BROADBAND PARTNERSHIPS

A Key to High-Speed Success for Rural Electric Co-ops

SEPTEMBER 2018

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CoBank's Electric Distribution Broadband team is proud to present this collection of interviews with industry experts and rural electric cooperatives about forging mutually beneficial partnerships to bring broadband service to rural communities. We hope these interviews serve as a guide for any electric co-op considering options for entering a broadband project.

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EXECUTIVE SUMMARY

Partnerships Offer Rural Electric Co-ops Options for Entering Broadband

By
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Broadband communications is coming to rural America. But the pace of progress remains slow.

In its *2018 Broadband Deployment Report*, the Federal Communications Commission (FCC) says that steps taken in 2017 have restored the pace of broadband deployments after having dropped by more than half in the wake of its 2015 *Title II Order* that regulated broadband Internet access as a utility.

But the FCC's steps – removing barriers to infrastructure investment, promoting competition and restoring the longstanding bipartisan light-touch regulatory framework – still aren't enough when it comes to rural America. As of year-end 2016, 24 million Americans – most in rural areas – still lacked fixed terrestrial broadband[1]. More than 92 percent of urban Americans have access to fixed terrestrial broadband versus just 73 percent in rural America.

This digital divide continues to hold rural America back in nearly all aspects of everyday life: healthcare, education, business investment and general economic development, farm income, civic engagement and even property values.

But there is good news … in several areas.

A recent study conducted by Purdue University estimated that the State of Indiana would realize a net benefit of $12 billion if rural broadband investments were made statewide[2]. Clearly, the net benefit doesn't tell the entire story. The study also shows that anticipated customer revenue would not be adequate to cover total system costs, so investment incentives are necessary. Still, rural broadband investment yields a significant societal benefit.

And, rural electric cooperatives are entering the broadband space in increasing numbers. They are finding that their existing distribution networks can mean efficient deployment of broadband for their members.

Despite the societal and aggregate financial benefits, and the start-up efficiencies, launching a broadband venture is hard work. It's costly and entering a new industry poses an assortment of operational, technical and organizational, among other, challenges. That said, it provides a host of benefits – for the co-op, its membership and the community – when it's done thoughtfully and with foresight.

Some co-ops entered the fray opportunistically, recognizing an opportunity for new revenue streams and growth after constructing a fiber backbone to serve their own communication needs. Others entered after identifying their community's specific need. Yet others entered because they sought to live up to what they see as their fundamental responsibility as a cooperative: bringing services to those that don't have service.

The type of service didn't matter to Consolidated Telephone Company (CTC), a Brainerd, Minnesota-based telephone cooperative, when it agreed to help Lutsen, Minnesota-based Arrowhead Electric Cooperative launch its broadband venture: "When we learned of the Arrowhead project, we had a lot of interest in doing what I think co-ops do best – bringing services to those that don't have service," says Kristi Westbrock, CEO and general manager of CTC.

The CTC/Arrowhead example stands as one of the more unusual partnerships we have seen of an electric cooperative seeking help getting into broadband. Examples of other types of partnerships – both traditional and non-traditional – abound. And what's clear is that help is out there. Countless organizations of all types are willing to lend their knowledge, equipment, employees and other resources to electric cooperatives that are interested in taking the plunge.

This year, CoBank's collection of broadband interviews focuses on how electric cooperatives can enter the broadband space through successful partnerships. Some of the partnerships have revenue sharing arrangements, such as the one between Orcas Power & Light Cooperative (OPALCO)/Rock Island Communications and T-Mobile, another atypical combination of interests.

"This is a very unique partnership in which each side brought its particular strengths and capabilities to the table. OPALCO/Rock Island focused on building the fiber backbone, constructing towers and maintaining connectivity. T-Mobile focused on providing core LTE equipment and ongoing core technology," says Foster Hildreth, OPALCO's general manager.

There are other more traditional partnerships, such as the one between Co-Mo Electric Cooperative and Callaway Electric Cooperative. These Missouri-based co-ops created their partnership as a result of their common membership in Central Electric Power Cooperative, which is their mutual generation and transmission (G&T) provider.

"These interviews show – again – that knowledgeable and experienced partners can untangle the wires and make a world of difference.

"Co-ops working with Central Electric have a long history of shared services and 'Cooperation among Cooperatives,'" says Tom Howard, Callaway's CEO and general manager. "Co-Mo Connect, which is Co-Mo's broadband brand, began a few years prior to Callabyte Technology, which is Callaway's broadband subsidiary. We watched Co-Mo Connect grow into a successful company and Callaway had a desire to follow Co-Mo's business model via Callabyte."

Also included here are interviews with industry advocates and experts on topics such as business structure and taxation, and legal issues, such as easements and antitrust. The issues can be complex, but as these interviews show – again – knowledgeable and experienced partners can untangle the wires and make a world of difference.

All of our interviewees provided their time and knowledge in the cooperative spirit of 'neighbors helping neighbors.' They have a sincere interest in helping rural broadband grow and once and for all closing the digital divide. I thank them for their contribution to this publication.

We hope this year's collection of interviews will be helpful and enlightening for any co-ops that have an interest in bringing broadband service to their community. As ever, CoBank stands ready to do its part to help.

[1] Based on the FCC's current speed standard for fixed service of 25 Mbps downloads/3 Mbps uploads.

[2] Research & Policy Insights: Estimation of the Net Benefits of Indiana Statewide Adoption of Rural Broadband, Purdue University Center for Regional Development, Publication 006, June 2018. CoBank contributed to funding of this study.

CoBANK KNOWLEDGE EXCHANGE

INTERVIEW 1:

A Legal Perspective: Varying State Laws Govern Cooperative Expansion into Broadband

A talk with

TY THOMPSON

National Rural Electric Cooperative Association

and

JESSICA HEALY

National Rural Electric Cooperative Association

By

DORAN DENNIS

CoBank

The National Rural Electric Cooperative Association (NRECA) represents more than 900 consumer-owned, not-for-profit electric cooperatives, public power districts, and public utility districts in the United States. Based in Arlington, VA, NRECA oversees cooperative employee benefits plans; carries out federal government relations activities like lobbying; conducts management and director training; and spearheads communications, advocacy, and public relations initiatives. In addition, it coordinates national and regional conferences and seminars; offers member cooperatives information on tax, legal, environmental, and engineering matters; and performs economic and technical research.

Among the many considerations that involve co-op broadband initiatives, legal issues rise to the top. As with other industries, state laws can vary significantly in how – and even if – co-ops can establish broadband operations. Doran Dennis, regional vice president in CoBank's Denver office, sat down with Ty Thompson, vice president and deputy general counsel for director and legal services, and Jessica Healy, assistant general counsel, both of the NRECA, to discuss some of the high-level legal issues that co-ops must understand before moving into broadband.

Doran Dennis: What are some of the high-level legal considerations for a cooperative when contemplating a broadband strategy?

Ty Thompson: There are essentially four different high-level legal considerations when considering a broadband project: authority to provide broadband, easements, tax considerations and antitrust laws.

Jessica Healy: Each one of these has a number of items to consider related to them.

DD: What are some of the items to contemplate related to the legal authority to provide broadband?

TT: The initial legal consideration for a cooperative is a question that arises under its state's electric cooperative enabling act: Does the electric cooperative have the legal authority under its enabling act to directly engage in the broadband business? The answer to that question

There are essentially four different high-level legal considerations when considering a broadband project: authority to provide broadband, easements, tax considerations and antitrust laws.

will vary depending on the state in which the co-op is located. In some states, the answer is unclear. In other states, it's clear that you may and in yet other states it's clear that you may not.

A second, related concern, is the legal authority under your state's electric cooperative act to own a separate entity, like a subsidiary entity, that is engaged in the broadband business. Depending upon the business model, a cooperative may or may not be interested in engaging in a broadband business through a subsidiary. In some states, the answer to that question may be impacted by the structure of the subsidiary and whether the cooperative itself could directly engage in the broadband business. Again, answers to those questions are very state specific and really depend upon the precise words used in the particular electric cooperative act.

JH: Another legal consideration that arises under an electric cooperative act is a cooperative's ability to provide broadband to businesses and individuals that are not electric cooperative members. Some electric cooperative acts will state that in order to be a member of the cooperative, you must use or agree to use electric energy provided by the cooperative and that the cooperative can only do business with members.

DD: Let's discuss easements.

TT: The underlying issue there is a question of whether the cooperative's electric line easements permit use of the easement for the broadband business. That sounds like an easy question. Unfortunately, the answer isn't always easy because there are a number of variables.

One of the variables, certainly, is the type of easement and the precise language used in an easement. Individual cooperatives will have different types of easements. Some of them will be express, or written, easements. Some may have been obtained through condemnation. Some may be prescriptive easements that the cooperative has acquired through some type of adverse use over a significant number of years. So, the type of easement as well as the precise language used in the easement will impact the question of whether it authorizes the cooperative to utilize the underlying property for the broadband business.

JH: Also, state law will impact this particular consideration. States do differ significantly regarding what types of easements and easement language would permit engaging in the broadband business. In the past few years, several states have enacted statutes clarifying both the easement issue and the electriccooperative act issues that we addressed earlier.

The two primary questions regarding these issues are whether or not state law permits a broadband use for these easements and the potential damages that could result from improper use of the easements.

Some recent statutes have been enacted to clarify or limit the types of damages that the cooperative could be exposed to paying. Traditional trespass types of damages are typically fairly small. However, there is a potential for larger, punitive damages.

DD: Has there been any litigation related to the issue of easements?

JH: Yes. There is a cooperative in Missouri that constructed a fiber optic cable along its electric transmission line and used part of that fiber optic cable for its own internal communications. Its electric line easements permitted that particular use.

However, this particular electric cooperative leased out the excess capacity in that fiber optic line to its wholly owned subsidiary. The subsidiary then used that excess capacity for commercial, for-profit operations. Property owners filed a class action lawsuit against both the cooperative and the subsidiary.

The reality is that there's legal risk in most everything we do, but it's important to make informed decisions regarding those risks.

