

EMIGRATION IMPROVEMENT DISTRICT ECONOMIC ANALYSIS FOR IMPOSITION OF IMPACT FEES FOR WATER SYSTEM FACILITIES EXPANSION

Introduction

The Emigration Improvement District, a special district of the State of Utah, was organized by the Salt Lake County Commission to provide municipal water service and sewer service in Emigration Canyon. The District acquired the former Freeze Creek Water Company system from the Boyer Company in 1998 providing service to the first (5) five phases of the Emigration Oaks Subdivision in Emigration Canyon. The District has operated the Emigration Oaks Subdivision water system (the “Oaks Water System”) since the summer of 1998.

The District has received petitions from residents of other areas in Emigration Canyon requesting that the District provide a water system for the residents use. The Capital Facilities Plan was adopted by the District in 2001 identifying the facilities necessary to expand the Oaks Water System to provide water service to the petitioners.

The Capital Facilities Plan revision completed in 2001 by the District was adopted following the requirements of §11-36-201(2) (e) *Utah Code Ann.*, which requires that impact fees imposed by the District be based on a reasonable plan, but not a formal Capital Facilities Plan. The District complied with the public hearing requirements for formal Capital Facilities Plans when it adopted the revised Water System Capital Facilities Plan in 2001 to provide service to the Lower Burr Fork/Killyon Canyon area, the Young Oaks/Little Oaks area and Emigration Oaks Phases 4A, 6 and 6A.

This Economic Analysis is prepared in accordance with the provisions of §11-36-201(4) (5) *Utah Code Ann.* (as amended 2000) to determine the extent to which impact fees can or should be required from future system users to pay part of the cost of water system improvements for new system growth.

Capital Facilities Plan

The District approved a Capital Facilities Plan for Water System Improvements which identifies existing public water system facilities and future system facilities. The existing public water system facilities are described in the attached Table 1 and consist primarily of a storage tank, two wells, and a distribution system providing public water supplies to Phases 1-5 of the Oaks Water System in Emigration Canyon. In the Capital Facilities Plan, the District identifies significant deficiencies in the existing public facilities consisting of source facilities deficiencies and storage reservoir capacity deficiencies.

The District will not impose impact fees to “cure” system deficiencies in the Oaks Water System, but will rely on funds provided by the Boyer Company, the Emigration Oaks Subdivision principal developer, to pay the incremental cost of system deficiencies in water sources and necessary storage for the existing system. The existing Oaks Water System is designated as the Oaks Initial Phase 1-5, which includes two connections owned by Steve Creamer, all collectively referred to as the Oaks Initial Phase. One Hundred Fifty Seven 157 connections will be allowed in the Oaks Initial Phase Service Area.

The future facilities which are necessary to provide service to three new service areas within the District are listed in attached Table 2. The three new service areas are: the Oaks Final Phase, comprised of Emigration Oaks Subdivision Plats 4A, 6 and 6A; sixty eight (68) connections will be allowed in the service area designated as the Oaks Final Phase Service Area. The Young Oaks and Little Oaks Subdivisions, including the plat known as the Quads, depicted on Exhibit 1, including seven units in an unplatted area designated (for name purposes only) as the Plum units, is designated as the Young Oaks/Little Oaks service area. Forty four (44) connections will be allowed in the Young Oaks/Little Oaks Service Area. The Lower Burr Fork and Killyon Canyon Service Area depicted on Exhibit 2 is designated as the Lower Burr Fork/Killyon Service Area. Forty

three (43) connections will be allowed in the Lower Burr Fork/Killyon Canyon Service Area. The completed system in the project defined in this economic analysis will serve a total of three hundred twelve (312) connections.

The cost estimates described in the adopted Capital Facilities Plan have been revised based on price and cost information for the proposed system improvements collected by Carollo Engineers from area contractors in December 2001 and January 2002. The cost revisions substantially reduce the costs for the storage facility and related pipeline work.

Some of the capacity in the future facilities will be used to cure capacity deficiencies in the First Oaks Phase; the costs to cure existing system deficiencies have been segregated from the future facility costs for the purpose of this Economic Analysis for impact fees. The District has received \$650,000.00 from the Boyer Company (the Boyer Company funds) for the purpose of curing existing system deficiencies in the Oaks Water System and for the purpose of contributing to the cost of the future facilities for the Final Oaks Phase.

Residents and lot owners in the Oaks Initial Phase contributed to the cost of the public water system serving the Oaks Initial Phase in the lot prices paid to Boyer Company, fees paid to the former Freeze Creek Water Co. and to the District and in accrued Capital Improvements Reserves from water system operations. The new project will build increments of water sources and storage proposed by the District to cure system deficiencies to benefit the Oaks Initial Phase using part of the Oaks Water System accrued Capital Improvements Reserve of about \$140,000.00 and about \$500,000.00 of the Boyer Company funds.

New public facilities will be constructed to serve the Oaks Final Phase. About \$150,000.00 of the Boyer Company funds have been provided to the District to offset the part of the costs of public water system facilities for the Oaks Final Phase.

The cost to provide water system facilities to the Lower Burr Fork/Killyon Canyon Service Area of Emigration Canyon, is described together with the cost to provide system facilities to the Young Oaks/Little Oaks service area of the Canyon in attached Table 2 which demonstrates that the cost to provide new public facilities varies with each area which benefits from the new facilities. The estimated cost to provide the facilities in each area is stated to disclose to prospective system users the relative extent to which the costs and benefits of new system improvements have been apportioned to each new service area.

