1. WELCOME AND INTRODUCTIONS

The UTOPIA Board of Directors held a board meeting on August 12th, 2019. UTOPIA Chairman Wayne Pyle (West Valley City) called the meeting to order at 10:11 AM. He welcomed all attendees.

UTOPIA Votes Present: 336
UTOPIA Majority Vote: 279
UTOPIA 2/3 Vote: 371

2. APPROVAL OF MINUTES – JUNE 10, 2019

There was no discussion on the minutes.

ACTION: Kane Loader (Midvale City) MOVED to approve the minutes from the UTOPIA board meeting held June 10th, 2019. Adam Cowie (Lindon City) SECONDED the motion. A voice vote was taken - vote was unanimous.
3. DISCUSS MANAGEMENT SERVICE AGREEMENT BETWEEN UIA AND UTOPIA

Ms. Laurie Harvey, UTOPIA CFO, stated this is a proposal to shift money from one line item to another. It is a reallocation of UTOPIA management costs to the UIA/UTOPIA service contract. There is $4,480,000 being transferred from UIA to UTOPIA which is a combination of both overhead allocation and the service contract. The current budget shows $1,202,700 for the UIA/UTOPIA service contract and the proposed amount is $2,267,600. The reallocation of management would decrease from $3.2 million to $2.2 million. The total amount transferred would be the same. The service contract adopted in May 2011 has three components to it. The first one is a provisioning fee which is a one-time fee paid from UIA to UTOPIA each time a new customer is connected. This pays a NOC Technician for the configuration of the device. The cost of a NOC employee has increased 30% since the service agreement was adopted. The cost per connection is proposed to increase from $11.00 to $14.30. The current budget was based on 235 new customers and should be based on an average of 450 customers per month. The total would equal $77,200 which will be used for budgeting purposes; the cost transferred will be based on actual new customers per month.

Mr. Timmerman stated it’s nice to significantly increase the number of installations per month, but UTOPIA staff is doing all the work and UIA should be paying for it’s fair share of the burden on the organization. This is offsetting the UTOPIA expense with UIA revenue.

Mr. Adam Cowie asked when the number of 235 new customers per month was established.

Mr. Timmerman stated it was in 2011.

Ms. Harvey stated it may have increased since 2011 but the 2020 budget was based on 235 customers and must have gotten carried forward. The $11.00 cost per connection was from 2011.

Mr. Pyle stated around 235 customers seemed to be the projection for a breakeven point. Those numbers were not being reached in 2011 but it seemed to be the target.

Ms. Harvey stated she took the amount transferred for provisioning in 2019 and divided it by the $11 connection fee to reach 235 customers.

Mr. Pyle stated it is interesting that the organization is seeing enough new customers on a monthly basis at the 450 level to be able to rely on that number for budgeting purposes.

Mr. Timmerman stated it goes up and down but does not typically go below 450. Many months are over 500 and he does not see that dropping off any time soon.

Ms. Laurie stated the next component of the service contract is NOC Operations. This portion pays for the operations of the NOC which monitors the network. The payroll costs for a NOC employee have increased 30% since 2011. The proposal is to increase the cost for each existing UIA connection from $5.00 to $6.50. The current budget was based on 11,100 UIA connections and there are currently about 15,000 and 20,000 expected by the end of the year. For budgeting purposes, the number will be in the middle and based on 18,000 connections. This amounts to
$1,404,000. The third component is Field Maintenance. The current budget is based on 35,000 addresses passed and should be updated to the correct number of 50,000 UIA addresses passed. There is not a change proposed to the $1.20 charge for each passed per month so that rate the Field Maintenance portion from UIA to UTOPIA would amount to $720,000. In the IRU there is a paragraph for maintenance that states “beginning in July of 2017, UIA shall pay UTOPIA a quarterly maintenance fee equal to $100 for each electronics shelter that supports UIA network electronics.” She does not know why this agreement was delayed in 2011 until 2017 but it was never implemented. Implementing this would result in revenue of $66,400 per year based on 166 huts and cabinets throughout the network, all of which support UIA connections. The next item she discussed was the reallocation of certain UTOPIA costs to UIA which is often called a management fee paid from UIA to UTOPIA. The full administration budget of UTOPIA is $1,968,100 and consists of about twelve administrative employees. Ninety percent of that, $1,771,300, is justifiably being used by UIA so it makes sense for UIA to reimburse UTOPIA. Eighty-five percent of the salary for the Marketing Director and Operations Director, plus some of the additional items in their budget totaling $275,000, is reallocated to UIA. The total for property and liability insurance is $331,200 and 50% of that is proposed to be reallocated to UIA. The total amount is $2,212,400 which is outside of the service contract. The following summary of increases are proposed: Provisioning increase $46,200, NOC Operations increase $736,300, Field Maintenance increase $216,000, and Electronics Shelters increase of $66,400. This reduces the cost reallocation by $1,064,900 and nets the transfer of funds from UIA to UTOPIA to zero; it moves it from one line item to another.

