

MINUTES
TOWN HALL MEETING BY THE CITY COUNCIL
OF EAGLE MOUNTAIN, UTAH

Thursday, June 19, 2014

7:00 p.m.

Frontier Middle School, 1427 Mid Valley Road, Eagle Mountain, Utah 84005

7:00 P.M. – AUDITORIUM

ELECTED OFFICIALS PRESENT: Adam Bradley, Donna Burnham, Ryan Ireland, Richard Steinkopf and Tom Westmoreland (arrived at 7:30).

CITY STAFF PRESENT: Paul Jerome, Finance Director/Assistant City Administrator; Fionnuala Kofoed, City Recorder; Adam Ferre, Energy Director; Linda Peterson, Public Information Director.

Mayor Pengra called the meeting to order at 7:10 p.m.

1. Presentation – Staff

Mayor Pengra provided an overview of the purpose of tonight's meeting; the Council would like for residents to have their specific questions addressed following a presentation by Questar Gas and South Utah Valley Electric Service District (SESD). He used the aid of a PowerPoint Presentation and stated the biggest question surrounding this issue is why the City is considering selling utilities; such a transaction would be a waypoint in Eagle Mountain's history. There are many reasons to sell and operational efficiency is one of the most important. Oversight of the utilities takes a significant amount of time and effort from City staff, not just the energy department. That has been done very effectively to this point, but as the City continues to grow it will be necessary to dedicate additional resources to that oversight. By selling the utilities to companies that have been managing such resources for a very long time successfully, it is not necessary for them to divide their efforts as the City would if the decision was made to continue with managing the utilities in-house. Access to future resources is also a big driver for this decision; he reviewed the budgets for gas and electric utilities and noted over half of the budget costs are related to materials and supply, which means the City is, in essence, a distributor. The City purchases electricity and gas and distributes it to customers; in simplistic terms, the City is the 'middle-man'. It will continue to become increasingly complicated for the City to secure those resources at a reasonable price. Mayor Pengra continued reviewing additional reasons to sell the utilities, with a focus on debt reduction. The City currently has \$48 million in debt, primarily in revenue bonds, tied to gas, electric, water and sewer utilities; \$26 million is for gas and electric utilities and that debt would be eliminated on January 2, 2015 if the proposed deal with Questar Gas and SESD is approved. He reviewed future utility infrastructure needs of the City and noted that as the City continues to grow it will be

necessary to improve upon the existing infrastructure and provide new infrastructure at a significant cost. Eagle Mountain is projected to grow 434 percent by the year 2050, which is significant and will require additional infrastructure investment. If the City utilities are sold, that burden will fall to Questar Gas and SEDS, who are both better prepared to accommodate growth and maintain current operations. He also discussed new regulatory requirements relative to utility systems; the regulations tend to be very complicated and will only increase and cause an additional drain on the City's resources. Mayor Pengra then stated there are also some cons to the proposal to sell the utilities. First is the loss of local control over the utilities and there is an argument that once the resources is sold or given away the City will lose total control; that is a valid argument, but the advantage the City has with SEDS is that they are not a private entity and the City has representation on their board of directors. The same is not true for the gas utility and the City would certainly be giving up direct control of the gas system. He added an additional con is that the utility revenues will no longer be available for community improvement, but he noted that there is a misconception that the City can use utility revenues for any City expense; that is not the case and according to government accounting practices, the City is not allowed to use the funds for anything other than the administrative costs of operating the utilities. The City periodically transfers utility revenues to the General Fund to pay a portion of salaries for staff members associated with the utilities and that transfer has actually been reduced drastically over years past. He referenced economic development incentives and stated the City could potentially offer a business certain incentives for locating in the community, but there is a philosophical question as to whether the current rate payers should pay to subsidize those incentives. An additional con that has been identified is the loss of revenue and he revisited his explanation regarding the transfer from utility revenues to the General Fund for salaries; the City can account for that gap of \$242,000 per year by making sacrifices and tightening the budget in other areas. Mayor Pengra then summarized the proposed deal between the City and the two utility entities; Questar Gas would purchase the City's gas utility for \$11.4 million and SEDS would purchase the City's electric utility assets and absolve all debt associated with the electric utility. He has signed good faith offers pertaining to the agreements, but the Council has the ultimate approval authority of the transactions. Both utility entities have addressed their staffing needs associated with assuming ownership of the utilities and all current City utility employees will be guaranteed a new position with either of the utility entities or to stay with the City for similar compensation and benefit packages. The City would retain a recently constructed energy building, which is valued at \$2.6 million and the City would retain approximately \$6 million in the utility fund cash balance.

