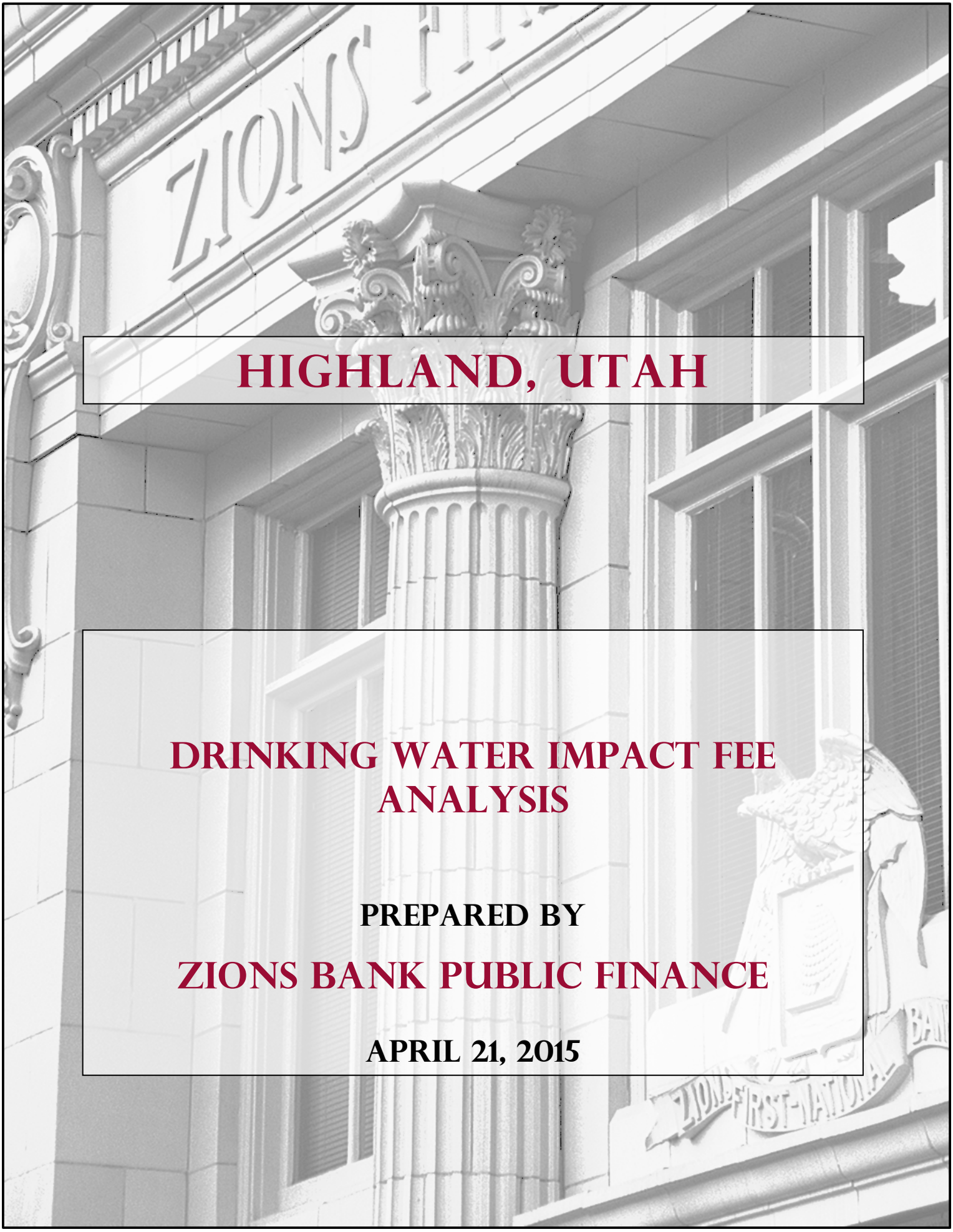

HIGHLAND, UTAH

DRINKING WATER IMPACT FEE ANALYSIS

PREPARED BY

ZIONS BANK PUBLIC FINANCE

APRIL 21, 2015

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Executive Summary

Zions Bank Public Finance (Zions) is pleased to provide Highland City (the City) with an update to the drinking water impact fees. The following pages summarize the document and tables included. The intent is to provide a concise discussion of the calculation and identification of the maximum legal impact fee.

