

# MINUTES OF THE EXECUTIVE WATER FINANCE BOARD

Friday, March 23, 2018

9:00 a.m.

Washington County Water Conservancy District

533 E Waterworks Drive, St. George, UT 84770

## Members Present:

Phil Dean, Chair

Juliette Tennert

Jon Bronson

Laura Briefer

Evan Curtis

Eric Millis

David Damschen

## Staff Present:

Miranda Jones, Finance Specialist

## 1. Call to Order

Chair Phil Dean called the meeting to order at 9:07 A.M.

### a. Introduction

Phil welcomed visitors and asked Eric Millis to give a project timeline for the Lake Powell Pipeline project.

## 2. Lake Powell Pipeline, Project Timeline

Eric Millis noted that the Lake Powell Pipeline project is in the National Environmental Policy Act (NEPA) process and explained that the Federal Energy Regulatory Commission (FERC) is continuing to review the project. Eric indicated that the division of water resources anticipates that it would have licenses and record of decision by FERC by roughly 2020 and likely at the earliest construction could begin by around 2023, with possible completion of the project by 2028.

Phil asked Eric when an updated project cost estimate could be completed after FERC approvals provide more certainty as to the remaining aspects of the process, as the existing project cost estimates range widely from \$1.2 to \$1.8 billion. Eric responded that this cost estimate range represents 2015 estimates and that once the environmental process is complete in future years and the division receives regulatory approvals from the federal government, there would be a more precise and updated cost estimate.

Eric also mentioned that all 22 items of the FERC assessments are complete to this point.

Treasurer Damschen noted that a project of this size along with other critical infrastructure needs of the state could potentially impact the state's credit rating, but noted that the state plays a critical role in financing. He also explained the process for selecting a government entity's municipal advisor (Zions Public Finance for the state), and also introduced Ruth Pan from Goldman Sachs, who is not the state's municipal advisor but is providing general background information on WIFIA to the board.

### **3. Water Infrastructure Financing Innovation Act (WIFIA)**

The Treasurer introduced the federal Water Infrastructure Finance and Innovation Act (WIFIA) by giving a brief overview, noting that it was modeled after the federal Transportation Infrastructure Finance and Innovation Act (TIFIA) and that in 2016 \$20 million was provided to the program, which provides a much larger potential loan amount. He also mentioned that President Trump has since recommended \$14 billion in funding for the WIFIA program, which, if funded, would provide in the range of \$200 billion in potential loans.

Ruth Pan from Goldman Sachs presented and mentioned that the Lake Powell Pipeline aligns well with eligibility requirements for WIFIA. She noted that the potential federal loan amount would be 49% of all eligible costs, including construction, land acquisition, etc. However, there must be dedicated revenues for the repayment of the WIFIA loan.

Ruth mentioned that the financing is federally-subsidized with a locked interest rate. Payments can be deferred for up to five years, and can be prepaid at no additional penalty. She also noted that there could be up to a 40-year financing at low interest rates, and no interest costs during the time of construction.

Ruth also talked about the process of applying for WIFIA. This process includes a letter of intent which, when approved, would allow an application to be submitted. Ruth and Jon Bronson mentioned that there would be time within the next several years to submit a letter of intent and begin an application, and that a financing plan needs to be in place for the application.

Laura Briefer asked if state or local entities apply for the loan, and Jon Bronson noted that the local entity would apply for WIFIA.

Ruth also mentioned that WIFIA will not currently split loans into multiple revenue sources, emphasizing that the 49% of the project loaned would need to be given through a single revenue source, although there are discussions to amend this requirement to look holistically at projects.

Ruth also mentioned a separate Infrastructure Incentives Program, which includes federal grants, and not repayment loans.

In discussing the length of a potential state bond for the project, Phil Dean indicated that a repayment over 20 years would be the longest general obligation bond issuance constitutionally permissible and that it would be a longer bond term than existing and historic state bonds, which have been issued for 7, 10, or 15 years.

Jon mentioned that in coordinating potential WIFIA, state financing, and local financing for the project, the state would still issue general obligation bonds, and local districts would need to issue a senior lien revenue bond, which can be a comparatively more expensive financing piece. He also mentioned that WIFIA's rate is just as good as what the state's interest rate would be, and that it may be difficult for local agencies to bond based on revenues dependent upon growth, such as impact fees, because the private markets see significant risk in relying on growth-based revenues.

Phil discussed what bonds would count against the state debt limit, and what alternatives exist for the state to insure or guarantee a Washington County bond as a means to minimize the state's direct debt.

Treasurer Damschen responded by stating that an outright guarantee would need a constitutional amendment, although other alternatives may exist. He mentioned that the state should seek to minimize overall general obligation debt while meeting state needs.

