

UTAH INFRASTRUCTURE AGENCY (UIA)

BOARD MEETING MINUTES

December 9, 2019

8:30 AM

UTOPIA FIBER OFFICES

5858 SOUTH 900 EAST

MURRY, UTAH 84121

Board Members Present: Alex Jensen – Chairman, Layton City
Sam Lentz – Third Vice Chair, Orem City
Paul Isaac – West Valley City
Brenda Moore – Murray City

Joining Electronically: Jason Roberts – First Vice Chair, Brigham City
Mayor Clark Wilkinson – Centerville
Mayor Jeff Acerson – Lindon City
Mark Sorensen – Payson, Alternate

Officers Present: Roger Timmerman – UIA Chief Executive Officer
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
Jack Walkenhorst – All West

1. WELCOME AND INTRODUCTIONS

The UIA Board of Directors held a board meeting Monday, December 9, 2019. UIA Chairman Alex Jensen (Layton) called the meeting to order at 8:38 AM. He welcomed all attendees.

UIA Total Votes Present: 408

UIA Majority Vote: 220

UIA 2/3 Vote: 293

2. APPROVAL OF MINUTES – OCTOBER 7, 2019

There was no discussion on the minutes.

ACTION: Paul Isaac (West Valley City) MOVED to approve the minutes from the UIA board meeting held October 7, 2019. Sam Lentz (Orem City) SECONDED the motion. A voice vote was taken - vote was unanimous.

December 9, 2019

3. 2020 BOARD MEETING SCHEDULE

Mr. Roger Timmerman, UIA CEO, stated the 2020 UIA/UTOPIA board meeting schedule is set for the second Monday of the month, every other month, unless there is a holiday (i.e. October). UIA meetings will begin at 8:30 am; UTOPIA meetings will begin at 10:00 am. It has been emailed to the board and posted according to state law.

ACTION: Mayor Jeff Acerson (Lindon City) MOVED to approve the 2020 board meeting schedule. Paul Isaac (West Valley City) SECONDED the motion. A voice vote was taken - vote was unanimous

4. OPEN AND PUBLIC MEETINGS ACTS TRAINING

Mr. Josh Chandler explained that state statute requires annual training for the public meetings act. To figure out if something violates the open meetings act, you can look back to the declaration of public policy that the legislature included in the act itself. He quoted that "It is the intent of the Legislature that the state, its agencies, and its political subdivisions take their actions openly; and conduct their deliberations openly." The baseline is meetings will be open and the public can attend. He addressed the requirements to close a meeting: quorum present and two-thirds vote to close a meeting. The common reasons to close a meeting are as follows:

- discussion of the character, professional competence, or physical or mental health of an individual
- strategy sessions to discuss pending or reasonably imminent litigation
- strategy sessions to discuss the purchase, exchange, or lease of real property
- discussion regarding deployment of security personnel, devices, or systems
- investigative proceedings regarding allegations of criminal misconduct.

One issue he addressed is ensuring there are not separate private meetings occurring in the middle of an open meeting, i.e. through text message between members of the body. The statute does not limit members from communicating electronically when the public body is not convened in an open meeting. There are two potential penalties for violating the open and public meetings act. One is that the final action taken by the body may be voided by the courts. The second possible outcome for violation of the act is the possibility of criminal charges.

Mr. Paul Isaac, West Valley City, asked if it would be better to list all the potential reasons to close the meeting when having a closed meeting in case other items are discussed.

Mr. Chandler stated it is a matter of preference. The more upfront about what will be discussed in the closed meeting the better. Once it is listed, then you must keep the discussion to the reason(s) stated for closing the meeting.

5. UIA FINANCIAL UPDATE

Ms. Laurie Harvey, UIA Secretary/Treasurer, presented the recurring revenue graph showing UIA revenue only. It is continuing to go up at a rate of about \$30,000 per month. New customers continue to be added.

Utah Infrastructure Agency (UIA) Board Meeting Minutes

December 9, 2019

Ms. Kim McKinley, UTOPIA Chief Marketing Officer, stated there were 502 residential sales last month.

Ms. Harvey continued that the bond was closed in November with a true interest cost of 3.48%. It was rated BBB- and due to that rating UIA Executive staff members did an investor roadshow which paid off. A couple of investors from that roadshow put in an order for the entire \$48 million bond.

Mr. Timmerman clarified the different marks on the graph represented UIA's current debt obligations. It showed that even at the current level of revenue, UIA can cover its debt obligations. There will be a final UIA bond in about a year and a half used for finishing the buildout of the original cities.

