

**CITY OF LEXINGTON
WORKSHOP AGENDA
Thursday, July 19, 2018
Immediately following Council meeting
City Hall**

1. Call to Order: Mayor Kurth

2. Roll Call: DeVries – Hughes – Harris - Murphy

3. Discussion Items:

- A. 2019 Preliminary Budget Discussion
- B. Discuss Cell Tower Lease Assessment

pp. 1
pp. 2-20

4. Staff Input

5. Council Input

6. Adjourn

To: Mayor Kurth and City Council
From: Bill Petracek, City Administrator
Date: July 12, 2018
Re: 2019 Preliminary Budget Discussions

As we begin our 2019 Budget discussions, always keep in mind that your annual budget is an opportunity for you to improve the quality and efficiencies of the services that we provide to our community. Throughout the year, City Staff is commissioned to think about items that need to be improved, replaced, or added to help us provide better services to the City of Lexington and its citizens.

The following are a list of items that have been talked about throughout year that we are proposing to allow us to improve and provide better City services:

Administration

1. Replace computers per Roseville IT to accommodate new operating system – Windows 7 is due to expire tech support in 2019 - **\$6,000**
2. Consider moving our phone system to Roseville IT – **no additional cost.**
3. Consider security upgrades to City Hall – front door entrance – **cost TBD**
4. HD Upgrades – replace camera - in City Council Chambers - **\$10,000**

Fire

1. Fire Station Remodel – **cost TBD**
2. Turn-out gear replacement – **cost TBD**

Streets

1. Salt Storage Shed - **\$37,500 (final year)**
2. Street improvements – Jackson Ave. – **cost TBD**

Parks

1. Memorial Park improvements - **\$5,000**

Liquor

1. Floor Repairs - **\$10,000**
2. Connect to Anoka County Fiber optic system/Zayo - **\$10,000**

Water

1. Fire Hydrant Replacement - **\$50,000**



CELL TOWER LEASE ASSESSMENT

RE: EVALUATION OF
AMERICAN TOWER LEASE EXTENSION

CITY OF LEXINGTON, MN

TIED TO SUBJECT SITE LOCATED AT
9100 HAMLINE AVENUE, LEXINGTON, MN 55014
(LAT. /LONG.: 45.1387/-93.1771)



City of Lexington, MN
Attn: Kurt Glaser at Smith and Glaser, LLC
333 Washington Avenue
405 Union Plaza Building
Minneapolis, Minnesota 55401-1370

RE: EVALUATION OF AMERICAN TOWER LEASE EXTENSION

Dear Mr. Glaser:

Steel in the Air, Inc. (SITA) is pleased to provide the following Assessment of the extension valuation and interest by American Tower (ATC) in the Lease tied to your property at 9100 Hamline Avenue, Lexington, MN 55014 (Lat./Long.: 45.1387/-93.1771).

For ease of use, we begin by providing our **Executive Findings**, which express the results of our Assessment, below.

EXECUTIVE SUMMARY OF FINDINGS:

1. We find the risk of termination of the Lease to be low.
2. We see no reason for ATC to consider anything except remaining at the site for the long term.
3. ATC is running out of time to extend this lease. However, they are also paying above-market rent.
4. Accordingly, we would advise extending the ground lease at the current financial terms while keeping the consent agreement in place as is. (Per ATC's letter, it does not need to be extended, as it is coterminous with the lease). We also recommend the following terms:
 - 10-year lease extension;
 - 10-year rent guarantee beginning upon execution of extension agreement;
 - Signing bonus to \$5,000 to \$10,000 to cover the City's cost for extension of the lease;
 - Do not agree to additional language from ATC such as confidentiality, right of first refusal, power of attorney language, etc. The extension should be straightforward and simple – merely extending the terms already in place.

We now continue by explaining in detail how we arrived at this conclusion and end the Assessment with Recommendations on how to proceed.



CELL TOWER LEASE ASSESSMENT

Evaluation of American Tower Lease Extension

I. THE SUBJECT SITE AND EXISTING LEASE

A. Landlord/Tenant

The Subject Site is an approx. 149' self-standing tower located at 9100 Hamline Avenue, Lexington, MN 55014 (Lat./Long.: 45.1387/-93.1771). T-Mobile and Verizon are both currently operating at this American Tower Corporation (ATC) site.

B. The Lease

The Lease was entered into on 1 May 1996 between the City of Lexington ("Lessor") and Minneapolis SMSA Limited/US West NewVector ("Lessee"). Currently, ATC holds the lease.

Highlighted terms of the Lease are as follows:

- **Lease Rate:** Initial rent of \$800/mo. with 20% term escalation;
- **Revenue Share:** See *Use and Consent agreement section*;
- **Term (and term termination):** Initial term of 5 years plus four 5-year renewal terms with extension notice to be given by Lessee at least 6 months prior to the next renewal period. See holdover section;
- **Utilities:** Lessee will be responsible for all utilities required by its use of the Premises. Lessee may at any time arrange to have its utilities separately metered or will pay its proportionate share of utilities furnished by Lessor;
- **Termination Rights:** The Agreement can be terminated on 30 day's written notice:
 - By either party if due to the other party's uncured default of any of the terms
 - By Lessee if it is unable to maintain/obtain any necessary license/permit or other governmental approval
 - By Lessee if the premises are or become unacceptable to Lessee under its design or engineering specifications
- **Ownership of Tower at Expiration:** Tower rights do not transfer;
- **Holdover:** At the end of the 4th renewal, Lessee can choose to extend for an annual holdover term. Either party can elect to terminate the lease by giving the other at least 60 days' notice prior to the next annual holdover term. Rent to be paid annually at \$1,990/mo.;
- **Assignment, transfer, and subletting:**
 - Lessee has the right without prior notice to or consent by Lessor, to assign or transfer this Lease or to sublet the Premises to any parent/subsidiary/affiliate, including, but not limited to, the communications entities which may emerge from the joint venture pending between US WEST, Inc., and AirTouch Communications;



- **Current monthly rent: \$1,658/mo. plus \$1,567/mo. “consent” payment; consent payment is prepaid annually;**
- **Current expiration date: April 30, 2021**

