

From: [Rick Tidwell](#)
To: [BOCrfc2015](#)
Subject: Comments
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Attachments: [Letter to BOC june 10 2015.pdf](#)

Please see the attached comments for the Broadband Opportunity Council

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June 10, 2015, 2015

President's Interagency Broadband Opportunity Council
National Telecommunication and Information's Administration
United States Department of Commerce
1401 Constitution Avenue NW RM 4626
Attention: Broadband Opportunity Council
Washington DC 20230

Re: Broadband in Emporia Kansas

Members of the Broadband Opportunity Council (BOC):

I am the president of a very small company, Valu-Net LLC. We are based and do business in Emporia, Kansas, a small town of approximately 25,000 located in a county (Lyon) of less than 40,000.

The four Managing Partners have been in the Telecommunications business for over 30 years each and previously started the first competitive Long-Distance company (Valu-Line of Kansas) in the State of Kansas in 1982. We grew that company into a State-Wide organization providing Local and Long Distance service across Kansas. We sold the company in 1998. Over the next few years, we watched as the Internet became a part of everyone's life and the world changed from telephone based communication to broadband. The information highway was growing at a rapid pace, but the on and off ramps were fast disappearing from Emporia.

The only wireline provider for broadband in Emporia was AT&T. AT&T provided DSL grade service in parts of Emporia but not to the entire community. As AT&T became more de-regulated they had less and less interest in Emporia, Kansas. In Kansas, a law was even passed by the State to allow AT&T to discontinue their responsibility as the Carrier of Last Resort in areas they operate. The local cable company, CableOne, began providing broadband service and was able to advertise much higher speeds. However, the reality was that they were trying to provide service over a relatively old cable network and actual speed vs. advertised speed was not even close to the same. When pressed by the local Chamber of Commerce Broadband Task Force, CableOne made it clear that they felt what was being provided was adequate for Emporia.

In 2011, my partners and I decided it was time to do something about the growing problem of inadequate inadequate broadband service in Emporia. We discussed the situation with the City of Emporia, the Regional Regional Development Association of East Central Kansas, and various other groups. We came to the the conclusion that Emporia needed better Telecommunications services in general and specifically, more more reliable broadband. We considered working with the City to create a public-private partnership

however, our market research indicated that the people of Emporia wanted better service but did not want their local tax dollars used to provide it.

We moved forward with a plan for a privately funded company. We created Valu-Net, LLC to build an all fiber (GPON and active Ethernet) network to serve Emporia, Kansas with broadband Internet, Telephone and TV services. We became registered and certified at the Federal and State level as both a Competitive Local Exchange Carrier (CLEC) and a Cable TV Company. We built our own Central Office to support broadband data, voice and video. We built a fiber route to inter-connect with a large number of National and International carriers to create the ability to bring virtually unlimited bandwidth to the community. We now provide Gigabit Internet, IPTV service and Local Telephone service including advance voice services over an all fiber network to about 75% of Emporia (and growing).

To fund our startup we raised just under \$6,000,000 dollars of private equity with over 90% raised locally. We approached our local banks about loans for the balance of construction and found that community banks had no history of loaning money for ventures such as this. They wanted to help but struggled to understand our business and were concerned about new restrictions placed on them by Federal banking regulators. We read regularly in the media that the Federal government was working to promote broadband both in rural and urban areas. We read about several USDA programs that might be of assistance to us. We reached out to the USDA. We found that we were not eligible for a number of programs because our town was too large (greater than 20,000) or we were not the incumbent telephone company. It did appear that we could apply and qualify for the USDA Business and Industry Loan Guarantee program.

