

October 22, 2019

VIA E-MAIL

Cheryl Horvath, MPA, CFO
Fire Chief
Tubac Fire District
2227 E Frontage Rd
P.O. Box 2881
Tubac, AZ 85646-2881

RE: Potential Sale to American Tower

Dear Chief Horvath:

Thank you for asking me to review the proposal from American Tower to either purchase the tower or to continue the current management relationship which pays the District sixty percent (60%) of the rental revenues it receives on the tower.

Before getting into whether the proposed price of \$3.5 Million is appropriate and fair, I think it is important to discuss the positive and negative aspects associated with either decision. Below is a brief summary of these impacts:

Sale Option

- **Negative Aspects**

- Loss of long-term rental income from the tower which is increasing at a rate higher than CPI
- Loss of control of the oversight of the tower, but expenses associated with the property may not be reduced
 - District would negotiate free antenna and equipment space on the tower as part of any sale
- Loss of potential upside on any additional tenants, or modifications of existing leases.

- **Positive Aspects**

- Ability to use the proceeds for capital needs without unduly burdening public finance models
- District staff will no longer have to deal with maintenance issues nor serve as liaison to American Tower to resolve issues

Status Quo Option

- **Negative Aspects**

- Consolidation of Sprint and T-Mobile will likely lead to a termination of at least one lease

- Sites with high current rental rates are being targeted by AT&T and Verizon nationally for “high rent relos”
 - This is leading to AT&T and Verizon contracting with build to suit vendors to build another tower (or two) where possible to reduce monthly rental amounts
 - This is also leading to renegotiation with public tower owners to accept “no modification fee” clauses which would prevent additional rental income from modifications
- No new national carrier tenants left to collocate – the tower currently has the four major players
- Sale price is likely near maximum potential value and any consolidate or termination of tenant leases will reduce that price
- **Positive Aspects**
 - Substantial monthly income that can be levered and used for other projects
 - Rent has been increasing as shown by the agreed on T-Mobile amendment from earlier this year
 - Potential to renegotiate/eliminate management fee as contract comes up for renewal

Once the Board has an opportunity to weigh the options, I believe the next step is to determine the appropriate price. The industry pricing model is based upon a multiple of cash flow. That multiple varies by the maturity of the tower, and the potential additional income that may be possible with modifications to existing leases or new tenants. Existing towers with multiple tenants tend to trade in the 17x – 20x cash flow range, with newer towers with one tenant and ability to obtain additional rent from modifications trading in the 28x to over 30x range. The amount a potential buyer is willing to pay is also based upon the amount of towers currently for sale in the market, how this tower fits in the buyer’s portfolio, and particulars about the individual site (is it zoning protected, is it structurally sound, risk of tenant consolidation or termination, etc.).

I look forward to discussing each of these items with you and the Board next week where we can delve into the details further and determine the next course of action.

Sincerely,

Thomas Waniewski

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