

UTAH INFRASTRUCTURE AGENCY (UIA)

BOARD MEETING MINUTES

February 8, 2021

8:30 AM

UTOPIA FIBER OFFICES

5858 SOUTH 900 EAST

MURRY, UTAH 84121

Board Members Present: Meeting conducted electronically

**Board Members Joining
Electronically:**

Alex Jensen – Chairman, Layton City
Jason Roberts – First Vice Chair, Brigham City
Matt Dahl – Second Vice Chair, Midvale City
Jamie Davidson – Third Vice Chair, Orem City
Nicole Cottle – West Valley City
Brant Hanson – Centerville City
Mayor Blair Camp – Alternate, Murray City
Jason Sant – Alternate, Payson City

**Officers Joining
Electronically:**

Roger Timmerman – UIA Chief Executive Officer
Laurie Harvey – UIA Secretary/Treasurer
Joshua Chandler – UIA General Counsel

**Others Joining
Electronically:**

Christa Evans – UTOPIA Secretary
Kimberly McKinley – UTOPIA Chief Marketing Officer
Aaron Leach – UTOPIA Chief Operations Officer
Ben Bailey – Auditor, Keddington & Christensen

1. WELCOME AND INTRODUCTIONS

The UIA Board of Directors held an electronic board meeting on Monday, February 8, 2021. The meeting was live streamed to allow public viewing. UIA Chairman Alex Jensen (Layton) called the meeting to order at 8:34 AM. He welcomed all attendees. New UIA board members were introduced: Jason Sant is the new alternate for Payson City and Nicole Cottle is the new representative from West Valley City.

UIA Total Votes Present: 409

UIA Majority Vote: 220

UIA 2/3 Vote: 293

2. APPROVAL OF MINUTES – DECEMBER 14, 2020

There was no discussion on the minutes.

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ACTION: Brant Hanson (Centerville City) MOVED to approve the minutes from the UIA board meeting held December 14, 2020. Matt Dahl (Midvale City) SECONDED the motion. A voice vote was taken - vote was unanimous.

3. CONSIDER APPROVAL OF RESOLUTION 21-01: APPROVAL OF OPEX REPAYMENT

Ms. Laurie Harvey, UIA Secretary / Treasurer, stated this resolution approves a distribution from FY 2020 excess UIA revenues. At budget time last year, a plan was presented to pay off OpEx by FY 2022. The distribution of excess revenues is required to have a resolution because it must be approved by a 2/3 weighted vote from the board. The schedule shows the distribution has changed slightly from when the budget was adopted due to interest. The balance of the notes payable at the end of June was \$2.7 million. The payoff for 2021 is about 49.5% and the rest will be paid off next year. The additional funds to cover the pledge payments were required for Brigham City, Layton, West Valley and Perry. The proposal to make sure each city received some repayment was due to the pandemic; the organization wanted to make sure each partner city received funds to help with their shortfalls. The total repayment for FY 2021 is \$1,455,200 and will be distributed within the next month. The repayment for FY 2022 will also require a resolution and will be subject to anticipated revenues. She showed a table with repayment amounts. One column showed repayments over and above pledge payments. This happened in Brigham City due to the special assessment situation they were in. In 2022 it is still the intent have a strategic plan to determine how excess revenues in UIA will be distributed. Those A/R balances will be taken into consideration when putting the plan together.

Mr. Roger Timmerman, UIA Chief Executive Officer, stated a three-year plan had been created but was changed to a two-year compressed schedule because the organization was doing so well. The organization wanted to get the money to the cities sooner. Once OpEx is fully repaid, decreasing the financial burden at UTOPIA can be looked at. Methods can be discussed to move money from UTOPIA to UIA without putting UIA in a bad position.

ACTION: Jamie Davidson (Orem City) MOVED to approve Resolution 21-01 approving OpEx Repayments. Brant Hanson (Centerville City) SECONDED the motion. A roll call vote was taken - vote was unanimous.

4. FINANCIAL AUDIT FY2020

Ms. Harvey reminded the board these are UIA's financial statements and the auditor's role is to opine on whether the financial statements are fairly presented. She reviewed some highlights from FY 2020. On the balance sheet, current assets increased by almost \$11 million which is all cash. Non-current assets increased by about \$46 million; the bulk of that is the increase in infrastructure build in partner cities. Total assets were \$204,199,412. Current liabilities are up about \$4.5 million; most is in accounts payable. Non-current liabilities have increased \$55 million to \$191 million because of the \$48 million Series 2019 UIA Bond and the \$7.2 million West Point bond. This is the first year UIA has been in a deficit position due to depreciation and the life assigned to company assets. Fiber is depreciated over 25 years but there has been some discussion about changing that. She can discuss that with the auditors. Depreciation years can be adjusted if it is realized the life

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of the asset has been understated. She believes UIA can work itself out of a deficit net position with the anticipated revenues over the next few years. There is a requirement to budget up to 5% of 2020 revenue in FY 2021 to get the net position back into the positive. Five percent of gross revenues is about \$860,000 and that will be part of the 2021 budget. Total liabilities and net position is \$204 million. Operating revenues increased 25% over FY 2020 to \$17.2 million. Connections are up 28% from the prior year. Operating expenses are up about 25% if depreciation is not included. This leaves a positive operating income of \$2.7 million, interest income of \$1.4 million, bond interest and fees expenditure of \$8 million for a decrease in net position of \$3.7. This is an enterprise fund so there are depreciation expenses.