ATC Use Authorization and Consent Agreement – June 13, 2007

- Sublessee (ATC) is hereby allowed to sublease all or any part of the Premises including, but not limited to, ground space and tower space to T-Mobile;
- Sublessee may only co-locate equipment on the existing tower and within the leased area for T-Mobile;
- Sublessee is hereby granted the right to sublease exclusively to T-Mobile. Sublessee may only sublease to other tenants with the written consent of the Lessor;
- Agreement runs concurrently with the Prime Lease;
- Upon receipt of a Notice to Proceed, \$14,000/yr. paid to Lessor @ 3% annual. Rent will cease when or if T-Mobile ceases use of the premises;

ATC Letter – April 17, 2018

- Letter confirms the current rents, agreements in place, and expiration dates; however, there is no concrete set of extension terms mentioned in the document;

II. CONTEMPORARY WIRELESS INFRASTRUCTURE INDUSTRY DYNAMICS

A. Emerging Technologies

Part of our due diligence consists of recognizing and analyzing the dynamic nature of the wireless infrastructure industry, particularly as it relates to the “Big Four” wireless carriers (**AT&T, Verizon, Sprint, and T-Mobile**) and the effect these dynamics may have on cell sites – thereby impacting the value of the lease as depicted by any Offers.

Because data growth per user is growing at staggering rates yearly (nearly 70% year-over-year growth for the last few years), we do not foresee the obsolescence of cell sites (overall) in the near future. On the contrary, it is our belief that the ongoing, widespread use of wireless devices will increase the need for cell sites at least for the next decade, if not considerably longer.

However, with the present-day reliance on data applications (apps) for cell phones and tablets, the wireless providers need shorter, more condensed cell sites in order to provide coverage and augment capacity – especially in a densely populated area. Think of coverage as signal strength (one bar versus five bars on your phone) and capacity as the ability of multiple users to tap that signal. For instance, coverage deficiencies exist when you have a low number of (or no) bars on your phone. Capacity deficiencies are when you have four or five bars but drop or simply can’t make a call; this occurs when there are too many users trying to tap the coverage at once. The Subject Site allows carriers to address both coverage and capacity issues/objectives.



The wireless service providers are all adding LTE (Long Term Evolution – also known as 4G LTE) to their cell sites. LTE is a standard for wireless communication that increases the capacity and speed of data on the cellular network. LTE allows the wireless service providers to do more with fewer sites. While this might suggest that they will need fewer cell sites in the future, the efficiencies gained on the network by use of LTE as opposed to older standards are still exceeded by the increased growth in wireless data usage. In other words, LTE is helping the wireless service providers increase their capacity, but they will need more sites to meet the “data tsunami.”

Accordingly, we maintain that the primary risk of termination to specific cell towers and other types of sites (like water tanks or rooftop installations) can be attributed to future wireless telecom mergers and acquisitions, as described below.

B. Company Mergers and Acquisitions

Carriers have been remarrying since shortly after the breakup of the Bell System in 1983. In the past decade, the industry has witnessed many mergers and subsequent transfers and trades of spectrum bands in various markets, most notably, AT&T/Cingular, Sprint/Nextel, and Verizon/Alltel. During each change in ownership, some portion of the networks is deemed redundant, meaning that specific cell sites are terminated or will be terminated as a result of duplication. In the case of AT&T and Cingular, approximately 6,500 cell sites out of 50,000 combined sites were terminated (14%). When Sprint acquired Nextel, it announced its intention to terminate 21,000 out of 65,000 cell sites within five years. Clearwire is now majority-owned and controlled by Sprint. T-Mobile and MetroPCS finalized their merger in mid-2013, and AT&T's acquisition of Leap Wireless (Cricket) went through in March 2014. Most recently T-Mobile and Sprint have a merger that they are attempting to gain federal approval for.

To summarize, future consolidation, especially in the wireless industry, is somewhat volatile and unpredictable. Yet due to potential redundancies, the risk that a specific cell site might no longer be needed is indeed possible. The fact is that industry mergers, unions, and dissolutions are a significant unknown, since any day new acquisitions might be announced (and retracted weeks later – for example, Sprint's proposed acquisition of T-Mobile, which was quickly rejected due to concerns of anti-competitive claims by the FCC and Department of Justice). Recently, new industry conversation again has turned to a T-Mobile/Sprint merger, but as of this assessment, these two companies have agreed to a merger however, they will still need to attain federal approval for this. We can say, however, that as long as the industry remains competitive, then the chance that carriers will seek to build out their networks by asserting a presence in any market that they have access to (via spectrum initiatives) does somewhat offset this risk.

C. Network Optimization

While we are not aware of any current technology that will make cell towers or other cell sites obsolete as a whole in the near and mid-term future, there are technologies that could increase the effectiveness of individual cell sites, making some expendable. Increases in the



capabilities of “smart antennas” could extend the range of cell sites or make them capable of handling calls differently depending upon the time of day. Increases in base station equipment efficiency (the equipment that handles the calls at the cell site) could increase capacity, thereby reducing the need for some overlapping sites. Nonetheless, cell sites will still be needed, especially in areas that don’t have tall buildings or other structures, and particularly in rural areas.

In fact, we suspect that optimization of networks will actually increase the number of cell sites substantially in the future. Some estimates suggest a threefold increase in the number of new cell sites. However, many of these cell sites will not be traditional macrocells. New “small cell” sites such as picocells or femtocells (see <http://en.wikipedia.org/wiki/picocell> and <http://en.wikipedia.org/wiki/femtocell>) will increase the flexibility that the carriers have in deploying their networks. The carriers may find it easier and cheaper in the future to work around problematic or expensive large or macrocell sites.

D. Co-location

Carrier co-location is the sharing of wireless infrastructure equipment and resources, specifically towers and site locations. Support for carrier co-location has garnered interest from all sides of the spectrum, so to speak. The FCC strongly encourages carrier co-location and the sharing of spectrum resources, as it promotes more efficient management of radio frequencies and cellular bandwidth. Municipal and County governments are also on board, since co-location can appease community concerns regarding environmental aesthetics and/or radio-frequency emissions by limiting the number of one-carrier sites and encouraging sites with multiple carriers. Accordingly, where one site is placed, others will likely follow, thereby reducing future risk from industry mergers or consolidation.

III. CARRIER COVERAGE AND SITE GOALS

A. ATC Subject Site Purpose

ATC made breaking news on February 5, 2015, when it announced a deal to purchase 11,324 wireless assets from Verizon, including 165 cell towers, for approximately \$5 billion. With this acquisition, ATC swelled past Crown Castle (CCI) to become the nation’s largest cell tower company and now owns over 50,000 towers in the U.S. The deal, which closed in mid-2015, gave Verizon just under \$450,000 per tower with the right to lease back space on those towers from ATC for Verizon’s equipment for an average of 28 years.

