



# ReConnect Financial Requirements 101 – Talking Points

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## Introduction –

Slide numbers and titles/descriptions align with the PowerPoint deck presented on March 14, 2019.

### Slide 1: Cover Slide

Welcome to the Financial 101 presentation for the ReConnect program. My name is Jessica Hilbrich, and I am a member of the ReConnect support team, and I will be your guide for this presentation. This presentation will provide a high-level overview of the financial requirements for the program and application, a description of the linkages between the financial components of the application and other components of the application, an overview of the assumptions that an applicant should provide to support their financial information, and key considerations for financial sections of the application.

Before we begin, I want to let the audience know that we will not be doing a live question and answer during today's session. Please feel free to submit your questions through the chat function. We will collect questions, review, and post answers on the ReConnect website following the webinar. The slides and transcripts of what is said during today's webinars will also be available on the ReConnect website in a few days following the presentation.

### Slide 2: Announcements

I will now walk you through some program announcements. On February 6, 2019, USDA announced that the funding window for ReConnect has been extended to allow applicants to access technical assistance provided by USDA.

The final funding windows were announced in a notice in the Federal Registrar on February 25, 2019. Applications for the 100 Percent Grant funding category will be accepted through May 31, 2019. Applications for the 50/50 Loan/Grant Combination funding category will be accepted through June 21, 2019. Applications for the 100 Percent Loan funding category will be accepted through July 12, 2019.

NOTE: Because citations and other information may be subject to change please always consult the program instructions listed in the Federal Record. You may also contact your **General Field Representative** at <https://www.rd.usda.gov/contact-us/telecom-gfr> for assistance. You will find additional forms, resources, and program information at [reconnect.usda.gov](https://reconnect.usda.gov). *USDA is an equal opportunity provider, employer, and lender.*

### Slide 3: Genesis of Broadband Pilot Program

The President's Rural Prosperity Task Force, chaired by Secretary of Agriculture Sonny Perdue, found that E-connectivity is fundamental for economic development, innovation, advancements in technology, workforce readiness, and an improved quality of life. Access to broadband in our rural communities will have the effect of increasing productivity in farms, mining, factories, forests, and small businesses across rural America through access to high-speed Internet.

The awards made under this program will bring high-speed broadband to rural areas that lacked sufficient access to broadband; deliver broadband connection and high-quality service, which will enable technologies critical to rural communities, such as precision agriculture; fuel long-term economic development and opportunities in rural America; and, support improved access to education and health care in rural communities.

### Slide 4: The Act

In the 2018 Consolidated Appropriations Act, Congress provided \$600 million dollars to the Broadband Pilot Program, which we are now calling the ReConnect Program. This program is a pilot program offering a unique federal financing option in the form of grants, loans, and combinations thereof to extend broadband service to rural areas.

The Program focuses on areas that completely lack or have insufficient access to broadband service. Sufficient access is defined in the statute as 10 Mbps (Megabits per second) downstream and 1 Mbps upstream. If an area has less than 10/1 service, then the area is eligible.

The Program includes incentives, which are built into the application process, that encourage applicants to focus on farms, businesses, educational facilities, health facilities, and critical community facilities in solution planning. The minimum requirement is to provide 25 Mbps downstream and 3 Mbps upstream to rural America.

### Slide 5: Timeline

Now we are going to walk through the program timeline. There are a few key dates that we want to highlight. The official program announcement and the release of the Funding Opportunity Announcement (FOA) were made in December 2018. The Federal Register notice providing guidance on the application deadlines was published February 25, 2019. Next, the date that applications will start being accepted will be announced in March 2019.



The first deadline for submitting applications is in May 2019. Applications will be accepted for the 100 Percent Grant funding category through May 31, 2019; applications will be accepted for the 50/50 Loan/Grant Combination funding category through June 21, 2019; and, applications will be accepted for the 100 Percent Loan funding category through July 12, 2019.

## Slide 6: Linkages

Several components of the application will be evaluated together. This slide shows the relevant linkages between the engineering components and the other application requirements.

