FEASIBILITY STUDY FOR THE PROPOSED INCORPORATION OF CEDAR HIGHLANDS

IRON COUNTY, UT

SEPTEMBER 2016

LEWIS YOUNG
ROBERTSON & BURNINGHAM, INC.
GATEWAY PLAZA BUILDING - 41 N. RIO GRANDE, STE 101 - SALT LAKE CITY, UT 84101
(P) 801-596-0700 - (TF) 800-581-1100 - (F) 801-596-2800 - WWW.LEWISYOUNG.COM

TABLE OF CONTENTS

SECTION 1: EXECUTIVE SUMMARY

Lewis Young Robertson & Burningham, Inc. ("LYRB") was commissioned by the Office of the Lieutenant Governor to complete a feasibility study related to incorporation of an unincorporated area of Iron County ("County"). The results of this study indicate the incorporation of the proposed Cedar Highlands boundary ("Study Area" or "Town") is feasible; however, it will result in the need to increase property taxes when compared to the current and projected property tax levy within Iron County Municipal Type Services District #2 ("MSF"). An analysis of the fiscal, demographic and economic issues suggests that the Study Area meets the basic requirements set forth in Utah Code 10-2a-302, including a required population of at least 100 to become a viable town.

The analysis considers two scenarios, detailed below, related to the fiscal impacts of the Town incorporation.

1. **Scenario 1 – Community Center:** This scenario includes the applicable incorporation costs as outlined in UCA 10-2a-307. In addition, expenditures include a one-time expense of $200,000 for a community center. The cost of the community center is offset by $64,714 which represents the existing Home Owner Association's ("HOA") available fund balance. Per UCA 10-6-116, a municipality may carry a fund balance up to 25 percent of its revenue. This scenario assumes the Town carries the total allowable fund balance and uses the remaining HOA credit to offset the costs of the community center.
2. **Scenario 2 – No Community Center:** This scenario includes incorporation costs as outlined in UCA 10-2a-307, without the additional expense related to a new community center. Therefore, the available fund balance of $64,714 is applied to the general fund operating expenses and other start-up expenditures. Similar to Scenario 1, a fund balance of 25 percent is carried forward.

In Scenario 1, the tax impact is estimated at $1,833 for a primary residence valued at $250,000. This represents an increase of $1,437 above the projected County levy. However, assuming the HOA fee is suspended following incorporation, the net impact of the incorporation can be expressed--for comparison purposes only--with a credit of $440 against the Town impact as shown in **Table 1.1**. The five-year net impact for Scenario 1 results in residents paying $409 more to incorporate than would be expected by remaining within the MSF.

TABLE 1.1: SCENARIO 1 FISCAL IMPACT

	PROJECTED				
	2017	2018	2019	2020	2021
Total Town Rate	**0.013330**	**0.005482**	**0.005686**	**0.005541**	**0.005743**
Town Impact (Home $250,000)	$1,833	$754	$782	$762	$790
COUNTY IMPACT (HOME $250,000) SEE TABLE 6.1	$396	$405	$414	$423	$431
Town Difference From County Levy	**$1,437**	**$348**	**$368**	**$339**	**$358**
Current HOA Fees	($440)	($500)	($500)	($500)	($500)
Net Impact	$997	($152)	($132)	($161)	($142)

Under Scenario 2, the tax impact is estimated at $422 for a primary residence valued at $250,000. This represents an increase of $26 from the projected County levy due to the HOA fund balance allocation. In year 2 the tax impact is $754 or $348 more than the County levy. Applying the HOA credit similar to Scenario 1, incorporation produces a net savings in year one of $414 and $152 in year 2. The cumulative net impact of incorporating as a town over the first five years results in residents saving $1,001.

TABLE 1.2: SCENARIO 2 FISCAL IMPACT

	PROJECTED				
	2017	2018	2019	2020	2021
Total Town Rate	**0.003070**	**0.005482**	**0.005686**	**0.005541**	**0.005743**
Town Impact (Home $250,000)	$422	$754	$782	$762	$790
COUNTY IMPACT (HOME $250,000) SEE TABLE 6.1	$396	$405	$414	$423	$431
Town Difference From County Levy	**$26**	**$348**	**$368**	**$339**	**$358**
Current HOA Fees	($440)	($500)	($500)	($500)	($500)
Net Impact	($414)	($152)	($132)	($161)	($142)

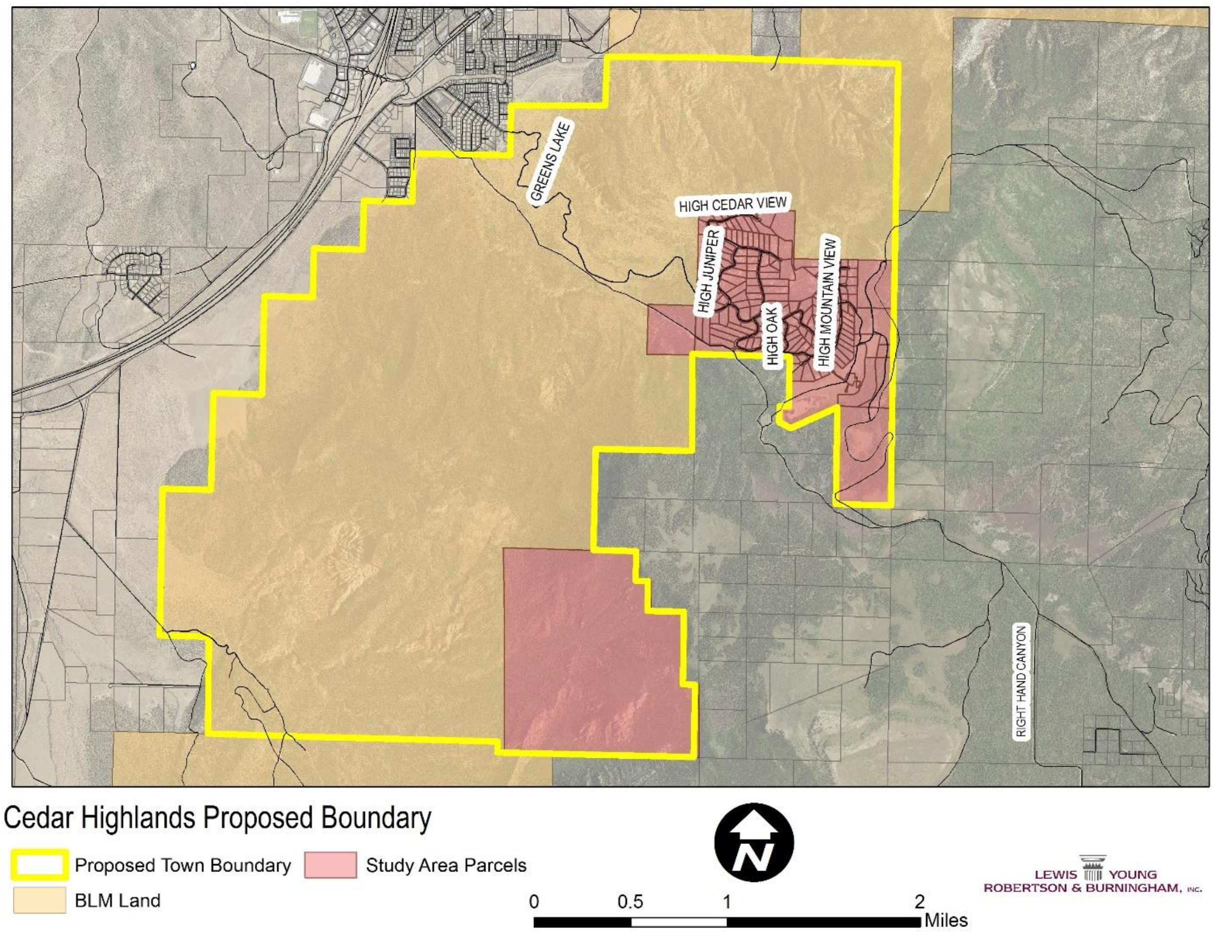
In the event of incorporation, the County MSF would likely experience a loss of revenue resulting in the need for an additional 2.28 percent increase in year one over the baseline County levy. This increase represents lost revenue for municipal services, as well as revenues gained through the Sheriff's Department for contracted public safety services.