ATC generates most of its revenue by subleasing space on its cell sites to wireless carriers (e.g., co-location). In 2015, ATC purchased or extended over 3,000 cell site leases. It has now controlled the land beneath ~64% of its towers for more than 20 years, with an average term of 22 years remaining on its land leases. Of the towers that ATC owns in the U.S., approximately 90% of the leases are with individual landowners, which means that ATC is party to over 45,000 cell site leases in the U.S. alone.



Basically, tower companies profit by retaining ownership of the actual structure (or an interest of some sort) and leasing out space or platforms on the tower to various carriers. The major carriers (AT&T, Verizon, Sprint, and T-Mobile) each pay between \$2,000/mo. and \$3,000/mo. on average to lease space on a tower (as well as ground space). Because of the significant income (sometimes over \$10,000/mo.) tower companies can make from the operation of these towers, they have aggressive programs in place to purchase or extend their leases.

Over the years, the tower companies have been actively contacting their landowners and requesting that they either extend their lease or agree to a lease buyout. In essence, either arrangement is an attempt by the tower company to tie up the long-term ground rights to the underlying ground leases under their towers and secure/protect profits. A number of factors influence these offers:

1. **Since ATC is publicly traded, they want to protect their assets from future ground rights uncertainty.** ATC is among the top two tower companies in the country and is publicly traded. They want to protect their assets from future ground rights uncertainty. Because major tower companies' stock market valuation is based primarily upon the future projection of wireless income from the operation of their towers, the stock market analysts who cover tower stocks focus on the length of time that tower companies control the rights to the tower/site on the underlying ground. By not controlling the ground rights, the tower companies are Subject Site to increased ground lease expenses in the future, or, more importantly, to termination of the ground lease entirely (which would negate the income completely).
2. **Tower companies want to lock in their leases with landowners so that third-party buyout companies don't become involved.** In the last couple of years, a number of lease buyout companies have been created solely for the purpose of purchasing ground leases under towers (you may have experienced a number of such companies expressing an interest in the buyout of the ATC Lease). These companies have purchased over 5,000 leases and control those leases going forward. Because they are more knowledgeable regarding lease rates than most landowners, the lease buyout companies could potentially negotiate significantly greater increases in the lease at the lease expiration than the landowner might otherwise agree to. Furthermore, these lease buyout companies create an additional administrative burden to the tower companies, as they are a third party in the landowner/tower company equation.
3. **Wireless carriers prefer to co-locate on towers with ample time left on their ground leases.** Some of the wireless carriers who "co-locate" on the tower (or sublease at a site) will not agree to do so unless they are reasonably assured that their investment will be there long enough to justify making a long-term commitment. If the ground lease with the landowner is set to expire in 5–10 years (as in your case), that is not enough time for a wireless carrier to get back their significant investment in a site, and they may choose another location. By tying up long-term ground rights, tower companies help secure additional revenue or maintain current revenues on their towers.
4. **Relocating these towers can be very expensive.** Relocation of a tower/site can cause significant (and unwanted) network issues for the carriers. Tower companies



have lease agreements covering thousands of tower/sites across the U.S. Since they want to retain positive relationships with all their carriers (and Sprint at the Subject Site – who also subleases on thousands of other towers ATC operates), ATC may be willing to “give up” a bit more in buyout or extension offers in order to ensure that the carriers will feel secure in their significant investment to lease tower space from them presently, and in the future.

B. Carrier Coverage and Site Goals

The carriers’ main objective when choosing this site location is to provide coverage to wireless activity for travelers on I-35W, Lake Drive, Lovell Rd, and Country Rd J. The Site also provides coverage to the commercial and residential areas around the Subject Site, especially to the north and east, and as far west as I-35W. With the ever-increasing volume of wireless activity, this Site becomes even more significant to the carriers and their ability to continue providing 4G LTE coverage to customers traveling, living, visiting, and working in the area. For ATC, the Site is valuable from a customer service standpoint; facilitating subtenants’ desires to continue operating from the Site is their primary objective. These subtenants include Verizon and T-Mobile. Below you will find a coverage map for each carrier operating at the Subject Site, along with a short explanation.

1. Verizon

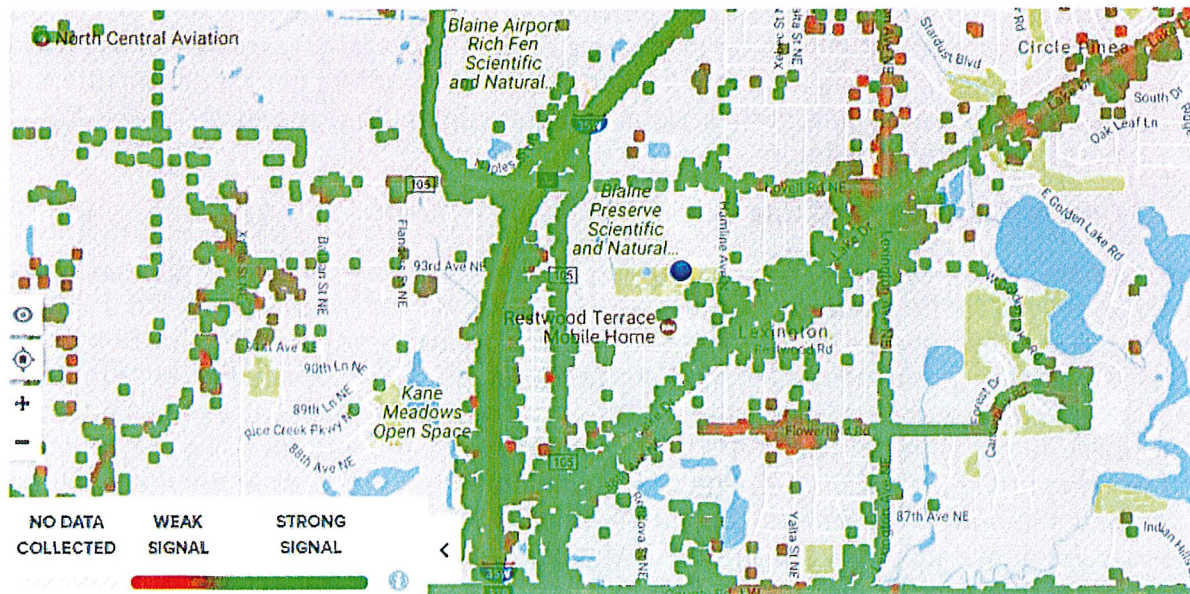
Verizon is currently the largest U.S. carrier (neck to neck with AT&T), serving approximately 147.2 million subscribers (compared to AT&T’s 136.5 million) nationwide. According to Verizon’s marketing team, its 4G LTE network now covers all 500 U.S. markets, including 306 million Americans (98% of the US population).

