

UTAH INFRASTRUCTURE AGENCY (UIA)

BOARD MEETING MINUTES

April 8, 2019

8:30 AM

UTOPIA FIBER OFFICES

5858 SOUTH 900 EAST

MURRY, UTAH 84121

Board Members Present: Alex Jensen – Chairman, Layton City
Bryce Haderlie – Second Vice Chair, Midvale City
Sam Lentz – Third Vice Chair, Orem City

Joining Electronically: Jason Roberts – First Vice Chair, Brigham City
Paul Isaac – West Valley City
Mark Sorenson – Payson City, Alternate
Jamie Davidson – City Manager, Orem City
Jim Welch – Finance Director, West Valley City
Kimberly McKinley – UTOPIA Marketing Director
Brad Patterson – Gilmore & Bell

Officers Present: Roger Timmerman – UIA Chief Executive Director
Laurie Harvey – UIA Secretary/Treasurer
Joshua Chandler – UIA General Counsel

Others Present: Kellie Jeffrey – UTOPIA Board Secretary
Christa Evans – UTOPIA Executive Assistant
Mayor Bill Wright – Payson City
Dave Tuckett – City Manager, Payson City
Sarah Hubbs – Finance Director, Payson City
Blake Wade – Gilmore & Bell, Representative
Laura Lewis – Lewis Young Robertson & Burningham, Financial Advisor
Jack Walkenhorst – All West

1. WELCOME AND INTRODUCTIONS

The UIA Board of Directors held a regular board meeting Monday, April 8th, 2019. UIA Chairman Alex Jensen (Layton) called the meeting to order at 8:38 AM. He introduced and welcomed all attendees.

UIA Total Votes Present: 362

UIA Majority Vote: 220

UIA 2/3 Vote: 293

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2. APPROVAL OF MINUTES – FEBRUARY 11, 2019

There was no discussion on the minutes.

ACTION: Bryce Haderlie (Midvale City) MOVED to approve the minutes from the UIA board meeting held February 11, 2019. Councilmember Sam Lentz (Orem City) SECONDED the motion. A voice vote was taken - the vote was unanimous.

3. FINANCIAL UPDATE (FEBRUARY 2019)

Laurie Harvey, UIA's Secretary/Treasurer, presented an overview of the February 2019 UIA financials. UIA revenue is continuing to grow and the gap is expanding between the bond obligation and revenue. Mr. Timmerman added that the payments have not started for Layton but is represented as an obligation that is out there. The average increase in the **Combined recurring revenue** over the last year is about \$20,000 per month over the prior month. Current customers billed total just over 23,000 and the average increase in customers system wide is almost 400 a month. The average increase for UIA month over month is \$18,000, average customers billed is 13,500 with an average increase of 372 every month. UTOPIA is continuing to grow with an average increase of \$2,200 a month. Average customers billed is 9,800 with an average increase of 27 per month.

Notable variances on the **Finance Committee Report** are as follows. The variance on interest revenue on the bond proceeds is due to money that cannot be spent on operations and must go back in to capital projects. A budget amendment can be included if needed. The additional money is funds held in trust. Secondly, we are at 80% of budget on administrative expenses while we are only 67% through the year. This is due to advertising; we have ordered two different sets of welcome packets for new signups with UIA. If we go over budget, there are line items in the administrative budget that can absorb those charges. We are saving money on bank charges because we have switched over to the state contract for credit card processing. Bank charges are higher due to an increased number of customers and encouraged online payments. Mr. Timmerman added that having more customers than anticipated is a good thing but can negatively impact a few budgetary items. Interest expense is high because we have not yet budgeted in 2019 for the bonds that were issued in July and August. This will be reflected in the proposed budget amendments for 2019 that will be reviewed.

Ms. Harvey presented numbers showing the OpEx advances. This is the first time the board has seen these numbers so staff is very open to change. For cities with fully paid OpEx assessments, last year the rebate was based solely on the UTOPIA pledge increase. The 2018 rebate was based on the dollar amount in those cities where UTOPIA pledge amounts were increasing. If we continue down that path the projected payoff for the cities varies because the OpEx assessments were not necessarily the same ratio as the UTOPIA pledges. If we continue to rebate based on the pledge increase some cities won't be paid off until 2024; one of those would be Tremonton which is a member of UTOPIA but not UIA. Other payoff dates are Midvale and Orem in 2023 and Brigham City in 2020. There might be a better way to do it by refunding cities a little more uniformly. The cities with partially paid OpEx assessments, (Centerville, Lindon and Murray) projected payoff is 2021 or 2022. Considering the discussion today on the Payson contract, one

