

MINUTES
EAGLE MOUNTAIN CITY COUNCIL MEETING

October 21, 2014

Policy Session 7:00 p.m.

Eagle Mountain City Council Chambers, 1650 East Stagecoach Run, Eagle Mountain, Utah 84005

7:00 P.M. POLICY SESSION – CITY COUNCIL CHAMBERS

ELECTED OFFICIALS PRESENT: Adam Bradley, Donna Burnham, Ryan Ireland, Richard Steinkopf and Tom Westmoreland.

CITY STAFF PRESENT: Ifo Pili, City Administrator; Paul Jerome, Assistant City Administrator/Finance Director; Jeremy Cook, City Attorney; Fionnuala Kofoed, City Recorder; Melanie Lahman, Deputy City Recorder; Dave Norman, Public Works Director; Chris Trusty, City Engineer; Adam Ferre, Energy Department Director; Steve Mumford, Planning Director; Linda Peterson, Public Information Director; Kent Partridge, Building Official; Rand Andrus, Fire Chief; Eric McDowell, Sheriff's Deputy.

1. CALL TO ORDER

Mayor Pengra called the meeting to order at 7:03 p.m.

2. PLEDGE OF ALLEGIANCE

Boy Scout Troops 1250 and 1652 presented a flag ceremony.

3. INFORMATION ITEMS/UPCOMING EVENTS

- **Bag the Leaf** – The City's Storm Drain Department is once again offering a free bagged leaf disposal service for residents. Bags are available at City Hall or The Ranches HOA office through the end of November. For program details, please visit the City website, News section or read the News item in The Eagle's View.
- **Early Voting** – Early voting for the General Election will be held at City Hall from Tuesday, October 21 through Friday, October 31. Hours are 1 p.m. to 5 p.m. most days. On Tuesdays (the 21st and 28th) the hours are 8 a.m. to 1 p.m. Valid ID is required to vote. Polling hours on Election Day, November 4, are 7 a.m. to 8 p.m. Please see the link to the County website on the City website, News section for a map of districts and polling places.
- **Porter's Crossing Road Closure** – Porter's Crossing between Golden Eagle and Clark St. will be closed from 7 a.m. to 5 p.m. on Wednesday, October 22 for construction. The same detour as used previously will be in place. Please plan for extra time, watch speed and follow signs in this area.
- **Trick or Treat Village** – Saturday, October 25 from 10 a.m. to 2 p.m. at Nolan Park. Come dressed in your Halloween best! Admission is free. Animal costume contest. PTA Scarecrow Contest. Monster Mash by Gotta Dance Studio. Come decorate a cookie with our wonderful friends of our Eagle Mountain City Senior Citizens Council. Take home a FREE pumpkin! (while supplies last).
- **Immunization Clinic** – The Utah County Health Department will hold an immunization clinic at City Hall on Thursday, October 30 from 4 p.m. to 5:30 p.m. Information on insurance plans accepted and available vaccines is on the City website, events calendar.

4. PUBLIC COMMENTS – Time has been set aside for the public to express their ideas, concerns and comments.

None.

5. CITY COUNCIL/MAYOR’S ITEMS – Time has been set aside for the City Council and Mayor to make comments.

Councilmember Steinkopf

Councilmember Steinkopf welcomed all the residents who attended the meeting. He asked everyone to be safe on Halloween.

Councilmember Burnham

Councilmember Burnham asked everyone to be educated voters. She reminded voters that there are three constitutional amendments on the ballot.

Councilmember Ireland

Councilmember Ireland appreciated all the Scouts who attended in uniform and those who presented the flag ceremony.

Councilmember Westmoreland

Councilmember Westmoreland welcomed everyone. He looked forward to the presentation on the proposed utility sale and to hearing the everyone’s comments.

Councilmember Bradley

Councilmember Bradley was excited to hear everyone’s input and answer questions. He appreciated their attendance.

Mayor Pengra

Mayor Pengra said the presentation about the utility sale is meant to be a starting point for a conversation. The point of the meeting is to make sure that everyone’s questions will be answered.