Growth and ERC Projections

The area of the City that the drinking water impact fee will be assessed is currently undeveloped. The South East area of the City is expected to develop rapidly and most likely develop within the next ten years. It is projected that the Service Area will develop to 1,160 equivalent residential connections (ERCs). The following table identifies the current and future ERCs in the South East Service Area. The analysis considers growth over the next six to ten years. The full growth table can be found in Appendix 1 of the document. The remainder of the City has been previously served by the Highland Water Company.

Figure ES1: Drinking Water ERCs Served by Highland City

Drinking Water		
	Current	Buildout
Current ERCs[1]	-	1,160

[1] *HAL 2015 IFFP*

Level of Service Definitions

Hansen Allen & Luce defined the City's level of service in the Impact Fee Facilities Plan. The plan states the following:

Level of Service Summary	
ERCs	1
Peak Day Source Flow Rate (gpd)	800
Distribution Minimum Operating Pressure	50 psi
Fire Suppression Residual Pressure	20 psi

Proportionate Share Analysis

The Impact Fees Act requires that the Impact Fee Analysis estimate the proportionate share of the costs for existing capacity that will be recouped and the costs of impacts on system improvements that are reasonably related to the new development activity.

Part of the proportionate share analysis is a consideration of the manner of funding existing public facilities. A City typically funds drinking water infrastructure through several different funding sources including:

- User Fees (rate revenues)
- Grants
- Bond Proceeds
- Developer Exactions
- Impact Fees

All of these funding sources (with exception of developer contributions/donations) are impact fee qualifying expenses to be considered for buy–in purposes. However, this area is currently undeveloped and there is no infrastructure, therefore, there is no buy-in for this service area.

In consideration of future capital improvements, the City will continue using similar funding sources; no grants are being considered or are available at this time. Using impact fees places a burden on future users that is equal to the burden that was borne in the past by existing users.[1]

Existing Infrastructure and Capacity to Serve New Growth (Buy-In Component)

There is no existing infrastructure in this area. Therefore, there will be no buy-in component.

Future Capital Improvements

Hansen Allen & Luce provided a list of capital projects to be constructed in the next ten years and the corresponding percentage of the projects that will benefit growth through the next ten years. The 2014 fiscal year total of capital improvements is $1,918,050. The IFFP defines approximately 100% of the cost will be included into the impact fee.

Outstanding and Future Debt

There is no outstanding drinking water related debt in Highland. It is currently not anticipated that the City will bond for drinking water in the next ten years.

Calculated Fee

The impact fees have been calculated with all the above considerations for the South East Service Area. The fee is calculated per ERC. For non-residential land uses, new connections will pay the fee based on the equivalent residential connections each land use generates. The Highland City Council has the discretion to set the actual impact fees to be assessed, but they may not exceed the maximum allowable fee calculated. The City may, on a case by case basis, work directly with a developer to adjust the standard impact fee to respond to unusual circumstances and ensure that impact fees are imposed fairly. This adjusted impact fee calculation will be based on the calculation found in Figure ES3.

Figure ES2: Maximum Legal Fee per ERC

Meter Size	Operating Flow	Equivalency Ratios	Proposed Impact Fee
Displacement Meters			
Single Family Residential Equivalent 0.75"	25	1.00	$ 1,653
0.75"	25	1.00	1,653
1"	40	1.60	2,646
1.5"	50	2.00	3,307
2"	100	4.00	6,614
Class II Turbine Meters - High Velocity			
1.5"	100	4.00	$ 6,614
2"	160	6.40	10,582
3"	350	14.00	23,149
4"	630	25.20	41,668
6"	1,400	56.00	92,596
8"	2,400	96.00	158,735
10"	3,800	152.00	251,331
12"	5,000	200.00	330,698
Compound Meters			
2"	160	6.40	$ 10,582
3"	320	12.80	21,165
4"	500	20.00	33,070
6"	1,000	40.00	66,140
8"	1,600	64.00	105,823
10"	2,300	92.00	152,121

[1] Utah Impact Fees Act, 11-36a-304(2) (c) (d)

Figure ES3: Non-Standard Calculation

Drinking Water Non-Standard Impact Fee Formula
Step 1: Identify Peak Day Demand of Proposed Development
Step 2: Multiply Peak Day Demand (Gallons) by Price per Gallon of $2.07

Chapter 1: Impact Fee Overview

Project Overview

Zions Bank Public Finance (Zions) is pleased to provide Highland City (the City) with an update to the drinking water impact fees. Highland realizes that due to the age of its current analysis, as well as changes to the Impact Fees Act, required updates and review of its impact fees as well as its facility planning are needed. The City is still growing rapidly and has many capital needs. The update to the analysis is an intensive, collaborative effort that meets the needs of City stakeholders and the City. The information used to create this fee analysis was provided by City staff, Zions Bank Public Finance and Hansen Allen & Luce.

