

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY (UTOPIA)

BOARD MEETING MINUTES

AUGUST 9, 2021

10:00 AM

UTOPIA FIBER OFFICES

5858 SOUTH 900 EAST

MURRAY, UTAH 84121

Board Members Present:

**Board Members Joining
Electronically:**

Wayne Pyle – Chair, West Valley City
Adam Cowie – Second Vice Chair, Lindon City
Shawn Warnke – Fourth Vice Chair, Tremonton City
Matt Dahl – Midvale City
Councilmember Thomas Peterson, Brigham City
Councilmember Clint Morris - Centerville
Jason Sant – Payson City
Todd Christensen – Perry City
Brenda Moore – Alternate, Murray City

Officers Present:

Laurie Harvey – UTOPIA Chief Financial Officer
Christa Evans – UTOPIA Secretary
Joshua Chandler – UTOPIA General Counsel

**Officers Joining
Electronically:**

Roger Timmerman – UTOPIA Executive Director
Aaron Leach – UTOPIA Chief Technology Officer
Kim McKinley – UTOPIA Chief Marketing Officer

**Others Joining
Electronically:**

Jason Roberts – Alternate, Brigham City

1. WELCOME AND INTRODUCTIONS

The UTOPIA Board of Directors held a board meeting on August 9, 2021. The meeting was live streamed to allow public viewing. UTOPIA Chair, Wayne Pyle (West Valley City) called the meeting to order at 10:02 AM.

UTOPIA Votes Present: 344

UTOPIA Majority Vote: 279

UTOPIA 2/3 Vote: 371

2. APPROVAL OF MINUTES – JUNE 14, 2021

There was no discussion on the minutes.

August 9, 2021

ACTION: Adam Cowie (Lindon City) MOVED to approve the minutes from the UTOPIA board meeting held June 14, 2021. Matt Dahl (Midvale City) SECONDED the motion. A voice vote was taken - vote was unanimous.

3. CONSIDER APPROVAL OF RESOLUTION UT 21-03: APPROVING A FOURTH AMENDMENT TO AN INTERLOCAL COOPERATIVE AGREEMENT FOR SERVICES BETWEEN UIA AND UTOPIA

Ms. Laurie Harvey, Chief Financial Officer, explained this resolution amends the amounts stated in the resolution for fees paid by UIA to UTOPIA for activities at UTOPIA. This amendment is on the agenda for both UIA and UTOPIA. If it's approved, the chairs for both entities will sign the Fourth Amendment. This is for the service contract. The other part is the management fee which is mostly executive costs at UTOPIA which should be covered by UIA. The management fee is \$2.7 million which is up from \$2.3 million, an 18% increase from FY 2021. The budget was approved with the proposed increases to the service contract fees. For the service contract, the following is proposed:

1. Network Operations: UIA active connections x \$6.50/month. Propose fee increase to \$7.15 (10%)
2. Provisioning: new UIA connections x \$14.30 one-time. Propose fee increase to \$15.75 (10%)
3. Field Maintenance: UIA addresses passed x \$1.20/month. Propose fee increase to \$1.30 (10%)
4. Shelter Maintenance Fee: \$400 annual fee per UIA hut/cabinet. No change proposed

The management fee costs are allocated to UIA as follows:

- 80% of administrative costs
- 50% of direct technology costs
- 95% of marketing and sales. Essentially, all new connections are UIA. UIA is paying for all direct advertising and reimbursing UTOPIA for about 95% of the marketing and sales staff.
- The customer service budget is 25% allocable to UTOPIA and 75% to UIA

For the service contract, the breakdown is about 25% UTOPIA and 75% UIA for the following departments: Finance, Network Operating Center, Blue Stakes Locating, Field Service, Operations, Administration and Network Engineering. This matches the ratio of UIA and UTOPIA subscribers. Warehouse is about 90% UIA since most construction is for UIA.

Mr. Timmerman explained the expectation is these will be adjusted every year. It makes sense as UIA grows while UTOPIA is performing a lot of functions. The mix changes each year and most new subscribers are UIA. Both organizations benefit from the economy of scale.

