

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY (UTOPIA)

SPECIAL BOARD MEETING AND PUBLIC HEARING MINUTES

May 13, 2019

10:00 AM

UTOPIA FIBER OFFICES
5858 SOUTH 900 EAST
MURRAY, UTAH 84121

Board Members Present: Wayne Pyle – Chairman, West Valley City
Mayor Blair Camp – Murray City

Joining Electronically: Jamie Davidson – First Vice Chair, Orem City
Adam Cowie – Second Vice Chair, Lindon City
Kane Loader – Third Vice Chair, Midvale City
Mark Thompson – Brigham City
Bruce Davis – Layton City
Mark Sorenson – Payson City, Alternate
Todd Christensen – Perry City

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

Others Present: Jason Roberts – Brigham City (joined electronically)

1. WELCOME AND INTRODUCTIONS

The UTOPIA Board of Directors held a special board meeting and public hearing on Monday, May 13th, 2019. UTOPIA Chairman Wayne Pyle (West Valley City) called the meeting to order at 10:19 AM. He welcomed all attendees.

UTOPIA Votes Present: 417

UTOPIA Majority Vote: 279

UTOPIA 2/3 Vote: 371

2. APPROVAL OF MINUTES – APRIL 8, 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 April 8, 2019. Mark Thompson (Brigham City) SECONDED the motion. A voice vote was taken - vote was unanimous.

3. PUBLIC HEARING

• **AMENDING THE FY 2019 BUDGET**

The meeting was opened for a public hearing. Time was allotted, however there were no comments from the public related to the budget amendments.

A roll call vote was taken to close the public hearing. The vote was unanimous.

Laurie Harvey, UTOPIA CFO, stated the amendments were discussed in the April meeting but this is to approve the resolution related to those. There are two items in the amendments. Due to a larger number of connections than anticipated in 2019 there is an increase in field maintenance. Some of this is Stake Center Locating and some is just truck rolls to an increased number of locations. There is a proposed increase of \$400,000. The budget for field services is \$1.6 million. There can be some line items moved to offset that cost; \$40,000 in training, \$30,000 in travel, \$150,000 in computer expense, and some unfilled positions from 2019. In addition, there are increasing revenues of \$100,000 that give adequate funding. The second item is a book entry. It is required to reduce a portion of the fund balance deficit each year. The amount needed to be appropriated for FY 2019 is \$400,000. The offset for that is recurring revenue of \$400,000.

4. CONSIDER APPROVAL OF RESOLUTION UT 19-03: A RESOLUTION THANKING KELLIE JEFFREY FOR HER SERVICES AS UTOPIA'S SECRETARY AND RATIFYING AND CONFIRMING THE APPOINTMENT OF CHRISTA EVANS AS UTOPIA'S SECRETARY.

Roger Timmerman, UTOPIA Executive Director, explained Ms. Jeffrey is still with UTOPIA but as her responsibilities have increased there was need to offload some. She has done a great job. Ms. Evans has joined the team and will fill the role as UTOPIA Secretary.

ACTION: Kane Loader (Midvale City) MOVED to approve resolution UT 19-03 thanking Kellie Jeffrey for her service and appointing Christa Evans as UTOPIA's Secretary. Mayor Blair Camp (Murray City) SECONDED the motion. A roll call vote was taken -vote was unanimous.

5. CONSIDER APPROVAL OF RESOLUTION UT 19-04: A BUDGET APPROPRIATION RESOLUTION OF UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY (UTOPIA), AMENDING THE BUDGET FOR THE FISCAL YEAR ENDING JUNE 30, 2019.

This item was discussed during the public hearing.

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ACTION: Bruce Davis (Layton City) MOVED to approve resolution UT 19-04 amending the budget for the fiscal year ending June 30, 2019. Kane Loader (Midvale City) SECONDED the motion. A roll call vote was taken –vote was unanimous.

6. CONSIDER APPROVAL OF RESOLUTION UT 19-05: A RESOLUTION ADOPTING THE TENTATIVE FY 2020 BUDGET AND SETTING TIME AND PLACE FOR PUBLIC HEARING REGARDING THE BUDGET (JUNE 10, 2019).

Ms. Harvey will be spending some time over the next few weeks refining the budget with department managers. The tentative budget can be revised prior to adoption of the final budget in June. There was good discussion about the tentative UIA budget. The purpose of this meeting is to bring to light some of the bigger topics and adopt the tentative budget as required by State law. For 2020 revenues, the proposal is to break even. Part of this is appropriating a reduction in the deficit. The full \$7.9 million for 2019 may not be reached. She is comfortable budgeting a 2-3% increase if needed. Revenues proposed are adequate to cover UTOPIA operating expenses. \$25,000 for installations is for business customers, which is usually paid out of pocket by them. Miscellaneous revenue of \$4.5 million represents money that is transferred by the IRU between UIA and UTOPIA. Considerable growth on the UIA side is causing expenditures to rise on the UTOPIA side, especially those related to each additional connection.

Mr. Pyle asked if the \$2.5 million increase is related to overall growth or per unit change.

