

**QUALITY LIFE
INTERGOVERNMENTAL AGENCY
(QLIFE)**

BUSINESS PLAN

As of October 31, 2002

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QLIFE BUSINESS PLAN

Original June 24, 2002

Revised October 31, 2002

<u>ITEM</u>	<u>NUMBER OF PAGES</u>	<u>STATUS</u>
Business Plan	4	Revised
Contact List	1	
Attachments:		
A. *Wasco County Telecommunications Plan	86	Original
B. *Financial Analysis of full loop	9	Original
C. Phase #1 and #2 Construction Costs / Revenues	1	Revised
D. MCMC section time line	1	Revised
E. *QLife budget FY 2002-2003	5	Original
F. Phase #1 and #2 financial analysis (10 years)	1	Revised
G. Phase 1-4 Construction Costs / Revenues	1	New
H. Phase 1-4 Financial Analysis (10 years)	1	New

*Attachments A, B and E are not attached to this revision because they are unchanged and do not directly relate to the revised plan.

**QUALITY LIFE INTERGOVERNMENTAL AGENCY
BUSINESS PLAN
(Revised October 31, 2002)**

The QLife Business Plan is dynamic in nature in that it will evolve based on opportunities. This is the first revision of the original June 24, 2002, document that originated our phase approach plan. This revision is related to clarifying our intent and identifying new opportunities we are pursuing like the new Phase III to the downtown and Phase IV to NORCOR and the PUD. This revision was approved by the QLife Board on 10/31/02.

OPPORTUNITY The U.S. Bonneville Power Administration (BPA) has installed a high-speed broadband optical fiber telecommunication line between its many facilities in the Northwest. Their design included excess capacity that was made available in Washington through a partnership of public/cooperative utilities known as “Northwest Open Access Network” (NoaNet) Washington.

In Oregon, a cooperative corporation known as NoaNet Oregon has formed to utilize the BPA fiber in Oregon. NoaNet Oregon is primarily comprised of electric cooperative utilities and non-private companies. They acquired debt through the National Rural Utilities Cooperative Financing Consortium for the purpose of building up the off-ramps and complimenting lines for the backbone of their system in Oregon. Each of the members guaranteed a portion of the debt, based on the population they serve. NoaNet Oregon has made an opportunity available to public entities to join as non-member participants.

Originally four, and now three, local public entities in The Dalles area - Northern Wasco County People’s Utility District (PUD), Wasco County (County), and the City of The Dalles (City) - formed an intergovernmental agreement known as the QualityLife Intergovernmental Agency (QLife). The goal is to construct a 17-mile fiber optic loop *to bring high speed broadband telecommunication services to The Dalles similar to those available in Northwest metro areas at prices similar to those in metro areas.*

A telecommunication study was done for Wasco County to help identify whether or not a need existed for QLife. The study, attached as Attachment A, indicated both a need and support for QLife.

Engineering has been completed on the 17-mile loop, identifying costs and the technical aspects of the loop. A contract was entered into with Mid-Columbia Economic Development District to prepare a financial analysis using a model developed by NoaNet Oregon and information provided by various QLife partners. This initial financial analysis (attached as Attachment B)

indicated it would take six years before the QLife system could meet operating and debt retirement costs and turn a profit. During those six years, a line of credit would be needed equaling \$800,000. The QLife Board determined this business approach was not acceptable and a new Business Plan was needed.

PRIMARY OBJECTIVE The primary purpose of QLife is to be a middle-mile broadband provider through a fiber optic loop. Under certain conditions, QLife will extend fiber lines to certain customers in order to enhance the overall benefit of the fiber optic loop to the community and allow it to serve its primary goal of economic development. QLife is an open access network and, as such, any potential user may connect at an appropriate location in accordance with this and other Board approved policies.

THE CURRENT BUSINESS PLAN The primary principle of this business approach is that when sufficient revenue (either grants obtained through capacity building or job creation, debt and/or sales to customers) is secured for construction, debt retirement, and operation of the system as shown through actual multi-year customer agreements, sections of the line will be constructed in phases until sufficient revenue exists to construct and operate the full 17-mile looped system.

We have been reluctant to construct the full 17-mile loop without a clear customer base. As attempts were made to specifically commit customers for the full construction, an immediate opportunity and need became known from Mid Columbia Medical Center (MCMC) and Region 9 Educational Service District (ESD) located at Columbia Gorge Community College (CGCC). Based on these immediate needs and opportunities, we propose a phased approach to construction. At any time during this phased approach, if capital construction revenues become available and operating revenues become sufficiently secure, the whole system can be constructed.

