

LADD ENGINEERING ASSOCIATES, INC.
CONSULTING ENGINEERS



The 2003 RURAL Utilities Service (RUS)

RURAL BROADBAND ACCESS LOAN AND LOAN GUARANTEE PROGRAM

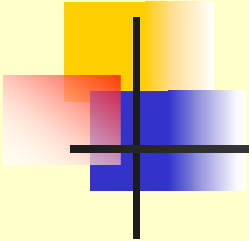


SOURCE OF INFORMATION

7CFR Part 1738 and RUS BULLETIN 1738-1

<http://www.usda.gov/rus/telecom/broadband.htm>

This presentation is intended to be an accurate summary of the information contained in RUS Bulletin 1738-1. Any differences between this presentation and the actual Bulletin are unintentional. In the event of differences between this presentation and the actual bulletin, the information in the Bulletin should be considered as the prime authority.



BROADBAND FUNDS AVAILABILITY ANNOUNCED

- Funding availability for Fiscal Year 2003 was announced by RUS on January 30, 2003
- A total of **\$1.455 billion** made available For Fiscal Year 2003
 - Direct cost of money loans - **\$1.295 billion**
 - Loan guarantees - **\$80 million**
 - Direct 4 percent loans - **\$80 million**



ALLOCATION OF FUNDS

- On October 1 of each fiscal year, or as soon as possible after funds become available, RUS will:
 - Establish a national reserve for broadband loans
 - Allocate amounts in the reserve to each State
 - To be considered eligible for funding from the State reserve for the current fiscal year
 - A completed application must be postmarked no later than January 31, of the fiscal year



ALLOCATION OF FUNDS (cont'd)

- On April 1 of each fiscal year, RUS will
 - Return all un-allocated State funds to the national reserve
 - To be considered eligible for funding from the national reserve during the current fiscal year
 - A completed application must be postmarked no later than July 31, of the current fiscal year
- Completed applications that are economically and technically feasible as determined by RUS,
 - Will be considered for funding in accordance with the priority requirements set forth in 7CFR Part 1738.15



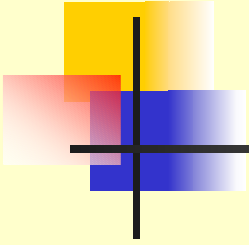
2003 APPLICATION DATES

- Applications must be post marked by January 31, to be considered for funding from state's allocation
 - State allocation will not apply in fiscal Year 2003
 - In subsequent years, funds will be allocated based on States ratio of total communities under 2,500 population
 - Un-obligated funds in each State's reserves after April 1 will return to the National Reserve and be available to all applicants
- Applications returned from the Broadband Pilot Program must be postmarked by March 3, 2003 to have priority consideration in fiscal year 2003
- To be considered eligible for funding from the National Reserve in 2003 all applications must be postmarked by July 31, 2003



TYPES OF BROADBAND LOANS

- **Direct Cost-of-Money Loan**
 - Will bear interest at a rate equal to the cost of borrowing to the Dept. of Treasury for obligations of comparable maturity
 - Interest rates are fixed at the time money is dispersed
 - \$ 100,000 Minimum loan - No predetermined maximum limit
- **Private Loan Guarantee**
 - Will bear interest at a rate set by the lender for loans of comparable maturity
 - \$ 100,000 minimum loan - Maximum limit may be set by lender



TYPES OF BROADBAND LOANS (cont'd)

- **Direct 4 Percent Loan**
 - The applicant must be proposing to serve a rural community that:
 - Has a population of less than 2,500
 - Has no current broadband service
 - Is located in a county with no more than 55 percent of the published of national per capita income (published annually)
 - www.bea.doc.gov/bea/regional/reis
 - Has a service area with a published maximum population density 10 persons per square mile (published annually)
 - \$ 100,000 Minimum loan - \$5,000,000 maximum limit