Some Key Metrics Regarding Verizon:

- **Number of Subscribers:** 147.2 million
- **Number of Cell Sites:** ~51,500
- **Major Acquisitions:** Cincinnati Bell – 2014; Centennial Communications – 2009; MCI – 2005
- **Current Goals:** Since Verizon’s 4G LTE roll-out now covers the vast majority of the country, the next phase is for the company to increase capacity in the nation’s densest cities, by doubling or tripling the number of calls that can be handled at any given time. It will do this by augmenting its network with DAS that beam signals into hard-to-reach places like subways. Additionally, in mid-2015, Verizon diversified its core mobile offerings by launching Voice over LTE as well as a mobile TV service. Both of these will necessitate more capacity on the already tested existing network.



OpenSignal Verizon Coverage Map



Verizon's coverage map, provided by crowdsourced OpenSignal, indicates that they are providing "strong" coverage to the surrounding area. SITA has found that the coverage maps Verizon provides can be exaggerated, and so the crowdsourced map above gives a more reliable picture. The nearest confirmed Verizon site is located 1.7 miles to the northeast. We can say Verizon would have a coverage deficit in the immediate surrounding areas without the Subject Site if they ceased operations here (without a replacement). We do not expect Verizon to wish to move anytime soon.

2. T-Mobile

T-Mobile is currently the third-largest U.S. carrier, ahead of Sprint.

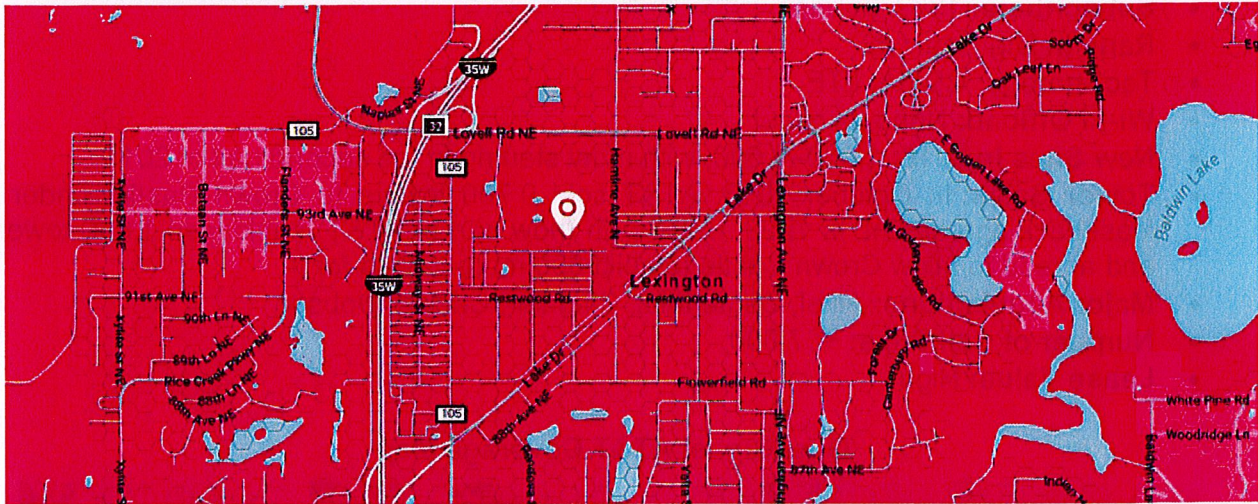
Some Key Metrics Regarding T-Mobile:

- **Number of Subscribers:** 73.9 million
- **Rank in Big Four:** #3
- **Technology:** GSM, LTE
- **Wi-Fi Offload:** Yes – T-Mobile offers Wi-Fi Offload for voice calls and data, used by 7 million of its subscribers. T-Mobile is also working on trials of LTE Unlicensed, enabling subscribers to use Wi-Fi hot spots instead of cellular data for voice calls.
- **Number of Sites:** ~58,000
- **New Sites in 2015:** ~500
- **Tower Sales:** In late 2012, T-Mobile subleased the rights of 7,200 towers to Crown Castle for \$2.4 billion.
- **Major Acquisitions:** Western Wireless, Omnipoint, MetroPCS



- Lease Value: High

T-Mobile Coverage Map



T-Mobile's Coverage Map indicates that they are providing "Excellent" signal to the areas around the Subject Site. About a mile west of the Subject Site, on the far side of I-35, the coverage drops to "Good," as well as around 2 miles to the south east. The Subject Site is indicated with the white pushpin in the center of the map, and the areas of dark pink are the best coverage T-Mobile can provide. T-Mobile's closest site is located 1.3 miles to the northeast on a water tower. We can say it's likely that T-Mobile, similar to Verizon, would have a coverage deficit in the immediate surrounding areas without the Subject Site if they ceased operations here (without a replacement). We do not expect T-Mobile to wish to move anytime soon either.

C. Co-location Opportunities and Subject Site

We will briefly discuss potential co-location prospects and the likelihood of whether the Subject Site will ever see a third or fourth tenant co-location opportunity. Since the Subject Site currently houses two of the Big Four carriers (AT&T and Verizon), we consider T-Mobile and Sprint's nearby locations and coverage.