The goal of the impact fee analysis is to calculate the maximum impact fee that may be assessed to new development and ensure the fee meets the requirements of the Impact Fees Act, Utah Code 11-36a-101 *et seq*. The sections and subsections of the Impact Fee Analysis will directly address the following items, required by the code:

- Impact Fee Analysis requirements (Utah Code 11-36a-304)
  - Identify existing capacity to serve growth
    - Proportionate share analysis
  - Identify the level of service
  - Identify the impact of future development on exisitng and future improvements
- Calculated fee (Utah Code 11-36a-305)
- Certification (Utah Code 11-36a-306)

Why Is the City Updating the Existing Analysis?

The City has commissioned this Drinking Water Impact Fee Analysis amendment to accomplish the following:

- Determine the maximum impact fee that may be assessed to new development;
- Update capital need projections and account for historic costs of facilities;
- Put the analysis in compliance with the changes to the Impact Fees Act effective May 2011;
- Include an Impact Fee Facilities Plan (IFFP) with a ten year capital planning horizon; and
- More clearly define the current level of service and the future level of service that the City will provide.

What is an Impact Fee?

An impact fee is a one-time fee, not a tax, charged to new development to recover the City's cost of constructing water collection facilities with capacity to serve new growth. The fee is assessed at the time of building permit issuance as a condition of development approval. The calculation of the impact fee must strictly follow the Impact Fees Act to ensure that the fee is equitable and fair.

This analysis shows that there is a fair comparison between the impact fee charged to new development and the impact the new development will have upon the system in terms of taking available capacity. Impact fees are charged to development according to a number of ERCs generated, which is a realistic measure of the potential water demands that each user will add to the system.

How Will New Growth Affect the City?

According to the current Impact Fee Facilities Plan, the Service Area does not have any existing ERCs and the plan estimates that over the next ten years the City will add approximately 1,160 ERCs.

Population growth is important in Impact Fee Facilities Planning as population, in addition to non-residential demands, drive project needs and timing. However, this drinking water impact fee analysis is not population dependent as the

system is sized for commercial, industrial, institutional, churches, schools, etc. The primary measurement of capacity and demand in a drinking water system is an ERC. The fee is based on capacity available in the existing system and in future projects and is not directly dependent upon population or upon the growth rate, as non-residential demands have a great impact upon the drinking water system.