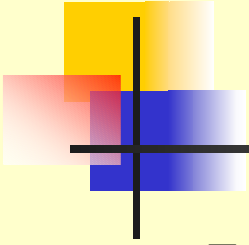
KEY DEFINITIONS

- Broadband Service
 - Any technology capable of transmitting data at a specified rate, both upstream and downstream (200 kbps for 2003)
 - High quality voice, data, graphics and video
 - Transmission data rate criteria may be changed but will be published annually by RUS in the Federal Register
- Eligible Rural Community
 - An Incorporated or unincorporated place in the US with:
 - No more than 20,000 inhabitants and
 - Not located in a standard metropolitan statistical area (MSA)



KEY DEFINITIONS (Cont'd)

- System design
 - The detailed plans, specifications and associated costs for the proposed construction, improvement or acquisition of facilities for broadband service
- Market Survey
 - A collection of data about consumers in proposed service area showing
 - The types of telecommunications products and services the consumers are interested in obtaining
- Service Area
 - The geographical area within which the applicant proposes to provide BROADBAND services



APPLICANT ELIGIBILITY

- To be eligible to receive a loan under this program, an applicant:
 - Cannot serve more than 2 percent of the telephone subscriber lines installed in the United States
 - Must have sufficient authority to enter into a contract with RUS and to carry out the purposes of the proposed loan
 - Types of eligible entities include:
 - Cooperative
 - Non-profit
 - Limited dividend or mutual associations
 - Limited Liability Companies
 - Indian tribes and tribal organizations
 - Commercial organizations (Corporations)
 - Individuals and partnerships are not eligible entities



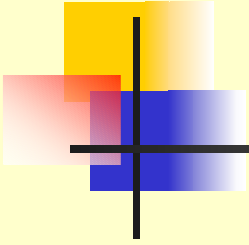
ELIGIBLE LOAN PURPOSES

- RUS makes broadband loans and loan guarantees to:
 - Finance construction, improvement and acquisition of facilities and equipment to provide broadband service in eligible rural communities
 - Finance broadband facilities leased under the terms of a capital lease (limited to 2 years of lease costs)
 - Finance the acquisition of another system, lines or facilities, if necessary and incidental to furnishing or improving rural broadband service (limited to 50 percent of requested loan amount)
 - Refinance an outstanding obligation on another telecommunications loan made under the RE ACT (limited to 40 percent of requested loan amount)



INELIGIBLE LOAN PURPOSES

- RUS will not make a broadband loan or loan guarantee to:
 - Acquire any stock, facilities or equipment of an affiliate of the applicant
 - Finance customer terminal equipment and any associated inside wiring not owned by the applicant during its economic life
 - Finance vehicles not used primarily in construction
 - Finance broadband facilities leased under the terms of an operating lease
 - Finance system designs or facilities that have not been designed to RUS specifications
 - Finance the merger or consolidation of entities
 - Pay for operating expenses on the project



CREDIT SUPPORT

- Applicant must provide verifiable credit support in an amount equal to 20 percent of the requested loan amount, as determined by a feasibility study satisfactory to RUS
- As part of the 20% support, the applicant must have cash available to cover the first full year operating expenses
 - If one year of operating expenses are less than 20 percent, the remainder may be met by un-depreciated assets, additional cash or equivalents, licenses, or an un-conditional letter of credit
 - If one year of operating expenses exceed 20 percent, the applicant must provide the entire amount for the full year of operating expenses in cash
 - Will be waived for existing telecommunications companies with 2 immediately past years of positive cash flow



LOAN PACKAGE CONTENT REQUIREMENTS

- Application for Broadband Loan or Guarantee - Form 522
- Market Survey
- Business Plan
- Certified System Design
- Financial Forecast
- Environmental Report
- Certification on Availability of Broadband Service
- Evidence of Legal Notification
- Supplemental Information
- Compliance with other Federal Statutes and Regulations



EXISTING BORROWER PROTECTION

- Prior to October 1, 2004, RUS will not make broadband loans or loan guarantees to any entity other than the incumbent RUS borrower providing local exchange telephone service, if:
 - The incumbent submits a letter to RUS within 90 days of RUS's receiving an application proposing to provide broadband services in the incumbent's territory
 - Stating that the incumbent intends to provide or begin to construct residential broadband service in its local exchange service territory within 2 years.