SECTION 2: POPULATION & POPULATION DENSITY

POPULATION

The proposed incorporation boundary for the Study Area includes the Cedar Highlands Subdivision, as well as surrounding parcels as shown in **Figure 2.1**. The Study Area includes both primary and secondary residences. Based on land use data provided by the County, there are 43 primary residences and 33 non-primary residences in the Study Area. The Cedar Highlands Subdivision includes a total of 73 residences and 92 lots that do not currently have residences. One primary residence and two non-primary residences are located outside of the Cedar Highlands Subdivision.

FIGURE 2.1: STUDY AREA BOUNDARY



To determine the Study Area population, the County Assessor's Database, voter registration data, and a phone survey was utilized. The phone survey revealed that not all respondents living at a property designated primary residence live at the residence full-time. Likewise, residents reported living in residences full-time despite the designation of the property as non-primary. This study utilized the U.S. Census Bureau's definition of "Usual Residence", which is defined as "the place where [individuals] live and sleep most of the time".[1] For the purpose of this study, the phrase "most of the time" is defined as 51 percent or more. Further, the Utah State Tax Commission definition of "Primary Residence" was also utilized, which states a Primary Residence is "the location where domicile has been established."[2] Factors listed as determinative evidence for domicile include length of continuous stay, presence of family members in a given area, addresses used by individuals, voter registration, etc.

[1] U.S Census Bureau; http://www.census.gov/population/www/cen2010/resid_rules/resid_rules.html Retrieved 8/17/2016.
[2] R884-24P-52. Criteria for determining primary residence pursuant to Utah Code Ann. Sections 59-2-102,59-2-103 and 59-2-103.5.

Of the 75 total residences within the Study Area, 54 residences, or 72 percent, responded to the phone survey as shown in **Table 2.1**. Primary residences were more likely to respond, with 38 of the 45 residences responding, or 84 percent.[3] Three residences designated non-primary reported full-time occupancy.

TABLE 2.1: PHONE SURVEY RESULTS

Total Residences in Study Area	75
Total Responses to Phone Survey	54
Total Response Percentage	72%
Number of Primary Residences	45
Number of Primary Residence Responses	38
Primary Residence Response Percentage	84%

As mentioned previously, the Study Area serves both primary and non-primary residents. With primary residence defined as the place where individuals reside 51 percent of the year or more, the Study Area currently has an estimated population of 100 individuals as shown in **Table 2.2**.[4] Based on the phone survey responses, the actual number of individuals utilizing residences in the Study Area can be more than 200 at different times during the year.

TABLE 2.2: CEDAR HIGHLANDS ESTIMATED POPULATION

Study Area Population	100

The Cedar Highlands Subdivision includes 92 lots, which have not been built. Based on the phone survey data, 51 percent of the Study Area residences are occupied full-time and 49 percent are occupied part-time. Assuming the same ratio for the 92 unbuilt lots, 47 will be occupied full-time and 45 will be occupied part-time. The average household size for full-time occupied residences is 2.63 and 1.88 for part-time occupied households. Thus, the estimated new full-time residents is 123 for a total buildout of 223 residents as illustrated in **Table 2.3**.

TABLE 2.3: STUDY AREA FULL-TIME BUILDOUT PROJECTION

Full-Time Occupied Households	38
Estimated New Full-Time Households	47
Average Full-Time Occupied Household Size	2.63
Total Estimated Full-Time Buildout Population	223

POPULATION DENSITY

The population of the surrounding communities in the County and comparable cities is identified below in **Table 2.4**. The populations range from a low of 92 persons in Brian Head to 837 in Apple Valley. The Study Area's population is the second lowest when compared to surrounding areas and comparison cities. These communities are shown for illustrative purposes. However, when determining five-year growth estimates and tax impacts in later sections, this analysis compares the Study Area to the remaining County service area.

TABLE 2.4: SURROUNDING AREA 2016 POPULATION

	STUDY AREA	APPLE VALLEY	BRIAN HEAD	KANARRA-VILLE	PARA-GONAH	ALTA TOWN	FAIRFIELD	HATCH	LYNNDYL	COUNTY BALANCE
2015 Population	N/A	837	92	395	543	129	267	144	107	8,028
2016 Population	100	867	94	403	554	131	314	146	107	8,077

[3] Primary and non-primary residences are designated based on the Iron County Assessor's database.

[4] The population estimate includes 98 individuals reporting usual residence (51 percent or more of the year) in the Study Area. The Study Area includes a residence under construction which is designated as a primary residence per the County Assessor's database. Utah Administrative Rule R884-24P-52(6)(c) states, *"If the county assessor determines that a property under construction will qualify as a primary residence upon completion, the property shall qualify for the residential exemption while under construction."* For the purposes of this study, the two individuals who will reside in the primary residence upon completion are counted in the estimate for a total population of 100 residents.

SECTION 3: FIVE-YEAR PROJECTIONS OF DEMOGRAPHICS & ECONOMIC BASE

DEMOGRAPHICS

To determine five-year demographic projections, LYRB utilized information from the US Census, the Governor's Office of Management and Budget ("GOMB"), and Iron County. **Table 3.1** below shows current and five-year population projections based on GOMB projections and the corresponding average annual growth rates ("AAGR").

TABLE 3.1: IRON COUNTY CURRENT AND 5-YEAR POPULATION FIGURES

GEOGRAPHY	2010 CENSUS	2015	2016	2021	AAGR 2010-2020
Iron County	46,163	51,321	52,420	58,277	2.14%
Brian Head	83	92	94	105	2.18%
Cedar City	28,857	32,081	32,768	36,430	2.14%
Enoch	5,803	6,451	6,589	7,326	2.14%
Kanarraville	355	395	403	448	2.15%
Paragonah	488	542	554	616	2.14%
Parowan	2,790	3,102	3,168	3,522	2.14%
Balance Iron County	7,787	8,657	8,842	9,830	2.14%
Cedar Highlands	**NA**	**NA**	100	120	**NA**

Population projections for the Study Area are based on estimated future construction on vacant lots and input from the Cedar Highlands HOA. **Table 3.2** details the five-year projections for primary/full-time residents within the Study Area.

TABLE 3.2: CEDAR HIGHLANDS 5-YEAR POPULATION PROJECTION

GEOGRAPHY	2016	2017	2018	2019	2020	2021
Cedar Highlands	100	104	108	112	116	120

The average persons per household ("PPH") in the County increased slightly from 2010 to 2015. A similar increase was calculated in the Study Area. Building Permit data was collected, when available, through the Ivory-Boyer Construction Database maintained by the Kem C. Gardner Policy Institute at the University of Utah. **Table 3.3** includes building permit data used to calculate the average PPH.