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of the requirements would be that Payson pay their full OpEx assessment. Another option was proposed that would refund the dividend to those cities who are already scheduled to be paid off by 2022 based on the 2% increase in their UTOPIA pledge, which would be twice as much as the rebate was last year. Cities won't have to budget an increase in OpEx if they apply their refund to it. Rebates for cities that don't have a full OpEx payment will go toward the deficit they have in the OpEx. Cities with partially paid OpEx will go toward bringing them current on the full amount of the rebate owed. The refund for Brigham City, Centerville, Layton, Lindon, Murray and West Valley City would be based on increasing the UTOPIA pledge. The refund for Midvale, Orem, Payson and Tremonton would be based on operating assessments. The proposed rebate would be \$610,735; \$505,619 paid off in cash and \$105,116 applied to the cities that have not paid their operating assessment.

Mr. Timmerman stated it is a little higher than last year because the funds are available, and it applies to each city's individual position.

Mr. Jensen asked for clarification that the primary objective of this hybrid approach is to have everyone reimbursed in full and in the same time frame.

Ms. Harvey confirmed that assessment was correct.

Mr. Timmerman stated they would like to pull the payoff dates in a little closer, continuing to budget based on the 2% increase but come in a little over it.

Ms. Harvey said at some point in the future, once those OpEx refunds are paid off, a new formula will need to be provided for how the dividends will be paid back.

Mr. Roberts asked if the actual payment is going up or down.

Ms. Harvey stated it is about twice what it was last year which was about \$218,000. The rebate is based on the increase of UTOPIA pledges from 2019 compared to 2017. It is closer to 4% of the total UTOPIA debt service owed.

Mr. Timmerman stated this will be paid out within the next month, so it will be in the current fiscal year for the cities.

Mr. Lentz asked why there was zero proposed for Perry.

Ms. Harvey stated Perry was never assessed nor did they pay operating expenses.

Mr. Lentz was curious about a fourth option that would normalize everybody to 2022, with the exception of Brigham City.

Ms. Harvey said she could look into that and send it out.

Mr. Timmerman stated staff is proposing a hybrid approach and would like to know if the board is comfortable with moving forward with this.

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Mr. Lentz stated the hybrid approach could be used for this year but maybe for the following years they could look into having a date that is the same across the board.

Mr. Isaac stated he is fine with the proposal.

Mr. Jensen supported Mr. Lentz' suggestion of going forward with the approach presented by staff this year but would like more analysis so see about bringing all cities OpEx payments current to the same payoff date.

Mr. Roberts mentioned one concern for him is the FAA that Brigham City did but he could talk to Ms. Harvey about making everything even in the long term.

Mr. Timmerman expects to continue with this schedule of increasing the rebate. At about year 2023, when UTOPIA buildout is finished, cities will begin to experience significant debt relief. The priority is to complete the buildout of UTOPIA cities and finish the project. Any new city partnerships that come during that time will also contribute to the UTOPIA debt obligation and create a better economy of scale.

There was concurrence from the board on the financial update.

4. AMENDED 2019 BUDGET

Laurie Harvey, UIA Secretary/Treasurer, stated these budget amendments will be proposed at a special meeting that will be scheduled to be held in May. The first proposed amendment is regarding proceeds that were issued from the Layton bond in July 2018 which were \$24,133,300. \$22,000,000 has been contributed to capital projects. Cost of issuance was \$454,400 and the contribution to the debt service reserve is \$1.7 million. Related expenses for that bond are \$1,105,000 in interest and \$105,600 in premium amortization. Projected Revenue is expected to come in considerably higher so \$800,000 can be taken from adjusted recurring revenue with a contribution from retained earnings of \$410,600.

The second bond issued this fiscal year is the Layton City System Improvements Bond which had proceeds of \$24,148,200. \$21,834,700 was set aside for capital projects with the buildout of Layton City. The cost of issuance was \$433,900 and the contribution to the capitalized interest fund, which pays the interest for two years, is \$1,879,600. The expenditures related to that bond are interest expense of \$875,900 and premium amortization of \$71,700. \$875,900 will come from the established capitalized interest fund and \$71,700 from UIA take rates.

At the time of the UIA audit it was realized that amortization of the refunding costs had not been budgeted. The difference between the new value of the debt and stated value of the debt is amortized over the remaining balance of the debt. That is about \$200,000 a year and will come from retained earnings.

