

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY (UTOPIA)

BOARD MEETING MINUTES

February 14, 2022

10:00 AM

UTOPIA FIBER OFFICES
5858 SOUTH 900 EAST
MURRAY, UTAH 84121

Board Members Present:

**Board Members Joining
Electronically:**

Councilmember Jeffrey Lambson – First Vice Chair, Orem City
Adam Cowie – Second Vice Chair, Lindon City
Shawn Warnke – Fourth Vice Chair, Tremonton City
Matt Dahl – Midvale City
Councilmember Alden Farr – Brigham City
Doug Hill – Murray City
Councilmember Robyn Mecham – Centerville
Councilmember Zach Bloxham – Layton
Todd Christensen – Perry City
Jason Sant – Alternate, Payson City
Nicole Cottle – Alternate, West Valley City

Officers Present:

Roger Timmerman – UTOPIA Executive Director
Christa Evans – UTOPIA Secretary
Joshua Chandler – UTOPIA General Counsel
Kim McKinley – UTOPIA Chief Marketing Officer

**Officers Joining
Electronically:**

Laurie Harvey – UTOPIA Chief Financial Officer
Aaron Leach – UTOPIA Chief Technology Officer

**Others Joining
Electronically:**

Jason Roberts – Alternate, Brigham City
Marc Christensen – Alternate, Tremonton City
Ben Bailey – Auditor, Keddington & Christensen

1. WELCOME AND INTRODUCTIONS

The UTOPIA Board of Directors held a board meeting on February 14, 2022. The meeting was live streamed to allow public viewing. UTOPIA First Vice Chair, Jeffrey Lambson (Orem City) called the meeting to order at 10:00 AM. He welcomed new members to the board (Doug Hill – City Administrator, Murray; Councilmember Zach Bloxham – Layton; Councilmember Alden Farr – Brigham City; Marc Christensen (Alternate) – Assistant City Manager, Tremonton). Ben Baily, Auditor with Keddington & Christensen, also joined the meeting.

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UTOPIA Votes Present: 452
UTOPIA Majority Vote: 279
UTOPIA 2/3 Vote: 371

2. APPROVAL OF MINUTES – DECEMBER 13, 2021

There was no discussion on the minutes.

ACTION: Adam Cowie (Lindon City) MOVED to approve the minutes from the UTOPIA board meeting held December 13, 2021. Matt Dahl (Midvale City) SECONDED the motion. A voice vote was taken - vote was unanimous.

3. FINANCIAL AUDIT FY2021

Ms. Laurie Harvey, UTOPIA CFO, presented financial highlights from UTOPIA FY2021. The draft of UTOPIA financials was received last week and she has not updated the “Management’s Discussion and Analysis”. The auditors have allowed the draft to be presented for this meeting. The final draft should be out by February 29. There were some challenges this year with the Treasurer resigning during the audit and significant changes with the fixed asset schedule. The life of the conduit and fiber assets was changed from 25 to 40 years. Average monthly recurring revenue increased by 12%; from \$574,000 to \$645,000. This is due to the growth in subscribers on the Idaho Falls Network. The number of subscribers on the UIA/UTOPIA network increased by 29%; from 30,993 to 40,029. UTOPIA subscribers are about 10,000, the rest are UIA subscribers. Operating revenue increased by 26%; from \$12 million to \$15 million. Idaho Falls, which is a UTOPIA project, is the fastest growing UIA/UTOPIA city network with 1,805 customers as of June 30, 2021.

Mr. Roger Timmerman, UTOPIA Executive Director, stated as of today there are over 3,000 subscribers on Idaho Falls which gives perspective on how fast it is growing.

Ms. Harvey continued with a balance sheet showing a four year comparison. Current assets stayed about the same at \$2.9 million. As noncurrent assets (fixed assets net of depreciation) depreciate the net amount will decrease. The biggest portion of deferred outflows is the value of the swap agreement in place. If the UTOPIA debt were paid off / refunded today, the agency would have to pay KeyBank and Bank of America about \$84 million. The value of the swap agreement in 2020 was \$110 million and dropped in 2021 to \$84 million. That agreement was put in place when the UTOPIA debt was refunded and it changed the debt from a variable to a fixed rate. This is the biggest reason why UTOPIA debt cannot be refunded and needs to be paid on the regular debt service schedule. Total assets went down from \$179 million to \$150 million which is the difference in the value of the swap agreement. Offsetting that is long term-liabilities which decreased from \$455 million to \$441 million. The swap agreement is shown as an asset and is offset as a long-term liability. Total assets for 2021 is \$150 million and total liabilities is \$448 million, resulting in net position of negative \$298,238,000. Debt service on the UTOPIA bonds is paid with the sales tax pledge from the cities. Each year interest payments are made on the UTOPIA debt and the note payable to cities is also increased. She encouraged them to also look at the UIA financial statements.

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Mr. Timmerman stated great progress is being made at UTOPIA but it is hard to see that if someone is just looking at the financial statements. Looking at both UIA and UTOPIA together helps bring context to the picture.