Figure 1: Projected Growth Drinking Water ERCs

Drinking Water		
	Current	Buildout
Current ERCs[1]	-	1,160

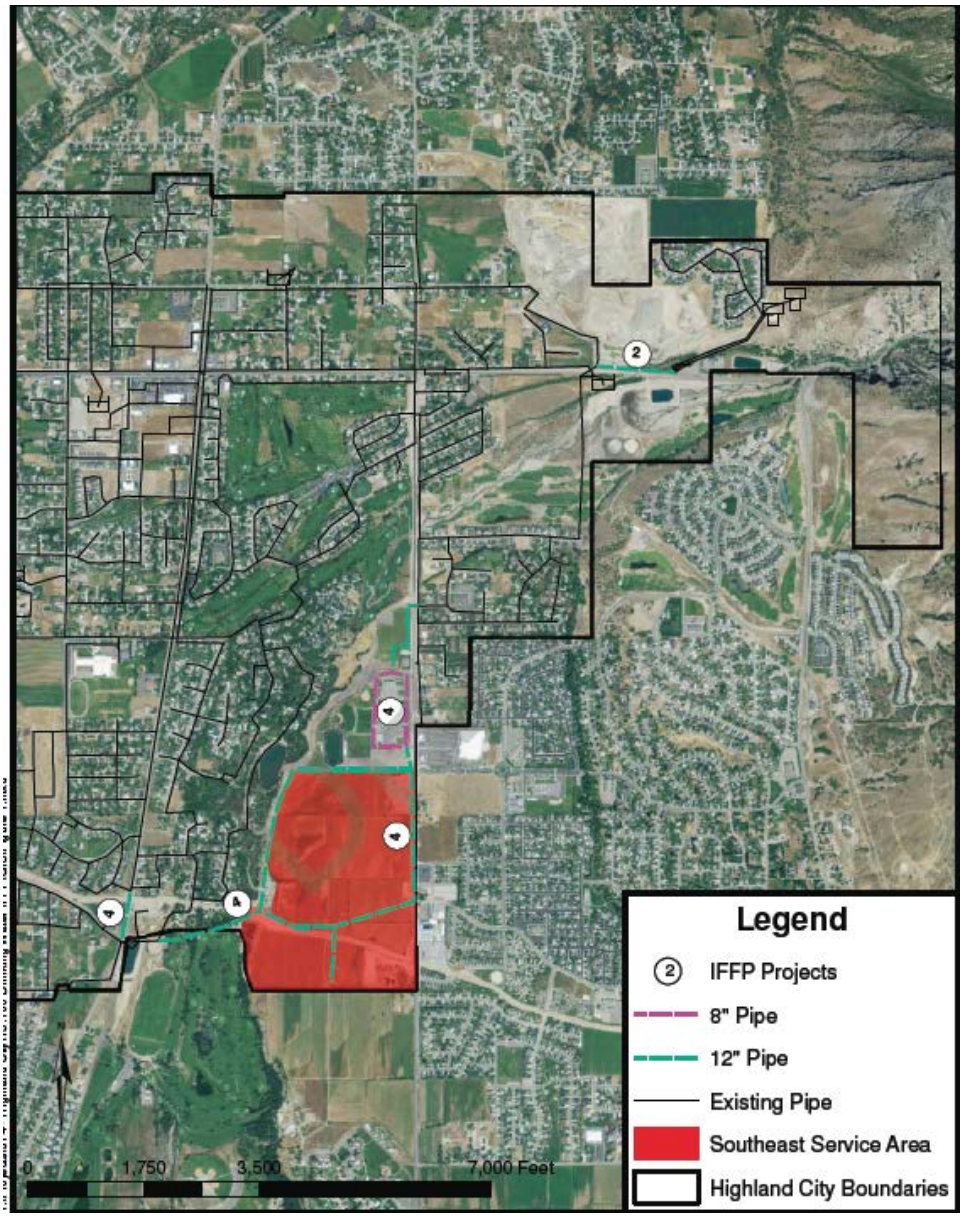
Why Are Impact Fees Necessary?

Impact fees are necessary to allocate the costs of unused drinking water system capacity that is reserved for new growth to the developments that will benefit from it. Impact fees help to shield existing users from shouldering the burden of paying not only for the capacity that they use but also from funding the cost of capacity needed for new development to occur.

Where Will the Impact Fees Be Assessed?

The impact fees will be assessed within the City's Drinking Water South East Service Area, which undeveloped areas to which the City will provide drinking water service. A detailed map of the area included in the attached appendix shows the Service Area served by the City. In short, if a developer is requesting a building permit and will be served by the City's drinking water system then that property is included in the South East Service Area.

Figure 2: Service Area Map



What Costs are Included in the Impact Fee?

Impact fee revenues may not be spent on capital projects or associated costs, such as financing interest expense that constitute repair and replacement, cure any existing deficiencies, or maintain the existing level of service for current users. Impact fees cannot fund operational expenses. The proposed impact fees will be assessed throughout the entire Impact Fee Service Area.

The impact fees proposed in this analysis are calculated based upon:

- Costs of replacement facilities that are needed to perpetuate unused capacity in the system that growth will require;
- New capital infrastructure that provides new capacity for growth;
- Historic costs of existing improvements that maintain capacity that will serve new development; and

- Cost of professional services for engineering, planning services and preparation of the impact fee facilities plan and impact fee analysis.

What Costs Are Not Included in the Impact Fee?

The costs, both direct capital and financing, that cannot be included in the impact fee are as follows:

- Projects that cure deficiencies for existing users;
- Projects that increase the level of service above that which is currently provided;
- Operations and maintenance costs;
- Costs of facilities funded by grants or other funds that the City does not have to repay; and
- Costs of reconstruction of facilities that do not have capacity to serve new growth.

How Are Impact Fees Calculated?