1. AT&T

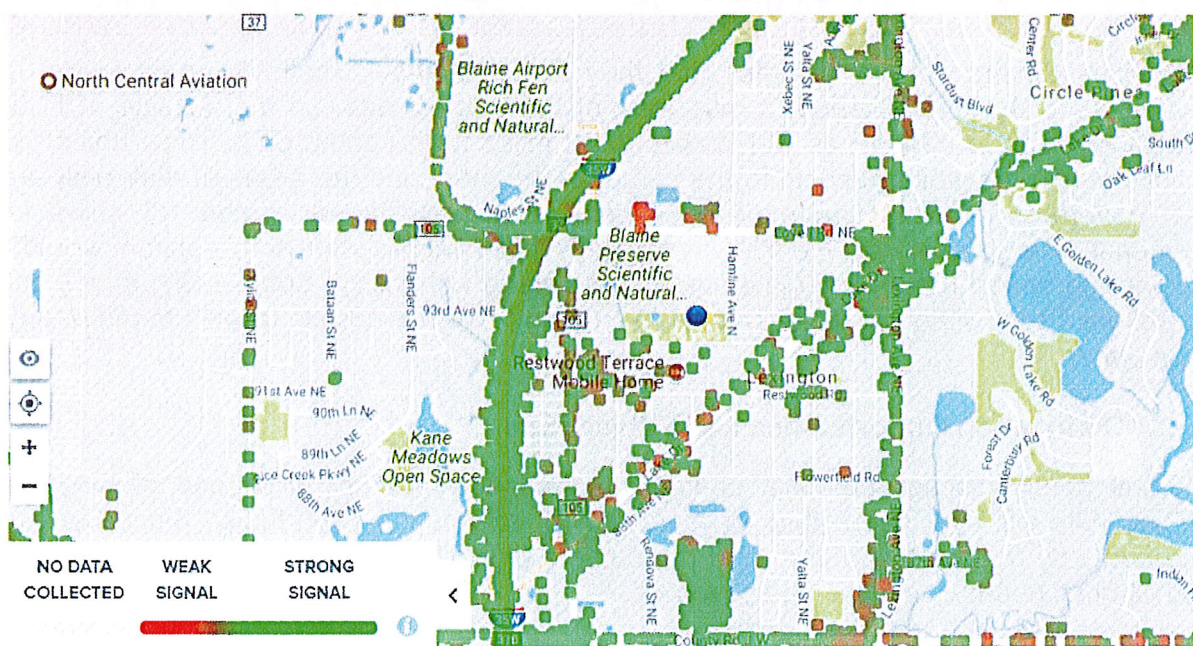
AT&T is the second-largest U.S. carrier behind Verizon. As of December 2016, AT&T's 4G LTE network covered 325 million potential subscribers nationwide across more than 400 markets. Recently, AT&T has been focusing on adding capacity to its existing network infrastructure and expanding to under-served rural areas.



Some Key Metrics Regarding AT&T:

- **Subscribers:** 136.5 million
- **Rank in Big Four:** #2
- **Technology:** CDMA, LTE
- **Wi-Fi Offload:** None as of yet
- **New Sites in 2016:** 1,000–1,500, with most starting in the second half of 2015
- **Tower Sales:** In October 2013, AT&T sold 9,700 towers to Crown Castle, under a leaseback agreement. In 1999, Bell South (now part of AT&T) subleased 1,850 towers and agreed to allow Crown Castle to build 500 more towers for it.
- **Major Acquisitions:** Alltel, Centennial, Cingular, Cricket, Dobson
- **Number of Cell Sites:** ~67,000
- **Lease Value:** High

OpenSignal AT&T Coverage Map



AT&T coverage map, provided by crowdsourced OpenSignal, indicates that they are providing “strong” coverage to most of the surrounding area, though it is showing weaker coverage along Lowell Road to the north and slightly reduced coverage to the residential area to the south and south west. As with Verizon, SITA has found that the coverage map that AT&T provides can be exaggerated, and so the crowdsourced map above gives a more reliable picture. This map suggests that AT&T has decent coverage already along I35W and to the northeast and south. There are pockets surrounding the Subject Site location where AT&T could stand to improve their coverage. The nearest confirmed AT&T site is on a water tower



1.3 miles to the northeast. AT&T is also located 1.5 miles south on a Crown Castle tower. We suspect there is a 40% chance that AT&T may be interested at this location in the future.

2. Sprint

Sprint is currently the fourth-largest U.S. carrier, neck and neck with T-Mobile. In 2014 Q1, Sprint stated that it had deployed its 4G LTE Spark Network, which utilizes carrier aggregation technology, to more than 100 of the nation's top markets. Through its Rural Roaming and Preferred Provider (regional partnership) Program, Sprint's LTE footprint has grown to cover more than 38 million potential customers across 565,000 square miles in 27 states.

Sprint merged with Nextel in 2005 and has since been terminating leases (primarily Nextel leases) due to overlap in the network. Sprint and T-Mobile have just recently agreed to a merger as well. If this merger takes place, it will also result in the consolidation of redundant sites between the two carriers, and the bulk of these terminations will be Sprint operations as opposed to T-Mobile sites. As mentioned, however, T-Mobile and Sprint will first have to gain approval from the FCC and Department of Justice before this deal can come to fruition. Many industry experts predict that the chances of this approval are below 50% but may increase if the companies agree to divest some of their spectrum or markets in the process.

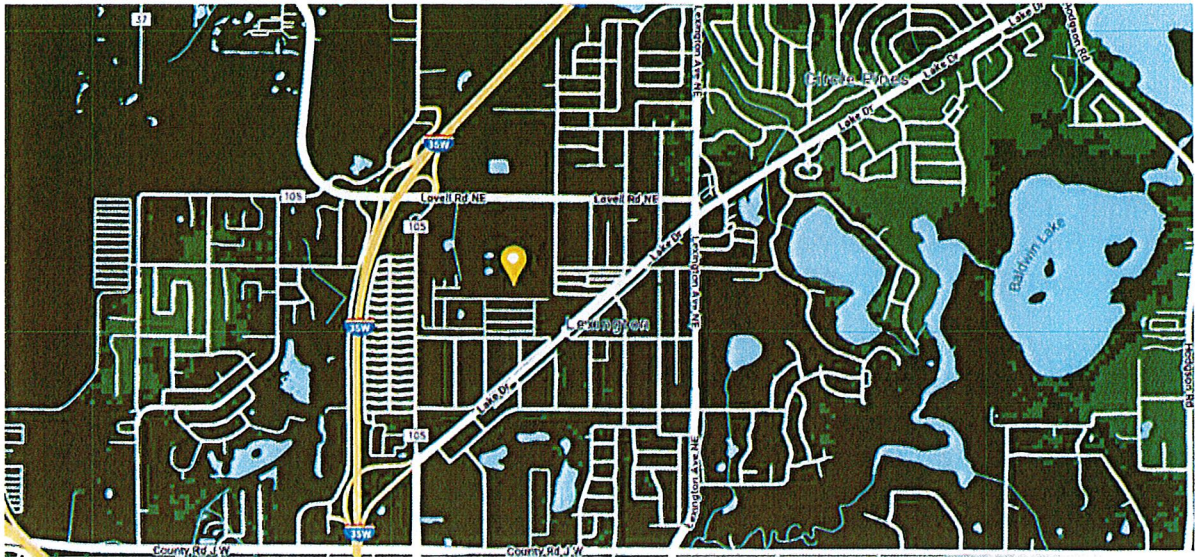
Some Key Metrics Regarding Sprint:

- **Subscribers:** 59.7 million
- **Rank in Big Four:** #4
- **Technology:** CDMA, WIMAX, LTE
- **Wi-Fi Offload:** In February 2013, Sprint added a Wi-Fi calling feature on its Android phones, enabling subscribers to use Wi-Fi hot spots instead of cellular data for voice calls.
- **Number of Sites:** ~55,000
- **New Sites in 2015:** Sprint is reported to have added 70,000 small cells.
- **Tower Sales:** In 2008, Sprint sold 3,300 (almost all) of its cell towers to TowerCo under a leaseback agreement. In 2005, Sprint subleased 6,000 towers to Global Signal (who was acquired by Crown Castle a year later).
- **Major Acquisitions:** Nextel, Clearwire, Sprint affiliates
- **Lease Value:** High

As you can see, Sprint indicates "Best" LTE coverage at the Subject Site, while the quality of its coverage decreases to "Good" moving west and further to the northeast. The approximate location of the Subject Site is indicated in the center of the map with a yellow arrow. Sprint is located on the water tower located .3 miles to the northeast. At this point, we think the likelihood of Sprint relocating to the Subject Site is low.



Sprint Coverage Map



D. Key Findings

After reviewing carrier maps and our proprietary data, SITA believes that it is unlikely Verizon and T-Mobile will wish to relocate away from the immediate vicinity of the Subject Site. They are striving to meet coverage objectives and maintain competitiveness in an area where all of the Big Four carriers are up and operating. In fact, the absence of the Subject Site (or an alternative site within a ½-mile radius) would very likely diminish and create weak coverage patches in this area for these carriers. Bear in mind that carrier sites are strategically situated to provide uninterrupted coverage to their customers, particularly in areas where their subscribers have come to rely upon fast speeds and seamless connections. In fact, it is safe to say that the objective here is to improve (not downgrade) coverage. Accordingly, SITA concludes a low risk of termination associated with ATC's subleases.

On the co-location side, AT&T has a possible need for improved coverage, which could be addressed by locating on the Subject Site. Sprint is located on a water tower immediately north of this site, and we believe it unlikely that they would even consider to co-locating at the Subject Site. Lastly, if the previously mentioned Sprint/T-Mobile merger were to ever fully take place, we would expect the combined company to keep the Subject Site but not the nearby Sprint site, although that isn't certain either way.

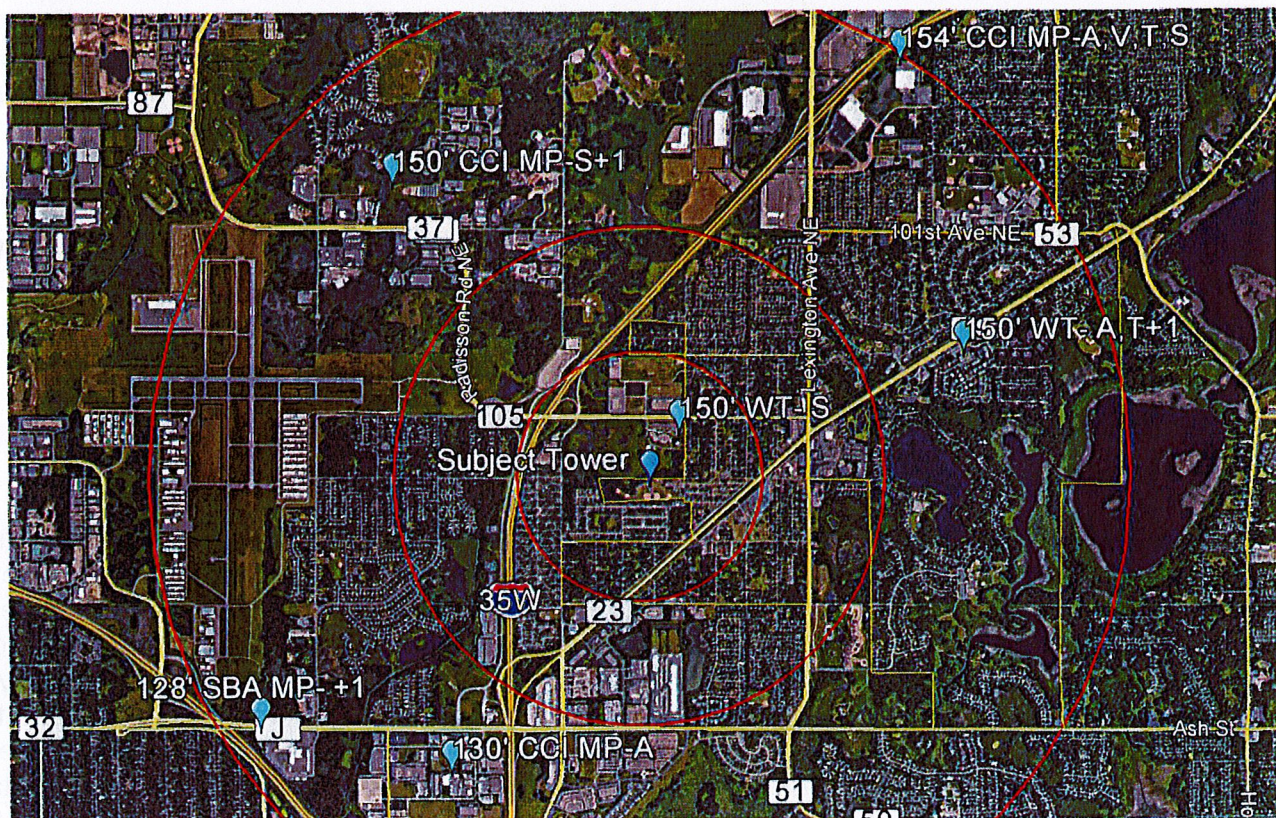


IV. EXISTING COMPETING STRUCTURES AND COST OF RELOCATION

A. Competing Structures

Competing structures are those existing towers or structures where carriers can be relocated onto that meet similar area objectives as the Subject Site. Such data also may provide information as to the location and identity of cell site owners and carriers operating in a given area. In examining the Competing Structure Map below, we are looking at all known confirmed structures within a 5-mile radius of the Subject Site (with a red circle placed at the $\frac{1}{2}$, 1, and 2-mile marks). Given coverage objectives, any existing site would need to be within a $\frac{1}{2}$ mile to provide comparable coverage to that currently gained from the Subject Site.