The trial court originally ruled that there was a trespass in approximately half the easements and not a trespass in roughly the other half. For the trespassed half, the trial court permitted both a recovery for trespass and for unjust enrichment damages. That led to a fairly significant jury award of $79 million or so against the cooperative and the subsidiary.

That decision was appealed to the Federal Court of Appeals, which very generally said, "We affirm the trespass ruling, but we reverse the unjust enrichment damages ruling. That was not appropriate under Missouri law." They sent it back down to the trial court and another trial was held. This time, the jury came back and awarded some $129 million in actual damages and $1.3 million in punitive damages. The trial court judge later vacated those damage amounts, generally ruling that they were against the weight of the evidence.

At this time, the parties have settled, and the trial court judge has preliminarily approved the settlement.

DD: There have been a lot of different ways cooperatives have addressed the easement issue. Some cooperatives try to get state legislation passed. Some have relied on language in their older easements. Some have tried to establish brand new easements. Is there a best practice for addressing easements?

JH: I wouldn't say there's a "best practice" primarily because the laws differ so much from state to state, and because the types of easements and easement language vary so much. I believe a wise strategy would be to have a state statute enacted that somehow limits or sets parameters around the potential damages in the worst-case scenario. Set some parameters or limits to define what the damages would be in the event there is a trespass. In that situation, you can more accurately assess the risk you're dealing with.

Along those same lines, another course would be a statute saying that there is no trespass. I don't know if that would be possible or plausible, so I'm assuming it's not, but setting aside those state legislative approaches, clearly the best approach would be to make sure that you have easement language that would give you the right. If you're uncertain whether you have the right, conduct a risk analysis to understand the potential monetary damages you could be facing.

Cooperatives could look to recent legislation passed in Tennessee, Arkansas, Indiana and Missouri as good samples of legislation to address these issues.

DD: What are some of the tax implications associated with a broadband deployment?

TT: There are a number of issues and unanswered questions. One, for example, is if a cooperative has installed fiber optic cable and is leasing out some of that excess capacity, does that meet the statutory definition of being a qualified pole rental? That is, does it meet the statutory criteria to be considered pole attachment income?

If it does, then that income first of all, would not be considered in determining whether the cooperative complied with the 85/15 member income requirement to remain tax exempt. In addition, that income would not be subject to the unrelated business income tax.

If it does not meet the statutory criteria, that income may not be considered pole attachment income. Then there are some potentially significant questions. Is the income related to the broadband business member income, non-member income or excluded income for the purpose of calculating the 85/15 test?

Another tax consideration arises at the federal level. As a general matter, to be a cooperative under federal tax law, you must operate at cost. Generally speaking, if a cooperative operates different lines of business and unless there is significant overlap between the consumers or members utilizing those goods or service, the cooperative cannot use revenue from one business line to subsidize the other business line. Just avoiding any improper cross-subsidization is a legal consideration when contemplating entry into the broadband business.

DD: To what extent is a cooperative that is considering broadband subject to antitrust laws?

JH: In general, electric cooperatives are excluded from federal pole attachment regulation. Unless there is a specific state requirement, electric cooperatives generally have the legal ability to exclude others from attaching to their poles or other facilities.

If a cooperative does engage in the broadband business, either directly or through a subsidiary, then that may impact the cooperative's legal ability to exclude others from attaching to its poles. Under the antitrust law essential facilities doctrine, the cooperative may have an obligation to allow competitors to attach to its poles.

Also, another doctrine under antitrust law relates to improperly tying products together. For example, the cooperative probably could not refuse to provide electric energy to a member unless the member also purchased broadband service. That could be potentially an unlawful tie-in arrangement under federal antitrust law.

DD: What piece of advice do you have for a co-op just getting started?

TT: My main recommendation would be to do all of the necessary legal due diligence in order to minimize legal risk. This is very important to do at the outset. The reality is that there's legal risk in most everything we do, but it's important to make informed decisions regarding those risks. Even if you're willing to take some legal risks, just make informed decisions about those risks.

JH: I would very strongly encourage cooperatives to work with an experienced local attorney from the outset to assess and address some of these issues we have outlined.

TY THOMPSON *is vice president and deputy general counsel, director and member legal services, for the National Rural Electric Cooperative Association (NRECA) in Arlington, Virginia. He is part of NRECA's Office of General Counsel. Mr. Thompson joined NRECA in 1997 and works primarily with electric cooperative tax, corporate governance and operational legal issues.*

Prior to joining the NRECA, Mr. Thompson practiced law at Crisp, Page, and Currin in Raleigh, N.C. where he worked extensively with electric cooperatives.

A native of Raleigh, North Carolina, Mr. Thompson graduated magna cum laude in Industrial Engineering from North Carolina State University. He graduated in 1992 from the University of North Carolina School of Law in Chapel Hill.

JESSICA HEALY *joined the NRECA as a member of the Government Relations Department in 2005. She currently serves as assistant general counsel in the Office of General Counsel, where she monitors legal issues affecting electric cooperatives; assists with NRECA corporate governance legal issues; counsels NRECA and ACRE® on political activities; manages the monthly Legal Reporting Service and legal seminars for distribution cooperative attorneys; and speaks at various seminars and meetings regarding electric cooperative legal issues.*

Ms. Healy received her JD from George Mason University School of Law in 2009. She is a member of the Virginia State Bar, Energy Bar Association, and Electric Cooperative Bar Association.

INTERVIEW 2:

Death and Taxes: These Two Certainties of Life Also Apply to Expansion into Broadband

A talk with
BILL MILLER
Bolinger, Segars, Gilbert & Moss, LLP

By
MATTHEW HALE
CoBank

Death and taxes could, indeed, be the only certainties we face in life. Still, there are many ways to structure a broadband operation that can impact an entity's tax liability. Similarly, the potential "death" or sale of either a successful or unsuccessful broadband venture can have a significant impact on a cooperative's membership and ongoing operations. Both of these issues should be seriously considered up-front – before or during the feasibility study stage – by getting input from multiple perspectives and asking the right – and some tough – questions.

Matthew Hale, credit supervisor in CoBank's Denver office, spoke with Bill Miller, CPA, a tax partner with the firm of Bolinger, Segars, Gilbert & Moss, LLP to get a perspective on the accounting, tax and other issues that surround both creation of a broadband venture and an exit strategy.

Matthew Hale: Why is it important for an electric distribution cooperative to partner with its accounting firm when considering new business structures for broadband?

Bill Miller: Having a well-rounded view that incorporates multiple perspectives – financial, legal, engineering, as well as tax and accounting – is key to finding an effective structure for the cooperative. Each of these disciplines will look at a broadband business structure from a different angle.

For example, legal counsel will look at cooperative operations from the state level and accounting/tax professionals, such as myself, will take a cooperative tax view, which might add a layer to the consideration or maybe even take away a layer of consideration.

I generally advise clients to get everybody in a room or on a conference call so that all the different perspectives get out on the table and are considered at the same time. It's the most effective approach to finding a solution, having a discussion and creating a perspective that considers the project from all angles. This type of all-inclusive, well-rounded approach provides the client's management team and board with a sense of confidence that the new venture will be created in consistency with their goals and objectives.

Having a well-rounded view that incorporates multiple perspectives – financial, legal, and engineering, as well as tax and accounting – is very important.

MH: What are the positives and negatives of establishing a subsidiary corporation when considering a new business opportunity in broadband?

BM: The basis of any business structure should be the membership – how you want members to benefit from the project. The answer to this question will drive the legal structure and the tax structure of the project. If the goal is to provide an additional service for members, as well as for non-members, and the way members benefit is through cost-sharing and through a source of unallocated retained equity, a for-profit and taxable subsidiary corporation provides these benefits. Both legal and tax separation are also achieved. Tax separation is important because the IRS will not attribute the activities of the subsidiary corporation to the parent cooperative as long as a valid business reason exists.

Cost sharing is generally achieved through the use of intercompany agreements, such as a management services agreement. When the agreement is structured at cost, it allows the cooperative flexibility in staffing without creating, in general, unrelated business income. If the bylaws of the cooperative are modified accordingly to retain the net after tax earnings of the subsidiary as a source of retained unallocated equity, then cash distributions out of the equity of the subsidiary corporation, generally in the form of a corporate dividend, provides the cooperative a source of cash flow that can be used to assist the electric operations. Examples include using cash dividend distributions for construction, repayment of debt and for retiring patronage capital credits. Return of invested capital, such as amounts invested to capitalize the subsidiary corporation, does not generate non-member income for the electric cooperative's 85-15 Test. A corporate dividend distribution out of the earnings of the subsidiary corporation does, however, result in non-member income for purposes of the 85/15 test. Although income for purposes of the 85/15 test, corporate dividends are excluded from the definition of unrelated business income, except to the extent the investment is debt financed. Therefore, so-called double taxation on the earnings of the subsidiary corporation can be limited.

By virtue of its structure, a subsidiary corporation will have federal and state corporate income tax return filings and will be subject to the corporate income tax at the applicable rates. Additionally, sales tax exemptions that may apply to the electric cooperative often do not apply to purchases used in or made by a subsidiary corporation. In addition to these anticipated results, a negative to establishing a subsidiary corporation is the effect inter-company transactions may have on the parent cooperative's 85/15 test calculation and the potential for unrelated business taxable income. For example, if a management service agreement is built to generate a profit, it will generate non-member income for the 85/15 test for the amount of the total cost of the agreement and unrelated business taxable income. With the potential for unrelated business taxable income, the feasibility studies need to factor in unrelated business income tax. Therefore, we generally recommend that a cooperative should establish those types of agreements at cost.

Another consideration is the lease of fiber to the subsidiary corporation. Most of the feasibility studies we have seen consider the inter-company lease of the fiber as either related or excluded from unrelated business taxable income as a "qualified pole rental." Rents meeting the definition of qualified pole rental income are excluded from the 85/15 test and from unrelated business taxable income. However, with few exceptions, inter-company loans and leases result in both non-member income and unrelated business income tax considerations. Therefore, analysis should be done to determine if the fiber leases involved are governed by the "qualified pole rental" rules or are governed by the inter-company transaction rules.

> *The basis of any business structure should be the membership – how you want members to benefit from the project.*

In general, the negatives for the cooperative would be non-member income and unrelated business income tax issues of inter-company related transactions, which could generate tax issues and effect the 85/15 test.

