

UTAH INFRASTRUCTURE AGENCY (UIA)

BOARD MEETING MINUTES

February 14, 2022

8:30 AM

UTOPIA FIBER OFFICES
5858 SOUTH 900 EAST
MURRAY, UTAH 84121

Board Members Present: Brenda Moore – Murray City

**Board Members Joining
Electronically:**

Alex Jensen – Layton City, Chair
Jason Roberts – Brigham City, First Vice Chair
Jamie Davidson – Orem City, Third Vice Chair
Kyle Maurer – Midvale City
Nicole Cottle – West Valley City
Brant Hanson – Centerville City
Mayor Carolyn Lundberg – Lindon City
Jason Sant – Alternate, Payson City

Officers Present: Roger Timmerman – UIA Chief Executive Officer
Joshua Chandler – UIA General Counsel

**Officers Joining
Electronically:** Laurie Harvey – UIA Secretary/Treasurer

Others Present: Christa Evans – UTOPIA Secretary
Kimberly McKinley – UTOPIA Chief Marketing Officer

**Others Joining
Electronically:** Aaron Leach – UTOPIA Chief Technology Officer
Ben Bailey – Auditor, Keddington & Christensen
Jarrett Waite – Councilmember, Santa Clara
Brock Jacobsen – City Manager, Santa Clara

1. WELCOME AND INTRODUCTIONS

The UIA Board of Directors held a board meeting on Monday, February 14, 2022. The meeting was live streamed to allow public viewing. UIA Chair Alex Jensen (Layton City) called the meeting to order at 8:41 AM. He welcomed all attendees.

UIA Total Votes Present: 439

UIA Majority Vote: 220

UIA 2/3 Vote: 293

February 14, 2022

2. APPROVAL OF MINUTES – DECEMBER 13, 2021 & JANUARY 10, 2022

There was no discussion on the minutes.

ACTION: Nicole Cottle (West Valley City) MOVED to approve the minutes from the UIA board meetings held December 13, 2021 & January 10, 2022. Brant Hanson (Centerville City) SECONDED the motion. A voice vote was taken - vote was unanimous.

3. FINANCIAL AUDIT FY2021

Ms. Laurie Harvey, UIA Secretary / Treasurer, presented financial highlights from UIA FY2021. The audit would have normally been presented before December 31, but it is late due to a combination of factors. The depreciation method was changed which took time to put in place and there was also a change in staff with the Treasurer resigning. Financials still haven't been finalized but the auditor agreed to join the meeting and review the work done thus far. The packet contained a draft of the financial statements. It was a very good year for UIA. Average monthly recurring revenue increased by 28.5%; from \$1.4 million to \$1.8 million. The number of subscribers on the UIA/UTOPIA network increased by 29%; from 30,993 to 40,029. Operating revenue increased by 30.6%; from \$17 million to \$22 million. Two city partnerships were added bringing the total for FY2021 to four. Fixed assets was increased by \$57.5 million; some of that is in construction in progress. She showed a four year comparison of the balance sheet from FY2018 to FY2021. Current assets increased from \$13.8 million to \$82 million; some is in restricted cash held by the trustee and available either for debt service or construction of the network. Noncurrent assets (fixed assets net of depreciation) increased from \$78 million to \$206 million. The deferred charge on refunding is amortized over the length of the 2017 refunded UIA Bonds. Total assets is now \$293 million. Current liabilities is \$16 million. Long-term liabilities has grown from \$86 million to \$277 million as debt issued for UIA and some city partnerships has increased. Net position for 2021 is negative \$444,000 which is an increase from the net position of 2020. A lot is due to changing the estimated life of the conduit and fiber. Over the last ten years it has been depreciated assuming the life is 25 years. Fifty years could have been justified but to be conservative the life of conduit and fiber was extended to 40 years. By FY2022 UIA will be back to a positive net position. She showed a four year comparison of revenues, expenses and change in net position from FY2018 to FY2021. Operating revenues increased from \$10 million to \$22 million. Operating expenses have gone from \$2.6 million to \$6.7 million. The largest operating expense for UIA is the payment to UTOPIA. Depreciation was separated out. In FY2020 it was at almost \$9 million and, by changing the expected life for conduit and fiber, even though \$57 million was added to fixed assets, depreciation for FY2021 is \$6.7 million. Net operating income of \$8.9 million for FY2021. Non-operating revenues is \$1.6 million, bond interest and fees is \$9.9 million, which leaves an increase in net position bringing it back into the positive at \$545,856. She displayed a graph showing a comparison of revenues and expenditures from the past few years. There is a glitch because Idaho Falls activity was being reported in UIA until FY2020. In FY2019 there was a lot of construction costs and construction revenue. It looks like there was a dip in 2020 but it is mostly due to the Idaho Falls revenues and expenditures. Depreciation was high for 2020 but has dropped back down for 2021. Bond interest & fees is moving along at the expected pace. The last two columns are total revenues and total expenditures which are moving at the expected pace as well. Total expenditures slowed down for FY2021. She provided a synopsis of where cash was spent this year.

