UTAH INFRASTRUCTURE AGENCY (UIA)

BOARD MEETING MINUTES
April 13, 2020
8:30 AM

UTOPIA FIBER OFFICES
5858 SOUTH 900 EAST
MURRY, UTAH 84121

Board Members Present: Meeting conducted electronically

Board Members Joining Electronically:
Alex Jensen – Chairman, Layton City
Jason Roberts – First Vice Chair, Brigham City
Matt Dahl – Second Vice Chair, Midvale City
Jamie Davidson – Third Vice Chair, Orem City
Paul Isaac – West Valley City
Brant Hanson – Centerville City
Brenda Moore -- Murray City
Mayor Jeff Acerson – Lindon City
Councilmember Mark Sorensen – Alternate, Payson City

Officers Joining Electronically:
Roger Timmerman – UIA Chief Executive Officer
Laurie Harvey – UIA Secretary/Treasurer
Joshua Chandler – UIA General Counsel

Others Joining Electronically:
Christa Evans – UTOPIA Secretary
Kimberly McKinley – UTOPIA Chief Marketing Officer
Aaron Leach – UTOPIA Chief Operations Officer
Brad Patterson – Bond Counsel, Gilmore & Bell
Laura Lewis – Financial Advisor, Lewis Young Robertson & Burningham
Nate Robertson – Financial Advisor, Lewis Young Robertson & Burningham
Summer Palmer – Assistant City Manager, Clearfield City

1. WELCOME AND INTRODUCTIONS

The UIA Board of Directors held an electronic board meeting Monday, April 13, 2020. The meeting was live streamed to allow public viewing. UIA Chairman Alex Jensen (Layton) called the meeting to order at 8:40 AM. He welcomed all attendees. He introduced Summer Palmer, Assistant City Manager for Clearfield City, who joined the meeting to represent Clearfield City.

UIA Total Votes Present: 439
UIA Majority Vote: 220
UIA 2/3 Vote: 293
2. APPROVAL OF MINUTES – FEBRUARY 10, 2020

There was no discussion on the minutes.

ACTION: Jason Roberts (Brigham City) MOVED to approve the minutes from the UIA board meeting held February 10, 2020. Paul Isaac (West Valley City) SECONDED the motion. A voice vote was taken - vote was unanimous.

3. CONSIDER APPROVAL OF RESOLUTION 20-04: A RESOLUTION AUTHORIZING AND APPROVING AN AGREEMENT BETWEEN CLEARFIELD CITY, UTAH (THE "CITY") AND UTAH INFRASTRUCTURE AGENCY ("UIA") FOR UIA TO PROVIDE CERTAIN SERVICES TO THE CITY; AUTHORIZING THE CHAIR OF UIA OR OTHER DESIGNATED OFFICER OF UIA TO EXECUTE AND DELIVER THE SAME.

Mr. Roger Timmerman, UIA Chief Executive Officer, stated survey results from Clearfield City came back very strong. The city has a strong business environment and there have been a lot of requests from schools over the years. There is a good mix of residential, business and government. There is strong support from the city. From a build perspective it would be very good for the organization; there is already fiber in the city. From a capacity perspective this build will work well and won’t affect other build projects.

Mr. Jensen asked about the terms of the contract.

Mr. Timmerman stated the structure is a bond that covers the cost of building out the city as well as installations to customers needed to break even financially. The infrastructure revenue counts toward meeting that obligation, so the city has a guarantee up to the financed amount. Revenues from residential services, the city’s own services and a portion of business revenues go toward the debt obligation. There is transport revenue for all customers that covers UIA’s cost separate from the debt cost. The financial backstop is on the city. It is the same structure as West Point.

Mr. Jensen asked what the ratio of overhead to underground is.

Mr. Timmerman stated there are some sections with aerial, but most is still planned to be underground. The density is very good so that helps with build cost. It is favorable from a build perspective.

Ms. Laura Lewis, Financial Advisor, Lewis, Young, Robertson & Burningham, asked how builds in other cities are progressing.