Applicants should be mindful of the required synergies between sections of the application. Specifically, engineering submissions must align to financial submissions. Inclusions and assumptions in one section must percolate through each linked or relevant section of an applicant's submission. Failure to adequately align sections of an application may increase the complexity of USDA's review of that application.

## Slide 7: Program Design (Transition Slide)

Next, we will move into program design.

## Slide 8: Grant and Loan Products

There are three products offered through this program: loans, a combination of loans and grants, and grants.

The Loan product has \$200 million in available funding. The maximum award amount in this category will be \$50 million. The interest rate will be 2%. USDA is proud to be able to offer these low interest loans for broadband projects.

The Loan/Grant Combination product has \$200 million in available funding and will provide \$100 million grant dollars and \$100 million loan dollars. The maximum award amount in this category will be \$50 million. Loan and grant amounts for an award will always be equal. The interest rate on the RUS Loan component of the 50/50 Loan/Grant Combination will be set equal to the yield on a U.S. Treasury note with a comparable maturity. The applicable interest rate is determined at the time of each draw.

The Grant product has \$200 million in available funding. The maximum award amount in this category will be \$25 million. Applicants are required to provide a 25% match and that match can only be in cash.

Across all products, there is a minimum speed requirement of 25 Mbps downstream and 3 Mbps upstream. The 50/50 Loan/Grant Combination and 100 Percent Grant products will be incentivized to provide higher speeds via the scoring criteria.

Applicants must meet at least two of the following by Year 5: a minimum TIER of 1.2x; a minimum DSCR (Debt Service Coverage Ratio) of 1.2x; or a minimum current ratio of 1.2x.

The 100% Grant and Loan/Grant combination products will be awarded on a competitive basis while the 100% Loan will be awarded on a first-come, first-served basis. For both the 100% Loan and the Loan/Grant combination, the principal and interest will be deferred for the first three years.

This is different than other RUS programs which have a two-year deferral.

The interest will be capitalized at the end of the deferral period. This should be reflected appropriately in the pro forma projection. The amortization period is set to the composite economic life of project assets to be financed, rounded to the nearest full year. The loan amortization profile are level-debt, repaid on a monthly basis. Loan proceeds must be expended before grant funds if the awardee receives both. Applicants must demonstrate a positive cash flow from operations by year 5 of their financial forecast.

## Slide 9: Eligible Project Costs

This slide includes an overview of eligible costs associated with this project. Funds may be used for the construction or improvements of facilities, including buildings and land, required to provide broadband service.

Pre-application expenses are allowed but may not exceed 5% of the total award. Cost must be incurred after the publication date of the FOA, which was December 14, 2018, and be documented.

All costs must be reasonable, allocable, and necessary. Operating expenses are not allowed.

For the 100% loans only, the acquisition of an existing system that does not currently provide sufficient access to broadband is an allowable cost, but it is limited to 40% of the total loan amount.



## Slide 10: Ineligible Costs

Applicants should be aware of the categories and types of project costs that cannot be reimbursed with the ReConnect funds. These ineligible project costs include: applicants operating costs; costs incurred prior to the date on which the application was submitted and with respect to eligible pre-application expenses, those costs incurred prior to the date of the publication of the FOA; costs associated with the acquisition or merger of an affiliate, any facilities or equipment of an affiliate, and a system previously funded by RUS.; vehicles not used for construction, costs associated with the purchase of spectrum, cost associated with operating leases of broadband facilities, including Indefensible Rights of Use Agreements or IRU, mobile service facilities, a system that provides sufficient access to broadband, and cost of refinancing any outstanding debt.

## Slide 11: Key Financial Components of the ReConnect Application (Transition Slide)

Now we will talk through some key financial components of the ReConnect application.


## Slide 12: Applicants Will Need to Submit

Applicants will need to complete the following documentation in the online application system. Many fields will auto calculate but the applicants should be prepared to complete the following: a financial pro forma for years 2015-2024, four years of historical data, current (bridge year) financials, and five years of projections; a capital investment workbook and schedule; and the applicant will also need to provide unqualified, audited financial statements for two full years preceding the date the application is submitted.