February 14, 2022

The year started at \$11 million (unrestricted current assets less current liabilities). Revenue including interest and contract payments brought in \$25 million. Six million was spent on operating expenses, \$8.3 million of the organization's money was spent on debt service (some debt service was paid from capitalized interest accounts). Repayment of operating assessments was \$1.3 million and inventory increased to \$5 million. This brings unrestricted cash less current liabilities to \$18 million. Some of that was spent down due to UIA construction funds that were spent but will be replenished when the UIA general bond is issued in a few months.

Mr. Roger Timmerman, UIA Chief Executive Officer, explained there is a 2-3 year maturity cycle when a network is built. Money is spent to build a network, but it takes time to complete it and then add customers before there is revenue growth. The revenue growth seen this year is the result of construction from 1-3 years ago. The \$50 million of fiber network being put in right now will not see revenue this fiscal year. The revenues from that investment will be seen 2-3 years from now. He is happy with how things are trending when looking at current year expenditures and revenues. Revenues lag by a couple of years so he is seeing a future of significant revenue growth above and beyond what is seen today.

Mr. Ben Bailey, Auditor Keddington & Christensen, stated the audit was designed to obtain reasonable rather than absolute assurance. He does not anticipate any problems with the opinion once its issued. It should be a clean, unmodified opinion. Internal controls are looked at but not tested. This year there are no findings anticipated for internal controls and that is the same with state compliance. Estimates for the life of the fiber were changed which the auditors agreed with. They are about 90-95% done at this point and anticipate being done by the end of next week.

Mr. Jensen asked if there were any suggestions or observations the firm would like to pass on.

Mr. Bailey stated there was an issue with inventory but Ms. Harvey took over and made sure it was correct.

Mr. Kyle Maurer, Midvale, thanked Ms. Harvey and her staff for all they do. He has experienced a change in personnel during financial audits and it is very difficult. Kudos to Ms. Harvey and her team for getting everything done.

4. ELECTION OF UIA BOARD OFFICERS

The current UIA board leadership is as follows: Alex Jensen (Layton) – Chair; Jason Roberts (Brigham City) – First Vice Chair; Vacant – Second Vice Chair; and Jamie Davidson (Orem) – Third Vice Chair.

Ms. Nicole Cottle, West Valley City, expressed her gratitude to staff. Having been around for a while, seeing a financial statement like the one just presented is a great thing. It shows the stability of the leadership within UIA.

There were no concerns among those that were nominated.

February 14, 2022

ACTION: Nicole Cottle (West Valley City) MOVED to retain the current leadership on the UIA Board with the addition of Brant Hanson to the Second Vice Chair position. Kyle Maurer (Midvale City) SECONDED the motion. A roll call vote was taken - vote was unanimous.

5. UIA FINANCIAL UPDATE

Ms. Harvey showed a graph of the combined recurring revenue for UTOPIA and UIA. She was excited to report that combined recurring revenue per month has passed \$3 million. UIA is almost \$2.5 million and UTOPIA is starting to grow due to revenue from Idaho Falls. Idaho Falls is growing more rapidly than any other networks right now. The next chart showed the combined recurring revenue increase as a 12-month moving average. It is still consistently at a \$40,000 month over month increase. The next chart showed UIA Revenue vs. Bond Obligation. The Syracuse Bond is represented on this. There are three bonds that will be closing in March (Santa Clara, Cedar Hills and UIA General). The gap is currently the widest it's ever been and there will be no problem with revenue supporting the additional debt. Many bonds are in the capitalized interest period but the organization is paying on about 50% of them.

Mr. Jensen asked what income is generated monthly due to UEN.

Ms. Harvey did not know the answer but can find out and send the information to everyone.