Brad Markus, Questar Gas, thanked Mayor Pengra, the City Council, and the staff and stated it has been very easy to work with them throughout the negotiation of the potential agreement. Eagle Mountain gets its gas from the Kern River tap at the south end of town; it can handle 6.5 million cubic feet per day and the City's current peak is 6.24 million cubic feet per day, meaning the City is nearing the maximum amount the tap can handle and there will be a need to expand the tap. There is existing Questar infrastructure and it would be relatively easy to connect the two systems to one another at minimal costs. He then discussed a recent transaction between Questar Gas and another Utah municipality and noted there are real advantages to the residents of the City in being able to rely upon

Questar for service. He used the aid of a PowerPoint Presentation to provide a brief overview of the makeup of Questar Gas and the practices the entity uses to keep energy rates low; the company serves 950,000 customers State-wide as well as small portions of Idaho and Wyoming. He also explained how gas is delivered to customers and there was a brief focus on safety for customers. He reviewed how Questar's rates compare to the rates charged by other gas utilities throughout the country and highlighted some of the additional services Questar provides, again with a focus on safety. Customers have access to customer service representatives and technicians 24 hours a day, seven days a week, 365 days each year. The system is maintained well and Questar takes extensive steps to ensure safety of the existing and future infrastructure. Questar also conducts regular customer surveys and continually receives high ranking relative to quality customer service. The company also offers several programs, such as rebate programs that reward customers for taking steps to conserve energy. Mr. Markus concluded that Questar would like to provide service to Eagle Mountain residents and he would be willing to answer any questions regarding the proposed transaction.

Dan Ellsworth, General Manager of SESD, began by providing a brief history of the creation of SESD, which is a special improvement district. SESD is the only real electric service district in the State of Utah and it offers unique opportunities to the communities it serves. The district's interaction with Eagle Mountain has been nothing short of incredible; the honesty and openness of the Mayor, Council, and staff has been great. Mr. Ellsworth acknowledged that SESD is not a big company; it operates 500 miles of overhead line as well as transmission lines that intertwine and feed the cities of Springville, Spanish Fork, Salem, and Payson and they maintain all of their own substations for 3,500 customers. The question has been asked how SESD can afford to purchase a utility that is twice as large as the existing makeup of SESD. This is a unique opportunity for Eagle Mountain to sell the utility to the district and still have representation and a seat on the board. The board of directors is made up of seven members that are very prudent and work hard to vet all options presented to them; the last rate increase implemented by the board occurred in 2009. The board greatly considered the benefits and drawbacks of purchasing the utility as well as how the transaction could impact existing shareholders. After much discussion the board determined the existing rate payers will not be impacted and it makes sense for SESD to broaden its base to set the district up to make additional moves to expand in the future. He discussed operational efficiencies related to the proposed transaction and noted the district can handle the growth by employing the employees that have been working for Eagle Mountain to maintain and serve the system. SESD sees this is a great opportunity to work together and make a better power company to serve the citizens of Eagle Mountain and the current rate payers in south Utah County.

2. Open Discussion, Questions / Answers

Rod Erling stated he lives in the Lone Tree development in the City; he recently moved to the area from Pennsylvania. In that state developers are required to pay for the installation of all infrastructure that is needed to serve a development, including all road improvements. He asked if a developer is required to do the same in Eagle Mountain. Adam Ferre, Energy Director, noted that currently the City requires developers to pay for all infrastructure in a

new development; the only infrastructure cost that is not paid by a developer is something referred to as a 'back-bone' to feed a major development; this includes upsizing existing infrastructure to serve a new development and the developer may pay the initial costs to eventually be reimbursed by the City. Mr. Erling inquired as to how long that policy has been in place in Eagle Mountain. Mr. Ferre stated developers have always been required to install their own infrastructure. The debt the City has incurred has been related to the installation of major improvements, such as transmission lines, substations, and buildings. Mr. Erling asked if the same is true for the new sewage system in Eagle Mountain. Paul Jerome, Finance Director, noted that the City charges impact fees to residents to cover the impact that their home will have on the City's infrastructure; some infrastructure costs are not covered by impact fee revenues, but some of the cost of the sewer plant improvement was paid for by impact fees. Mr. Erling stated he feels the City will be overdeveloped and he asked how the City can prevent that. Mr. Jerome stated the City conducts regular analyses relative to the tools needed to provide for appropriate growth and prevent overdevelopment. In the case of electric and gas resources, the City does not own its own resources and, instead, purchases them through a municipal power agency on the open market. Mr. Erling reiterated his worry is that Eagle Mountain will be overdeveloped. Mr. Ferre noted the City has a five-year Capital Facilities Plan that is used to forecast future development and provide for appropriate impact fees to cover needed infrastructure. Mr. Erling stated there is a single access road in and out of his subdivision; there is a new development being constructed to the west of his subdivision, but he has not noticed anything being done to improve the transportation options in the area or to provide an access road to Route 73. He fears that there will be a major disaster in Eagle Mountain and that residents will not be able to escape or emergency responders will not be able to reach the residents. He focused on Eagle Mountain utilities and he wondered if his water pressure will be impacted and if he will be able to heat his home for a reasonable cost. He concluded that based on his experience with utility companies in Pennsylvania, he has no trust for such entities.

Mayor Pengra noted the point regarding overdevelopment is well taken. He stated that if water pressure reduces below an acceptable level and the City does not address that issue, the City will not be doing its job and that will need to be addressed. The City does everything possible to plan for the impact a new development will have on the existing infrastructure systems and ensure that services being provided to existing residents are not degraded. There is no exact science to preventing such impacts, but the City's utility managers and staff have done a good job at preventing problems or when problems arise they have done a great job at addressing them. He stated, however, that as development increases the City will need to carefully consider the issues raised by Mr. Erling.