MH: What are the positives and negatives of keeping the broadband business within the co-op as a separate division?

BM: This goes back to the primary question of how members should benefit from the project. Subsidiary corporations are all about separation – both legal and tax. But when creating a division, typically the answer is that we not only want members to have access to a service, we also want them to benefit from additional patronage earnings. Achieving that as a so-called "like organization activity," which is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code, is key.

Offering the service through a division implies an understanding and preference for the co-op model and reflects the members' desire to maintain that structure. Additionally, a divisional structure provides no legal or tax separation, which may allow for simplification of the overall accounting and tax structure. Please note, however, that the use of a so-called disregarded entity may be used for legal separation but continue to be treated as a division for tax purposes.

Further, it eliminates inter-company transactions for purposes of the 85/15 test and the unrelated business income tax calculations. Therefore, any fees from one division to another division or any management services agreements from one division to another division are eliminated, unlike what happens in the case of a taxable subsidiary corporation.

The main negative is what happens if the amount of non-member sales exceeds the non-member income threshold for passing or failing the 85/15 test. Accordingly, the co-op should consider an exit strategy and determine the point in time it makes sense to move to a taxable subsidiary corporation structure.

There is also the fair and equitable allocation issue and associated governance related issues. For example, unless the patrons buying the service of an electric division and a broadband division are substantially the same, a cooperative should allocate patronage capital on a divisional basis. A related issue is if the patrons will be members only or both members and non-members. Services provided on a patronage basis qualify as a "like organization activity" and are related to the cooperative's exempt purposes. Services provided on a nonpatronage basis, are generally not related. The bylaws should be modified accordingly.

Another related decision is who the members of the cooperative should be - electric only patrons or purchasers of all services? If it's electric only, governance remains the same. If it's purchasers of all services, then governance will change. These decisions are neither pro nor con. They simply have to be made.

In summary, if a co-op decides to go down the divisional route, its management and board has to take a hard look at bylaws and ask questions: Who do we want our members to be? Who do we want our patrons to be? What do we want to do with any non-patronage sales?

MH: What level of financial planning should be conducted on a material investment such as broadband and is it necessary to utilize the services of a CPA?

BM: To put it in context, one of the differences between the recent expansion by electric cooperatives into broadband versus the diversification and expansion in the late 1990s is the amount of financial analysis that is being conducted.

In the late 1990s, there was a big push for diversification with the thought that if a cooperative didn't diversify, its business model was going to be significantly different.

Cooperatives that hire firms which specialize in preparing feasibility studies for broadband should consider utilizing a tax consultant to look at those studies to ensure they're considering the appropriate accounting and tax issues.

Therefore, a number of cooperatives expanded into areas that were core or non-core to their primary business of electric energy. Regardless of the type of service, there wasn't nearly the level of financial planning and analysis and exit strategy development as there is today.

Cooperatives that hire firms which specialize in analyzing markets and preparing feasibility studies for broadband could consider utilizing a CPA firm or tax consultant to look at those studies to ensure they're considering the appropriate accounting and tax issues.

For example, some financial models include income taxes; some do not. The ones that don't are still being promoted as taxable subsidiary corporations, which is one area where a CPA or tax consultant could provide value. Such analysis could result in revised income tax calculations and resulting cash flow forecasts. It could also identify potential income tax implications on inter-company transactions because those aren't always reflected in the feasibility studies.

MH: How should a cooperative account for contributions in aid to construction (CIAC) on a broadband project? Do they do anything different than they would for electric plant? Does it make a difference if the business is a division or a subsidiary of the cooperative?

BM: The accounting treatment may vary based on whether or not the broadband activity is regulated or non-regulated. If regulated, CIAC contributions for a broadband project should be treated the same way as for electric plant. If non-regulated, then the accounting treatment will likely vary based on the terms and conditions surrounding the CIAC, including service contracts. Because of potential differences between the accounting for CIAC between regulated and non-regulated operations, a cooperative's audit firm should be consulted. Depending on how the auditor advises you to record CIAC, there likely will be differences between book and tax accounting.

Under federal tax law, CIAC is considered prepayment for a service and is, therefore, income for tax purposes. This holds true whether the CIAC is received from regulated or non-regulated operations. To illustrate the potential for book and tax differences, assume the operations are regulated and a portion of the business is operated on a taxable basis through a subsidiary corporation. For regulatory accounting purposes, the CIAC is a reduction in the depreciable cost of the plant, and therefore, you have less book depreciation expense. For tax purposes, CIAC is considered income in the year of receipt but increases the depreciable tax basis of the asset. The ability to claim and accelerate tax depreciation on a corporate income tax return will help minimize the timing and cash flow differences that occur between the date received and estimated depreciable life.

If received by a division of the cooperative, CIAC is considered for the 85/15 test because it is a tax basis calculation. If received from a member – who must have both a right to vote and right to receive patronage capital for the underlying services – for an exempt activity, then it is generally considered to be "member" income. If received from a non-member, regardless of the tax-exempt nature of the service, then it is "non-member" income. If the CIAC is associated with an unrelated business or received by a taxable subsidiary corporation, then it is taxable income and the ability to claim and accelerate tax depreciation is important.

MH: What are the considerations when receiving a grant or other forms of government or state funding for a broadband project?

BM: In general, up through 2017, a government grant that was received by a cooperative for the purpose of providing a public benefit and for the construction of an asset was considered under tax law to be a non-shareholder contribution of equity and not taxable income. Grant proceeds were generally excluded from the 85/15 test.

The Tax Cuts and Jobs Act amended Section 118 of the Internal Revenue Code upon which the exclusion was based. Amended Section 118 now excludes government grants from income of a grant recipient only if the government is a shareholder in the organization, which can create issues for the cooperative business structure. As the Internal Revenue Code exists today, it appears as though government grants are no longer excluded from tax basis income as a non-shareholder contribution of equity. Therefore, the main consideration today is to involve your tax advisor on any receipt of federal or state grants and have them determine the impact such grants will have, first and foremost, on the 85/15 test. Revisit income tax calculations of a subsidiary corporation as these could also change. Also track any potential legislative fixes to either Section 118 or Section 501(c)(12).

This is a very important step. When feasibility studies were conducted for most projects one or two years ago, the old set of tax rules would have applied and updates may be needed for the new rules.

MH: Does either option – subsidiary or division – offer an easier exit strategy if the cooperative elects to sell its broadband business?

BM: An exit strategy could be a couple of things. One, what if we think we know the structure we want today but we might want to modify that structure.

It's easier to flow a business downstream rather than to try to reverse and flow it upstream. Unwinding a corporate subsidiary structure by moving to and operating as a division of the cooperative can be done, but doing so is generally more cumbersome and costlier. For example, the liquidation and dissolution of a subsidiary corporation may result in taxable gain to the subsidiary if the exempt cooperative parent will conduct the business operations of the subsidiary corporation on a tax-exempt basis. In other words, the cost to operating on a tax-exempt basis in the future is a potential income tax liability today. The same tax consideration generally does not exist when a business activity flows from a tax-exempt cooperative to a taxable subsidiary corporation.

Therefore, if the cooperative thinks there might be a reason to change the structure in the future, it's generally better to start at the cooperative level and flow it downstream than it is to start at the subsidiary corporation and flow it upstream.

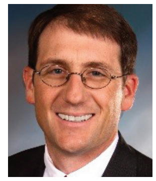
If you have a subsidiary corporation and want to exit what has become an unsuccessful venture, the members are most likely going to be on the hook for the debt. This is true in either a subsidiary corporation or cooperative divisional structure. If it's a subsidiary corporation, there's some separation. But in the end, if the business is not successful and must be sold, that debt is ultimately going to be on the books of the cooperative.

That's one aspect that doesn't change and that should be considered in the feasibility study. A critically important consideration is the impact a potentially unsuccessful broadband operation and assumption of its debt would have on rates. If it's a division, it's already there. But if it's a subsidiary, that's a scenario that often isn't – but should be – seriously considered. A related consideration is how any loss will be be recovered from the members. Bylaws should be modified accordingly and before the loss is incurred.

If the broadband business is successful, the tax implications and planning opportunities between the divisional and subsidiary corporation approaches will vary. Therefore, the structure of a potential sale will potentially be different, and a tax consultant can provide a general overview of the potential implications and options. Key questions in considering a sale are: What are the pros and cons? How is it going to work? What happens in case of a loss and what happens to the debt? What happens to a potential gain and what is the tax impact? These responses might drive a particular structure, or an idea that when we get to that point, there might be multiple ways to structure a sale.

These types of questions are examples of the difference between the current environment and the diversification that took place in the 1990s. In the late 1990s, the potential for failure wasn't readily considered. Today, co-op bylaws should have provisions not for just allocating patronage capital but also for what to do in the event of a loss.

NRECA members can receive a comprehensive memo on the issues discussed here free of charge by emailing NRECA's Ty Thompson at ty.thompson@nreca.coop.



BILL MILLER, *CPA, is a tax partner with the accounting firm of Bolinger, Segars, Gilbert and Moss in Lubbock, Texas. He began his career with the firm in 1992 and holds an accounting degree from the University of Texas at Austin.*

Bill is in charge of the firm's utility and cooperative tax practice. The goal of his department is to provide tax and consulting services to the firm's exempt and non-exempt utility cooperative audit clients, including related subsidiary companies. His responsibilities include tax research, tax planning, advising on entity selection for new business ventures and tax return preparation. Bill also assists his clients in complying with cooperative principles and structuring plans to allocate and redeem patronage capital.

Bill is active in the National Society of Accountants of Cooperatives. He currently serves as a national director and president and also as a director of the Electric Cooperative Chapter.

INTERVIEW 3:

How One Co-op Helped Another Ease the Integration of Electric and Broadband Customer Service Functions

A talk with

DAVID GIRVAN

United Electric Cooperative

and

JASPER SCHNEIDER

National Information Solutions Cooperative

By

GRAHAM KAISER

CoBank

Infrastructure and operational efficiencies aside, engaging in a broadband venture still means entering a new industry. Among the many issues to work through is how to provide customer service in a different environment with unique issues. Do you use your existing customer service infrastructure? If so, how do you address the intricacies of adding a new service to what may be a legacy system? Do you run different systems or do you integrate them?

