

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY (UTOPIA)**

**BOARD MEETING & PUBLIC HEARING MINUTES**

February 10, 2020

10:00 AM

UTOPIA FIBER OFFICES  
5858 SOUTH 900 EAST  
MURRAY, UTAH 84121

**Board Members Present:** Paul Isaac – Alternate, Chair, West Valley City  
Adam Cowie – Second Vice Chair, Lindon City  
Kane Loader – Third Vice Chair, Midvale City  
Debby Lauret – Orem City  
Brenda Moore – Alternate, Murray City  
Brant Hanson – Alternate, Centerville City

**Joining Electronically:** Todd Christensen – Perry City  
Clint Morris – Layton City  
Jason Roberts – Alternate, Brigham City

**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:** Ben Bailey – Auditor, Keddington & Christensen

**1. WELCOME AND INTRODUCTIONS**

The UTOPIA Board of Directors held a board meeting on February 10, 2020. UTOPIA Alternate Paul Isaac (West Valley City) filled in for Wayne Pyle as Chair. Mr. Isaac called the meeting to order at 10:04 AM. Debby Lauret was introduced as the new UTOPIA representative for Orem City. This is her fifth year on City Council. Clint Morris was introduced as the new UTOPIA representative for Layton. He is a newly elected Council Member.

UTOPIA Votes Present: 425  
UTOPIA Majority Vote: 279  
UTOPIA 2/3 Vote: 371

**2. APPROVAL OF MINUTES – DECEMBER 9, 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 December 9<sup>th</sup>, 2019. Adam Cowie (Lindon City) SECONDED the motion. A roll call vote was taken - vote was unanimous.**

Mr. Isaac stated there was a request to move the audit presentation earlier in the agenda.

**ACTION: Debby Lauret (Orem City) MOVED to adjust the agenda by moving the audit earlier in the meeting. Brant Hanson (Centerville City) SECONDED the motion. A voice vote was taken - vote was unanimous.**

### **5. FINANCIAL AUDIT FY2019**

Mr. Ben Bailey, Auditor with Keddington & Christensen, presented the findings for FY2019 and issued an unmodified opinion. In all material respects the financial statements are fairly stated and in accordance with GAAP. They also looked at required supplementary statements dealing with URS and the OPEB plans and reconciled those schedules to the underlying financial information. There was a finding on internal controls that dealt with a few balance sheet accounts that weren't reconciled at year end.

Mr. Isaac stated the transition from the previous CFO to Ms. Harvey has now been complete and needed corrections have been made.

Mr. Roger Timmerman, UTOPIA Executive Director, stated money was not misplaced, there were just some entries the previous CFO would make to help reconcile that staff was unaware of. There was no mismanagement of funds, just some reconciliations needed.

### **3. PUBLIC HEARING**

- **AMEND 2020 FISCAL YEAR BUDGET**

**ACTION: Kane Loader (Midvale City) MOVED to open the public hearing. Brant Hanson (Centerville City) SECONDED the motion. A roll call vote was taken - vote was unanimous.**

Ms. Laurie Harvey, UTOPIA CFO, proposed amendments for the FY2020 budget. The IRU from UIA to UTOPIA is paid in full but the revenue is still recognized over the term of the IRU agreement; there is revenue on the UTOPIA side of \$655,000 representing that. The cost of liability and property insurance has decreased by \$165,000. In UTOPIA there has been a \$25,000 increase in advertising. There is still some advertising money available in UIA that can be drawn on from the Layton bond if needed. Typically, advertising expenses come in bursts so this is to ensure there is money available.

Mr. Timmerman stated when UTOPIA overachieves in sales it costs more in advertising. This is post-sale advertising for our welcome packets.