Councilmember Burnham stated that she is aware that Pleasant Grove and Lehi cities have water restrictions in place because those cities have overdeveloped and there is not sufficient water to serve all the residents. That is a problem that those cities should have thought of. The drinking water in those cities is so bad that people do not use it and, instead, purchase bottled water for consumption in their homes. Mayor Pengra stated he is thankful the utility infrastructure in Eagle Mountain is relatively new and the City does not experience too many problems. He acknowledged there are some problems in the City and

some residents have low water pressure, but the City is working with the residents of those areas to resolve those problems. He focused on the City's utility rates and stated that a fairly complicated analysis would need to be done to hedge the City's resource and ensure the supply cost for utilities is kept level; the City has done a good job at mitigating risk and keeping the supply cost relatively level, but as the City grows the process to maintain levelness will become more complicated. As coal disappears and power generation plants are retrofitted for gas use there will be a higher demand on the natural gas supply and production facilities, of which the City has no control. Questar has their own production operation and they build the cost of that production into their hedging. If the City were to continue to maintain the utility systems it would be necessary to adjust rates to respond to fluctuations in the cost of services and products. He noted some people may be afraid to work with big business, but in all of his conversations with Mr. Markus and other Questar representatives he has found the interactions very different than those he has had with other large corporations; Mr. Markus has been very forthcoming with him and their leadership will set the tone for this entire transaction.

Sandy White stated there has been mention of the contracted electrical rates through 2017 and she asked if those are fixed rates and if Eagle Mountain residents will be paying a different rate than other SESD customers until that time. Mr. Ferre stated the City currently has a contract with UMPA that provides for a fixed rate with the exception that if they are required to go to market the City will also go to market. The contract has been very consistent and has been in place for the past 10 years; the rates in that contract are secured until 2017, but UMPA is encountering the problems that all other electricity suppliers are experiencing related to the transition from coal to natural gas. The contract follows the load and UMPA does not charge different prices based on a high or low load. He stated Eagle Mountain residents will not experience a rate increase until 2017 and at that time all electricity rates will be based on power generation. Mr. Ellsworth added that the City's rates should actually be held until the year 2022, but he cannot project how rates will adjust after that time because there are several unknown factors relative to power generation. The SESD will also be considering new resources, such as nuclear power. Ms. White stated that Eagle Mountain's current usage based on per kilowatt hours is 775 wattage and SESD's is 9.4 cents. She asked if City residents will pay the 9.4 cents per wattage hour or if the current wattage charge will be maintained. She noted there is a calculator on the Eagle Mountain website that compares the City's rates with the rates charged by SESD, but if the City's rates will be maintained she will not experience any savings until after 2017. Mayor Pengra stated that if the calculator has been misleading in that it has communicated what residents can expect their rates to be once the utility has been sold, he will take responsibility for that. It is his hope that the citizens will experience a savings, but there is no guarantee of that. He stated that the City has purchased a certain level of power to supply the average needs of the citizens; however, there are spikes in the power demand and the City has not purchased power to cover those spikes. When the spike occurs the City must purchase the resource somewhere and that is currently on the open market, which has a serious effect on the total price of the resource. SESD does a good job of building a mechanism into their rate to compensate for those spikes so that residents do not experience continued rate hikes or decreases, but that mechanism must also be accounted for. He added that the City purchases power based on the current

population and when that population increases it will be necessary to purchase additional power, possibly at a higher rate. The agreement with SESD has been structured in a way that he hopes it will be possible to maintain rates for the residents or even reduce the current rates. Ms. White stated she understands that and she also understands market fluctuations, but she simply wanted to know if on January 1, 2015 she will be paying the rate she currently pays to Eagle Mountain or if she will be paying the rate other SESD users pay. Mr. Ellsworth stated Eagle Mountain residents will continue to pay the rates they are currently paying. Ms. White then inquired as to what changes are anticipated relative to the budget billing system that is used to allow residents to pay their utility bill electronically. Mr. Jerome stated that staff anticipates the requirement to generate new utility bills and it may be necessary to remove all users from the electric and gas budget billing system, but keep them on the water budget billing system. Staff is in discussions with the software provider for that program to understand how that change will be handled. He provided an overview of how the budget billing system works and stated he is hopeful there will not be too much of a change experienced by customers. There is the potential for some customers to receive a credit for lower usage than expected, but there is also the possibility that some will be required to pay more before discontinuing service with the City. Ms. White thanked everyone for their hard work on this project and she noted that it is very exciting. Mayor Pengra committed to the citizens to communicate the actual rates as the time for implementing different rates nears.

