



MURRAY CITY MUNICIPAL COUNCIL COMMITTEE OF THE WHOLE

The Murray City Municipal Council met as a Committee of the Whole on Tuesday, May 7, 2013, in the Murray City Center, Conference Room #107, 5025 South State Street, Murray Utah.

Members in Attendance:

Brett Hales	Council Chair
Dave Nicponski	Council Member
Darren V. Stam	Council Member
Jared A. Shaver	Council Member
Jim Brass	Excused

Others in Attendance:

Dan Snarr	Mayor	Tim Tingey	ADS Director
Janet M. Lopez	Council Office	Jan Wells	Mayor's COS
Frank Nakamura	City Attorney	Doug Hill	Public Service Director
Pete Fondaco	Police Chief	Craig Burnett	Police
Jennifer Kennedy	Recorder	Diane Turner	Resident
Mike Adams	Resident	Roseann Stam	Resident
Ted Eyre	Resident	Justin Zollinger	Finance
Todd Marriott	UTOPIA		

Chairman Hales called the Committee of the Whole meeting to order at 5:15 and welcomed those in attendance. He excused Jim Brass who is traveling.

Minutes

Mr. Hales asked for corrections or action on the minutes from the Public Open House Meeting held on March 26th, 2013. Mr. Shaver moved approval, and Mr. Nicponski seconded. All were in favor.

Business Item 2.1

Passport Discussion- Tim Tingey and Jennifer Kennedy

Mr. Tingey told the Council about an opportunity that Murray has to administer passports in Murray City.

There are two other cities in the Salt Lake Valley that do passports: Sandy and Draper Cities. The County also administers this program, as well as some of the post offices.

There are some reasons that staff believes it is a good time to start doing this. Staff has included the revenue it would bring in in the upcoming budget that will be discussed shortly. Mr. Tingey said he believes that passports could be administered with the existing staff and hopefully be a revenue provider as well as a great service to the City.

Ms. Kennedy has made the contacts and done the legwork. She brought the idea to Mr. Tingey and they met with Mayor Snarr and Ms. Wells. Mr. Tingey appreciates the work that Ms. Kennedy has done on this subject.

Ms. Kennedy contacted Draper and Sandy and was given a contact person with the U.S. Department of State, Mike Silva. She contacted Mr. Silva and asked if it would be probable for Murray City to do passports. Ms. Kennedy sent a letter to Mr. Silva stating the population of Murray, the Intermountain Medical Center (IMC) location, Front Runner tracks, commuter rails and other information about the City. Mr. Silva approved the application for a couple of reasons. As of last February, the LDS Church had stopped issuing passports, and also Clerk's offices are easier and friendlier to work with.

Appointments won't be taken, it will be on a walk-in basis. The hours will be 10:00 to 4:00, Monday thru Friday. There are certain instances; such as custody issues that require both parents to be present. The City will make necessary exceptions and allow them to come in either before or after regular hours, if requested.

Mr. Shaver confirmed that the passport requirements are on line. Murray City will just be facilitating the U.S. Department of Foreign Affairs requirements. Ms. Kennedy confirmed that Murray is just taking in the applications. Murray will encourage people to have their applications filled out before they arrive at the City. If not, there will be blank applications. Staff will verify the required identification. The passport fee will need to be paid by check or money order. The processing fee that that City charges can be paid by other ways.

Mr. Stam asked if the City would provide photo service. Ms. Kennedy confirmed that photo services would be provided. There would be a \$10.00 charge per photo. That may seem higher than other places, but it will be the exact size needed for the passport. Draper and Sandy also charge \$10.00 per photo. Mr. Stam said that he thought the County charged \$20.00.

Mr. Nicponski said that this sounds better and better. Ms. Kennedy said that the photos can also be used for other types of identification, such as concealed weapons permits. The photo service would be available to anyone, regardless of getting a passport or not.