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Ms. Harvey stated there was an increase in the appropriated amount for telecommunications of \$16,000. This was an oversight of what was budgeted for FY2020. The JIVE phone system came online about a year and a half ago, so it is tracking a little ahead of budget. There is \$90,000 to increase the budget for reduction of fund balance deficit. State code requires that 5% of the prior year's revenue go toward reducing UTOPIA's fund balance deficit. Locating services were previously provided by Stake Center Locating but UTOPIA has now hired 11 Locators to bring that service inhouse. This has decreased 3<sup>rd</sup> party locating services by \$200,000. Salaries/wages for the new locators increased by \$287,000 and benefits increased by \$100,000. That covers wages and benefits for six months as most were hired in January. Other expenses related to inhouse locating are vehicle fuel expense, vehicle repair/maintenance, fleet management costs which is currently contracted with West Valley City, computer equipment, other equipment and vehicles for each locator. The final item is a shift in line items; this increases the amount of service contract revenue from UIA by \$1,064,000 and decreases the amount that comes from UIA in the form of management fees by the same. The \$655,000 change in expenditures matches the revenue increase. Adding the Locators brings the total number of UTOPIA employees to 73 plus three part-time interns. Locating costs in 2018 were \$360,000 to \$780,000 in 2019 and it was going to be over \$900,000 to continue 3<sup>rd</sup> party locating in 2020. The more UTOPIA builds, the more area the locators must cover. When locators are not busy, they have equipment to help with GIS.

Ms. Debby Lauret, Orem, asked what the net difference is for locate fees.

Mr. Timmerman stated there is a lot of one time cost this year such as equipment, training time and overlap of locating services. The next fiscal year budget will have several hundred thousand dollars in savings because it will be salaries and vehicle maintenance. The other issue is quality; incorrect locates cost money in damages that the organization must deal with.

Mr. Adam Cowie, Lindon, asked for an explanation of the fund balance deficit and if it was separate from the backstop issue.

Ms. Harvey stated net position for UTOPIA is a deficit of \$260 million. This is not a one-time issue but is year after year because cities are making pledge payments. A note payable is established back to cities and interest is accrued every year. UTOPIA is accruing interest from cities as money comes in to repay UTOPIA debt. The increase in the deficit this year was \$21 million of which \$17 million is bond interest and fees. UTOPIA operates the network and all salaries/wages and NOC operating expenses are paid out of UTOPIA. UIA, through a management fee or per connection, transfers money to UTOPIA for running the agency. UTOPIA will continue to be in a deficit position until it is able to start making debt service payments on its own and not continuing to incur debt to the cities.

Mr. Timmerman stated this is a challenge politically every year because it appears UTOPIA is losing money. UTOPIA is accounting for payments made on bonds from ten years ago. Any interest that accrues on Notes Payable to the cities is new debt on UTOPIA's books. If the debt

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obligations and interest were excluded on the original UTOPIA bonds, the organization is in a pretty good position. The money in UIA is doing very well so staff comes up with justifiable ways to move money from UIA to UTOPIA so UTOPIA is covering all its costs. UTOPIA is doing a lot better than it looks on paper.

Ms. Lauret asked how many more years were on the debt.

Mr. Timmerman stated there are about 11 years more on the debt.

Ms. Harvey added of the \$21 million increase in the deficit fund balance, \$5 million is depreciation so it is a noncash item. The other \$16 million is bond interest and fees.

Mr. Timmerman stated the Finance Committee has been tasked with creating ways to offset payment obligations in UTOPIA from revenues in UIA. UIA has a strong financial position which is being utilized right now to finish the network. Once that is done there will be an opportunity to offset a big part of the UTOPIA ongoing obligations. Someday, there may be discussion about paying back cities for payments made in the past but that may require several more city partnerships. At UTOPIA there is a 2% annual increase in the debt service payments; UIA started to pay that amount so cities shouldn't see an increase. Cities that made OpEx payments are paid back that amount. In two years, when all OpEx payments are paid off, even cities that didn't make OpEx payments will have a portion of their debt obligations paid by UIA at a higher percentage each year.

Ms. Lauret asked what date the whole network will be built out.

Mr. Timmerman stated there are some things in the schedule that push out to 2023 but buildout will be essentially complete in 2022. Financially, UIA could accelerate repayments to the cities but the priority is to build out the network.

Ms. Lauret asked if restructuring the debt is a possibility since rates are so low right now.

Ms. Harvey stated there are derivatives attached to the debt and if it was restructured now, the organization would have to come up with \$87 million to settle the swap.

