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

Joining Electronically: Paul Isaac – West Valley City
Mark Sorenson – Payson City, Alternate
Mayor Clark Wilkinson – Centerville

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

Others Present: Christa Evans – UTOPIA Secretary
Kimberly McKinley – UTOPIA Chief Marketing Officer
Aaron Leach – UTOPIA Chief Operations Officer
Gary Peterson – Councilmember, West Point City
Brad Patterson – Bond Counsel, Gilmore & Bell
Laura Lewis – Financial Advisor, Lewis Young Robertson & Burningham
Jack Walkenhorst – All West

1. WELCOME AND INTRODUCTIONS

The UIA Board of Directors held a board meeting and public hearing Monday, June 10th, 2019. UIA Chairman Alex Jensen (Layton) called the meeting to order at 8:33 AM. He welcomed all attendees and introduced Brenda Moore as the new board representative for Murray. She has been with Murray City for eight years as the controller and was recently appointed as Finance Director.

UIA Total Votes Present: 409
UIA Majority Vote: 220
UIA 2/3 Vote: 293

2. APPROVAL OF MINUTES – MAY 13, 2019
There was no discussion on the minutes.

**ACTION:** Bryce Haderlie (Midvale City) MOVED to approve the minutes from the UIA board meeting held May 13, 2019. Sam Lentz (Orem City) SECONDED the motion. A voice vote was taken - vote was unanimous.

3. **PUBLIC HEARING**

- **2020 FISCAL YEAR BUDGET**

**ACTION:** Bryce Haderlie (Midvale City) MOVED to open the public hearing. Brenda Moore (Murray City) SECONDED the motion. A roll call vote was taken - vote was unanimous.

Ms. Laurie Harvey, UIA Secretary/Treasurer, stated the most significant change from the tentative budget discussed at the last board meeting was that any reference to issuance of new debt was removed. As new debt is issued in FY 2020 the budget will be amended to show that. Other than that, there are very few changes from the tentative budget to the proposed final budget today. Connection and transport revenue is up 31% from the 2019 budget. Total network management expenses of $4,480,000 represents money that is paid by UIA to UTOPIA. There needs to be a shift in management fees to UTOPIA because the IRU payments have been accelerated over time and the agreement for UTOPIA to operate the network will be paid in full by the end of 2019. There needs to be some other mechanism to move funding from UIA to UTOPIA. She intends to get the Finance Committee together to review options of how to do this and come back to the board with a recommendation.

Mr. Roger Timmerman, UIA Executive Director, stated this has been done in smaller amounts by moving some marketing expenses and some expenses related to his time to UTOPIA. Most of his time is spent with UIA work because that is where the growth is, as well as marketing. These are functions outside of the IRU agreement and UTOPIA is just eating these expenses and shouldn’t be. There will be an agreement made that is mutually beneficial for both agencies that doesn’t create too much of a shortfall on one side and surplus on the other. Right now, operational expenses are being offset at UTOPIA but eventually the intention is to offset the debt as well.

Mr. Lentz asked if UTOPIA is breaking even in operations with this number and the cities will continue to make bond payments.

Ms. Harvey confirmed that was correct.

Mr. Lentz wondered if more money were kept on the UIA side if it would give more head room for bonding, but he also understands the need to meet operational costs on the UTOPIA side.

Mr. Haderlie stated cities do this all the time with utility departments that need to pay for the efforts of administration. He asked if the amount was calculated based on time spent on UIA efforts or if it is a flat amount decided to cover costs.
Mr. Timmerman stated it is mostly based on money needed. UIA could be encumbered a lot more if it were to be looked at as to how much effort goes toward UIA but the desire is to keep as much money in UIA, first, to expedite build out and, second, pay off debt, while keeping operational costs covered at UTOPIA.

Mayor Wilkinson clarified there should be a schedule for the $3.3 million and what those expenses from UIA are for. On top of that, debt service in UTOPIA is covered by the cities directly.

Ms. Harvey stated that was correct. There will be a schedule developed to show what that $3.3 million is paying for. She would like to get the Finance Committee to discuss what makes sense to have UIA paying for on behalf of UTOPIA. It makes sense for it to be executive level salaries and some of the marketing since the buildout in UIA is occurring more rapidly than in UTOPIA. The $3.3 million moving over from UIA needs to be justified but probably doesn’t cover 100% of the costs.