Ms. Harvey explained the dips in the graph typically occur at the end of the fiscal year due to reconciling some receivable accounts. The dips are not as significant as they used to be which shows UIA is doing a better job of staying on top of accounts and having excellent collection rates on receivables. This occurs each year at the time of the audit. The auditors are not here today because they are still working through some issues with fixed assets. She had preliminary financial statements available and the auditors will be present for the February board meeting. She showed combined recurring revenue for UIA and UTOPIA. UIA increased by \$40,000 in recurring revenue in October. In UTOPIA, there was a UEN credit of about \$9,600. UTOPIA dipped a little in October but is holding steady at about \$560,000 a month. If there is a gap of time in-between a UTOPIA customer leaving the network, when they come back on the network they are considered UIA customers. She presented preliminary financial statements showing UIA's net position. The only adjustments that might happen from this point on would be in capital assets and depreciation. Total current assets for UIA at the end of FY 2019 was \$38 million compared to \$13 million for FY 2018; that is an increase of about \$25 million. Most of that is in restricted cash. That number is high because UIA borrowed on three different bond issuances in FY 2019; this includes the Layton, Morgan and Payson bonds. The money sits in restricted cash until it is spent on those projects. Operating cash was increased by about \$3.3 million. Total noncurrent assets for FY 2019 total about \$105 million compared to \$78 million for FY 2018; that is an increase of \$27 million. This consists of new construction of about \$32 million less \$6 million in depreciation. That is a total increase in assets of \$50 million. Current liabilities increased from \$6.1 million to \$8.9 million; \$1.2 million of that is in accounts payable. There is a note payable to UTOPIA for \$864,000. The amount UIA was paying to UTOPIA for management services increased in the budget for FY 2020. There was an adjustment in FY 2018 for that and the auditors argued it didn't increase significantly from the end of FY 2018 to what was budgeted for FY 2020. The auditors convinced her that funds going from UIA to UTOPIA needed to increase to cover costs of executive staff and additional employees in UTOPIA. As a result, there is an \$864,000 note payable to UTOPIA that UIA will pay in FY 2020. Total current liabilities went up \$2.8 million. Noncurrent liabilities went from \$86 million in FY 2018 to \$136 million in FY 2019 which is a result of the issuance of the Layton, Morgan and Payson bonds. Total liabilities increased \$53 million. Net position went from \$4.7 million to about \$3 million and the income statement will show that is related to non-cash items which includes depreciation. She presented the Statement of Revenues, Expenses, and Change in Fund Balance.

December 9, 2019

Operating revenues increased about \$3 million. \$2 million of the increase in operating expenses is due to depreciation so operating revenues are easily covering operating expenses. The increase in interest income is due to the funds sitting in restricted cash for construction. Bond interest and fees increased due to the issuance cost of the new bonds. Net position is lower due to noncash items.

Mr. Timmerman stated it is a good idea to depreciate items for accounting purposes but, the infrastructure put in the ground 15 years ago still has excellent value.

Ms. Harvey presented an Actual vs Budget spreadsheet which showed revenue increasing \$30,000 to \$40,000 per month. There were small variances in administrative expenses and professional services. In operations, the transfer of money from UIA to UTOPIA is more than anticipated because it is based on number of connections which is increasing. There are no areas of concern at this point. There will be a public hearing at the next meeting to adjust the budget. There are increase proceeds from issuance of debt from the West Point transaction (\$7.8 million) and UIA transaction (\$52 million). She presented some UIA/UTOPIA accomplishments over the last few months which were as follows:

- Closed UIA Revenue Bond in amount of \$48,365,000 (November 8, 2019)
 - True Interest Cost – 3.48%
 - Fitch Rating BBB-
 - Investor roadshow paid off – 2 investors placed orders on all maturities
- Closed on purchase of South Salt Lake building - \$2.1 M (November 26, 2019)
- Changed Insurance Broker to Olympus Insurance
 - Reduced annual insurance premiums from \$301,200 to \$117,400
- Hired Employee Benefits Consultant (Health Insurance Brokers) – GBS
 - Enhanced options for employee health coverage
 - - Offered High Deductible plan with Health Savings Accounts
 - - Kept traditional plan with reduced deductible
 - - Offered cash waiver (in-lieu of coverage) to employees insured through spouse/parent
 - - No increase in overall cost to UTOPIA
- In the process of bringing blue staking in-house
 - Anticipate savings of at least \$200,000 per year (from \$820,000 to \$600,000)

Mr. Paul Isaac, West Valley, asked if UTOPIA is paying anything in to the employees' Health Savings Accounts.