Phase I calls for the construction of a four mile section of the 17-mile loop that runs from the Big Eddy BPA Point of Presence (POP) to MCMC. Since June this phase has been expanded to include a spur line to medical offices on East 19th and East 12th Streets. The funding package includes use of current and proposed grant funds for materials and technical services, with PUD line crews installing approximately 3-3/4 miles of overhead line (in-kind value estimated at \$42,000), City crews installing 1/4 mile of underground, and contractors constructing the spur line. Attachment #C (revised October 31st, 2002) summarizes the revenue and expenditures associated with this phase and Phase II.

Attachment #D (revised October 31st, 2002) is a time line for construction of Phase I of approximately five months. We estimate Phase I will be operational in March, 2003. An operational Phase I of seven months is included in the fiscal year 2002-2003 budget (Attachment #E).

The financial feasibility of Phase I and start of construction of Phase I is contingent upon six activities. The PUD and the City have approved the plan with the understanding that these six

items will be completed and brought back to them for review before final authorization is given to proceed with construction. The six items that need to be completed are:

TABLE I
To be completed prior to commencing construction of Phase I

1. Approval by the City Council for the City of The Dalles participation in the construction of the underground lines. *(Contingent Approval on June 24, 2002)*
2. Approval by the PUD Board for the PUD's participation in the construction of the overhead lines. *(Contingent Approval on June 25, 2002)*
3. Application for and receipt of the \$75,000 OIB grant. *(No longer required).*
4. Obtaining and signing agreements with someone to provide the \$668,000 line of credit NoaNet connection fee without any financial risk to agency partners. *(Pending)*
5. The signatures of all necessary agreements to become a non-member participant of the NoaNet system. *(Negotiations completed. Pending other items).*
6. Signature of a multi-year agreement with MCMC guaranteeing sufficient revenue to provide for estimated system operating costs. *(Pending)*

Phase II Phase II construction is a two-mile line from MCMC to Columbia Gorge Community College. Since June 24th, this phase has also been expanded to include spur lines. Four School District #12 sites will be connected to the system. It is proposed that a contractor will install the backbone line and spur lines.

The project budget includes a 10-year OIB loan that will have an annual payback of \$16,700. Revised Attachment C shows the costs and funding sources for Phases I and II. Attachment F (revised October 31, 2002) is a financial analysis of 10 years of operation of only Phase I and Phase II. It shows a profit of almost \$50,000 after 6 years.

Phase III and IV Since the last update of the business plan, the QLife Board has approved pursuit of Phase III: a 6-mile loop from Big Eddy POP to The Dalles City Hall, with an approximately ¼-mile spur line to Wasco County Public Works. From City Hall, fiber line would be installed down the alley between 3rd and 4th and the alley between 2nd and 3rd. We have received significant interest from a bank, two ISPs and two local governments. Additional potential customers include five branch banks, a newspaper, four radio stations, a renovated office space being marketed for a call center with approximately 100 work stations, the newly renovated Commodore complex, Sprint telephone switch and Charter cable TV offices, and a number of realty firms, insurance firms, and other retail office space. In addition, we are pursuing a Phase IV that goes from the downtown to the NORCOR facility and Northern Wasco County offices. We are talking to five potential customers. The potential revenue from those 10

organizations being negotiated with has been used to develop a financial plan (Exhibit G) (new exhibit). Exhibit H (new exhibit) is a 10-year analysis for just the first 4 phases. This would complete two thirds of the loop and obtain financial earnings of almost \$137,000 in the first six years.

CONSTRUCTION OF THE FULL LOOP Additional phases would be based upon customer opportunities. Any additional revenue for any phase beyond what is needed for operation and debt retirement will be placed in a reserve for completion of the full 17-mile loop. When sufficient customer base and revenues exist, the full loop will be constructed, providing the redundant capacity needed.

Our designated operating system for the phases is an Ethernet point-to-point system. This is providing us significant savings on electronics. The full redundant SONET operating system will be installed upon completion of the loop.

OPERATION APPROACH The initial operation strategy for QLife is to contract with others for operational and financial management and to maintain the system. For example, using one of the partners to do finance and operational management, contract with the PUD or another for line maintenance, private contractors or the NoaNet members for electronic maintenance and NoaNet or one of its members for sales management. Once sufficient revenue is available, a full or part time manager may be hired.