SUMMARY

- Source – 7CFR Part 1738 and RUS Bulletin 1738-1
- Loan Types
 - Direct Cost of Money - \$ 1.295 Billion
 - Loan Guarantees - \$80 Million
 - Direct 4 Percent Loans – 80 Million
- Allocation of Funds
 - October 1 of fiscal year, RUS will
 - Establish a national reserve for broadband loans
 - Allocate amounts in the reserve to each State
 - Submit applications postmarked no later than January 31
 - On April 1 of fiscal year, RUS will
 - Return un-allocated State funds to the national reserve
 - Submit applications postmarked no later than July 31



SUMMARY (Cont'd)

- 2003 Application Dates
 - Funds from State Allocations – January 31 (waived for 2003)
 - Applications returned from pilot program
 - Resubmit by March 3, 2003
 - All other applications – July 31, 2003
- Applicant eligibility
 - Serves less than 2% of US telephone subscribers
 - Sufficient authority to carry out the purpose of the loan
 - Individuals and Partnerships not eligible



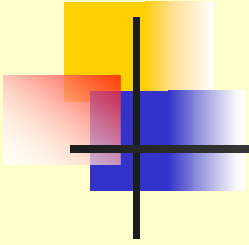
SUMMARY (cont'd)

- Eligible Loan Purposes
 - Finance broadband construction
 - Finance broadband capital leases
 - Acquisitions (under certain conditions)
 - Refinance existing RUS indebtedness
- Ineligible Loan Purposes
 - Acquire Stock, etc. of affiliates
 - Finance customer equipment or wiring not owned by applicant
 - Vehicles not used for construction
 - Operation leases
 - Designs or facilities not to RUS specifications
 - Finance mergers or consolidations
 - Operating Expenses



SUMMARY (cont'd)

- Credit Support
 - Must provide verifiable credit support equal to 20% of loan amount
 - Includes cash to cover 1 year of operating expenses
 - **Waived for Telcos with 2 years of positive cash flow**
 - Other rules apply
- Existing Borrowers Protected
 - From overbuilds by other entities using RUS funds
 - Until October 1, 2004
 - Letter of intent from incumbent to RUS required (within 90 days)



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Headquarters Office

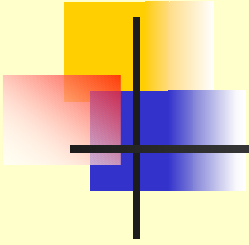
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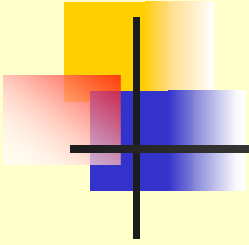


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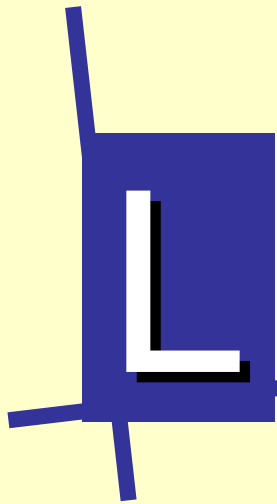
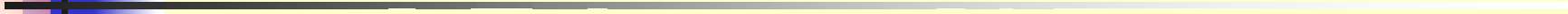
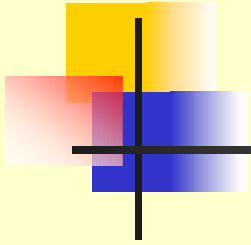
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