CONSENT AGENDA

6. MINUTES

- A. October 7, 2014 – Regular City Council Meeting

7. FINAL PAYMENT

- A. Pony Express Parkway Rotomill and Overlay – Morgan Asphalt, Inc.

8. BOND RELEASE – Into Warranty

- A. Valley View Ranch, Plat A-4
- B. Valley View Ranch, Plat A-6

MOTION:

Councilmember Ireland moved to approve the Consent Agenda. Councilmember Bradley seconded the motion. Those voting aye: Adam Bradley, Donna Burnham, Ryan Ireland, Richard Steinkopf and Tom Westmoreland. The motion passed with a unanimous vote.

SCHEDULED ITEMS

9. PUBLIC HEARING

Ballot Proposition 8 – Shall Eagle Mountain City, Utah, be Authorized to Sell its Electric Distribution System and Related Equipment and Facilities (the “Electric System”) and Transfer Electric Service for Residents in Eagle Mountain City to Rocky Mountain Power?

In accordance with Section 59-1-1605 of Utah State Code, the City Council is required to hold a public meeting to allow equal time for the presentation of arguments in favor of and against Ballot Proposition 8, for the Sale of the Electric System.

City Administrator Ifo Pili explained why the City proposes to sell the electric and natural gas utilities, stating that the primary reason the City wants to sell the utility system is uncertainty in the energy market. The question is whether Eagle Mountain or a professional power company is better able to serve the residents, and which will be able to keep rates lower. The City doesn't generate any power and doesn't own any power sources, other than a share in a wind power project. That makes Eagle Mountain entirely subject to the energy market, based on agreements which are about to expire. One has already expired. The City either needs to make new agreements to purchase power or find ways to generate power. The Environmental Protection Agency (EPA) is enacting new regulations which may result in a 20% reduction in coal power production in the U.S. Much of the City's power and gas supply comes from coal-powered plants.

Utility rates will go up whether the City or private companies provide power and gas. However, Rocky Mountain Power (RMP) generates 93% of its own power. Questar produces 50% of its power. They are somewhat immune from energy market fluctuations. Over the past ten years, Eagle Mountain residents have paid an average of 18% more than RMP and Questar customers.

Mr. Pili said that selling the gas and electric systems will discharge approximately half of the City's bond debt.

The City will lose \$670,000 in General Fund revenue if the utility system is sold. The budget has been cut \$380,000 in the past couple of years in anticipation of possibly selling the system, leaving a \$290,000 impact. Selling will bring in additional sales tax revenue, as will ongoing City growth. With the revenue estimates on those sources, the City will still need to make up a \$25,000 loss, which will be covered by additional budget reductions. The water and sewer systems will have to pay about \$567,000 in annual power and gas bills. Those expenses are already accounted for in this year's budget. There's a remaining revenue shortfall that is projected to be covered by growth, based on the number of building permits being issued.

Eagle Mountain's financial advisors have said that refinancing the remaining bonds will save the City about \$63,000 per year.

In economic development, the City will lose the ability to provide utility rate incentives to new businesses considering locating in Eagle Mountain. However, large companies have indicated that they believe professional companies can provide more power, better redundancy and more reliability than City-owned utilities. The City will gain access to more resources to serve large-scale users. RMP and Questar also offer development fee programs and rebate programs.

Another question residents need to answer with this decision is whether running a power business is part of the role of government.

Mayor Pengra thanked Mr. Pili for creating this presentation. He said that it's a very broad overview of a detailed issue.

Mayor Pengra opened the public hearing at 7:35 p.m.

Bruno Hunziker, a resident of White Hills, stated that White Hills, which was annexed into the City a few years ago against the residents' wishes, is served by Rocky Mountain Power. He stated that a substation will need to be constructed to serve the additional 4,000 homes that are planned for the annexed area. If RMP builds the substation, the cost will be spread over all of its customers, not just the residents of Eagle Mountain. Mr. Hunziker said that White Hills residents like the service they receive from RMP.

Mayor Pengra stated that the transmission line will cost approximately \$1.2 million. Mr. Pili said the substation will cost about \$5 million. The Mayor noted that State law allows RMP to turn over that service area to the City, which would require a transmission line and substation funded by the City.

