

Cottonwood Heights, Utah

City Between the Canyons



ANNUAL FINANCIAL REPORT TO THE COMMUNITY



**Fiscal Year Ending
June 30, 2017**





To the Mayor, City Council and Residents of the City of Cottonwood Heights:

The city manager and the entire finance department team are proud to present the fifth Annual Financial Report to the Community, also known as a *Popular Annual Financial Report* (PAFR) for the fiscal year (FY) ended June 30, 2017. This report provides an overview of the City's financial condition and brief analysis of how those revenues are generated and how those dollars are expended.

Most of the information in this report is drawn from the financial information in the FY2016-2017 Comprehensive Annual Financial Report (CAFR). The CAFR is a more detailed and complete financial presentation prepared in conformance with Generally Accepted Accounting Principles (GAAP) and was audited by the city's independent auditors, receiving an "unqualified opinion" (an opinion without auditor exceptions or qualifying comments).

The Government Finance Officers Association of the United States and Canada (GFOA) gave an Award for Outstanding Achievement in Popular Annual Financial Reporting to Cottonwood Heights for its Popular Annual Financial Report for the fiscal year ended June 30, 2016. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

To receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal.



An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only.

Cottonwood Heights received a Popular Award for the fourth time in 2016. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

We hope you will find this information to be interesting and informative. We welcome your comments and suggestions for future reports. Both the CAFR and this document, the PAFR, are available for viewing at City hall and for viewing or printing on the City's website at <http://www.ch.utah.gov/>.



City Profile

Although the area currently encompassing Cottonwood Heights City was not incorporated until 2005, its roots date back to the first pioneer settlers in the Salt Lake Valley. The following is an excerpt from Cottonwood Heights City’s General Plan:

Near what is now Fort Union Blvd. and 2700 East, early settlers established a community center with a church and a school. Among the earliest settlers of the area were six colorful brothers. The ‘Butler Brothers’ were lumbermen – complete with wagons, teams, and sawmills.

known as Little Cottonwood, or Union. One of the highlights of the area’s history was the Deseret Paper Mill – the ‘Old Mill’ situated along Big Cottonwood Creek about a mile below the mouth of Big Cottonwood Canyon.



The Butler Brothers (left to right): Alma, Alua, Leander, Neri, Phalander, and Eri

It was built in 1861 to make paper for the Deseret News (newspaper). The paper was made with wood pulp taken from the canyons and rags gathered by families in the valley.

It operated for many years, furnishing employment for the people of Butlerville and paper for the territory. But on the morning of April 1, 1893, the mill burned down and was never rebuilt as a paper mill. Since the mill’s construction, the railroad had come through and it was cheaper to bring paper in by train than to manufacture it locally.

There were also four McGhie brothers and their families. Legend has it that they called a town meeting to organize their community and there was one more Butler than McGhie at the meeting, therefore the community received the name ‘Butler’ rather than ‘McGhie.’ Natives differ on this name; some say it was named ‘Butlerville,’ and others say the ‘ville’ was just a nickname.



The Deseret Paper Mill is one of the highlights of Cottonwood Heights' history and still stands today.

Different parts of the west end of the city were known by other names. The southwest part of the current city was

Today, the City is home to nearly 35,000 residents with access to some of the greatest outdoor recreation opportunities that exist anywhere in the world. The two canyons bordering our City contain four ski resorts (Snowbird, Alta, Solitude, and Brighton) as well as many miles of roads and trails. It is a place we are proud to call home.



Staff and Elected Officials

State statutes detail the functions performed by municipalities. Cottonwood Heights is a political subdivision of the State of Utah and a municipal corporation. The City was incorporated on January 14, 2005, out of the southeastern area of unincorporated Salt Lake County. As of the 2010 census the

City had 33,433 residents (the November 2017 estimate is 34,285) and encompassed approximately 9.24 square miles of land area.



Mayor
Kelvyn H. Cullimore, Jr.

At its inception, citizens voted to operate Cottonwood Heights under the council-manager form of government. Under this form of government, the citizens elect a five member council, chaired by a mayor. For Cottonwood Heights, the Mayor is elected at large, while the other four members of the Council are elected by district.

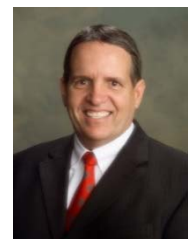


Council Member
District 1
Michael Shelton



Council Member
District 2
J. Scott Bracken

The mayor and council select a city manager who acts as the chief executive officer of the City.