Mr. Timmerman stated last year was the best the organization has ever done with UEN bids. Many of the connections were in areas that were already built out. This year, there were not as many sites bid out and they did not line up as good with where the organizations current coverage is. The agency was awarded about 80 sites which was the second best for any provider. There was a mix of both 1 Gig and 10 Gig sites which adds up to a significant amount of revenue growth. That revenue will blend in with revenue growth throughout the year. It's great revenue but also strategically important to be the preferred provider in member cities. The agency, historically, has not done well with Granite School District and this year was the biggest award from them. On the other side, UIA only wins the bids for the schools by being the lowest cost provider which is bringing a low cost service to schools that is better than any network out there. This is a subsidized program from the federal government so it's good to use that money.

Mr. Jensen asked if there are any UEN connections in Washington County.

Mr. Timmerman stated there are not any there yet. Because the project in that area is so early, UIA could not be too aggressive with the bid.

Mayor Carolyn Lundberg, Lindon, asked how long the federal funding will last.

Mr. Timmerman stated it is called the E Rate program and it is under the universal service funds which come from taxes on cell phone bills. Some are rural programs or lifeline / low-income programs. The E Rate program pays for broadband for schools and also equipment. UIA does not get the money directly but it goes to school districts or entities that bid for the schools which is what UEN does. There is ongoing revenue that comes from those taxes and fees to pay for it.

February 14, 2022

Ms. Harvey added that a new Treasurer was recently hired last Monday, Aaron Shirley. He most recently was the Finance Director for Santaquin, has an MPA from BYU and is a data analyst. He has only been onboard for a week and has already proven his worth.

Mr. Timmerman stated Ms. Harvey will be retiring soon. The agency is currently in the process of hiring a new CFO and has some great candidates.

6. UIA NETWORK UPDATE

Mr. Timmerman sent the subscriber report to all board members. The agency is approaching a milestone of 50,000 subscribers and is hoping to hit that later this year. There are new FTTH projects kicking off in Cedar Hills, Santa Clara and Bozeman. Bozeman is like Idaho Falls where no debt is taken on but is an operating partnership. This creates revenue for UTOPIA. Cedar Hills and Santa Clara are UIA projects and the organization is working vigorously on those. Clearfield is almost wrapped up. Idaho Falls is ongoing and moves forward at the pace they set since they are constructing it. Murray has one and a half footprints left. Orem has two footprints getting wrapped up. Pleasant Grove and Syracuse are well underway. West Valley City has a few footprints under construction. By June most member cities will be substantially complete which is a huge milestone. Services are provided in 54 cities but not necessarily full FTTH projects. Many don't realize how many cities and counties the network reaches. Service providers are continually added. There are about 35 on the business side but they are not listed publicly. Take rates go up across the board. If they go down, it is usually because a lot of new address have been added across the system. There is not a significant threat from any other provider. In broadband, not only has inflation had an effect but also the cost of materials. Broadband pricing is likely to go up yet the agency expects to keep the same pricing. The Agency's economy of scale has grown more than expenses. Everything is looking great. Board members are welcome to share the subscriber report with their cities. There are no new city partnerships today but staff is in conversations with many cities.

Mr. Jensen asked if the effects of the pandemic have exposed any opportunities the organization was not aware of prior.

Mr. Timmerman stated the organization has been making the argument for a long time about the benefits of fiber for telemedicine, working remotely, etc. With COVID, the organization saw its highest growth with people trying to transition to home. Things are back to somewhere in between pre-COVID and when people started transitioning to that. There are more 10 Gig orders because businesses are allowing employees to work from home and even helping pay for it and they require a good connection. The most popular product ordered now is 1 Gig. Every connection installed is 1 Gig and is artificially limited down when subscribers order a lower speed.

Ms. Cottle stated West Valley has been engaged in a few projects that are meant to have a significant impact on what is referred to as the inter-generational poverty cycle which effects many homes in West Valley. In the past she has felt concerned whether anything was making a difference in that area. She can confidently say that UTOPIA has made a difference and is the great equalizer that can interrupt the inter-generational poverty cycle.

February 14, 2022

7. ADJOURN

There being no further business of the UIA Board of Directors, the meeting held on Monday, February 14, 2022, was adjourned at 9:34 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

Laurie Harvey, UIA Secretary

Approved this 11th day of April, 2022