Ms. Harvey showed a four year comparison of revenues, expenses and change in net position from FY2018 to FY2021. Operating revenues increased from \$8.4 million to \$15 million. Some of this is due to the UIA payment to UTOPIA so as UIA grows, the amount paid to UTOPIA will as well. Operating expenses have gone from \$8 million to \$13 million. Depreciation was separated out. Based on advice from a board member, the life of conduit and fiber was extended from 25 years to 40 years, which is still a conservative number. By making that change, depreciation is down to \$3.3 million; this more closely matches the reality of the life of the assets. There was not much change in non-operating revenues and expenditures. Bond interest and fees dropped a bit because the PTIF rate on the notes payable to the cities was abysmal. There was an increase in net position to negative \$15.7 million, a lot of that change is due to depreciation.

Mr. Timmerman added some of the oldest networks built in Orem and Lindon have fiber and conduit that still has 20-40 years of life. He could even argue it is more valuable now because it costs more to install fiber and conduit. Electronics typically need to be replaced and have been many times. A 40 year depreciation cycle on anything new going in is very conservative.

Ms. Harvey displayed a graph showing a comparison of revenues and expenditures from the past few years. Operating revenues has increased steadily as has operating expenses. The decrease in depreciation expense could be seen. A slight change showed in bond interest rate and fees due to the PTIF rates. Total revenues has been consistently growing with a little bump in 2021 due to Idaho Falls. Total expenditures, which included depreciation, dropped a bit for FY2021.

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 it's 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. Adam Cowie, Lindon, asked if the board will meet again to approve the final audit documents.

Ms. Harvey stated there is no formal action required by the board so once completed she will send them out to the board.

4. ELECTION OF UTOPIA BOARD OFFICERS

The current UTOPIA board leadership is as follows: Wayne Pyle (West Valley) – Chair; Councilmember Jeffrey Lambson (Orem) – First Vice Chair; Adam Cowie (Lindon) – Second Vice Chair; Vacant – Third Vice Chair; and Shawn Warnke (Tremonton) – Fourth Vice Chair.

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ACTION: Zach Bloxham (Layton City) MOVED to retain the current leadership on the UTOPIA Board with the addition of Matt Dahl to the Third Vice Chair position. Adam Cowie (Lindon City) SECONDED the motion. A roll call vote was taken - vote was unanimous.

5. UTOPIA FINANCIAL UPDATE

Ms. Harvey stated 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. She showed a graph of the combined recurring revenue for UTOPIA and UIA. UTOPIA is between \$500,000 and \$1 million per month. With the Idaho Falls network this will continue to grow. 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 final graph 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.

6. UTOPIA NETWORK UPDATE

Mr. Timmerman stated UIA has become a bigger entity than UTOPIA. They are both referred to as UTOPIA Fiber. UTOPIA bonds were only \$185 million while UIA has issued over \$400 million in bonds. UIA also has partnerships that came to the table with their own money like Woodland Hills, Idaho Falls, and Bozeman. Brigham City also paid for a portion of their project. UIA has a lot more projects so there is more revenue and growth forecast there. The partnership of the two entities is mutually beneficial. UIA's growth offsets expenses at UTOPIA. Despite looking at the financial statements of today, the future of UTOPIA looks bright. Idaho Falls has been the greatest growth of revenue for UTOPIA. A similar agreement was entered into with Bozeman Fiber, now branded Yellowstone Fiber, which may eventually become the fastest growing network. He presented the subscriber report which is regularly sent to all board members. There are new FTTH projects kicking off in Cedar Hills, Santa Clara and Bozeman. It showed cities that are essentially done and cities where active building is occurring. Services are provided in 54 cities but not necessarily full FTTH projects. UETN just awarded bids for schools and UTOPIA was the number two winner with 80 awards. The agency is approaching a milestone of 50,000 subscribers and is hoping to hit that later this year. Take rates are also reported based on residential subscribers. 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. Board members are welcome to share the subscriber report with their cities. By summer, most member cities will be substantially complete which is a huge milestone. There is a little left to build in Murray, Orem, and West Valley. There are other partner city projects that are in the queue as well. He added that Ms. Harvey will be retiring soon. The agency is currently in the process of hiring a new CFO and has some great candidates. The agency is busy because demand is high. Each year UIA is increasing the distribution to cities so city pledge payments on the UTOPIA debt do not increase. Staff is looking at ways to decrease the net UTOPIA debt cities pay each year.

Mr. Doug Hill, Murray, asked what the schedule is for next fiscal year's budget.

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Mr. Timmerman stated the preliminary budget will be presented in April and the final budget in June.

Mr. Hill asked if there will be an opportunity to ask budget questions at the next meeting.

Mr. Harvey stated that was correct.

Mr. Matt Dahl, Midvale, is aware the pandemic had a large contribution to the number of subscribers with many people being at home. With the pandemic moving to endemic, is there any change in the marketing strategy regarding that. He also asked if there is anything legislatively that the board needs to know.

Ms. Kim McKinley, UTOPIA CMO, stated a campaign has started to target new people moving into Utah. New transplants are not as familiar with the UTOPIA brand. UTOPIA has done well with the 40+ age range but not as well with the 25 to 40 year old crowd. There are strategies being developed to hit both demographics. The marketing department is continually pivoting to keep UTOPIA relevant.

Mr. Josh Chandler, UTOPIA General Counsel, has been following the Legislative Session closely. He has not seen anything of concern. There are a few proposals that get into administrative things that cities are probably aware of as well.

7. ADJOURN

There being no further business of the UTOPIA Board of Directors, the meeting on Monday, February 14, 2022, was adjourned at 10:44 AM.

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 11th day of April, 2022