Regarding the proposed UIA Morgan City System Improvements Bond, proceeds are expected to be about \$2.6 million. \$2,287,000 is for capital projects, \$133,100 for cost of issuance and

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\$219,900 is for contribution to the capitalized interest fund. The related expenditures of \$19,300 will be covered by the capitalized interest fund and \$2,200 from retained earnings.

The issuance of Payson City Bonds will be discussed and based on decisions made by the board prior to the end of June. The estimated proceeds will be about \$3.7 million. \$3,275,000 for capital projects, \$101,100 for costs of issuance and \$298,700 for contributions to the capitalized interest fund.

The proposed public hearing in May will be for the budget amendments that were just reviewed and a resolution adopting those amendments. Also, a public hearing for the adoption of the tentative 2020 budget and a resolution to adopt that tentative budget. In the regularly scheduled June board meeting there will be a public hearing for the adoption of the 2020 budget.

Mr. Lentz asked if there was similar information on the Woodland Hills bond.

Mr. Timmerman explained UIA did not finance that bond. UIA built it and there will be a large increase in revenue of about \$1.6 million that will come in this year.

Ms. Harvey said there has been discussion as to whether to recognize the revenue and expenditure or if it is truly a reimbursement of construction costs and credit should be applied to that. There may be an item for the Woodland Hills budget in May.

Mr. Timmerman stated it is a different structure than what we want to do. It is favorable for UIA because we did not have to finance anything and still receive customers and revenue from the system, but we like to finance projects. If we go above and beyond the financing cost, we get more revenue to pay for the installations. For Woodland Hills we do not receive revenue for the infrastructure fee, but we also don't pay for the installation. Woodland Hills is invoiced for the installation. In the short-term it is better because there was no cost, but in the long-term it is better to finance projects because of increased revenue over a long period of time and ownership of assets.

Mr. Jensen asked where the payment for Woodland Hills will come in.

Mr. Timmerman said it will come in to UIA as a reimbursement for the cost. In this instance, we are spending money on someone else's asset, but getting fully reimbursed. Cities that come with those terms probably won't be turned away, but it is less favorable for a city to do that model. Woodland Hills wanted to do it because they had planned for the project and had funds available.

Ms. Harvey added there may be an item regarding this in the tentative budget for the May Special Meeting.

5. CONSIDER APPROVAL OF RESOLUTION 19-06: A RESOLUTION AUTHORIZING AND APPROVING AN AGREEMENT BETWEEN PAYSON CITY, UTAH (THE "CITY") AND UTAH INFRASTRUCTURE AGENCY ("UIA") FOR UIA TO PROVIDE CERTAIN SERVICES TO THE CITY; AUTHORIZING

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THE CHAIR OF UIA OR OTHER DESIGNATED OFFICER OF UIA TO EXECUTE AND DELIVER THE SAME.

Mr. Jensen expressed excitement about Payson City being fully back with UTOPIA and the benefit it will be to UTOPIA and Payson City's citizens.

Mr. Timmerman gave some background on Payson City. Payson is a member of UTOPIA but did not participate in the refund/refinance, so they do not have the same debt level as other UTOPIA cities, which was a point of conflict. They became a member of UIA but did not vote to approve financing of UIA so the network could not be built and expanded in Payson. One thing that was missed in the early days of UTOPIA was the RUS Loan that was used to build a lot of infrastructure in Payson before everything stopped. There is a lot of unfinished asset in Payson. After looking at it from a money perspective it was determined there is no better place to build than Payson because there is so much aerial construction available and existing assets already there. It would be the least expensive city to finish per dollar spent. There are good take rates and demand, but it couldn't be done because Payson was not a financial supporter of UIA. With this agreement there is a fair balance by bringing Payson back into UIA to backstop their own project financially under the umbrella of UIA. It is similar to the Layton backstop project with a few things specific to Payson. Payson City would need to pay their outstanding UIA assessments. Payment for those assessments was provided at the meeting. Payson would backstop their own project like in other cities and would get better consideration than a brand-new city because Payson is respected as a member of UTOPIA. We tried to alleviate a little bit of the risk and any subscribers that come in from the city would count toward this debt obligation. Due to the existing assets, the rest of the city can be built out for \$3.2 million.

Mr. Isaac expressed excitement that Payson's outstanding operating expense would be fully paid.

Ms. Laura Lewis, Lewis Young Robertson & Burningham, spoke on the financing and presented the following information.

Although there are a few different nuances in the Service Agreement being considered between UIA and Payson City, the general financial structure of the proposed bonds that will be issued is similar to the UIA – Layton transaction. The key differences in the Service Agreement are; (i) Payson agrees to pay its share of the OpEx payment so that it is on a similar footing as the other UIA members, and (ii) the revenue share is slightly different than with UIA-Layton.

