

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY (UTOPIA)

BOARD MEETING MINUTES

FEBRUARY 8, 2021

10:00 AM

UTOPIA FIBER OFFICES

5858 SOUTH 900 EAST

MURRAY, UTAH 84121

Board Members Present: Meeting conducted electronically

**Board Members Joining
Electronically:**

Adam Cowie – Second Vice Chair, Lindon City
Kane Loader – Third Vice Chair, Midvale City
Shawn Warnke – Fourth Vice Chair, Tremonton City
Nicole Cottle – Alternate, West Valley City
Councilmember Jeffrey Lambson – Orem City
Councilmember Thomas Peterson, Brigham City
Mayor Blair Camp – Murray City
Councilmember Robyn Mecham – Centerville City
Councilmember Clint Morris – Layton City
Jason Sant – Payson City

**Officers Joining
Electronically:**

Roger Timmerman – UTOPIA Executive Director
Laurie Harvey – UTOPIA Chief Financial Officer
Christa Evans – UTOPIA Secretary
Joshua Chandler – UTOPIA General Counsel
Aaron Leach – UTOPIA Chief Operations Officer
Kim McKinley – UTOPIA Chief Marketing Officer

**Others Joining
Electronically:**

Jason Roberts – Alternate, Brigham City
Jamie Davidson – Alternate, Orem City
Ben Bailey – Auditor, Keddington & Christensen

1. WELCOME AND INTRODUCTIONS

The UTOPIA Board of Directors held an electronic board meeting on February 8, 2021. The meeting was live streamed to allow public viewing. UTOPIA Second Vice Chair, Adam Cowie (Lindon City) called the meeting to order at 10:03 AM. Introductions were made because there were new board members. Nicole Cottle is the new alternate for West Valley, Councilmember Jeff Lambson is the new representative from Orem, and Jason Sant is the new alternate for Payson City.

UTOPIA Votes Present: 447

UTOPIA Majority Vote: 279

UTOPIA 2/3 Vote: 371

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2. APPROVAL OF MINUTES – DECEMBER 14, 2020

There was no discussion on the minutes.

ACTION: Kane Loader (Midvale City) MOVED to approve the minutes from the UTOPIA board meeting held December 14, 2020. Councilmember Tom Peterson (Brigham City) SECONDED the motion. A voice vote was taken - vote was unanimous.

3. FINANCIAL AUDIT FY2020

Ms. Laurie Harvey, UTOPIA Chief Financial Officer, reminded the board these are UTOPIA'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. The first part of the financials is UTOPIA's opportunity to talk about the financials without all the restrictions required in the standard format. Average monthly recurring subscriber revenues increased from \$567,000 in 2019 to \$574,000 so it remained consistent. Most new subscribers fall under UIA so this speaks well to the fact that UTOPIA subscribers are not leaving the network. Operating revenues increased 13% in FY 2020. On the balance sheet, current assets remained the same. Non-current assets dropped about \$4 million due to depreciation. There is not a lot of investment in UTOPIA infrastructure, most is in UIA, so any changes moving forward will most likely be depreciation. Conduit and 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 of the asset has been understated. Total Assets is \$66 million and Deferred Outflows of Resources is \$113 million which totals \$179 million. UTOPIA has an interest rate swap arrangement in place with third parties to keep debt at a fixed rate rather than a variable rate. UTOPIA receives offsetting payments toward the \$110 million liability from third parties. If UTOPIA broke the swap, the organization would have to pay Key Bank and Bank of American \$110 million which is why nothing can be done about the interest rate on the debt. By the time the debt service matures the interest rate swap value will be zero. Current liabilities increased about \$1.5 million because according to current company policy, unless an employee is terminated for cause, accrued sick leave is required to be paid out so an adjustment was made to reflect that policy. Total liabilities is \$461 million, up about \$23 million due to the interest rate swap. Net position is negative \$282.5 million. This is comprised of not only the debt service on the original UTOPIA debt but also interest accruing and a note payable to all pledging cities. The note payable is kept on the books because UTOPIA has every intent of paying that debt. Revenues are up slightly by \$1.5 million mostly due to revenue UIA pays UTOPIA to operate the network. Operating expenditures are \$17.6 million which is up slightly. Payroll expenses increase by \$2 million largely due to bringing utility locating services in-house. This has provided a lot of benefit to UTOPIA with fewer damages from contractors. UTOPIA Locators have learned the infrastructure and are becoming more efficient as time goes on. The largest expenditure item is the bond interest and fees. Interest includes that accrued from the UTOPIA debt and Notes Payable to the cities. The financial statements always require a lot of explanation for parties outside of the organization, but UTOPIA is holding its own. As the network grows it is necessary to add additional people, but UTOPIA runs very lean as government must. There was about \$2.3 million added in assets; a considerable amount was moved from Construction in Progress to Outside Plant. The increase in vehicles was

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due to replacement of vehicles sold at auction, plus some new vehicles for newly hired employees. The beginning of FY 2020 started with \$318 million in long-term debt; \$17 million was added which is the pledging payments from the cities. There was some reduction in debt from principal payments of \$1.65 million on the 2011 UTOPIA Bond. The ending balance was \$334 million; \$2.5 million of that is principal payments that are due in a year. A lot of explanation was provided regarding pensions and other post-employment benefits. The supplementary report included 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 UTOPIA. The audit does not relieve the board of their responsibilities to UTOPIA. The opinion stated they have obtained reasonable rather than absolute assurance that the financial statements are not misstated. They looked at the internal controls but did not test their effectiveness. The accounting policies were neutral, consistent and clear. There were not any significant issues while conducting this audit. There were no findings regarding Utah State Compliance. Cash disbursement and cash receiving processes were reviewed. That led to the finding regarding A/P that was already discussed. Fraud was also looked into which consisted of talking to management and observation during the audit.

