

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY (UTOPIA)

BOARD MEETING AND PUBLIC HEARING MINUTES

June 10, 2019

10:00 AM

UTOPIA FIBER OFFICES
5858 SOUTH 900 EAST
MURRAY, UTAH 84121

Board Members Present: Wayne Pyle – Chairman, West Valley City
Brenda Moore – Murray City, Alternate
Thomas Peterson – Councilmember, Brigham City, Alternate

Joining Electronically: Jamie Davidson – First Vice Chair, Orem City
Adam Cowie – Second Vice Chair, Lindon City
Kane Loader – Third Vice Chair, Midvale City
Bruce Davis – Layton City
Mark Sorenson – Councilmember, 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: Jack Walkenhorst – All West
Laura Lewis – Financial Advisor, Lewis Young Robertson &
Birmingham

1. WELCOME AND INTRODUCTIONS

The UTOPIA Board of Directors held a special board meeting and public hearing on Monday, June 10th, 2019. UTOPIA Chairman Wayne Pyle (West Valley City) called the meeting to order at 10:11 AM. He welcomed all attendees.

UTOPIA Votes Present: 427

UTOPIA Majority Vote: 279

UTOPIA 2/3 Vote: 371

2. APPROVAL OF MINUTES – MAY 13, 2019

There was no discussion on the minutes.

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ACTION: Kane Loader (Midvale City) MOVED to approve the minutes from the UTOPIA board meeting held May 13, 2019. Bruce Davis (Layton City) SECONDED the motion. A voice vote was taken - vote was unanimous.

3. PUBLIC HEARING

• **2020 FISCAL YEAR BUDGET**

Laurie Harvey, UTOPIA CFO, stated there are no significant changes from the tentative budget presented at the last board meeting to the budget proposed today. One additional position will need to be discussed. There is a \$470,000 addition to miscellaneous revenue. The auditors have required a contribution to our fund balance deficit be shown that is equal to about 5% of the previous year's income. It is also shown as an expenditure item. Typically, connection and transport revenue will be exceeded but she wanted to be realistic by showing it. Total revenue anticipated for FY 2020 is \$12,475,200 which is a 10% increase in connection and transport revenue from the FY 2019 budget. There was an 8 or 9% increase from FY 2018 to FY 2019 so that is a conservative estimate of growth. All the payments for the IRU (Indefeasible Right of Use) contract between UIA and UTOPIA have been made. There will be no additional IRU payments from UIA to UTOPIA. An increase in management fees paid from UIA to UTOPIA to operate the network is proposed. The Finance Committee will meet to come up with the mechanism for how to do that. They will need to show the value UIA is receiving from UTOPIA but also keep as much money in UIA as possible. The intent is for UTOPIA to always break even. Keeping money in UIA is beneficial when working with rating agencies to request new bonds. The Finance Committee will come back with a rationale of why UIA needs to reimburse/pay UTOPIA \$3.2 million to cover operations.

Mr. Timmerman stated five years ago most customers were UTOPIA and UIA was still growing. Now far more customers are UIA which has grown to exceed UTOPIA quite a bit. It must be determined which organization should pay for what. Anything outside of the IRU is fair game for UTOPIA to require payment for services and there is more justification than needed for that. It is intended that this payment be fair to both organizations and priorities. Top priority is getting the cities built out, second is to maximize debt relief and pay off the current debts. It makes sense to maximize revenues at UIA but make sure UTOPIA is not bleeding. Instead of money coming from UIA in the form of an IRU payment it will come as management fees.

Ms. Harvey stated the total amount coming over from UIA to UTOPIA is about \$4.5 million. On the expenditure side, the summary shows the breakout by departments. Administration has a 3% increase which is just enough to cover the merit increases. In Marketing/Customer Service there is about a 24% increase to cover two additional FTEs, a Sales Manager and an assistant to our marketing department. Operations Management is proposed to increase by 25% but is not related to FTEs. The detailed spreadsheet of Operations Management has a 75% increase in repairs and maintenance for upgrading the system. This covers repair of huts, replacing air conditioners and hut reconstruction. The amount spent in FY 2018 is \$635,000, FY 2019 projected is \$570,000 and FY 2020 budget is \$800,000. Trouble tickets is when customers call in and field services is

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dispatched, some of which is fiber splicing. Blue stakes has \$820,000 budgeted for 2020 which is mostly related to the construction boom throughout northern Utah. As construction happens lines are required to be marked. In FY 2019 there was a 38% increase in site visits from Blue stakes along with an increase in prices of about 38%.

Mr. Timmerman stated rates were not raised for many years when they probably should have been so when they were raised it was a huge impact to UTOPIA. An RFP was put out to get a better utility locating contract which helped reduce costs, but this is still far more than what has been paid in years.

Ms. Harvey continued with the budget for the Network Operating Center (NOC) increasing by 13% which covers increase in wages which have occurred to remain competitive. Field services has a 14% increase with the most significant portion of that being vehicle expense. There are no additional FTEs budgeted but a position that was budgeted for FY 2019 is in process to be filled. Outside Plant (OSP) Construction/Engineering has a sizeable increase of 58% due to five additional FTEs requested. A construction crew of three people is proposed to cover a lot of work that is currently contracted out. Any cost for this crew related to building footprints will be capitalized.

