

Rural Development
United States Department of Agriculture

RURAL UTILITIES SERVICE
RUS Bulletin 1738-1
Rural Broadband Access Loan and
Loan Guarantee Program Application Guide



**SUBMIT APPLICATIONS TO YOUR RUS GENERAL FIELD REPRESENTATIVE OR TO
WASHINGTON BROADBAND OFFICE AT:**

KENNETH KUCHNO
BROADBAND DIVISION
TELECOMMUNICATIONS PROGRAM
RURAL UTILITIES SERVICE
U.S. DEPARTMENT OF AGRICULTURE
STOP 1599, ROOM 2844-S
1400 INDEPENDENCE AVENUE, SW
WASHINGTON, DC 20250-1599

For reference see our website
<http://www.usda.gov/rus/telecom/broadband.htm>

Issue Date June 17, 2004

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0572-0130. The time required to complete this information collection is estimated to average 90 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

Rural Utilities Service (RUS)

Rural Broadband Access Loan and Loan Guarantee Program

The Rural Broadband Access Loan and Loan Guarantee Program is designed to provide loans for funding, on a technology neutral basis, the costs of construction, improvement and acquisition of facilities and equipment to provide broadband services to eligible rural communities. The Programs' goal is to ensure that rural consumers enjoy the same quality and range of telecommunications services that are available in urban and suburban communities.

!! BEFORE YOU GET STARTED !!

You must read

- ◆ ***The latest Notice of Funds Availability (NOFA) published in the Federal Register; and***
- ◆ ***7 CFR 1738 – Rural Broadband Access Loans and Loan Guarantees.***

These documents **MUST** be utilized in conjunction with this Application Guide. Should any differences result in the interpretation of this Application Guide and the Regulation, the Regulation takes precedence over information contained in this Application Guide.

In addition, all construction financed with RUS loan funds must be done in accordance with RUS Bulletin 1738-2, Rural Broadband Access Loan and Loan Guarantee Program, Advance and Construction Procedures Guide.

The above documents can be retrieved from our web site or from any of RUS' General Field Representatives for the Telecommunications Program.

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

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General Information

➤ *Eligible Purposes of the Loan:*

RUS makes broadband loans and loan guarantees to:

- ◆ Finance the 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, as defined in generally accepted accounting principles; financing will be limited to 5 years of lease costs;
- ◆ Finance the acquisition by an eligible entity of another system, lines or facilities to furnish or improve rural broadband service (cannot exceed 50 percent of requested loan amount); and
- ◆ Refinance an outstanding obligation on another telecommunications loan made under the RE Act. The refinancing cannot exceed 40 percent of the loan amount.

➤ *Ineligible Purposes of the Loan:*

RUS will not make a broadband loan or loan guarantee for the following items:

- ◆ Acquisition of any stock, facilities or equipment of an affiliate of the applicant;
- ◆ Customer terminal equipment (including modems) and any associated inside wiring not owned by the applicant during its economic life;
- ◆ Vehicles not used primarily in construction;
- ◆ Broadband facilities leased under the terms of an operating lease;
- ◆ Merger or consolidation of entities; and
- ◆ Operating expenses of the project.

➤ ***Types of Broadband Loans***

1. **Direct Cost-of-Money Loan**– This loan will bear interest at a rate (the “Cost-of-Money Interest Rate”) equal to the cost of borrowing to the Department of Treasury for obligations of comparable maturity. Department of Treasury interest rates are released daily and can be found in Release H.15 at <http://www.federalreserve.gov/releases/h15/update/> .

2. **Private Loan Guarantee** – This loan is a third party loan (Not funded by RUS). This loan shall bear interest at a rate set by the lender consistent with the current applicable market rate for a loan of comparable maturity. RUS will guarantee up to eighty percent (80%) of the principal amount of the loan.

3. **Direct 4 Percent Loan** – To be eligible for this loan bearing an interest rate of 4-percent, the applicant must be proposing to serve:
 - A). A rural community that:
 - i) Has a population of less than 2,500 inhabitants;
 - ii) Is not currently receiving broadband service; and
 - iii) Is located in a county with per capita personal income that is less than or equal to that percent of the national average per capita personal income which RUS will publish in the Federal Register at the beginning of each fiscal year (FY). County per capita personal income, as a percent of the national average per capita personal income, is published by the Bureau of Economic Analysis, U.S. Department of Commerce at www.bea.doc.gov/bea/regional/reis. RUS will use the most recent statistics published on October 1 of the FY in which the application is deemed complete by RUS.

 - B). A service area with a certain maximum population density, calculated as the total number of persons in the service area divided by the square miles of the service area. The maximum population density will be published by RUS in the Federal Register at the beginning of each FY.

The total amount of financing made available by RUS, in each FY, for Private Loan Guarantees and Direct 4 Percent Loans and the maximum amount for any one Direct 4 Percent Loan will be published by RUS in the Federal Register, at the beginning of each FY.

Direct 4 Percent Loans can be made simultaneously with a Direct Cost-of-Money Loan.

➤ ***Minimum and Maximum Loan Amounts***

RUS will not consider applications for loans or loan guarantees of less than \$100,000. Maximum loan amounts apply only to an applicant for a direct 4-percent broadband loan (explained in the regulation). These limitations will be published in the Federal Register at the beginning of each FY.

➤ *Priority Consideration*

The Farm Security and Rural Investment Act of 2002, Title VI –Rural Broadband Access, Section 601 (c)(2), requires that in making and guaranteeing loans under this section, priority must be given to eligible rural communities in which broadband service is not available.

Completed loan applications proposing to provide broadband service in an area where none is available will receive FIRST priority for funding.

Note: To be eligible for this “First” priority, the entire application must be for areas with no broadband service available.

➤ *Broadband Service*

Broadband Service means any technology identified by the Administrator as having the capacity to transmit data to enable a subscriber to originate and receive high-quality voice, data, graphics, and video. For funding under 7 CFR 1738, projects must offer data transmission services, and may provide voice, graphics, and video. At the beginning of each fiscal year, RUS will publish, in the Federal Register, the transmission data rate criteria to be utilized for purposes of the identification of broadband service technologies during that fiscal year’s funding period.