Mr. Tingey said there would be some minor setup costs in the beginning. A camera would need to be purchased. The City is still considering an area for the set up. Most likely it would be set up in the Recorder's office. That area just needs to be configured to make it as user friendly as possible.

Mr. Nicponski said this is another reason that Murray needs a New City Hall.

Ms. Kennedy talked to both Sandy and Draper concerning their revenue. In the last year, Sandy generated \$50,000 and Draper generated \$60,000. That was their portion of the passport

services. The potential to create revenue is there. Ms. Kennedy believes that Murray is better located than those cities. She believes that the City should realize at least \$50,000.

Mr. Stam asked about the increased workload required. Mr. Nicponski asked if a new FTE would be required. Ms. Kennedy said that the City will not need to hire a new person. She created a task list for her department and believes it can be done with existing staff. There will be some back-up employees. Jade, from the Mayor's office has agreed to be a back-up helper, as well as Jennifer Heaps and Tim Tingey. They will all be trained to process passports.

Mr. Tingey said that they believe it can be done with existing staff. If there are lines of 20 people all day long, that may need to be re-evaluated.

Mr. Nicponski asked if there was any possible liability. Mr. Tingey said not as long as the City is following Federal guidelines. The employees will be trained by the Passport Department, most likely in June, and they would continue to be a resource for staff. Mr. Nicponski commented that processing really falls on the Federal Government. Mr. Tingey agreed and said that the information is sent to the Passport Department daily. Ms. Kennedy noted the main responsibility is to look over the applications and make sure they are filled out correctly. The City would not issue the passport, the Federal Department would.

Mr. Nicponski asked about the turnaround time. Mr. Stam thought it was about 6 to 8 weeks. Ms. Kennedy agreed and said that expedition is possible also, with an extra fee. Ms. Kennedy said that Sandy and Draper cities started with new applications only, but have since moved to processing renewals. Ms. Kennedy said that if someone brings in a renewal they would have to pay the postage part of the renewal, as well as the photo.

Mr. Tingey asked if there were any questions or concerns. He said he would bring it up again in the budget meetings, and has marked a conservative figure in the budget for estimated revenue this first year.

Mr. Nicponski said he believes it would be an outstanding service to the citizens. Ms. Kennedy agreed it would be a great service, and can be done with existing staff. Mr. Tingey said that Ms. Kennedy had the idea and was aware that Sandy did it, so she looked into it.

Business Item 2.2

Utah Infrastructure Agency (UIA) Report- Darren Stam.

Mr. Hales said he is aware of all the work that Mr. Stam has put into this report, and appreciates his efforts.

Mr. Stam said that he has put some things together to show the information.

The Cities spent \$185 million with UTOPIA. The first thing that needs to be understood is what the cities received for that money:

- UTOPIA built the "Core" infrastructure. UTOPIA doesn't operate without the core infrastructure.
- UTOPIA built the "Long Haul." The Long Haul is a line that runs from Brigham City to St. George that everyone connects to.
- Connections. This is the construction to the house or business.

These were all expenses that didn't create revenue, with the exception of connections, and even then there were people that received connections but didn't pay for them. Mr. Hales asked if the name of that area was called Legacy. Mr. Stam said that is correct and they are now called Legacy because they received the connections first.

Mr. Hales asked about the year that UTOPIA and UIA were created and if 2002 for UTOPIA and 2011 for UIA was correct. That was correct.

When UIA was formed, they were approved for \$65 million in bonding. They received \$29.5 million from bonding for the first phase. He showed a breakdown of the \$29.5 million. There was money spent on marketing and customer acquisition. Money used to install the service and for construction costs.

There was also the stimulus match. The Federal Government gave UIA a grant of \$16.5 million and matching funds were necessary to receive that fund.

When UIA was created, the cities paid the operating costs because UIA didn't have any money. UIA then paid that money back to the cities. Mr. Shaver asked if it came back as a check or a credit. Ms. Wells said she thought they received money back, but wasn't sure. Mr. Stam said the cities paid for UIA to get rolling and then they paid the cities back with money.