To calculate a fair impact fee we determine a growth related cost of existing and future facilities and divide that by the number of new units that will benefit from the unused capacity. A cost per unit is calculated by dividing impact fee qualifying cost by the amount of capacity to derive the cost per capacity unit. This cost per unit of capacity is then multiplied by the amount of demand that a typical residential home or ERC would utilize.

The general impact fee methodology splits the capacity in existing facilities and future capital projects between that which already benefits existing users and capacity that is available to benefit new growth. A cost is assigned to the capacity that is available for new growth based upon the historic cost of water and secondary water facilities and the future costs of water infrastructure. A final fee per residential or non-residential land use is calculated by multiplying the cost per ERC by the number of ERCs that each new unit of development will generate.

What is the Current Level of Service?

The IFFP has defined the current level of service as:

- Water: 800 gallons per Equivalent Residential Connection at peak day demand.[2]

However, it must be considered that although this is the average day ERC, the system will be sized to meet peak. The peak day flow calculation and consideration is in the table below.

Level of Service Summary	
ERCs	1
Peak Day Source Flow Rate (gpd)	800
Distribution Minimum Operating Pressure	50 psi
Fire Suppression Residual Pressure	20 psi

How are Schools Considered in this Analysis?

The Impact Fees Act exempts schools from paying a parks and recreation impact fee but with proper documentation of the impact that a school could place on the drinking water system, the City can assess an impact fee for schools. The Drinking Water Impact Fee Analysis quantifies the cost per ERC and also defines the number of ERCs that can be served by each size of culinary water meter that a school could install. The impact that a school will have upon the water system is clearly defined by water usage/ERCs.

[2] HAL Impact Fee Facilities Plan

Chapter 2: Future Capital Projects and Level of Service

Impact Fee Analysis Requirements

Growth and ERC Projections

According to the 2010 Census the population at that time was 15,523[3]. Population is important in the Capital Facilities and Impact Fee Facilities planning as population, and other factors, drive project need and timing. However, this impact fee analysis is not population dependent. The driving force is the Equivalent Residential Connection (ERC). The Impact Fee Facilities Plan defines an ERC as 800 gallons per peak day usage[4]. Currently the City has no equivalent residential connections. In the next six to ten years it is anticipated that the City will grow to 1,160 ERCs.

There will be significant growth expected within the City's boundaries and increased demand on the City's collection facilities which will require new projects to meet further demand. The area is growing at a very rapid pace. The growth projections in ERCs are found in the appendix of this document.

Level of Service Definitions

The Impact Fee Facilities Plan has defined the current level of service in Highland as:

- Drinking Water Peak Day Demand: 800 gallons per day per indoor ERC
- Distribution Minimum Operating Pressure 50 psi
- Fire Suppression Residual Pressure 20 psi

Existing Infrastructure and Capacity to Serve New Growth (Buy-In Component)

The South East Service Area is currently undeveloped and has no existing infrastructure. There is no buy-in component calculated in this impact fee analysis.

Impact Fee Facilities Plan – Future Capital Projects

The Impact Fee Facilities Plan developed the following capital projects, helped determine the timing and identified what was growth related, and of that amount, how much of the total capacity will be realized in the next ten years (percentage Impact Fee Qualifying & Impact Fee Qualifying Cost).

Figure 3: Capital Projects by Service Area

Project Name	Year to be Constructed	FY 2015 Cost	Construction Cost	% to 10 Year Growth	Impact Fee Qualifying Cost	Non/Beyond 10 Year Growth Related
South East Service Area						
11000 N. 12" Transmission Line	2015	$ 164,000	$164,000.00	100%	$ 164,000	$ -
Southeast Area and Lone Peak High School	2015	1,741,000	1,741,000	100%	1,741,000	-
Impact Fee Facilities Plan	2015	9,300	9,300	100%	9,300	-
Impact Fee Analysis	2015	3,750	3,750	100%	3,750	-
Total IFFP Cost		**$1,918,050**	**$ 1,918,050**		**$ 1,918,050**	**$ -**

[3] 2010 Census Data
[4] HAL IFFP

CHAPTER 3: PROPORTIONATE SHARE ANALYSIS

The Impact Fees Act requires that the Impact Fee Analysis estimate the proportionate share of the costs for existing capacity that will be recouped; and the costs of impacts on system improvements that are reasonably related to the new development activity.

Highland continues to grow and there is still expansion in the area. The Impact Fee Facilities Plan clearly defines what projects are growth related, repair and replacement, or pipe upsizing (the upsizing may include some element of growth).