Ms. Harvey explained it is necessary to make sure all UTOPIA expenses that would not exist were it not for UIA are covered and also to keep the right amount of assets in each entity. Regarding the management fee, all administrative costs paid by UTOPIA are looked at to determine which would

August 9, 2021

not be at the level they are at if it were not for UIA. Some of that includes additional staff as the network is expanded. Also, more time is spent on UIA from Executive Staff so 90% of those salaries are reimbursed to UTOPIA by UIA. The service contract was first adopted in 2010. At the time it was based on the salaries paid to the NOC Technicians and Field Service Technicians.

Mr. Roger Timmerman, UIA CEO, stated there is also an economy of scale. When UIA was started there were about 10,000 customers. UIA was the mechanism to allow UTOPIA to grow and expand and it is now over 40,000. As UIA becomes bigger relative to UTOPIA it makes sense to adjust the cost structure between the two organizations. UTOPIA benefits from the economy of scale. Keeping a fair balance is important. It is a good thing for UTOPIA when more money can be paid to it from UIA.

Mr. Adam Cowie, Lindon, clarified that these fees do not change actual customer fees.

Ms. Harvey stated that was correct.

ACTION: Councilmember Tom Peterson (Brigham City) MOVED to approve Resolution UT 21-03 approving a Fourth Amendment to an Interlocal Cooperative Agreement for Services between UIA & UTOPIA. Brenda Moore (Murray City) SECONDED the motion. A roll call vote was taken - vote was unanimous.

4. DISCUSS UTOPIA FIBER SUBSCRIBER SURVEY

Ms. Kim McKinley, UTOPIA Chief Marketing Officer, presented the results of the subscriber survey conducted this year. This is sent to residential subscribers every year to get a baseline of where the organization is and opinions about the service. It was conducted from July 8 through 16 with over 3,000 responses which makes it very relevant since it is about a 10% response rate. Some cities had a higher response rate than others which she feels is attributed to newer cities where construction is active. Most people that responded were male. About 94% own their homes; this shows that UTOPIA needs to get further into the rental space. Offering a month-to-month lease is an effort to get into the rental market. Most customers responding are married. The demographics line up closely with Utah demographics.

Mr. Pyle asked how much of the response rate has to do with customers living in rental units like apartment complexes where they would not be making the decision on internet service.

Ms. McKinley stated those living in apartments wouldn't receive the survey. The rentals represented here are mostly single-family home rentals. Regarding household income, in the past, results have shown that UTOPIA skews to a higher demographic. The current survey shows more of a mix, so the organization is doing a better job getting people to sign up among different economic brackets. There is a mix among age groups but the largest response groups were those 40-44 and 65+. About 52% of respondents do not have any children living at home which can be attributed to the large 65+ response. This stat is important to understand if bandwidth is being used due to a lot of people living in the home. Most customers have a graduate or undergraduate degree. The majority have been UTOPIA Fiber customers for less than one year which makes sense since 10,000 subscribers were added this past year. It also showed that 5% had been customers for over

August 9, 2021

ten years and have stayed customers. The top three ISPs are Xmission, SumoFiber and Beehive Broadband. There is an even break between those that have 250Mbps and 1Gig. Sixty-six responded that they had the 10Gig service but UTOPIA does not have that many 10Gig customers; respondents probably assumed they had the highest available speed. There are a lot of businesses and schools on the 10Gig service but not residential customers.

Mr. Timmerman stated this is a sampling of existing customers. As customers are signing up, things are trending more toward 1Gig; people want the speeds UTOPIA offers.

Ms. McKinley stated most customers hear about UTOPIA through their municipality. There are a few who had UTOPIA service at a business or other residence so it shows when people move, they look for areas where they can once again obtain UTOPIA Fiber service. Most customers use their service for email, streaming movies and social media. There was an uptick in working from home which is not a surprise due to the pandemic. Most people use their internet service for computers but there has been an uptick in home security and smart appliances. Overwhelmingly, the video services they use are Prime, Netflix and Disney Plus. Mostly, other telecommunications services they pay for are cell phones and data plans. Price and internet speed are the main factors in the decision to sign up for UTOPIA service. Choice of provider is something that internally the organization feels is important but is not as important to the consumer. City co-sponsorship of UTOPIA Fiber is not very significant for subscribers. Consumers like that it is a fiber network and they also sign up because they do not like large telecom companies. The reliability of the UTOPIA Fiber network is heard over and over as the reason why customers stay with the service. An overwhelming majority is pleased their city invested in UTOPIA Fiber. Most subscribers feel UTOPIA Fiber has had a positive impact on their quality of life. The impact on the community is described as 75% positive. Most people are very satisfied with their UTOPIA Fiber experience, the reliability of the service, the ability to choose their internet provider, the installation process and the speed provided. Most people were happy with their interactions with customer service. The customer's ISP Net Promoter Score (NPS) is 49. To gauge this question, customers are asked how likely they are to recommend their ISP.