The IRU is the agreement that UIA had with UTOPIA. This was the money UIA paid for operations and to help with the litigation against Rural Utilities System (RUS). Mr. Stam said he wasn't sure what the acronym IRU stood for, but it paid for operations and the lawsuit.

UIA also had to pay for the connection boxes and electronic accessories needed for hookups.

These expenses totaled \$27,174,000. The other money was the cost of issuance and the capitalized interest that needed to be paid. That concluded the breakdown of where the money went.

Mr. Shaver asked about the difference between construction, installs, and electronics. Mr. Stam said that construction is the conduits and fiber laid in the ground. Installs were the connections made to the house, and electronics is the equipment that they had to put in the houses, huts, and boxes.

Mr. Hales asked where the stimulus was and if UIA had to pay the \$4.4 million to get the \$16 million, and where the \$16 million would show up. Mr. Stam said that they have not received all of it yet, the work needs to be done and then a bill is sent.

Mayor Snarr said there were certain types of clientele that that infrastructure could provide for. Firmco is a company in the medical device business. They were one of the qualifying customers.

Mr. Stam said he has been asked if Murray benefitted from the stimulus. He has a list of stimulus connections that were installed in Murray and paid for by the stimulus. There were 24 connections and 29 more planned for a total of 53. This has to be completed by July 1st to get the money.

Mr. Nicponski asked if the pumps, wells and traffic lights are all connected to the system. Mr. Stam said that they were and were all connected because of stimulus money.

Mr. Stam said there isn't a lot of money gained because of the stimulus but there were contacts made with Utah Education Network (UEN) and the schools. Mr. Nicponski asked if IMC was connected because it didn't show up. Mr. Stam said IMC was connected but the connection was made before the stimulus.

Mr. Stam said he is asked about how much fiber has been put into Murray. He passed out a chart. Starting in 2007, it shows you how many miles were put in and it is broken out by city. In 2007, there was a large volume put in, it slowed down a bit in 2008 and went to almost nothing in 2009/2010. That is when the RUS pulled the funding which created more issues.

Mr. Shaver asked about how much fiber was already put in the ground of the original fiber ring. Mr. Stam believes this is the fiber that was added and didn't count the existing fiber. Mr. Shaver stated that if you look at 2002, that would be 5 years and the averages in Murray over 5 years would lead to a huge amount every year. He would like to know how much of that was already in the ground.

Mr. Nicponski asked how much of the \$16 million from the stimulus connections did Murray actually receive. Mr. Stam replied he didn't have a dollar breakdown for the different cities.

Mr. Stam said that Murray City was evaluated and of all the possible addresses that could be passed, about 68% of those have been passed. The fiber ring that was originally installed was a business ring only, and not residential. Mr. Shaver asked if the 68% was only residential. Mr. Stam replied that the 68% was for all possible connections in the City. The City was evaluated with all business and residential locations and of that number, over 68% of those locations was built out. The lines are there, so it is the potential of 68%, not necessarily connections. The original fiber ring was running through the business district and did not provide connection to the houses.

That is quite a bit of the City that is covered, said Mr. Stam. He pointed to a chart that tells how much fiber has been put in, in feet not miles. The column to the left shows miles.

Mr. Stam is often asked about the money spent versus the revenue. The debt is quite large, he discussed the return on investment (ROI) that the City is getting.

In 2008, the ROI was a 1.71%, in 2009 there were more connections made, and it increased to a 1.8% ROI. In 2010, it increased to 2.15%, and in 2011, prior to UIA, it went to 2.33%. That year Brigham City was built out. Ms. Lopez asked if these numbers were a total of all the cities, or just Murray. Mr. Stam replied it was a total for all the cities. In 2012, a return was realized from UIA connections, and the ROI was 2.42%. That was after adding the \$29 million to the \$185 million for a total of \$214.5 million. In 2013, the ROI so far is at 2.61%. UIA has made an impact on the return. Even with adding more debt, the ROI has had a significant jump.

