

For Immediate Release

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Audit: Burlington Telecom Not Viable

Analysis shows accountability, financial and compliance problems

Montpelier, VT – Today the Vermont Department of Public Service released an audit of Burlington Telecom that examines the organization's business operations - and its expected effect on ratepayers. The 51 page audit details the knowing violation by city leaders and managers of the department's license conditions; its lack of financial stability and weak inventory and accounting practices. The period under review was from the issue date of the CPG, September 2005, through the end of the fiscal year, June 30, 2010

The following conclusions were included in the audit:

- That Burlington Telecom has not been in compliance with Condition No. 60 since September 2005; that Burlington Telecom failed to meet the requirement to repay borrowed funds within 60 days; that even after instituting a policy to repay loans within 60 days, it has continued to carry a negative balance, failing to repay over \$16 million in loans from the City's Pooled Cash fund.
- The auditors also concluded that they believe that Burlington Telecom not only withheld the fact that it was not in compliance, from the DPS and the Board, but appeared to have been aware of the violation earlier than it has claimed.
- That the auditors also believe that Burlington Telecom has serious "going concern" issues; that Burlington Telecom has incurred losses in each fiscal year from 2005 through 2009; that Burlington Telecom has accumulated a \$16.9 million obligation to the City and is currently having difficulty meeting its \$33.5 million obligation to CitiCapital. The City's own financial auditors repeatedly raised concerns about BT's ability to continue as a going concern.
- CAO Jonathan Leopold, as recent as this past summer assured Moody's officials that the \$17 million BT owed to Pooled Cash "would become a liability of the General Fund if BT ceases to be a City venture. In that event the City would have the authority to issue general obligation bonds to convert the Pooled Cash obligation to long term debt. That financing would be 20 years with annual debt services of \$1.2 million. The cost to taxpayers would be a tax rate increase of less than 3.4 cents or 4.7%. The communication then states that a "4.7% increase, if it becomes necessary, represents a reasonable and not overly burdensome tax rate."
- Tim Nulty, the original Manager of Burlington Telecom predicted that Burlington Telecom would generate significant positive cash flow by FY 2009, (predicted to be around \$15 million/yr) which " could provide more than 20% of the City's general fund requirements."

- That the auditors are concerned with the possibility that Burlington Telecom could default on its loans and leave the City and its taxpayers responsible for the debt of \$16.9 million and possibly a portion of the debt of \$33.5 million.
- That there are concerns regarding accounting issues. The auditors have discovered significant internal control weaknesses throughout the system. These deficiencies include controls over the coding of costs and authorization of expenditures. The controls that would properly monitor capital and operational costs appear to be insufficient. Also, the fact that the City has had issues with posting interest in a timely manner and identifying principal and interest payments suggests that Burlington Telecom is not in compliance with Condition No. 58. Evidence also suggests that Burlington Telecom may have violated Condition No. 12 in that the discounted prices charged to some City operations do not appear to be reasonable in relation to the costs of providing the services.

“This is further evidence that Burlington Telecom and the City of Burlington’s leadership have knowingly withheld and manipulated information to cover the fundamental financial flaws in the case for Burlington Telecom”, said David O’Brien, Commissioner of the Department of Public Service. “It is clear that Burlington’s Administration has put their interests before the interests of the taxpayers. Unfortunately, they continue to misrepresent the facts in what can only be a considered a campaign to ignore a painful reality – that Burlington Telecom is not viable. It is my hope that the voters and city council take action before more money is lost”, said O’Brien.

O'Brien went on to say that "it is truly sad that all the warning signs were ignored and that City officials deceived regulators and the general public that now places a tremendous financial burden on unsuspecting businesses and residents of Burlington".

The audit, conducted by Larkin & Associates, PLLC, made several recommendations at the conclusion of their report:

- (1) That the Board require Burlington Telecom to conduct a physical inventory of assets (both installed and uninstalled) and to report to the Board concerning this, along with BT’s detailed plan to use the equipment purchased through June 30, 2010 that has not yet been installed. This is critical whether Burlington Telecom is able to survive the current financial crisis or not.
- (2) That the Board require BT to provide a plan for bringing BT into compliance with all violated provisions of BT’s CPG, including Condition No. 60. While we do not believe that BT can continue as a viable operation, because of the risk to the City and taxpayers it would be remiss to ignore any possible solutions should they exist.
- (3) That the Board require BT to address the going concern issues and to provide an operating plan detailing how BT expects to become profitable and cash-flow positive, including details on any restructuring of the CitiCapital lease financing that BT has been able to obtain.
- (4) That the Board consider revoking BT’s CPG if the Board is not satisfied that BT has a realistic plan to bring BT into compliance with all violated provisions of BT’s CPG, including Condition No. 60, and a viable plan for addressing the going concern issues.

A copy of the report can be found online at <http://www.publicservice.vermont.gov/>