UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY (UTOPIA)

SPECIAL BOARD MEETING MINUTES
October 7, 2019
10:00 AM

UTOPIA FIBER OFFICES
5858 SOUTH 900 EAST
MURRAY, UTAH 84121

Board Members Present:  Adam Cowie – Second Vice Chair, Lindon City
Mayor Blair Camp – Murray City

Joining Electronically:  Jamie Davidson – First Vice Chair, Orem City
Bruce Davis – Layton City
Todd Christensen – Perry City
Paul Isaac – West Valley City, Alternate
Jason Roberts – Brigham City, Alternate
Mark Sorenson – Payson City, Alternate

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

Others Present:  Jack Walkenhorst, All West

1. WELCOME AND INTRODUCTIONS

The UTOPIA Board of Directors held a board meeting on October 7, 2019. UTOPIA First Vice Chairman Jamie Davidson (Orem City) called the meeting to order at 10:00 AM.

UTOPIA Votes Present: 396
UTOPIA Majority Vote: 279
UTOPIA 2/3 Vote: 371

2. APPROVAL OF MINUTES – AUGUST 12, 2019

There was no discussion on the minutes.

ACTION: Adam Cowie (Lindon City) MOVED to approve the minutes from the UTOPIA board meeting held August 12th, 2019. Mayor Blair Camp (Murray City) SECONDED the motion. A voice vote was taken - vote was unanimous.
3. CONSIDER APPROVAL OF RESOLUTION UT 19-07: CONSIDERATION OF A RESOLUTION TO AMEND THE INTERLOCAL COOPERATIVE AGREEMENT FOR SERVICES BY AND BETWEEN UIA AND UTOPIA

Mr. Josh Chandler, UTOPIA General Counsel, stated this item has been discussed before and the reasoning behind those changes were presented at that time. This resolution is simply to formalize the agreement which is consistent with what has already been discussed.

Mr. Adam Cowie, Lindon, asked if the changes in this agreement were already reflected in the budget.

Ms. Laurie Harvey, UTOPIA Chief Financial Officer, stated this does not change the budget overall but will be a switch from one line item to another between contracted fees and reimbursement of management. It was decided that a budget amendment was not needed for that. There will be a budget amendment for the bond.

Mr. Roger Timmerman, UTOPIA Executive Director, stated this action is not hiring, growing or decreasing anything but simply how money is fairly paid between UTOPIA and UIA.

ACTION: Mark Sorenson (Payson City) MOVED to approve Resolution UT 19-07 to amend the Interlocal Cooperative Agreement for Services by and between UIA and UTOPIA. Bruce Davis (Layton City) SECONDED the motion. A roll call vote was taken - vote was unanimous.

4. UTOPIA FINANCIAL UPDATE

Ms. Harvey displayed a graph showing recurring revenue for both UIA and UTOPIA. The month over month revenue systemwide is now above $1.8 million and is getting closer to the $2 million per month mark. The new fiscal year is about three months in and expenditures are tracking with budget for both entities.

Mr. Cowie asked for an explanation on why there is a dip in the graph.

Ms. Harvey stated it is a result of year-end adjustments. The numbers for accounts receivable were adjusted to make sure they tied in with the general ledger for the audit. She also presented a graph showing UIA revenue versus the bond obligation. UIA revenue is about $1.3 million per month. The dots on the graph represent debt service for different bonds that have been issued. The graph showed a sizeable gap between revenues and debt service. The 2019 bond issuance will have a capitalized interest period so the debt service will not kick in for about 18 months after the bond is issued.

Mr. Timmerman stated the dotted lines are used to represent an obligation that UIA has. Being able to take out this size of bond while still covering all debt is a good position to be in.
bond will build out a significant portion that remains to be built. An additional bond like this in Spring of 2021 will complete the network.

Ms. Harvey showed a chart of projected revenue through 2025 which included the bond obligation anticipated in Spring 2021. Growth was conservatively assumed at 25%; revenue growth is currently closer to 30%. The orange line represents net operating revenue which shows a point of scalability has been reached. Field tech services will increase as more footprints are added to the buildout, but a lot of the services UTOPIA provides, such as the NOC, can function a long time adding customers to the system without needing to hire additional employees.

Mr. Timmerman added that over the past four years the customer base has doubled but it has not been necessary to double the number of employees. After this current bond is issued and the one in Spring of 2021, which will finish out the network buildout, there will probably be an additional smaller bond issued to finance the cost of installations. The ROI on that bond will be phenomenal because its just the installation cost but the revenue is significant. What this chart shows is a strong case to offset debt obligations in UTOPIA from UIA if it is done the right way. Eventually, UIA will need to find other ways to offset debt at UTOPIA due to all the UIA profit.

Ms. Harvey stated there are currently about 20,000 subscribers on the UIA system. The number for 2025 is estimated at 40,000. Subscribers have doubled over the last four years.