Mayor Wilkinson is pleased this schedule will be created to show the reason behind everything and it will also be good for outside purposes such as the IRS.

Ms. Harvey continued by explaining there will be about $14.3 million remaining in bond funds at the end of FY 2019, about $9 million for the Layton project and $5 million remaining for the general UIA build. That is essentially carried forward to FY 2020. There is a network expansion of $13.9 million. There is $1.3 million budgeted in capital expenditures for UIA. Some of that is for computer replacement, about $500,000 is for replacement of some of the equipment out in the field (i.e. air conditioners, compressors, splicing tools, a splicing trailer) and about $200,000 is for system development (refining the billing system). The anticipated increase in the fund balance on a cash basis (non-cash items are not included in this budget) is about $3,369,900 for FY 2020.

Mr. Lentz thought the decision at the last meeting ended with keeping the internal UIA bond in the budget while excluding any external bonds from additional cities.

Ms. Harvey stated the downside was if that $40 million were left in the budget, it authorizes UIA to spend that money.

Mr. Timmerman stated the proposed budget still represents anticipated bonds because there is a lot of administrative costs and there would not be new positions proposed if growth were not intended. It is reflected in the increased payment from UIA to UTOPIA.

Mr. Lentz was okay with the conservative approach taken with this budget proposal.

Mayor Wilkinson asked what the interest revenue balance was on restricted funds along with the interest rate.
Ms. Harvey stated the interest revenue in those funds is limited because of arbitrage so she did not know the exact balance. The money accrues on the construction bond fund that is held by the trustee. Every month there is interest revenue; in Layton it is on a $10 million balance, and in UIA on a $5 or $6 million balance. That interest revenue must stay in the construction bond fund and be used for capital construction related to that bond. She added there is $830,000 in dividends budgeted for repayment of UIA OpEx. This is a project that will be taken on by the Finance Committee to figure out how to get those refunds of OpEx within the next couple of years. $830,000 is the amount proposed on the schedule that Kurt Sudweeks prepared and if there is a change to that it will come back to the board.

Mr. Jensen allotted time for public comment, however there were no comments from the public related to the FY 2020 Budget.

**ACTION:** Bryce Haderlie (Midvale City) MOVED to close the public hearing. Sam Lentz (Orem City) SECONDED the motion. A roll call vote was taken - vote was unanimous.

4. **CONSIDER APPROVAL OF RESOLUTION 19-11: A RESOLUTION OF UTAH INFRASTRUCTURE AGENCY (UIA), APPROVING THE BUDGET FOR THE FISCAL YEAR BEGINNING JULY 1, 2019 AND ENDING JUNE 30, 2020.**

This item was discussed during the public hearing.

**ACTION:** Sam Lentz (Orem City) MOVED to approve resolution 19-11 approving the budget for the fiscal year beginning July 1, 2019 and ending June 30, 2020. Bryce Haderlie (Midvale City) SECONDED the motion. A roll call vote was taken – vote was unanimous.

5. **CONSIDER APPROVAL OF RESOLUTION 19-12: A RESOLUTION AUTHORIZING AN AGREEMENT BETWEEN WEST POINT CITY, UTAH (THE “CITY”) AND UTAH INFRASTRUCTURE AGENCY (“UIA”) FOR UIA TO PROVIDE CERTAIN SERVICES TO THE CITY; AUTHORIZING THE CHAIR OF UIA OR OTHER DESIGNATED OFFICER OF UIA TO EXECUTE AND DELIVER THE SAME.**