City Manager
John Park



Council Member
District 3
Michael J. Peterson



Council Member
District 4
Tee W. Tyler

Policy-making and legislative authority are vested in the mayor and council while execution and administration of

policies and ordinances is the responsibility of the city manager. The Mayor and Council serve part time. The city manager serves full time. According to population and Utah law, Cottonwood Heights is considered a city of the third class.



As a local general purpose government, Cottonwood Heights provides a full range of municipal services. Some of these services are provided internally, while some services are provided by other governmental agencies or private contractors. Still other services are provided to Cottonwood Heights residents by special districts.

Cottonwood Heights serves the residents of the City by performing the following functions using City personnel.

- Police
- Planning and Zoning
- Economic Development
- Highways and Public Improvements
- Finance and Treasury
- Public Works
- Arts Council and Events



For certain services, the City contracts with the following agencies or private companies:

- Fire and emergency services are provided by Unified Fire Authority
- Gilson Engineering performs engineering services with Brad Gilson serving as the City Engineer
- Sunrise Engineering is responsible for plan review and inspections with Jody Hilton serving as the City Building Official
- Legal Services are provided by the firm of Jones Waldo, with W Shane Topham employed as the City Attorney

The following services are provided directly to Cottonwood Heights residents by other governments or special service districts. Taxes and fees are paid directly to these entities.



- Water treatment and distribution is provided by Salt Lake City and Jordan Valley Water Conservancy
- Cottonwood Improvement District provides wastewater collection and treatment
- Wasatch Front Waste & Recycling provides disposal services of solid waste and recycling for City residents
- Library services are provided by Salt Lake County
- Parks and recreation services are provided by Cottonwood Heights Parks and Recreation Service Area