Donovan Largent, a resident of Highlands on the Green subdivision, asked who would assume the \$27 million in bond debt which was taken out in 2001. He asked who would take over the debt if the electrical system is sold.

Mayor Pengra answered that the City has issued more than one gas and electric bond, beginning in 1996. Over the years, bond debt has fluctuated. The sale would completely retire the gas and electric debt. Asst. City Administrator Paul Jerome said there are two bonds, both of which will be paid by RMP at a cost of \$33 million, so there would be money left over.

Mayor Pengra said the principle is what is best for Eagle Mountain, followed by whether the City can get over the hurdles created by a difficult decision. There are enough funds in the cash from the sale and in the General Fund to take care of the financial obligations that might result from the sale.

Mark Johnson, a resident of City Center, asked whether Eagle Mountain had ever lost a big business opportunity because of owning its own utilities. He also wanted to know whether Eagle Mountain's lower growth rate has been caused in part by a lack of a business revenue base. He also wanted to be able to take advantage of the rebate programs offered by RMP and Questar. He was in support of selling the utilities.

Mr. Pili stated that Eagle Mountain has been visited by a number of major companies over the last seven years. Some of them wanted 50-100 megawatts of power. Eagle Mountain's system peaks at 20 megawatts. RMP has about 9,000 megawatts available in their system.

Mr. Pili pointed out that the sale will not pay off all of the City's utility debt. There will still be water and sewer bonds.

Dan Walker asked why rates will go up even though the bonds will be paid off. He also wanted to know if anyone had considered constructing a wind power facility on the mountain.

Mr. Pili said rates will go up because Eagle Mountain residents will pay the same rates as other customers of those utilities. Mayor Pengra explained that the City's rates are low because the market rate was low last year. The market is higher this year.

Matt Visser felt that residents should base their decision about whether to sell the power system on what is best for the City, not what's best for individuals' utility bills.

Mayor Pengra said the two aren't mutually exclusive. Long-term, the sale benefits both the residents and the City as a whole.

Ryan Hart asked whether selling the utilities would reduce impact fees, and whether the transition would cause any interruption in power.

Mayor Pengra said there wouldn't be any interruption in power if the ownership changes.

Lucky Morse of Rocky Mountain Power explained that RMP offers an allowance towards residential connections. RMP offers extension allowances to commercial and industrial customers. It doesn't charge impact fees. Brad Marcus of Questar explained that the company shares 50% of the line extension costs. The builders and developers pay the other 50%.

In answer to Mr. Walters' question about wind power, Mayor Pengra said that the City has a share in a wind power project in Idaho. The contract rate the City is paying right now exceeds the market value of the power.

Mayor Pengra read a question from Larry Peterson, asking whether the gas and electric debt is per capita, and is the per capita debt in a better position to service the debt? Mr. Jerome responded that the City is currently in a good position to pay its debt, but continued growth will require bonding for additional substations.

Linda Shumway asked if Rocky Mountain Power restricts the use of solar power.

Lucky Morse said that RMP has close to 3,000 customers in Utah who use solar power. The company does have some requirements to allow customers to use solar safely. RMP's net metering program allows customers to feed excess power generated by their solar systems into RMP's network. If the customer's power generation exceeds their usage, they forfeit the excess power.

Steven Fife asked who votes on whether the system is actually sold, the residents or the Council, and how each Council member plans to vote. Mayor Pengra stated that the decision will be made by the residents who vote on the ballot proposition. The State only requires the electric system to be voted on; however, the gas and electric systems share revenue bonds, so they have to be either sold or retained together.

Mayor Pengra gave each Councilmember the opportunity to say how they will vote on the utility sale. Councilmember Steinkopf said he will vote against the sale. Councilmembers Burnham and Ireland said they will vote for the sale. Councilmember Westmoreland explained that he will vote for the sale because of the volatility of the whole power industry. Councilmember Bradley said he will vote for the sale. Mayor Pengra also said that he will vote for the sale.

