



HIGHLAND CITY COUNCIL SPECIAL WORK SESSION MINUTES

Tuesday, February 13, 2018
Approved March 6, 2018

Highland City Council Chambers, 5400 West Civic Center Drive, Highland Utah 84003

PRESENT: Mayor Rod Mann, conducting
Council Member Brian Braithwaite
Council Member Tim Irwin (electronically via phone)
Council Member Kurt Ostler
Council Member Scott L. Smith

EXCUSED: Council Member Ed Dennis

STAFF PRESENT: Nathan Crane, City Administrator/Community Develop. Director
Erin Wells, Assistant City Administrator
Gary LeCheminant, Finance Director
Justin Parduhn, Public Works O&M Director
Cindy Quick, City Recorder

OTHERS: Mark Thompson, Wayne Tanaka, Zachary Johansen, Fred Philpot

6:30 P.M. SPECIAL WORK SESSION (CITY COUNCIL CHAMBERS)

Call to Order – *Mayor Rod Mann*

Invocation – *Council Member Kurt Ostler*

The meeting was called to order by Mayor Rod Mann as a special work session at **6:41 p.m.** The meeting agenda was posted on the *Utah State Public Meeting Website* at least 24 hours prior to the meeting. The prayer was offered by Council Member Kurt Ostler.

1. HIGHLAND CITY COMPREHENSIVE FINANCIAL SUSTAINABILITY PLAN

Discussion on the fiscal sustainability model being prepared by Lewis Young Robertson and Burningham.

Mayor Mann welcomed those present and stated that the Council would allow public comment during the meeting. The work session would include a discussion about the General Fund and planning for future revenues and expenditures.

Nathan Crane, City Administrator, added that the information to be presented was not intended to be the budget for next year; rather, it was information that would be helpful in initiating the budget process. The presentation would show potential costs, and how those prioritized items would impact the General Fund.

Fred Philpot, with Lewis Young Robertson and Burningham, introduced himself and explained that his firm had been going through preliminary research, fact finding, and building a model that could be presented to the City Council to assist budgetary decisions in the upcoming years. The model would be updated and adjusted based on feedback given by the City Council.

Purpose

Mr. Philpot explained that the purpose of the model was to establish a proactive approach to sustainability as it related to the General Fund. They would evaluate gaps in funding, intended level of service, and potential cost savings. The second purpose was to develop a solution to solve a common problem and evaluate the resources the City could control. Mr. Philpot commented that Highland recently commissioned some utility rate studies and a transportation fee study. His presentation would be similar to those studies, but for the General Fund.

Process

Mr. Philpot identified eight tasks that they wanted to accomplish during the process.

- Task 1: Project Initiation & Kick-Off Meeting
- Task 2: Coordination with Staff Regarding Capital Needs and New Expenditures
- Task 3: Expenditure Evaluation
- Task 4: Develop Revenue Projections
- Task 5: Establish Financing Plan
- Task 6: Review Findings
- Task 7: Update/Additional Scenarios
- Task 8: Documentation and Presentation

They were in the process of establishing a financing plan and determining what tools were available to the City.

In response to a request from Council Member Brian Braithwaite, Mr. Philpot confirmed that the PowerPoint Presentation would be available to view.

Historic Trends

Mr. Philpot presented graphs and charts illustrating historic trends of Highland City's property tax rate relative to all other taxes assessed, including the school districts and the county. He also presented information comparing Highland's tax rate with other municipalities. It was noted that Highland's tax rate was ranked quite low on the chart.

Council Member Brian Braithwaite asked if the study had included other cities' fees, such as a road fee. Mr. Philpot said the report did not include those fees in regards to the comparison for property tax levy. He was aware that those types of fees existed. Council Member Braithwaite felt that it was important to include those fees because most cities paid for their roads out of the General Fund while Highland had a road fee to cover their costs. Mayor Mann suggested that Mr. Philpot provide that information in a subsequent report. Mr. Philpot agreed that those fees may skew the numbers overtime and said he would include that data for future discussions.