4. ELECTION OF UTOPIA BOARD OFFICERS

The current UTOPIA board leadership is as follows: Wayne Pyle (West Valley) – Chair; Debby Lauret (Orem City) – first vice chair, which is now vacant; Adam Cowie (Lindon) – second vice chair; Kane Loader (Midvale) – third vice chair; and Shawn Warnke (Tremonton) – fourth vice chair.

ACTION: Nicole Cottle (West Valley City) MOVED to retain the current leadership, with the addition of Councilmember Jeffrey Lambson (Orem City) to replace Councilmember Debby Lauret as the First Vice Chair. Kane Loader (Midvale City) SECONDED the motion. A roll call vote was taken - vote was unanimous.

5. UTOPIA 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. 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. Two additional residential ISPs were added. Buildout is continuing on the original member cities. She thanked the cities because this could not have been accomplished without their cooperation.

Mr. Shawn Warnke, Tremonton, asked if the new connections are all on UTOPIA's network.

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Mr. Timmerman stated the numbers on the subscriber report are combined for UIA and UTOPIA. UIA pays UTOPIA to operate the network so in a way they are connected. Most new connections are from UIA. UTOPIA benefits as things at UIA improve.

Mr. Cowie stated he works in Lindon and lives in Payson and it is great to see the positive comments on social media about UTOPIA. He was reluctant at first due to impacts to his yard but it has been an awesome change to move to UTOPIA.

6. UTOPIA FINANCIAL UPDATE

Ms. Harvey shared good news regarding the UIA 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. She added that with the help of the Finance Committee, Dalin Hackett has been hired as UTOPIA's Controller. She worked with him at Midvale and knows the benefit he will provide to UTOPIA and he has already made some significant contributions. She presented a graph showing the recurring revenue as of January; system-wide recurring revenue has reached \$2.5 million (UTOPIA - \$700,000 & UIA - \$1.8 million). The increase month over month is about \$30,000 to \$40,000. 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. The ratings presentation used for Fitch Ratings was sent to the board earlier this morning. There is a lot of helpful information in there. UTOPIA is on track to reach revenue projections. On June 30, 2020 there was \$179 million in assets and deferred inflows; it is now \$175 million. The \$4 million decrease in assets is from items being moved from Construction in Progress to selling that construction to Idaho Falls. The agreement with Idaho Falls is UTOPIA purchases the infrastructure needed for their network and is reimbursed for the cost of that plus 3% overhead. There was also some depreciation expense. Notes Payable increased \$8 million related to the pledge payments the cities have made toward the UTOPIA debt. The net position decreased by \$8 million as well. Revenues were almost \$7 million which is halfway to estimated revenues for FY 2021. Expenditures total \$9 million. Depreciation is not budgeted for and if that is backed out total expenditures for the year will come in a little under budget. The biggest expenditure for UTOPIA is the interest expense which is offset by the contributions from the pledging cities. There is nothing unexpected in the December financials.

7. UTOPIA NETWORK UPDATE

Mr. Timmerman provided some context for those unfamiliar with UTOPIA. There were some difficult times in UTOPIA in the beginning of the project. He explained the restructuring that took place to bring about the formation of UIA. UIA was able to make some progress in cities like Tremonton and Brigham City and began to show a lot of success to the point that UIA was able to get funding without backstop from a city. UIA was able to cover expenditures with its own revenues and is now able to pay back cities for the operation revenue they provided in the beginning. Cities are still making payments on the first UTOPIA debt but since that time all

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operating expenses from UIA and UTOPIA are being covered by current revenues as well as repayments to cities that provided operating revenue. Revenues from subscribers is already covering the new debt taken on. UIA has far exceeded UTOPIA and the financial upside from UIA is being used to take on new debt and finish the buildout in cities. The additional projects do not create any exposure to member cities. The new cities are able to piggy-back off the UTOPIA investment but do not become member cities and have no voting rights. A significant amount of revenue comes from those systems. It is a mutually beneficial structure to the organization and to the city involved. He anticipates several additional city partnerships in the near future. This provides an avenue for significant long-term revenue which can help offset the debt obligations in UTOPIA. First priority is completing the build out which is happening ahead of schedule. Payments member cities are making right now covers the debt from UTOPIA projects from years ago. Current operating expenses are covered by subscriber revenue and is not coming from the cities. Regarding Idaho Falls, they own their own network but UTOPIA has helped design and operate their network which they pay a fee for. It is a mutually beneficial partnership where UTOPIA receives revenue and Idaho Falls benefits from decreased cost to operate their network due to a good economy of scale. Things are very good at UIA and UTOPIA collectively. If revenues continue growing as they are now there should soon be an opportunity to offset debt obligations at UTOPIA. How that is done and the timing is something that is looked at every year. Once buildout is done the focus turns to debt relief for cities. Looking at things in context really shows something to be proud of overall and the criticism has diminished quite a bit. The organization's reputation has made a lot of progress in the communities it serves. UTOPIA is proud to have the fastest speeds in the state, a good pricing structure, competitive options and generally is the top rated in the state.

8. ADJOURN

There being no further business of the UTOPIA Board of Directors, the meeting on Monday, February 8, 2021, was adjourned at 11:02 AM.

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



Christa Evans, UTOPIA Secretary

Approved this 12th day of April, 2021