Jim Bright stated that last year Eagle Mountain joined the Unified Fire Authority (UFA) and the partnership was sold to the citizens by communicating a reduction in utilities to offset the assessment from UFA. He stated that he paid an increase of nearly \$300 last year for that assessment and his question is what happened to the idea that the citizens would be saving money based on utility rates; now the City is proposing selling the utility systems that were expected to be the source of the savings. Mayor Pengra stated that is a valid question; if that is the way the proposal to join the UFA was presented that was improper. He stated UFA is a taxing entity and they have no association with or impact on the City's utilities. He does not think anyone intentionally misrepresented the facts of the matter, but it may have been an oversight if that is the way the partnership was presented. He stated he did something similar to that recently when discussing a \$1 fee reduction in one area of the budget and a \$1 fee increase in another area; he noted that the two fee changes would offset one another and that is true, but ultimately neither fee account has a direct effect on the other. He stated he can understand how the mistake was made in tying the two issues together. He then reiterated the City will lose control of the charges passed on to the residents for utilities, but the argument he would make is that the City would be required to consider increasing utility rates in the event that operational expenses were to rise. He stated he will be honest with the residents when it comes to needing more money to cover certain costs in the City. The City will do everything possible to try to prevent ever taking more money from the residents, but sometimes doing nothing is not an option. Mr. Bright then stated that Mayor Pengra is declaring the connection between the UFA and utility rates as a misrepresentation, but all information was included in the City's Eagle View newsletter that came from the Mayor's office so it is frustrating to him to hear about the sale of the utilities. He stated he is also anxious to hear about the plans for the \$6 million surplus from utilities and stated it may be a good idea to send that money back to the

residents that paid the fees. He thanked the Mayor and Council for their time. He indicated he appreciates the Mayor and what he has been doing, but it is frustrating to him that he was sold on an idea based on false information; the City is now stuck with the UFA that has the ability to raise assessments and with utility companies that will have the ability to raise rates. Mayor Pengra stated he would be willing to talk to Mr. Bright about this issue at a later time. Councilmember Ireland stated that when the City annexed into the UFA taxing district, one of the primary goals of the Council was to do all possible to ensure that the transaction would be revenue neutral for the City. The City adjusted finances so the City did not experience a net gain or loss in the budget. From a service perspective, the City is receiving an increased level of service so there was a slight increase in the overall cost to the residents, though that increase was not significant. From a budget standpoint the transaction is still revenue neutral. Mr. Jerome stated that at the same time the City was considering joining the UFA a rate study was also being conducted by a third-party rate analysis company and the firm that conducted the study recommended that the City lower the gas rate by 15 percent and increase the electric rate by five percent; they also projected the needed rate adjustments over the long term in order to continue to provide service to customers. The statement regarding revenue neutrality and joining the UFA included many moving parts, including utility rates.

Lee Brown stated he lives on Highway 73 by White Hills and he receives electricity from Rocky Mountain Power. He asked whether this transaction will affect him. Mr. Ferre referenced Senate Bill 180 regarding annexation and explained that when a municipal boundary is amended to include territory outside the City and customers currently receiving service from another servicing entity are added to the City, the City is required to extend service to those residents within two years of the annexation. He stated that it will be necessary to examine the districts of SESD to determine what service will be provided to the residents currently using Rocky Mountain Power. Mr. Brown noted that the residents in his area have not received an offer to extend service to them. Mr. Ferre stated that it is very expensive to run a transmission line to that area and the City is using a franchise agreement with Rocky Mountain Power to continue to service the area. The City also has an agreement with the developer of that area by which he will pay some of the costs of the infrastructure to extend service to those residents. Mr. Brown asked if this issue will be resolved in a year. Mr. Ferre said that he expects to renegotiate the agreement. Mr. Brown did not believe that this answered his question and he asked again if the issue will be resolved in one year. Mayor Pengra stated that the City does not have a direct answer to that question; he understands the issue is approaching and if the City is required to extend service to the area next year, it may be necessary to issue a bond and work with the developer to pay the costs of extending service to the residents there. He stated that is the likely outcome if the City retains the electric utility; if the utility is sold to SESD they will likely be in a similar position of the City. Mr. Brown stated that he did want to know if SESD will be responsible to eventually provide service to the residents in the event that the utility is sold. Mayor Pengra answered yes. He stated the City has had very frank and open conversations with SESD about this issue and they are aware of the potential need to extend service to that area. Mr. Brown concluded that he thinks it is a good move to sell the City's utilities.