Ms. Kim McKinley, UTOPIA Chief Marketing Officer, stated there have been over 4,400 subscribers added this year alone. She estimates around 5,700 by the end of the year.

Mr. Timmerman stated estimating 40,000 customers in a couple of years is reasonable and conservative. Building is happening faster than it ever has in UIA which also affects UTOPIA. Payson, Orem, West Valley, Midvale, West Point, Morgan and Layton all have active construction going on.

Ms. Harvey also included the bond ratings presentation that was used during the meeting with Fitch Ratings. There should be a rating from Fitch later this week. The ratings presentation will be refined for staff to meet with investors to explain the value of the UIA bonds. The bonds are currently scheduled to be marketed the last week of October and will close in mid-November.

Mr. Timmerman stated worst-case scenario would be to maintain a BBB- rating but there is reason to believe the rating could be upgraded. Market conditions are favorable right now. Hopefully the organization is in the same position a year and a half from now for the final UIA bond that will be needed.

5. UTOPIA NETWORK UPDATE

Mr. Timmerman stated one milestone reached is availability to over 100,000 addresses including business and residential. At buildout there should be about 140,000 to 150,000 addresses across all UTOPIA cities. There are now over 25,000 subscribers on the system.
Ms. McKinley stated there were 550 new subscribers for August and for September there should be about 515. To put that in perspective, last September there were 391 sales. Projections show an increase of 25% over last year.

Mr. Timmerman stated the churn rate is about 3-4%. The average for telecommunications and broadband is about 10%. This made it possible to offer month to month options because there is confidence that customers will choose to stay on the system. The best marketing is when someone moves in to a home that already has a UTOPIA device installed. Lowering the barrier of entry encourages more people to sign up.

Mr. Cowie asked if replacing older network equipment is a looming issue.

Mr. Aaron Leach, UTOPIA Chief Operations Officer, stated fiber doesn’t change very much but the electronics will get upgraded. The main changes are with the core. There is a 100 Gb core that will need to be upgraded to 200 or 400 Gb over the next few years. The current devices at the edge are 1 Gb capable and will be around for a while. There will not be a huge expense for this in the upcoming years.

Mr. Timmerman stated the system has been continually updated and refreshed over time. The houses still on 100 Mb devices have been offered replacement to 100 Gb devices. It is down to about a couple thousand devices that need to be replaced.

Mr. Leach stated there is about $500,000 budgeted each year for maintenance upgrades.

Mr. Timmerman stated the network is up to date and modern and there is not a lot of old, outdated stuff. Current UTOPIA offerings are a full generation ahead of anybody else. The ability to have a 10 Gb service is advertised to every home on the network. UTOPIA, through UIA, is interested in additional city partnerships if they don’t jeopardize the build out schedule or overburden resources. UTOPIA is in various conversations with cities throughout the state and those take a long time. Those partnerships that have moved forward are Woodland Hills, which is complete, and Morgan City and West Point which are both under construction right now.

There are other cities deciding to do their own route with different models and UTOPIA does not have any involvement with those. The cities publicly out there are American Fork and Kaysville. They have decided to do their own interlocal and will finance it with the backstop of mandatory utility fees. UTOPIA has generally taken the position that it does not want to use that model because there is a lot of legal and political risk with a mandatory fee. It is likely there will be a lot of press and attention with those cities if they move forward. UTOPIA has tried to talk to the cities but they are not interested. At this point, UTOPIA does not want to be associated with them and doesn’t want any collateral damage. There was a recent article saying UTOPIA was actively lobbying against the American Fork project which wasn’t true. UTOPIA wishes them the best in their pursuits and is generally supportive of broadband in cities. He expects to have more city partnerships brought before the UIA board within the next six months.
Mr. Davidson expressed his appreciation of the efforts of the UTOPIA Team. The biggest concern is ensuring what UTOPIA is doing doesn’t get mixed up in what other cities are doing and somehow derailing the progress made by UTOPIA.

Mr. Todd Christensen, Perry, asked for an update on purchasing a new building.

Mr. Timmerman stated the due diligence is still being done. There were some zoning issues that would affect UTOPIA’s intention to have outdoor storage at this new building. UTOPIA is seeking written approval from the city to be able to use the building with the previously intended purpose. If that approval is not granted, UTOPIA will not purchase this building and will look for a different facility.

Mr. Cowie stated in late 2013 or 2014 both UIA and UTOPIA boards adopted a resolution that required in-person attendance a certain amount of times for board meetings. He believes the urgency that was in place at the time does not exist today and it has always struck him as odd that a telecommunications company would require personal attendance. He wondered if that could be looked into and possibly repealed.

Mr. Davidson did not recall that resolution but would also like to have it researched and possibly changed.

Mr. Timmerman stated it will be researched and he will discuss it with both board chairs.

6. ADJOURN

There being no further business of the UTOPIA Board of Directors, the meeting on Monday, October 7th, 2019, was adjourned at 10:40 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 9th day of December, 2019