Ms. Harvey explained the deductible for a single employee on the plan is \$2,000 which is the amount UTOPIA has chosen to add to the HSA (\$1,000 upfront and an additional \$38.47 each pay period to equal the remaining \$1,000).

Mr. Timmerman stated the Health Reimbursement Arrangement the organization previously had was a bit of a hassle and employees weren't receiving the anticipated benefit from it. It was decided to move to an HSA that would provide more of an employee benefit and not create any

December 9, 2019

added cost to UTOPIA. Employees that do not want an HSA still have the option to choose a traditional plan with a lower deductible. The building purchase is tied into blue staking. It is a field services heavy facility with warehousing capability, ample parking, good freeway access, a billboard on I-15 for UTOPIA to use and another billboard that can be rented as part of a lease agreement with Reagan. The cost increase of blue staking facilitated the need to move it in-house and is anticipated to save money for UTOPIA while improving the quality of work. During the slower part of the season, the technicians can be used for other maintenance items as well.

Mr. Lentz asked what the schedule is for when UTOPIA will be doing its own locating.

Mr. Aaron Leach, UTOPIA Chief Operating Officer, stated he is in process of getting all the equipment needed and the team should be hired by January 6. They will follow the current locate team for a period of three weeks; on the fourth week the contract will be cancelled with the current locate company. By February 1, UTOPIA should be doing its own locates.

Mayor Clark Wilkinson, Centerville, asked who carries the liability for some of the recent bonds that were issued. He was under the impression that UIA didn't carry the liability but the individual cities did.

Mr. Timmerman stated on the city specific projects (Morgan, West Point, Payson and Layton), those cities provided a dollar for dollar backstop from other revenue sources. Revenues are expected to more than cover the debt service on those bonds. The \$48 million bond is secured by UIA's ability to generate revenues which is why the bond rating is lower. With a 3.48% true interest cost, UIA should do very well in covering all the debt service on those projects.

Ms. Harvey stated it is easy to see the difference in interest rate when the city pledges. The West Point bond was just over 3% because it is backed by a city where the rating is much higher than BBB-. UIA, without the backstop of a city, had a BBB- rating with an interest rate of 3.5%. UIA is primarily responsible for the West Point debt and must show it as a liability on the books, however, it is backstopped by the pledge of the city.

Mayor Wilkinson expects the auditors will describe the agreement on the bonds in the footnotes once the audit is complete.

Ms. Harvey stated they will explain the nature of the backstop for that liability in the debt section of the notes.

6. UIA NETWORK UPDATE

Mr. Timmerman stated things are going well on the subscriber base. He presented a subscriber report showing each individual city. UIA continues to add customers and revenue. There are new city projects that have been started. Morgan city will have customers coming online soon. UIA is growing customers and losing very few.

Ms. McKinley stated the organization has over 26,000 customers at this point.

December 9, 2019

Mr. Jensen asked specifically about how Orem and West Valley are doing.

Mr. Timmerman showed which lines represented availability. The Layton buildout project helped to buildout most of Layton so they have the most addresses available. Near the end of the year, all remaining areas in Layton will be finished. Orem and West Valley are just behind Layton in the number of addresses available but still have quite a bit to be built out and are currently under construction. Those cities will surpass Layton over the next year and a half, as address availability in Layton will flatline because it will be complete. Layton has more subscribers than any other city at this point, but it is expected as West Valley and Orem are built out there will be steep growth in their charts. Woodland Hills is a very small city but has a high take rate. There is a downward pressure on take rate when building is going on in the city. Lindon was the first city that was substantially built out and has the highest take rate. Centerville and Brigham City have over 40% take rate because they have been built out for quite some time and have matured in take rate. Whenever there is a dip in the graph it means there were some new areas launched in that city.

Mr. Jensen asked if there are any cities that are not performing as expected whether it be due to politics, permitting or some other dynamic.

Mr. Timmerman stated it is always helpful to have better political support but UIA has done well in every city. The only reason for a take rate being low is volume of housing and not having time to mature. The lowest take rate is West Valley but there has been a significant amount of building done there over the past few years. Customer numbers will continue to grow over the next few years.

Mr. Isaac stated West Valley has a 13% take rate now but is hoping to reach 20-30%.

Mr. Lentz stated looking over the last five years it is still significantly higher than where it started which is impressive considering how much the denominator has increased.

Mr. Jensen asked if business sales continue to be strong.