Mr. Timmerman stated there was a refund and refinance at UIA and there are good rates associated with those bonds.

Mr. Hanson requested a general idea of how the management fee is set up.

Ms. Harvey will send him a schedule. A large part of executive staff salaries and benefits are charged to UIA, probably 95%.

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Mr. Timmerman stated the desire is to have UIA pay more and things have been changed to reflect that. Staff used to be completely paid by UTOPIA but most of his time is spent on UIA business so it's fair to have that organization pay his salary.

There were no public comments.

**ACTION: Brant Hanson (Centerville City) MOVED to close the public hearing. Debby Lauret (Orem City) SECONDED the motion. A roll call vote was taken - vote was unanimous.**

**4. CONSIDER APPROVAL OF RESOLUTION 20-01: A RESOLUTION OF UTAH TELECOMMUNICATIONS OPEN INFRASTRUCTURE AGENCY (UTOPIA), AMENDING THE BUDGET FOR THE FISCAL YEAR BEGINNING JULY 1, 2019 AND ENDING JUNE 30, 2020.**

This item was discussed during the previous agenda item.

**ACTION: Brant Hanson (Centerville City) MOVED to approve resolution 20-01 amending the budget for the fiscal year beginning July 1, 2019 and ending June 30, 2020. Debby Lauret (Orem City) SECONDED the motion. A roll call vote was taken – vote was unanimous.**

**6. ELECTION OF UTOPIA BOARD OFFICERS**

The UTOPIA board is as follows: Wayne Pyle (West Valley) – Chair; Sam Lentz (Orem City) – first vice chair, which is now vacant; Adam Cowie (Lindon) – second vice chair; Kane Loader (Midvale) – third vice chair; and Shawn Warnke (Tremonton) – fourth vice chair.

**ACTION: Adam Cowie (Lindon City) MOVED to retain the current leadership, with the addition of Debby Lauret (Orem City) to replace Sam Lentz as the First Vice Chair. Kane Loader (Midvale City) SECONDED the motion. A roll call vote was taken - vote was unanimous.**

**7. UTOPIA CALENDAR YEAR END SALES REPORT**

Ms. Kim McKinley, UTOPIA Chief Marketing Officer, stated 2019 was UTOPIA's best year for residential sales. Gross residential sales ended the year at 5,815 with a net growth of 4,709 customers leading to a total customer base of 27,023. At the end of 2017 there were 18,000 so the growth is tremendous. There is still steady and significant business growth. Along with great sales, UTOPIA has a great reputation in the marketplace. There are 911 customer google reviews and the overall score is 4.5.

Ms. Lauret asked if those are unsolicited reviews.

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Ms. McKinley stated new customers and those with repairs are asked to submit a google review. The organization is entrenching itself more in the business community. There has been a lot done with EDCUtah and they want to do a photoshoot at the office and put UTOPIA in their investor magazine. EDCUtah is highlighting why UTOPIA is great and how it differs from other fiber networks.

Mr. Timmerman stated the focus is to attract business to the State of Utah because it has the best fiber infrastructure. This will hopefully attract businesses to member cities as well.

Ms. McKinley stated the growth is from the support of UTOPIA's member cities. There are tremendous take rates in the cities that promote and support the organization.

Ms. Lauret asked for a graph to track rates.

Mr. Timmerman stated residential is tracked through take rates. Business is tracked with revenue because it differs from one to another. He presented a graph showing take rates for all member cities. When new areas are released the graph goes down, but the overall subscriber base is always growing.

Ms. McKinley stated January 2020 was the biggest month ever with approximately 580 sales. Her goal this year is 7,000 new sales. The first area in Morgan was released December 31, 2019 and by January 31, 2020 there was a 20% take rate.

Ms. Lauret asked what overall take rate is.

Mr. Timmerman stated overall take rate is 29%. Areas with a lot of construction will see a lot of growth in take rate. It's not only about the customers you gain but also about the ones you lose. The churn rate is below 4% even though it is easier to cancel since there are no contracts.

Ms. McKinley stated some of the providers have contracts but UTOPIA has month to month leases. That was done because of college students that move in and out and high rental areas. When a customer signs up and then moves, it makes it easy for the next one moving in to sign up and receive service that day.