➤ *Eligible Rural Community*

An eligible rural community, defined under this Program means any incorporated or unincorporated place in the United States, its territories and insular possessions (including any area within the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau) that has no more than 20,000 inhabitants based on the most recent available population statistics from the U. S. Census Bureau. For purposes of this program, place may include any area located outside the boundaries of any incorporated or unincorporated city, village or borough having a population exceeding 20,000.

➤ *Applicant Eligibility*

RUS makes broadband loans and loan guarantees to legally organized entities providing, or proposing to provide, broadband services in eligible rural communities.

Types of eligible entities include: cooperatives, municipalities, nonprofit, limited dividend or mutual associations, limited liability companies, Indian tribes and tribal organizations as defined in 25 U.S.C. 450(b) and (c) and commercial organizations. Individuals or partnerships of individuals are not eligible entities.

Applicant Eligibility Continued

To be eligible to receive a loan under this program, the entity:

- ◆ Cannot be serving more than 2 percent of the telephone subscriber lines installed in the United States; and
- ◆ Must have sufficient authority to enter into a contract with RUS and to carry out the purposes of the proposed loan.

➤ Credit Support Requirement

A. To be eligible for a loan, RUS will require, as a condition to RUS financing, that an applicant provide credit support in an amount equal to 20 percent of the requested loan amount. There are four ways that this requirement can be met:

1. **Cash**
2. **Net Tangible Assets** – These assets must be in the name of the applicant. They are valued at net book value less any liens and payment obligations against them. These tangible assets must be assets that would normally be funded by RUS as part of the loan.
3. **Licenses** – The licenses are valued at the lower of cost or market value net of liens or other obligations.
4. **Letters of Credit (LOC)** – LOCs for this requirement must meet the following terms:

Terms for the Bank

- Investor to enter into LOC to benefit the Broadband Borrower and Government. The LOC must be secured by assets other than those of the Broadband Borrower.
- LOC to be irrevocable permitting unconditional draws by the Broadband Borrower and the Government.
- LOC to be in effect for five (5) years.

Terms for the Borrower (Will be included as a condition to the Loan Agreement)

- LOC must be in effect for the shorter of five (5) years or until the Borrower achieves an equity level of 20 percent.
- Borrower agrees to draw on the LOC if the quarterly financials show a negative cash flow.
- Borrower agrees to draw on LOC when directed by RUS.
- Failure to maintain the LOC will be an Event of Default

***UNDER NO CIRCUMSTANCES WILL RUS WAIVE THE
CREDIT SUPPORT REQUIREMENT***

Credit Support Requirement Continued

B. If the applicant is a start-up company or an existing telecommunications company that does not have positive cash flow for the previous two calendar years preceding the submission date of the application to RUS, the applicant must have, as part of the minimum 20 percent requirement, cash in an amount equal to cover the operating expenses for the first full year of providing service. *This amount is the “Total Operating Expenses” shown on the Forecasted Year 2 column of the Income Statement (Schedule N-3B).*

Note: Cash Flow is defined as Cash Provided (Used) By Operating Activities shown in the “Statement of Cash Flows” as required under Generally Accepted Accounting Principles. Cash Flow should be calculated using the “Statement of Cash Flows” (Schedule N-3C) described as line item “Net Cash Provided (Used) By Operating Activities”.

1. If the amount needed to cover operating expenses exceeds the minimum 20 percent amount, then applicants will be required to provide the larger of the two amounts.
2. If the amount needed to cover operating expenses is less than the 20 percent amount, then the remainder of the 20 percent amount can be met by any of the other 3 items listed under “A”.
3. Accounts Receivable cannot be used to satisfy this requirement.

Applicants must provide evidence in the form of bank or financial statements that clearly demonstrate how the applicant will meet the Credit Support requirement. This evidence needs to be included as Schedule N-1 in the Financial Position section of the application. At the time when a loan proposal is offered by RUS, the cash amount required to meet the credit support requirement must be deposited into the applicant’s bank account.

➤ ***Preapplication Stage***

Initial prospective applicants and their attorneys should review the terms and conditions set forth in the standard RUS broadband loan documents. Please note, additional terms and conditions may apply once feasibility has been determined. Copies of these documents can be obtained from the RUS web site.

➤ ***Application Submission***

Applications can be submitted throughout the year and will be reviewed and processed on a first-come, first-served basis. Submit an original and two copies of a completed application to your RUS General Field Representative (GFR) or to the Washington Broadband Office at the following address:

KENNETH KUCHNO
BROADBAND DIVISION
TELECOMMUNICATIONS PROGRAM
RURAL UTILITIES SERVICE
U.S. DEPARTMENT OF AGRICULTURE
STOP 1599, ROOM 2844-S
1400 INDEPENDENCE AVENUE, SW
WASHINGTON, DC 20250-1599

Applications delivered by hand will be accepted daily between 8:00 a.m. and 4:30 p.m. (Eastern Standard Time), except Saturdays, Sundays and Federal holidays. Individuals delivering applications must provide proper identification (with picture ID) to enter the building.

➤ ***Contact Information:***

For additional information concerning this loan program, please contact the RUS General Field Representative for the respective state and/or any member of the Broadband Team. The contact information for the Broadband Team and the GFRs are listed as Attachments 3 and 4 respectively at the end of this guide. Information about RUS and this application guide can also be retrieved electronically *via the internet* at:

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

Instructions for Completing the RUS Form 532

The RUS Form 532, Application for Broadband Loan or Loan Guarantee, is a three-page form that must be completed and certified by an authorized official of the entity applying for the loan. The applicant's name should be inserted in the footers for identification purposes.