TABLE 3.3: CALCULATED PERSONS PER HOUSEHOLD (PPH)

	2010 HH	2010 PPH	2016 HH	2016 PPH	NEW PERMITS (2011-2016)	2021 HH ESTIMATE	2021 EST. POPULATION	2021 PPH
Iron County	17,307	2.67	18,127	2.89	1,122	18,985	58,277	3.07
Cedar City	9,557	3.02	10,156	3.23	681	10,690	36,430	3.41
Enoch	1,508	3.85	1,594	4.13	97	1,672	7,326	4.38
Paragonah	158	3.08	158	3.50	0	158	616	3.89
Parowan	1,243	2.25	1,259	2.52	19	1,271	3,522	2.77
Unincorporated County	3545	2.20	3,831	2.31	325	4,081	9,624	2.41
Study Area	**NA**	**NA**	**38**	**2.63**	**NA**	**47**	**120**	**2.55**

PPH figures are calculated based on total population and occupied housing units which differs from Census reported average household size based on household population.

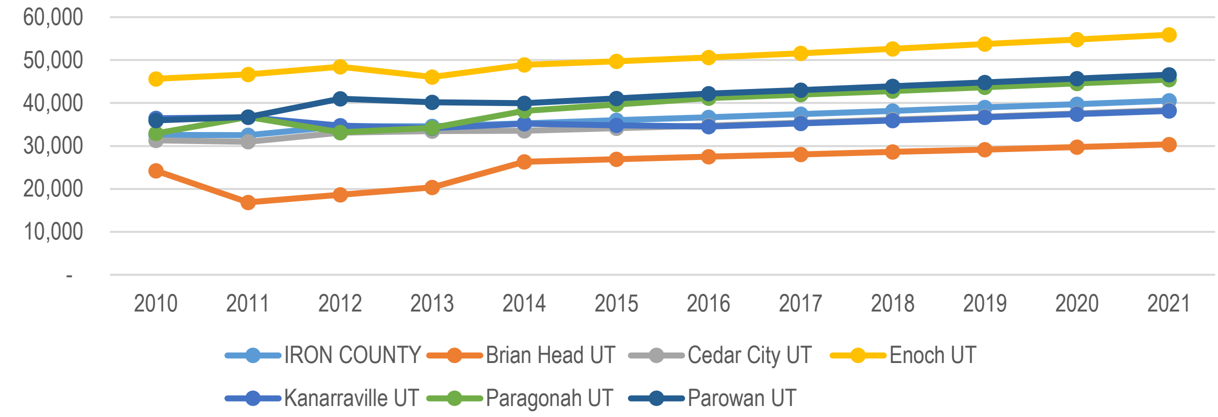
Table 3.4 details the five-year projected population for the Study Area. It is important to note that the figures below are based on a 51 percent allocation of primary residences within the Study Area.

TABLE 3.4: CEDAR HIGHLANDS 5-YEAR HOUSEHOLD PROJECTIONS

	2016	2017	2018	2019	2020	2021
New Study Area Households	2	3	3	3	3	3
Study Area Population	100	104	108	112	116	120
Total Study Area Households	39	41	42	44	45	47

Median Adjusted Gross Income ("MAGI") figures from the Utah State Tax Commission for 2010 through 2014 were used to project MAGI through 2021 for the County as shown in **Table 3.1**.

FIGURE 3.1: HISTORIC AND PROJECTED MEDIAN ADJUSTED GROSS INCOME



The County's median adjusted gross income has grown from $32,552 in 2010 to $35,263 in 2014. The projected adjusted gross incomes grow similarly through 2021 as illustrated in **Table 3.6**.

TABLE 3.5: HISTORIC MEDIAN ADJUSTED GROSS INCOME

	2010	2011	2012	2013	2014
Iron County	32,552	32,519	34,599	34,604	35,263
Brian Head	24,231	16,872	18,650	20,335	26,351
Cedar City	31,339	30,978	33,104	33,464	33,551
Enoch	45,652	46,659	48,423	46,093	48,887
Kanarraville	36,444	36,662	34,711	34,154	35,157
Paragonah	32,921	36,767	33,200	34,230	38,187
Parowan	35,967	36,790	41,013	40,209	39,988
Source: Utah State Tax Commission					

TABLE 3.6: PROJECTED MEDIAN ADJUSTED GROSS INCOME

	2015	2016	2017	2018	2019	2020	2021
Iron County	35,975	36,702	37,443	38,200	38,971	39,759	40,562
Brian Head	26,909	27,480	28,035	28,601	29,179	29,768	30,369
Cedar City	34,128	34,715	35,416	36,132	36,861	37,606	38,366
Enoch	49,731	50,589	51,611	52,654	53,718	54,803	55,910
Kanarraville	34,842	34,531	35,228	35,940	36,666	37,406	38,162
Paragonah	39,630	41,128	41,959	42,806	43,671	44,553	45,453
Parowan	41,062	42,164	43,016	43,885	44,771	45,676	46,598
Source: LYRB							

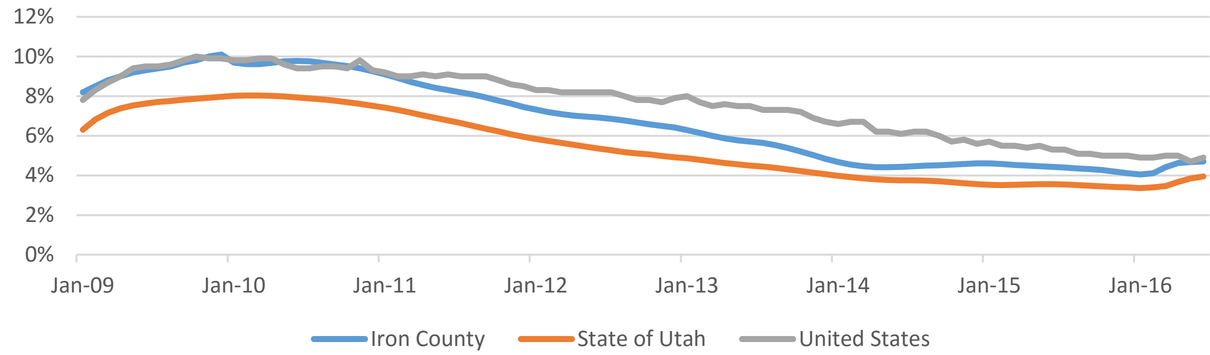
ECONOMIC BASE

Despite the lack of economic base within the Study Area, the base of the region is valuable to consider in this incorporation study. Growth in property values, taxable sales, and employment are key variables to consider. The following paragraphs discuss the County's regional economy.