Mr. Timmerman stated, regarding cities that were not original member cities, Woodland Hills is completed and has a 70% take rate. The next was Morgan City which has been completed and has over 30% take rate and is still growing very fast. Only half the city has been available for a few months. In West Point, the first neighborhood was finished and a lot of signups are coming in but it is too early to gauge that project. Morgan City is probably the best indicator of how these new city projects have gone. Regarding member city projects, Layton was a city backed incremental finish of the city and take rate and revenue targets have already been cleared. That has been a great
success. Payson is another city specific backstop but it is still too early, although, things are
trending well. Regarding the not-to-exceed construction amounts, Woodland Hills went over a
little, Layton came in under budget and Morgan City went over a little bit. In Morgan there was a
crossing under the freeway that did not go well which added cost. There is buffer of about
$1,000,000 built into the Clearfield Project to cover any cost overruns.

Ms. Lewis asked what is done with the money if it is not used up.

Mr. Timmerman stated it gives more ability for expansions related to growth over time. Cities add
new homes and developments, so the money is available for that.

Mr. Davidson asked where money comes from to cover overages in projects that went over budget.

Mr. Timmerman stated UIA covers those overages but gets that money back quickly because of
transport revenue from every customer. The goal is for projects to have no cost to UIA at all but,
worst-case scenario, in about six months to a year the project will break even from UIAs
perspective.

Mr. Jensen asked if the projects going over budget was due to inaccuracy in the construction
estimate or due to one off situations, such as the crossing in Morgan.

Mr. Timmerman stated Morgan City went over budget due to that one crossing. Woodland Hills
was a different situation. There had been some turnover and Jamie Brotherton did the estimate
prior to retiring. When it came time to build, the organization did not have the details that went
into that estimate. It was a combination of soil conditions and houses spaced far apart. Although
buffer was added, it still went over. It could also be contributed to it being very different from
other builds. Clearfield, has more typical conditions and possibly more favorable than an average
build. There is also a higher buffer than any of the projects before.

Ms. Summer Palmer, Assistant City Manager, Clearfield City, stated they are excited about the
possibility of having UTOPIA in their city. Residents ask about it regularly as well as development
partners that ask about fiber options. It is enticing for them to come in and build in the city. The
council is very excited and has been pushing this for over a year; even some of the most
conservative council members are completely on board with the concept and contracts that were
presented.

Mr. Jensen asked what the schedule for adoption of a contract is on the city’s end.

Ms. Palmer stated it has already been adopted by the city.

Mr. Timmerman added it was a unanimous vote and they are very supportive.

Ms. Lewis does not have any concerns. The debt service numbers have been modeled around the
dollar amount adopted in the service agreement. There is a little bit of head room. There is a lot
going on that is impacting the market; it is quite volatile, but there is enough head room to make
it happen.
ACTION: Jason Roberts (Brigham City) MOVED to approve resolution 20-04 executing a service contract between UIA and Centerville City. Paul Isaac (West Valley City) SECONDED the motion. A roll call vote was taken – vote was unanimous.


Mr. Timmerman stated this is the debt issuance for the Clearfield City project. There is a couple years of capitalized interest included so there is time to build the network, market it, and get revenues growing. There is a bit of a head start on this one because there is already some fiber in the city. There has been a lot of preliminary work done with the city as well.

Ms. Lewis stated when she sets parameters, she tries to leave an adequate amount of cushion in case something runs amiss. With markets moving like they have there is capitalized interest built into these numbers. If interest rates go up, she will need to find a little more capitalized interest. At the current time if there were no original issue premium the par amount of the bonds would be about $13.8 million. When the numbers were last run, it was expected to have about $1.9 million in capitalized interest so now the par amount would be about $11,940,000. The head room of $15 million is good for some worst-case assumptions. She expects the market to come back but the tough thing is knowing when. Current numbers show a debt service of about $715,000. The service agreement has it at about $737,000 as the maximum amount that Clearfield has pledged. The expectation is that staff will meet with the rating agencies toward the end of this month. She believes it will be conducted much like this meeting. Pricing will be around the first part of June and it will close by June 23. The parameters are set at $15 million maximum par amount, 5.5% maximum interest rate and not more than 30 years. It has set the designated officers, those who can give final approval, as any two of the Board Chair, Board Vice Chair, Chief Executive Officer or the Secretary/Treasurer.
Mr. Timmerman stated the hope is to do better than that but this is allowing for some headroom.