Mr. Timmerman stated the organization is excited about this proposal. From a short-term perspective this does not create much impact but from a long-term perspective it does. There is a lot of opportunity for UIA to expand into additional cities. This creates discussion as to what is the fair balance in allowing new cities to benefit from UIA infrastructure and partnership while also being mutually beneficial so there is a benefit at UIA as well. It’s not reasonable to have these cities join as UTOPIA cities and participate in future revenue. This has been done in concept several times. This project is a little over $7 million. There is a little bit of flexibility because the market rates change. The market seems good right now. UIA received a very good interest rate with the Payson City project, 3.10% for 25 years, and it is anticipated this project will receive a similar rate. The parameters resolution provides some head room in the rate. The city is backstopping the debt and there is two years of capitalized interest calculated in the amount which gives time for the system to be built and subscribers to come on. If the revenue threshold of the financing is met the whole thing will essentially be paid for. With each
subscriber there are revenues guaranteed at UIA. If take rate is exceeded there is even more revenue to cover things. The template for new cities is continually improving to make new city partnerships easier. Business revenue is not anticipated in West Point, but it makes sense to include it in the contract for future partnership purposes. There is a lot of growth in West Point so it is believed the take rate should be easy to meet. Several thousand homes are anticipated to be built over time which provides open trench opportunities. This is a great time to do this project because building in green field while homes are under construction is much cheaper than brown-field development. If the project was built later after homes have been built it would cost several million dollars more to build. The risk for the city is very short-term because as the city grows and homes are built revenues grow but the debt obligation doesn’t increase. This is a great city for this project because they have a lot of land for new growth.

Mr. Lentz asked if 50% revenue share on the commercial side only applies if the residential side does not break even.

Mr. Timmerman explained that $30 from each residential customer and 50% of non-residential revenue goes to meet the debt service obligation. Once that amount is met there is no cost to the city. This is not a profit-share scenario. All revenue stays with UIA; this just protects the city if they don’t meet their debt service obligation.

Mr. Lentz asked what the target take rate is.

Mr. Chandler stated this contract would require 1,311 end-users in the city.

Ms. McKinley stated it is about 38% of residential services.

Mr. Timmerman stated if there is revenue from businesses or city services the take rate is closer to 33%. After conducting the survey in West Point, he is very comfortable with the take rate.

Mr. Lentz asked what the competition looks like in West Point.

Mr. Timmerman stated there are some areas in West Point where there is either Comcast or CenturyLink but not both.

Mr. Gary Peterson stated there are a few areas where there is neither, only wireless options.

Mr. Haderlie asked if this had any impact on other cities getting built out.

Mr. Timmerman stated it would not. From a schedule perspective, construction is a little ahead of schedule. Part of putting out the whole build plan is so it can be scrutinized to see that these new city projects don’t affect that. If there is a large city that would affect the timeline he would understand the board not wanting to move forward with it. The schedule with all remaining UTOPIA cities not built out is online for anyone to view.

Mr. Peterson commented his involvement started about ten years ago through Gary Crane and he learned a lot about fiber to the home. He became a huge proponent for bringing it to West Point
back then. The UIA structure seems to be very worthwhile for that. He views this like bringing a water system into the city 75 years ago and there must be a reservoir somewhere to feed that system. UTOPIA is the reservoir needed to bring fiber into the city. The timing of it is good as well because of all the development that is coming. There is not a good presence of Comcast or CenturyLink in many places. There is a large area to the north that is unincorporated but is expected to become a part of the city at some point. Politically, the council is seasoned and has been around for a while but are willing to do new things. Among the citizens, as soon as there was mention of adding fiber to the city they were all over it. He hasn’t heard a single negative comment and thinks the city will do well reaching the take rate.

Mr. Timmerman added the vote from the council was unanimous.

Mr. Jensen added West Point has a long history of stability in management and politics.

Mr. Lentz asked what the construction timeline is for West Point.

Mr. Aaron Leach stated there is a three to four-month engineering process. Construction should start around September or October.

Mr. Lentz asked when the last resident built out will be able to connect.

Mr. Chandler stated the contract provided 425 days. In discussions with the city, the target has been about one year. The contract allows for a bit of a buffer in the case of unforeseen obstacles.

Mr. Timmerman stated West Point falls into low-risk, lower-cost type of construction because the soil in the area is easy to build in.

Mr. Wilkinson expressed concern over the formal promissory note mentioned in the contract because there are no dollar amounts or repayment period listed.

Mr. Chandler stated the form promissory note is part of the service agreement to be approved with West Point City. The exhibit included is the form of the promissory note that would arise only if there is a shortfall of revenues generated from the project. There can’t be any numbers entered at this point until there is a need for that payment to be made.

Mr. Wilkinson struggles with approving something that does not have dollar amounts or dates entered.