REGIONAL ECONOMY

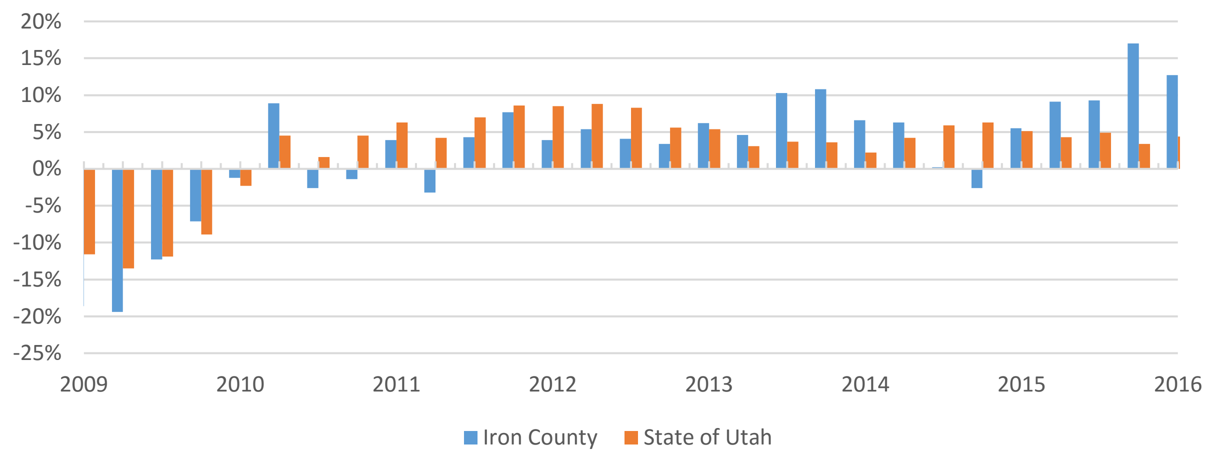
The County is located in southwest Utah. The unemployment rate for the County averaged 4.7 percent in June 2016, down from 6.9 percent in June 2012. Unemployment peaked in 2009 at an average of 10.1 percent (see **Figure 3.2**). Between March 2015 and March 2016, Iron County experienced a 5.9 percent increase in non-farm jobs with notable increases in government, trade transport utilities, leisure and hospitality, and professional and business services. Over the same period, information jobs declined by 30.8 percent and mining jobs decreased by 36.2 percent.

FIGURE 3.2: HISTORIC IRON COUNTY UNEMPLOYMENT RATES[5]



A comparison of taxable sales trends for the County illustrates an increase of 13 percent between 2010 and 2016 with motor vehicle, electronic and general merchandise sales excelling. In addition to taxable sales increasing in the County as seen in **Figure 3.3**, building permits have also increased between 2011 and 2015.

FIGURE 3.3: COMPARISON OF TAXABLE SALES TRENDS FOR TOOELE COUNTY[6]



Historic taxable value figures for Iron County show an AAGR of 6.5 percent from 2011 through 2015. Year-to-year increase in taxable value shows a slowing trend, declining from 16.8 percent change in 2008 to 4.8 percent in 2013, with a low of -5.5 percent in 2011. It is important to note that the values below include redevelopment agency values, which will be excluded in the projection of future taxable values.

TABLE 3.7: IRON COUNTY HISTORIC TAXABLE VALUE[7]

IRON COUNTY	2011	2012	2013	2014	2015	AAGR
Real: Land	1,027,460,805	867,900,995	816,620,165	820,057,645	858,244,585	-4%
Real: Buildings	1,528,416,745	1,423,882,080	1,440,427,605	1,582,849,550	1,794,792,475	4%
Personal	152,723,080	149,387,642	149,461,024	143,221,754	170,128,273	3%
Centrally Assessed	292,567,235	368,248,031	408,271,750	460,286,626	486,458,162	14%
Total	**3,001,167,865**	**2,809,418,748**	**2,814,780,544**	**3,006,415,575**	**3,309,623,495**	2%
Motor Vehicle	27,148,074	25,834,509	26,546,220	24,810,651	19,938,398	-7%

STUDY AREA ECONOMY

The Study Area is comprised almost exclusively of residential designated land and does not include commercial land intended for future development. A section of Bureau of Land Management ("BLM") land is included in the Study Area boundary west of the

[5] Utah Department of Workforce Services
[6] Utah Department of Workforce Services: Year-to-Year Change in Gross Taxable Sales
[7] Utah State Tax Commission

current Cedar Highlands Subdivision. Federal payments such as Payments in Lieu of Taxes ("PILT") are remitted to the County and would not affect the economic base of the area. Full-time residents within the Study Area commute to nearby locations for employment, with the exception of businesses run out of the home. All services provided by the HOA are purchased or contracted outside of the Study Area.

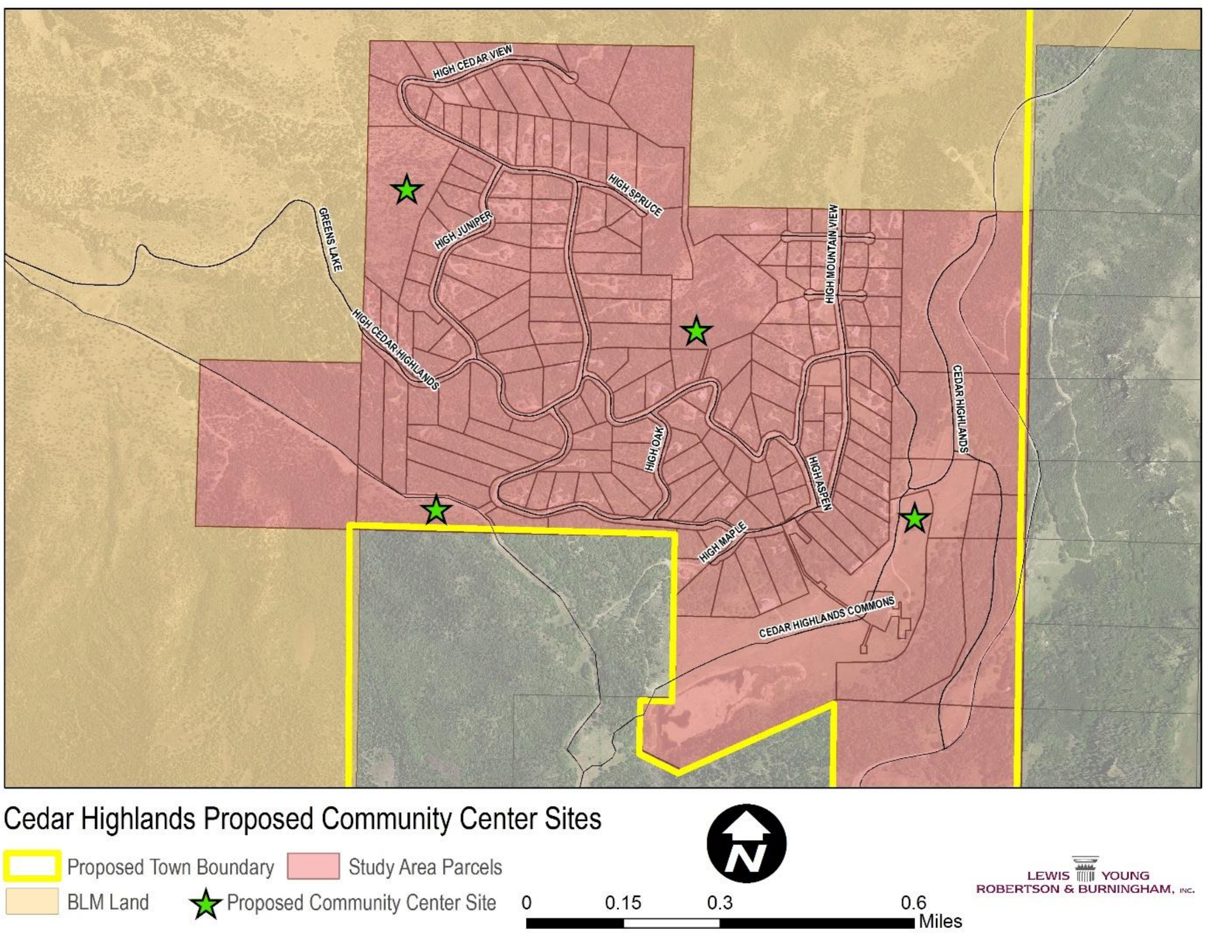
The Study Area is comprised of 173 parcels with a taxable value of $19,104,020. The Study Area represents .06 percent of the total County taxable value and 1.88 percent of the MSF taxable value as illustrated in **Table 3.8**.

