructed, the applicant will need to have a registered engineer, licensed in the state, certify that the proposed System Design will be capable of delivering the proposed broadband services. Also, consulting services shall be obtained only from persons or firms who are not affiliated with, and have not represented, a contractor, vendor or manufacturer who may provide labor, materials, or equipment to the applicant for projects included in the loan application. If the applicant has qualified personnel on staff to complete the preloan services, copies of the staff's qualifications must be included as part of the application and must clearly demonstrate the staff's ability to complete the System Design.

NETWORK DIAGRAMS (Schedule P)

Existing and proposed network diagrams shall be included in the application as Schedule P. The network diagrams shall be block diagrams that clearly show how the traffic flows through the network from the interconnection points with the backbone service providers to the end user. The diagram must clearly show all the network elements, the route miles

between each network element, the types of facilities used in connecting all the network elements together (fiber, copper, microwave, etc.), and the points-of-connection with the backbone service providers. For wireless systems, the network diagram shall also show the approximate coverage area for each access point. Sample network diagrams are provided as Attachment 2 at the end of this guide.

PROJECT COSTS (Schedules Q1 through Q-11)

1. Schedule Q-1 shall be a summary of the total cost of the project. It shall be based on the total amounts from Schedules Q-2 through Q-11.
2. Schedule Q-1A shall be a summary of the total project cost (excluding refinancing and acquisition) broken down on an annual basis.
3. Schedule Q-2 shall be a detailed breakdown of the Network & Access Equipment Cost. Examples of the items to be included on this schedule are next-generation switches, video headends, optical equipment, digital line concentrators, digital subscriber line access multiplexers, middleware, video-on-demand equipment, radio equipment, data routing equipment, etc.
4. Schedule Q-3 shall be a detailed breakdown of the Outside Plant Costs. Examples of the items to be included on this schedule are cable (aerial, buried, underground, and submarine), conduit systems, poles, network interface devices (NIDs), miscellaneous construction units, make-ready costs for aerial plant, etc.
5. Schedule Q-4 shall be a detailed breakdown of Building Costs. This schedule shall include the cost of constructing new buildings, renovating existing buildings, and any site preparation cost involved with installing pad-mounted equipment.
6. Schedule Q-5 shall be a detailed breakdown of the Land Costs. This schedule shall only include those sites that will be purchased by the applicant.
7. Schedule Q-6 shall be a detailed breakdown of the Tower Costs. This schedule shall include the cost for the construction of new towers and any costs involved with structural changes to existing towers. Site engineering and project management costs should not be included in this schedule; they should be included on Schedule Q-9, Breakdown of Engineering Costs.
8. Schedule Q-7 shall be a detailed breakdown of Customer Premise Equipment. Examples of the items to be included in this section are wireless subscriber units, modems, set-top boxes, etc.
9. Schedule Q-8 shall be a detailed breakdown of the Operating Equipment cost. This shall be broken down into different categories (Office Equipment, Office Furniture, Work Equipment, and Vehicles).
10. Schedule Q-9 shall be a breakdown of all the different engineering costs (site engineering, Radio Frequency engineering, network engineering, project management, etc.) involved in designing and constructing the proposed project.

11. Schedule Q-10 shall be a breakdown of the notes that are requested to be refinanced in the loan.

12. Schedule Q-11 shall be a breakdown of the acquisition cost.

Note: Schedules Q-2 through Q-7 shall be provided on a community basis for wireline systems and site basis for wireless systems.