These were some of the questions facing United Electric Cooperative when it launched broadband service in its northwest Missouri/southwest Iowa service area. Fortunately, United Electric had an existing partnership with National Information Solutions Cooperative (NISC), which was uniquely qualified to help United Electric think through its issues and provide a solution. Graham Kaiser of CoBank sat down David Girvan, COO of United Electric Cooperative, and Jasper Schneider, vice president of member and industry at NISC, to discuss the challenges they faced and how they dramatically improved the co-op's entire customer service function.

UNITED ELECTRIC COOPERATIVE

Total Electric Customers	**9,700**
Density (Meters/Mile)	**2.65**
Total Utility Plant	**$110 MM**
Broadband Investments	**$23.5 MM**
Miles of Fiber OH	**1,310**
Cost/Mile of OH	**$20K**
Miles of Fiber UG	**207**
Cost/Miles of UG	**$40-80K**
Wireless Towers	**11**
Homes Passed	**13,000**
Speed offerings	**50 Mb – 10 Gb**
Broadband Customers	**6,308**
Penetration Rate	**48.50%**

"Our customer service and support staff now have a much simpler and consistent process. Call times have been reduced and productivity per full-time employee has greatly increased.

Graham Kaiser: What unique solutions did United Electric and United Fiber need from a technology/ software perspective for your broadband project?

David Girvan: What United needed most of all was software that would integrate the broadband operation's billing and provisioning services. We needed one platform to take away the "swivel chair" tasks needed to connect and maintain a triple play service. The platform also needed to scale for future products and services, and be able to produce service orders and ticketing for day-to-day operations. We worked with National Information Solutions Cooperative (NISC) on the solution.

GK: Jasper, tell us about National Information Solutions Cooperative (NISC).

Jasper Schneider: NISC is a 50-year-old technology cooperative that serves both the rural electric utility and telecommunications markets. As we celebrate our 50th anniversary, our story is about how these two industries continue to evolve and embrace technology. Our enterprise software solutions equip just about every employee at a member's site with technology solutions. We credit our cooperative business model with our longevity, which has allowed us to focus on service to our members and foster a spirit of innovation. We have offices in Missouri, North Dakota, Iowa, and Wisconsin and have 1,200 employees.

GK: How did the partnership between United and NISC come about?

DG: The partnership was originally forged when the subsidiaries' parent company selected NISC's billing platform many years ago. NISC has an excellent track record of developing solutions and being a leader when it comes to cooperative needs.

JS: As David mentioned, United Electric has been a member of NISC for some time. When they started to build out their fiber network with their subsidiary, United Fiber, it timed well with the development of our iVUE® Connect solution, which has broadband functionality. NISC was able to leverage its experience with both industries – electric systems and telephone systems. United was our development partner in building a solution that could serve those two industries using a single platform.

GK: Tell us more about the problem that needed to be solved at United?

DG: The problem involved unifying all of our different broadband equipment and multiple software platforms into one interface. Going back to our initial challenge, the Connect platform by NISC was the first step to reigning in our processes and minimizing our employees' work steps and greatly helping the customer experience.

JS: We helped United Electric solve the challenge of serving all of their members the same way, regardless of which service they use. When a United Electric member contacts them, they are able to see if they are an electric or broadband user, or both, using just one screen. This increases their efficiency and professionalism with their members.

GK: What was the solution?

JS: We offered a cloud-based solution focused on customer service, making it easier for staff to assist members by finding information more quickly in a web-based, user-friendly environment.

DG: The solution creates a single billing/provisioning platform to manage and bill the entire sales process for our broadband business.

GK: How has this affected United's operations?

DG: We haven't fully measured the impact but suffice to say our customer service and support staff now have a much simpler and consistent process. Call times have been reduced and productivity per full-time employee has greatly increased.

JS: As a cooperative ourselves, our goals are always the same as our members' goals. We were pleased to help complement United's fiber buildout and help them achieve their goals. We helped them to better serve their members and tackle the challenges of entering a completely new market – broadband – in a professional manner.

The solution also allowed United to do auto-provisioning, which makes it easier for their employees and members to quickly add or modify their broadband services. This solution also has the ability to streamline and manage broadband leads and proposals, which eliminated the more resource-intensive tracking methods used in the past. With the addition of our mobile solution, United was also able to provide a paperless process for managing new service installations.

GK: Were there any challenges in implementing these solutions? How did you work through them?

JS: We were pleased that United was one of our development partners in this process. As a cooperative, our members often have a seat at the table in developing our technology solutions. The challenge was not only developing a product that didn't exist in the marketplace, but merging two distinct industries, into one. We appreciated United's input and patience with us as we developed iVUE Connect.

DG: Challenges are a given when it comes to integrating disparate platform with so many moving parts and getting them up and running together. Making sure that all our vendors – be it Calix or Momentum Telecom – worked together to get the integration right has probably been technically the most difficult. But, finding a partner that already had great relationships with these other vendors certainly made the process smoother.

> *"Working together, we can fundamentally evolve this industry and serve our shared-members in ways we never have before.*

GK: How do United's members benefit from this solution?

DG: Our members benefit firstly from the enhanced customer experience. The experience is now much more streamlined, and member service representatives can see all products and features from both business units in one software platform, cutting down on call time and potential member frustration. We see this as a future cost reduction as we continue training our frontline employees to competently help members in one call and become more efficient in our operations.

JS: United Electric and United Fiber also utilized NISC's web and mobile applications. The mobile app is available through the iTunes and Google Play stores, and allows their members to submit payments, track their usage and interact with United wherever they may be.

GK: How has your partnership with NISC evolved over the span of the broadband project?

DG: I think it has evolved greatly and, most certainly, positively. Serving as a beta site for the new product has given us a behind the curtain look at NISC and allowed us to tap into many of their resources. This has given us an opportunity to provide input into features that are needed, and NISC has tailored a product that fits a cooperative with a telecommunication subsidiary.

GK: What lessons have been learned from this partnership?

JS: Even though NISC has operated in both the electric utility and telecommunications industries for 50 years, merging these two industries into a unified software platform is easier said than done. Our solution to do just that timed very well with the acceleration we are seeing from utilities offering broadband service. We are thankful to have many development partners in this process.

DG: We have learned that processes can always be improved, and efficiencies can be gained from using the right software platform. Our billing platform is the bread and butter of our operation, and without a progressive partner that adapts to your ever-changing business needs, you'll surely struggle to give standout service for which the cooperatives are known.

Without sounding trite, having a relationship with "partners" and not "vendors" is key. By having this relationship, we have been able to get our products set up and developed for our sometimes-niche needs. Knowing how your systems integrate with each other and your workflow requirements is key to picking the right solutions for your co-op and maintaining the cooperative ethos in whatever new business line you might pursue.

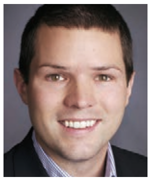
GK: Anything else you would like to share?

JS: Broadband continues to be essential infrastructure, especially for rural America where it is not only a quality-of-life tool, but also an economic development driver. While the allure of offering broadband is strong, we always encourage our members to also recognize the enormous challenges and capital considerations of entering a new market. There are some great examples of utilities that have successful business models, such as United, that we encourage similar systems to study. NISC also encourages its members to consider partnerships where feasible and to embrace the shared experiences of national partners such as CoBank and NISC. Working together, we can fundamentally evolve this industry and serve our shared-members in ways we never have before.

DAVID GIRVAN *is the chief operating officer of United Electric Cooperative, where he has worked since 2011. He has been responsible for the design, build and management of United Electric's technology assets, with his primary focus revolving around the aggressive deployment of commercial and residential fiber services through the co-op's subsidiary, United Fiber. Prior to joining United Electric, he served as a consultant to the co-op on internal network infrastructure for two years, while working for a technology consulting firm in St. Joseph, Missouri.*

Mr. Girvan has more than 15 years of experience in the telecommunications industry. Originally from Melbourne, Australia, he moved to the United States in 2008. With almost two decades of experience with information technology, he has worked in many different roles including systems engineering, supervisory roles, software packaging and infrastructure builds. With significant international exposure, his career has been filled with project-based assignments for large companies like IBM, HP and other industry leaders.

Mr. Girvan holds a bachelor's degree in Business Technology from Northwest Missouri State University and recently completed his MIP Select certification from the National Rural Electric Cooperative Association.



JASPER SCHNEIDER *is vice president of member and industry at National Information Solutions Cooperative with expertise in technology, law, finance and rural policy.*

Prior to joining NISC, Mr. Schneider led USDA's Rural Utility Service as State Director in North Dakota, and served as acting Administrator in Washington, DC. He is also a former lawmaker, serving in the North Dakota Legislature. Previously, Mr. Schneider had a law practice and also started a successful technology company in the computer hardware industry. He also worked at Cisco Systems, prior to obtaining his law degree from Hamline University School of Law in St. Paul, Minnesota.

CoBANK KNOWLEDGE EXCHANGE

INTERVIEW 4:

How Cooperatives from Disparate Industries Partnered to Achieve Broadband Success

A talk with

JENNY KARTES

Arrowhead Electric Cooperative

and

KRISTI WESTBROCK

Consolidated Telephone Company

By

MARK DOYLE

CoBank

Lutsen, Minnesota-based Arrowhead Electric Cooperative called various telecommunications providers around Minnesota to ask for help in setting up a broadband venture. They eventually found an ideal partner in Consolidated Telephone Company (CTC). CTC was then questioned by its fellow telecommunications providers on why it would work with an electric co-op. The answer? CTC said it was simply doing what cooperatives do best: helping bring service to those that don't have service.

ARROWHEAD ELECTRIC COOPERATIVE

Total Electric Customers	**4,250**
Density (Meters/Mile)	**7.25**
Total Utility Plant	**$34 MM**
Broadband Investments	**$23 MM**
Miles of Fiber OH	**400**
Miles of Fiber UG	**400**
Homes Passed	**5,500**
Speed Offerings	**60 Mb – 1 Gb**
Broadband Customers	**2,800**
Penetration Rate	**50%**

Since CTC and Arrowhead joined forces, their broadband venture has blossomed into a model for cross-industry partnership that is reaping significant benefits for both entities. Mark Doyle, senior relationship manager in CoBank's Fargo office, met with Jenny Kartes, finance and administration manager with Arrowhead and Kristi Westbrock, CEO and general manager of CTC, to better understand this non-traditional union and explore its benefits and challenges.