Ms. McKinley stated there are some tactics being worked on for that. The relationship with EDCUtah is being developed so they will put UTOPIA into a lot of their marketing materials. That will play on how great UTOPIA is, not only for residential, but for commercial services as well. That will be a large focus for her for the end of 2019 and into 2020.

Mr. Lentz noticed with West Valley, the overall take rate is much higher than the residential take rate. Normally he would expect to see it the other way around. He asked if there are other cities where the residential take rate is lower until you add the commercial side.

Ms. McKinley stated West Valley is an outlier. This goes back to when UTOPIA did the parade route / business focus and West Valley got a lot of commercial areas due to the size of that city's commercial footprint.

Utah Infrastructure Agency (UIA) Board Meeting Minutes

December 9, 2019

Mr. Lentz clarified the reason for that is because the commercial side has had more years to mature.

Ms. McKinley stated commercial was focused on quite heavily for several years and residential was not focused on until about four years ago.

Mr. Timmerman stated the strongest city for business is Murray.

Mr. Jensen stated in the past there have been some difficulties with certain cities. From the perspective of the board members, does any of that still exist and is there anything that can be addressed to help?

Mr. Lentz stated in Orem the only time he hears opposition is based on information that is five or ten years old, which is easy to combat that with data, or the response that success has come only because more debt has been added. Equipping the staff and council with data to show how issuing additional bonds has allowed more revenue to be generated, and that coverage of debt payments with revenue is stronger than ever, has been helpful. He would like the data packaged in five or ten slides that can be shared with them. There will be a few new elected officials in Orem that will benefit from that information.

Ms. Brenda Moore, Murray City, stated that will help their newly elected councilmembers as well. Part of their issue is one of their councilmembers lives in an area that doesn't have access. The budget line item to pay UTOPIA's debt is a sore spot but it is usually okay if they are not asked for more money to cover that debt. She sees the plan and understands how it is working but the history is still something they are not happy about. Murray's take rate is inching up despite no new areas.

Mr. Mark Sorenson, Payson, stated he has never seen things run as smoothly as it has with this council. It has been quite a while since they have had any concerns.

Ms. McKinley stated, to put things in perspective, sales are trending about 20% higher than they were last year.

Mr. Lentz would like a plan with legitimate forecasts that show complete buildout and the impact on debt service.

Mr. Timmerman stated the accounting will need to be figured out because the revenue is on the UIA side and the debt is on the UTOPIA side. Some of that will be putting the costs in the right place according to where they are being incurred. There are a lot of city partnerships being discussed right now that can help alleviate that burden as well.

Mr. Lentz stated a newly elected official roadshow would be a good idea to get everyone up to speed about UTOPIA and UIA.

Mr. Timmerman stated his goal has been to do a city workshop session update every year but has left it up to board members to coordinate if they wanted to do that or not.

Utah Infrastructure Agency (UIA) Board Meeting Minutes

December 9, 2019

Mr. Jensen stated staff should probably reach out and extend an invitation but respect if the city declines. The board member could be notified if the city has declined an update and follow up with it. He asked if there were any UIA/UTOPIA board members that were affected by the last round of elections.

Mr. Lentz will be finished with his service in a couple of weeks. The person taking over for him will do a great job. He is unsure what the plans are for who will represent Orem on this board. He will continue to advocate for UTOPIA and is willing to do what he can in an unofficial role.

Mr. Jensen expressed his appreciation for all that Mr. Lentz has done over the years to support UTOPIA.

Mr. Acerson stated Lindon is stable.

Mr. Jensen was sad to announce that the UTOPIA board member from Layton, Bruce Davis, unexpectedly passed away yesterday. Mr. Davis was a great member of the board and will be missed.

Mr. Lentz asked about the impact that has come as a result of moving to month to month contracts.

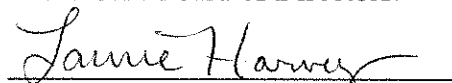
Mr. Timmerman stated it was expected to have a little higher churn rate but the benefit would be getting it installed which would encourage new people to sign up for service. The churn rate change is negligible, just under 4%. A lower barrier of entry is beneficial to lower income residents. It is a highly addictive service once people get used to having fiber.

7. ADJOURN

Mr. Jensen expressed his appreciation to staff and board members and their efforts to make UIA successful.

There being no further business of the UIA Board of Directors, the meeting held on Monday, December 9, 2019, was adjourned at 9:47 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, UIA Secretary

Approved this 10th day of February, 2019^{20¹⁹}