Mr. Brad Patterson explained in this instance the numbers are not knowable as it relates to the form. The obligation has not arisen yet, so it is not known what the dollar amount is going to be until then. This will only be used if the franchise fees and sales tax revenues need to be advanced which is unknown whether that will ever need to be drawn upon. The form note contains all other information aside from the amount because it is contingent on a future event. Hopefully it will never get used.
Mr. Lentz stated the entire history of UIA shows it is not likely to happen. Cities have never had to pay toward UIA’s bond payments.

Mr. Timmerman stated if it happens it is a temporary thing and the money is paid back once the take rate is reached.

Mr. Jensen asked if the other language in the agreement sufficiently protects both the city and UIA from being able to get out of the agreement simply because the numbers were not in it.

Mr. Chandler confirmed that was correct.

Mr. Lentz feels with the provision to use a portion of commercial revenue to cover bond payment there is even less of a likelihood that it would ever need to be utilized.

Mr. Wilkinson asked what potential number could be on the promissory note.

Mr. Patterson stated the maximum amount that could arise on an annual basis is $472,000 and does not increase from year to year. There is a possibility that a subsequent note would be added if there is another shortfall the next year.

Mr. Wilkinson asked if the maximum amount should be added to the contract.

Mr. Patterson stated it could be added if desired, but is not necessary.

Mr. Lentz stated adding it in might create more alarm than clarity.

ACTION: Bryce Haderlie (Midvale City) MOVED to approve resolution 19-12 approving a fiber communications service agreement with West Point City. Sam Lentz (Orem City) SECONDED the motion. A roll call vote was taken – vote was unanimous.

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.

Ms. Laura Lewis presented the following information:

Although there are a few different nuances in each separate Service Agreement that UIA has already adopted, the general financial structure of the proposed bonds being considered is similar to other transactions such as UIA-Layton, UIA-Morgan and UIA-Payson.

The following summarizes the proposed financing transaction for the UIA-West Point 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 connections in West Point.
- In entering into the Service Agreement, which is structured like a “take-or-pay” contract, West Point has agreed to utilize a portion of its municipal energy franchise fees as well as its general sales tax revenues to make the payment under the Service Agreement if fiber system revenues from the West Point take rates are insufficient to make the monthly payments.
- With the Service Agreement in place providing access to West Point’s energy franchise fee revenues and sales tax revenues 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 not to exceed thirty years so that care can be taken to structure the bond payments so that they are at, or below, the amount West Point has committed under the Service Agreement. It is currently anticipated that we will end up with a twenty-five year principal amortization after the capitalized interest period for a total final maturity of twenty-seven years.
- Average Annual Debt Service for the ~$7.075M build is estimated to be approximately $469,000 once principal amortization commences.
- West Point City Energy Franchise Fees available in total to support the Service Contract were approximately $521,051 and Sales Tax Revenues were $1,513,241 in FY 2018. This results in slightly over 4.3X coverage when comparing total available revenues to the estimated debt service on the Bonds.
- We anticipate closing in early August 2019.

There were no further questions.
ACTION: Bryce Haderlie (Midvale City) MOVED to approve resolution 19-13, authorizing the issuance and sale of not more than $8.5 million of Telecommunications and Franchise and Sales Tax Revenue Bonds (West Point City project) Series 2019, and setting the date for a public hearing for July 1, 2019. Brenda Moore (Murray City) SECONDED the motion. A roll call vote was taken – vote was unanimous.

7. UIA FINANCIAL UPDATE

Ms. Harvey stated projected connection and transport revenues through May was about $1.3 million. She explained the graph presented: blue line is recurring UIA revenue, dotted green line is the debt service if the Layton debt service were currently being paid (it is still paid by Cap I), and the red line is existing UIA debt. As the revenue situation continues to improve in UIA the gap between debt service and revenue improves.

Ms. Lewis asked if the blue line includes revenues received off Layton.

Mr. Harvey confirmed that was correct.

Mr. Jensen asked where the line would move if West Point were added.

Mr. Timmerman stated it would be about $40,000 per month. Payson and Layton are not included in this yet.

Ms. Harvey stated the actual numbers are through May even though the months don’t show on the legend.