Mark Doyle: How did Arrowhead Electric Cooperative and Consolidated Telephone Company (CTC) cross paths and decide to work together?

Jenny Kartes: As an electric cooperative, we didn't have any experience in the telecommunications industry and we quickly realized we needed to find some partners to help us out so that we weren't reinventing the wheel.

"When we learned of the Arrowhead project, we had a lot of interest in doing what I think co-ops do best – bringing services to those that don't have service."

Not knowing where to begin, we started contacting telecommunications providers around Minnesota. Surprisingly, many were reluctant to talk to us until we found CTC.

MD: Kristi, what was CTC's interest in this project?

Kristi Westbrock: When we learned of the Arrowhead project, we had a lot of interest in doing what I think co-ops do best – bringing services to those that don't have service. This project was just a shining example of an area that was in desperate need of broadband. We saw it as an opportunity to help a community in need and to diversify the services that we were able to offer to additional consumers.

It was interesting when we got into this, because there were plenty of people who weren't thrilled with the idea of a telecommunications co-op helping out an electric co-op. The scrutiny came from investor-owned utilities and co-ops alike. They were really curious as to why we would partner with an electric co-op. But we saw it as an opportunity to provide service in an area no one else would ever build, and support a project fulfilling cooperative principles of concern for community while diversifying our revenue streams.

MD: Since this project, has anyone come back to you and said, "Hey, you guys did a good thing. We want to do something similar."

KW: Yes. There has been increasingly interest from others that want to understand how we created this partnership as they consider replicating the model for similar projects.

MD: Tell us what CTC was able to bring to the partnership?

KW: We brought a level of expertise in the industry. Because we're a 66-year-old telecommunications cooperative, we have many years of experience building networks. We found areas where things could be streamlined, or the network could operate more effectively.

Developing trust very early in the relationship allowed us to offer recommendations that were mutually beneficial. We were able to help with fiber construction, network development, customer service, sales, and provisioning, to name a few. Our bigger challenge was determining where the partnership would end, and each entity would stand alone.

JK: I agree. CTC brought a lot of expertise that proved extremely beneficial. At that time, we only had about 15 employees. There was a lot of knowledge that they shared with us. We had the local construction expertise, the operation and maintenance for the plant and billing, but CTC brought the telecommunications expertise that we lacked.

CTC was immediately able to host our phone switch and provided the Internet equipment to include us on the system they had already built. They didn't hold back on sharing their knowledge or equipment.

MD: How did each of your entities benefit from the partnership?

JK: Our biggest benefit was finding a partner that understood our need for their expertise to deliver a much-needed service to our membership, while allowing us to retain the member relationship.

KW: Primarily, we see economies of scale. There are such efficiencies in us working together to spread costs across a broader membership base. There is also a great opportunity to share services. While CTC alone may not have enough work to hire for a specific specialty, we may be able to hire a shared full-time employee and split the cost with Arrowhead.

> *"We quickly realized what we could do as partners far outweighed what either of us could do alone."*

MD: Can you describe some of the details of the contracts that govern the partnership?

KW: We have many different contracts between us and each individual circumstance dictates the terms of the agreement. Certainly, just like any other contract, there's early termination provisions and outs for both entities if there is ever unsatisfactory service. There are guidelines and measurements for service and timing, for example. It's a contract like any other, but it's completely negotiable. I don't see that it can be a cookie-cutter contract.

JK: I would add that trust is a key element and something that we will never be able to put in a contract. The relationship that we have with CTC really enables us to do more than what our contract states. We're constantly coming up with new services, new areas where we can partner that aren't in the contract. And that trust in each other enables us to work through those quickly to develop solutions. It doesn't have to be spelled out in a contract. While we update terms from time-to-time, it's trust that enables us to respond quickly to changing needs.

MD: Were there any unanticipated benefits for each of your organizations?

JK: We continually find unexpected benefits. When we had our first conversation, we were just looking for a little help and guidance, and maybe a service provider. We quickly realized what we could do as partners far outweighed what either of us could do alone.

When we began, we thought we would be able to offer phone service and fast Internet. As partners, we now offer additional services such point-to-point circuits for businesses and managed Wi-Fi, to name just two. CTC has really helped on those and we didn't even think they were a possibility at the outset.

KW: Definitely. First and foremost, this has been really exciting for our employees. This is an entirely different level of service and support than we were accustomed to providing.

When you're a 66-year-old cooperative with people that have done the same thing the same way for 20-25 years and suddenly you're supporting an electric cooperative, it brings a breath of fresh air into the work environment. It gave our people something new to embrace and be excited about.

When Arrowhead comes down for meetings, training, or even when we work on a new project or a new process, there isn't any pushback. This is exciting for them because it's a whole new opportunity for job growth and expansion. That certainly was unanticipated, but it's been a great aspect of this project.

MD: Do you two compete in any aspect of the business?

JK: No, I don't think you can be. In order to develop the level of trust that you need, it would be really difficult to also be competitors. We're 200 miles away so that puts a little bit of distance between us that prevents competition.

MD: What makes this broadband partnership work? Is it location, competitive environment, demographics?

JK: Two things make this work extremely well: our values as companies and the partnership that has developed – understanding cooperative values and having the same mindset on how we run our businesses and that we work for our members. I think that's what makes our relationship and partnership so easy. We're able to work through small and large issues with the same mindset.

KW: One thing that makes this partnership work, is that we have similar platforms for delivering our respective services. When you look at their access gear or network equipment, we have that knowledge because it's the same gear that we use at CTC. That's also a great piece

> *CTC provided considerable expertise in helping us know how to effectively sell this service to our membership.*

of our partnership because you're not recreating the wheel for what people have to learn to troubleshoot or to make the actual technology work.

Another factor is that for Arrowhead's membership, it's True North Broadband, Arrowhead's branded broadband solution. Their members don't see that the connection is being provided by CTC. When we answer the phone, it's True North Broadband, or when we're supporting them it's under the True North Broadband name. I think that has been a great piece of this – making sure that the Arrowhead membership always has that identity, that this is theirs and that they have ownership of this project.

MD: You mentioned that there are 200 miles between the two of you. How do you connect, if CTC is offering your phone services? Is there a fiber connection between that stretch of 200 miles or do you use somebody else's fiber?

JK: CTC really helped us figure out backhaul services – the best interconnection points, the best service providers and negotiating those contracts. Being complete novices to telecom, understanding that market was intimidating for an electric company. But having CTC there was invaluable.

KW: I think that's critical for people to understand, that you don't have to be neighboring co-ops to make these projects work. We are 200 miles apart and we developed a financial plan that is beneficial for both entities. People seem to think it has to be a partnership with the closest co-op, but with well-priced interconnection agreements these projects can work at extremely long distances.

MD: What were the biggest challenges in working with one another?

JK: I would have to say it's gone very smoothly from the beginning with CTC. If I had to pick one challenge, it comes from being 200 miles away and operating primarily in two different industries. Also, as with most partnerships, we sometimes struggle with communications. I don't think that is anything unique to this partnership, though.

KW: I agree. Just like most organizations, your biggest challenge is always effective communication. Early on, we spoke different languages – they spoke using an electric provider's language and we spoke one of a telco provider. When you assume that somebody knows something about one of those businesses that we don't know, it can create miscommunications. Because we've lived in that world so long, we just think, "Oh, they would have to understand how that works," when they may not.

But again, trust between the organizations resolves so many of the potential issues before they have an opportunity to turn into something bigger. Understanding and remembering that we are working toward the same goal gives you the perspective to step back and address concerns in a meaningful way.

MD: Is this a unique partnership, or has it been replicated elsewhere? Elaborate on what this project is and has become, and if you're looking at replicating it somewhere else.

KW: It's definitely a unique partnership because it was the first of its kind. I still haven't met anybody who is doing this type of work with an electric cooperative and doing it the way we are.

I think it can be replicated. But, each project is going to be unique and the needs of each electric co-op are going to be different. You just get down to issues like, does the electric co-op want to own all the fiber? In that case, you just become a provider. But in other partnerships there might be joint ownership of the fiber. Is there any benefit of joint fiber ownership?

Each one is going to have its unique differences and challenges. For example, we started working with Mille

Lacs Energy Cooperative in Aitkin, Minnesota. That project is different than the Arrowhead project in how much we do and how we do it. But, can some of the basic principles of working co-op to co-op be replicated elsewhere? Absolutely.

MD: Give us a high-level overview of the relationship with Mille Lacs?

KW: We entered into operating and construction agreements with Mille Lacs Energy two years ago. They received a Border to Border (B2B) grant from the state of Minnesota. The project was expected to pass 800 homes and the goal was to connect 400 of them, a 50% penetration rate.

Last summer we started building those passings. We turned on our first customer last November and they've already sold over 400 accounts today. We're building drops and connecting services for them right now. We've also begun to determine how we can partner on additional projects in their service area.

That partnership also opened some really nice doors in how we work directly with Great River Energy, Mille Lacs' generation and transmission (G&T) provider. Great River Energy provides power to 28 member cooperatives and is willing to assist those cooperatives who want to take a direct or indirect role in expanding rural broadband in their communities.

MD: Are there any other benefits of the partnership that either of you would like to highlight?

JK: CTC was a great partner in teaching us how to market our service. As an electric cooperative, we didn't have much experience marketing a product to our membership. For our project to succeed, we needed a certain take-rate and we needed to get our members to buy the service. Although there was pent up demand and many members were eager to get the service as soon as it was available, we needed help to actively sell the product to other members. And CTC provided considerable expertise in helping us know how to effectively sell this service to our membership.

JENNY KARTES *is finance and administration manager for Arrowhead Cooperative, an electric utility cooperative in the northeast corner of Minnesota that has built out a fiber-to-the-home network to its entire service territory as well as the local municipal service area.*

Ms. Kartes has been with Arrowhead for six years, since the start of the co-op's broadband buildout. She earned her bachelor's degree in accounting from Bradley University in Peoria, Illinois, and her master's degree in accounting from Illinois State University in Normal, Illinois.

