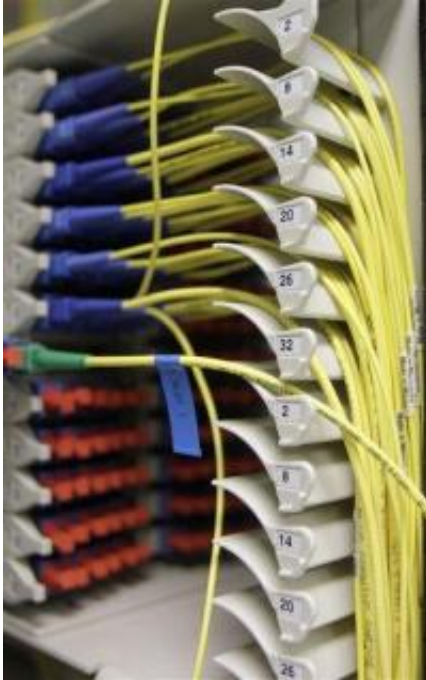


Vt. city stumbles in effort to do telecom itself

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In this photo taken on Thursday, Dec. 2, 2011, fiber-optic cables are seen at Burlington Telecom in Burlington, Vt. City-owned Burlington Telecom offers Cadillac service _ fiber-optic broadband _ to nearly every home and business in the city. But it has signed up far fewer customers than hoped, it's \$50 million in debt, its main creditor is threatening to repossess equipment and it is under state and federal criminal investigations.(AP Photo/Toby Talbot)

(AP) -- Tired of waiting for state-of-the-art communications technology, voters of Vermont's biggest city decided in 2000 to form their own company to provide telephone, Internet and cable TV service.

Nearly 11 years later, city-owned Burlington Telecom offers Cadillac service - fiber-optic broadband - to nearly every home and business in the city. But it has signed up far fewer customers than hoped, it's \$50 million in debt, its main creditor is threatening to repossess equipment and it is under state and federal criminal investigations.

The saga may be a cautionary tale for cities around the country that are fed up with waiting for their onramp to the information superhighway and contemplating getting into the telecom business themselves.

"I understand that sort of thought process, that people would feel better about having something that's community-driven and not delivered by an outside corporation," said David O'Brien, commissioner of the Vermont Public Service Department, which regulates utilities.

Burlington would seem a likely place for residents to come down in favor of a public enterprise over private ones. The city of just under 40,000 is home to the University of Vermont and is famous for left-leaning politics. Sen. Bernie Sanders, the only self-described small-s socialist in the U.S. Senate, is its former mayor. The city electric utility is well regarded.

And many who have signed up for BT are happy with it. "It's terrific. It's great in every way. I'm a big supporter. I'd love to see this work," said Suzi Wizowaty, a Vermont House member from Burlington. But she added, "I know there are a lot of people who are worried about it."

Telecom is not for the faint of heart. It's a competitive business.

"If you decide you are going to do this, understand that you are going to have to deliver customer service in a way that your municipality has never done before," said Gary Evans, CEO of Hiawatha Broadband Communication, which manages both municipal and its own for-profit

telecom networks in Minnesota and Wisconsin and has been advising Burlington Telecom.

He and others who follow municipal telecom efforts around the country say the record for them has not been perfect, but generally has been good.

"There are some municipal systems that have done very well," said Michael Render, president of Tulsa, Okla.-based RVA Market Research, which follows development of fiber-to-the-home systems like Burlington's.

He noted, though, that the roughly 70 municipalities offering fiber-to-the-home have a combined market share of about 3 percent of the industry. More than two-thirds of fiber-to-the-home customers in the U.S. get their service from Verizon Communications, Render said.

Success in a competitive telecom markets is measured in "take rates" - what percentage of customers that could be served by a system actually sign up for it. Render said some municipalities have take rates in the high 50s. Burlington's is about 30 for residential customers and much lower for commercial users, said Michael Flora, BT's network planning and construction manager.

The consensus among a range of people watching Burlington [Telecom](#) is that it suffers from a combination of factors that doom many businesses, chief among them too much debt and not enough revenue. That was also the conclusion of a special commission appointed to look at BT last winter.

Some \$17 million of that debt is especially problematic from a legal standpoint. When the Vermont Legislature approved the Burlington charter change that allowed setting up BT, it required that the venture be

a stand-alone entity and that it not use taxpayers' money to support its operations.

In September 2009, BT notified the Vermont Public Service Board that it had used \$17 million in city funds in violation of its state license. State officials have been mum about the details of their investigation, and an FBI spokesman, through an assistant, would not confirm or deny a Burlington Free Press report that that agency had stepped in. It's widely believed that apparent license violation may be at the center of the criminal probes.

The other \$33.5 million of BT's \$50.5 million debt is owed to an arm of New York-based Citicorp. BT was notified in October that due to its failure to make recent scheduled payments, Citi Capital Advisors was terminating the lease covering BT's equipment.

A Citicorp spokesman said the giant finance company would not comment. A Nov. 3 letter to O'Brien from Kevin Fitzgerald, a lawyer for Citicorp, said the lease terms say that if Burlington doesn't make its payments, the lease is "automatically terminated and the City of Burlington is obligated to return to Citi the property and equipment financed."

O'Brien said the BT experience should be a flashing yellow light for the East-Central Vermont Community Fiber Network, a consortium of 22 mostly small, rural towns that are trying to develop a fiber-optic-based provider of phone, Internet and TV service.

He said two of the larger communities where customers would be expected to make such a system go - Montpelier and White River Junction - already have providers of all three services in place, a competitive situation similar to what BT has faced.

Not everyone has given up on BT, least of all Mayor Bob Kiss. The second-term mayor said the city is looking for new financing for BT's equipment, for possible private-sector partners, and is even weighing a proposal from a group of investors to buy the system outright.

Kiss, a member of the left-leaning Progressive Party, which has played a leading role in Burlington politics for three decades, said city officials are convinced more residents and business will sign up for BT services, and that its fiber optic network will come to be seen a key to economic development.

"It has enormous value to the city of Burlington," he said.

But questions over its financing loom:

- A criminal investigation by the Vermont State Police that began last winter after the revelation about the \$17 million is expected to be completed in the coming weeks, with the results sent to a county prosecutor for a decision about whether any charges will be filed.
- The FBI has joined in the probe, the Burlington Free Press reported Wednesday.
- An audit by a consultant hired by the Vermont Public Service Department likely will be released later this month.

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