Mr. Timmerman stated this reflects growth on the system. Another 500 signed up last month. Historically, during the winter signups go down but year over year signups per month have increased. This is a healthy growth line and the revenue chart keeps accelerating. This helps the ability to take on more debt. Revenue is higher than forecasted and the new UIA bond is on schedule for the fall. To finish the complete buildout, there will be two more bond phases. After that the UIA bonds for internal projects will be completed and from that point forward it will just be new city partnerships.

Ms. Lewis asked if the churn rate is increasing.

Mr. Timmerman stated it is staying about the same. It was about 3.5% which has gone up a bit but that is due to the threshold being lowered; there are now one-year contracts offered. This was to increase the ability for renters to sign up which are more likely to cancel because they move out. The net benefit of a higher take rate and more subscribers is better. Eliminating the one-year term has been considered because customers are retained so well.

Ms. Lewis asked what the churn rate is for the competition.

Mr. Timmerman stated it is typically 10% for the industry. UTOPIA is far ahead of that.
Mr. Lentz would like to see the one-year contract removed. Maybe a pilot program could be done in a certain area to see if that increased the sign-up rate.

Ms. McKinley stated Orem would probably be the best area to do a pilot program because there is more of a college population. It is something that is being considered.

Mr. Timmerman stated one of the most effective ways of getting a customer is if they move in and see a UTOPIA device on the wall. It is a huge benefit if it is already installed in a house.

Ms. McKinley added one of the benefits of having the device in there is most are still live so residents can call and get same-day service without a truck roll.

Mr. Lentz stated one of the most common questions he receives is someone that has had it for a while and regrets not paying for it upfront.

Ms. McKinley stated there have been people that have been on the system for six years and didn’t pay for it upfront. The problem is that UIA is the one that took the risk regarding it.

Ms. Harvey presented the combined recurring revenue graph. This shows growth is still occurring on the UTOPIA side.

Mr. Lentz stated he often has council members that are interested in current take rates or how many subscribers there are in the city. There used to be an operational dashboard they could look at. Is there something in the works for replacement of that?

Mr. Timmerman stated there were monthly reports being sent out to some people as a trial, but he feels comfortable at this point to share it more publicly. He showed what that report would look like.

Ms. McKinley stated there was recently a footprint in Lindon with over 63% take rate. Woodland Hills is at about 54%.

Mr. Timmerman likes the openness of sharing this information publicly unless the board feels otherwise.

Mr. Lentz stated a very brief introduction of how to interpret the data would be helpful. There is a much better story to tell and being transparent with the data is only going to help.

Mr. Timmerman stated take rates are better than what is shown because they are based on parcel data instead of actual homes built. There may be a change in methodology in the future because of that but that will need to be explained.

8. **UIA NETWORK UPDATE**

Mr. Timmerman shared there was a distributive denial service attack that affected some service providers. There has been close contact with these providers on how to address this. Some things
have been done to help with the upstream capacity of some providers. It’s a nice benefit that
UTOPIA happens to be built into the major data centers and carrier hotels in Utah. It has been a
quick process to increase their upstream capacity and route some of their traffic through the
cloud based DDOS mitigation services out there. If an attack is happening this allows them to
route their traffic through these major data centers that have the capacity to filter those attacks
and route them back over a tunnel. Our role has been to stay out of the business of the ISPs but
act as a resource if they need help. Some addressed it themselves, some were attacked and it had
no impact on their customers and others were overwhelmed. Over Memorial Day weekend there
were some that had several outages. It was a ransom situation where the attacker was a real
person asking for money to stop the attacks. There has been a lot of back and forth of how to
changes things, but it seems to be mostly mitigated. It could come back but the providers are in a
better position now that they know this is a threat they need to be prepared for. There have not
been a lot of people leaving the system because of this, rather there have been provider switches.
This adds to the value of UTOPIA because customers can switch providers of they are not happy
with their current one and it is all on the UTOPIA system.

Ms. McKinley stated there were about 100 to 150 provider switches because of this.

9. ADJOURN

Mr. Jensen thanked staff and the board for their efforts in helping the organization move
forward.

There being no further business of the UIA Board of Directors, the meeting and public hearing
held on Monday, June 10, 2019, was adjourned at 10:01 AM.

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
Laurie Harvey, UIA Secretary

Approved this __ day of ___, 2019