He continued his presentation by stating the primary revenues available to municipalities as follows:

- **Property Tax** – Most stable source, rate controlled by the City Council
- **Sales Tax** – Fluctuates with economy, State Legislature controls the distribution formula
 - “Over the long term, the sales and use tax base is gradually declining relative to the economy as a whole” – 2013 Report from the Utah Office of Legislative Research and General Counsel
- **Franchise Fees** – More stable than sales tax but not as stable as property tax. Limited to maximum of 6% on gas and electric, 3.5% on telecommunications
- **Building and Development Fees** – Unpredictable and decrease near buildout, usually cover reimbursement of actual staff time and processing expense

Mr. Philpot commented that these primary sources had historically provided Highland with 65-67% of their total revenue.

Mayor Mann reported of a comment made from an Alpine resident who claimed that he was being run out of his home due to property tax increases. He believed that the county was implementing the charge by raising their appraised home values, which Mayor Mann felt was a myth. Property taxes did not change unless a taxing entity increased it. Mr. Philpot confirmed that Mayor Mann’s assumption was correct. There was legislation being discussed that could potentially address the issue of inflation.

Council Member Kurt Ostler asked for clarification on intergovernmental fees, and Gary LeCheminant, Finance Director, explained that these fees included B&C Road monies and the beer tax. Mr. Philpot commented that these were State funds being passed onto the City to fund capital needs relating to transportation.

Council Member Ostler then asked what the statement “in lieu of property tax” meant. Council Member Brian Braithwaite explained that cities receive a portion of every cell phone bill paid and every vehicle that was registered. Mr. Philpot confirmed that was true and explained that it also helped to defray some of the costs the vehicles brought into the City system, such as road maintenance costs.

Council Member Ostler then expressed a concern that the library tax was not included in the presentation. Mr. Philpot said the City’s property tax levy was broken down on the tax website, and the library tax was one of those line items.

Nathan Crane, City Administrator explained that fees and services could only be charged according to the cost to perform the service. The City did not make a profit from those fees.

Council Member Ostler asked for clarification on sales tax generating 23% of the General Fund revenue. Mr. Philpot briefly explained how that percentage was calculated and how much of that came from the State sales tax. There was a brief discussion regarding online sales tax.

Mr. Philpot continued his presentation by describing a graph detailing bucket distribution of major revenues for the City. From 2011 to 2017, revenues had increased by \$2.5 million, and expenses had increased by \$2 million (excluding Attorney Legal Settlements). Public Safety accounted for nearly \$1 million of the total cost increase. Challenges affecting the General Fund included the loss of buying power and the level of service and growth concerns. Mr. Philpot said the goal was to determine if the General Fund would be able to keep up with both inflation and growth.

Model Assumption

Mr. Philpot presented the Model Assumptions for 2018 budgeted revenues and expenses, and explained the information on the PowerPoint slide. He noted that the model didn’t predict appreciation or depreciation of

property; however, new growth property tax revenue was included. He pointed out the assumptions that could be adjusted if the City Council felt the numbers were too aggressive or too conservative.

Expenditures

Mr. Philpot continued the presentation by presenting expenditures, including salaries, benefits, and public safety expenses.

City Council Member Brian Braithwaite asked if the salary projections were an assumption of the current status quo or an assumption of growth and additional employees. Mr. Philpot responded that the numbers in the slide were the status quo, but there was another slide that contained growth information.

He then presented the Fiscal Year 2019 Operations and Maintenance assumption, including new expenditures, increase in salaries and benefits, and inflation.

Council Member Braithwaite asked for clarification regarding the future for park funds, as there seemed to be a discrepancy between the description and the actual amounts listed. Mr. Philpot said this was an error, the amounts listed for equipment replacement were correct, but the accompanying description was not.

Council Member Scott L. Smith asked why the graphs didn't show property tax increase as a revenue to offset the expenditures. Mr. Philpot explained that the report did include new growth property tax revenues; however, that revenue was not a significant amount. Council Member Smith expressed a concern for the way the City had chosen to raise property taxes in the past. It seemed that elected officials chose to do everything else to meet budgetary needs and put off increasing property tax until there was no other option. That practice resulted in residents seeing a very large jump in their property taxes. He was of the opinion that it would be wiser to allow a natural increase every one or two years.

Council Member Tim Irwin commented that large tax increases were the fault of elected officials because no one would run for office and promise to increase property taxes; that person wouldn't get elected.

Council Member Smith believed one of the problems they had on a local level was that the City's percentage of the property tax was dropping because the school districts and county had been clever in how they raised their portions. If the City could get the percentage that they were getting before, it would make a large difference in their revenue. Mr. Philpot agreed and said that same situation was happening on a federal and state level. Since the City could not control what the county did, they should focus on matters that they are able to control.