We will discuss each of these in detail later in the presentation.

## Slide 13: Applicants Must Demonstrate

Applicants must demonstrate financial feasibility and sustainability. Only projects that USDA determines to be financially feasible and sustainable will be eligible for an award under this program.



A project is financially feasible when the applicant demonstrates to the satisfaction of USDA that it will be able to satisfy the following conditions: sufficient revenue to cover expenses; sufficient cash flow to cover all debt service obligations as they come due; positive ending cash balance for each year in the forecast period; meet at least two of the following requirements by the end of the forecast period, a minimum TIER requirement of 1.2x, a minimum DSCR requirement of 1.2x, a minimum current ratio of 1.2x; and for the 100% loans tangible equity to total assets must be at least 20% at the end of the calendar year starting in the third year of the forecast period through the remainder of the forecast period.

### Slide 14: Applicants Should Consider

The amortization period is equal to the composite economic life of the facilities funded plus three years. The interest rate on the RUS Loan component of the 50/50 Grant/Loan combo will be set equal to the yield on a U.S. Treasury note with a comparable maturity. The applicable interest rate is determined at the time of each draw. For example, if the term of the RUS loan is 20 years, the interest rate will equal the yield on a 20-Year Treasury Note on the day in which the draw occurred.

USDA reserves the right to withhold funds until a management analysis profile is completed post-award. For draws, applicants will submit a financial requirement statement up to once a month or an eligible project cost reimbursement. The principal and interest will be deferred for the first three years. This is different from other RUS programs which only have a two-year principal deferral.

### Slide 15: USDA Required Security Features

Pursuant to the FOA, USDA will require the following security features: a pledge of all assets and revenues of the borrower; a pledge of the grant assets for awardees that only receive a grant; USDA may share its first lien position with one or more lenders on a pari passu basis; applicants must submit a certification that prior lenders or lienholders on any awardee asset has agreed to sign the standard RUS intercreditor agreement or co-mortgage.

### Slide 16: Detailed Overview of Required Application Materials (Transition Slide)

Next, we will do a detailed overview of required application materials.

## Slide 17: Required Application Materials: A Financial Pro Forma (5-year Projection from First Advancement)

Applicants will be required to submit a financial pro forma that covers 2015-2024 which must include four years of historical data including current or bridge year financials, and a 5-year projection. The bridge year shall be the year in which the application is submitted and used as a buffer between the historical financial information and the forecast period.

Applicants are required to include pro forma projections in the RUS application system for the following: income statements, balance sheet, and statements of cash flows.

To successfully prepare financial statements, applicants should first populate and complete all underlying schedules as applicable. These schedules serve as inputs to both the historical and forecasted information: Capital Investment Workbook & Schedule; Capital contribution schedule; service offerings; subscriber projections (residential and business); other revenue schedules (as applicable); depreciation rates and expense summaries; long-term debt schedules (when applicable) for funded RUS, Rural Telephone Bank (RTB) and Federal Financing Bank (FFB notes), and other funded long-term debt; amortization schedules for other sources of debt; other debt schedules (when applicable); obligations under capital leases; plant-in-service schedules; and sources of network access service revenue.


USDA will review the financial pro forma for the following: the applicants existing and expected debt burden over the forecast period; the financial pro forma will demonstrate applicant's operational liabilities; for reasonable of assumptions of the financial pro forma. For the purpose of review, reasonableness means the assumptions can be supported and substantiated.

## Slide 18: Required Application Materials: A Capital Investment Workbook & Schedule

Applicants will be required to submit a Capital Investment Workbook & Schedule to provide more detail assumptions that went into building the pro forma. The Workbook and the Schedule require applicants to detail cross estimates and the timing of the construction or project expenses over the buildout period. USDA will assess the applicant's financial position over the course of the buildout period.

Keep in mind the Capital Investment Schedule should align with the financial forecast. The workbook and schedule are required to show the proposed system can be built within five years.





The application system will identify the number of households in a Proposed Funded Service Area (PFSA), and the applicant may challenge the number with additional support. Household penetration rates will be calculated automatically by the application system using data input by the applicant and RUS will validate the projections based on the submitted assumptions.

