

MINUTES OF THE EXECUTIVE WATER FINANCE BOARD

Friday, November 2, 2018

9:30 a.m.

Utah State Capitol, Room 450, 350 N. State Street

Members Present:

Phil Dean, Chairman

Jon Bronson

Laura Briefer

Evan Curtis

Eric Millis

Juliette Tennert

David Damschen

Staff Present:

Miranda Jones, Budget Analyst

1. Call to Order

Chair Phil Dean called the meeting to order at about 9:43 A.M.

a. Approval of minutes

Jon Bronson moved to approve the September 17 and 18, 2018 meeting minutes, and delay until a future meeting approval of the October 16, 2018 minutes to allow more time to review.

The motion passed unanimously with a 7-0 vote.

After reviewing a summary of the October 16 recommendations, Laura Briefer recommended changing in one of the board's recommendations from the October 16 meeting language referencing 'water leakage audits' to 'audits of non-revenue water'.

The motion passed unanimously with a 7-0 vote.

2. Federal Financing of Major Projects

Phil raised the federal Water Infrastructure Finance and Innovation Act (WIFIA) water financing program and how the State may seek to utilize it as a component in financing major water projects.

Juliette Tennert stated that she believes the state should look at leveraging federal financing as much as possible. Laura Briefer noted national interest by states and local entities to leverage WIFIA. Jon Bronson agreed and noted that the Water Infrastructure Restricted Account should also be taken into consideration.

Phil voiced his view that the State should be proactive at pursuing federal financing and that the State and water districts should start understanding and working through the federal process. Jon replied that based on conversations he has had, the EPA believes the Lake Powell Pipeline would fit well in their project parameters.

Eric moved that the Board recommend that for all new major water development projects the State should consider all possible sources of financing, including WIFIA and other federal sources, that the requirements of the funds be carefully considered, and that the State look at a funding package early enough to get things in order.

The motion passed unanimously with a 7-0 vote.

3. Local Financial Involvement in Major Projects

Phil talked about the importance of local participation, referencing a 25% down payment the Washington County Water Conservancy District had mentioned in a previous meeting for the Lake Powell Pipeline. Phil indicated this percentage seems appropriate if federal financing is available. Phil suggested that if the project cannot get federal financing or other federal participation, that the up-front local amount should be 35% of the cost of the project, similar to previous federally-financed projects.

Jon Bronson asked what the funding split had been in the past with federally-financed projects from the federal Bureau of Reclamation. Eric Millis and Christine Finlinson mentioned that the districts paid roughly 35% up front for the more recent projects. Christine continued, stating that with the Central Utah Water Conservancy District's Central Utah Project Completion Act (CUPCA), the district covered the local portion with financing the local share through a local bond.

Ron Thompson discussed local participation, and Marie Owens from the Division of Drinking Water spoke to the federal financing piece.

Eric Millis expressed his views, wondering if these could be guideline target amounts. Fred Finlinson noted state statute regarding the state's role in building the Lake Powell Pipeline project. Phil indicated that the Board is meeting to discuss the parameters of state financing of the project, which was not funded when passed.

Treasurer Damschen noted his concern regarding the rate of cash accumulation to date for the local contribution, stating that the cost estimates have increased significantly over time.

The board also discussed how this could impact other local projects. Jon clarified his view that this recommendation would be for large development projects and that the percentage the level of up-front payment should be impacted by federal financing.

Nick Schou from the Utah Rivers Council mentioned to the board that an accurate cost estimate is essential to truly develop a financing plan. Phil responded that the Division of Water Resources has funding to validate the costs after the Lake Powell Pipeline receives certain federal approvals, but that without knowing the parameters of those approvals is it hard to develop a precise cost estimate.

After discussing the local participation percentage further, Jon made a motion that the Board recommend that any project over \$250 million receiving funds from the State's Water Infrastructure Restricted Account (WIRA) require a minimum 25% local participation, and potentially a higher percentage depending on the level of federal participation, and that the up-front payment serve as an offset to the project construction costs through the construction period.

The motion passed unanimously with a vote of 7-0.

4. State Financing Role

Phil explained that the State needs to be cognizant of its debt levels and maintain its AAA bond rating by being careful about the debt it incurs. He also stated that at previous cost estimates of the Lake Powell Pipeline project, \$80 million to \$100 million beyond current funding levels would likely be needed and that cost increases above current levels would increase this amount even further. He stated that the options are tax or fee increases or diverting funding from education or transportation.

Phil recommended considering a statewide water user fee rather than a tax increase. He explained that low water use could be exempt from the fee, and a fee could be charged above this basic water use level, such as a fifty cent per gallon user fee on all water above a certain amount of use.

Laura Briefer asked clarifying questions for how this would affect municipal water bills.

Treasurer Damschen provided context about safeguarding the state's AAA bond rating, and how that high state rating helps with interest rates on local bonding, moral obligation pledge credit, higher education, charter schools, and others. He believes that a ripple effect would impact all entities in the state if the State of Utah's AAA rating were degraded. He also noted that the state should be transparent and upfront with better-tiered water rate structures.

Fred Finlinson shared concerns about a state water user fee. Phil and Fred addressed who should bear the burden of the up-front costs of water projects.

Fred Finlinson spoke to his idea of shifting the burden from the state to local entities through credit enhancement, volunteering to speak to the board about this at a future meeting. Jon Bronson said that he would like to pursue what the model looks like for the State backing the districts bonds.

Jon made a motion that the Board study alternative financing models, which would have water districts finance state-backed debt, and that whatever the State does to finance large water projects be done in a way that won't impair the state's AAA bond rating.

The motion passed unanimously with a vote of 7-0.

5. Paying for Water

Phil spoke to the issue of paying for water, contrasting aggressive water rates among cities in the State, with other rapidly growing areas with lower water rates. Phil stated his belief that if entities come to the state for financing and are asking taxpayers statewide to finance a project, that local water rates showing significant local effort need to be part of the conversation.

Jon asked where he believes the basic level of use cutoff should be, and Phil referenced a chart that was distributed. Laura mentioned measures of affordability and that guidelines by the USEPA may not be a great way to assess affordability.

Phil shared concerns with relying heavily impact fees to pay for water, and spoke about price elasticity. Richard Bay also shared his concerns with water rate structures.

The Board discussed tiered rates and base fee structures, including a desire to understand the best rate setting practices, and a breakpoint for the base and other rate tiers. Treasurer Damschen stated that we may need more analysis, and that he would like to know which entities have best composite practices.

Phil spoke to the idea of a recommendation of setting water rates of rapidly growing cities seeking state funding, to set their rates at or above the top 25% of rates within the state, with a minimum level of per-gallon use exempted. The board discussed the concept.

Jon suggested delaying action on the item until a future agenda.

Eric stated that there are specialists in setting rates, that legal considerations and conservation requirements should also be considered. Phil suggests that a legal representative visit the Board to discuss legal challenges.

Juliette moved that the Board continue to study and bring in additional expertise and that rate structures should take into account revenue sufficiency and conservation goals. The Board unanimously approved the motion 7-0.

The Treasurer moved to adjourn the meeting. The Board unanimously approved the motion 7-0.

The meeting adjourned at 12:44 pm.