The ARPU (Average Revenue per Unit) is a number that people are interested in also. A chart showed how much revenue is made from the connections in each location. Notice non-UTOPIA cities listed as part of the revenue. These other cities are due to contracts from UEN and schools in that city. For example, in American Fork, there were two connections because two businesses wanted to be connected. Mayor Snarr said there were also examples of that in

South Salt Lake, and Waverly Station in Midvale. Mr. Stam said it shows the revenue from connections made in all of the cities. This revenue is monthly revenue. Another chart showed the number of active connections or devices. The devices are cabinets, huts, data centers, and interconnecting points. Basically, anything that had to be powered by UTOPIA is listed. Mr. Shaver clarified that those were connections in the ground as well as in the homes.

Mr. Stam said only one city had more connections than Murray, and that is Orem. He noted that the main line runs through Murray and without Murray, it would be dark in many cities around the network. Murray is the 'crossroads of the network.' Everything crosses through Murray, and if Murray chose not to participate, it would affect a lot of other people, not just in Murray.

UTOPIA had an ARPU of \$37.84. Since UIA was put in place, and changed the focus to a larger ROI, it has increased to an average of \$45.54. That is a 20% increase in average revenue per connection since UIA started.

In the Legacy area, UTOPIA used to receive \$29.50 per residential connection and averaged approximately \$150.00 per business connection. Today, there are two connection prices: There are people that paid for the \$7 transport fee and cue in UIA. UIA gets \$48, of which \$25 could be financed over 20 years. The Legacy area wanted to keep things the same, and the total there is \$35, including a \$5 lease. Eventually, the \$25 cue would be paid, and leave \$23 which would be the same for the two groups. If the \$23 rate would increase, and if you look at how much money the providers make versus the \$23.00, and a lot of people that sign up for the lower end connections there is very little room there. The providers make more money on the higher end connections; which include the 50/50, 60/60 100/100, and when television and other services are provided.

Mr. Nicponski asked what the average household is paying. Mr. Stam said that it depends on what services they choose. If it is a low end connection, similar to a 20/20, it would be approximately \$29. That would be what the provider would receive, and then pay UTOPIA \$23 of the \$29. Mr. Nicponski clarified that this was internet only. Mr. Stam said that was correct.

Current connections in Murray are approximately 1924 including both businesses and residents. It isn't split between the two, but it was around 280 businesses. Mr. Shaver said you could get a pretty good idea how many resident connections there are if you look at the address ID's and extrapolate those based on the percentage of the total ID's.

Mr. Shaver commented that there is only one other city performing close to Murray, and that would be Orem.

Mr. Stam said that when he was asked to be the chair of the Finance Committee, one of the requests was to make the financials easier to understand. The Finance Committee is made up of Finance Directors from Orem, Centerville, Midvale and Brigham City.

Mr. Stam handed out a copy of a draft financial report. The Committee has created a coversheet, which is basically a snapshot of the cash flow. The format is more similar to what people are used to. There is a snapshot for UTOPIA and UIA both. Some of the depreciation and non-cash items had been removed from the report. The Board is given the full financial reports every month. The Finance Committee meets on the first Thursday of every month to prepare this report. Their fiscal year is July to June.

The first graph shows UIA subscriber growth and compares projections for Phase 1. The goals were not being met, until the focus was changed to revenue. If the revenue is met, then the number of connections doesn't matter as much. This chart shows the number of connections based on UIA growth throughout the entire area. Mr. Stam said at this time, Centerville was built out and had 25% take rate.

Mr. Stam displayed a graph that showed that the UIA revenue actual growth is closer to the planned growth and that in September the lines crossed and there was enough money to make the bond payments. There is an average of more than 4% growth. If growth continues at 4% then it would exceed the planned revenue in June. Projection was decreased a little because last month was a little slower. Theoretically between May/June and the time bonding is received for the next phase, the line should be crossed to meet the revenue.