EXIT STRATEGY If at any time during the phased approach, QLife determines that it lacks the political will or the financial ability to continue, we will market the assets currently held to other NoaNet participants or sell the fiber lines that we have to either the customers being served, such as MCMC, or to another provider, Sprint, or Charter, or an ISP who would then operate the system as a customer through a NoaNet Oregon member at the Big Eddy POP.

CONTACT LIST

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Uses

Phase 1 - Big Eddy to MCMC (Equipment & Installation)

In-Kind Overhead Construction	\$	42,000
In-Kind Unerground Construction	\$	24,000
Contractor Service	\$	10,385
Construction Materials & Supplies	\$	76,070
Electronic Equipment	\$	2,644
Subtotal -	\$	155,099
Contingency	\$	23,265
NOANet Participation Fee	\$	168,000
Spur Construction & Design	\$	42,422
Spur Electronics	\$	8,000
Total Qlife Phase #1	\$	396,786

Phase 2 - MCMC to CGCC (Equipment & Installation)

Outside Plant Construction	\$	41,250
Contractor Service	\$	10,021
Construction Materials & Supplies	\$	15,990
Electronic Equipment	\$	1,322
Subtotal -	\$	68,583
Contingency	\$	10,287
Spurs Construction & Design	\$	72,530
Spurs Electronics	\$	4,000
Total Qlife Phase #2	\$	155,400

Total Qlife Project \$ 552,186

Sources

Phase 1 - Big Eddy to MCMC

Lower John Day Grant Balance	\$	30,786
Federal Appropriation	\$	300,000
Subtotal Grants -	\$	330,786
Norther Wasco County PUD In-Kind	\$	42,000
City of The Dalles In-Kind	\$	21,000
Wasco County In-Kind	\$	3,000
Subtotal In-Kind -	\$	66,000
Total Qlife Phase #1	\$	396,786

Phase 2 - MCMC to CGCC

Oregon Investment Board Grant	\$	20,000
Oregon Investment Board Loan	\$	135,400
Lower John Day Grant Balance	\$	-
Federal Appropriation	\$	-
US EDA	\$	-
Oregon SPWF	\$	-
Total Qlife Phase #2	\$	155,400

Total Qlife Project \$ 552,186

TIME TABLE
QLIFE PHASE I & II
 (As of November 14, 2002)

<u>Action</u>	<u>Completion Date</u>
Obtain financing for Phase I	Completed
Obtain financing for Phase II	Substantially completed
Negotiation with NoaNet for Non-member Participation Agreement	Completed
Negotiation with MCMC of 5 year Service Agreement	Substantially completed
Negotiation with Region 9 ESD of 5 year Service Agreement	Substantially completed
Bid documents prepared for materials to construct Phase I and II	Completed
Court hearing on PUD participation	November 22, 2002
Final approval by MCMC, ESD of service agreements	November 25, 2002
Acceptance of agreement with partners to provide \$668,000 line of credit and guarantee by partners	November 26, 2002
Court approved PUD participation	November 30, 2002
Advertise for bids for materials to construct Phase I and II	November 30, 2002
Approval by City Council	December 9, 2002
Approval by PUD Board	December 12, 2002
Advertise for bids to construct Phase II and spur lines	December 13, 2002
Open material bids	December 23, 2002
Award materials contract for Phase I and II by Qlife Board	January 2, 2002
City and PUD begin work on Phase I	January, 2002
Open Phase II and spur lines construction bids	January 13, 2002
Award Phase II and spur lines construction bids (Qlife Board)	January 16, 2002
Contractor begins work on Phase II and spur lines	February, 2003
Phase I construction completed	April, 2003
Contractor completes Phase II	May, 2003
Phase I and II operational	June, 2003