Ms. Harvey stated it is related to overall growth and will give a detailed explanation later in the presentation. Under administrative expenses an increase of \$994,500 is proposed for wages and benefits. UTOPIA currently has 54 FTEs. There were a couple of positions appropriated in FY 2019 that have not been filled. One of those positions is a Field Service Tech which resulted due to turnover. It takes time to find the right person with the correct qualifications. Hiring a Sales Engineer will bring the total to two. The total of \$130,500 includes benefits. Sales Manager is proposed at \$145,000. There are currently two outside sales people and this position would provide guidance to them and be a strategic planning position that can be proactive in pursuing business opportunities.

Mr. Timmerman stated the sales team has not been added to for quite some time and business growth has been linear. Currently, the team is very busy but mostly reacting to leads coming in. Revenue from business has grown but it has never been resourced to increase it. It would be nice to have someone come in at a senior level to manage the existing sales guys. The Sales Engineer sits in between the sales and engineering departments. The current Sales Engineer is completely back logged right now, and quotes and designs are not done as quickly as needed. The next group, two Construction Technicians and a Supervisor, is creating an in-house fiber crew which will take over work that is currently contracted out. This would provide for more responsiveness than what contractors can do. This is not a net increase but is moving from the capital budget to operating expenses. The Marketing Assistant is due to how much marketing is going on

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especially related to all the city events that happen throughout the year. The three GIS Interns would not be permanent positions but will be tied to a specific project.

Mr. Davidson was curious about the conversation with UIA regarding hiring new positions.

Mr. Timmerman explained funding comes from UIA but hiring happens from UTOPIA. There was a lot of conversation from UIA if it was the right thing to do and what they were for. The tentative budget was approved and there wasn't much pushback, just questions. He addressed those questions in this meeting to start, assuming the board would have the same ones. In-housing positions only happens once it has been determined it will save money.

Mr. Davidson asked who the sales positions would be reporting to.

Mr. Timmerman stated the Sales Engineer would report to the Chief Operating Officer and the Sales Manager would report to the Chief Marketing Officer.

Mr. Camp asked if the 3% wage increase was across the board.

Mr. Timmerman stated this is a merit-based increase based on performance and will be determined through an employee evaluation. It is expected that most employees will get it. There is not an additional COLA increase budgeted.

Ms. Harvey continued by explaining a 9% increase in benefits. Liability and property insurance cost has increased dramatically and is the largest portion of the materials and supplies budget. Due to increased construction the premium has almost doubled. There was a lot of push back and one concern is that UTOPIA is being viewed as a commercial entity instead of a governmental entity. All contractors are required to carry insurance and there have been no losses based on problems with contractors. Moreton and Company is currently the broker and insurance coverage is through Great America. Other insurance agencies are being consulted and there will be an RFP issued to get a handle on this increase.

Mr. Timmerman stated the budget is prepared as if it will absorb that cost but hopefully it will be bid down.

Ms. Harvey stated there is an increase of \$112,000 in computer expenses for internal network storage. Under Network Expenses, the increase in Field Maintenance is related to blue staking. Total network management expenses will increase from \$2.6 million to \$3.4 million. The amount transferred from UIA is based on a dollar amount per connection.

Mr. Todd Christensen asked if there is enough space in the building to house additional employees.

Mr. Timmerman stated, by moving to the new building in Murray, there is extra space available.

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Mr. Davidson stated it is obvious there is a great amount success but there are added costs that come from the install and servicing these accounts. Has a breakdown of costs associated with different builds been looked at to determine that these costs are not being unduly borne by existing cities?

Mr. Timmerman stated the area where there will be an increase from new city projects is in Field Services. The fiber crew will offset from capital expenses. The sales positions should be paid for from new revenue as a result of their work.

Mr. Davidson is more concerned about costs such as blue staking and property and liability insurance. Those costs are a part of doing business yet at the same time are a result of some of the additional builds that are underway. Are those costs being worked into an overall price that should not be exceeded by each project?

Mr. Timmerman explained when a subscriber comes on in one of these new cities there is a subscriber fee that essentially pays for financing of the project. The other portion of the revenue is used for operations. There is an average of \$25 per month in transport fees for every new subscriber. As those expenses are broken out across the number of customers and all projects and administrative costs it is closer to \$17 per month for expenses. But as customers are added it becomes cheaper due to economy of scale. A lot of those areas scale out nicely with new customers, but some don't such as blue staking. This plan is hiring one Field Service Technician, yet the subscriber base has grown significantly. There are no positions added such as NOC Techs or Customer Service Representatives even though they are impacted by new cities. In short, it is looked at to determine if money can be made off these cities.

Mr. Davidson wants to see a statement that identifies what is being represented is what is happening. The premise for moving forward with additional cities is that it would result in a profit. He understands there are additional costs, but the representation was it would be a financial benefit to UTOPIA. Now is the time to document if it is delivering on what was represented. Now is the time to code things to where costs are being incurred so that you don't have to go back after the fact to show if income is being generated in these areas.

Mr. Timmerman stated more detail could be provided to the board showing increased cost and increased expenditures tied to each project.