Mr. Shaver noted that January-February looks like a down time. Mr. Stam confirmed it was a down time, but also that is when money ran out and the marketing efforts went way down. The marketing money has helped them meet expenses without asking for more money. That is why they need operations money to make up the difference and also continue with marketing. Mr. Stam noted that in January there were 92 new connections, and 90 in December without any marketing. This was attributed to word of mouth. Although that is compared to 170 connections in September.

Mr. Shaver asked to look at the projected results again. The growth seemed slow for that time period. Mr. Stam replied that there are things at hand that are making an impact. Mr. Shaver asked how quickly the return would be seen. Mr. Stam said some return would be visible in weeks or months for the total return, and added there is a cost to putting in a connection until a return is gained. Money is being made on the business connections. Mr. Shaver is concerned with the reduction in growth and the shortfall.

Mr. Nicponski asked about the finance report for the month of March. Mr. Stam clarified that the coversheet is for the month of March and the other sheets are for the year. Mr. Nicponski asked if the reason UIA was making a profit was because the cities were infusing money. Mr. Stam said the cities aren't contributing anything to UIA, only UTOPIA. Mr. Shaver said the point of creating UIA was to create a revenue stream and make money while the UTOPIA side was attempting to balance.

Mr. Stam said that a dashboard has been created. Every night at 2:00 a.m., a snapshot is taken of the number of connections and customers. This is available every week. The ADID is the number of active connections (units). A unit doesn't mean one house, it could mean an apartment complex with a dozen connections. It does show how many units have been turned on every day. It shows activations and disconnects. Disconnects doesn't necessarily mean someone is leaving the network, it could mean a change in providers also. It would show as a disconnection, but also as a new connection. Revenue net change shows the money from businesses and residents for that day. That doesn't mean a person has left, but it could mean that someone has made a change in their service or their television provider for example. The advantage of this report is that the knowledge is there right away and a provider cannot take advantage of a disconnection, as has been experienced in the past.

In April, it showed that there were 60 disconnects. After researching, it was discovered that it was due to a provider, Connected Life. Connected Life started having problems, and all of the customers were put with other providers. Most of those customers went with Veracity. Some

of the customers made their own switch and as a result there was some double billing. Most of those 60 disconnects were actually corrections for the double billing. The important change is that UIA can react to these situations quicker now than before.

Another change is that now the providers will be billed for the month ahead, instead of billing in arrears for the month already used. The providers were told that they would be double billed and they had to be caught up on payments by July 1st.

Mr. Hales asked when the inception of the Finance Committee was. Mr. Stam said it had been about 9 months, and feels like it has made a difference in some of the reporting. Mr. Stam said that Tim Fisher should be credited with some of the reporting. He logged every single address and made sure that payment was being received.

Mr. Stam started a discussion at UIA by asking to consider themselves a regular business that had to break even today. As a result, Blaine Lutz from Centerville created a spreadsheet to explain what would happen if cuts were made. His spreadsheet showed the operations with all the departments listed. For example, if a 10% decrease in the expenses was the goal that would be about \$861, 625. In order to reach that 10% decrease, you have to cut 21% of personnel, 95% of operating costs, 87% of professional services and 32% of the network to save 10% of the shortfall. The shortfall is the \$225,000 monthly. Looking at these numbers, there is nowhere to cut. To break even, you would have to cut 65% of personnel, 333% of operating and 272% of professional services.

The one area that could be cut is a small part of administration costs noted Mr. Stam.

Mr. Hales asked about the legal fees that were close to half a million. Is that an area that could be cut, he asked. Mr. Stam said that they are in the middle of a litigation and would be hard to cut.

Mr. Marriott said there are currently 9 to 10 legal issues, mostly with RUS and service providers. Per the statute and bond coverage, these legal issues have to be pursued as best as possible. There are discovery and deposition costs involved.

