

PART III LEASE AND MAINTENANCE APPROPRIATION

LEASE AND MAINTENANCE COST SUMMARY

Part III lease costs are made up of lease payments to vendors who were involved in the build-out of Part III sites. The fiber optic cable for Part III sites is not owned by ICN, rather the fiber for Part III sites is leased on a seven-year lease from the vendor installing the fiber. The first Part III sites installed by vendors were completed in FY 1996. The vendors were asked to submit bids for the seven-year leases, and these bids could be submitted in one of two different formats. 1) The vendors could submit bids with the installation and the seven-year lease costs as a lump sum paid upon completion of the site; or 2) The vendors could submit bids with a one-time installation cost paid upon completion and monthly recurring lease payments over the seven-year lease.

A large number of the Part III leased sites were awarded to McLeod (formerly known as MWR Telecom). MWR Telecom chose to submit bids under the first scenario with the lease cost included in the installation cost. While this scenario reduces the recurring lease cost during the first seven years, it does not account for the recurring lease cost of the fiber when the leases will need to be re-negotiated. ICN will need to start re-negotiating the leases expiring in FY 2003 during FY 2002. The following table is a summary of the total number of Part III lease sites. The chart details McLeod sites that do not have recurring lease costs and sites with lease costs that will need to be re-negotiated. This table also shows the fiscal year in which these recurring lease costs will need to be budgeted.

**Part III Leased Sites
(Listed by Fiscal Year in which Leases will expire)**

Table 1

Type of Part III Sites	FY 1996 Sites that Expire in FY 2003	FY 1997 Sites that Expire in FY 2004	FY 1998 Sites that Expire in FY 2005	FY 1999 Sites that Expire in FY 2006
McLeod sites	29	73	79	52
Other Sites with recurring lease costs that will need to be re-negotiated	39	34	52	18

Following is a summary of actual lease and maintenance costs for FY 1999, FY 2000 and FY 2001, and projected costs for FY 2002 through FY 2003.

**Part III Lease and Maintenance Costs
FY 1999 through FY 2003**

Table 2

Type of Cost	FY 1999 Actual	FY2000 Actual	FY 2001 Actual	FY 2002 Projected	FY 2003 Projected
Lease	\$1,675,268	\$1,681,685	\$1,681,685	\$1,681,685	\$1,681,685
Maintenance	\$996,194	\$1,000,000	\$1,045,319	\$1,045,319	\$1,045,319
Totals	\$2,671,462	\$2,681,685	\$2,727,004	\$2,727,004	\$2,727,004

PART III RECURRING APPROPRIATION SUMMARY

Based on the information provided in the previous lease and maintenance summary, the Iowa Telecommunications and Technology Commission is requesting an appropriation in the amount of \$2,727,004 for FY 2003.

The ICN will begin re-negotiating the Part III leased costs in FY 2003 for leases beginning in FY 2004. At that time, the ICN will evaluate the future lease costs associated with the Part III sites and adjust the recurring appropriation request for FY 2004 accordingly.