We contacted our banks and they agreed that we should pursue possible loan guarantees with the USDA. We contacted the USDA, talked with them and were encouraged that they would be able to assist us. We set a meeting with our banks and the USDA. In short, the founders of Valu-Net, LLC and the banks came away from the meeting shaking their heads. The USDA representatives explained they had never assisted a company such as ours and provided a number of requirements we could not achieve as a new company. Our banks were both surprised and disappointed at what they heard from the USDA. We had thought that with all the talk of broadband support in rural areas that some assistance would be available especially since we already had \$6,000,000 of local private money invested in the project. We were frustrated as we could not understand under what conditions the USDA would provide a loan guarantee. We moved on and were able to obtain a \$5,000,000 loan guarantee from the Small Business Administration through our lead bank, Intrust Bank of Wichita and Lyon County State Bank in Emporia. Unfortunately, that was not the total amount we would need to complete building our Emporia project. In early 2014 we sat down with the banks to provide an update on our progress and to discuss our future needs. The banks were enthused with our progress but stated that since we were not yet completely cash flow positive (we were still constructing our network in parts of the city), we needed some sort of loan guarantee as we had reached SBA's loan guarantee cap. We once again investigated what federal programs might have become available. The path led back to the USDA. We found the USDA very willing to talk however; they indicated that until we were profitable and had more history, they could not help. After much discussion with our banks, we decided to raise additional equity. We raised an additional \$1,900,000.00, all from local investors. This equity has moved us forward to today. We now have monthly recurring revenues over \$330,000.00 and are adding \$10,000 in new recurring revenue each month.

Our April financials show total assets of over \$10,000,000 with total liabilities of \$5,500,000. Our net income for April was \$19,000.00 with earnings before interest taxes, depreciation, and amortization (EBITDA) of \$90,000. In short, we are doing what we set out to do and are building a strong business that is that is serving Emporia with reasonably priced, highly reliable communications services that include Gigabit Internet, HDTV, Business and Residential Telephone Service (POTS service, SIP trunks, PRIs) and

PRIs) and much more. We employ 32 people here in Emporia and have over 50 local investors in the community.

In the last month, we have gone back to the USDA a third time to see if there have been any programs implemented that might assist us with the completion of our build. We met with the USDA General Field Representative based in Wichita, Kansas. He expressed a genuine interest in working with us to expand broadband not only in Emporia, but into the very rural areas surrounding Emporia. He met with several other USDA representatives and asked to set up a meeting with us and our banks. The USDA representatives that we had spoken with previously (in 2012 and 2014) attended the meeting. The meeting was positive. The USDA advised that they would meet internally to discuss our situation. We were all encouraged. On June 2nd 2015 we had a conference call with the USDA at their request. The USDA advised us on the call that they could not use our financial information to value our company (although we are an "audited" company with three years of audited financials). The USDA has advised that they need a better understanding of how a loan would be collateralized. Currently, we are working with the USDA to better understand exactly what they require so we can move forward however; the USDA has not provided clarity as to what they define as a proper "valuation" of our company.

The intent of this letter is not to complain about the USDA, but to illustrate the growing problem in communities of our size. A problem created by the de-regulation of both the telephone and cable TV business. Large National carriers are exhibiting a rapidly diminishing presence in towns our size. Instead, their focus has turned to the large communities (over 100,000) where a greater and faster return on their investment can be achieved. Small rural communities with incumbent independent telephone companies have been able to obtain Federal assistance through the years to update their networks. Companies such as ours have little opportunity to obtain loan guarantees, loans, or grants, from the Federal Government to encourage or stimulate private investment in our communities. Our business plan was to build Emporia, make it successful and use it as a model for other small cities from (10,000 to 50,000 population) We could then leverage our core network and support systems as well as local, private investment as we went to build in other areas of the state. We are now in a position in which we must struggle to finish Emporia and have little, if any, incentive to build in other areas of the state. If this policy continues, large numbers of cities our size will find themselves with diminished and inadequate broadband service over the next ten years. I urge this committee to investigate this situation, and more importantly, implement programs that will encourage and support local private and public investment to adequate broadband service to these communities.

If you have any questions or desire further information please do not hesitate to contact me.

Thank you for your consideration in this matter.



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