Mr. Timmerman stated the depreciation needs to be addressed because some argue that conduit in the ground becomes more valuable due to the cost of installation. The organization is doing very well from an asset perspective, much better than reflected from the accounting.

Ms. Harvey provided more detail on property and equipment. The year started with \$93 million net of accumulated depreciation, \$45 million was added and \$2.9 million was moved from construction in progress to outside plant. The ending balance in property and equipment is \$136,137,000 of assets in the ground. She presented the detail for long-term debt. The beginning balance was \$139 million, \$59 million was added from the West Point series and the 2019 series. The reductions are the principal payments for the 2017 and 2018 bonds. There was \$800,000 paid off in notes to pledging members (OpEx Expense) and \$33 thousand on the Tremonton Note. The ending balance for Long-Term Debt is \$195 million. She showed the schedule for the pledged franchise fees toward debt service for the 2017 A & B revenue bond. It has not been called upon and there are no plans to ever touch those pledged amounts. She showed the OpEx schedule; the goal is to have it repaid in FY 2022. There was a finding regarding Accounts Payable; there was not a clean cut off between FY 2020 and FY 2021 expenditures. They were entered and paid based on invoice date and expenditures belong in the year the activity took place. This has been discussed with employees and has been corrected.

Mr. Ben Bailey, Auditor, Keddington & Christensen, stated part of an audit is presenting findings to those charged with governance and this board is considered governance for UIA. The opinion stated they have obtained reasonable rather than absolute assurance that the financial statements are not misstated. The significant disclosures were UIA has sound accounting systems and policies. The financial statement disclosures are mutual, consistent, and clear. There were not any significant issues while conducting this audit. In the supplemental report the agencies internal controls were reviewed but an opinion is not required for that. They talked to employees and walked through transactions to see how the controls are designed and if they are properly implemented. That led to the finding regarding A/P that was already discussed. There were no findings regarding Utah State Compliance. Questions were asked regarding compliance with federal and payroll laws. Fraud was also looked into which consisted of talking to management and observation during the audit.

Mr. Jason Roberts, Brigham City, asked what the intangible asset is associated with depreciation.

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Ms. Harvey stated most is lease agreements with Time Warner and Central Telecom (\$1.6 million). The IRU agreement UIA has in place with UTOPIA to manage the operations is also an intangible asset. Those agreements have 25-year terms.

Ms. Roberts stated the difference between cashflow and income is mainly outside plant versus inside plant.

Ms. Harvey agreed the 25-year life on those assets is aggressive. It was set in place many years ago and she can have discussions this year with the auditors to see if the life can be lengthened.

Mr. Roberts stated aggressive depreciation schedules is a fairly common practice with cities.

Mr. Timmerman stated the 25-year time frame is used for a lot of assets that require more maintenance and replacement than conduit and fiber. Fiber cable does not deteriorate like many other things do such as copper. Fiber has lasted longer than any telecommunications infrastructure and is still viable for the foreseeable future.

Mr. Jensen asked if there is language in the audit document explaining depreciation that would give context to the negative net position.

Ms. Harvey stated in the Management Discussion and Analysis there is an explanation about the non-cash expenditure. UIA has a little more freedom to talk about financial highlights and nuances in the Management and Discussion Analysis that a reader would not pick up from the financials. There are some standards and restrictions on what can be said in financial statements. When financials are discussed with rating agencies, they understand the situation regarding non-cash items.

Mr. Jamie Davidson, Orem, stated it would be helpful next time financials are sent out if a summary explanation was provided to help temper opinions and ideas of some that may not understand and want to weaponize it. UIA is moving in a positive direction and he would hate for detractors to suggest otherwise.

Ms. Harvey stated the financials are shared on the website and she does not feel it will be problematic to provide a paragraph or two explaining the discussion today.

Mr. Roberts agreed that an explanation would be a good idea.

5. ELECTION OF UIA BOARD OFFICERS

The current UIA board leadership is as follows: Alex Jensen (Layton) – Chair; Jason Roberts (Brigham City) – first vice chair; Matt Dahl (Midvale) – second vice chair; and Jamie Davidson (Orem) – third vice chair.

Mr. Timmerman stated the board structure has been good. There has been good attendance from Mr. Jensen so the structure of vice chairs has not been needed.

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Ms. Nicole Cottle, West Valley, stated Paul Isaac often reported back about UIA meetings and that they ran smoothly. The audit report also shows things are going well.

ACTION: Nicole Cottle (West Valley City) MOVED to retain the current leadership on the UIA Board. Mayor Blair Camp (Murray) SECONDED the motion. A roll call vote was taken - the vote was as follows:

**Aye: Alex Jensen, Layton City
Jason Roberts, Brigham City
Mayor Blair Camp, Murray City
Nicole Cottle, West Valley City
Brant Hanson, Centerville City
Jason Sant, Payson City**

Nay: Jamie Davidson, Orem

The motion passed with 306 votes.