Charlotte Ducos asked what the debt reduction would do for the City's bond rating. Mr. Jerome stated that he has been in contact with Fitch Ratings relative to the bond rating and retiring the debt will not do anything for the City's bond rating whatsoever. Each bond rating is tied to specific bonds and the remaining bonds for water and sewer would not be impacted. Ms. Ducos asked if the City's ability to bond for other new infrastructure in the City, such as roads, will be greater. Mr. Jerome answered no and stated that roads can only be funded through General Obligation (GO) bonds and those are not connected to the City's utilities or utility bonds whatsoever. Ms. Ducos concluded the City will basically have less debt. Mr. Jerome stated that is correct. Ms. Ducos then asked about the transfers from the utility funds to the General Fund to cover administrative costs; if transfers were only allowed to pay for administrative costs associated with the utilities and the City is planning to sell the utility and will no longer have those costs, she wondered where the cost gap is coming from. Mr. Jerome stated that the transfers for administrative costs have been reduced over time, but \$242,000 has been transferred from the utility fund to the General Fund to cover employee salaries; it will be necessary to find that funding from another area of the budget in order to maintain current staff levels. Ms. Ducos stated that the money transferred should have only been for utility employees and if the utility is sold it will not be necessary to continue to employ those people and pay those costs. Mr. Jerome stated the City will still maintain other utilities and it will be necessary to retain utility staff for those reasons. Ms. Ducos stated that those employees should be funded by the remaining utilities. Mr. Jerome stated that they will and with SESD and Questar taking on the employees that serve the electric and gas utilities, those employee costs will no longer be on the City's books. Ms. Ducos asked if the \$242,000 cost will dwindle down to zero as the transaction is completed or if the City will need to continue to provide some manner of funding. Mr. Jerome stated that the administrative transfer coming from the utility accounts to the General Fund covers other employees not directly working on utilities, such as human resources, building, finance, etc. and it will be necessary to continue to fund those employees as well. Ms. Ducos summarized that the City has been working within the rules to use utility money to fund certain things and it will be necessary to find other funding mechanisms for them. Mr. Jerome agreed. Mayor Pengra stated the City has executive staff and they will work for the City regardless of the utilities maintained by the City; if the City had no utilities, the utilities would not be funding any portion of those costs. The argument could be made that the City may have too much staffing for the operations it oversees, but the City has gone through recent changes to reduce the total cost of administrative staffing, but that has not made up the difference entirely. He stated that the City has a cost for administrative staff and the four utilities pay a portion of those costs. He asked if the cost paid by the two remaining utilities should be doubled to make up the difference by losing the gas and electricity utilities. Ms. Ducos went on to say that the cost was being spread over four utilities and now it is being spread over two, but the City is saying that the staff levels cannot be reduced because the employees still have the same job to do. Mayor Pengra stated that is not accurate; he reiterated that the utility transfers were also paying a portion of the salaries for certain executive staff and those functions will not go away; the question is who to place the burden on. He does not want to place the burden on the remaining two utilities and he would prefer to place the burden on the General Fund. He added that he has been aware of the need to make up the gap and staff has worked to create efficiencies and reduce costs to prepare for this situation. Ms. Ducos then stated that

in the past there have been discussions about Eagle Mountain's utility rates being approximately 15 percent higher than in other cities due to debt service needs; when the initial numbers were presented for this proposed transaction, the City forecasted a \$50 annual savings in utility costs for customers. She stated that a rate increase then occurred and it is her understanding that the change of utility providers will actually be neutral. She inquired as to the benefit to the residents. Mr. Markus referenced the fact that Questar is responsible for the fact that the change in utility providers will be neutral for customers, but he noted that if the residents had been receiving service from Questar previously they would have realized savings over the rates paid to the City. He provided an overview of how Questar's rates are determined, with a focus on the rates being market driven. He is very comfortable saying that the residents will be better off as Questar customers in the long term because the changes in the market can be absorbed by 950,000 customers as opposed to 6,000 customers. Ms. Ducos then inquired as to the anticipated use for the City's energy building once the utility is sold. Mr. Pengra stated that the building will be used to house public safety operations, which are currently located in a trailer, and to accommodate additional staff expansion for many years to come. There are also options to lease the building to other users as well. Ms. Ducos thanked the Mayor and Council for their time and noted she is excited to have the opportunity to explore this option.

Ashly Lower stated that Ms. Ducos had asked if the utility rates charged to the citizens will remain neutral and the Mayor nodded his head yes, but everyone knows that SESD will not be charging their current rates that are used in the rate calculator to determine rate neutrality. Mayor Pengra explained that he was not answering yes, but acknowledging Ms. Ducos' question. Ms. Lower then asked if the City will remain at the .10459 rate; the answer to the question was yes. Ms. Lower asked if the City can send a letter to residents clarifying that the residents will not experience a savings and will instead likely experience an increase of \$120 more per year per household. Mayor Pengra stated he and the Council will communicate the appropriate information to the citizens. Ms. Lower stated residents think they will be saving money and that is likely the reason there are so few people present at this meeting. Mayor Pengra stated that as soon as the contract is firmed up and the City is aware of what the rates will be he will communicate that information to the citizens. Ms. Lower stated she was just told that the rate is .10459 and Questar's rates are public knowledge as well. She asked what information still needs to be firmed up. Mayor Pengra stated he does not wish to carry out rate negotiations in a public meeting, but he addressed Mr. Ellsworth and asked if there are any opportunities to reduce the rates below the number quoted by Ms. Lower. Mr. Ellsworth stated there is a slim chance to reduce those rates and he referenced some opportunities for such reductions. Until he has access to all of the City's utility information, he cannot commit to any definite rate; SESD has not taken the approach that they will be able to lower the rates paid by Eagle Mountain users, but the board wants to be fair and make sure that appropriate rates are charged. Ms. Lower then stated that she is very concerned about property taxes and potential increases to cover the loss of utility revenues and the ability to complete inter-fund transfers. Mayor Pengra stated that is a fair statement, but he disagrees it will occur; the City has addressed all possibilities and there will be an impact to the City's budget, but he feels sales and property tax revenues will continue to increase and can be used to cover the loss of the utility revenues. Mr. Jerome agreed that sales tax revenues continue to increase associated with

population increases at a rate of an average of \$100,000 per year. If current staffing and service levels are maintained, it will be possible to cover the loss of the \$242,000 through that increased sales tax revenue. Although the property tax rate in the City has not increased for years, the amount of property tax revenue the City receives increased each year as a result of an increase in population. Ms. Lower then stated that Eagle Mountain is already viewed as the City with high utility rates and raising those rates will not be good for the City's image. She referenced the statement that the City will be getting out of debt by selling the utilities, but the debt is just being transferred to another entity that serves the citizens and, therefore, the citizens are paying for that debt service. She stated that she hopes everyone will carefully consider and research this idea and she hopes it is possible to hold additional meetings and for more residents to become involved. Mayor Pengra thanked Ms. Lower for sharing her feelings.

