

September 28, 2005
To the Editor

On Tuesday, September 20, 2005, the *Des Moines Register* published an article written by Mr. Frank Vinluan about how the state's three largest municipal telecommunications utilities are losing money and communities in Iowa would take on similar risks if they chose to construct their own telecommunications network. The article is in accordance with a Study "Iowa Municipal Communications Systems: The Financial Track Record" authored by Dr. Ronald Rizzuto and released by the Heartland Institute.

The study attempts to achieve two purposes: attack our municipal communications utility in Muscatine as well as Cedar Falls and Spencer and use the misinformation to undercut potential new municipal telecommunications systems from being established in the State of Iowa.

From a financial perspective the study by Rizzuto uses a financial model that is not applicable to our form of business. When we were asked by the citizens of Muscatine to establish a telecommunications utility, because Qwest and TCI had no plans to upgrade their systems in Muscatine, we knew we would not achieve a short-term financial payback. Muscatine Power and Water committed to a long-term investment in our community. As with the start up of any new enterprise, and especially a telecommunications company, a significant amount of ongoing capital expenditures is required. Being a municipal utility we obviously couldn't sell stocks to our shareholders. As a result, we are highly leveraged in this new venture. We were well aware of our rapid growth in capital expenditure requirement and today I'm pleased to add we are on target to meet our current positive operating and net income projections.

One of the most common financial standards used in the telecommunications industry is "EBITDA" – Earnings, Before Interest, Taxes, Depreciation and Amortization. A positive EBITDA means a company is producing revenue (cash) to cover the daily operating expenses of running a business. We turned a positive EBITDA in 2001, two short years from our CATV launch in March, 1999.

Rizzuto states that it is no coincidence that electric utility rates have increased recently in Muscatine and that the borrowing from the Electric Utility by the Communications Utility puts financial pressure on the Electric Utility so that it must raise rates. I'd like to make clear that this is very inaccurate. Since we've been in the telecommunications business our Electric Utility has had only one price increase. That increase of 4.6% occurred in September of 2002. Prior to 2002, the last increase was 3.7% in 1995, and prior to that we had a 7% decrease in 1993. It's very obvious that this price increase supposition from Rizzuto is misleading and grossly inaccurate.

One last comment from a financial perspective, the study press release states that a municipal-owned communications system results in a negative rate of return for taxpayers. I'd like to make it perfectly clear, in Muscatine, there has not been any tax dollars spent in the establishment and operation of our Communication Utility, nor will

there be. Financing is based strictly on a loan from our Electric Utility with a very favorable return on investment.

As a municipal utility we have a long-term stake in our community. Our credibility is important to us. Yes, we made an investment of \$35 million dollars in our community and it remains our belief today that these dollars are well spent. Our CATV prices remain well below that of surrounding communities resulting in a savings of over \$600,000 in 2004 for our customers in their CATV service purchases as compared to those communities. We offer local helpdesk service 24 hours a day, 7 days a week, 365 days a year. We're proud of our service offerings including our recent launch of High Definition Television (HDTV) and Digital Video Recorder (DVR), our excellent customer service and our exceptional history of high quality, reliable service.

As far as other Iowa communities opting to get into the telecommunications business, that is strictly up to them. It was and continues to be the right decision for Muscatine. Our customers asked us to get into the business, we did, we are successful and we will not tolerate any misrepresentation of the benefits of having a municipal communications utility in Muscatine.

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