Mr. Timmerman stated this does not increase any costs, just shifts the burden of who pays for it. As UIA continues to grow, it should take on a greater share. Growing revenues at UTOPIA is a good thing but decreasing costs is another way to put UTOPIA in a better financial position. Eventually, it will get more aggressive and start paying on the debt service for bonds and put UTOPIA in a better position financially over time.

Ms. Harvey stated the increase in efforts from the UIA staff to build out the network was probably not considered back when the agreement was created in 2011. A lot of the administrative costs in the UTOPIA budget are related to UIA. The next step is to go over this in more detail with the Finance Committee and show them the final product. This can be included in the budget amendment at the next budget opening. The Interlocal Cooperative Agreement will need to be amended and will require a resolution which will be presented at the next board meeting.

Mr. Kane Loader asked if the amendment to the Interlocal Cooperative Agreement will have to be taken up with each of the cities or if it can be approved by the board.

Mr. Timmerman stated there is no city obligation behind any of it so it can be handled by the board.

Mr. Cowie asked if staffing is outside of the interlocal agreement.

Ms. Harvey stated the intent is to have that outside of the agreement.
Mr. Timmerman stated there is an IRU Agreement and a Service Agreement between the two organizations.

Mr. Cowie asked if it is a contractual obligation.

Ms. Harvey stated it is like a city where some general fund costs are allocated to enterprise funds. It is just a monthly journal entry.

Mr. Todd Christensen stated a 30% increase in salaries for NOC employees is a big jump and wondered if there is a lot of staff being added.

Mr. Timmerman stated there has not been a lot of staff added. The 30% increase in salaries is from 2011 and is made up of increases over the past 8 years. Some of it is cost of living increases. The tech sector is also very competitive in Utah and this is to make the organization more competitive.

Mr. Loader explained it averages out to a little over 3% a year.

Mr. Christensen stated on the summary it shows the NOC jumping $736,300.

Mr. Timmerman stated that is mostly due to volume. The budget spent on the NOC is a different thing. This is just allocating it to UIA versus UTOPIA. This is not harming one agency over another, it is just making it fair because more work is being done daily for UIA because that is where the growth is. Years ago, there were probably very few UIA customers being fed from a cabinet, now most customers are tied to UIA. Over time, who is paying for what will be reallocated in a fair way. This will put UTOPIA in a better financial position.

Mr. Pyle asked if there were any other concerns expressed in the previous UIA meeting regarding this topic.

Mr. Jensen stated the response in the UIA meeting was positive.

4. **UTOPIA FINANCIAL UPDATE**

Ms. Laurie Harvey, UTOPIA CFO, stated recurring revenue systemwide was about $1.9 million in June 2019, $1.3 million was from UIA and about $500,000 was from UTOPIA. UTOPIA is still increasing its month after month recurring revenue by about $1,300 per month. It's not as strong as UIA but is still holding its own. Kelvin Taylor was hired as the new Financial Analyst and he is pulling together a lot of data that will be used for the upcoming UIA Bond. The preliminary FY 2019 Financial Statements have been completed and UTOPIA is at about 99.6% of estimated revenue. The budget for operating expenditures was slightly exceeded at 103% of budget.

Mr. Loader asked where the fund balance is for UTOPIA.
Ms. Harvey stated there is still a net deficit which is part of the reason why money must be transferred from UIA.

Mr. Loader asked if that will be corrected with this new agreement.

Ms. Harvey stated it will help. UIA needs to pay its fair share of costs while keeping in mind the more successful UIA looks the better bonding potential there is.

Mr. Timmerman added if UIA is aggressively grown, built out and an additional 20,000 subscribers are added that will be a huge financial benefit to UTOPIA. That is where the priority has been.

Mr. Todd Christensen asked if there are more Morgan City-type projects that are moving forward.