Mr. Davidson stated when, as a city, they undergo a capital project all costs associated with that project are tied to one account code. That makes it possible to know if a project is over or under budget. The Morgan contract was entered into with a price not to exceed and he would like to know where, ultimately, that project is going to end up.

Mr. Timmerman stated capital projects are tracked by footprint. Everything that happens within a footprint is tracked independently so build cost can be determined. There can be reports created to show that information.

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Mr. Davidson would like to know how much of the additional \$600,000 for blue staking is tied to these new projects.

Mr. Leach stated most blue stake cost is coming from existing cites. It is for all addresses passed.

Mr. Davidson asked where those costs have been covered in the past.

Mr. Timmerman stated it has been covered out of transport revenues.

Mr. Leach explained that most of the additional cost is due to a contract disparity and a rate increase. An RFP went out and a better price was obtained but the cost still increased.

Mr. Timmerman stated most of the cost is a rate increase and not new city projects. It is entities that have existing infrastructure that need to have utilities marked to accommodate construction that create the cost. It goes up during construction season.

Mr. Leach stated as UTOPIA infrastructure is passed, UTOPIA must pay for the locates there.

Mr. Adam Cowie asked about the benefits increase. Lindon has a similar FTE count and was looking at a 7-8% increase this year. They rebid out all their insurance and obtained savings of about \$20,000. He encouraged UTOPIA to do something similar. It required a switch of carriers but is still a similar benefits package.

Mr. Timmerman stated saving money is always of interest. The increase is not to add benefits but to just maintain with price increases.

Mr. Pyle asked who the current carrier is.

Mr. Timmerman stated the current carrier is PEHP.

Mr. Cowie stated Lindon also uses PEHP but moved from IHC network to the Summit network.

Ms. Harvey finished with the Debt Service Revenue / Expenses. The debt service for the UTOPIA bonds goes up to \$15,005,000 and the pledges go up that amount for a net effect of zero. The last page provided was a summary of the UTOPIA FY 2020 Budget. Attached to the resolution was the detailed version that showed all necessary columns. Shown today was the 2018 Actual, 2019 Budget, 2019 YTD as of April 30, 2019, 2019 Projected, 2020 Tentative Budget and the change from FY 2019 budget to the FY 2020 Budget. The adoption for the Final 2020 Budget is scheduled for the board meeting in June.

ACTION: Kane Loader (Midvale City) MOVED to approve resolution UT 19-05 adopting the tentative FY 2020 budget and setting time and place for public hearing regarding the budget (June 10, 2019). Mayor Blair Camp (Murray City) SECONDED the motion. A roll call vote was taken –vote was unanimous.

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7. UTOPIA FIBER FINANCIAL UPDATE

Ms. Harvey stated UTOPIA is expected to bring in close to \$600,000 per month. There was an increase of residential subscribers of 3% and business subscribers of 2% over the level in July of 2018. Even though UIA is showing the most significant growth there is still growth in UTOPIA. Regarding UIA, the Morgan transaction was closed. Last week, Standard & Poors was met with regarding the Payson transaction and is anticipated to close June 2019.

8. UTOPIA FIBER UPDATE

Mr. Timmerman stated most growth is happening on the UIA side of things. There are a lot of new projects anticipated. There was a lot of discussion about whether the budget should include a bond anticipated in the fall. The bond is very likely, so the desire is to include it in the budget. A budget of \$10 million was added to cover two city projects that will likely happen. It is believed these projects will provide a benefit and there can be data put together to present that. Some of that done on the preliminary side, but as real data comes in costs can be shown. Conceptually, it looks like UTOPIA could do well with additional cities as they get incrementally bigger. Woodland Hills is a nice example on a small scale. As larger cities are undertaken it could significantly offset the UTOPIA debt. That is the goal in doing these additional projects. That is mostly UIA, but over time ways will be looked at to find an agreeable way to move UIA profit between the agencies. For now, payments are being made on the UIA shortfall that was assessed to cities a while back. The board approved payment on those and cities will be receiving a check very shortly for that. The network is expanding. There are connections coming up in the Park City/Heber area which will utilize existing resources. Connections in Cache Valley are expected as well. Getting to some of these other cities and areas is very beneficial to connect the network. The footprint is expanding into other areas while construction in existing cities has expedited.

Mr. Pyle stated there was a question in the UIA meeting about the methodology for keeping track of, at the individual city level, where the existing city deployments are as the footprints are finished out. He asked Mr. Timmerman to speak about the tool developing for that.

Mr. Timmerman stated earlier it was presented the project could be finished in approximately five years based on the construction pace. Construction is now a year in and it's more of a four year build out schedule. That information is being incorporated into the public-facing website, so people can look up when they will get service. The inter-activity will be increased from what it currently is.

Ms. McKinley stated the whole buildout should be publicized by the end of the week. The active map will probably take a couple of months to finish.

Mr. Timmerman stated this schedule includes all UTOPIA cities. Some cities have been very patient and it is exciting to show when it will be built out.

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9. ADJOURN

There being no further business of the UTOPIA Board of Directors, the special meeting and public hearing on Monday, May 13, 2019, was adjourned at 11:24 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

Christa Evans, UTOPIA Secretary

Approved this 10th day of June, 2019