1. **NAME & ADDRESS OF APPLICANT** – Enter the legal name and address of the entity requesting the loan.
2. **REGISTERED AGENT (Address, Telephone and Fax)** – Enter the name, address, phone and fax numbers of the registered agent of the applicant.
3. **PHONE NUMBER** – Enter the phone number of the applicant.
4. **FAX NUMBER** – Enter the fax number of the applicant.
5. **E-MAIL ADDRESS** – Enter the e-mail address of the person responsible for answering questions about this application.
6. **CONTACT PERSON** – Enter the name of the person responsible for answering questions about this application.
7. **TYPE OF ORGANIZATION** - Check the appropriate box that describes the legal structure of the applicant.
8. **TYPE OF LOAN** – Check the type of loan requested. (See Types of Loans under the “General Information” section for additional information on each type of loan).
9. **REFINANCING/ACQUISITION** – Check appropriate box(es) if loan funds are requested for refinancing and/or acquisition; otherwise check Not Applicable.
10. **PURPOSE OF LOAN** - Briefly explain the purposes for which loan funds are requested and the respective amount. (See Loan Purposes under the “General Information” section of this guide for additional information on eligible/ineligible purposes of the loan.)
11. **LOAN MATURITY REQUESTED** – Check the appropriate box to select the loan maturity requested. The maximum loan maturity is based on the composite economic life of facilities financed. This calculation uses a weighted average of the useful lives of all equipment being funded. A shorter maturity period can be requested by checking the second box and inserting the number of years for the maturity period.
12. **AMOUNT OF LOAN APPLIED FOR** – The total amount of loan funds requested from RUS in this loan application.
13. **EMPLOYER TAX IDENTIFICATION NO. (TIN)** – Enter the applicant's Tax Identification Number or the Federal Employer Identification Number (FEIN).
14. **ORGANIZATIONAL NUMBER** – Enter the organizational number of the applicant issued by the state in which the corporation was formed or the LLC was organized. Refer to state registration approval for the type of entity. http://www.uccdirect.com/resource_chart.htm

Instructions Continued

15. CONGRESSIONAL DISTRICTS – Include the information required on the congressional districts as Schedule A.
16. LEGAL OPINION & PROPERTY SCHEDULES – Include the legal opinion and the real property schedule. The legal opinion and the real property schedule should be included in the application as Schedules B-1 and B-2, respectively.
17. COMPLIANCE CERTIFICATES – Include certified copies of these forms in the application as Schedules C-1 to C-8.
18. COMMUNITIES – Include the tables on the existing and proposed communities, respective service providers, and service area maps as Schedules D-1, D-2, and D-3, respectively.
19. CERTIFICATION OF BROADBAND AVAILABILITY – Include this certification as Schedule E.
20. NOTICE OF PROPOSED SERVICE – Include the legal notice(s) and the sufficiency of legal notice as Schedules F-1 and F-2.
21. CORPORATE STRUCTURE – Include information on the legal structure of the applicant, its Board of Directors or Managing Members, the organizational chart, parent/subsidiary relationships, and the State LLC Statute as Schedules G-1 through G-5.
22. EXECUTIVE SUMMARY – Include the information required on the Executive Summary as Schedule H.
23. CREDIT SUPPORT – Include the Credit Support Form as Schedule I.
24. BOARD RESOLUTION – Include the Board of Director’s resolution authorizing the funding request as Schedule J.
25. RESEARCH DATA & MARKET ANALYSIS– Include the information required as part of the Research Data as Schedule K-1 and Market Analysis as Schedule K-2.
26. BUSINESS PLAN – Include the information required on Business Plan as Schedule L.
27. MANAGEMENT AND COMPENSATION – Include this information as Schedule M.
28. FINANCIAL POSITION – Include the information required on Financial Position of the applicant as Schedules N-1 through N-5.
29. SYSTEM DESIGN – Include the information required on the System Design as Schedule O.
30. NETWORK DIAGRAMS – Include the existing and proposed Network Diagrams as Schedule P.
31. SUMMARY OF PROJECT COSTS – Include this summary as Schedule Q-1 and enter the respective amounts for each budget category on the form.
32. ENVIRONMENTAL REPORT – Include the Environmental Report for the proposed project as Schedule R.
33. TOWER, EQUIPMENT, AND BUILDING LEASES – Include these leases as Schedule S.

Instructions Continued

34. LICENSES AND AGREEMENTS – Include copies of FCC and CLEC licenses, franchise agreements, interconnection agreements, management/service agreements, By-laws and LLC Operating Agreements and other major agreements as Schedules T-1 through T-7.
35. GUARANTEED LOANS – Include information on private guarantee loans as Schedules U-1 and U-2.
36. IS THE BORROWER DELINQUENT ON ANY FEDERAL DEBT – Check appropriate box.

Instructions for Preparing Schedules A through U

CONGRESSIONAL DISTRICTS (Schedule A)

Schedule A shall contain information on the congressional districts. This information shall include both the districts where the applicant's headquarters are located and the ones that cover the service territory proposed by this project.

LEGAL OPINION & PROPERTY SCHEDULE (Schedules B-1 and B-2)

- A. Legal Opinion – A legal opinion shall be prepared in accordance with the sample format as shown on Schedule B-1.
- B. Real Property Schedule - Schedule B-2 is the real property schedule that includes the legal descriptions of all the real property owned by the applicant. It should be categorized into real property, leased-property, easements, and rights-of-way.

COMPLIANCE CERTIFICATES (Schedules C-1 through C-8)

Schedules C1 – C7 are forms that need to be certified by the applicant to ensure compliance with Federal statutes and regulations. Schedule C-8 is the System Design Certification. Refer to the System Design section of this guide before certifying on this form. All forms must be used without any modification and certified with original signatures.

- A. Equal Opportunity and Nondiscrimination Certification (Schedule C-1)
- B. Certification Regarding Architectural Barriers (Schedule C-2)
- C. Certification Regarding Flood Hazard Area Precautions (Schedule C-3)
- D. Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 Certification (Schedule C-4)
- E. Certification Regarding Debarment, Suspension, and other Responsibility Matters – Primary Covered Transactions (Schedule C-5)
- F. Certification Regarding Lobbying for Contracts, Grants, Loans, and Cooperative Agreements (Schedule C-6)
- G. Environmental Impact Certification (Schedule C-7)
- H. System Design Certification (Schedule C-8)

COMMUNITIES (Schedules D-1 through D-3)

- A. Existing & Proposed Communities - Schedule D-1 is a table that needs to be completed for all the existing communities (if any) served by the applicant and the proposed communities. The existing communities should be indicated by an “E” and the proposed with a “P”. The proposed communities should be inclusive of all the communities that the applicant plans to serve over the 5-year loan forecast period.

For each community, indicate the name of the County and the respective State; the population data; the number of Households (HH) in the town area; and the number of Businesses (Bus). These statistics should be based on the most recent available data provided by the U. S. Census Bureau. The website address is <http://www.census.gov/>. In addition, if the project will serve areas outside the town area of a particular community, then the number of households located in the outlying rural area should be stated in this column.