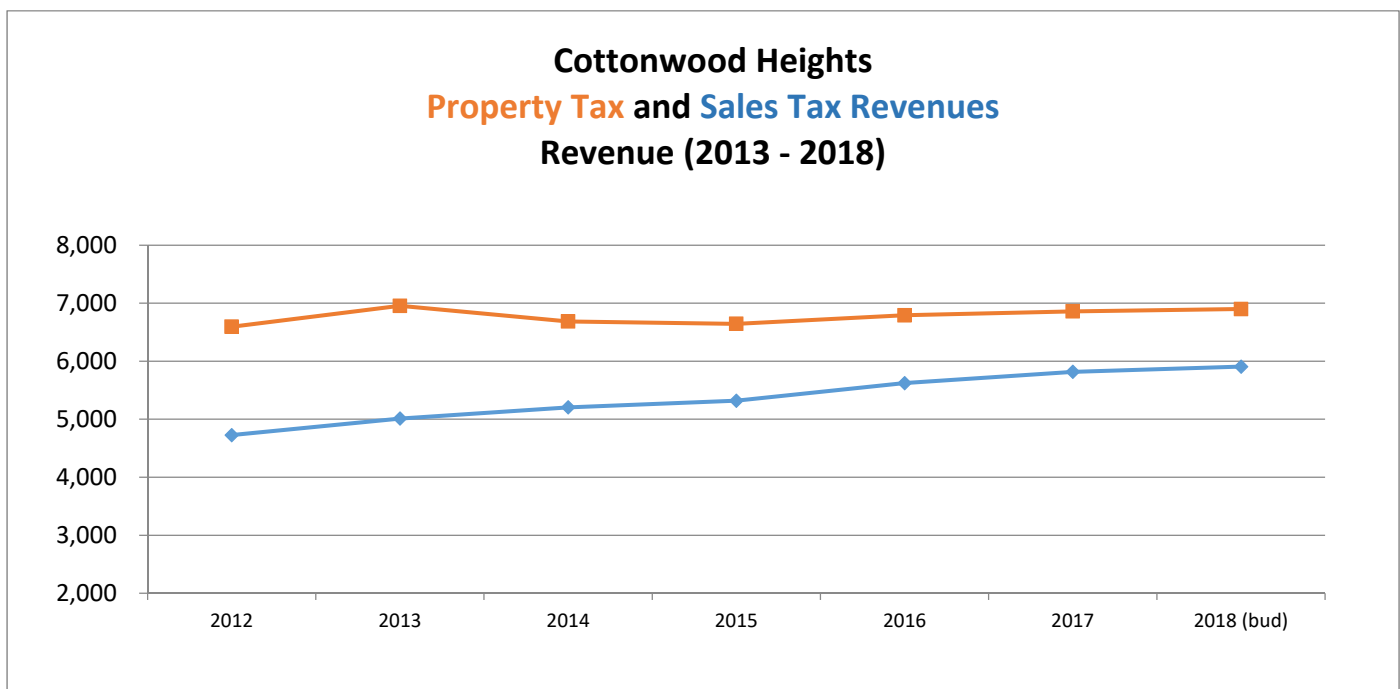
Financial Highlights

- ❖ The City’s general fund balance increased by \$1,251,628 to \$3,603,813. This represents 19.34 percent of the budgeted revenues for the 2018 fiscal year.
- ❖ The City completed construction and began occupation of a new city municipal center. The new facility was completed within its budget at a cost of \$16,798,825.
- ❖ \$3,280,000 in sales tax bonds were issued. The proceeds of the bonds were used to complete construction of the new municipal center and for the construction of a yard and storage facility for the new public works department.
- ❖ The City purchased a fleet of 15 vehicles to be used for the care and maintenance of city roadways. These vehicles were acquired through a capital lease.



Revenue Trends

The graphs below show the City’s trends in both sales taxes and property taxes. As indicated, while both revenue streams are trending upward, sales tax revenue tends to be more directly connected to economic growth, while property tax tends to be more stable. The potential for growth in sales tax revenue is greater than property tax revenue since Utah State law does not provide for natural inflation growth in property tax revenues without requiring a property tax increase.





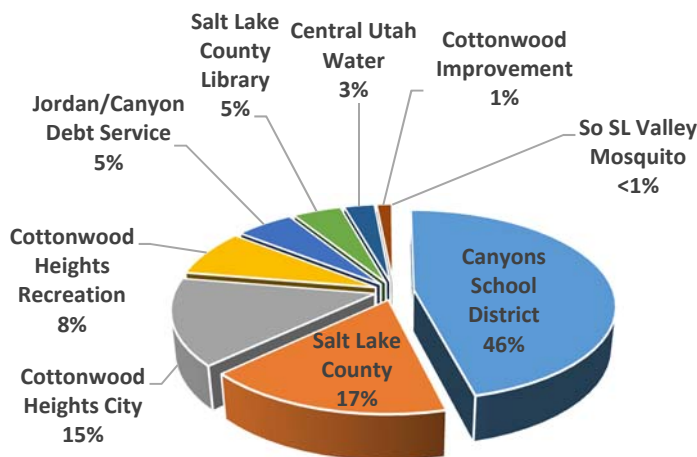
Funding of Government Services

The funding for the services provided by Cottonwood Heights comes from a variety of sources. The major sources of funding are described below:

Property Tax. Property tax is the largest source of revenue for Cottonwood Heights, representing 34 percent of total governmental revenue. Salt Lake County is charged with assessing all real and personal property in the county.

Residents of Cottonwood Heights pay property taxes to numerous taxing entities including: Canyons School District, Salt Lake County, Cottonwood Heights City, Cottonwood Heights Parks and Recreation District, Salt Lake County Library, Central Utah Water Conservancy, Cottonwood Improvement District, and South Salt Lake Valley Mosquito Abatement. The proportionate amount paid to each taxing district is represented in the chart below:

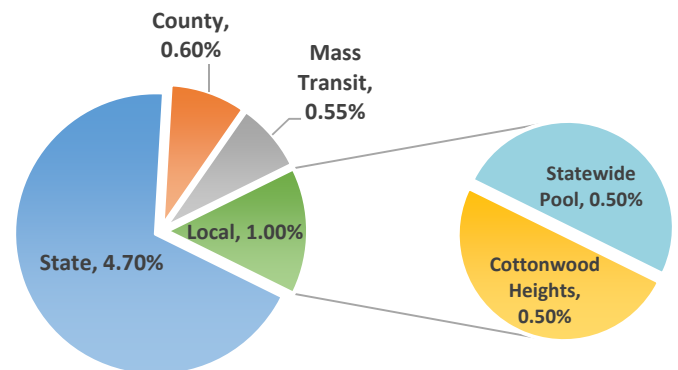
Property Taxes in Cottonwood Heights



By state law, primary residences are taxed at 55 percent of their value as assessed by Salt Lake County. All other real and business personal property is taxed at 100 percent of assessed value. Cottonwood Heights' 2017 property tax rate is .1981 percent. So, a primary residence in Cottonwood Heights with an assessed value of \$350,000 would pay \$381.34 in property taxes to Cottonwood Heights.