The following summarizes the proposed financing transaction for the UIA-Payson project;

- The Bonds will be issued by UIA and will appear on UIA's books as its debt obligation.
- The Bonds will be secured by system revenues with those revenues coming from the new build connections in Payson due to this particular funding and related construction.
- In entering into the Service Agreement, which is structured like a "take-or-pay" contract, Payson has agreed to utilize its municipal energy franchise fees and taxes to make the payment under the service agreement if fiber system revenues from the system (described above) are insufficient to make the monthly payment.

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- With the Service Agreement in place and resulting access to Payson's franchise fees and energy taxes under the contract, if ever needed, it is anticipated that the Bonds will be rated A or A+ by S&P.
- The bonds will be structured with two years of capitalized interest and principal will amortize in twenty-three years after the capitalized interest period for a total final maturity of twenty-five years.
- Debt Service for the ~\$3.275M build will be approximately \$255,650 once principal amortization commences.
- Payson City Franchise Fee and Energy Tax Revenues available to support the Service Contract were approximately \$1,043,000 in FY 2018 resulting in slightly over 4X coverage when compared to the estimated debt service on the Bonds.
- We anticipate closing in mid-June 2019.

Mr. Timmerman requested clarification if taking out additional bonds for more UIA projects effects UIA negatively from a financial perspective.

Ms. Lewis stated it is beneficial because it increases revenue without increasing risk to the regular UIA transaction. Bond rating agencies are on high alert right now due to some municipal bankruptcy filings in other states and are concerned about cities declaring bankruptcy. State law does not allow cities to declare bankruptcy. There was a recent opinion that came down that can help in this bankruptcy concern as well.

Mr. Timmerman addressed the issue of this jeopardizing progress of construction in other cities. This is a relatively small project of about 3,000 homes. Currently, construction capacity is about 1,000 to 1,500 homes a month. We are a few months ahead of schedule with both financing and construction of UIA general projects. This is a two-month capacity project so, worst case scenario, it would push construction back two months. It will most likely not impact the normal UIA schedule. Progress can vary from city to city, but overall progress is very good. Average revenue per residential customer is about \$55 per month with an increase in customers in the high 300s every month, which is where the revenue increase of \$20,000 per month comes from.

Mr. Jensen asked if the current construction crews will be used for this project or if they will be hiring additional crews.

Mr. Timmerman stated there are different types of crews. About half the project is underground and the other half is aerial. There is an excess of aerial crews that will be doing most of Morgan and Payson. Underground construction in Payson will probably be crews moved from other projects. This by itself would not warrant hiring additional crews as it is relatively a small project.

Mr. Lentz asked if this change would impact whether Payson would start voting on UIA board decisions.

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Mr. Timmerman stated that has not been discussed as part of the agreement. Non-pledging members have not been able to vote on financial matters, but this would constitute Payson as a pledging member because they are providing the pledge as part of this agreement.

Mr. Chandler stated it was not part of the terms in the negotiations, so this issue will need to be researched.

Mr. Lentz asked what the anticipated take rate is versus how much was budgeted in the contract.

Mr. Timmerman stated the city is currently at a 30% take rate. The contract needs 634 customers and if there are any beyond that they will be UIA status quo customers. Payson was willing to backstop so there is no risk to UIA. It also gives UIA an opportunity to get significantly more revenue from customers. This does not take into consideration business customers which typically provide better revenue than residential customers.

Mr. Lentz asked how close UTOPIA is to getting the full buildout schedule online.

Ms. McKinley stated there is a preliminary timeline that needs some finalization but should be done soon. It will be on the website in raw form in just a couple of weeks. She will need to talk to the GIS team about the mapping form.

Mr. Lentz asked if the schedule will need to be reworked depending on the Payson decision.

Ms. McKinley stated that she has a schedule including Payson and one excluding Payson.

Mr. Tuckett expressed appreciation to the board and Mr. Timmerman for reaching out to Payson.

Mr. Timmerman stated Payson has changed politically and is now very supportive of UTOPIA. The unanimous approval from the city council is representative of how the citizens feel about UTOPIA.

Mayor Wright stated that the people he has talked to are excited about it.

Mr. Lentz was okay with voting and moving forward with the agreement but would like to hear back from staff about the issue of voting rights for Payson and how it will affect the various voting percentages.

ACTION: Paul Isaac (West Valley City) MOVED to approve resolution 19-06 approving a contract with Payson City. Bryce Haderlie (Midvale City) SECONDED the motion. A roll call vote was taken – the vote was unanimous.