6. UIA CALENDAR YEAR END SALES REPORT

Ms. Kim McKinley, UTOPIA Chief Marketing Officer, stated UTOPIA had its best year in 2020. There were 10,200 new residential sales; that is almost a 50% increase from 2019. There were 510 new business connections; some connections were using the CARES Act funding. UTOPIA maintained the highest rating for a telecommunications provider in the State of Utah with a rating of 4.5 out of 5 stars. Construction passed over 20,000 new houses that can connect this year; that is 1.7 million feet of conduit and 1.4 million feet of cable put in the ground. The current year is already off to a strong start with the best January sales in history.

Mr. Timmerman stated the stat sheet was sent to each board member with the subscriber report in January.

Ms. McKinley mentioned the positive press UTOPIA received this year; the story has changed, and UTOPIA is the industry leader for Open Access. This could not have been accomplished without the cooperation of the cities.

Mr. Jensen asked if board members were interested in any other UTOPIA stat to provide for their city council.

Ms. Cottle loved having the stats in the format provided. Her feeling about UTOPIA is that it is very reliable and wondered if there was a way to show outage information about UTOPIA to promote its reliability. Showing the average internet speed a customer receives in their home would also be helpful.

Mr. Timmerman stated there are measurable stats that can be shared regarding that. It can also get complicated because service providers have outages of their own so it is hard to quantify at times. In 2006 UTOPIA was not reliable and there were a lot of problems with the network. UTOPIA has made changes over time to make the network much more reliable. Staff will work with different UTOPIA teams to find a way to provide the stats requested.

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7. UIA FINANCIAL UPDATE

Ms. Harvey shared good news regarding the Series 2021 Bonds. The bonds sold on February 3 and were oversubscribed about 20 times. There were several investors that put in an order for the entire block. There is a lot of interest in these bonds and many investors believe the quality of the bonds is much higher than the BBB- rating. The true interest cost is 2.4% which is the lowest rate on any bonds that have been issued. A lot has to do with investor interest, but it was also a good time to be in the market. The agencies underwriter, Key Bank, has done a fabulous job marketing the bonds. UIA was able to borrow about \$2-3 million more than anticipated because of the low interest rate. There is about \$50 million in the construction fund and \$15 million of that will be used to reimburse UIA for funds the agency used to cover expenses in between the time the parameters were adopted and the bonds sold. When the next bond issuance is closer it will be determined what amount is needed for a healthy cash reserve. The bond closes on February 16. The ratings presentation used for Fitch Ratings was sent to the board earlier this morning. There is a lot of helpful information in there. She presented a graph showing the recurring revenue as of January; system-wide recurring revenue has reached \$2.5 million. The organization is rolling out a new Customer Relation Management (CRM) software and some cleanup is needed to ensure revenues are placed correctly in either UIA or UTOPIA. The next graph showed UIA recurring revenue compared to the bond issuance. The gap between the total revenues and monthly debt service is very consistent. There is very good coverage for all bonds, many of which are still in the CAP I period. After spending quite a bit of time with the rating agency, she believes they have a good understanding of what the organization is trying to do and the benefit of new city partnerships. She also sent board members the December 31, 2020 financials. They show an increase in UIA assets of about \$14 million; that is \$18 million added to infrastructure less \$4.5 million for depreciation. Liabilities increased \$12 million mostly due to the Clearfield bond issuance. Revenues and expenditures are at about 50% of estimated budget. Everything is just where it should be at this point.

8. UIA NETWORK UPDATE

Mr. Timmerman stated the organization was recently awarded about 170 circuits from the Utah Education & Telehealth Network (UETN). That is a lot of business revenue and build. The bond money will be needed for construction to schools. Compared to other providers UTOPIA was the number one winner in the RFP process. Unfortunately, the organization did not do well in Utah County but did well up north. Providing connectivity to schools is one of the purposes of UIA / UTOPIA. There were a few CARES Act projects wrapped up. Many were not UTOPIA member cities (Clinton & West Bountiful) but needed connectivity. UTOPIA owns the assets and can now piggyback off the connectivity those routes provide. The bond is essentially financing for the completion of the network. That is a moving target because cities keep growing but this will substantially complete the remaining cities. The schedule is more aggressive than has been shared publicly and the online schedules will be revised now that the financing has been secured. There has been incredible growth. The organization is excited to get the buildout complete and then maximize debt relief to the cities. There will be conversations about relieving the debt burden carried by member cities.

Utah Infrastructure Agency (UIA) Board Meeting Minutes

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9. ADJOURN

There being no further business of the UIA Board of Directors, the meeting held on Monday, February 8, 2021, was adjourned at 9:43 AM.

I hereby certify the foregoing to be a true and accurate record of the proceedings of this meeting of the UIA Board of Directors.

Laurie Harvey

Laurie Harvey, UIA Secretary

Approved this 12th day of April, 2021