TABLE 3.8: ESTIMATE OF STUDY AREA TAXABLE VALUE

CEDAR HIGHLANDS	2016
Total Taxable Value	$19,104,020
Study Area Taxable Value as % of County Taxable Value	.06%
Study Area Taxable Value as % of MSF Taxable Value	1.88%

While no commercial development is contemplated within the Study Area, the HOA has expressed an intent to deed all HOA held properties and assets to the Town, if incorporated. Several areas have been identified to house a municipal/community center as shown in **Figure 3.4**.

FIGURE 3.4: PROPOSED COMMUNITY CENTER SITES



PROJECTIONS OF COUNTY ECONOMIC BASE

The following paragraphs address the projections of the economic base within unincorporated County, specifically as it relates to the MSF. Final 2015 values were unavailable at the time of the study. As a result, actuals for 2010 through 2014 and budget estimates for 2015 and 2016 were used to calculate historic growth rates and projections. The tax base projections are based on the County's MSF which provides municipal services to the unincorporated County, including the proposed Study Area boundary. The taxable value estimates for the MSF fund assume a three percent growth rate, based on historic growth. **Table 3.9** includes projected taxable values in the MSF based on Utah State Tax Commission historic data.

TABLE 3.9: MUNICIPAL SERVICES FUND TAXABLE VALUE PROJECTIONS

	2016	2017	2018	2019	2020	2021
Estimated MSF Taxable Value	$1,016,082,282	$1,046,564,750	$1,077,961,693	$1,110,300,544	$1,143,609,560	$1,177,917,847

Future sales tax growth projections are based on a general growth estimate of three percent. Historic data showed an annual growth rate of 4.66 percent.

TABLE 3.10: MUNICIPAL SERVICES FUND SALES TAX REVENUE (ACTUAL AND PROJECTED VALUES)

	2010	2011	2012	2013	2014	2015	2016	GROWTH RATE (2009 - 2015)	GROWTH RATE (2016-2019)
General Sales Tax	$663,018	$717,327	$783,471	$828,314	$832,974	$830,000	$881,263	4.66%	3.00%

	2017	2018	2019	2020	2021
General Sales Tax Projections	$907,701	$934,932	$962,980	$991,869	$1,021,625

PROJECTIONS OF STUDY AREA ECONOMIC BASE

Significant factors that will influence revenues within the Study Area include taxable assessed value and taxable sales. Growth in taxable value will influence future property tax revenues and general government services funding. New growth is estimated based on the current ratio of primary residences (51 percent) which receive a 45 percent property tax reduction and secondary residences (49 percent) which do not receive a tax exemption. New growth is calculated based on the HOA estimate of 3 new homes a year at an average value of $300,000. **Table 3.11** details the projected taxable value for the Study Area.

TABLE 3.11: STUDY AREA TAXABLE VALUE (ACTUAL AND PROJECTED VALUES)

	ACTUAL	PROJECTED				
	2016	2017	2018	2019	2020	2021
Assessed Value	$19,104,020	$19,104,020	$19,491,980	$20,073,920	$20,655,860	$21,237,800
New Growth		$387,960	$581,940	$581,940	$581,940	$581,940

Sales tax revenues are distributed based on two methodologies: 1) point of sale, or the location of the sale; and, 2) the ratio of population. Total sales tax collections are distributed equally between these allocation strategies, with 50 percent assigned to point of sale and 50 percent to population. Population revenues are distributed to local entities based on the ratio of their population to the State's population as a whole. While no point of sales tax is anticipated in the Study Area, a 50 percent population distribution calculation is included in this analysis based on the projected Study Area population.

Taxable sales have increased by an average of 4.22 percent since 2011. For the purposes of this analysis, LYRB assumed an average annual growth rate of 4 percent. As stated above, point of sale taxable sales comprise 50 percent of the allocation strategy and does not apply to the Study Area. The population distribution pool is shown in **Table 3.12** below, including five-year projections.

TABLE 3.12: STATE TAXABLE SALES REVENUE POPULATION DISTRIBUTION POOL (PROJECTED VALUES)

	ESTIMATED	PROJECTED				
	2016	2017	2018	2019	2020	2021
State Population Distribution Pool [1]	263,525,321	274,653,015	286,250,590	298,337,888	310,935,587	324,065,241
Growth Rate [2]	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

1. Utah State Tax Commission Annual Report p.31 – Total distribution reported in fiscal years. LYRB averaged the two fiscal years to estimate calendar year. Multiplied by 50% to obtain population pool.
2. Based on average historic rates.

SECTION 4: PRESENT & FIVE-YEAR COST PROJECTIONS

General Methodology

This section compares the costs to the residents of the Study Area if the County continues to provide services or if a newly incorporated Town provides services. Utah Code requires that the level and quality of governmental services be fairly and reasonably approximate between the two options.

This analysis assumes that many municipal services provided by Special Service Districts, Improvement Districts, and private companies will continue to be provided regardless of the incorporation. However, actual service provision will be governed by the newly incorporated municipal governing body. LYRB assumes the following services will be provided by the various entities without any impact from incorporation or non-incorporation:

- Culinary Water (Iron County Water Conservancy District);
- Secondary Water (Iron County Water Conservancy District);
- Sewer (Iron County Water Conservancy District); and,
- Garbage (Iron County).[8]

The following services were assumed to be provided by the County through the Municipal Service Fund or through the town if incorporated:

- General Governmental Services, including public buildings and overhead;
- Law Enforcement;
- Fire Prevention;
- Roads and Public Works; and,
- Weed Abatement.

The estimate of County expenditures is based on assumptions related to the County MSF. The Town scenario includes the proposed Study Area boundary as defined by the Project Sponsor. The original boundary was drawn by Platt & Platt Inc. and the County GIS Department provided the referenced boundary for analysis.

County Cost Estimates

Table 4.1 illustrates the estimated expenditures if the County continues to provide services. Expenditures related to County services were calculated using historic budget data, estimated 2016 budget data, and recommendations from the County Auditor. As stated above, several factors affect projected expenditures. For the purposes of this analysis, **Table 4.1** combines the County's projected expenditures into general categories through 2021.

