

WORK SESSION OF THE
BRIGHAM CITY COUNCIL
TO REVIEW DISCUSS GO FORWARD PLAN FOR
UTOPIA OPERATONAL EXPENSES
February 21, 2013
6:00 PM

PRESENT:	Dennis Fife Scott Ericson Ruth Jensen Brian Rex Tyler Vincent	Mayor Councilmember Councilmember Councilmember Councilmember
ALSO PRESENT:	Mary Kate Christensen Paul Larsen Bruce Leonard Jason Roberts	City Recorder Economic Development Director City Administrator Finance Director
EXCUSED:	Mark Thompson	Councilmember

Mayor Fife called the meeting to order and turned the time over to Mr. Roberts.

Mr. Roberts stated that when UTOPIA got to the end of the \$185M bonds, the UIA was created and the following strategies were discussed.

- ◆ Going black and the effects of this.
- ◆ Going into maintenance and have cities pay for any operational shortfall.
- ◆ UTOPIA could be sold.
- ◆ Build-out and increase revenue through growth to pay for operations.

It was determined that the UIA would issue bonds and do a build out. Since that time residents in Centerville and businesses in various areas have been built out. They issued \$29.5M of bonds for Phase I. In the overall plan for UIA there was \$65M planned in different phases to be issued for construction of the network; \$29.5M of that has been issued. Brigham City's percentage of this debt is .6%, or \$180,000.

When they were actively building for Phase I, the State Legislature did an audit of UTOPIA. One of the findings was that day-to-day operations should not be funded through debt. The UTOPIA Board proposed that the member cities pay for the operational shortfall.

In the original model, it was assumed that they would pay for operational costs out of the \$29.5M and approximately \$4.5M was used for that purpose, which did not bring in any revenue back into UTOPIA.

After UIA was formed, there was a grant received by UIA cities to build out fiber to government infrastructure. This would greatly expand the footprint and make Phase 2 cheaper. However, this did not create a lot of revenue. The long-term benefit of doing this is that once there is a line in front of a street, anything in the vicinity of that street can be connected for less. Two-thirds of the line to the government building was paid for by a grant, which would be cheaper than paying for 100% of the line in the future.

When UIA was formed the UTOPIA operating loss was over \$3M a year. They are now projecting their operating will be \$2.4M. The UIA Board proposed that this operating shortfall be covered by the UIA member cities. They had a lengthy discussion on how to best distribute this among the cities. They determined the best way to allocate the costs was 50% based on pledge and 50% on assets. Brigham City's allocation would be \$9,422 per month.

Mr. Roberts said the CEO of CenturyLink sent a letter to UTOPIA stating that any contributions made for operational cost should be in the form of a loan. Mr. Roberts explained that the UIA Board spoke about this being a loan and would be paid back to the cities when the UIA becomes profitable. The payment would be subject to the loan being made on the UIA debt.

Mayor Fife said they will have to bond again to get more subscribers and generate more revenue, which increases operating expenses yet they still have to pay the bonds. Mr. Roberts said his understanding is that a lot of the costs are fixed costs.

Mr. Roberts explained that UIA is proposing that the bond draw occur on April 1, 2013 and January 1, 2014. The total amount of the two draws is \$24M. The money would be used for construction installs, stimulus matches, electronics and interest. The projected revenue from this would be \$315,000 per month. Approximately \$144,000 of that would go to decrease the monthly operating shortfall for UTOPIA and UIA. They are asking for \$225,250 in February 2013 from all the cities. Brigham City's portion would be \$9,415. It would drop to \$206,950 in June 2013, of which Brigham City would be responsible for \$8,651 per month. They are not projecting any new revenue until they get enough built out to make the bond payment. They estimate this will be in April 2014. If they issue the other \$24M bond the shortfall would go down to \$62,723 in April 2016. Brigham City's payment would be \$2,622 per month. This is based upon their model.

Councilmember Ericson said nothing UTOPIA has presented has gone according to plan. Mr. Roberts said one option if the City is considering this, is to stipulate that the City will pay as long as they are meeting the schedule.

Councilmember Jensen asked what would happen if the City does not agree to pay. Mr. Roberts said they would probably propose a Plan B. Councilmember Ericson said it did not pass in Murray and partially passed in Centerville. His concern is that the cities told UTOPIA in 2010 that they should market businesses because they would bring in more revenue. Finally they are moving in that direction and it looks like the curve is starting to go up. However, there is not enough data to verify that this will continue long term. He expressed concern doing this based on only four months of data that could be accurate, or could not.

Councilmember Vincent said when the City met with UTOPIA last year he asked them to provide financials and goals. They have not provided anything. Anyone can make projections. Every year they come back and say next year is going to be better. He has not seen any progress. A business cannot be successful by stealing from Peter to pay Paul. Mr. Roberts said he has received monthly financials from them for the last few months and he failed to pass them on. He will provide them to the Council.

Mayor Fife said the City received \$3.9M from the bonds. He asked if it would be possible to pay UTOPIA \$4M and take over the network. It would be less expensive to finance \$4M than what the City would be paying. Mr. Roberts said there is a lot of money being spent on the backbone and the electronics that Brigham City is a portion of and is not included in the \$3.9M number. If the City paid 3.4% of this it could be another \$3M.

Councilmember Rex said the legislative audit reported that in nine years UTOPIA has never operated in the black and even with their projections for the next three years they will still not be operating in the black, yet they want the cities to bond for more money.

Mr. Roberts continued that UIA is projecting 1,144 business subscribers with a business monthly revenue of \$217,000; resident subscribers at 2,000 with revenue of \$100,000 once the bonds are issued and all the build out is completed. Councilmember Ericson felt these numbers were high.

Mr. Roberts said the dilemma is what other option does the City have.

Mayor Fife asked if the service was cut, would the City have to pay those people that have signed up. Mr. Roberts said that is unknown. There is a possibility a customer could come back to UTOPIA and/or the City.

Councilmember Vincent said UTOPIA is not being accountable. They come back every year and say there is a shortfall. It is frustrating that they cannot run UTOPIA as a business and realize that they have to stay within the parameters of the operating budget. He suggested this be tabled until there is more information.

Mayor Fife recommended not considering anything until UTOPIA changes management and has a better plan. Councilmember Vincent said that was one of the things discussed last year and they are still there. Mr. Roberts said this has been brought up in the board meetings.

Mr. Roberts said of the \$150M bonds, \$182,000 was Brigham City's portion. The early pledge revenue is approximately \$14,000, which was required this year because it was paid through revenues from the construction. The Phase II estimated amount is \$23.9M, of which \$148,000 is Brigham City's portion with a yearly payment of \$13,000 if the bonds were not paid.

A few positive things that have happened because of UTOPIA:

- ◆ The City has saved over \$3,000/month on phone bills, or \$36,000/year.
- ◆ The City receives \$24,000 yearly from UTOPIA for pole attachment fees.

Councilmember Ericson felt that the City should wait until UTOPIA has data that proves they have been successful. They have not met any projections in the past.

MOTION: Councilmember Rex made a motion to vote no on funding Phase II and paying the operating expenses. The motion was seconded by Councilmember Jensen. Councilmember Ericson said his only struggle with saying no is what the better alternative is. Brigham City is still responsible for what will happen in the future. Councilmember Jensen felt that the Council needs to vote against this to get the Plan B. Voting was unanimous.

The meeting adjourned at 6:55 PM.