



MURRAY CITY MUNICIPAL COUNCIL COMMITTEE OF THE WHOLE

The Murray City Municipal Council met as a Committee of the Whole on Tuesday, November 1, 2016, in the Murray City Center, Conference Room #107, 5025 South State Street, Murray Utah.

Council Members in Attendance:

Blair Camp, Chair	District #2
Dave Nicponski	District #1
Jim Brass	District #3
Brett Hales	District #5

Excused:

Diane Turner, Vice-Chair	District #4
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Others in Attendance:

Ted Eyre	Mayor	Jan Lopez	Council Administrator
Janet Towers	Chief Admin. Officer	Jennifer Kennedy	City Recorder
Pattie Johnson	Council Office	Doug Hill	Public Services Director
Brenda Moore	Finance	Frank Nakamura	City Attorney
Tim Tingey	ADS Director	JoAnn Miller	Finance
Justin Zollinger	Finance Director	Phyl Warnock	Keddington & Christensen
Joe Canepari	Finance	George Katz	Resident
Jennifer Brass	Resident	Paul Lloyd	Resident
Kim McKinley	UTOPIA	Roger Timmerman	UTOPIA
Kirt Sudweeks	UTOPIA		

Chairman Camp called the Committee of the Whole meeting to order at 5:00 p.m. and welcomed those in attendance. He noted Ms. Turner was excused and Mr. Nicponski would be arriving late.

1. Approval of Minutes

Mr. Camp called for corrections and approval on the minutes for September 19, 2016, the General Plan Discussion, and September 22, 2016, the Council Workshop. Mr. Brass moved for approval. Mr. Hales seconded the motion. All present were in favor.

2. Business Items

2.1 Fiscal Year 2016 Comprehensive Annual Financial Report – Justin Zollinger and Phil Warnock

Mr. Zollinger discussed financial results for the previous fiscal year and introduced Mr. Warnock to report audit findings and opinions.

Audit Findings

Mr. Warnock expressed appreciation that Keddington and Christensen, LLC, had the opportunity to conduct the Murray City audit and said Mr. Zollinger, Ms. Moore and others involved had done a very good job.

He considered the council as those charged with governance, responsible for the strategic direction of Murray City, and for overseeing the financial reporting process.

Keddington and Christensen, LLC, was responsible for a professional opinion relevant to the council's responsibilities, as well as, performing the audit. In accordance with generally accepted auditing standards, he would ensure that the audit was designed to obtain reasonable, rather than absolute assurance, that financial statements were free of material misstatement. The audit of the financial statement included viewing internal controls, but not for the purpose of expressing an opinion on the effectiveness of those internal controls.

Mr. Camp noted the arrival of Mr. Nicponski.

Mr. Warnock stated no difficulties were encountered during the audit. There were no uncorrected financial misstatements, no disagreements with management, and no material corrected misstatements as a result of the audit. He was not aware of management consulting with any other auditors about the audit.

Mr. Warnock reviewed certain pages of the audit report in detail and pointed out page nine and ten in the financial statement, as the opinion issued by the auditing firm and results of the audit. By reading the last paragraph of page nine, he reported a very clean and unmodified opinion for the state auditor, for Murray City, and said the result was good, which was the most important final aspect.

Mr. Warnock explained the following in the reports from the Supplementary Reports: On page three he read, the opinion, related to the State Compliance Guide, where he reported Murray City complied in all material respects with the Compliance Requirements. Page five, A and A1, depicted *findings* related to the Financial Statement Audit or Internal Controls; *none* were noted. Page 5, B and B1, related to the State Compliance Audit Guide where he pointed out, *no findings*, and Mr. Warnock said this was good.

Mr. Camp asked if Mr. Warnock had reviewed material that was not required by the state, Mr. Warnock replied he had not and if there were any questions related to the financial statement, Mr. Zollinger would respond to those.

Mr. Camp thanked Mr. Warnock for his good report and thanked Mr. Zollinger and his staff for a job well done.