Competing Structures Map



Upon review of the Map, you will see that there are no other towers within 1 mile of the Subject Site. The nearest tower is located 1.3 miles to the southwest. There are two water towers with cellular equipment on them located .3 miles to the northeast and 1.3 miles to the northeast. Except for the nearest water tower, none of these structures would suffice for either Verizon's or T-Mobile's needs.



B. Cost of Relocation

Relocation costs can become extremely expensive and do influence decisions to move – especially when constructing a new tower and moving existing multi-carrier equipment (without causing any interruptions to carrier coverage). **It could cost a minimum of \$500,000 to move the carriers to a new tower, given construction, improvements, and logistic plans.** It would cost around \$200,000 to build a new tower and at least \$125,000 each for Verizon and T-Mobile to install new carrier equipment on the new site. Once the new tower is built and Verizon and AT&T are up and operating at the new site, the existing lease at the Subject Site tower can be terminated and the equipment removed. It would cost approximately \$50,000 to remove the existing tower and restore the property to pre-lease conditions.

It would cost \$200,000 to \$250,000 for both T-Mobile and Verizon to move to the adjacent water tower. However, if this occurred, ATC would lose their tower and would have no revenue to show for it, as the lease payments would go to the water tower owner. In other words, there is no incentive for ATC to consider moving its tenants to the water tower.

C. Key Findings

Per our review of competitive structures and relocation expenses, there appears to be a low risk of lease termination at the Subject Site. With +/- 2 years remaining until expiration and a lack of suitable alternatives, ATC is incentivized to extend this lease with you.

V. VALUE OF TOWER TO ATC

A. Profit/Loss to ATC

To determine the value of the Subject Site to ATC, we estimated the revenue and profit being generated. Please see below for our estimate of expenses and income for this ATC tower. The carriers are paying between \$2,500 and \$3,500/mo. to sublease (co-locate) on the tower. In addition to paying \$1,658/mo. as rent for the ground Lease, ATC also incurs \$1,567/mo. for a consent payment and roughly \$175/mo. in expenses for general and administrative expenditures. Based upon our estimates, ATC currently generates approximately \$19,200 to \$66,012 per year in profits from this tower. The scenarios are broken down into "Worst Case," "Best Case," and "Additional Tenant" possibilities, with the "Worst Case" reflecting rental payments at the lower end of the scale (\$2,500/mo.) and the "Best Case" reflecting payments at the higher end of the scale (\$3,500/mo.), while the Additional Tenant shows what would happen if AT&T or another carrier was inclined to use this tower. This is currently a revenue-generating site for ATC. So you can see the impact of a third carrier should ATC be able to bring one (such as AT&T) here; we have included a "Likely Case + Additional Carrier" scenario as well, in which ATC could generate \$55,200/year in profit.



ATC Tower Projection Chart

ANNUAL INCOME PROJECTIONS						
Income	Worst Case		Best Case		Additional Tenant	
Tenants	Monthly	Annually	Monthly	Annually	Monthly	Annually
T-Mobile	\$2,500	\$30,000	\$3,500	\$42,000	\$3,500	\$42,000
Verizon	\$2,500	\$30,000	\$3,500	\$42,000	\$3,500	\$42,000
AT&T	\$0	\$0	\$0	\$0	\$2,500	\$30,000
GROSS	\$5,000	\$60,000	\$7,000	\$84,000	\$9,500	\$114,000
EXPENSES						
Insurance	\$50	\$600	\$50	\$600	\$50	\$600
Maintenance	\$50	\$600	\$50	\$600	\$50	\$600
Property Tax	\$75	\$900	\$75	\$900	\$75	\$900
Land Lease	\$1,658	\$19,896	\$1,658	\$19,896	\$1,658	\$19,896
Consent Payment	\$1,567	\$18,804	\$1,567	\$18,804	\$1,567	\$18,804
Electricity	\$0	\$0	\$0	\$0	\$1,500	\$18,000
NET EXPENSE	\$3,400	\$40,800	\$3,400	\$40,800	\$4,900	\$58,800
NET PROFIT TO OWNER	\$1,600	\$19,200	\$3,600	\$43,200	\$4,600	\$55,200

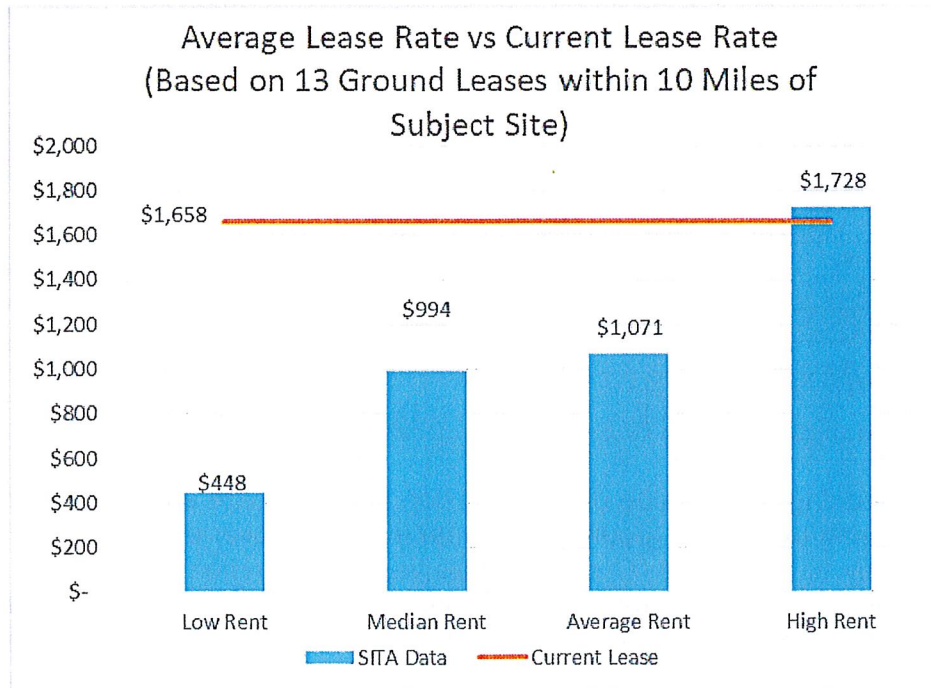
Another way of looking at the value of an extension is to compare and analyze the profits that ATC will be securing by limiting ground rental rate increases over an extended period of time. In other words, by extending, ATC puts themselves in an immediate position to collect the Subject Site profits for many years to come. Since there are +/- 2 years left on the existing lease, ATC needs to extend this lease or possibly face the loss of the tower and current and future profit.



