

HomeWorks Tri-County Electric Cooperative

DIVISION STRUCTURE



Overview

HomeWorks Tri-County Electric Cooperative is a 22,700-member cooperative headquartered in Portland, Michigan. In May 2018, the cooperative broke ground on a project to establish a fiber-to-the-home business offering internet and voice services to its members. The cooperative planned a five-phase project forecasted to serve 10,000 members.

The project is currently in Phase 3 and has completed 989 distribution miles of fiber passing 8,524 members in the cooperative's territory. The fiber business has 4,179 members—exceeding its projected take rate of 44 percent. It should be noted that while internet service is exceeding expectations, the take rate for the voice service is well below expectations.

Division Structure

HomeWorks Tri-County ultimately selected a division structure for its broadband business. The cooperative's strong equity position made this an attractive choice. Leadership felt confident about leveraging the equity position through the capital-intensive phases of early construction, with minimal risk to the cooperative's financial health.

When service is provided on a patronage basis, broadband is considered a "like activity" under section 501(c)(12) of the federal tax code, allowing service to be tax-exempt so long as non-member income does not exceed 15 percent of gross income. The cooperative also felt confident that the broadband business would generate additional patronage for its members.

To mitigate risks to the bottom line and member equity, HomeWorks Tri-County generates a separate income statement and balance sheet for the broadband division and the core electric business.

ELECTRIC COOPERATIVE INFORMATION	
State(s)	Michigan
Total Members	22,700
Total Meters	26,000
Total Miles of Line	3,400
Density (Meters/Mile)	7.7
# of Employees	91
Total Assets (12/31/19)	\$126 Million



About the Project

Business Structure	Division
Technology Used	Fiber to the Home
Overall Broadband Project Investment (\$)	\$74 million
Total Homes/Bus. Passed (upon completion)	22,700
Overall Broadband Project Size (miles of fiber)	2,203
Business Start Date	10/2017
Projected Completion Date	12/2022
Total # Phases	5
Products/Services Offered	Internet, Voice

Current Business Status: Project to Date

Current Phase of Buildout	Phase 3
Distribution Miles of Fiber Completed (to date)	989
Total Members Passed (to date)	8,524
Current # of Subscribers	4,179

At the outset, the cooperative worked to determine how to fit fiber assets into utility accounting and track costs in a way that ensured the broadband business was meeting expectations set by the feasibility study.

The cooperative followed a Code of Conduct issued by the Michigan Public Service Commission to ensure they were allocating expenses properly between businesses. Ultimately, HomeWorks Tri-County made the strategic decision to create separate Forms 7 for the core electric business and broadband project for internal analysis.

Every year, CFC works with HomeWorks Tri-County to update a 10-year combined forecast to ensure the cooperative stays on track to meet its loan covenants and financial goals. The cooperative recognizes there is a high potential for scope changes as the construction process continues. The cooperative is projecting positive cash flow in year seven and positive margins in year nine.

According to the forecast, the cooperative foresees equity dipping as low as 33 percent during Phase 5 of the project, but increasing to 40 percent five years after deployment. This underscores the importance of ensuring a cooperative considering a broadband venture has adequate equity.

“ I think it is critical to have a good business plan put together prior to starting your project and to have the proper measurements set up to monitor your progress. It is also important to have a great partner like CFC to work with you to update a 10-year forecast annually with data that reflect your actual experience in order to make sure you stay on track to meet your loan covenants and financial goals.”

— Pat Simmer, Chief Financial Officer, Homeworks Tri-County Electric Cooperative