Mr. Timmerman stated there are a lot of city surveys conducted during discussions with non-UTOPIA cities to see if they want to do a partnership. In those surveys, one question asked is how likely residents are to recommend their current provider, usually Comcast or CenturyLink. The Net Promoter Score in that situation is usually -50 or -60. There is a dramatic difference in the NPS for ISPs with UTOPIA.

Ms. McKinley stated UTOPIA's NPS is 63 and has remained very steady through the years.

Mr. Pyle asked who the detractors are.

Ms. McKinley stated some people may just have a bad service or a bad router. Some may be using bad equipment, like an old CenturyLink router, or they don't call in. Bad equipment can affect customers getting the fast speeds offered by UTOPIA.

Mr. Timmerman stated some people have a negative opinion of the city and government but still like the service because it is better than the competition.

August 9, 2021

Ms. McKinley stated some people don't think it's the proper role of government or they listen to negative propaganda in the press. Many subscribers are on the network because providers are net neutral and do not restrict any content or give paid prioritization.

Mr. Timmerman stated net neutrality was the idea that there would be federal regulations that required providers to not have throttling, caps and paid prioritization. Net neutrality was revoked. UTOPIA's position is that a competitive marketplace solves net neutrality. If providers on the UTOPIA network start imposing some of those things, they will lose customers. The result of being on UTOPIA's network is that customers will get net neutrality type protections.

Ms. McKinley stated about 74% of customers believe their community is much better because of UTOPIA Fiber. This is different than the negativity that is spewed out in the press about communities being unhappy about UTOPIA Fiber in their area. This survey will be done again next year to get a baseline of where UTOPIA is.

Ms. Brenda Moore, Murray, can understand the high marks regarding quality of life. Dealing with CenturyLink or Comcast service can be very frustrating and making the switch to UTOPIA is a huge improvement to quality of life. As a subscriber, she marked the Customer Service question as "Not Applicable" because, since installation, she has had no issues and has not dealt with customer service. She wondered how to tell what service she has because the bill does not provide that detail.

Ms. McKinley stated it would be provided in the detail on the bill from the ISP.

Mr. Shawn Warnke, Tremonton, asked if copies of the survey results could be provided to board members.

Ms. McKinley stated she would send it to board members.

5. UTOPIA FINANCIAL UPDATE

Ms. Harvey showed the preliminary financial statements. Total assets is \$58 million which is \$8 million lower than the previous year and is due to depreciation. Total Assets and Deferred Outflow of Resources is \$171,000. Total liabilities is \$474 million, an increase of \$14 million from the previous year, and is related to the notes payable to the cities. As cities make pledge payments, UTOPIA records a note payable to them so that number will continue to grow. The reduction in bonds payable will be much less than that because, although payments are being made on the bond, most of it is going to interest. Net position is a deficit of \$303 million. Last year, the net position was \$282 million, a \$20 million decrease which is similar to the loss from the prior year. Total operating revenues for FY 21 is \$14 million, \$2 million higher than FY 20. It is related to money from UIA to cover operating costs and is close to the budgeted amount. Total operating expenses is \$18 million and most is depreciation. The total operating loss is \$4.8 million compared to \$5.6 million for 2020. The total net loss for FY 2021 is \$20 million, most is related to interest paid on the UTOPIA bond. Total net position for the end of the year is a loss of \$303 million.

August 9, 2021

Mr. Timmerman stated it sounds worse than it is. Most of the downside is related to the original UTOPIA bonds that are outstanding and notes payable to the cities. Depreciation hits harder than it should but that will be adjusted. UTOPIA has not issued any new debt.