Mr. Timmerman stated from a budgetary perspective it appears the organization is taking a hit but this is actually a cost saving measure. When the cost for splicing was looked at it was determined that it could be done cheaper with an in-house crew.

Ms. Harvey stated another FTE requested for OSP Construction/Engineering is an additional Sales Engineer.

Mr. Timmerman stated this is a bottleneck in Business Sales. A huge part of UIA's revenue is in business. Per dollar spent, business connections is the best area. A lot of opportunities are being lost because the turnaround for estimates and designs for business opportunities gets pushed out because there is only one Sales Engineer. By increasing this resource there will be more revenue as a result.

Ms. Harvey stated the fifth FTE would be a Design Engineer

Mr. Timmerman stated this position is for office-based design versus the Sales Engineer that is field based. This position designs the fiber routes and creates the drawings and information around those. Hiring this to be done internally seems to be a better value. If it is determined that a contracted rate would be cheaper then changes will be made. As other operations of UTOPIA have been moved internal, such as the NOC, it saved a lot of money and provided better service.

Ms. Harvey stated there has been an increase in liability insurance. To keep that cost down UTOPIA is working with a broker and looking at doing some self-insurance. The proposal presented came in almost double the previous year. It is believed the annual expenditure can be decreased with a higher deductible and providing some self-insurance.

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The meeting was opened for a public hearing.

Mr. Thomas Peterson asked if city personnel could be used for blue staking to reduce cost.

Mr. Timmerman stated there is some efficiency when the contracted person is marking for multiple utilities which reduces the rate. An internal person would only be able mark UTOPIA lines and with the overhead of resources, such as vehicles, there is still good value contracting it out. By using city resources there is a risk with competitors claiming it is an unfair benefit. City resources cannot be used unless they are paid for. The agreement would need to be very formal so UTOPIA wouldn't be subsidized by the cities. It has been avoided up to this point to stay away from the risk.

There were no comments from the public. The public hearing was closed.

Mr. Adam Cowie asked about the value received from the lobbying expense of \$144,000.

Mr. Timmerman stated this is State lobbying. A couple years ago this expense was cut back quite a bit because there were some at the Federal level and he did not feel there was enough value from that. Now there is only the State level and they are met with regularly to get a pulse of things. There are some challenges that come up legislatively that they help work through. It is a lot of money in the budget but he feels there is good value from it. There is a lot of pressure against UTOPIA legislatively and this is a way that needs can be expressed with legislators.

Mr. Cowie asked if the lobbyist paid for services is an individual or a firm.

Mr. Timmerman stated UTOPIA has contracts with several individual lobbyists as a portion of their portfolio.

Mr. Cowie asked if the overall increase in expenditures from last year was 21%.

Ms. Harvey confirmed that was correct

Mr. Cowie asked for a summary for board members to share with their city councils of why expenditures have increased.

Mr. Timmerman stated UTOPIA and UIA are collectively growing very fast; UIA is where most of the growth is. The operational aspect of both projects is at UTOPIA. If UTOPIA was just staying status quo there wouldn't be this growth. The reality is last month over 500 customers were added on the system and there are projects going in to new cities. There is a lot of growth in member cities with the plan for buildout to be done in about three and a half years. In that time there will be a lot more addresses covered, more asset in the ground, more revenues and so UTOPIA needs more people to be able to keep up with that pace. Current customers are about 25,000 and there are 6,000 new customers projected for the next year which is significant

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growth. There are revenues that correspond to that growth and there are payments from UIA to UTOPIA to cover the expenses from growth. As UIA continues to grow and expand there's opportunity for UIA to make payments, initially for the OpEx amounts, and as those are paid off it becomes payments to alleviate debt on the old project. From a short-term perspective, it may seem better to stop growth and maximize debt payment, but, as old cities are finished up and new cities are added, the long-term perspective is to take on a significant portion of the debt. This can only happen if the system is expanded. The goal is to get on a path to pay off all debt. Payments to the old debt can begin to increase to 5, 10 and 15% and significantly take on the debt obligation. First priority is to build the system out in original member cities and maximize debt relief and the mechanism to do that is through continued expansion in UTOPIA through UIA. The way the budgets are balanced most of the revenue growth is seen in UIA because that is where it is needed for financing future phases of the project. As those phases are completed there will be an upside seen at UTOPIA.

Mr. Pyle watched the budget from month to month and year to year. This budget proposal has a 21% expenditure increase and 19% revenue increase. This must be looked at in context of what is driving the project and the program. There is constant tension between maximizing revenues across both entities while trying to minimize expenses, but expenses must be increased to maximize revenues. Tension between the two leads to the discussion in the decision-making process of how much growth, how many people, how fast and the best way to do it.

Mr. Cowie asked how many FTEs are being added this fiscal year.

Ms. Harvey stated seven FTEs are being added. It is increasing from 55 to 62 and all new FTEs are in UTOPIA.

Mr. Timmerman stated some of those FTEs are not necessarily due to growth but are for cost-saving purposes.

