

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY (UTOPIA)

BOARD MEETING MINUTES

April 8, 2019

10:00 AM

UTOPIA FIBER OFFICES

5858 SOUTH 900 EAST

MURRAY, UTAH 84121

Board Members Present: Wayne Pyle – Chairman, West Valley City
Kane Loader – Third Vice Chair, Midvale City

Joining Electronically: Jamie Davidson – First Vice Chair, Orem City
Adam Cowie – Second Vice Chair, Lindon City
Mark Thompson – Brigham City
Bruce Davis – Layton City
Todd Christensen – Perry City

Officers Present: Roger Timmerman – UTOPIA Executive Director
Laurie Harvey – UTOPIA Chief Financial Officer
Joshua Chandler – UTOPIA General Counsel

Others Present: Jack Walkenhorst – All West
Laura Lewis – Lewis Young Robertson & Burningham, Financial
Advisor
Kellie Jeffrey – UTOPIA Board Secretary
Christa Evans – UTOPIA Executive Assistant

1. WELCOME AND INTRODUCTIONS

The UTOPIA Board of Directors held a regular board meeting on Monday, April 8th, 2019. UTOPIA Chairman Wayne Pyle (West Valley City) called the meeting to order at 10:06 AM. He welcomed all attendees.

UTOPIA Votes Present: 359
UTOPIA Majority Vote: 279
UTOPIA 2/3 Vote: 371

2. APPROVAL OF MINUTES – FEBRUARY 11, 2019

There was no discussion on the minutes.

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ACTION: Bruce Davis (Layton City) MOVED to approve the minutes from the UTOPIA board meeting held February 11, 2019. Kane Loader (Midvale City) SECONDED the motion. A voice vote was taken - the vote was unanimous.

3. FINANCIAL UPDATE (FEBRUARY 2019)

Laurie Harvey, UTOPIA's Chief Financial Officer, presented the February 2019 UTOPIA financials. **Combined recurring revenue** is currently increasing \$20,200 month over month. Total number of customers billed is 20,300 with an average increase of 399 customers per month. UIA revenue is increasing at \$18,000 per month; total customers billed is 13,500 with an average increase of 372 customers per month. The average increase for UTOPIA is \$2,200 per month; customers billed is 9,800 with an average increase of 27 per month. UIA revenue for February is almost \$1.2 million. The debt service on the bonds was presented along with the added debt service for Layton City, which right now is being paid out of capitalized interest. The green dotted line on the graph represents the debt service if Layton was added in.

Mr. Timmerman stated additional projects will be added to this line in the future, such as Morgan and Payson. Both have capitalized interest, so they will not hit the actual bond obligation until two years after they fund. Both projects are much smaller than the Layton project so the uptakes will be smaller. The bond obligation is expected to go up in the fall when another UIA general bond is issued but will be well within the current revenue.

Ms. Harvey presented the **Finance Committee Report**. One notable variance was the line item for network management. Budget spent is 78% but it should be at 67%. It is trending higher because of the Blue Stakes contract but there is a new contract in place and those numbers have settled. Due to the amount of construction going on it will probably come in over budget but there are off-setting accounts in network management that can absorb the cost. There are some higher expenditures in co-location fees. Budget is at about 74% but can probably be absorbed in other line items; if not, there will be an item on the amended 2019 budget in the May special meeting. There is one proposed budget amendment for UTOPIA which is an appropriation of 5% of revenues towards the retirement of UTOPIA deficit "net position". This item was pointed out by the auditors in the 2018 audit report. Five percent of revenue must be budgeted to offset the debt position. It cannot be shown as an excess or revenues over expenditures; it must be appropriated. She proposed a budget hearing in May to adopt a resolution for 2019 budget amendments and a public hearing for a resolution to adopt the tentative 2020 budget. For the June Board Meeting a resolution will be proposed for the adoption of the final 2020 budget.

In the UIA board meeting the rebate/dividend was discussed to start refunding the OpEx expenses. They are about double what they were last year. It was proposed to increase the refund to Midvale, Orem, Tremonton and Payson. If payment continues based on the 2% pledge increase those cities won't have OpEx assessments paid off until 2024. The others are in line for payoff by 2022. The discussion was accelerating the repayment to those cities and having OpEx paid off at the same time.

Mr. Timmerman stated it would be good to get some of the money from UIA into UTOPIA, but the agreement requires OpEx payments to be paid back first. The desire is to bump up the

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timeline so all cities can retire that obligation at the same time and then transition into paying UTOPIA bond obligations on an ongoing basis. The amount for OpEx payments will increase every year. At that point there are no other UIA obligations beside the ongoing payment of debt. Ongoing debt burden at UTOPIA needs to be alleviated before early paying anything in UIA.