Ms. Harvey stated one of the main goals is to take over the UTOPIA debt so the organization does not continue to borrow from cities to pay that debt. She showed a graph of the combined recurring revenue for UTOPIA and UIA. Combined recurring revenue per month is about \$2.75 million; UTOPIA represents \$650,000 and UIA is just over \$2.1 million.

Mr. Pyle commented that \$1 million in recurring revenue was attained at the end of 2015 after UTOPIA had been in operation for over ten years. It took roughly four more years to reach \$2 million and it looks like \$3 million could be reached by the end of the year. The trajectory of growth is amazing.

Ms. Harvey presented the next chart showing combined recurring revenue increase as a 12-month moving average. It is hovering around a \$40,000 month over month increase. It showed a significant jump at the beginning of COVID. There was some lag in releasing new project areas but those have now been released and the moving average will probably trend closer to \$40,000. Two of the organization's larger business providers merged, First Digital acquired Veracity. The result is they won't purchase fiber from UTOPIA if their own company provides it. Veracity has moved some businesses off the UTOPIA network to their own First Digital Network.

Mr. Timmerman added the effects from that will show this month and next month. Some additional orders have come in as well. In the long term, UTOPIA is still in a great position. Residential releases have been slow the last few months due to timing of things but there were some large areas recently completed. A large area was released in Midvale which marks the completion of Midvale. Clearfield also had a large area released. There are several areas in West Valley and Orem releasing soon. Along with Mr. Pyle, he too is excited about the month over month growth and believes the future is looking very good for UTOPIA.

Mr. Matt Dahl, Midvale, mentioned his city has gone from a group of people upset and constantly haranguing him about not having service in their area, to now being ecstatic about the new service they have.

Ms. Harvey presented the next chart which showed UIA Revenue vs. Bond Obligation. UIA revenue is covering the bond obligation and the franchise pledge from cities puts it at \$1.5 times coverage. UIA is maintaining the coverage needed to receive good bond ratings. The Syracuse rating came in very favorable at AA-. Syracuse is poised to sell the week of August 26 and will close mid-September. The Finance Department is currently transitioning from its current pay portal to Xpress Bill Pay which should be more efficient and simpler for those customers already using it for city utilities. The transition will take place on September 1. The organization is also going through an insurance renewal and there is a lot of focus on cybersecurity. There will be some expense in meeting the insurance requirements to improve security.

Mr. Timmerman explained where the revenues were coming from that were represented in the bond graph. Revenues are from projects that were taken on about two years ago; the Layton Project

August 9, 2021

has a lot of revenue coming in. The Morgan, Payson and West Point projects have done well. Revenues are not coming from the Clearfield Bond or anything taken out after that. Everything September 2020 and later is all investment that has been financed and is being built and will result in revenues two years down the road. The organization is not just staying ahead of the debt but is set up to push into \$2.5 to \$3 million recurring revenues. This chart will get interesting as the projects are built.

6. UTOPIA NETWORK UPDATE

Mr. Timmerman stated there has been quite a bit of press on new city partnerships and the completion of cities. He extended an invitation for staff to report to city councils with an update. It's also an opportunity to recognize cities as 10Gig enabled which is a full generation ahead of other offerings out there. UTOPIA is the most connected from a speed perspective anywhere in the country. Staff would like to create a 10Gig award for cities; board members can reach out to staff if they are interested in that. He presented the most recent subscriber report. There has been a transition to a new CRM so the report has changed slightly due to system data migration. The number of services delivered is above 40,000 and continues to grow. Per city, there are no decreases. Take rates can go up and down based on when new areas are added but they continue to grow. There are a few bumps but that can be attributed to system migration. New city partnerships are beginning to make an impact as well. Ground has been broken in Pleasant Grove. Syracuse is also beginning construction. There are several other city partnerships that may be lining up. It is important to balance the capacity to partner with each new city. Any remaining areas in the original UTOPIA cities will be wrapped up in the next six to twelve months.

7. ADJOURN

There being no further business of the UTOPIA Board of Directors, the meeting on Monday, August 9, 2021, was adjourned at 11:08 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 18th day of October, 2021