Regarding inflation, Mr. Philpot reported that legislators and local representatives across the State were concerning themselves with inflationary measures. One of the next steps in the process would be for the City Council to discuss how the City was going to pay for increased expenditures. Mr. Philpot reported that some of the challenges Highland faced were that economic development and increased sales tax were unstable. Highland also faced some unique challenges in terms of developable land.

There was a brief discussion regarding the variables that affected property taxes in Utah County. Some of those factors included location, the size of the home, and the size of the lot. Overall, rural communities seemed to have a lower property tax levy than communities that chose to have higher densities. Mr. Philpot said that a lot of the property tax value was market driven. If there was a perception from the market that a home was worth more, the assessed value would increase, which would ultimately affect the taxable value of the home.

Mr. Philpot then addressed economic development and explained that there was always a cost associated with development. As the City expanded geographically, the City would bear the cost of building roads and infrastructure to reach those areas which could increase property tax levies. However, increased density could

have the same affect because there would be more traffic damaging the existing roadways, thereby requiring more maintenance.

Council Member Kurt Ostler initiated a discussion regarding the level of service in relation to the proposed Developmental Center. He asked if there was a “sweet spot” where the City could allow a certain amount of density based on the existing police, fire, and infrastructure. Mr. Philpot hadn’t researched the matter yet; however, it was possible to obtain that information and utilize it. He suggested the City Council first determine what level of service they wanted to maintain for police and fire, parks, etc. Council Member Brian Braithwaite agreed and said the only way they could set a policy was by basing it on the current service level and adjusting from there.

Mark Thompson, 10965 North 6000 West, said the reality of growth, and exceeding a certain level of growth, becomes very expensive. He gave the example of Manti City, which was small enough to have a volunteer fire department to meet the community’s needs. When a community had homes that were a mile apart, it was acceptable to have slower response times because it was unlikely that the fire would spread to the neighboring homes very quickly. However, response times must be quick in a high-density situation, because fires could spread very quickly from unit to unit. Mr. Thompson spoke about the history of Highland City and the times when it experienced the most growth. Regarding property tax levies, Mr. Thompson said the current system didn’t accommodate for a fair yearly increase. Fees worked better in these kinds of situations, and they should be audited regularly to maintain fairness.

Mr. Philpot added that there were inequalities with all kinds of increases. The challenge was to identify the needs of the community and establish an appropriate mechanism to mitigate those needs.

Next Steps

Mr. Philpot then concluded his presentation by going over the next steps in the process, including addressing the challenges facing economic development, considering alternatives, reviewing revenues and expenses, prioritizing expenditures, re-evaluating the model, presenting alternative scenarios, and presenting a final report to the City Council.

Mayor Mann thanked Mr. Philpot for his presentation and invited the City Council to make any additional comments or questions.

Council Member Scott L. Smith asked about the potential timeframe for moving forward. Nathan Crane, City Administrator responded that the next step would be for staff and City Council to prioritize the expenditures. He was hoping to have that discussion the following week. He would then give that information to Mr. Philpot and proceed from there. Mr. Crane expected to have another work session in March.

Council Member Brian Braithwaite requested that staff present a list of their priorities and corresponding reasons. He gave the example of buying one new snow plow every year for the next four years, which he felt was an attainable goal. However, there may be information that staff had that would make this goal realistic. Nathan Crane suggested that staff and City Council could have those discussions during a work session.

Wayne Tanaka, a resident, offered the City his expertise in utilities to orchestrate a plan with a goal of 10% across the board. Staff would be get in contact with Mr. Tanaka.

There was a brief discussion regarding the timeframe for paying off the City’s bonds and how that would affect the General Fund.

Mr. Philpot noted that the model they created went beyond five years, however, he had shown a shorter window in the presentation as a starting point and would present the extended plan at a later date.

ADJOURNMENT

Mayor Rod Mann called for a motion to adjourn.

Council Member Brian MOVED to adjourn the meeting and Council Member Scott L. Smith SECONDED the motion. All voted yes and the motion passed unanimously.

*The meeting adjourned at **9:51 PM**.*

I, Cindy Quick, City Recorder of Highland City, hereby certify that the foregoing minutes represent a true, accurate and complete record of the meeting held on February 13, 2018. This document constitutes the official minutes for the Highland City Council Meeting.



Cindy Quick, CMC
City Recorder