Table 4.1: County Scenario: Projected Expenditures

MSF Expenditures	2017	2018	2019	2020	2021
Government Offices	$505,471	$519,163	$533,266	$547,791	$562,753
Weeds	$116,184	$119,670	$123,260	$126,957	$130,766
Roads and Public Works[9]	-	-	-	-	-
Fire Protection	$701,702	$720,080	$739,174	$759,012	$779,623
Law Enforcement	$3,862,424	$4,005,430	$4,153,976	$4,308,280	$4,468,565
Other	$1,357,949	$1,362,838	$1,367,871	$1,373,052	$1,378,385
TOTAL	$6,543,730	$6,727,180	$6,917,547	$7,115,093	$7,320,092

The above projections are based on an analysis of the historic AAGR for each budget line item, as well as insight from the County Auditor. Between 2010 and 2016, the County's MSF expenditures grew at an average annual growth rate of 2.8 percent. The projections in **Table 4.1** also grow at a rate of 2.8 percent.

[8] Garbage service is currently provided by the County and billed to individual residents. If the Study Area were to incorporate, the County is able to provide the same level of service, at the same cost.

[9] The County's roads and public works are accounted for in the Class B Road Fund which receives a transfer from the MSF. While roads expenditures are displayed as a service category, the expenditures from the MSF are accounted for in the category "Other."

Study Area Cost Estimates (Assuming Town Incorporation)

Expenditures for Study Area were calculated using the following methodologies in order to determine an acceptable level of service:

a) Average total expenditures of comparable cities;
b) Current HOA cost estimates;
c) County contract estimates; and/or,
d) Incorporated city contract estimates.

LYRB gathered data from eight comparable cities in Utah based upon population, location, and budget practices. Of these eight comparable cities, the list was narrowed to the following six communities that were most similar to the Study Area (population figures shown).

- Apple Valley (837)
- Kanarraville (395)
- Paragonah (543)
- Fairfield (267)
- Hatch (144)
- Lynndyl (107)

Table 4.2 summarizes the expenditures forecasted for the proposed study area, including the allocation methodology. The incorporation costs include this feasibility study and costs associated with an election assuming the incorporation goes to a vote.

Table 4.2: Projected Study Area General Expenditures

EXPENDITURES	2017	2018	2019	2020	2021	Methodology Description
Incorporation Costs	$14,500	-	-	-	-	LYRB & State, start-up estimate
Government Offices	$49,238	$50,715	$52,237	$53,804	$55,418	Average comp city budget
Weeds	$2,000	$2,060	$2,122	$2,185	$2,251	HOA cost estimate
Roads & Public Works	$59,907	$61,704	$63,555	$65,462	$67,426	HOA Cost estimate
Fire Protection	$10,000	$10,300	$10,609	$10,927	$11,255	Cedar City Fire Department estimate
Law Enforcement	$20,000	$20,600	$21,218	$21,855	$22,510	County Sheriff's Department estimate
TOTAL	$155,645	$145,380	$149,741	$154,233	$158,860	

SECTION 5: PRESENT & FIVE-YEAR PROJECTED REVENUE

General Methodology

This section compares the revenues the County and Town are likely to generate. Similar to the expenditure projections, the revenues were calculated using historic budget data, estimated 2016 budget data, and recommendations from the County Auditor. Further, additional allocation methodologies were utilized based on population, assessed value, and standard State allocation practices.

County Revenues

For the purposes of this study, the MSF revenues were grouped into major categories. The projections below are based on an analysis of the historic AAGR for each budget line item, as well as insight from the County Auditor. Between 2010 and 2016, the County's MSF revenue grew at an AAGR of 2.7 percent. The projections in **Table 5.1** result in an AAGR of 1.8 percent; however, the analysis includes property tax projected for new growth and an additional levy to meet the demand which results in a total AAGR of 2.8 percent.

Table 5.1: County Scenario Revenues

Iron County MSF Revenues	2017	2018	2019	2020	2021
Taxes	$4,213,401	$4,339,803	$4,469,998	$4,604,098	$4,742,220
Business Licenses & Permits	$643,439	$624,678	$606,480	$588,827	$571,704
Grants	-	-	-	-	-
PILT	$1,002,500	$1,002,500	$1,002,500	$1,002,500	$1,002,500
Fees for Service	$375,704	$375,704	$375,704	$375,704	$375,704
Fund Balance Appropriation	-	-	-	-	-
Misc.	$247,081	$249,882	$252,767	$255,738	$258,799
TOTAL	$6,482,126	$6,592,568	$6,707,448	$6,826,867	$6,950,927

The County's General Fund is supported by PILT funds. The PILT line item in **Table 5.1** includes State and Federal PILT, some of which the County transfers into the MSF. While this transfer is primarily PILT funds, additional General Funds may be included in the line item. PILT revenue in the MSF does not reflect the total amount of PILT funding allocated to the County.

Study Area Revenues (Assuming Town Incorporates)

Revenues for the Study Area were calculated using the following methodologies:

a) Property tax based on assessed value and new growth;
b) State Sales Tax allocation based on population;
c) Building Permit cost per household;
d) State Class C Road Fund allocation based on lane miles; and,
e) Fines and Forfeitures based on per capita comps.

The property tax revenue calculation is based on the assessed value of the Study Area and applying the projected County levy for the MSF. As discussed in **Section 3**, new growth is estimated based on the current ratio of primary residences (51 percent) which receive a 45 percent property tax reduction and secondary residences (49 percent) which do not receive a tax exemption. New growth is further calculated based on the HOA estimate of 3 new homes a year at an average value of $300,000.

Sales tax revenues are distributed based on two methodologies: point of sale, or the location of the sale; and, ratio of population. Total sales tax collections are distributed equally between these allocation strategies, with 50 percent assigned to point of sale and 50 percent to population. Population revenues are distributed to local entities based on the ratio of their population to the State's population as a whole. Revenue projections for the Study Area include only a population allocation, as there is no commercial development that would result in a point of sale distribution.

As the Study Area does not currently include commercially zoned parcels for development, no revenue is considered for business licensing. Building permitting revenue is included based on historic permit data and the County's historic cost per business license.

Additionally, the Study Area revenue forecast includes Class C Road Funds, allocated based upon a 50/50 split between weighted lane miles and population. The State's allocation methodology includes a weighting for gravel roads versus paved roads. All of the roads within in the Study Area are gravel and are weighted as such.

A per capita average revenue estimate for fines and forfeitures is also included in the revenue calculation. Additional types of revenue may be collected in the Study Area including grants, a State Liquor allocation, telecommunications tax, etc. Due to the variable nature of grant revenue, this line item was excluded. Based on the benchmark of other cities per capita estimates, the State Liquor allocation revenue was deemed negligible for the purposes of this study. An incorporated town has the option to levy a telecommunication tax. However, for comparison purposes, all revenue requirements have been included in the property tax levy in order to determine the cumulative impact on a household.

TABLE 5.3: TOWN SCENARIO REVENUE

		PROJECTED			
Study Area Revenues	**2017**	**2018**	**2019**	**2020**	**2021**
Property Tax Generated in Cedar Highlands from Equivalent County Rate	$56,193	$59,196	$62,241	$65,328	$68,457
Sales & Use	$8,540	$9,072	$9,623	$10,193	$10,783
Permits	$3,652	$7,303	$3,652	$7,303	$3,652
Class C Roads	$18,814	$18,866	$18,918	$18,970	$19,021
Fines & Forfeitures	$90	$93	$95	$98	$101
TOTAL	**$87,288**	**$94,529**	**$94,529**	**$101,892**	**$102,014**

The Project Sponsor reported the HOA has voted to remit all assets to the Town, if incorporated. This would include approximately 124 acres of land and $100,000. It is anticipated that a portion these funds would go towards offsetting the costs of incorporation including the feasibility study, election costs, and community center costs. The HOA currently charges a yearly fee of $440 per parcel in the Cedar Highlands Subdivision. The HOA has expressed an intent to increase this fee to $500 next year.