Sales Tax. Sales tax is the second largest source of revenue for the City, representing 29 percent of total governmental revenue. Retail sales in Cottonwood Heights are assessed a tax at the rate of 6.85 percent. One percent of the 6.85 percent is assessed by the City. However, following state law, 50 percent of the City's tax revenue comes directly to Cottonwood Heights, while the other 50 percent is distributed statewide based on local population. How this tax is distributed is shown by the chart below:

Sales Tax Distribution



Grants. Cottonwood Heights received \$2,345,426 in grants during the 2017 year. The largest state grant comes from gasoline taxes paid by all Utah residents. These funds totaled \$1,259,158 during the year and are distributed by the state from a formula that includes both population and road miles. The City was also awarded \$2 million by the State Legislature to be used toward road improvements. These funds will be used in the upcoming 2017-2018 fiscal year.

Fees. Another source of revenue is fees charged for services, primarily related to community development. Companies, or individuals, desiring to develop property within the boundaries of Cottonwood Heights pay fees for planning, business licenses, building permits, and plan reviews. These fees help the City develop in a way that follows safe and fundamentally sound building practices.



Financial Information

Government accounting standards require financial information to be presented on both a long-term, full accrual (government wide) method as well as a current view (fund) basis. For the year ending June 30, 2017, the City's Government-Wide Statement of Activities reports the following results consistent with Generally Accepted Accounting Principles (GAAP):

Government-Wide Financial Data

STATEMENT OF ACTIVITIES (Governmental Funds)		
	2017	2016
Revenues:		
Program Revenue		
Fees, Fines, and Charges for Services	\$ 1,315,528	\$ 1,630,018
Capital Grants and Contributions	1,784,554	836,020
Operating Grants and Contributions	933,686	1,709,910
Total Program Revenue	4,033,768	4,175,948
General Revenues:		
Property Tax	6,843,782	6,810,925
Sales Tax	5,855,273	5,657,553
Municipal Energy Sales Tax	2,104,686	1,530,067
Motor Vehicle Fee-In-Lieu	354,472	359,521
Franchise Tax - Cable TV	338,833	320,220
Unrestricted investment earnings	85,570	84,666
Loss on Sale of Capital Assets	96,926	8,250
Miscellaneous	420,589	83,228
Total general revenue and transfers	16,100,131	14,854,430
Total Revenue	20,133,899	19,030,378
Expenses:		
Primary Government:		
Governmental Activities:		
General Government	3,505,009	3,153,136
Public Safety	9,830,415	9,370,954
Highways & Public Improvements	5,101,370	5,156,417
Community & Economic Development	1,136,010	1,119,682
Interest on long-term debt	683,616	529,778
Total Expenses	20,256,420	19,329,967
Change in Net Assets	(122,521)	(299,589)
Net Assets Beginning of the Year	50,985,507	51,285,096
Net Assets End of the Year	\$ 50,862,986	\$ 50,985,507

The Statement of Activities provides information on a full accrual basis. Revenues and expenses are recorded based on the economic substance of the transaction and does not always match how these transactions were recorded in the budget.

No new services or programs were implemented during the year. Increases in departmental expenses were primarily due to increases in the cost of employee health insurance premiums, Utah State pension rates, and cost of living wage adjustments. Increased depreciation contributed to this change as well.

Grants vary year-to-year based on available funding and project need. The largest capital grant in 2017 was \$880,995 from Salt Lake County used for road improvements and the largest operating grant was \$1,259,158 from the State of Utah for road maintenance.



General Fund Financial Data

The following information is presented from the City's general fund financial statements. These statements differ from the Statement of Activities shown on the previous page in that the information is presented on a current resources model and matches the flow of these resources to the City's budget. The information below is only related to revenues and expenditures of the City's general fund and is consistent with GAAP. Information on the City's other funds can be found by accessing the Comprehensive Annual Financial Report on the City's website.

General Fund Revenues. The City's general fund is the primary operating fund of the City. Most of the revenues in the general fund come from taxes levied to and paid by Cottonwood Heights residents. However, some general fund revenue comes from fees paid for services provided. The chart below illustrates the proportionate sources of revenue for Cottonwood Heights. Other revenues includes the sale of capital assets.