KRISTI WESTBROCK *was recently promoted to CEO/general manager at Consolidated Telephone Company and has been with the cooperative since 2007. She has over 21 years of experience in the telecommunications industry and has a strong background in human resources, sales and marketing and business operations, strategic planning and product development. Ms. Westbrock also has her SPHR (Senior Professional of Human Resources) and SCP (Senior Certified Professional) accreditations and was named the Lakes Area Human Resources Professional in 2006. Ms. Westbrock has been integral in the cooperative development and partnerships with new opportunities at CTC in the past seven years.*

Ms. Westbrock has served on numerous local and state committees and boards of directors within the industry and the Brainerd Lakes community, including the United Way of Cass and Crow Wing County, Lakes Area Human Resources Association, Past-Chair Brainerd Lakes Area Chambers of Commerce, Lakes Area Safety/Health Organization, Minnesota Telecom Alliance, Brainerd/Baxter Business Council, Society of Human Resources, and First Lutheran Church. She currently serves as a national Trustee for the Group Health Plan of the National Telecommunications Cooperative Association as well as a Trustee for the Initiative Foundation.

CoBANK
KNOWLEDGE EXCHANGE

INTERVIEW 5:

Cooperating Cooperatives: A Partnership of Common Interest Among Potential Competitors

A talk with
SEAN FRIEND
Co-Mo Electric Cooperative

and
TOM HOWARD
Callaway Electric Cooperative

By
SETH HART
CoBank

Co-Mo Electric Cooperative provides electricity to nearly 33,000 meters in an area of Central Missouri bounded by the Missouri River in the north and the Lake of the Ozarks in the South. Callaway Electric Cooperative provides electric service to about 13,000 residential, agricultural, and commercial meters in rural Callaway and southern Montgomery Counties, adjacent to Co-Mo's service area. Co-Mo and Callaway are members of and receive generation and transmission (G&T) services from Central Electric Power Cooperative, which is also the nexus for their mutual interest and broadband partnership.

CALLAWAY ELECTRIC COOPERATIVE

Total Electric Customers	**13,000**
Density (Meters/Mile)	**5.9**
Miles of Fiber OH	**1,450**
Miles of Fiber UG	**75**
Homes Passed	**6,500**
Speed offerings	**100-500 Mb, 1 Gb**
Broadband Customers	**2,050**
Penetration Rate	**31%**

Having watched each other grow over the years, the co-ops began a dialogue that led to a broadband partnership, which many might consider unusual for companies working in such close proximity. Seth Hart, lead relationship manager in CoBank's Denver office spoke with Sean Friend, director of finance of Co-Mo and Tom Howard, CEO of Callaway, to understand how the partnership developed and what the two very similar businesses bring to the table.

> *Our success with Co-Mo is built on trust. We are two separate entities with common goals and expectations: reliable service, a quality product and a fair price.*

Seth Hart: How did this project/partnership get its start?

Sean Friend: Over the years, we had been talking with many of our neighboring co-ops about fiber given the success of Co-Mo's project. Callaway expressed interest in moving away from an existing partnership it had. As these discussions progressed, we looked for more opportunities to leverage Co-Mo's existing infrastructure to assist Callaway.

Tom Howard: The project began as a means to increase growth for our cooperative. Callaway had watched Co-Mo's success in providing broadband to its membership and local communities. Meanwhile, Callaway had experienced stagnant growth and sales since 2007. In looking for ways to spur growth, we determined that lack of high speed broadband in our service area and the local communities was actually hindering growth. Co-Mo had made substantial investment in assets we could share and help them to cost justify, as well as allow us to proceed with the project at a lower cost.

SH: How did Co-Mo and Callaway meet and decide to work together?

SF: Co-Mo and Callaway are both members of Central Electric Power Cooperative, which is our joint G&T provider. Co-Mo and Callaway have a long history together, so each of us was able to see what the other was pursuing in the broadband and fiber arena.

TH: Co-ops working with Central Electric have a long history of shared services and "Cooperation among Cooperatives." Co-Mo Connect, which is Co-Mo's broadband brand, began a few years prior to Callabyte Technology, which is Callaway's broadband subsidiary. We watched Co-Mo Connect grow into a successful company and Callaway had a desire to follow Co-Mo's business model via Callabyte.

Now, Callabyte is leveraging some of Co-Mo Connect's assets – headend equipment, 24/7 help desk, etc. – via a fiber connection between our organizations leased from Central Electric. The strategy was to follow a successful business model and lower both Co-Mo Connect's costs and Callabyte's cost.

SH: What do each of you bring to the partnership?

SF: Co-Mo brings the central office, TV headend and technical expertise. Callaway provides growth opportunities in and around their service area that Co-Mo would not be able to pursue without the partnership. When you own the data center and the TV headend, you have a lot of capital invested, which turns into a fixed cost base that must be supported. By partnering with Callaway, we can spread these fixed costs over a larger subscriber base, which makes both cooperatives' product offerings more affordable.

TH: Co-Mo brings us a quality business model, back end equipment and 24/7 support. Callabyte adds capital investment and infrastructure to reach its members, as well as additional customers in our local communities.

SH: What services are provided by Co-Mo for Callaway?

SF: We provide TV, central office and tier 2 technical support.

TH: Co-Mo provides wholesale product and technical support for Callabyte's subscribers. They also handle all network, transport, and core negotiating and support, along with access equipment configuration, software and upgrades, and core network monitoring.

SH: What do you each get in return? How are revenues shared?

SF: By partnering with Callaway, we can spread some of our fixed cost over more subscribers. We are also able to support a larger workforce than we would be able to do on our own. This enables us to provide better service and coverage, which benefits both the members of Co-Mo and Callaway. TV revenues are shared under a split-profit

> *The strategy was to follow a successful business model and lower both Co-Mo Connect's costs and Callabyte's cost.*

model. The other services are under a separate contract, which has a fixed and a variable pricing component.

TH: Both Co-Mo Connect and Callabyte are stand-alone companies and each has a separate customer base. There are cost savings due to the synergies of the two organizations. However, the only revenue shared is through a shared base fee and subscriber fee for video and VoIP.

SH: I assume you have contracts in place with each other. How long do they extend and are there any early termination provisions?

SF: Each service has a different contract.

TH: We have a service level agreement that is reviewed annually. We also have a facilities lease agreement, which is in place for a five-year term, with 30 days written notice for early termination.

SH: Are there any unanticipated benefits?

SF: Every time you partner with someone you learn a little bit more about your business and the potential benefits and challenges common to the telecommunications industry. Working with a partner and seeing the challenges that they face helps Co-Mo to become a better company. It is exciting to see our employees continue to work through complex issues every time we are faced with new challenges. This allows us to grow as a company.

TH: Having been in the retail propane business, Callaway recognized many of the challenges and benefits of being in a competitive retail business – a different type of workforce, communicating with the members/customers in a competitive environment, etc. An unanticipated benefit for us was the positive reception we received from our members and the local business community by offering high-speed broadband. Our members realize it takes time and requires investment, and they appreciate our efforts.

CoBank's interest and support in our project has also been important. Success is built on relationships. Callabyte has established a great relationship with its customer base, with Co-Mo Connect and CoBank.

SH: Are you competitors in any aspect of the business?

SF: On the retail side we are not currently competitors, but there will be potential for us to be retail competitors in the future.

SH: What makes this broadband partnership work? Is it the location, competitive environment, demographics?

SF: The fact that we had a good relationship with each other from the start has made a world of difference. The existing fiber network in the state of Missouri made it easier to lease fibers for the transport between us and Callaway, as well. Combine those factors with the close proximity of our co-ops and exploring a partnership just made sense.

TH: Our success with Co-Mo is built on trust. We are two separate entities with common goals and expectations: reliable service, a quality product and a fair price. We communicate this to our customers, and most importantly, between Co-Mo and Callaway. Our proximity to one another helps make this possible.

SH: What has been the biggest challenge in working with one another?

SF: As with any partnership, managing expectations, clear communication and execution of the agreement are always challenging. Both parties must work together for a common goal. This is challenging to do within your own organization, but it gets more challenging when you bring two organizations together.

TH: While there is trust, we are two separate entities, so communication at times or simply understanding the difference in our subscriber demographics has been a small challenge.

SH: Is this a unique partnership or has it been replicated elsewhere? Will it be replicated elsewhere?

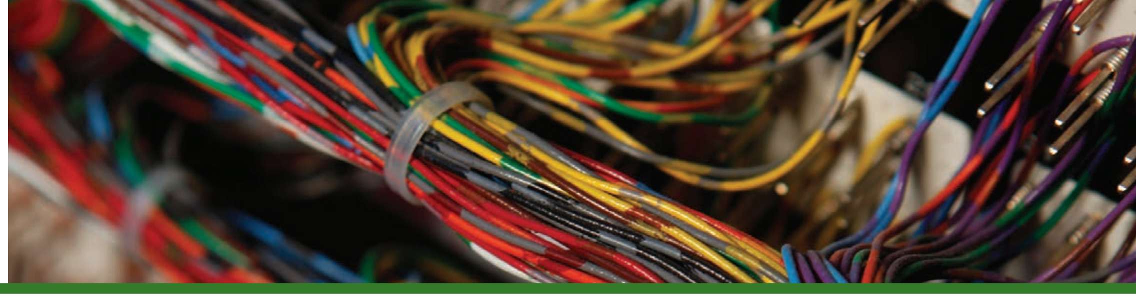
SF: This concept has been replicated many times. Each partnership that we enter has a little different concept, but the core services and products are the same. We will always continue to look for ways to provide value to our membership and our partners.

SEAN FRIEND *is the director of finance for Co-Mo Electric Cooperative, and the vice president of finance for Co-Mo Connect. He began his cooperative career at Intercounty Electric in Licking, Missouri, in July of 2008. During his tenure at Intercounty, he held responsibilities in accounting, finance, tax, IT, HR and customer service.*

Mr. Friend is a graduate of College of the Ozarks with a bachelor of science degree in accounting. He received his MBA at Columbia College. He also a licensed Certified Public Accountant in the state of Missouri.