Mr. Jensen asked what the anticipated buildout timeline in Clearfield is.

Mr. Timmerman stated the first footprint to come on will be in about a year with each footprint coming in every two months thereafter. That completes the buildout within two years which is a conservative schedule. It will be started upon approval of the contract but financing will not close for a couple of months which gives more time for the capitalized interest period before the obligation starts.

ACTION: Jason Roberts (Brigham City) MOVED to approve resolution 20-05, approving the parameters of the bond with Centerville City. Paul Isaac (West Valley City) SECONDED the motion. A roll call vote was taken – vote was unanimous.

5. CONSIDER APPROVAL OF RESOLUTION 20-06: A RESOLUTION OF UTAH INFRASTRUCTURE AGENCY (UIA), ADOPTING THE TENTATIVE BUDGET FOR THE FISCAL YEAR ENDING JUNE 30, 2021 AND SETTING A DATE AND TIME FOR A PUBLIC HEARING REGARDING THE FY 2021 BUDGET.

Ms. Laurie Harvey, UIA Secretary/Treasurer, stated this is a tentative budget which is required to be adopted each year before the regularly scheduled meeting in May. The tentative budget is a starting point so there is still some work to be done, especially on the UTOPIA side. The UIA budget is less complicated because the operating budget is in UTOPIA. She presented a spreadsheet showing the FY 2019 actuals, FY 2020 final amended budget, YTD 2020 as of March 31, and the projected balance with percentage of FY 2020 budget. There is also a column called base budget which assumes the current budget with revenue growth the organization is experiencing and expects to receive in FY 2021. Total revenue anticipated is $21.8 million which is 24% above where FY 2020 is projected to end at $17.7 million. A lot of time has been spent working on the chart of accounts and general ledger in order to segregate the different components of revenue. For FY 2021 there are lines; Transport – UIA Residential & Business, Revenue Pledged to City Specific Bonds, Fiber Lease Revenue, Fiber Lease Revenue Pledged to City Specific Bonds, and Bandwidth, NNI, DIA charges. From this point forward it will be easier to identify and track the different components of revenue. Overall, with the base budget and estimates of revenue, based on the current rate of growth, gross is expected to be 24% higher in FY 2021. On the expenditure side for UIA, Professional Services is money paid to cities for managing CUE payments, billing customers and remitting payment each month. A substantial portion of advertising is now being charged to UIA because so much of the growth is there. It is believed FY2020 will finish with revenue $672,000 over the budgeted estimate. In the base budget, $700,000 has been estimated for advertising but that number may be refined between now and June when the final budget is adopted. Bank Service Charges is proposed at $160,000. The two large numbers are transfers from UIA to support UTOPIA. The UIA Service Contract Agreement is about $3.3 million for 2021; that is based on the number of connections in 2021. Revenue comes from UIA to UTOPIA for the Network Operating Center to manage the network for provisioning which is a flat fee per new connection, field service maintenance is based on the number of addresses passed and a per unit charge for huts and shelters out in the field. The next exercise is to determine if that fee needs to increase as the costs for UTOPIA increase. Management fee to
UTOPIA has been increased by 3%. Total expenditures of $6,400,000 leaves an operating profit of $15,392,900. The next page covered Financing/Investment/Capital. Debt service for FY 2021 is almost $11 million; $1.7 million of that will come from Cap I funds currently held by the trustee. The scheduled repayment of OpEx Notes Payable to the cities is $1.12 million. About $1 million of revenue is expected on Interest on Restricted Funds which is interest on money sitting in bond construction accounts. Regarding contribution from bond construction funds, there was about $40 million budgeted for network expansion in 2020 and there is still around $10 million of that money remaining to take the organization into 2021. There has not been anything budgeted for proceeds from debt issuance; this includes revenue proceeds from the debt issuance on the Clearfield bond. It is anticipated that a general UIA bond will happen in late spring/early summer of 2021 to finish out the build of the network. She presented the new positions requested for UTOPIA. These positions still need to be discussed with the department directors to determine which will be funded. With the transfer of money for the service contract from UIA to UTOPIA there will be adequate funds to cover new positions that are determined to be needed. Some positions are a result of the system and network growing. There is still analysis to do to determine which of the eleven positions are needed and the timing of each position.