- B. Existing Service Providers - Schedule D-2 contains details of current or known proposed service providers serving in the communities listed on Schedule D-1 above. For each community, list the name of each telecommunications service provider (including cable TV operators), the different types of service offerings and the respective rate plan for each service offering.
- C. Service Area Maps – Service area maps should be included as Schedule D-3 and should be no larger than 8 ½ inches by 11 inches. If the application proposes to serve communities located in multiple states, then a service area map should be included for each state. The map(s) should clearly indicate all the communities listed on Schedule D-1 and clearly distinguish the existing communities from the proposed communities.

CERTIFICATION OF BROADBAND AVAILABILITY (Schedule E)

In accordance with the Farm Security and Rural Investment Act of 2002, Title VI – Rural Broadband Access, Section 601[c](2), RUS, in making or guaranteeing broadband loans, must give priority to eligible rural communities in which broadband service is not available to residential customers. All applicants applying for a loan or loan guarantee under the Rural Broadband Access Loan and Loan Guarantee Program must certify the extent to which broadband service is available to residential customers in the proposed service area. Schedule E, *Certification Regarding the Availability of Broadband Service in Eligible Rural Communities*, should be completed and certified.

NOTICE OF PROPOSED SERVICE (Schedules F-1 and F-2)

- A. Proof of Legal Notice - All applicants under the Rural Broadband Access Loan and Loan Guarantee Program must publish a legal notice in each community that the applicant intends to offer broadband services. The legal notice must set forth the applicant’s proposed service area and request that any incumbent broadband service provider submit to RUS, within 30 days, the number of residential customers receiving broadband service in the applicant’s proposed service area, the rates of data transmission and the cost of each level of service or proof of commitment to provide service in the proposed service area. The response form to be used by the incumbent service provider is available on RUS’ web site.

Notice of Proposed Service (Schedules F-1 and F-2) Continued

In addition, the legal notice should also request that the incumbent broadband service providers supply RUS with a map of their service territory. A sample for the legal notice form that can be used is shown below. This should be the minimum language provided and it is the responsibility of each applicant to make sure all requirements that constitute the legal notice within the proposed areas have been satisfied. The proof of all the published legal notices should be included in the application as Schedule F-1.

| |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| LEGAL NOTICE |
| _____ (Company Name) |
| We are a prospective applicant under the Rural Broadband Access Loan and Loan Guarantee Program being administered by the Rural Utilities Service (RUS), United States Department of Agriculture. We are required, as a prospective applicant, to announce our intent to provide broadband services (200 kilobits upstream and downstream) in the State of _____ in the following communities/counties: _____ _____ _____ |
| Incumbent broadband service providers have 30 days from the date of this Legal Notice to inform RUS if they are currently providing broadband service in these areas or if they have a commitment to provide service in these areas. Incumbent broadband service providers should submit to RUS, on a form prescribed by RUS, the number of residential customers receiving broadband service in the proposed service area, the rates of data transmission, and the cost of each level of service or proof of commitment to provide service in the proposed service area. A map should also be provided showing the boundaries of your service area in relation to the communities above. |
| A Legal Notice Response Form can be obtained from RUS' website at www.usda.gov/rus/telecom . |

- B. Sufficiency of Legal Notice - If not already required by state statutes, the legal notice must be published in state and local newspapers covering the applicant's proposed service area. Schedule F-2 is a legal opinion to be provided by the applicant's legal counsel stating that the notifications are all in compliance with local statutes and should include the list of publications and the respective dates where the legal notice was published.

CORPORATE STRUCTURE (Schedules G-1 through G-5)

- A. **Articles of Incorporation or Organization** – Include a registered copy of the Articles of Incorporation or Organization (LLC) of the applicant as Schedule G-1.
- B. **Copy of the State LLC Statute** – If the applicant is a Limited Liability Company (LLC), a copy of the most recent LLC state statute where the applicant was organized / registered shall be included as Schedule G-2.
- C. **Board of Directors or Managing Members** – Schedule G-3 shall include a list of your board members and a brief biography to highlight their experience within your industry and community.
- D. **Organizational Chart and Statement of Experience** - Schedule G-4 shall include an organizational chart showing the key personnel who manage or will manage the company and/or this project. This schedule shall also include a narrative that describes how the previous work experience of each key manager directly relates to each manager’s ability to perform their duties and responsibilities as outlined in Schedule M of the application.
- E. **Parent and Subsidiaries** – Schedule G-5 should include all the other entities (parent/subsidiaries) that are affiliated with the applicant and clearly indicate the relationships between these entities and the applicant.

EXECUTIVE SUMMARY (Schedule H)

The executive summary should be a high level explanation of the proposed project.

It should include the reason why the system is needed and the qualifications of the applicant that demonstrate the ability to construct and operate a broadband system.

It should also detail the number and names of the communities to be served, the proposed type of broadband system that will be deployed and the overall cost of the broadband system.

CREDIT SUPPORT (Schedule I)

Indicate on this schedule all the appropriate categories that will be used to satisfy the credit support requirement. For each category that is used, indicate the dollar amount for that category.

In addition, if the applicant is an existing telecommunications company, indicate if the company has had a positive cash flow from operations for the previous two calendar years preceding the date of the application. Cash Flow is defined as Cash Provided (Used) By Operating Activities shown in the “Statement of Cash Flows” as required under Generally Accepted Accounting Principles. Cash Flow should be calculated using the “Statement of Cash Flows” included in the Schedule N-3c described as line item “Net Cash Provided (Used) By Operating Activities” for last two preceding calendar years from the submission date of the application.

BOARD RESOLUTION (Schedule J)

A Board of Directors' resolution or other document authorizing the funding request should be included as Schedule J.

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 RUS, 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;
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.

Research Data and Market Analysis (Schedule K-1 and K-2) Continued

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

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 RUS 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 RUS 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.