TOM HOWARD *is the CEO/general manager of Callaway Electric Cooperative, the local electric cooperative which serves rural Callaway and southern Montgomery counties in Missouri. He is a part of several boards for organizations within the Rural Electric Cooperative family and local community, one of which is Associated Electric Cooperative. Mr. Howard is also President of Callabyte Technology, L.L.C.*

Mr. Howard attended the University of Missouri-Columbia and received a bachelor's degree in Agriculture Mechanization and Agricultural Economics.



CoBANK KNOWLEDGE EXCHANGE

INTERVIEW 6:

Unlikely Broadband Partnership Yields Start-up Efficiencies and Ancillary Benefits for San Juan Islands Customers

A talk with

FOSTER HILDRETH

Orcas Power & Light Cooperative (OPALCO)

and

GERRY LAWLOR

T-Mobile

By

JOHN DONNER

CoBank

The San Juan Islands – an archipelago between Washington State and the southern tip of Canada's Vancouver Island – redefine rural living. While the San Juan Islands are indeed rural – distant from a large metropolitan area and sparsely populated – they are known more for tourist activities such as whale-watching and kayaking than farming or ranching. The islands are accessible only by ferry and airplane in a setting that provides significant challenges for providing utility services – electricity is delivered via submarine cables – including broadband.

OPALCO/ROCK ISLAND

Total Electric Customers	**15,000**
Density (Meters/Mile)	**12.5**
Total Utility Plant	**$135 MM**
Broadband Investments	**$22 MM**
Wireless Towers	**38**
Speed offerings	**10 Mb – 1 Gb**
Broadband Customers	**4,006**
Penetration Rate	**30%**

Orcas Power & Light Cooperative (OPALCO), a member-owned, nonprofit cooperative utility, has provided energy services to the San Juan Islands since 1937. In 2015, OPALCO acquired Rock Island Communications to deliver broadband services to the islands' customers. In partnering with T-Mobile to deploy fixed wireless and improve cell coverage throughout its service area, Rock Island discovered that T-Mobile could also be a valuable partner in its broadband initiative. John Donner from CoBank's Electric distribution team sat down with Foster Hildreth, OPALCO's general manager, and Gerry Lawlor, vice president, Fixed Broadband with T-Mobile to discuss how this unlikely broadband partnership began and the benefits it has provided.

The utility is in an excellent position to leverage its existing infrastructure to deploy communication for its grid while quickly deploying broadband services to its community.

John Donner: How did OPALCO/Rock Island and T-Mobile cross paths and decide to work together?

Foster Hildreth: OPALCO and T-Mobile each owned wireless spectrum in the same band – 700MHz band 12 – which was purchased from the same seller. OPALCO's original plan was to use the spectrum to improve mobile communications on the islands for the safety of our lineman and residents.

Gerry Lawlor: Under FCC rules, each party using the same spectrum had to coordinate to avoid network interference. From the start, it became clear that we needed to work with each other in order to meet our respective goals.

JD: Is this a unique partnership or has it been replicated elsewhere? Will it be replicated elsewhere?

FH: This is a very unique partnership in which each side brought its particular strengths and capabilities to the table. OPALCO/Rock Island focused on building the fiber backbone, constructing towers and maintaining connectivity. T-Mobile focused on providing core LTE equipment and ongoing core technology. As far as we know, there are very few partnerships across the country that pair an electric cooperative with a telecommunications provider.

GL: This partnership provides a great operating model. T-Mobile wants to partner with other co-ops on similar structures where we can help to accelerate broadband business models in suitable communities. The model may not be identical to what we have structured with Rock Island, but there are definitely characteristics here that we feel can be duplicated in other rural markets.

JD: What does each entity bring to the partnership?

FH: OPALCO/Rock Island has the advantage of a strong local presence, which allowed us to build infrastructure with the support of the community. The natural beauty of the San Juan Islands is one of the primary reasons people choose to live here. For an unknown entity without local knowledge and relationships, constructing towers would have been very challenging.

GL: Each party contributed to the cost of building out the network and provided human expertise, both upfront and on an ongoing basis. OPALCO enabled T-Mobile to build upon its existing infrastructure within their right-of-way. We also each share spectrum as part of the ongoing service offering.

JD: What do you each get in return? How are revenues shared?

GL: We realized upfront and recurring cost savings and created a recurring revenue share model on sales of certain products, such as mobile handset sales and TV service. At the same time, we realize this is not a one-size-fits-all solution. T-Mobile will structure different partnerships that address the various scenarios we expect to see.

FH: Many OPALCO members are able to get broadband services much sooner under this partnership than if they had to wait for fiber to be delivered to every home. One of our primary goals was to deliver broadband service to the islands. Partnering with T-Mobile helped us deliver on that goal faster and less expensively than had we done it alone.

JD: Are you competitors in any aspect of the business?

FH: Essentially no. We both support each other's core business. In structuring any partnership, we see more value in creating a broader mutual arrangement instead of bifurcating the market.

> *Making sure the community has a sense of ownership in the effort is important to the long-term success of any project.*

JD: What are some of the key provisions in the contracts between the two entities?

GL: We have a 20-year agreement in place with the ability to extend further, as needed. We don't expect these to be short-term arrangements in any location given the nature of the investments needed to be successful. Fiber is a longer-term investment. But given the insatiable demand for mobile services in line with fixed services, the wireless side will see ongoing investment.

JD: What makes this broadband partnership work? Is it the location, competitive environment, demographics?

FH: Each party truly delivers its respective strengths to the partnership. The utility is in an excellent position to leverage its existing infrastructure to deploy communication for its grid while quickly deploying broadband services to its community.

GL: T-Mobile prides itself on tackling pain points for the consumer. We are excited to tackle pain points on a community-wide basis to see real benefits for rural America.

JD: What has been the biggest challenge in working together?

FH: Honestly, there haven't been any major challenges. T-Mobile continues to be a great partner and brings additional benefits such as Internet of Things (IOT) devices for smart metering and early small cell 5G testing, enabling more capability to reach further into our network.

GL: This partnership has been a win-win for each side. Dealing with anything unexpected was easily overcome.

JD: How important is branding – local and national?

FH: Having a local brand was very important for our community. The original Rock Island was a locally owned ISP, which had been in business for 20 years. It had a very loyal following. Building our broadband around the Rock Island brand after OPALCO purchased it in 2015 was the right approach for the community.

GL: Combining the Rock Island and T-Mobile brands was a good fit. Again, making sure the community has a sense of ownership in the effort is important to the long-term success of any project.

JD: How does the partnership support low-income members?

FH: Introducing LTE to the equation was an immediate boost to lower income members. The key is to get broad and rapid deployment of services so as many people as possible can reap the benefits. This produced a better rate of return that enabled wider deployment of fiber into areas normally deemed too expensive.

GL: Delivery of fixed and mobile services throughout a community gives everyone – especially those with lower incomes – the opportunity to enjoy numerous savings on their monthly telecommunication bills.

FOSTER HILDRETH *is the general manager at Orcas Power & Light Cooperative (OPALCO), which distributes power to 15,000 meters across the San Juan Islands in far northwest Washington State. A seasoned financial manager, Mr. Hildreth joined the OPALCO team in 2006 and took the reins as general manager in September 2014. In his role, he oversees all of OPALCO's departments and functions, including engineering, business development, accounting and finance controls, reporting and member services, communications, capital projects, and hiring key personnel.*

Mr. Hildreth earned his bachelor's degree and his master's in business administration and finance from the University of Southern California.

GERRY LAWLOR *is vice president, fixed wireless for T-Mobile USA. In this role, he is leading an innovative national effort to deliver Fixed Broadband services via LTE and Fiber by leveraging unique spectrum, technology and industry relationships in the utilities market.*

Gerry was previously the executive vice president of Rock Island Communications in San Juan County. In this role Gerry drew upon his global experience in the U.S. and abroad to streamline operations and develop industry-first partnerships to benefit the company and the communities it served. For example, frustrated by slow DSL connections on San Juan Island, Gerry partnered with Orcas Power and Light Co-op to bring faster technology by leveraging the utilities infrastructure and one-of-a-kind relationships with mobile and fixed-line operators.

Mr. Lawlor has a background in finance having traded and sold fixed income and derivative securities for Banc of America Securities and Goldman Sachs & Co. Before moving to the Pacific Northwest from New York, Gerry was the Chief Operating Officer of Razor Risk Technologies (an Australian public company).

CoBANK
KNOWLEDGE EXCHANGE

INTERVIEW 7:

Knock-Knock … the World's Calling: Gig-Speed Broadband Changes the Game in Northern Alabama

A talk with
BRUCE PURDY
Northern Alabama Electric Cooperative

and
JOHN DRAKE
Great Western Products

By
ALLISON DUNN
CoBank

North Alabama Electric Cooperative (NAEC) has provided its members reliable, affordable electricity for more than 70 year. In 2013, NAEC introduced NaFiber in Jackson and Marshall Counties, which was Alabama's first community-wide fiber broadband network. In late-February of 2018, NaFiber again led the way by introducing the first community-wide Gigabit and 10 Gigabit broadband service, which is already delivering some significant economic development wins.

Reaping the benefits are local companies such as Great Western Products, which is now marketing and selling its food and nonfood concession supplies globally. Great Western calls the new service a "game changer." Allison Dunn, lead relationship manager in CoBank's Atlanta office spoke with Bruce Purdy, NAEC's general manager, and John Drake, IT manager and network administrator at Great Western Products, to better understand the impact of the recent service expansion within each company and the community.

Allison Dunn: Tell us about the impact of broadband to the economy in your region.

Bruce Purdy: We have approximately six small operations that recently returned to this area. It was broadband that allowed the owners, who were originally from the area, to bring their companies back and re-establish their operations here. The community is also now attracting new industries. We are currently in competition for a couple of large projects. While not announced yet, our broadband service has kept us in competition for these projects. We landed a Google data center and we are on the radar for some other big technology projects. Broadband has been very helpful for economic development.