Todd Lower, Gas Department, stated that the City's Gas Department also offers many of the same services that are offered by Quester and that were referenced by Mr. Markus earlier in the meeting. He then referenced the system's capacity and noted that it is his understanding from dealing with Kern River that it will only be necessary to implement minor upgrades at the gas tap to accommodate the demand for additional gas from that tap. Mr. Markus stated that it would be necessary to work on the meter station at Kern River and if the utility is owned by Questar the costs for that work will be spread over 950,000 users as opposed to 6,000, if the utility is maintained by Eagle Mountain. He added that connecting the City's gas infrastructure to Questar's infrastructure will provide redundancy in a system that currently has none. Mr. Lower then addressed Mayor Pengra and stated that when he first met him he said that he was not a politician and does not want to be a politician. He stated that Mayor Pengra should really try to be a politician because when asked a direct question about rates it took him 20 minutes and three different people to answer the question. Mayor Pengra stated that this seems to be a misunderstanding and he invited Mr. Lower to stop by his office anytime to talk more about it.

Peeples stated that someone mentioned earlier this evening that discussions regarding this transaction started over a year ago and he asked if that is correct. Mr. Markus stated he made visits to the previous City Administrator inquiring if there was an interest in selling the utility. Mr. Peeples noted that a year ago the citizens were presented with the idea of joining UFA and the citizens were told the cost to join would be offset by a reduction in utility rates; now he hears that this transaction was already being discussed when that commitment was made to the residents. Mr. Markus stated there were no serious discussions until the end of 2013 and early in 2014; earlier discussions were only based on requests from Questar to sell the utility and the previous City Administrator expressed his disinterest. He confirmed that all serious discussions occurred well after the UFA interaction. Mr. Peeples then stated that the City will be giving away control of the utilities and he hopes that in the end the transaction works out well; he is in favor of selling the utilities, but it was not presented appropriately. Mayor Pengra thanked Mr. Peeples for his comments; he focused on the reasons for selling the utility, noting the financial impacts will be minimal for the rate payers. Mr. Peeples stated that he sees the benefits of the transaction and agrees with them.

Jim Shumway stated that he was Mayor of a small community in southeastern Utah for eight years: Blanding, Utah; the community owns their own electricity and natural gas utilities. They had opportunities to sell as did the neighboring city: Monticello. Blanding did not sell, but Monticello did and they have regretted it ever since. Eagle Mountain City bonded for utilities and debt service has been made on those bonds for some time. He asked how much money will essentially be lost in the form of debt service payments as a result of this transaction. Mayor Pengra stated the utility infrastructure has not been paid for by rate payers; it has been paid for through impact fees paid by developers. He asked Mr. Jerome if he knows how much the City has paid in debt service payments to this point. Mr. Jerome stated approximately \$7 million of the original bond amount has been repaid to this point. Mr. Shumway asked if that amount of money will be considered when determining the purchase price to be paid by Quester and SESD. Mr. Jerome stated the current appraised value of the two utilities is approximately \$35 million; the offers to purchase the two utilities are \$26 million, the City will keep the energy building, and will maintain the current \$6 million fund balance; those three things total nearly \$35 million. Mr. Shumway stated that when natural gas infrastructure was installed in 1994 the anticipated payback period was 12 years; after that there was a profit for utilities. If the utilities were maintained by the City, the Council would have the option of refunding users in the event that costs decreased or debt is retired; Questar does not have the option to do that. It was his opinion that the residents will be paying a higher rate for a lower level of service. He added that Mr. Ellsworth had mentioned that SESD participates with UAMPS and he noted that UMAPS is a good entity. The City has the opportunity of working with UAMPS to improve the utility system without selling to SESD. That will allow the City to retain control and if anyone in Eagle Mountain is concerned about the loss of control they should talk to representative of Monticello to understand what their experience has been. Mayor Pengra stated that the City has purchased resource through UAMPS which is an \$8 million resource on the City's books. Mr. Ferre noted that SESD would assume that debt upon the purchase of the utility; the City has only had a few opportunities to participate in power projects with UAMPS and he provided a brief overview of those projects. He indicated SESD brings a lot to the table due to their heavy involvement with UAMPS. He stated it is not possible to guarantee rates for an indefinite amount of time and he has made it clear that now is the right time for the City to determine whether to stay in the utility business or get out. It is his job as Energy Director to find resources that will allow him to maintain the best rates for the City and he would continue to do the same with SESD as well.