Mr. Timmerman stated there are additional projects the organization makes money from that don’t incur debt. Woodland Hills was a project where the city paid for the project, yet UIA gets revenues from over 200 customers in that network. That was a little different because UIA didn’t finance the project. Generally, UIA likes to finance projects because then the money is tied to the infrastructure fee of the customers. As the take rate is exceeded, there is a significant financial benefit experienced from financing those projects. Additional city projects with Morgan and West Point are moving forward. There are not customers in these networks yet because they are still under construction. They are expected to ramp up within the next six months to a year then there will be additional customers at that point. There is a partnership with Idaho Falls, Idaho where they do the construction, using UTOPIA construction contractors, and there are a couple hundred customers there that provide monthly recurring revenues because UTOPIA is doing operations for that network through the NOC. There are other city partnership opportunities out there that UTOPIA can do without any real burden because the organization is already doing those services. There could be 20,000 new customers added and the burden to the organization is relatively small. Additional city partnerships are anticipated. There are probably 20-30 cities that options are being discussed with. Every so often one of those cities decides to do a project with UIA and a significant amount of money can be made from those.

Mr. Christensen was wondering if some smaller municipalities were interested in doing something like Morgan City.

Mr. Timmerman stated a survey was done in Providence City that came back strong. Surveys are done for free. A work session has not been scheduled with them yet. There are some business connections coming online in Logan and there is a franchise agreement in both Logan and North Logan with the intention to provide service to businesses and schools initially because they are very profitable. The organization looks forward to when those cities want to move forward with discussions regarding a full fiber to the home project. Cache Valley would be a good area for growth because the services there are awful.

Mr. Christensen has many family members in Cache Valley that are anxious to have this service.
Mr. Timmerman stated there is a potential project in the works for Hideout. There is fiber in exchange from UDOT to get there and the organization is building some things on behalf of UDOT. It is very likely there will be a partnership with that town which will likely turn into additional cities in that area. There are connections in Heber coming up. There are quite a few network expansions that have happened to reach into new areas that haven’t been previously reached. These have been done in partnership with UDOT.

5. UTOPIA NETWORK UPDATE

Mr. Roger Timmerman, UTOPIA Executive Director, stated growth has been good. At the beginning of the month there were 24,530 subscribers across both systems. Going back just over four years, it was half that. There are 11 service providers for residential services. CentraCom is the newest service provider to come on board. There are services to customers in 45 different cities in Utah. Current cities with active deployments are Midvale, Murray, Orem, Layton, Payson, Morgan, West Point and West Valley City. About 500 customers are added each month. Take rates are good; one notable take rate is in Woodland Hills which is 60% of actual homes that can sign up for service. There is a lot of green field in that area which is much cheaper to build but the same infrastructure fee is charged. Growth is not just happening due to building but because there is demand, the service is good as well as the reputation of the organization. The general satisfaction for the incumbent options has gotten worse and people want different options. There has never been this much interest before from cities looking to add fiber to the home. Some cities are working with UTOPIA and some are not. The decision to not work with UTOPIA is not a business decision but instead is political because some cities are very independently minded and want to do it themselves. There will be additional cities that do fiber to the home projects in partnership with UTOPIA and some not partnering with UTOPIA. The demand is certainly growing. Kaysville and American Fork are both looking to do their own project.

Mr. Pyle asked if any plans from cities wanting to do their own fiber project are viable.

Mr. Timmerman stated they are not. With their size there is no economy of scale. They continue to point to systems outside of Utah where they can be the retail provider and maybe 1 out of 30 broke even on their costs. In Utah it’s even harder due to open access requirements that do not allow cities to be the retail provider. It wasn’t until UTOPIA had around 13,000 customers that could benefit from the existing structure that there was a break-even scenario. A failed project is bad for everyone and can create a bad name for the municipal fiber industry.

Mr. Pyle was concerned with being associated with a failed project and staying separated from being identified with it.

Mr. Timmerman is not just concerned with reputation but if there could possibly be legislative action taken because of a failed fiber project.

Mr. Pyle asked if any of these projects can get off the ground at this point.
Mr. Timmerman stated the only thing they could do is the financing so they are leading with that and will figure out the rest later. Both Kaysville and American Fork are intending to use the method of imposing a mandatory utility fee on every household. There will most likely be political opposition to that. Regarding UTOPIA, there was a new Sales Director hired to promote growth in the business sales area. There is optimism that the business sales growth will begin to look a lot more like the residential growth. UTOPIA still offers the fastest speed in the country.

6. ADJOURN

There being no further business of the UTOPIA Board of Directors, the meeting on Monday, August 12th, 2019, was adjourned at 11:02 AM.

ACTION: Mayor Blair Camp (Murray City) MOVED to adjourn the meeting. 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 7th day of October, 2019