	Year									
	1	2	3	4	5	6	7	8	9	10
Cash Flows Related to Operating Activities										
Revenues										
Charges - Local Line	13,800	55,200	57,960	60,858	63,901	67,096	70,451	73,973	77,672	81,556
NoaNet Discount Fees	1,380	5,520	5,796	6,086	6,390	6,710	7,045	7,397	7,767	8,156
Charges - NoaNet	6,900	27,600	28,980	30,429	31,950	33,548	35,225	36,987	38,836	40,778
Interest Earnings	-	267	511	841	1,264	1,791	2,432	3,197	4,098	5,148
Total Operating Revenues	22,081	88,589	93,250	98,217	103,511	109,151	115,160	121,562	128,382	135,647
Operating Expenses										
Contractual: Legal Services	1,500	6,000	6,240	6,490	6,749	7,019	7,300	7,592	7,896	8,211
Contractual: Administrative Services	1,800	7,200	7,488	7,788	8,099	8,423	8,760	9,110	9,475	9,854
Contractual: Technical Services	2,250	9,000	9,360	9,734	10,124	10,529	10,950	11,388	11,843	12,317
Contractual: PUD Line Maintenance	3,000	12,000	12,480	12,979	13,498	14,038	14,600	15,184	15,791	16,423
Insurance/Audit	800	3,200	3,328	3,461	3,600	3,744	3,893	4,049	4,211	4,379
Miscellaneous	500	2,000	2,080	2,163	2,250	2,340	2,433	2,531	2,632	2,737
Franchise Fees	-	-	-	-	-	-	-	-	-	-
Charges to NoaNet	6,900	27,600	28,980	30,429	31,950	33,548	35,225	36,987	38,836	40,778
Taxes	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	16,750	67,000	69,956	73,044	76,270	79,640	83,161	86,840	90,684	94,699
Net cash provided by Operating Activities	5,331	21,589	23,294	25,173	27,241	29,510	31,999	34,722	37,698	40,947
Cash Flows Related to Investing and Financing Activities										
Loan proceeds	135,400	n/a								
Grants	350,786	-	-	-	-	-	-	-	-	-
In-Kind Services for Construction of Plant	66,000	-	-	-	-	-	-	-	-	-
Purchase of fixed assets	(384,186)	-	-	-	-	-	-	-	-	-
Start-up costs	-	-	-	-	-	-	-	-	-	-
NoaNet Participation Fee	(168,000)	-	-	-	-	-	-	-	-	-
Loan principal & interest	-	(16,700)	(16,700)	(16,700)	(16,700)	(16,700)	(16,700)	(16,700)	(16,700)	(16,700)
Net cash provided by (used in) investing and financing activities	-	(16,700)								
Net Increase (Decrease) in Cash	5,331	4,889	6,594	8,473	10,541	12,810	15,299	18,022	20,998	24,247
Cash at beginning of period	-	5,331	10,220	16,814	25,287	35,828	48,638	63,937	81,959	102,957
Cash at end of period	5,331	10,220	16,814	25,287	35,828	48,638	63,937	81,959	102,957	127,204

Uses

Phase 1 - Big Eddy to MCMC (Equipment & Installation)

In-Kind Overhead Construction	\$	42,000
In-Kind Unerground Construction	\$	24,000
Contractor Service	\$	10,385
Construction Materials & Supplies	\$	76,070
Electronic Equipment	\$	2,644
Subtotal -	\$	155,099
Contingency	\$	23,265
NOANet Participation Fee	\$	168,000
Spur Construction & Design	\$	42,422
Spur Electronics	\$	8,000
Total Qlife Phase #1	\$	396,786

Phase 2 - MCMC to CGCC (Equipment & Installation)

Outside Plant Construction	\$	41,250
Contractor Service	\$	10,021
Construction Materials & Supplies	\$	15,990
Electronic Equipment	\$	1,322
Subtotal -	\$	68,583
Contingency	\$	10,287
Spurs Construction & Design	\$	72,530
Spurs Electronics	\$	4,000
Total Qlife Phase #2	\$	155,400
Total Qlife Phases #1 & #2	\$	552,186

Phase #3 & #4 Big Eddy to Downtown to NORCOR/PUD

Contractor Service	\$	58,191
Construction Materials & Supplies	\$	61,372
Contingency	\$	17,934
Design	\$	6,875
Subtotal -	\$	144,372
Spurs Construction & Design	\$	78,780
Spurs Electronics	\$	15,000
Mill Creek Extension complete	\$	30,000
NORCOR/PUD Extension complete	\$	60,000
Total Qlife Phase #3 & #4	\$	328,152
Total Qlife Phases #1 - #4	\$	880,339