In addition, if the Study Area is incorporated, the Project Sponsor has suggested the Town will create a special service district which would collect a per parcel fee similar to the current HOA fee to offset road maintenance costs. **Neither an HOA fee nor a special service district fee is considered a municipal revenue, and thus, will not be included in the revenue estimates. However, the current HOA fee will be considered in the overall net impact of the potential incorporation.**

SECTION 6: FISCAL IMPACTS

The purpose of this study is to project and compare the impact of incorporation of the Study Area to the fiscal impact of remaining within the County service area. The following section details the impact to residents in the Study Area, as well as to the County.

Fiscal Impacts on the County

A comparison of projected revenues and expenditures produce a deficit based on the County's projected 2017 MSF rate of .002824 as shown in **Table 6.1**. An increased County MSF tax rate of .002883 is modeled in year 2017 to cure the revenue gap. The tax impact to a primary residence valued at $250,000 is $396, which is an $8 increase. As mentioned in **Section 5**, the County may opt to use general funds to cover this modest gap to avoid a tax increase.

Table 6.1: County Scenario

Iron County MSF Revenues	2017	2018	2019	2020	2021
County MSF Rate	0.002824	0.002824	0.002824	0.002824	0.002824
Property Tax Generated in unincorporated County	$4,213,401	$4,339,803	$4,469,998	$4,604,098	$4,742,220
Business Licenses & Permits	$643,439	$624,678	$606,480	$588,827	$571,704
PILT (General Fund Transfer)	$1,002,500	$1,002,500	$1,002,500	$1,002,500	$1,002,500
Fees for Service	$375,704	$375,704	$375,704	$375,704	$375,704
Misc.	$247,081	$249,882	$252,767	$255,738	$258,799
TOTAL	**$6,482,126**	**$6,592,568**	**$6,707,448**	**$6,826,867**	**$6,950,927**
Iron County MSF Expenditures					
Government Offices	$505,471	$519,163	$533,266	$547,791	$562,753
Weeds	$116,184	$119,670	$123,260	$126,957	$130,766
Garbage	-	-	-	-	-
Roads & Public Works	-	-	-	-	-
Fire Protection	$701,702	$720,080	$739,174	$759,012	$779,623
Law Enforcement	$3,862,424	$4,005,430	$4,153,976	$4,308,280	$4,468,565
Other	$1,357,949	$1,362,838	$1,367,871	$1,373,052	$1,378,385
TOTAL	**$6,543,730**	**$6,727,180**	**$6,917,547**	**$7,115,093**	**$7,320,092**
Revenues minus Expenditures	($61,603)	($134,613)	($210,099)	($288,226)	($369,165)
Total Tax Revenue Needed to Balance	$61,603	$134,613	$210,099	$288,226	$369,165
Taxable Value*	$1,046,564,750	$1,077,961,693	$1,110,300,544	$1,143,609,560	$1,177,917,847
Total County MSF Rate**	**0.002883**	**0.002949**	**0.003013**	**0.003076**	**0.003137**
Estimated Impact on Home ($250,000)	$396	$405	$414	$423	$431

*Additional County levy calculated based on estimated assessed value
**Based on the sum of the "County Rate" plus the "Additional Cedar Highlands Levy to Balance Budget".

In summary, the Study Area may continue to receive County Services at the level of service currently provided as a part of the MSF with negligible additional costs as compared with the current County tax levies.

FISCAL IMPACTS ON STUDY AREA

The following section includes two scenarios related to the fiscal impacts of a Town incorporation as detailed below:

1. **Scenario 1 – Community Center:** This scenario includes the applicable incorporation costs as outlined in UCA 10-2a-307. In addition, expenditures include a one-time expense of $200,000 for a community center. The cost of the community center is offset by $64,714 which represents the existing HOA available fund balance. Per UCA 10-6-116, a municipality may carry a fund balance up to 25 percent of its revenue. This scenario assumes the Town carries the total allowable fund balance and uses the remaining HOA credit to offset the costs of the community center.
2. **Scenario 2 – No Community Center:** This scenario includes incorporation costs as outlined in UCA 10-2a-307, without the additional expense related to a new community center. Therefore, the available fund balance of $64,714 is applied to the general fund operating expenses and other start-up expenditures. Similar to Scenario 1, a fund balance of 25 percent is carried forward.

It should be noted that neither of the scenarios presented include considerations for increasing the level of service the study area currently receives (e.g. community improvements such as a paved road and public works projects). Further, the scenarios assume at the time of incorporation all HOA fees will be suspended and does not contemplate revenues associated with a special service district.

SCENARIO 1 – COMMUNITY CENTER

Assuming the newly incorporated Town assesses an equivalent County tax rate, the projected revenues minus expenditures produce a deficit as shown in **Table 6.2**. As with the County scenario, an increased tax rate of .002883 is modeled in year 2017. However, matching the County's equivalent rate is not sufficient to meet the expenditures within the Town and an additional Cedar Highlands rate of .010448 in 2017 is necessary to provide sufficient funding for the Study Area. Thus, the 2017 Town rate is the sum of the County equivalent rate and the Cedar Highlands rate, or .012304.

TABLE 6.2: TOWN SCENARIO 1 – COMMUNITY CENTER

	Projected				
Cedar Highlands Revenues	**2017**	**2018**	**2019**	**2020**	**2021**
Equivalent County Rate (See Table 6.1)	**0.002883**	**0.002949**	**0.003013**	**0.003076**	**0.003137**
Property Tax Generated in Cedar Highlands from Equivalent County Rate	$56,193	$59,196	$62,241	$65,328	$68,457
Sales & Use	$8,540	$9,072	$9,623	$10,193	$10,783
Permits	$3,652	$7,303	$3,652	$7,303	$3,652
Class C Roads	$18,814	$18,866	$18,918	$18,970	$19,021
Fines & Forfeitures	$90	$93	$95	$98	$101
TOTAL	$87,288	$94,529	$94,529	$101,892	$102,014
Cedar Highlands Expenditures					
Incorporation Costs	$149,786	-	-	-	-
Government Offices	$49,238	$50,715	$52,237	$53,804	$55,418
Weeds	$2,000	$2,060	$2,122	$2,185	$2,251
Roads & Public Works	$59,907	$61,704	$63,555	$65,462	$67,426
Fire Protection	$10,000	$10,300	$10,609	$10,927	$11,255
Law Enforcement	$20,000	$20,600	$21,218	$21,855	$22,510
TOTAL	**$290,932**	**$145,380**	**$149,741**	**$154,233**	**$158,860**
Revenues minus Expenditures	($203,644)	($50,850)	($55,212)	($52,341)	($56,846)
Total Tax Revenue Needed to Balance	$203,644	$50,850	$55,212	$52,341	$56,846
Additional Cedar Highlands Levy to Balance Budget*	0.010448	0.002533	0.002673	0.002465	0.002605
Total Town Rate**	**0.013330**	**0.005482**	**0.005686**	**0.005541**	**0.005743**

*Additional Cedar Highlands levy calculated based on estimated assessed value
**Based on the sum of the "County Rate" plus the "Additional Cedar Highlands Levy to Balance Budget".