Shannon Willis asked if SESD has plans for solar energy options in the future. Mr. Ellsworth stated that there are many options in SESD's current resource portfolio; including hydro, wind, and net metering for customers that want to use solar power to supplement traditional power. SESD must maintain its grid and there must be moderation in offering things like solar power. Users will be allowed to use 5kw of solar power, but they must use a net meter to determine the cumulative kW hours they are using. SESD is cautious of purchasing commercial solar products because the renewables are only 30 percent efficient and that means users would be paying a 100 percent cost for 30 percent service. Ms. Willis then stated that her family lived in Orem for many years and she has compared utility costs in that city to utility costs in Eagle Mountain and her observation is

that the water and sewer utility costs are higher in Eagle Mountain, but the same is not true for gas and electricity. Mayor Pengra stated that including an aggregate cost for all utilities on one bill can give the false impression that the City's utility rates are high; no one has approached this idea with the goal of reducing utility rates because the City's utility rates are actually not out of line with what is being paid in other cities. He refocused on the reasons for selling the utility, including the rapid pace of the changes in the industry, rapid growth in the City that could require additional debt to improve the utilities, and looking into the future to secure the best possible benefit in the long term for the City. Ms. Willis stated that she understands the City needs to be focused on running the City. She appreciated the responses to her questions.

John Brozovich stated he lives in West Mountain and he is an SESD rate payer; SESD has accumulated \$14.6 million in debt and he asked if the Eagle Mountain debt will be amortized over all SESD rate payers or only over the Eagle Mountain rate payers. Mr. Ellsworth stated Eagle Mountain's debt will be calculated into the rates paid by Eagle Mountain residents. Mr. Brozovich stated that means the debt still remains the same for the rate payers from Eagle Mountain. Mayor Pengra stated that is a valid point and he reiterated the main focus is the City's ability to operate the system in the long term and it is important to him that the debt be off Eagle Mountain's books; the debt will be turned over to a company that only focuses on the utility and there is a level of efficiency associated with that.

Sandra Wardle stated she agrees with Mr. Shumway and she is not in favor of selling the utility. She asked why the City would sell its only source of revenue; if the economy crashes again everyone will still need utilities and the City will still get that revenue. The City has debt because it is a young, new city. She then addressed the City Council; the purpose of having a full time Mayor in the past was because the City operates its own utility business; if the utility business will be sold the Council should reevaluate and opt for a part-time Mayor. That will provide half of the Mayor's salary along with the salary for the Energy Director and that money can be used to improve City parks. She stated that she has lived in Eagle Mountain for 16 years and has seen many Mayors and that has been the argument to keep a full time Mayor. Mayor Pengra explained that this is something he has been discussing with the City Administrator. He stated that if this transaction is approved and he decides to seek another term in office after his first four-year term, he will do so with the intent that the position be reduced to part-time. Ms. Wardle asked if the Council can vote to make the Mayor position part-time after the utility sale. Mayor Pengra answered yes and stated he would support the City Council in that decision. He then stated during his campaign he talked about the salary for the position: the salary is \$70,000 and he committed to doing the job for no more than \$50,000 in wages. He noted that his wife does not currently have health insurance and his benefits through the City are paid for in that \$70,000 amount; the money left over after \$50,000 in wages and his benefit costs are donated back to the General Fund. He added that he did not seek this position to make money; rather this is an act of service for him. He stated that it has always been his intention to do good for the community. Ms. Wardle asked if Mayor Pengra would consider stepping down as a full-time Mayor and be a part-time Mayor instead. Mayor Pengra stated he would agree to do that after his first full four-year term; if he sought

reelection he would do so as a part-time Mayor. He stated he has made a commitment for four years and he stepped away from his career to do so and he could not bear the financial impact of becoming a part-time Mayor at this point in his term.

Lynda Shumway stated she wanted to simplify the issue; there are two sides: the utility payers service their own debt and will eventually pay it off. She realizes that in the process there will be necessary upgrades, but theoretically the bond will be paid off one day and the City will retain control of the utility system. This is doable and has been done and it does not sound like net staffing will provide a benefit for selling. On the other hand the citizens will still service the debt through SESD and the amount they pay will not change too dramatically, but the debt will never be paid off and the citizens will never own, debt free, its own utility company. Mention was made that profits can only be used for costs associated with the utility, but that is not how Blanding operated; through the grant writing process, a lot of the profits can be funneled back into the community. Eagle Mountain is one of the very few communities in the entire state in this position; she watched Monticello be so sorry for selling their utility, especially as they noticed their neighbor in Blanding eventually pay off the debt associated with their utility and own it free and clear. Blanding was able to provide lower tax rates and higher benefits. She asked the Council and Mayor to take a good look at the balance sheets; consider whether they want to give up the profits and still maintain the same costs for employees. She asked if the Council wants to throw away the possibility of ever paying off the debt and owning the utility system and maintaining control. If the Council decides to sell there must be a strong benefit or upside that she has not yet seen. Mayor Pengra stated that if the City were not growing at a rapid rate he would agree with Ms. Shumway 100 percent. Or, if the City has more residents to spread the costs to continue to improve the system among, he may feel the same way. Ms. Shumway stated that SESD will also be required to improve the system in the future. Mayor Pengra stated that is correct, but that is their specialty and their operations are very focused. Debt is now always a bad thing for a business and most public companies have debt. When cities bond and take upon public debt, there is often public outcry or caution, at a minimum. He referenced Ms. Shumway's comments regarding using utility revenue to offer benefits to the City; Utah has truth in taxation laws that govern the use of funding sources. The State Auditor is paying very close attention to the use of utility revenues compared to property tax increases. He then asked Mr. Jerome if he is aware of the grant program referenced by Ms. Shumway. Mr. Jerome stated he would need to research that issue and he is not familiar with what has been done in Blanding. He then stated that in the past, many cities have used a transfer from the utility fund to cover administrative costs; they have also charged an arbitrary percent on top of that amount, but that is not something Eagle Mountain has ever done. The State Auditor's Office is recommending legislation to restrict a city's ability to do that. He noted general fund revenues should be used to pay for general operations of the City and utility revenues should pay for utility operations. Mr. Markus then added that Questar purchased the utility in Monticello; it was not owned by the city but by some private individuals. Questar has reinvested millions of dollars into main lines in that city to correct a great number of gas leaks. The advantage to Monticello residents was that those costs were spread across 950,000 customers as opposed to the number of residents that live in Monticello; the city is unique and there was a lack of maintenance in their facility. Mr. Shumway stated that he was talking about the sale of