Ms. Lauret asked if the purchase option is still available.

Mr. Timmerman stated staff has tried to eliminate that option, but it is still available if customers would like it. It is better if the company has month to month revenue.

## **8. UTOPIA FINANCIAL UPDATE**

Ms. Harvey presented a table showing the original FY2020 Budget, the proposed amendments adopted earlier, and the FY2020 Amended Budget. There is also a column showing YTD as of 12/31/19 and the percentage of the FY2020 budget that has been used. The biggest component of

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revenue is access fees which is the \$30 infrastructure fee plus revenue from the service provider. There was \$7.5 million budgeted which was relatively flat compared to FY2019; budget is at 45% right now. All growth on the network is occurring on the UIA side so UTOPIA revenue is expected to flatten. All UEN revenue is accounted for in UTOPIA.

Mr. Timmerman stated there were some cancellations from UEN. There is new business with UEN as well but last year was not as good as hoped for. There was an enormous RFP the organization responded to and hopefully will be awarded. UEN is the Utah Education Network and is made up of schools in the state. Hospitals are also tied into that.

Mr. Isaac asked if there are any challenges related to the legislative session this year. There is \$144,000 being spent on lobbyists.

Mr. Timmerman stated there is always a threat. The Salt Lake Tribune identified telecommunications as one of the largest industries with lobbying. Comcast was at the top of the list. The lobbyists are actively engaged and keeping track of UTOPIA. It has been cut back over time and at this point staff is happy with what is coming back from them. Legislators are giving more support to UTOPIA than ever before. He feels the money is well spent.

Mr. Cowie asked if the lobbyists are a firm or individual.

Mr. Timmerman stated the lobbyists consist of multiple individuals.

Mr. Cowie feels it is important to put money towards lobbying.

Ms. Harvey stated, related to overall expenditures, the Administration Department is at 52%, Marketing/Customer Service is at 54%, Operations Management is at 53%, Network Operating Center is at 52%, Field Services is low at 35% because locating personnel was just hired and costs will catch up, Network Engineering is at 45% and Outside Plant Construction/Engineering is at 39%. A splicing crew of three was budgeted but has not been filled yet. Non-departmental is on track at 49% of budget. Seventy-two percent of Capital Purchases has been equipping Locators with their equipment. Total expenditures is at 46% of budget. Everyone is doing a great job keeping their departmental expenditures in line with budget.

Mr. Timmerman stated if board members are interested in the overall progress, they should refer to the UIA budget as well.

## **9. UTOPIA NETWORK UPDATE**

Mr. Timmerman shared a subscriber report that he will also email to board members. As an overall network update, new city partnerships continue with Morgan, West Point and Woodland Hills. Idaho Falls is a hybrid where there is no staff, but they are charged overhead for services provided such as the NOC. The Idaho Falls contract is with UTOPIA and brings in \$5,000 to \$6,000 in revenue per month and will increase as the system grows. There are several other cities

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looking to do UIA partnerships and those will be presented in the next couple of months. Each new city partnership is good for the organization because new cities take on the risk for the projects, yet the organization receives revenue for it. UIA then pays more money to UTOPIA for operating the network so there is an upside for UTOPIA as well as UIA. Regarding the network, upgrades continue to be made; UTOPIA currently offers 250 Mb to 10 Gb services for residential and up to 100 Gb to businesses. Those are the best services in the country and the best price for a 10 Gb service. About half of the customers are willing to pay more for 1 Gb service which shows the desire for larger services. There are many things out there that can utilize the larger bandwidth which drives consumers to UTOPIA's services. The successes are due to the efforts from the entire team as well as support from the cities.

Ms. Lauret asked if there are any concerns on the horizon.

Mr. Timmerman stated there are currently not any significant concerns.

**10. ADJOURN**

There being no further business of the UTOPIA Board of Directors, the meeting on Monday, February 10, 2020, was adjourned at 11:10 AM.

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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*

Christa Evans, UTOPIA Secretary

Approved this 13<sup>th</sup> day of April, 2020