Mr. Stam stated that the Finance Committee did a draft summary and found an interesting thing about the chart. If the network grew by 25%, there would be a small increase to the network management but almost no increase to the other service costs. Bottom line, is that the network is built for growth. New growth will not cost more money, it will only help offset expenses.

The amount of bonding for the first phase has been reduced to \$12 million instead of \$14 million. They eliminated the "Stim 90". The Stim 90 involved anything within 90 feet of the stimulus line. Currently, there is only a small profit from the Stim 90, so that would maximize the savings.

At the end of July 2016, the \$225,000 monthly shortfall, would only be \$55,000 per month. That is based off a 6% interest on future bonding. Currently, the interest is just about 4%, so that would decrease it even more.

Last week, a contract was signed with some cell towers. The monthly recurring revenue for that is about \$20,000 per month. There are two ways to look at that: some of this future

bonding would be needed to make the connections and all of the connection money would be paid for in less than one year. Then, the rest of the revenue would be strictly profit.

Mr. Hales asked if this involved the microcell technology. Mr. Stam said that is something different. These are for cell towers in all of the cities. That \$20,000 per month could be put towards the \$225,000 monthly shortfall; or it is ¼ to 1/3 of the new bond payment. That is a good step going forward when 1/3 of the cost of the payment is covered before even borrowing the money.

Mr. Shaver asked about an earlier comment about the goal of creating revenue, not connections. He commented that the cell towers would create revenue instead of putting more fiber into the ground. Mr. Stam replied that the cell towers are connecting to the fiber that is already running by it. He noted that the fiber runs fairly close, there is a small cost to get those connections.

Mr. Stam said that everyone wants to know why Google can't take us also. Mr. Stam had several discussions and made a quick list of what would need to happen for Murray to be in the same position as Provo. Mr. Hales asked if other cities are asking that question also. Mr. Stam said it is mostly residents asking that question.

In order for Murray to be in the same situation as Provo, the following would need to happen:

- A fee would have to be instituted to all of the residents to cover the debt.
- The network would need to be a closed model, which would eliminate all the providers, to leave Google as the only provider. We would have to find a way to legally eliminate the current providers.
- The cities would have to separate, and reconcile the assets and equalize the debt so it is fair.
- The stimulus dollars would have to be repaid, because they require an open network.

There are some positive elements to the Google acquisition:

- The Provo residents will save \$35 million over the next 7 years, because they are giving them a 5 megabyte connection for free.
- Provo has a company to run the network.
- It justifies UTOPIA as a necessary infrastructure. The Governor has complimented Provo on the 1 gig connection that Murray had announced a year ago.

The negative elements of the Google acquisition:

- Google is not providing telephone service.
- They are not providing business connections, they would be the same as residential.
- This will affect economic growth by denying business connections and services they need.
- Google will control 70% of all of the services. If you are not happy with Google, there won't be other choices.
- There will be no control over customer service.
- After 7 years, the cost could increase, Google could walk away. Google now has the monopoly and has their own equipment installed. The equipment cost is \$300 per house.

If Google leaves, it would need to be replaced; 10,000 houses would equate to \$30 million.

- All UTOPIA revenue stays in Utah, Google is a national company.

Abraham Lincoln said, "I am a firm believer in the people, if given the truth, they can be depended upon to meet any National crisis." Mr. Stam said he has given the facts about UTOPIA and UIA. The problem is if Murray doesn't participate, something will have to change.

Mr. Nicponski thanked Mr. Stam and respectfully disagreed with the Google analysis, but complimented Mr. Stam on his presentation.

Mr. Nicponski stated that the goal is to protect the bump and compression issue in the budget. He asked if UTOPIA had been budgeted for also, and it was confirmed that it had.

Mr. Hales adjourned the meeting at 6:26 p.m.

Kellie Challburg
Council Office Administrator