Christian Judd didn't want the City to grow too much. He moved here to live in a rural, residential community. He wondered why the City wants to sell the utilities now when the City budget is in good condition. He felt that the budget has an uncertain future just as the utilities do.

Mayor Pengra answered that the City will inevitably grow. Landowners have the right to sell their property. However, the City can put policies in place to protect the City's future. The reason for selling now rather than later is that this is the time that the power and gas contracts have to be renewed or allowed to lapse.

Robert Feldt asked what effect the sale would have on the City's other utilities, such as pump maintenance. He said his family doesn't like large cities, but growth is inevitable. He felt that it was important for people to cut their own utility rates by conserving them.

Mr. Pili explained that the Water and Sewer Departments will have to pay power & gas bills of about \$567,000 a year.

Nathan Hatch said he's heard a rumors that the State Prison might relocate to Eagle Mountain, partially based on the City's ability to provide power.

Mayor Pengra responded that Eagle Mountain is no longer on the list of communities being considered.

Tyler Shimakonis asked how the sale would affect impact fees and administrative transfer fees.

Mr. Pili said that impact fees can only be used for future facilities, so they don't affect the General Fund. Administrative transfer fees pay the General Fund for the costs of administering the utilities. The General Fund budget has been adjusted to absorb the loss of those fees.

Mayor Pengra read a question asking if the sale would require residents to upgrade their green-stickered gas appliances. Mayor Pengra said the green sticker program was created to address previous gas supply issues. Appliances are now built to run on any natural gas supplied by a utility.

Matt Harward asked several questions: Are the utilities the City's main source of revenue? Won't the substation need to be built whether the City or RMP builds it? What is the current fund balance? Won't property taxes go up once the profit from the sale is spent? Will selling to RMP put Eagle Mountain back on the list for the prison relocation? Who will the City have to pay to get out of the power contracts now in place?

Mr. Jerome said the main source of revenue for the General Fund is property tax. Utility fund revenues can't be tied to the General Fund, except for a small amount of administrative transfer fees. The Gas Fund has approximately \$6.5M to \$7M. The Electric Fund owes the Gas Fund about \$1.75M.

Energy Director Adam Ferre stated that RMP has a distribution line serving White Hills. No matter who provides power to White Hills, a substation will have to be built. Right now there is a phased plan to run a distribution line to White Hills. If the City keeps the utilities, it will have to pay for that. Lucky Morse said that the State allows RMP to transfer White Hills to City service.

Mayor Pengra stated that the City has budgeted as though \$380,000 is already gone, so the impact of lost revenues will be reduced.

Mr. Jerome said that the City has budgeted very conservatively since 2011, based on four-year tax projections. The State is considering changing the tax revenue formula, which would improve the City's tax revenue stability.

Mayor Pengra said the only contract that will cost money to get out of will be the Horse Butte wind power project. It will cost the difference between market value and what the City is paying.

Mayor Pengra read a question from a resident, who asked whether the City approached the companies or they approached the City, and whether the utilities can be sold in the future if the residents vote "no."

Mr. Pili explained that the City approached all of the companies, because of the uncertainty coming in the energy market. As to whether the opportunity will become available again, it depends on whether anyone would be interested in buying in the future. However, the City needs to deal with the expiring energy contracts now. Power contracts are five to ten year commitments.

Mayor Pengra read a question asking whether there are other cities that have been in similar circumstances and what the result was.

Mr. Pili said that other city utility systems own generating facilities. They also don't have to deal with Eagle Mountain's growth rate.

Mack Allred asked whether the City would try to expand enough to service other communities, if it retains the system.

Mayor Pengra responded that State law only allows municipalities to provide utility service to their own residents.

Mark Johnson asked whether rates will go up if the City retains the utility system. He felt that keeping the system will create more uncertainty than selling it.

Mayor Pengra listed costs that the City will have to pay if the power and gas systems are not sold:

- Employees to fill positions that have gone unfilled
- Vehicles and capital improvements that were not approved in the last budget cycle
- A full-time analyst to manage rates

Energy Director Adam Ferre said he found out today that Kern River upgraded its meter today, so that won't be an expense if the City retains the utility system.