The tax impact within the Study Area is estimated at $1,833 for a primary residence valued at $250,000. This represents an increase of $1,437 above the projected County levy of $396. The difference between the County tax and the Town tax is the additional cost residents of the Study Area will pay to provide their own municipal services as an incorporated town. In summary, incorporating as a town produces an additional cost of $1,437 per $250,000 of assessed value in 2017. One-time community center costs, and incorporation costs outlined in UCA 10-2a-307 contribute to the escalated cost in 2017. The estimated impact decreases in 2018 as illustrated in **Table 6.3**. The one-time up-front costs may be mitigated by extending the cost over many years through alternative financing options.

TABLE 6.3: SCENARIO 1 FISCAL IMPACT

	PROJECTED				
	2017	2018	2019	2020	2021
Total Town Rate	**0.013330**	**0.005482**	**0.005686**	**0.005541**	**0.005743**
Cedar Highlands Estimated Certified Tax Value	$19,104,020	$19,491,980	$20,073,920	$20,655,860	$21,237,800
Town Impact (Home $250,000)	$1,833	$754	$782	$762	$790
COUNTY IMPACT (HOME $250,000) SEE TABLE 6.1	$396	$405	$414	$423	$431
Town Difference From County Levy	**$1,437**	**$348**	**$368**	**$339**	**$358**
Current HOA Fees	($440)	($500)	($500)	($500)	($500)
Net Impact	$997	($152)	($132)	($161)	($142)

As mentioned in **Section 5**, the Cedar Highlands Subdivision charges a yearly HOA fee of $440 per parcel. The HOA anticipates a fee increase next year of $500. Assuming the HOA fee is suspended following incorporation, the **net impact** of the incorporation can be expressed--for comparison purposes only--with a credit of $440 against the Town tax. Thus, the net impact of incorporation is $997 in 2017. From 2018 through 2021, the net impact is negative which means a resident will pay $152 less in 2018 than they would if the County continued to provide services. The cumulative net impact of incorporating as a town over the first five years results in residents paying $409 more for services as an incorporated town than they would pay for County services.

SCENARIO 2 – NO COMMUNITY CENTER

This scenario includes incorporation costs as outlined in UCA 10-2a-307, without the additional expense related to a new community center. Assuming an equivalent County tax rate, the projected revenues minus expenditures produce a deficit as shown in **Table 6.4**. Similar to Scenario 1, matching the County's equivalent rate is not sufficient and an additional Cedar Highlands rate of .000187 in 2017 is necessary to provide sufficient funding for the Study Area. Thus, the 2017 Town rate is the sum of the County equivalent rate and the Cedar Highlands rate, or .003070.

TABLE 6.4: SCENARIO 2 – NO COMMUNITY CENTER

	Projected				
Cedar Highlands Revenues	**2017**	**2018**	**2019**	**2020**	**2021**
Equivalent County Rate (See Table 6.1)	**0.002883**	**0.002949**	**0.003013**	**0.003076**	**0.003137**
Property Tax Generated in Cedar Highlands from Equivalent County Rate	$56,193	$59,196	$62,241	$65,328	$68,457
Sales & Use	$8,540	$9,072	$9,623	$10,193	$10,783
Permits	$3,652	$7,303	$3,652	$7,303	$3,652
Class C Roads	$18,814	$18,866	$18,918	$18,970	$19,021
Fines & Forfeitures	$90	$93	$95	$98	$101
TOTAL	**$87,288**	**$94,529**	**$94,529**	**$101,892**	**$102,014**
Cedar Highlands Expenditures					
Incorporation Costs	($50,214)	-	-	-	-
Government Offices	$49,238	$50,715	$52,237	$53,804	$55,418
Weeds	$2,000	$2,060	$2,122	$2,185	$2,251
Roads & Public Works	$59,907	$61,704	$63,555	$65,462	$67,426
Fire Protection	$10,000	$10,300	$10,609	$10,927	$11,255
Law Enforcement	$20,000	$20,600	$21,218	$21,855	$22,510
TOTAL	**$90,932**	**$145,380**	**$149,741**	**$154,233**	**$158,860**
Revenues minus Expenditures	($3,644)	($50,850)	($55,212)	($52,341)	($56,846)
Total Tax Revenue Needed to Balance	$3,644	$50,850	$55,212	$52,341	$56,846
Additional Cedar Highlands Levy to Balance Budget*	0.000187	0.002533	0.002673	0.002465	0.002605
Total Town Levy**	**0.003070**	**0.005482**	**0.005686**	**0.005541**	**0.005743**

*Additional Cedar Highlands levy calculated based on estimated assessed value.
**Based on the sum of the "County Rate" plus the "Additional Cedar Highlands Levy to Balance Budget".

The tax impact within the Study Area under Scenario 2 is $422 for a primary residence valued at $250,000. This represents an increase of $26 from the projected County levy of $396. In year 2 the tax impact is $754 or $348 more than the County levy of

$405. The difference between the County tax and the Town tax in year 2 is the cost to residents of the Study Area to provide their own municipal services as an incorporated town.

Table 6.5: Scenario 2 Impact

	Projected				
	2017	2018	2019	2020	2021
Total Town Rate	**0.003070**	**0.005482**	**0.005686**	**0.005541**	**0.005743**
Cedar Highlands Estimated Certified Tax Value	$19,104,020	$19,491,980	$20,073,920	$20,655,860	$21,237,800
Town Impact (Home $250,000)	$422	$754	$782	$762	$790
County Impact (Home $250,000) See table 6.1	$396	$405	$414	$423	$431
Town Difference From County Levy	**$26**	**$348**	**$368**	**$339**	**$358**
Current HOA Fees	($440)	($500)	($500)	($500)	($500)
Net Impact	($414)	($152)	($132)	($161)	($142)

Applying the HOA credit similar to Scenario 1 produces a net savings in year one of $414 by incorporating. The cumulative net impact of incorporating as a Town over the first five years results in residents saving $1,001.

It is important to note for both scenarios that if the HOA fee is not eliminated, the incorporation of the Town will result in a net cost to the residents as shown in Tables 6.3 and 6.5.

Fiscal Impact on County MSF if Cedar Highlands Incorporates

In the event of incorporation, the County MSF would likely experience a loss of revenue resulting in the need for an additional 2.28 percent increase in year one over the baseline County levy. This increase represents lost revenue for municipal services, as well as revenues gained through the Sheriff's Department for contracted public safety services. The contract revenue is estimated at $20,000 in year one. The net impact of the Town incorporation is a loss of $67,288 in revenues in 2017, as illustrated in **Table 6.6**.

Table 6.6: Fiscal Impact to County MSF

	Projected				
	2017	2018	2019	2020	2021
Potential Lost Revenue	($87,288)	($94,529)	($94,529)	($101,892)	($102,014)
Contract Revenue	$20,000	$20,600	$21,218	$21,855	$22,510
Net Impact to County MSF	**($67,288)**	**($73,929)**	**($73,311)**	**($80,038)**	**($79,504)**
Tax Impact	0.000064	0.000069	0.000066	0.000070	0.000067
MSF Levy (If Cedar Highlands incorporates)	0.002947	0.003017	0.003079	0.003146	0.003205
Estimated Impact on $250,000 Home	$405	$415	$423	$433	$441
Baseline MSF Levy Impact	$396	$405	$414	$423	$431
Tax Increase From Baseline	$9	$9	$9	$10	$9