Business Plan (Schedule L) Continued

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

Business Plan (Schedule L) Continued

evidence for RUS 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 RUS 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)

RUS will approve a loan only if, in RUS' 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 RUS 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

Financial Position (Schedules N-1 through N-5) Continued

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 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 RUS Telecommunications Borrowers. At the

Financial Position (Schedules N-1 through N-5) Continued

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.

| <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 |

The detailed assumptions must be in narrative format. They must clearly address each revenue and expense line item. When reviewing the assumptions, RUS 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, RUS 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.

Financial Position (Schedules N-1 through N-5) Continued

E. Total Outstanding Indebtedness (Schedule N-5)

Existing RUS Indebtedness

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

Existing Non-RUS Indebtedness

Include a listing of outstanding non-RUS indebtedness, including loan maturity, interest rates and conditions. Also, include as part of this schedule a copy of all loan documents related to non-RUS 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.

System Design (Schedule O) Continued

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.

Project Costs (Schedule O-1 through O-11) Continued

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.

ENVIRONMENTAL REPORT (Schedule R)

RUS is responsible for implementing the requirements of the National Environmental Policy Act of 1969 (NEPA), as amended; the Council on Environmental Quality Regulations for Implementing the Procedural Provisions of NEPA and certain related Federal environmental laws, statutes, regulations, and Executive Orders (EO) that apply to RUS programs. The policies and procedures set forth in 7 CFR Part 1794 – Environmental Policies and Procedures, assist RUS with making decisions that are based on an understanding of environmental consequences, and taking action that protects, restores and enhances the environment.

Applicants are responsible for ensuring that proposed actions are in compliance with all appropriate RUS requirements. Therefore, applicants must prepare an environmental report in accordance with 7 CFR Part 1794, for any facilities that will be constructed with RUS broadband loan funds. A copy of 7 CFR Part 1794 can be retrieved from RUS' web site.

Environmental Report (Schedule R) Continued

The link for this regulation is <http://www.usda.gov/rus/water/ees/pdf/1794.pdf> . In addition, applicants can also retrieve the *Guide for Preparing an Environmental Report for Categorically Excluded Projects* to assist in the preparation of the Environmental Report. The link for this guide is http://www.usda.gov/rus/telecom/publications/word_files/1794a600.doc.

TOWER, EQUIPMENT AND BUILDING LEASES (Schedule S)

Executed copies of all tower, equipment, and building leases shall be included as Schedule S.

LICENSES AND AGREEMENTS (Schedules T-1 through T-7)

- A. FCC LICENSES: (Attach as Schedule T-1)
- B. CLEC LICENSES: (Attach as Schedule T-2)
- C. FRANCHISE AGREEMENTS: (Attach as Schedule T-3)
- D. INTERCONNECTION AGREEMENTS: (Attach as Schedule T-4)
- E. MANAGEMENT / SERVICE AGREEMENTS: (Attach as Schedule T-5)
- F. BYLAWS or OPERATING AGREEMENTS: (Attach as Schedule T-6)
- G. OTHER MAJOR AGREEMENTS: (Attach as Schedule T-7)

As part of F above - Bylaws or Operating Agreements. If an applicant is an LLC, and any of the applicant's members are also LLCs, the applicant must submit either of the following:

- 1) LLC agreements for all members of the applicant's LLC, or
- 2) An opinion of counsel which certifies that the applicant's agreement does not conflict with any of the LLC agreements of the applicant's members.

GUARANTEED LOANS (Schedules U-1 and U-2)

For Guaranteed Loan Applications, complete the following as Schedule U-1:

- 1. Name of Financial Institution providing the Loan
- 2. Address
- 3. Financial Institution Contact Person's Name, Phone Number and Email Address

The loan contract should be included as Schedule U-2.

ATTACHMENT 1

SAMPLE ASSUMPTIONS FOR PRO FORMA FINANCIAL STATEMENTS

PLEASE NOTE: This is just a sample method of providing an explanation of all revenue and expense items shown on the pro forma financial statements. This sample format will not “fit” for all entities – it is only provided as guidance. Feel free to deviate from this sample as required, ensuring that detailed explanations are included as to how the projected revenues and expenses were derived.

Revenues:

1. **Local Network Access Revenues** are derived from the provision of service entirely within the basic service area. Local revenues also include optional calling features such as call waiting. The following information supports the local network access revenues that are included in this pro forma:

Average \$10.00/month per access line x 100 average residential subscribers x 12 months
Average \$20.00/month per access line x 50 average business subscribers x 12 months

The access lines reflect an estimated growth rate of 1.0% per year.

Optional features were also included in the local network access revenues as follows:

Residence Package – 40% of access lines @ \$8.00 per access line per month
Business Package – 50% of access lines @ \$15.00 per access line per month

2. **Network Access Revenues** are derived from the provision of exchange service to an interexchange carrier beyond the exchange carrier’s network. These revenues are generated based on the interexchange carrier’s Access Minutes of Use (AMOU) with ABC Telcom’s access tariff rates applied to these minutes. The following information supports the network access revenues that are included in this pro forma:

Network Access Revenues were based on the assumption that ABC Telcom’s Intrastate and Interstate access tariff rates will mirror the RBOC’s Intrastate and Interstate access tariff rates. Assuming the calling patterns of these proposed communities will be similar to the calling patterns of a company with similar characteristics, the actual AMOU per access line data from a similar company is applied to the access lines projected in this application to calculate the total AMOU. The total AMOU split between intrastate and interstate is based upon the jurisdictional split between intrastate and interstate of a similar company. ABC Telcom’s intrastate and interstate tariff rates are applied to all originating and terminating AMOU. An annual growth factor of 1% is applied to the AMOU.

Attachment 1 Sample Assumptions Continued

Network access revenues also include end user charges of \$5.38 for residence and single line business subscribers and \$5.90 for multi-line subscribers. These rates were increased each year until they reached a cap of \$6.50 for residence and single line business in Year 3 and a cap of \$9.20 for multi-line business in Year 5. It was assumed that one-half of the business access lines were multi-line subscribers.

3. **High Speed Internet Service Revenues** are derived from offering Digital Subscriber Line (DSL) technology. The service rates for DSL service are included in this pro forma as follows:

Residential Subscribers - \$39.99 per subscriber per month

Business Subscribers - \$59.99 per subscriber per month

Dial-Up Internet Service revenues are also included in this pro forma. The service rates are included as follows:

Residential Subscribers - \$15.00 per subscriber per month

Business Subscribers - \$15.00 per subscriber per month

4. **Miscellaneous Revenues** include other operating revenues derived from activities performed incident to the company's tariffed operations which are included in the regulatory process such as inside wire maintenance revenues.
5. **Uncollectible Revenues** reflect an uncollectible factor of 3% of all revenues for each year of the pro forma.