Financial Results

Mr. Zollinger provided context on how the year had gone, explaining the city's software for the financial and payroll departments had been converted. As a result, financial statements were compiled earlier than before and the bond rating agency reported Murray City in the top 1% for having statements turned in first. The year had been busy and Mr. Zollinger gave credit to his staff for excellent hard work in preparing the statements, besides converting the software.

As noted in the financial statement, he shared significant financial impacts and good decisions made over the last year:

Power bonds of \$8.3 million were paid off in full, with \$7 million paid off early. Fantastically, this provided a savings of \$877,000 over five years. Reserves in the power department only decreased \$3.2 million.

Murray City's 2009 A bonds of \$710,000 were paid off because of a good financial position. This provided a savings of \$121,000 over seven years and made it possible for plans related to the new downtown to proceed.

The .2% sales tax produced an additional \$2.7 million in sales tax revenue, which funded three new police officers and two fire fighters. In addition, the remaining amount was applied to Capital Projects, for the animal shelter renovation, road work on Ann Dell Lane, Ellerby Avenue, and 1000 East; also mentioned were completed restroom renovations in Murray Park, pickle ball court construction and new playground equipment in Grant and Walden Parks.

In summary, Mr. Zollinger explained the Capital Project Fund was able to save money because the city budgets conservatively on its revenue and department heads are continually coming in under budget on their expenses. Combined efforts allowed the city to achieve these results.

The city was able to set aside money in reserves for the new fire station and would be paying cash for it. Next year's plans included paying off 2007 bonds and he noted it was good planning and preparation, over the last four years, that would allow paying for the fire station out of pocket.

Mr. Zollinger reviewed major sections of the Summary of the Financial Statement within the Comprehensive Annual Financial Report:

Managements Discussions and Analysis (MD & A) – page 11

- The city's net position of \$178 million, which included reserves of \$37 million, considered unrestricted, can be utilized for various needs.
- Murray's City's total bonded debt decreased by \$10.9 million, which is a 44.43% reduction; half of the city's debt was paid off in one year, which dropped reserves by a total of only \$4 million. Mr. Zollinger said this was fantastic.

- A very positive increase in sales tax. In addition to the \$7.2 million received from the .2% sales tax, there was also an increase of \$700,000 in the general 1% sales tax. By capturing that growth, funds would be utilized for the 2017 wage increases and other needs within the city's budget.

Mr. Zollinger instructed the council to read his Management and Discussion Analysis, which was a summary of what took place last year and would provide a good understanding. A multiple year comparison would be provided.

Statement of Net Position – page 21

Mr. Zollinger explained a chart that provided an overall view of the city's financials. The Library Fund, General Fund, RDA, and Cemetery Care totals were all combined in the Governmental Actives Column. In another column, the Enterprise Fund and Proprietary Funds were combined.

On a negative note, due to last year's new reporting requirement, a liability for pensions was placed on the books. As the stock market goes up, the liability goes down, due a better rate of return on pension plans. However, due to this year's poor rate of return, by the stock market, and regardless of the city doing all of its part, the liability went up \$4 million. Mr. Warnock noted it was a situation completely outside of city control.

Comparing the capital assets section to prior years, a significant amount of money went into city infrastructure investments, which included, roads, curb and gutter, power, water and sewer.

The Statement of Net Positions - Proprietary Funds – pages 27-28

The Power Fund column reflected zero in power bonds and \$7 million cash equivalents. However, bonds payable in the liability section, reflected a reduction of \$1.2 million. Total bonds payable in the noncurrent liability section are \$7 million reflecting the water, wastewater and storm water remaining bonds.

The Water Fund was noted with decreasing cash reserves due to the reconstruction investment of water lines on 5900 South and other areas. Even though reserves are lower than they have been, funds still remain at the 25% minimum reserve threshold.

Notes to the Financial Statement – pages 31-63

Mr. Zollinger said the Notes section would provide a very broad view of all the city's financial policies and greater detail on some matters.

Statistical Section – pages 82-100

This information relates to trend analysis for the last ten years, including the top ten city employers.
(Page 97)

In summary, Mr. Zollinger was proud of Murray and impressed with the audit results. Due a great Utah economy, not necessarily the case nationally, the city had a tremendous year. Benefits attained were

also due to great decision making by city officials, saving money, in terms of interest, which put Murray in a better place with a great hope in future planning.