Revenues and expenditures that are included in the five-year projection, but not accounted for in the buildout (even if RUS money is not being leveraged), still need to be justified by applicants and could be a cause for rejection of an applicant.

### Slide 19: Required Application Materials: Unqualified, Audited Financial Statements

Applicants will be required to submit unqualified, audited financial statements for two full years preceding the date of the application submission defined as statements prepared by a CPA.

If applicants have parents or subsidiaries, it would be beneficial if applicants furnished parent company information including historical financial statements, organizational charts, and debt instruments, or a subsidiary information as applicable including historical financial statements, and organizational charts, and debt instruments.

For government entities, the unqualified audited financial statements must be accompanied with certifications as to the unrestricted cash that may be available on a yearly basis.

For startup operations formed from partnerships of existing utility providers, audited financial statements for the previous two years are required for each partner. In addition, the partners must guarantee any loan component of the requested funding.

USDA will review the unqualified audited financial statements to assess the financial health of the applicant.

### Slide 20: Required Application Materials: Supporting Financial Information

In addition to financial statements, the application requires various workbooks and schedules to be filled out that provide more detail on the network, market, and economic assumptions that go into building the pro forma. Additional supporting financial documents may be required depending on each applicant.



Examples of supporting documentation include: applicants audited financial statements for the previous two years; Evidence of Equity Infusion; Federal/State Grant documents; funded debt instruments including that from RD, other debt or other long-term debt; Letters of Commitment and Term Sheets; obligations under capital leases and lease agreements; statements of affordability; alternative household supporting data; cost consultant certification; UCC-1 form; Lines of Credit; Competitive Analysis; Bank account statements; and other supporting documentation

If applicants have lines of credit, applicants are required to explain the credit in the application.

Applicants should upload any and all supporting documents to substantiate the revenue projection. USDA will evaluate different revenue streams independently from one another. For example, an applicant will need to provide justification for their network access service revenue.

The network access service revenue may be generated from any of the following sources and applicants must provide a detailed description. Sources include: federal subscriber line charges; federal consumer broadband only loop charges; federal access recovery charges; model-based support (CAM or A-CAM); federal high cost loop support; Connect America Fund - Broadband Loop Support; state support; Connect America Fund Intercarrier Compensation; Interstate Switched Access Revenue; Intrastate Switch Access Revenue; Interstate Special Access Revenue; and Intrastate Spectral Access Revenue.

If an application includes Non-Funded Service Areas (NFSA) and Unadvanced Prior Loan Funds (UPLF), applicants will be requested to input information about these loans.

## Slide 21: Income Statement

The application system requires applicants to submit an income statement for each period in the pro forma time horizon. Applicant's income statements demonstrate financial performance and the deposition of the applicant via recorded revenues, expenses, gains, and losses over the historical and forecast period.

The income statement will be reviewed by USDA in order to evaluate an applicant's historical financial performance and anticipated financial performance over the buildout period of their project. Specifically, the income statement will help convey to USDA anticipated topline or revenue growth given various assumptions including: subscriber projections; increases and decreases in future expenditures depreciation; amortization and taxes; growth rates and trends in expenses; profitability, as indicated by net income; and data necessary to perform a valuation of the applicant entity.

Additionally, the agency will use the income statement in conjunction with other components of the pro forma to evaluate the FOA-required compliance with DSCR and TIER ratios.

Applicants will need to prepare assumptions to successfully complete the income statement projections such as identified service offerings and pricing and the volume and timing of expected “other” operating income and expenses. Aggregate line items such as some operating income will be automatically calculated by the application system.

USDA will consider the reasonableness of assumptions as part of the application review. Therefore, assumptions should be as detailed as possible. If the assumption does not fully support the projected revenues and expenses, the application may be rejected.

## Slide 22: Balance Sheet

This slide contains a screenshot of a portion of the balance sheet in the application portal. The application requires applicants to submit a balance sheet. The application balance sheet demonstrates the assets, liabilities, and capital structure of the entity in a given period of time.