Expenses:

1. **Plant Specific Operations Expense** includes the cost of inspecting, testing, reporting on the condition of plant, performing routine work to prevent trouble, replacing items of plant, repairing materials, receiving training to perform these kinds of work, supervising costs, etc. The following information supports the plant specific operations expenses included in this pro forma:

Beginning in Year 1, the Plant Specific Operations Expense includes 1 new outside plant technician at \$35,000 each annually, 1 new electronics technician at \$45,000 each annually, excluding benefits. Benefits are added for plant personnel at 25% of the annual salary.

In subsequent years, 1 outside plant tech is assumed per 2,000 access lines, and 1 electronics tech is assumed per 4,000 access lines. Vehicle costs are estimated at \$400 per month, and 1 vehicle is estimated per outside plant tech. Wage related expense growth is estimated at 3.0% annually.

Attachment 1 Sample Assumptions Continued

In addition to the labor related plant specific operations expenses listed above, there are expenses included for facilities being leased. Dark fiber, wholesale internet access, internet addressing services, office equipment, collocation and interconnection will be leased.

Dark fiber leasing is estimated to have initial setup costs of \$2,000.00 per strand of fiber and monthly recurring costs of \$425.00 per strand.

Wholesale access to the internet will be leased at a DS-3 rate for an estimated \$4,000 per month, and internet addressing services will be estimated at \$3,000 per year.

Office Equipment leasing is included at \$500 per month.

Collocation expense is included at \$900.00 per month.

2. **Plant Nonspecific Operations Expense** includes provisioning expense, network operations expenses and cost of supervision for these activities. The following information supports the plant nonspecific operations expenses that are included in the pro forma:

Power expense is estimated at \$300/month = \$3,600 per year

3. **Depreciation and Amortization Expenses** are based upon the following annual rates:

Vehicles – 20.0%

Buildings – 3.0%

Central Office Equipment – 15.0%

Cable Plant – 4.5%

Organization – 10.0%

4. **Customer Operations Expense** includes the cost of performing customer related marketing and services, and the cost of supervision for these activities are also included. The following information supports the customer operation expenses that are included in the pro forma.

Beginning in Year 1, labor expense includes 1 new customer service representative at \$32,000 annually, excluding benefits. Benefits are added for personnel at 35% of the annual salary. In subsequent years, it is assumed that 1 customer service rep will be needed for each 2,500 access lines.

Other Customer Services Expense – Estimated rate per access line per month = \$1.50

Marketing and Advertising Costs – Initial per access line per year (Years 1 & 2) = \$25.00

Marketing and Advertising Costs are reduced 50% at Year 3 and increased by 3% thereafter

Wage Related Expense Growth = 3.0% annually

This study assumes that the applicant will be paying for billing and collection services.

Attachment 1 Sample Assumptions Continued

5. **Corporate Operations Expense** includes the cost of performing executive and planning activities and general and administrative activities, and the cost of supervision for these activities are also included. The following information supports the corporate operations expenses included in the pro forma:

Labor expense includes 0.50 new accountants at \$50,000 each annually, 1 President at \$80,000 annually, 1 Manager of Operations at \$60,000 annually, excluding benefits. Benefits are added for personnel at 35% of the annual salary. Professional services include legal, accounting, and consulting costs. Miscellaneous corporate operations expense is estimated at \$400 per month, and include professional memberships, corporate travel, office supplies, etc.

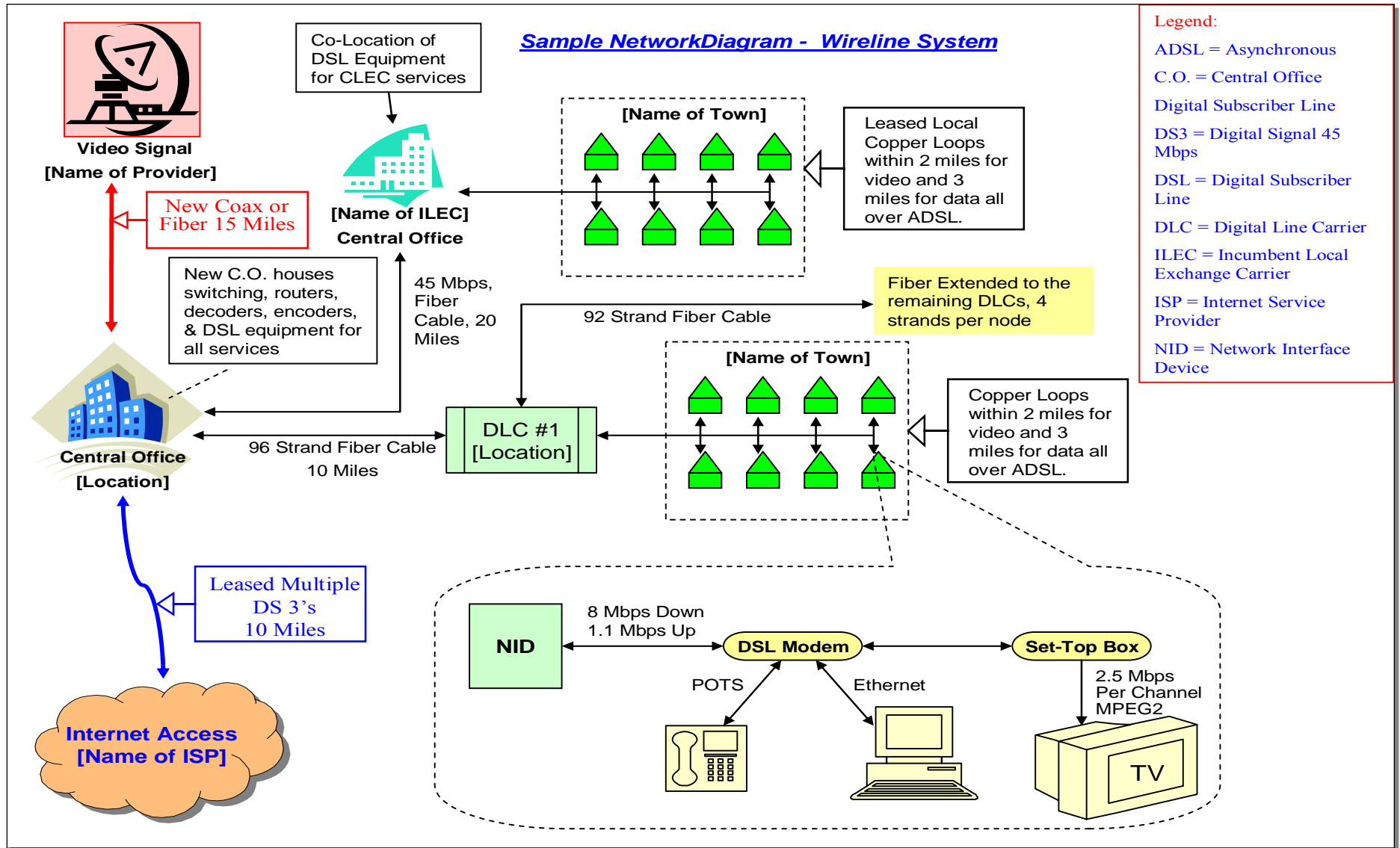
Vehicle costs are estimated at \$350 per month. It is assumed that 1 vehicle will be needed for the President.