Mr. Timmerman stated these positions will be scrutinized to determine need. There has been a lot of growth which puts a strain on resources. When UTOPIA started, it took seven or more years to get to the first 10,000 customers. Now there are 27,000 customers. Last month there were 1,100 new customers added. Some of that is due to Coronavirus but it is still expected to remain higher than in the past, around 600 to 700 monthly. Resources are needed to manage the size of the network but the rate of growth is pushing things a bit with new neighborhoods and areas available. The number of employees has grown over the year to 73 but eleven of these positions was a result of bringing locating in house and is not necessarily an added expense but a movement of funds. Based on cost of services he believes the organization has grown very conservatively. The network can't grow without the expectation of some new positions. There has been some in-housing of warehousing, which has saved some money, so an additional employee is being requested bringing the total to two. Not all positions have been approved and many of them are proposed for cost-saving purposes.

Ms. Harvey addressed the rapid growth and said the system addresses passed is anticipated to increase 40% from July 2019 to June 2021. System connections will increase by 48% in that same time period.

Mr. Jensen asked if the 1,100 customers that came on the network this past month was mostly residential due to telecommuting.

Mr. Timmerman stated most growth and build has been in residential. The business team has been augmented a bit and there have been some builds to support business. Business revenue has grown but has not been the exponential growth seen on the residential side. Business is a very competitive market and there are a lot of other options for fiber, but he believes UTOPIA is still competitive in the market. Residential there are not any other options when it comes to fiber. Expanding the network drives residential a lot. The other providers are relatively better when it comes to business.
Mr. Jensen stated revenue projections for next year are very positive and aggressive. He asked if it is based on what has happened within the last year or the last twelve months.

Ms. Harvey stated the revenue projections are conservative and based on the last twelve months.

Mr. Timmerman stated the forecast is based on what happened before Coronavirus and not during. They look aggressive if you look at the history of UTOPIA but looking at the tail end of last year things have been growing even move than what has been projected.

Mr. Jensen asked if moving the locating functions in-house has been a good change and if it looks like it will pay off.

Mr. Timmerman stated a lot of the work was being missed and the company was paying a premium on it. This first year it was not expected to save a lot of money because there was a lot of capital needed such as trucks and equipment purchases. Saving should be experienced next year when there are only staffing expenses. The team is doing a great job, the quality of work is much better and the number of outages due to hits is much better. Outages are very difficult for the network and minimizing those is very beneficial.

Mayor Acerson, Lindon City, asked if the growth being experienced is across the system or specific to a few cities.

Mr. Timmerman stated it has been both. Take rate has not decreased in any city; every city across the board has added customers. Obviously, there is more in areas where a lot of building is going on. Layton has seen the most due to the Layton specific project. Even if new areas were not added there would still be subscriber growth, better than there ever has been in the past. Layering on top of that, the organization is building out new footprints faster than ever which is really adding to growth.

Ms. Kim McKinley, UTOPIA Chief Marketing Officer, mentioned that Vivint Wireless shutting down added to the spike in sales.

Mr. Timmerman added that is something that affects all cities but Lindon and Orem in particular.

**ACTION:** Mayor Jeff Acerson (Lindon City) MOVED to approve resolution 20-06 adopting a tentative budget for FY 2021 for Utah Infrastructure Agency (UIA), and setting a public hearing for June 8, 2020. Brenda Moore (Murray City) SECONDED the motion. A roll call vote was taken – vote was unanimous.