Part of the proportionate share analysis is a consideration of the manner of funding existing public facilities. The City may fund existing infrastructure through several different funding sources including:

- User Rates (rate revenues)
- Grants
- Bond Proceeds
- Developer Exactions
- Impact Fees

In order to ensure fairness to existing users, impact fees are an appropriate means of funding future capital infrastructure. Using impact fees places a burden on future users that is equal to the burden that was borne in the past by existing users. (Utah Impact Fees Act, 11-36a-304(2)(c)(d))

Just as existing infrastructure has been funded through different means; it is required by the Impact Fees Act to evaluate all means of funding future capital. There are positives and negative aspects to the various forms of funding. It is important to evaluate each.

User Rates

User rates have both been funded in one form or another by existing users. It would be an additional burden to existing users to use this revenue source to fund future capital to meet the needs of future users. This is not an equitable policy and can place too much stress on the tight budgets of the drinking water operating fund and other user rate funds. The water rates in Highland are dedicated to payments on the public works building, operation and maintenance, repair and replacement and ensuring a stable reserve for maintaining a good credit rating. If rate revenues are required to supplement the capital required by growth, the City will reimburse the user rate fund with impact fees as they are collected and act as a loan to the impact fee fund to be repaid.

Property Taxes

It is true that property taxes may be a stable source of income. However, property taxes are not typically used to fund drinking water infrastructure. Property taxes are based upon property valuation. Using property taxes to fund future capital again places too much burden on existing users and subsidizes growth. The financial audits for the City do not show a line item for property taxes as a revenue stream for drinking water, thus any property taxes collected on the property being developed is not being used to fund infrastructure or operation and maintenance of the water system.

Impact Fees

Impact fees are a fair and equitable means of providing infrastructure for future development. They provide a rational nexus between the costs borne in the past and the costs required in the future. The Impact Fees Act ensures that future development is not paying any more than what future growth will demand. Existing users and future users receive equal treatment; therefore, impact fees are the optimal funding mechanism for future growth related infrastructure.

Developer Credits

If a project included in the Impact Fee Facilities Plan (or a project that will offset the demand for a system improvement that is listed in the IFFP) is constructed by a developer that developer is entitled to a credit against impact fees owed. (Utah Impact Fees Act, 11-36a-304(2)(f))

Time-Price Differential

Utah Code 11-36a-301(2)(h) allows for the inclusion of a time-price differential in order to create fairness for amounts paid at different times. All users who pay an impact fee today or within the next six to ten years will benefit from projects to be constructed and included in the fee.

Other

In this particular analysis, there is also a credit for unspent impact fee revenues collected in the past. The current impact fee fund balance for water was credited against the fee.

Calculated Fee

The impact fees have been calculated with all the above considerations for the Central and South East Service Areas. The fee is calculated per a single ERC. The fees per ERC can be found in Figure 5. These tables can also be found in Appendix 3. The Highland City Council has the discretion to set the actual impact fees to be assessed, but they may not exceed the maximum allowable fee calculated. The City may, on a case by case basis, work directly with a developer to adjust the standard impact fee to respond to unusual circumstances and ensure that impact fees are imposed fairly. This adjusted impact fee calculation will be based on the calculation found in Figure 5.

Figure 4: Base Fee per ERC

Meter Size	Operating Flow	Equivalency Ratios	Proposed Impact Fee
Displacement Meters			
Single Family Residential Equivalent 0.75"	25	1.00	$ 1,653
0.75"	25	1.00	1,653
1"	40	1.60	2,646
1.5"	50	2.00	3,307
2"	100	4.00	6,614
Class II Turbine Meters - High Velocity			
1.5"	100	4.00	$ 6,614
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4"	500	20.00	33,070
6"	1,000	40.00	66,140
8"	1,600	64.00	105,823
10"	2,300	92.00	152,121

The City will assess the impact fee on a per ERC basis for residential and nonresidential land uses.