Wage related expense growth = 3.0% annually

6. **Property Tax and Federal Income Tax Expenses** are included in the pro forma. Property taxes are estimated at 2.5% of the net property.
7. **Interest Expense** has been calculated at 5.50% over a loan term of 17 years.

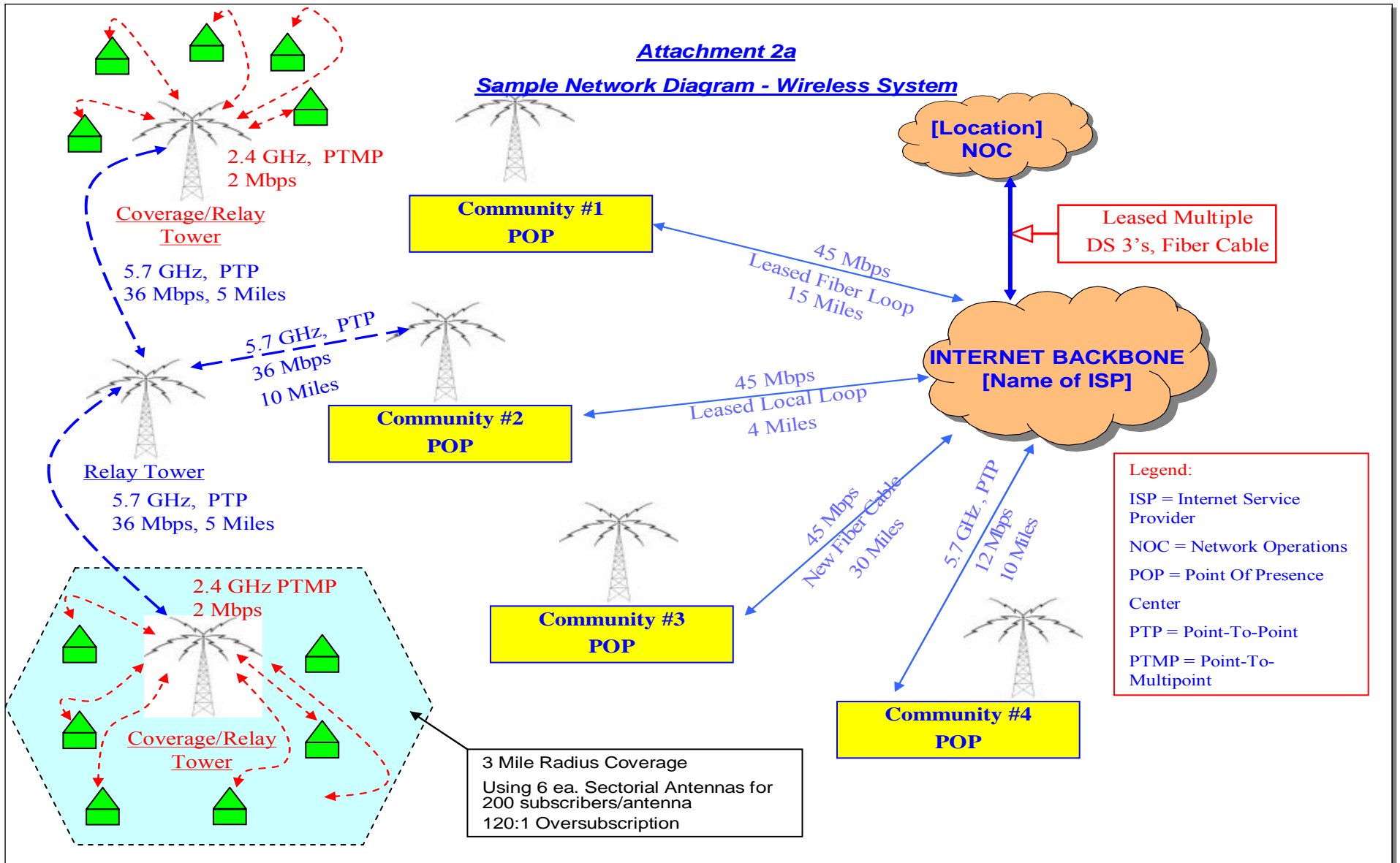
ATTACHMENT 2a

Sample Network Diagrams - Wireline



ATTACHMENT 2b

Sample Network Diagrams - Wireless



ATTACHMENT 3

POINTS OF CONTACT - BROADBAND TEAM

Phone: (202) 690-4673

Fax: (202) 690-4389

DIRECTOR:

Kenneth Kuchno

kenneth.kuchno@usda.gov

OPERATIONS/FINANCIAL:

Wanda Lloyd

wanda.lloyd@usda.gov

Deb Jackson

deborah.jackson@usda.gov

Pamela Bennett

pamela.bennett@usda.gov

ENGINEERING:

Farwa Naqvi

farwa.naqvi@usda.gov

Melanie Umstead

melanie.umstead@usda.gov

ATTACHMENT 4

GENERAL FIELD REPRESENTATIVES TELECOMMUNICATIONS PROGRAM

EASTERN AREA

Steven G. Coyner
P.O. Box 8188
Eau Claire, Wisconsin 54701
(715) 833-2415 Cell (715) 577-5393
steve.coyner@usda.gov

Gary Honis
P.O. Box 861
Conyngham, Pennsylvania 18219
(570) 788-0908 Cell (570) 259-0042
gary.honis@usda.gov

Wayne Jorewicz
P.O. Box 519
Baraboo, Wisconsin 53913
(608) 356-4151 Cell (608) 642-0126
wayne.jorewicz@usda.gov

Stephen M. McKenzie
P.O. Box 474,
Exeter, New Hampshire 03833
(603) 895-8433 Cell (603) 494-0498
steve.mckenzie@usda.gov

George J. Schweighofer
P.O. Box 384
Reynoldsburg, Ohio 43068-0384
(614) 860-9732 Cell (614) 361-7214
george.schweighofer@usda.gov

Randall W. Brummitt
P.O. Box 100
Wedgefield, South Carolina 29168-0100
(803) 481-7441 Cell (803) 840-0998
randall.brummitt@usda.gov

STATES COVERED

Northern Wisconsin

Delaware
Maryland
New Jersey
New York
Eastern Pennsylvania

Southern Wisconsin

Connecticut
Maine
Massachusetts
New Hampshire
Rhode Island
Vermont

Ohio
Western Pennsylvania
West Virginia

South Carolina
Puerto Rico
U.S. Virgin Islands

Attachment 4 General Field Representatives Continued

EASTERN AREA (continued)

STATES COVERED

Patrick D. Carey
P.O. Box 5347
 Mooresville, North Carolina 28117
(704) 896-8402
patrick.carey@usda.gov

North Carolina
Virginia

Allen D. DeForest
5523 South Cardwell Road
Bloomington, Indiana 47403
(812) 825-3727 Cell (812) 320-3812
allen.deforest@usda.gov

Illinois
Indiana

Andrew E. Hayes
50 Jim Alexander Road
McDonough, Georgia 30253
(770) 914-8643 Cell (770) 312-7073
andrew.hayes@usda.gov

Florida
Georgia

Jo Nall
P.O. Box 1387
Franklin, Tennessee 37064
(615) 591-7654 Cell (615) 289-9529
jo.nall@usda.gov

Tennessee
Northwest Georgia

Vacant
Contact Ken B. Chandler
(202) 720-0800
ken.chandler@usda.gov

Kentucky

Vacant
Contact Ken B. Chandler
(202) 720-0800
ken.chandler@usda.gov

Mississippi
Alabama

Donald Couzens
P.O. Box 635
Holt, Michigan 48842
(517) 676-9031 Cell (517) 231-1907
donald.couzens@usda.gov

Michigan

Attachment 4 General Field Representatives Continued

NORTHWEST AREA

Wayne A. Ahlgren
4825 East Roundup Road
Bismarck, North Dakota 58503-8923
(701) 258-7508 Cell (701) 226-1043
wayne.ahlgren@usda.gov

Kim Anderson
P.O. 914
Brandon, South Dakota 57005
(605) 582-2065 Cell (605) 321-7285
kim.anderson@usda.gov

Jock S. Aplin
7 Sandpiper Drive
Blue Grass, Iowa 52726
(563) 381-2638 Cell (563) 940-1009
jock.aplin@usda.gov

P. Greg Fritts
P.O. Box 1058
Columbia, Missouri 65205-1058
(573) 449-0007 Cell (573) 819-3486
greg.fritts@usda.gov

Dominic A. Henderson
29367 Surfland Road
Merrifield, Minnesota 56465-4371
(218) 765-3854 Cell (218) 820-9168
dominic.henderson@usda.gov

Kim Jacobs
1645 Regal Drive
Belgrade, Montana 59714
(406) 388-2494 Cell (406) 788-7413
kim.jacobs@usda.gov

Anthony Tindall
10320 Devonshire Circle, #211
Bloomington, Minnesota 55431
(952) 888-4456
anthony.tindall@usda.gov

Wesley Lannen
P.O. Box 2497
Battle Ground, Washington 98604
(360) 666-2741 Cell (360) 624-4104
wes.lannen@usda.gov

STATES COVERED

North Dakota
Western South Dakota

Eastern South Dakota
Northwest Iowa

Iowa
(excluding Northwest Iowa)

Missouri

Northern Minnesota

Idaho
Wyoming
Montana

Southern Minnesota

Alaska
Washington
Oregon

Attachment 4 General Field Representatives Continued

SOUTHWEST AREA

Michael L. Becker
P.O. Box 1629
Cedar Hill, Texas 75106-1629
()
michael.becker@usda.gov

Andre M. Boening
2351 Road 43, Box 116
Linwood, Nebraska 68036
(402) 543-2129 Cell (402) 689-8564
andre.boening@usda.gov

Jose P. De Leon
P.O. Box 151630
Austin, Texas 78715
(512) 288-5820 Cell (512) 809-8524
joe.deleon@usda.gov

Harry M. Hutson
P.O. Box 519
Litchfield Park, Arizona 85340
(623) 535-5450 Cell (702) 236-8305
harry.hutson@usda.gov

Randy Jenkins
200 Montbella Circle
Wichita, Kansas 67230
(316) 733-7604 Cell (316) 259-8127
randy.jenkins@usda.gov

Teri Baird
P.O. Box 547
Franktown, Colorado 80116
(303) 646-5856 Cell (303) 358-1281
teri.baird@usda.gov

William H. Vogt
P.O. Box 979
Ball, Louisiana 71405-0979
(318) 640-1407 Cell (318) 451-0403
William.vogt@usda.gov

STATES COVERED

Northern Texas
Southern Oklahoma

Nebraska
Northern Kansas

Southern Texas

Arizona
California
Nevada

S. Kansas N. Oklahoma
Guam Hawaii
Federated States of Micronesia
Commonwealth of the N. Mariana Is.
Republic of the Marshall Islands
Republic of Palau

New Mexico
Colorado
Utah

Arkansas
Louisiana