VI. LEASE RATES ANALYSIS

A. Average Comparable Lease Rates

We queried our database to find comparable leases in order to determine the average monthly rent paid for ground space leases in the area. We found 13 cell site leases tied to ground leases located within a 10-mile radius of the Subject Site. The results are below:



As you can see, the ground space rental amount of \$1,658/mo. that ATC currently pays is above the area average of \$1,071/mo. by \$587/mo. The leases in our database ranged from \$448/mo. to \$1,728/mo. Including the Consent and Use payment from ATC, the monthly payment amount would total \$3225/mo., which is nearly double the highest comparable lease in our comparable data. On average, unique site locations and no competition can command higher rents. Additionally, leases that have escalated multiple times and increased from extensions over the years will have a higher rent than newer leases that have yet to do so. Regarding escalation rates, SITA sees most leases escalating at around 3% annually (or 15% every five years or term when compounded).



B. Tower Company Comparable Lease Extension Offers

1. ATC Lease Comparable Extension

In assessing the extension value of the Subject Site Leases, SITA reviewed extension offers made by major tower owners – focusing on two-carrier sites with a similar current lease rate and similar time remaining until expiration. These factors were chosen to see what impact (if any) each could have on extension offers. To put it simply, do any of these factors (separately or together) provide insight as to the valuation of extension offers for similar sites? The results are shown below.

Comparable Extension Chart

Tower Owner (or Lessee)	# of Carriers on Tower	Current Lease Rate	Current Escalation	Rev Share In Lease	Years Remaining	Extension Lease Rate Offer	Percent Increase	Escalation Offer	Offer commences when?	Signing Bonus	Extension Term	Expansion of Lease Area Requested	Rev Share Offered	Initial Offer or Negotiated?
Crown	2	\$1,021	3%/annual	30% base rent	7	\$1,321	29.38%	same	Current	\$10,000	30	Y-400	30% annual rent	Negotiated
ATC	2	\$600	3%/annual	N	4	\$1,750	192%	same	Current	\$10,000	25	N	N	Signed
Crown	2	\$1,425	3%/year	N	8	\$2,500	75.44%	Same	Expiration	\$0	30	Y	30%	Negotiated
Crown	2	\$1,166	3%/year	N	5	\$2,500	114.41%	Same	Current	\$0	15	N	20%	Negotiated
Crown	2	\$1,083	3%/annual	N	4	\$2,000	85%	Same	Current	\$0	20	N	20%	Negotiated
ATC	2	\$1,497	3%/annual	N	9	\$1,667	11.36%	same	Current	\$20,000	40	N	N	Negotiated
Crown	2	\$1,406	CPI/annual	N	9	\$2,000	42.25%	Same	Current	\$10,000	30	N	15%	Negotiated
Average		\$1,171				\$1,963	78%			\$7,143	27.14			

The above chart focuses on extension deals that are similar to that of the two-carrier Subject Site. In reviewing the Comparable Extension Chart, we see that tower companies (when negotiated) increase rates on average to \$1,963/mo. for a two-carrier cell site. In addition to increasing rates, we found signing bonuses to be included in four of the extension deals, with an average signing bonus of \$7,143. Lastly, the average extension period is 27.14 years (ranging from 15 to 40 years).

Please note that the highest signing bonus above included the lowest percentage increase in lease rate and the longest extension term of the sample. Tower companies will at times try to tempt the landowner into signing a longer extension term or a low extension lease rate offer by offering a high signing bonus. By doing this, the tower company can pay a one-time capital investment for lower risk of a longer lease term or as opposed to paying higher rent and, thus, increasing their ongoing rental expenses. Along these same lines, notice that the three highest rental rates paid above are also the three deals that did not involve a signing bonus at all.

Revenue share was offered in five of the above deals (in the range of 15% to 30%). Tower companies will sometimes offer a revenue share to try to sweeten the deal, but often they make such offers when it is less likely that a new carrier will come to the site anyhow. As we discussed previously, only one remaining Big Four carrier (AT&T) could improve their coverage by co-locating at the Subject Site. Since the existing consent agreement provides that ATC must gain your consent to co-locate additional tenants on the tower, there is no reason to consider a revenue share here in lieu of the consent provision.



VII. RECOMMENDATION

A. Lease Extension

In reviewing Site location; governmental regulations; existing competing structures/alternatives; and costs of relocation (along with carrier coverage objectives), we find the risk of termination of the Lease to be low.

Given the amount of time remaining on the lease (+/- 2 years), the lack of competing structures in the immediate vicinity, the lack of easy alternative sites, and the expense of relocation, we see no reason for ATC to consider anything except remaining at the site for the long term.

ATC is running out of time to extend this lease. However, they are also paying above market rent. Accordingly, we would advise extending the ground lease at the current financial terms while keeping the consent agreement in place as is. (Per ATC's letter, it does not need to be extended, as it is coterminous with the lease). We also recommend the following terms:

- 10-year lease extension
- 10-year rent guarantee beginning upon execution of extension agreement.
- Signing bonus of \$5,000 to \$10,000 to cover the City's cost for extension of the lease.
- Do not agree to additional language from ATC such as confidentiality, right of first refusal, power of attorney language, etc. The extension should be straightforward and simple – merely extending the terms already in place.

B. Conclusion

If it becomes difficult to get ATC to meet or at least come very close to the recommended extension terms above, we suggest not doing anything. With the Lease currently having +/- 2 years of term remaining, ATC will either need to find an alternative site (which will be submitted to and reviewed by the City under the zoning code) or agree to the terms posed above.

Once you receive updated offers, please contact me at (866) 545-9397 and we will advise you on the best step forward. Thank you for your time. I hope you have found this recommendation to be useful. Please don't hesitate to contact us with any questions.

Sincerely yours,

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