6. CONSIDER APPROVAL OF RESOLUTION 19-07: A RESOLUTION OF THE BOARD OF DIRECTORS OF THE UTAH INFRASTRUCTURE AGENCY (THE "AGENCY"), AUTHORIZING THE ISSUANCE AND SALE OF NOT MORE THAN \$4,000,000 AGGREGATE PRINCIPAL AMOUNT OF TELECOMMUNICATIONS AND FRANCHISE TAX REVENUE BONDS

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(PAYSON CITY PROJECT), SERIES 2019; FIXING THE MAXIMUM AGGREGATE PRINCIPAL AMOUNT OF THE BONDS, THE MAXIMUM NUMBER OF YEARS OVER WHICH THE BONDS MAY MATURE, THE MAXIMUM INTEREST RATE WHICH THE BONDS MAY BEAR, AND THE MAXIMUM DISCOUNT FROM PAR AT WHICH THE BONDS MAY BE SOLD; DELEGATING TO CERTAIN OFFICERS OF THE AGENCY THE AUTHORITY TO APPROVE THE FINAL TERMS AND PROVISIONS OF THE BONDS WITHIN THE PARAMETERS SET FORTH HEREIN; PROVIDING FOR THE PUBLICATION OF A NOTICE OF BONDS TO BE ISSUED AND OF EXECUTION OF A COMMUNICATIONS SERVICE CONTRACT; PROVIDING FOR THE RUNNING OF A CONTEST PERIOD; AUTHORIZING AND APPROVING THE EXECUTION OF AN INDENTURE, A PRELIMINARY OFFICIAL STATEMENT, AN OFFICIAL STATEMENT, A BOND PURCHASE CONTRACT, AND OTHER DOCUMENTS REQUIRED IN CONNECTION THEREWITH; AUTHORIZING THE TAKING OF ALL OTHER ACTIONS NECESSARY TO THE CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED BY THIS RESOLUTION; AND RELATED MATTERS.

Mr. Blake Wade, Gilmore & Bell, presented the resolution approving the parameters of the bond with Payson City. The resolution is for up to \$4 million of bonds for the Payson City Project. The interest rate is not to exceed 5.5% and final maturity shall not exceed 27 years. They shall not be sold at more than a discount of 3%. This would require a public hearing and May 13th is the day that has been designated for that public hearing.

Mr. Timmerman stated they would like to cover some other topics in the May 13th Special Meeting along with this such as the tentative budget.

Mr. Haderlie asked if a motion will be required that is subject to some of the previously discussed items happening.

Mr. Wade stated this motion is to adopt the parameters of the resolution, so it will come back to the board in a public hearing. This basically authorizes the bonds, allows notification of the bonds to be issued and notification of the public hearing.

There was no further discussion.

ACTION: Bryce Haderlie (Midvale City) MOVED to approve resolution 19-07, approving the parameters of the bond with Payson City. Sam Lentz (Murray City) SECONDED the motion. A roll call vote was taken – the vote was unanimous.

Mr. Wade excused himself after the vote was taken.

7. UIA UPDATE

Mr. Timmerman gave an update on UIA. There typically seems to be a dip in revenue in January but this has been the best January ever. We continue to get more customers on the system and the

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corresponding revenues are showing up. The upward trend is very strong and should continue. We like the model of additional city partnerships like Morgan City and anticipate more cities pursuing that model, although, we don't want too many upfront so as to not jeopardize buildout for our member cities. We intend to bring them in based on current allowable capacity and it will be a very good thing for the organization.

Mr. Haderlie appreciates efforts made to expand the base but wants to make sure cities that have been in it for the long haul don't lose anything in the process. It is a delicate balance to maintain but is also exciting to see cities like Payson who already had infrastructure in place and is a logical step.

Mr. Timmerman anticipates a significant ramp up for buildout in existing cities with this next UIA general bond in the fall.

Mr. Jensen would like a notice sent to board members when the previously discussed refund has been made so it can be reported to the elected officials which could help politically.

Mr. Haderlie requested that the latest PowerPoint presentation be sent to the board as well.

8. ADJOURN

Mr. Jensen thanked the staff and the board for their efforts to support the organization

There being no further business of the UIA Board of Directors, the meeting held on Monday, April 8, 2019, was adjourned at 10:00 AM.

ACTION: Sam Lentz (Midvale City) MOVED to adjourn the meeting. Bryce Haderlie (Midvale City) SECONDED the motion. A voice vote was taken - the vote was unanimous.

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, UIA Secretary

Approved this 13 day of May, 2019