John Drake: The availability of broadband allows companies in this area to better compete in a global economy. Our connectivity has allowed us to obtain customers that wouldn't have considered our area before. And, we've been able to increase our export business significantly. We're now reaching people around the world who hadn't heard of us because our website wasn't consistently up and running.

> *The availability of broadband allows companies in this area to better compete in a global economy. Our connectivity has allowed us to obtain customers that wouldn't have considered our area before.*

AD: What has been the impact for the employees of North Alabama Electric?

BP: From an operational perspective, we tried for years to base customer deposits on credit scores. The problem was that our previous provider didn't have enough bandwidth to allow us to complete the on-line process before the credit reporting service timed out. We would almost always time-out before we got the information we needed. That problem is now solved with broadband.

More generally, we have gig-speed internet service in our building. When a visitor comes in – an on-site auditor, for example – we supply high-speed Internet access. Most people are very impressed that they can work with that rate of speed.

As far as our employees go, gig-speed allows them to function at a high level. Instead of spending minutes performing a function, they literally spend two to three seconds.

AD: What changes have occurred that you did not anticipate after you had broadband?

JD: After we got this connection we were able to migrate our phone system to voice over IP. In doing that, we significantly reduced our monthly cost and ended up with a much better phone system. That was not something we originally planned. But with the bandwidth, we were able to make that change.

BP: I never expected our older citizens to be excited about broadband. What I discounted was their excitement that now their grandkids will come and spend the night instead of walking in the door and being immediately ready to leave because they didn't have Internet. We have a much larger percentage of our older population subscribing to broadband than I ever anticipated.

I've taken more phone calls from grandparents, just sharing their thanks for that one simple thing. It shocked me.

AD: Is there are contract between North Alabama Electric and Great Western Products?

BP: No. We have never required contracts. If we do it right and provide the level of service that I expect us to provide, we will not need contracts. To the best of my knowledge, out of thousands of installations, no one has ever signed a contract – residential, commercial or industrial.

AD: John, what is unique about the business relationship between Great Western Products and North Alabama Electric?

JD: With North Alabama Electric, we're not just an account number. The rare occurrences where we had a problem, I was able to get assistance right away. They knew who I was when I called. You don't get that with a lot of these for-profit companies. That means a lot.

AD: What would Great Western look like today if it had not been for the North Alabama broadband project? Were there any other options?

JD: That's something I kind of shudder to think about. Our previous connection limitations basically prevented us from engaging with anybody new.

Now, our larger customers prefer to handle their ordering and invoicing electronically. Our previous connection was maxed out and we had a lot of downtime. Our websites were either very slow or they wouldn't come up at all.

We explored every provider in the area and they refused to serve us because it would have cost them too much to build out to our location. We were between a rock and a hard place and looking for other options before North Alabama Electric introduced its service.

AD: Bruce, from your perspective, what is unique about the business relationship between North Alabama Electric and Great Western Products?

BP: My main objective as manager of the co-op is that Great Western Products – and all of our customers – stay in business. We're not just providing broadband, electricity or phone service. It's the general idea that they remain open, profitable and employing members of the co-op. Or, if not my co-op, at least Sand Mountain Electric Co-op, which is another electric cooperative in the area.

We went into broadband to help this area. First, to be a better place to live; and second, to be a place people would stay or return to and live. The recession of the 2000s took a heavy toll on our area. In terms of new business coming out of that recession, broadband is key to making the cut when being evaluated by those businesses looking for a location.

AD: What do you see for the future of your organizations and the region in general?

JD: We can't say exactly what the future holds, but if we continue to expand our business the way it's been going, I think we'll be around here for a long time.

As far as the region, I expect to see more companies growing because they're able to better market their goods and services globally. And I see this area becoming more attractive to businesses relocating.

We have a large influx of high-tech companies moving to the area since it's 60 miles or so from Huntsville. I'd expect to see more of them look to our area once they discover our Internet connectivity and our real estate prices. We've got a beautiful area and, by comparison, bargain priced real estate. I wouldn't be surprised to see some big industries come in.

BP: It's improving – we've begun to see month-to-month gains. We are now providing some transport. We have dropped two gigs to Google. Facebook has announced in Huntsville and immediately two of the data centers – one existing, one under construction – have been in my office discussing wavelength out of Huntsville, which we'll be happy to accommodate.

Transport situations are possibly even better than commercial and industrial accounts because they're utilizing your fiber. There's a little bit of expense, but only a fraction compared to the revenue opportunity. It has taken a few years, but we're now on the radar and people are stepping in wanting us to light fiber and provide transport. For the region and broadband, that's very advantageous.

AD: Do either of you have any closing thoughts?

JD: From my perspective, if somebody's out there and has the opportunity to engage with a company like North Alabama Electric, do it. The difference in the level of service and the up time is huge.

BP: In the larger picture, it is becoming more difficult to live in rural America. People are leaving and they're going to the metro areas. Without broadband, I think rural America will struggle to survive. I don't know how you plan for the future without high-speed internet.

BRUCE PURDY *is general manager of North Alabama Electric Cooperative and its subsidiary North Alabama Fiber Co-op. He has been with NAEC for 25 years, serving as general manager for the past 15 years.*

Mr. Purdy serves on the executive committee of the Jackson County (Alabama) Economic Development Authority. He is also a member of numerous other education-related and industry-related boards, including the Rural Broadband Initiative.

He earned his bachelor's degree in accounting and his MBA from Jacksonville State University.

JOHN DRAKE *is IT manager/network administrator with Great Western Products, which is a vertically integrated manufacturer and master distributor of food and nonfood concession products, concession supplies, and janitorial cleaning solutions based in Hollywood, Alabama.*

Mr. Drake has worked in the computer technology field for more than 25 years. He holds a computer programming specialization from Mario Umana Harborside School of Science and Technology and several Microsoft certifications.

ABOUT COBANK

CoBank is a cooperative bank with more than $130 billion in assets serving vital industries across rural America. The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states. The bank also provides wholesale loans and other financial services to affiliated Farm Credit associations serving more than 70,000 farmers, ranchers and other rural borrowers in 23 states around the country.

CoBank is a member of the Farm Credit System, a nationwide network of banks and retail lending associations chartered to support the borrowing needs of U.S. agriculture, rural infrastructure and rural communities. Headquartered outside Denver, Colorado, CoBank serves customers from regional banking centers across the U.S. and also maintains an international representative office in Singapore.

For more information about CoBank, visit the bank's website at www.cobank.com.

CoBank's Knowledge Exchange Division welcomes readers' comments and suggestions. Please send them to KEDRESEARCH@cobank.com.

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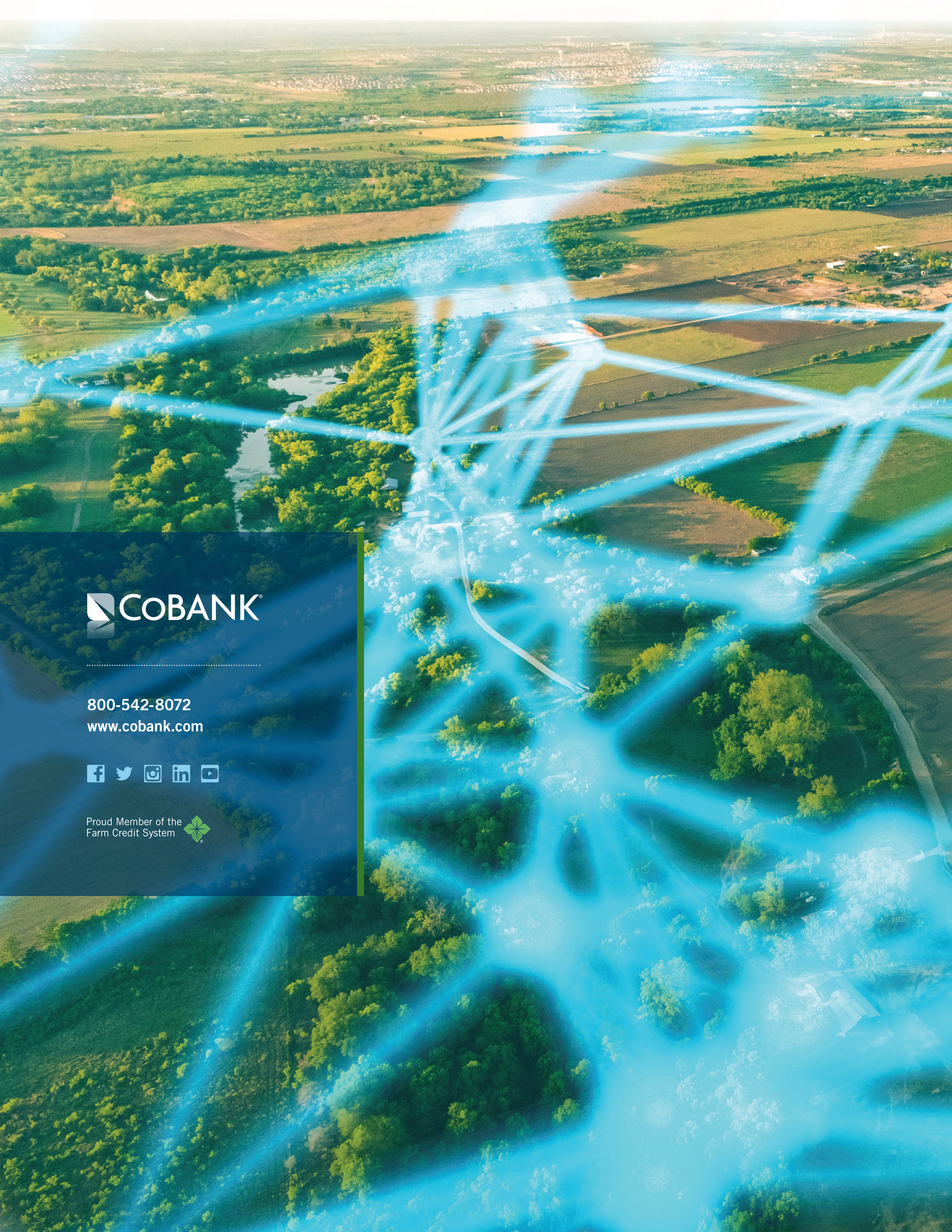

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