Mr. Loader stated it's huge to be able to say that the original debt is being paid off and will go a long way politically and with detractors.

Ms. Harvey stated cities that haven't paid their OpEx assessment in full do not receive cash back but credit for that amount toward the full payment of their OpEx.

Mr. Timmerman showed a check from Payson City for \$192,945 which brings them officially paid up on OpEx amounts. They are now entitled to receive rebates, but less than this amount.

4. UTOPIA FIBER UPDATE

Mr. Timmerman gave a network update, pointing out things from a revenue perspective. The network is growing and adding customers; money comes primarily from the \$55/month brought in by new residential subscribers. Compared to previous years, this is the best December/January ever. Improvement continues year over year of the same month. Revenue is ahead of budget. Even though UTOPIA has not taken on additional debt since 2008 there is still revenue growth. Certain categories of customers are connected to the existing network that are attributed to UTOPIA, that includes schools, certain businesses and even some residential footprints such as those in Perry. UTOPIA is not harmed from the success of UIA but is benefiting from it. Costs have gone up but not nearly to the extent that revenue has. Moving into the tentative budget there are ways of structuring things between the two agencies to ensure a good relationship. UIA is now significantly larger than UTOPIA from a subscriber perspective, yet there are a lot of administrative expenses tied to UTOPIA which are adjusted over time and moved to UIA. Expenses to UTOPIA should be decreasing as UIA begins to take on more of the network.

The UIA project with Payson was approved today. Several cities are anticipated to expand with UTOPIA because they see it as the best option for this kind of project. Buildout is still on track with all UTOPIA cities and completion is expected within three and a half to four years. There are about 1,000 to 1,500 addresses covered each month which is the fastest pace ever.

Mr. Pyle asked how providers, such as XMission, were doing.

Mr. Timmerman stated providers benefit from an economy of scale just as UTOPIA does. Financially, XMission is better than ever. Their customer base has doubled without the need to add staff. They crossed over to having most of their business as UTOPIA.

Mr. Loader asked what the capacity was, connection wise, of the current backbone.

Mr. Timmerman stated capacity was four terabits per second on a single pair. The backbone uses a DWM (wavelength-division multiplexing) system which puts different colors of light on the same fiber. It can do 100 gigabit connections on each color and can do 40 of those. Across the

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backbone, routers and switches are put in to distribute across the city. There are a lot of customers on the system but there is so much more capacity available.

Mr. Loader summarized that current customers could be built out and additional customers added without needing to add anything to the backbone. This clears up concern from one of his councilmembers about adding cities and how that affects capacity.

Mr. Timmerman stated that could be done easily. The economics of all of it have gotten better. Construction cost has gone up but everything else has gone down significantly. That's part of why additional city projects are desirable because cost is so incremental, yet the new city will have instant access to all network benefits. Cities adding their own networks face the issue of being an island not connected to anything. This strikes a mutually beneficial partnership.

Mr. Cowie asked what the biggest challenge is looking over the next year or two.

Mr. Timmerman stated construction costs are a bit of a concern. There are contracts that protect labor costs, but materials are more variable yet still within what they need to be. The legislative session went well; there is more support politically from both legislators and cities that want to pursue projects. Demand is skyrocketing. Questions arise about 5G and he discussed how that is a good thing for UTOPIA.

Mr. Pyle stated the limiting factors for UTOPIA seem to be allocating time and resources.

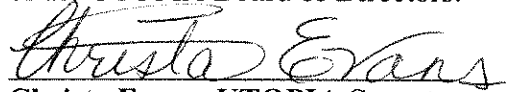
Mr. Timmerman stated there are competing priorities. Construction resources must be balanced based on aerial and underground. The plan is to continue our current pace, get built out in three and a half to four years and still be able to bring on additional city partnerships. In the next couple of years, a partnership with a major city in Utah is a possibility. At that point there would be discussion with the board to address how that would affect current cities. Too much success also attracts negative attention from competitors who obstruct through lawsuits.

5. ADJOURN

There being no further business of the UTOPIA Board of Directors, the meeting on Monday, April 8, 2019, was adjourned at 10:39 AM.

ACTION: Kane Loader (Midvale City) MOVED to adjourn the meeting. Bruce Davis (Layton 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 UTOPIA Board of Directors.


Christa Evans, UTOPIA Secretary

Approved this 13th day of May, 2019