Mr. Camp inquired about UTOPIA pledge payments under the expenditures list on page 87. Mr. Zollinger explained, in terms of calculations for this particular summary, related to debt service coverage ratio, and since it was not the city's direct debt or the city's bond issue, UTOPIA debt was not included in the ratio. However, it would be considered direct debt in the city's bond rating presentation.

Mayor Eyre mentioned while attending meetings with bond agencies in California, agencies referred to Mr. Zollinger as the *Best of the Best* and out of all states Utah was known for being punctual in bringing forth financial statements. Within Utah cities, Murray was noted for submitting financial statements first this year.

2.2 UTOPIA/UIA Update – Roger Timmerman, Kirt Sudweeks, Kim McKinley

Mr. Timmerman, the new Executive Director of UTOPIA, was advanced to his position last February, but was not new to UTOPIA, having served as Chief Technology Officer (CTO) for five years. UTOPIA had often been a painful project, this time he wanted to report positive information and provide the council with a current update.

History

The company started in 2002 and was funded in 2004. The network itself usually did not share maps, however being open, a map displayed network availability and he pointed out the basic backbone covering Payson through Tremonton. Blue areas were noted depicting other cities with UTOPIA access, such as, St George, as the location for their data center.

Murray City was depicted on another map where he pointed out service available to businesses and residents, however, he said pockets do exist which were not yet completed and UTOPIA would continue to work on those areas.

In 2011 a decision had to be made as to whether business would continue or shut be down. As a result, eight cities bonded, UIA was created, and the 5-Year Plan was initiated. Explaining the 5-Year Plan, it was decided the new bonds, would be used to buildout and generate revenue to cover new debt obligations and reach an operational break-even. At the time, the company was losing money just to keep the lights on. The plan was to deploy as much fiber as resources allowed, in hopes of contributing to debt relief. He admitted all cities involved feel the pain of bond obligations during budget meetings, however, it was their goal to dissolve the debt. Based upon a good return of investments, continued strategic planning, with the original builds of UTOPIA, they hoped to achieve that goal. Initially, planning may not have been as strategic as thought and building had been done in areas where it should not have happened, he said. There was a lack of efficiency at the time, however, he assured the council things were handled more efficiently now.

The current attitude and priority is that UTOPIA works for Murray City now, as well as, for all cities involved. Meeting each city's needs and improving the financial position was their desire.

With a grant from the federal stimulus program there was \$16 million to build routes and facilities. Maximizing operational efficiency is a priority and UTOPIA is working with fewer staff than during the stimulus program and quicker results are occurring.

Since the 5-Year Plan many projects have been completed to increase the addressable market and get the entire area connected. UTOPIA continues to analyze construction costs, anticipate revenue, address the pay back, and remain financially sustainable.

Mr. Timmerman reported old UIA debt had been paid down and the city is not paying debt service on those specific bonds. Revenue created from new customers was now covering the UIA debt service payments. Customer numbers have doubled since 2011, including Centerville, Perry, and the "sweet spot" business construction, which is where most businesses in Murray can connect. Since 2011 new customers' total 7,000 and UIA recurring revenue has grown to over \$650,000. Combined network recurring revenues between UIA and UTOPIA is over \$1,200,000 per month. By adding \$10,000 - \$15,000 per month, rate of growth continues to go well.

Graphs depicting UIA Bond Performance and Combined Revenue Growth were explained. New revenue began to cover the debt service bond by about September of 2012. Today revenue far exceeds the debt service on the bonds. UTOPIA requires great revenue growth in order to continue doing business and expand the system. He reported UIA growth enabled the two entities to cover operation costs as of December 2015. Since that time, there has been no short fall for cities to cover, no assessments and a net positive revenue to be utilized to invest and rebuild.

Mr. Timmerman noted original bonds must still be addressed as cities continue to cover old debt. Some cities still have outstanding balances on those prior operational assessments.