Monticello's electric utility to Empire Electric; he was not aware that the gas utility had been sold. Mr. Markus explained that the gas utility was not Monticello's to sell and that the utility was owned by private individuals who never maintained the system.

Kathy Bitter asked if the City could sell the gas and electric utilities separately; she is under the impression that cannot be done because the debt for the two systems is intermingled. The answer to Ms. Bitter's question was yes. Ms. Bitter then stated she appreciates this meeting and the transparency it brings to this proposed transaction. She has heard a couple of comments about the connection between the City joining UFA and the decrease of utility rates, but her understanding is that the City joined UFA and the utility rates were lowered at the same time, but the two issues were not connected. She feels there was not sufficient transparency regarding the proposal to join UFA and that is where the miscommunication came from. If the City works to maintain transparency that is where good communication starts. She personally feels that City government should not be in the utility business and she is in favor of the sale; she feels the private sector can do it better. She asked, however, if the citizens will ever get the rate that is advertised on the SESD website, which is currently lower than the rate paid by Eagle Mountain residents. Mr. Ellsworth stated that SESD is working to bring the rates into the same realm, but the obstacle is the City's power purchase contract that does not expire until 2017; utility rates are based on the costs associated in that contract. He believes that soon after the expiration of the contract in 2017, it will be possible to merge the rates. Ms. Bitter asked how that will be possible when the debt associated with the Eagle Mountain system will be built into the rates. Mr. Ellsworth stated that the rest of the SESD system is not debt free; SESD will assume another \$8 million in debt associated with renewables and that has not really been discussed this evening. Ms. Bitter asked if Eagle Mountain residents will eventually be true SESD customers paying the same rate as other customers. Mr. Ellsworth answered yes, but it will take some time to get there. Mr. Ferre added that if this transaction is approved he would work with Mr. Ellsworth to secure additional resources to provide a solid base rate until 2022. Increasing the load and combining resources will give SESD an opportunity to secure those resources.

Mayor Pengra thanked those that attended this meeting and noted that this is the manner in which local government should work. He stated he is available to any resident at any time to talk about this issue further; the same is true for the employees of the City even if they do not agree with him regarding this issue. He noted Council discussions regarding this matter will continue over a long timeline.

Councilmember Ireland stated the five Councilmembers will ultimately be asked to vote on this issue and he appreciates the citizens that have spoken about the issue this evening and he encouraged them to stay involved throughout the entire process. At some point in time there will be a public hearing at a City Council meeting and the Council will have a significant decision to make on behalf of the City; more input regarding the issue will make that a better decision.

Councilmember Burnham stated she needs to excuse herself from the meeting, but she asked residents to feel free to reach out to her to continue to discuss this issue.

Councilmember Westmoreland stated he wishes the issue would have been placed on a ballot in order for all residents to have a vote; since that is not possible it is very important for the citizens to continue to express their feelings. In weighing the costs of the options in maintaining the electric utility, there is no level ground and the City would need to be much more aggressive in improving the system in the future. He stated that as negotiations of a potential agreement continue, the Council will be made aware of the kind of service and relationship the City would enjoy with SESD and Questar and he hopes to receive feedback from residents as those details are made public.

Councilmember Steinkopf thanked all residents for attending and he learned a lot this evening as a result of the question and answer session; that is the purpose of this type of meeting.

Councilmember Bradley also thanked residents for attending and he noted that he appreciates the hard work that has gone into this fact-finding mission to this point. The Council, Mayor, and citizens are working to learn what is best for the City today and in the future. Communication is important and it is important for the citizens to continue to share their feelings and perspectives on this issue; the Council is open indeed and willing to look at all sides of this issue.

Mayor Pengra thanked Mr. Markus and Mr. Ellsworth for attending and answering questions asked by the residents.

Mr. Ferre stated the City has a great utility staff that works very hard and it is difficult for them to be in limbo and operate without clearly understanding their future with the City. He stated that he appreciates his employees and no matter if the utilities are sold or retained by the City, the citizens are in good hands with the utility employees.

3. Adjournment

The meeting was adjourned at 9:38 p.m.

APPROVED BY THE CITY COUNCIL ON JULY 15, 2014.



Fionnuala B. Kofoed, City Recorder