The balance sheet will be reviewed by USDA in order to evaluate historical trends in the corporate and capital structures and provide snapshots of how they are expected to change over the course of the buildout period. Specifically, the balance sheet will help convey to USDA: the assets and liabilities of the corporation; anticipated leverage; debt burden over time; and anticipated liquidity. Additionally, the agency will use the balance sheet in conjunction with other components of the pro forma to evaluate the FOA-required compliance with the current ratio.

Applicants must prepare and identify the assumptions underlying the balance sheet projection in Current Assets, Non-Current Assets, PPE, Current Liabilities, Long-Term Debt, Other Liabilities, and equities. Long-term debt and current liabilities will be auto populated on the balance sheet based off the data provided in the long-term debt schedule and Capital Contribution Workbooks.

Aggregate line items, auto calculated by the application system include: Total Equity / Total Assets, Current Ratio, Quick Ratio, Working Capital, Total Liability / Total Equity, Net Property Plan and Equipment (PPE) / Long-Term Debt, Tangible Equity, and Tangible Equity / Total Assets.

## Slide 23: Statement of Cash Flow

The application requires applicants to submit a statement of cash flows. The applicant statement of cash flows demonstrates whether or not the applicant is generating or using cash on an annual basis. Because the income statement is developed on an accrual basis, timing differences between when income is earned or costs are incurred, and the money is received or paid can result in differences between cash flow and net income. In addition, non-cash items like depreciation, which eventually require maintenance expenses, also create differences.

For cash flows from investing activities, applicants will need to manually enter “CAPEX” and “plant constructed using grant proceeds” line items.

For cash flows from financing activities, applicants will need to manually enter “proceeds from grants.”

Applicants must identify the assumptions underlying their cash flows. Only projects that RUS determines to be financially feasible and sustainable will be eligible for an award under this program. If project is financially feasible when the applicant demonstrates to the satisfaction of RUS that it will be able to satisfy the following conditions: sufficient revenues to cover expenses over the life of the award; sufficient cash flows to cover all debt service obligations as they come due (including subordinated, non-project debt); and positive ending cash balance for each year in the forecast period. The ending cash balance may be less than the starting balance at the beginning of the forecast period so long as cash flow is positive.

## Slide 24: Post-Award Considerations (Transition Slide)

Next, we will move on to post-award considerations.

## Slide 25: Post-Award Considerations

Pursuant to the FOA, USDA will require applicants to adopt and adhere to the following financial reporting requirements and guidelines.

Awardees must adopt a system of accounts for maintaining financial records acceptable to the agency, as described in 7 CFR part 1770, subpart B.

Awardees must submit annual audited financial statements prepared by a CPA along with a report on compliance and on internal control over financial reporting, and a management letter in accordance with requirements of the 7 CFR part 1773.

USDA may conduct a Management Analysis Profile (MAP) which includes sending a team out to the applicant's offices. The management analysis profile and site visits designed to ensure compliance with award terms and conditions.

### Slide 26: Available Resources (Transition Slide)

Finally, I would like to touch on some available resources that can provide guidance as you prepare applications.

### Slide 27: Available Resources

USDA Rural Development is providing the following resources and technical assistance to applicants as they prepare to apply for ReConnect. Rural Development (RD) will conduct a series of workshops around the country designed to provide assistance to applicants as they apply. These workshops will have RD experts and provide detailed walkthroughs of the applications. Our first workshop is scheduled for April 2nd and 3rd in Washington, Pennsylvania. There is a link to register available on the events page of the ReConnect website. Rural Development will continue to facilitate webinars addressing Frequently Asked Questions and specific aspects of the application. RD's ReConnect website contains information, fact sheets, and other resources that can be used when developing applications. Information on the site will be updated and added as we approach the application windows. RD is maintaining a help desk to respond to questions submitted via the ReConnect website.

I would like to thank you for attending today's webinar. As a reminder, we are collecting questions submitted through the chat during today's webinar. We will leave the chat box open for about five more minutes to allow participants to submit questions. Answers to these questions will be posted to the ReConnect website in the coming days.

[ Event Concluded]