Figure 5: Non-Standard Impact Fee Calculation

Drinking Water Non-Standard Impact Fee Formula
Step 1: Identify Peak Day Demand of Proposed Development
Step 2: Multiply Peak Day Demand (Gallons) by Price per Gallon of $2.07

Chapter 4: Certification and Appendices

In accordance with Utah Code Annotated, 11-36a-306(2), Zions Bank Public Finance makes the following certification:

I certify that the attached impact fee analysis:

1. includes only the cost of public facilities that are:
   a. allowed under the Impact Fees Act; and
   b. actually incurred; or
   c. projected to be incurred or encumbered within six years after the day on which each impact fee is paid;
2. does not include:
   a. costs of operation and maintenance of public facilities;
   b. cost of qualifying public facilities that will raise the level of service for the facilities, through impact fees, above the level of service that is supported by existing residents;
   c. an expense for overhead, unless the expense is calculated pursuant to a methodology that is consistent with generally accepted cost accounting practices and the methodological standards set forth by the federal Office of Management and Budget for federal grant reimbursement;
3. offset costs with grants or other alternate sources of payment; and
4. complies in each and every relevant respect with the Impact Fees Act.

Zions Bank Public Finance makes this certification with the following caveats:

1. All of the recommendations for implementations of the Impact Fee Facilities Plans ("IFFPs") made in the IFFP documents or in the impact fee analysis documents are followed in their entirety by Highland staff and elected officials.
2. If all or a portion of the IFFPs or impact fee analyses are modified or amended, this certification is no longer valid.
3. All information provided to Zions Bank Public Finance, its contractors or suppliers is assumed to be correct, complete and accurate. This includes information provided by Highland City and outside sources. Copies of letters requesting data are included as appendices to the IFFPs and the impact fee analysis.

Dated: April 21, 2015

ZIONS BANK PUBLIC FINANCE

By Zions Bank Public Finance

APPENDIX

Notice Date & Time: March 13, 2015 | 12:00 AM

Description/Agenda:
NOTICE OF INTENT TO CREATE IMPACT FEE FACILITIES PLANS AND AMENDED IMPACT FEE WRITTEN ANALYSES

Highland City, a municipality of the State of Utah, located in Utah County, Utah intends to commence the preparation of independent and comprehensive Impact Fee Facilities Plans and Written Impact Fee Analyses for the services of culinary water for the south east service area. Therefore, pursuant to the provisions of 11-36a-501 and 503 of the Utah Code, as amended 2011, notice is hereby provided to you of the intent of Highland City to create an Impact Fee Facilities Plans and amend Highland City's Impact Fee Written Analyses. The location(s) that will be included in the Impact Fee Facilities Plans and Impact Fee Analyses are all areas within the legal Highland City limits and the declared annexation areas of Highland City.

Notice of Special Accommodations:

FOR SPECIAL ACCOMMODATIONS Any individual with a qualified disability may request a reasonable accommodation by contacting the City Recorder at (801) 772-4505 at least 48 hours prior to the Commission meeting.

Appendix 1:
CURRENT AND FUTURE ERCs

Culinary Water		
	Current	Buildout
Current ERCs[1]	-	1,160

[1] *HAL 2015 IFFP*

Appendix 2:
CAPITAL PROJECTS - IMPACT FEE FACILITIES PLAN
Inflation Rate* 4%

Culinary Water

Project Name	Year to be Constructed	FY 2015 Cost	Construction Cost	% to 10 Year Growth	Impact Fee Qualifying Cost	Non/Beyond 10 Year Growth Related
South East Service Area						
11000 N. 12" Transmission Line	2015	$ 164,000	$164,000.00	100%	$ 164,000	$ -
Southeast Area and Lone Peak High School	2015	1,741,000	1,741,000	100%	1,741,000	-
Impact Fee Facilities Plan	2015	9,300	9,300	100%	9,300	-
Impact Fee Analysis	2015	3,750	3,750	100%	3,750	-
Total IFFP Cost		**$ 1,918,050**	**$ 1,918,050**		**$ 1,918,050**	**$ -**

Appendix 3:
BASE FEE PER ERC
Highland Impact Fee

South East Service Area	Cost	% Impact Fee Qualifying	Impact Fee Qualifying Cost	ERCs to be Served	Cost per ERC
Drinking Water Impact Fee					
IFFP Projects	$ 1,918,050	100%	$ 1,918,050	1,160	$ 1,653
Buy In - Existing Assets	-	0%	-	1,160	-
Subtotal	1,918,050	100%	1,918,050		1,653
Total Impact Fee per ERC					**$ 1,653**

Drinking Water Non-Residential Impact Fee Formula
Step 1: Identify Peak Day Demand of Proposed Development
Step 2: Multiply Peak Day Demand (Gallons) by Price per Gallon of $2.07