4. CONSIDER APPROVAL OF RESOLUTION UT 19-06: A RESOLUTION OF UTAH OPEN INFRASTRUCTURE AGENCY (UTOPIA), 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: Bruce Davis (Layton City) MOVED to approve resolution UT 19-06 approving an Annual Budget for the Fiscal Year Commencing July 1, 2019 and ending June 30, 2020. Brenda Moore (Murray City) SECONDED the motion. A roll call vote was taken –vote was unanimous.

5. UTOPIA FIBER FINANCIAL UPDATE

Ms. Harvey provided a graph showing UIA Revenue vs. Bond Obligation. Data on this report is reflected through May 2019 although the graph ends at January. Revenue for May was \$1.3

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million. The red line shows the monthly debt service obligation. The dotted green line shows where it would be if UIA were paying out of pocket for Layton but right now is still covered by Cap I. There will need to be more added to that line for Morgan and Payson. On the UIA side the gap continues to increase between revenue and debt obligation. The second graph showed recurring revenue for UTOPIA and UIA. UTOPIA has continual growth from \$5,000 to \$10,000 month over month in subscriber revenue. For 2019 there is about \$7 million projected for the year in subscriber revenue. It is expected to come in slightly under budget, so UTOPIA will break even or maybe have a small loss. The Finance Committee will put together a schedule for transferring management fees from UIA to UTOPIA and show justification of the value UIA is receiving from UTOPIA. They will put together a schedule of refunding UIA OpEx payments in the next few years. They will address the feasibility and benefits of continuing to expand with projects outside of the UTOPIA/UIA borders. There will be a recommendation to both boards regarding an agreement that will request, by resolution, to solidify the amount of money transferred from UIA to UTOPIA.

6. UTOPIA FIBER NETWORK UPDATE

Mr. Timmerman stated there is a new report used on an experimental basis that will be formalized a little more to show the board. It shows availability across the system. As new area is built that is considered availability. There are approximately 95,000 addresses available for service. The total subscriber rate has continued to grow and is over 24,000. There has been a lot of growth in the system in recent years and it is accelerating. Revenue charts match the growth in customers. This report has data related to each city, but it will be finalized before being sent out. The West Point contract was approved in the UIA meeting so that city can be built out. Projects in addition to the normal UIA bond are shown on this report which are Woodland Hills, Morgan, Payson and West Point. Layton has gotten aggressive in their growth with the UIA bond to expedite buildout in their city. This report shows information city by city. Even cities, such as Lindon that has a high take rate, are still seeing growth and there is not a plateau happening in cities with high take rates. The demand for internet continues to outpace what other providers can do. This report is formatted to give a historical perspective and can be used by board members to report detailed information back to their cities and equip them to defend the project. This paints a good picture that everything is looking good from a trend perspective in every individual city as well as collectively.

Mr. Timmerman added several of UTOPIA's service providers were victims of Distributive Denial Service attacks over the last month. This caused outages for some service providers, but the UTOPIA system stayed up. This was not accidental but was a ransom-type situation with the attacker requesting payment to stop the attacks. These attacks have gotten very sophisticated and everyone is vulnerable to these, even big companies like Amazon and Microsoft. UTOPIA worked very closely with providers to help even though it is the provider's side of the responsibility. UTOPIA has a lot of connectivity with data centers where providers could increase their upstream connectivity. Some were in a good position to handle it themselves and others took some outages over Memorial Day weekend. The good thing is that today people understand they are signing up with UTOPIA and picking a provider on the system. If they are

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frustrated with a provider, they don't cancel but switch providers. This was a good test case that people will stick with fiber and just switch providers. As a result of these attacks, there were not many system cancellations but simply switches to different service providers that were not experiencing outages.

Mr. Pyle asked which providers had outages.

Ms. McKinley stated providers that had outages were SUMO, Veracity and XMission.

Mr. Leach added UTOPIA even experienced it but it was not big enough to cause an issue.

Mr. Timmerman stated the fiber network itself was not impacted so UTOPIA was able to continue delivering service the way it should have been but the upstream service providers is where it got congested. UTOPIA has a wholesale internet service that some providers use and there were attacks there but it did not affect customers. It was handled well by the providers but does not mean it won't happen again. The providers have taken action to mitigate this type of situation but are still on high alert. One of the great values of this architecture is you can easily switch providers while using the same physical connection into the house.

Mr. Davis asked what the motivation is for the attacks.


Mr. Timmerman stated it is not Ransomware software which can lock down computers and demand payment to unlock the system. This hasn't compromised any computers or systems. It is a denial of service which is where the network is flooded with garbage from tens of thousands of sources. When it initially showed up nobody knew what the cause was until providers started getting emails from an attacker demanding payment to stop the attacks. It is financially driven because attackers were asking for money. The Deseret News reported it which showed the public facing position.

7. ADJOURN

There being no further business of the UTOPIA Board of Directors, the meeting and public hearing on Monday, June 10, 2019, was adjourned at 11:00 AM.

ACTION: Thomas Peterson (Brigham City) MOVED to adjourn the meeting. A voice vote was taken - 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 12th day of August, 2019