Sources

Phase 1 - Big Eddy to MCMC

Lower John Day Grant Balance	\$	30,786
Federal Appropriation	\$	300,000
Subtotal Grants -	\$	330,786
Norther Wasco County PUD In-Kind	\$	42,000
City of The Dalles In-Kind	\$	21,000
Wasco County In-Kind	\$	3,000
Subtotal In-Kind -	\$	66,000
Total Qlife Phase #1	\$	396,786

Phase 2 - MCMC to CGCC

Oregon Investment Board Grant	\$	20,000
Oregon Investment Board Loan	\$	-
Lower John Day Grant Balance	\$	-
Federal Appropriation	\$	-
US EDA	\$	-
Oregon SPWF Grant	\$	67,700
Oregon SPWF Loan	\$	67,700
Total Qlife Phase #2	\$	155,400
Total Qlife Phases #1 & #2	\$	552,186

Phase #3 & #4 Big Eddy to Downtown to NORCOR/PUD

Oregon Investment Board Grant	\$	-
Oregon Investment Board Loan	\$	-
Lower John Day Grant Balance	\$	-
Federal Appropriation	\$	-
US EDA	\$	-
Oregon SPWF Grant	\$	164,076
Oregon SPWF Loan	\$	164,076
Total Qlife Phase #3 & #4	\$	328,152
Total Qlife Phases #1 - #4	\$	880,338

	Year									
	1	2	3	4	5	6	7	8	9	10
Cash Flows Related to Operating Activities										
Revenues										
Charges - Local Line	27,450	109,800	115,290	121,055	127,107	133,463	140,136	147,143	154,500	162,225
NoaNet Discount Fees	2,985	11,940	12,537	13,164	13,822	14,513	15,239	16,001	16,801	17,641
Charges - NoaNet	13,725	54,900	57,645	60,527	63,554	66,731	70,068	73,571	77,250	81,112
Interest Earnings	-	537	1,382	2,417	3,659	5,129	6,847	8,837	11,122	13,731
Total Operating Revenues	44,161	177,179	186,857	197,167	208,147	219,842	232,296	245,559	259,682	274,719
Operating Expenses										
Contractual: Legal Services	3,000	12,000	12,480	12,979	13,498	14,038	14,600	15,184	15,791	16,423
Contractual: Administrative Services	3,600	14,400	14,976	15,575	16,198	16,846	17,520	18,221	18,949	19,707
Contractual: Technical Services	4,500	18,000	18,720	19,469	20,248	21,057	21,900	22,776	23,687	24,634
Contractual: PUD Line Maintenance	6,000	24,000	24,960	25,958	26,997	28,077	29,200	30,368	31,582	32,846
Insurance/Audit	1,600	6,400	6,656	6,922	7,199	7,487	7,787	8,098	8,422	8,759
Miscellaneous	1,000	4,000	4,160	4,326	4,499	4,679	4,867	5,061	5,264	5,474
Franchise Fees	-	-	-	-	-	-	-	-	-	-
Charges to NoaNet	13,725	54,900	57,645	60,527	63,554	66,731	70,068	73,571	77,250	81,112
Taxes	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	33,425	133,700	139,597	145,757	152,193	158,916	165,940	173,278	180,945	188,956
Net cash provided by Operating Activities	10,736	43,479	47,260	51,410	55,954	60,926	66,356	72,281	78,736	85,763
Cash Flows Related to Investing and Financing Activities										
Loan proceeds	231,776	n/a								
Grants	582,562	-	-	-	-	-	-	-	-	-
In-Kind Services for Construction of Plant	66,000	-	-	-	-	-	-	-	-	-
Purchase of fixed assets	(712,338)	-	-	-	-	-	-	-	-	-
Start-up costs	-	-	-	-	-	-	-	-	-	-
NoaNet Participation Fee	(168,000)	-	-	-	-	-	-	-	-	-
Loan principal & interest	-	(26,565)	(26,565)	(26,565)	(26,565)	(26,565)	(26,565)	(26,565)	(26,565)	(26,565)
Net cash provided by (used in) investing and financing activities	-	(26,565)	(26,565)	(26,565)	(26,565)	(26,565)	(26,565)	(26,565)	(26,565)	(26,565)
Net Increase (Decrease) in Cash	10,736	16,914	20,695	24,845	29,389	34,361	39,791	45,716	52,171	59,198
Cash at beginning of period	-	10,736	27,650	48,345	73,190	102,579	136,940	176,731	222,447	274,618
Cash at end of period	10,736	27,650	48,345	73,190	102,579	136,940	176,731	222,447	274,618	333,817