Current Available Funding

The \$16 million bonded funds from UIA cannot be utilized for operational expenses and would be entirely used for capital expenditures to generate revenues. Remaining funds from the Rural Utilities Systems, RUS Settlement (under the US Department of Agriculture), \$11 million, were utilized to build out UTOPIA member, Perry City, Utah and a great customer base and revenue resulted. Also, RUS funds coupled with remaining UIA funds, connected other customers to the UTOPIA network.

Rate of Growth and Plan Strategies

The network will continue to focus on the best return on investments, which includes a mix of business, green addresses and residential areas, as well as, find open trench opportunities for laying conduit.

2016 Residential Sales Year to Date

Ms. McKinley noted sales doubled last year, as well as, year over year, and cities listed on the chart provided a total of approximately 550 more customers than the previous year. Mr. Timmerman confirmed and said the demand remains high. A churn rate of 5%, was reported, which is a percent of customer base lost. A typical churn rate was 10% and he felt UTOPIA did a great job in keeping customers happy.

Technology Update

In 2004, when first customers were connecting, fiber provided 10Mbps for businesses. Funds were utilized over time to increase speed, where their core, distribution and upgrades can now provide to up to 100 Gbps for a business, and 1 Gbps for residential. This is offered by service providers who make available specific packages for residential customers. Ms. McKinley noted service upgrades were provided to cities in quarter segments where upgrades were being conducted; Murray, however, was not in the upgrade cycle at this time. A free upgrade would be offered to Murray customers in 2017, however, a \$50 expedite fee could be paid by existing UTOPIA customers who could get an earlier upgrade, by calling in a request. Upgrade phases were managed in segments due to a lack of service technicians.

UTOPIA Status

UTOPIA is currently covering all of its operational expenses, where it used to be a burden on all cities involved. The original UTOPIA cities are paying for original UTOPIA bond obligations, which Murray contributes to. As they continue to progress to finish their build, the board would decide how to utilize new revenue. Net revenues continue to grow for UIA and it is covering all of its operational expenses. Rapid growth of 1000-2000 new homes each month was reported, for available neighborhoods, and take rates increase for the entire system.

Comparisons to NON-UTOPIA providers

Mr. Timmerman described top competitors as having unfavorable service and have fallen further away from meeting demands. In comparison to UTOPIA service, a graph was used to reflect competitor's losses in customer base, when Bond Com conducted a survey with over 800 responses; 130 responses came from Murray and results confirmed a net promoter's score of 57%, and all competitors were much lower.

Mr. Hales noted it had been his experience in talking about UTOPIA services with residents, the internet was the most favorable portion, where TV and phone utilization was less favorable. He wondered if TV and phone connections had seen significant improvements as well. Mr. Timmerman confirmed the UTOPIA connection was fantastic with a faster internet as their primary focus. Offering three options on the network for video service was less important. Ms. McKinley reported 80% of UTOPIA customers were data only. Their goal was to improve marketing strategies across the board with plans to launch a new website in the next couple months, which would better explain the UTOPIA experience overall.

Mr. Timmerman explained there was not a clear definition on what high speed was in relationship to competitors, like Google and Century Link. UTOPIA offers a superior architecture providing the best technology made with Gigabit Passive Optical Network (GPON). A dedicated line delivered to homes up to 1Gbp, is not shared with neighbors. Other wireless providers split lines between 32, 64, or 128 customers, he said.

The UTOPIA high speed service is currently offered to 25 or more individual providers, with a competitive price range for a two year lease from \$30 to \$65 for total service. He reported UTOPIA headquarters would be moving to a Murray City location at 5858 South 900 East.

Mr. Hales felt encouraged in meeting with UTOPIA, compared to what he had experienced five years ago. Mr. Sudweeks added it was a great benefit in having Mr. Timmerman back on staff. Mr. Timmerman gave credit to the overall staff and team work and felt it was an exciting time and UTOPIA had turned a positive corner. For more information visit www.utopiafiber.com or call 801-613-3800.

3. **Announcements:** Ms. Lopez reported no announcements.

4. **Adjournment:** 6:18 p.m.

Pattie Johnson
Council Office Administrator II