Neither the Young Oaks/Little Oaks service area or the Lower Burr Fork/Killyon Canyon Service Area of Emigration Canyon have made financial contributions to the cost of the system improvements in the past which are unique by any means such as water sales revenues, impact fees, system improvements, developer contributions or special assessments. Property owners in the proposed new service areas have contributed to the capital improvement reserve of the District in the past by the payment of general property taxes with all other properties in Emigration Canyon. Part of the District capital improvement reserve is proposed to be used to pay the cost of part of the new storage reservoir planned by the District. See: Table 2 attached.

The total estimated revised 2002 project cost to cure system deficiencies and provide for future connections to the water system, including contingencies, is \$2,265,516.00. The future new system improvements are required to provided the water service to the areas which are currently not served by the public water system. Future development activity on platted lots in the Oaks Final Phase, the Lower Burr Fork/Killyon Canyon area and the Young Oaks/Little Oaks platted subdivisions will place additional demand on the District public water system and the demand will be served by the system improvements proposed in the project.

Sources of Funding

The District has arranged for a water system project loan from the State of Utah Division of Drinking Water in the amount of approximately \$1,400,000.00. The District will construct the public facilities identified in the Capital Facilities Plan together with the facilities which are necessary to cure the system deficiencies serving the Oaks Initial Phase using the proceeds of the Boyer Company payment, the proceeds of the Division of Drinking Water loan, part of the Capital Improvement Reserves from the Oaks Water System and \$120,000.00 as a one time payment from the Capital Improvements Reserve accrued by the District over the past several years from property tax revenues and water leasing fees; the funding sources for the project are summarized as follows:

- Boyer Company Funds: \$650,000.00
- Drinking Water Loan: \$1,354,766.00
- Oaks C.I.Reserves: \$140,000.00
- EID C.I.Reserves \$120,750.00
- Total: \$2,265,516.00

Repayment of Drinking Water Loan

The District will repay the Division of Drinking Water loan by the imposition of impact fees and through the use of water service stand-by charges, water sales fees, earnings from the investment of collected impact fees and a special surcharge on water service fees for certain areas. Table 3 attached, describes the results of the cost apportionment of the project to the four service areas benefitted by the project. To recover the costs fairly apportioned to each service area the District will rely on a combination of revenue sources. The District will continue to sell water through water meters using the water service rate structure currently in effect in the Oaks water system.

The Oaks Initial Phases will continue to pay for water service on the existing rate structure. The Oaks Final Phases will also benefit from the Boyer Funds and will pay the rates currently in effect for water service.

The water service rate structure will be amended to require a monthly base fee from every property in the Lower Burr Fork/Killyon Canyon Service Area and the Young Oaks/Little Oaks service area connected to the water system and a monthly standby fee payable in the Young Oaks/Little Oaks service area from the owner of each platted lot not yet connected.

In the Lower Burr Fork/Killyon Canyon Service Area, improved properties not connected to the water system will be charged a standby fee each month unless the property owner records a notice acceptable to the District permanently disqualifying the property from water service.

In addition, a debt service surcharge of an additional \$25.00 per month per connection will be collected from system users in the Lower Burr Fork/Killyon Canyon Service Area because of the extraordinary costs required to provide service to the Lower Burr Fork/Killyon Canyon Service Area. Table 3 attached shows revenues from all sources dedicated to debt service.

Impact fees will be used to collect the balance of the apportioned project cost for each area which will not be recovered from water rates, base fees, standby fees and rate surcharges. Impact fees collected as a condition of each new connection to the system will be deposited in a designated interest bearing account at the Utah State Treasurers, Public Treasurers Investment Fund. The Division of Drinking Water requires that the District have contractual commitments from sixty (60) of the anticipated new system users before loan funds will be released to the District to pay for project costs. Before the District encumbers contracts for construction of the new system improvements the District must obtain executed contracts for water system connections. Each agreement for water service must contain the enforceable commitment of the property owner to pay the

impact fee required for the system connection and the rates and charges imposed by the District from time to time for water service and loan repayment. The District expects to collect roughly 60 impact fees from new system users in the first 12 months after placing the system in operation in the three new service areas. Interest on the impact fee funds collected has been anticipated as revenue available for debt service on the Drinking Water Division Loan.

Hook-up fees which are the actual costs to connect each residence to the distribution system provided by the District are not included in the proposed impact fees. The impact fees do include the extension of water service lines in certain areas where it is environmentally necessary for the District to supervise and control the installation of service lines and the restoration of the areas through which the service lines are constructed.

Proposed Impact Fees

The proposed impact fee for each area within the District has been calculated using the estimated allocated costs to provide service to each service area and deducting from the cost to each service area, the amount of the costs which can reasonably be retired through the collection of revenues based on water service sales, standby fees, base fees or surcharges on water service. All revenue sources have been considered by the District in evaluating the proposed impact fee to finance the system improvements. The proposed impact fees are necessary to achieve an equitable allocation of costs borne in the past by existing water system users and future users comparing the benefits to be received in the future and those received in the past. The impact fee calculation is summarized in attached Table 3. Because the impact fee is derived as a function of the actual cost to provide service to each service area, the impact fee is fair and proportionate to the cost of the system improvements required to provide the new service to each service area in the District.

The impact fees for an equivalent residential unit of service in each of the service areas of the District are as follows:

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| Oaks Final Phase | \$2,631.00 |
| Young Oaks/Little Oaks | \$6,200.00 |
| Lower Burr Fork/Killyon Canyon | \$6,200.00 |

The Service Application and Agreement which must be signed to qualify a property owner for connection to the system will require payment of the Impact Fee in a single lump sum or payment over a period of two years at an interest rate of 4.5% or 1% over the amount earned by the District at the Public Treasurers Investment Fund whichever is greater. Each system user must also agree to comply with the water right policy of the District which requires conveyance to the District of certain water rights as a further condition of service from the District.