6. **UIA FINANCIAL UPDATE**

Ms. Harvey stated average recurring revenue systemwide for both UIA and UTOPIA is a little over $2 million monthly. UIA is averaging a $30,000 increase in month over month revenue since July. UTOPIA is staying flat. There is a healthy fund balance in UIA; enough to fund some of the plant expansion for the network when bond proceeds are exhausted in March of 2021 before another bond is issued. At that point, UIA will be reimbursed for any construction costs. There
was a recent transfer of funds to Moreton Investment Advisors because staff feels they could do better than the current PTIF. All city specific bond projects are on target to make the required debt service after the Cap I period is over. Layton’s first interest only payment is due in October 2020. Those monthly installments begin in July 2020 and they are in a very good position to begin making those debt service payments. The finance department is currently working to break out budgets for each department and change the way city specific projects have been accounted for. This requires staff to learn new GL account numbers to improve transparency. The Finance Committee met and brainstormed ways to get money from UIA to UTOPIA to start reducing the Note Payable to cities in UTOPIA. She was asked to work on long-term projections so there is a better idea of the timing and amount of funds that will be available for distribution. There is a plan to contract with a grant writer to pursue some opportunities for grants that staff has not been able to go after. UIA / UTOPIA combined revenue has reached a big milestone of over $2 million monthly. UIA Revenue vs. Bond Obligation shows February gross revenue of $1.5 million. Debt service being made from capitalized interest - Layton, Morgan, Payson, West Point, UIA General Bond 2019 Series and Clearfield, which adds about $60,000 per month - combined with bonds and interest payments being paid out of UIA funds will reach close to $1.2 million. There is still significant head room between monthly recurring revenue and cumulative debt service payment.

Mr. Jensen asked if there is anything on the horizon from a technology perspective that may affect UIA and this continued growth.

Mr. Timmerman stated this is asked of staff with every new city project and with bond rating agencies. Satellite broadband is not a threat at all. There are some interesting fixed wireless options powered by 5G but they still don’t meet the growing consumer demand. 5G is great for mobile devices, sometimes UTOPIA even sells connectivity for them, but it is not sufficient to meet the primary service need in a home. A wireless network cannot handle an entire neighborhood like an individual fiber connection to each house. There are many usage changes leading to the need for a better connection such as streaming media, working remotely, tele health & tele education. The trend toward those technologies is very strong; some of it is by choice and some is forced on people due to the circumstances of Coronavirus. Everything favors more fiber adoption. There is no reason to believe growth will not continue. Even if the country were to go into a recession, UTOPIA did not see a decrease in subscribers during the last recession. If anything, it makes people scrutinize their bills and make the change to an affordable fiber connection.

Ms. McKinley stated the trend is high right now and will probably be around 700 to 800 for this month. Last Monday was the third highest sales day with over 70 sales.

Mr. Jensen asked if staff was aware that the state, as a response to Coronavirus, put out a list of where people could go for internet services and did not include UTOPIA.

Mr. Timmerman stated there was a page on the state website, and it omitted UTOPIA. The Governor’s Office of Economic Development has a broadband outreach center and they were looking for programs being offered by various providers and UTOPIA was included on that one. He is not sure why UTOPIA was omitted on the other one but is probably worth looking into to make sure the organization is on the radar of the state.
Mr. Acerson asked if previous projections of when OpEx payments would be made in full was still on track.

Mr. Timmerman stated checks and letters were issued and mailed out. Lindon was a different situation. This fiscal year has been completed. The plan in the budget for next year is to continue the increase of that. The schedule has it paid out by 2023.

Ms. Harvey will send Mayor Acerson the presentation showing when Lindon will begin to receive funds.

7. UIA NETWORK UPDATE

Mr. Timmerman stated he sent out monthly subscriber reports to board members that show how cities are doing collectively and on an individual level. It shows growth and build in each city.

8. ADJOURN

Mr. Jensen asked if there were any items board members would like to see on an upcoming agenda. Board members did not have any suggestions.

There being no further business of the UIA Board of Directors, the meeting held on Monday, April 13, 2020, was adjourned at 9:56 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 8th day of June, 2020