Mr. Pili said a rider determines what the fixed costs are and adds it to the variable costs of power and gas. Questar uses that system and RMP has a tiered rate.

Dan Walker asked if the rider includes other costs.

Mayor Pengra said rates are set by resolution. Riders allow for the variable portion of the rate, so the City Council doesn't have to approve a new resolution every month.

Brad Marcus announced that Questar and RMP will hold a public meeting tomorrow evening at 6:30 at the middle school to answer the public's questions.

Jim Shumway stated that several months ago he was entirely opposed to the utility sale. Based on the information he's reviewed since then, he plans to vote yes. He was the mayor of a small town for eight years. Owning a utility system worked for them because the town wasn't growing. It won't work for a growing city like Eagle Mountain.

Jared Frost asked how much of a rate increase could be expected if the system isn't sold. Mr. Pili said he doesn't know for sure. However, power and gas supplies will definitely become more expensive. He believes that the rates will increase more if the City retains the system.

Councilmember Steinkopf said that, although he plans to vote against the sale, he will support the result of the vote. However, he felt that the City could have made a better deal with the utility companies. He was concerned that there were unresolved issues when the Council voted to accept Rocky Mountain Power's bid. He also felt that Rocky Mountain Power and Questar had only given vague descriptions of what offers they would make to the City's energy employees. Mayor Pengra said that the companies have since made specific offers to all of the affected employees.

Brian Smith asked what costs RMP will absorb in buying the utility system. Mr. Pili responded that there are three contracts involved. RMP has agreed to absorb two of them. The Horse Butte contract will cost at least \$3 million to terminate. RMP has agreed to pay \$2M towards that and the City will pay at least \$1M and possibly \$1.8M. Mr. Smith wanted to be clear that RMP is actually offering to pay more than they originally agreed to.

Councilmember Burnham said that she would vote for the sale because she felt that there is too much uncertainty with remaining in the power business. She also felt that large companies will be more likely to locate in Eagle Mountain if their power will be provided by a large utility company.

Mayor Pengra stated that the concern the large companies have isn't the quality of the system or the employees. It's where the City gets its power from and whether it can provide the amount of power required by large users.

Councilmember Ireland pointed out that if the City retains the system, the Council will continue to be its board of directors. They aren't professional utility managers. Questar and RMP have professional management. Without the power and gas systems, the Mayor and Council will have more time to focus on City government. He encouraged residents to call Councilmembers or email council@emcity.org, contact the Mayor or talk to City employees to have their questions answered.

Councilmember Westmoreland asked how the City's budget billing program will be transitioned to the new system. Mr. Jerome said those who are on budget billing will have to pay the deficit or receive a credit for excess paid. On the question of "if things are so good, why sell now?" he felt that selling now seems to be the safest decision.

Councilmember Bradley said he plans to vote for the sale because it's something the private sector can and should do. He commended City officials and employees for building a system that is good enough to attract buyers. Since the Councilmembers aren't utility professionals, it would be better to have professionals do the job. He also felt that this is an opportunity to reduce the size of the government. He was more concerned about the unknowns of keeping the system than the unknowns of selling it.

Mayor Pengra closed the public hearing at 9:41 p.m.

10. CITY COUNCIL/MAYOR'S BUSINESS – This time is set aside for the City Council's and Mayor's comments on City business.

None.

11. CITY COUNCIL BOARD LIAISON REPORTS – This time is set aside for Councilmembers to report on the boards they are assigned to as liaisons to the City Council.

None.

12. COMMUNICATION ITEMS
a. Upcoming Agenda Items

13. ADJOURNMENT

MOTION: *Councilmember Burnham moved to adjourn the meeting at 9:43 p.m. Councilmember Ireland seconded the motion. Those voting aye: Adam Bradley, Donna Burnham, Ryan Ireland, Richard Steinkopf and Tom Westmoreland. The motion passed with a unanimous vote.*

APPROVED BY THE CITY COUNCIL ON NOVEMBER 18, 2014.



Fionnuala B. Kofoed, MMC
City Recorder