General Fund Revenues

- Property Tax - \$6,843,782
- Sales Tax - \$5,816,802
- Grants - \$1,436,183
- Other Taxes - \$3,156,584
- Courts - \$388,461
- Licenses - \$654,736
- Other Revenues - \$1,613,544

General Fund Expenditures. Cottonwood Heights provides numerous services to the residents of the City. These services consist of public safety, street maintenance, and planning and zoning. Other expenditures are made to City departments in support of these operational departments. These services include such functions as: accounting, legal services, City Council, and other management expenditures. The chart below illustrates how these funds are spent, include funds transferred to the capital projects fund.

General Fund Expenditures

- Public Safety - \$9,503,404
- General Government - \$3,360,123
- Street Improvements - \$2,478,062
- Community Develop - \$1,093,549
- Debt Service - \$1,744,702
- Capital projects - \$478,625





2017-2018 Budget Priorities

During the Feb. 21, 2017, meeting, Cottonwood Heights City Council met with staff to discuss budget and other strategic priorities for this budget year and for future years. Several issues were addressed and prioritized. The following issues were identified to be the highest priorities.

- **Road Inventory and Funding** – Due to funding shortfalls, the City’s roads are in need of increased attention and funding. The City’s roads have previously been inventoried and graded. This process gives each road in the City a rating based on a standard pavement condition index (PCI). PCI measures the condition of the roads for distress and drivability on a scale from 0 to 100. In order to develop a comprehensive plan to preserve and maintain the City roads, this inventory needs to be updated. The City has allocated funds in the FY 2018 budget year to complete this study.
- **Competitive Employee Compensation** – Cottonwood Heights considers the City’s employees to be its most valuable resource. Hiring and retaining a qualified, motivated, and enthusiastic workforce is of utmost importance. The City has created a pay plan that gives supervisors the flexibility to move high-performing employees along the pay range more quickly than was previously possible.
- **Public Works Services** – During the previous fiscal year, the City took upon itself the task of providing snow-plowing and streets maintenance. These services had previously been provided by a private contractor. With a year’s experience, City officials and staff will evaluate current processes and look for ways to improve performance and efficiency.
- **Economic Development** – Cottonwood Heights recognizes the importance that high-quality economic development can have on the City’s future. The City has identified three areas where this type of development and redevelopment can likely occur in the near future: Canyon Centre, Gravel Pit, and the Ft. Union Corridor. City leaders will study these areas and seek quality development opportunities.
- **Evaluate budget saving opportunities** – Revenue growth in Cottonwood Heights is limited by both scarcity of available land and legislative restrictions on property tax revenue growth. Therefore, for the City’s long-term viability, the City’s budget must be continuously evaluated to find areas where spending can be reduced in a way that will have minimal impact on services. Considerations will be made for both level of service delivery and contracts used to provide services to Cottonwood Heights residents.
- **Five-Year Financial Plan** – Cottonwood Heights is committed to establishing a long-term approach to finance and budgeting. It is crucial that decisions are evaluated both on their impact to the current year, as well as future years. By looking ahead, the City will be better able to prepare for future opportunities and difficulties. To assist in this effort, the City will prepare a budget for the current year and forecasts for five future years.



Administrative & Statutory Officials

City Manager	John Park
Deputy City Manager	Bryce Haderlie
City Finance Director and Budget Officer	Dean Lundell
City Director of Community & Economic Development	Brian Berndt
City Police Chief	Robby Russo
City Public Works Director	Matt Shipp
City Treasurer	David Muir

City Recorder	Paula Melgar
City Attorney	Shane Topham—Jones Waldo
City Fire Chief	Mike Watson— Unified Fire Authority
City Engineer	Brad Gilson— Gilson Engineering
City Building and Zoning Official	Jody Hilton— Sunrise Engineering

Visit Cottonwood Heights City at

<http://www.cottonwoodheights.utah.gov>

The following valuable information can be obtained from the City's website:

- Annual budgets
- Annual Financial Statements (CAFR)
- Popular Annual Financial Report (PAFR)
- Monthly Financial Reports to the Council
- Information about the Mayor and City Council
- Hot topics going on in the City
- News and events happening
- City calendar of events and meetings
- Job opportunities
- Monthly message from the mayor or member of the City Council
- Department contacts and information and lots of other good stuff.

also

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