Representative Mike Noel commented about prioritizing water infrastructure against other infrastructure in the state, to which Treasurer Damschen responded that prioritization is ultimately up to the legislature.

Laura Briefer reiterated resident concerns that one important aspect of how this project should be looked at is in terms of how it impacts individuals.

Jon commented on the WIFIA financing structure and stated that potential local revenue sources for WIFIA and a state loan would include impact fees, water rates, and property tax. Jon also clarified Ruth's point that WIFIA would currently only fund based on one revenue source, but that there may be changes made in the future that might look to financing levels being based on multiple revenue sources.

Phil Dean opened up the public comment period.

Marian Baxter asked who sets growth/impact fees and rates.

Marri Karshowitz from the Southern Utah Home Builders Association raised concerns of impact fees for homebuilders.

Rich Kop asked why self-sustaining areas, or towns in Kane County that will not receive water, should have to pay for water they do not need.

#### **4. Washington County Water Conservancy District Presentation**

Ron Thompson of Washington County Water Conservancy District introduced the district's advisor, Jeremy Aguero.

Jeremy indicated that estimates and assumptions are evolving and will change over time. Because of that, it is difficult to pin down an exact individual or per capita cost to residents at this point of the process.

Jeremy noted the fast growth in Washington County, referencing business growth, population growth, unemployment rates, and other indicators.

He also noted that we cannot always control the level of population growth, and commented on prior state projections of population growth. He noted that artificially interrupting growth could be problematic and said he anticipates population growth to continue.

Jeremy also addressed local water demand, stating that the area does not have exorbitant use as many may claim. He notes that conservation efforts could be double-counted in price elasticity.

Jeremy showed projections of future increase in population and how water supply by new development from sources other than the Lake Powell Pipeline would account for growth of about 12%. Phil noted a time discrepancy in the slide and a resident asked if there will be a natural cap on growth. Jeremy indicated that currently-developed water resources will outpace demand.

Jeremy indicated that the finish date of the pipeline would be around 2030. Phil asked about the project water needs assessment being publicly accessible, for transparency about current assumptions related to the project.

Jeremy stated that conservation and other planning can impact the need for future water, but not fully solve the need by itself.

Mr. Agüero suggested a funding structure for loan repayment of 75% impact fees, 15% water rates, and 10% property taxes. He discussed each of these in terms of a typical household. He stated that between these funding sources there will be a \$5.0 billion in potential revenue for the pipeline and for other future projects. He also showed various rate structures and indicated his view that an increase in water rates and property taxes for the project will not be overwhelming for individuals, and recommended a multifaceted approach to funding project repayment.

Phil Dean raised an issue with a slide showing projections of long-term future sales tax and income tax growth, which assumes that sales tax growth paces with economic growth. He indicated that the sales tax base is declining relative to the economy in recent decades, so sales tax revenues do not typically pace with the economy. He also noted that there are significant costs associated with growth that have to be covered by those sales tax and income tax revenues. Representative Noel also mentioned that the sales tax base issue needs to be addressed.

Phil Dean noted that there will continue to be significant infrastructure costs at the state level. The board discussed the financing and funding of other projects, and Phil mentioned the state revolving loan fund.

Phil opened up the discussion to a public comment period.

Ralph Staheli, long-time resident mentioned that there could be potential other water sources to use instead of the pipeline. He is not supportive.

A resident from Apple Valley asked what percentage of the pipeline water goes toward Washington County and how many people it would support.

A resident from Rockville asked about increased demand of water associated with tourists and tourism growth. She also asked for more detail about where all the water will go in terms of smaller communities.

Karl Larson raised concerns about Warner Valley and mentioned that he is worried about the potential developments. He called for greater conservation and smart water use.

Tom Butine mentioned that there is not an independent study of water supply and conservation, and asks for a forum to discuss the details to verify these numbers. Phil also supported having full transparency in the data and cost information, so that people have reliable information as the project is considered.

Zac Frankel from the Utah Rivers Council cited the America Water Works Association and how there is too much development and construction of water projects. He also mentions that it would be important to maintain Utah's AAA bond rating. He also called for more time for citizens to engage, and questioned the validity of certain data pieces.

Phil agreed that further study and public comment should be given at future meetings.

Brett Burgess from the Home Builders Association raised issues related to tourist water use.

Phil recesses the board at 12:07 for a lunch break.

## **5. Lunch**

## **6. Water Cost and Infrastructure in Washington County**

Phil called the board to reconvene at 1:15 P.M.

Ron Thompson began his presentation by telling the board that he anticipates impact fees will pay for 75% of project costs. He also discussed the Regional Water Supply Agreement, which mandated various cities to implement tiered rates and landscaping ordinances.

Jon Bronson, Phil Dean, and Ron Thompson discussed the water rate structure.

Ron also discussed water metering within the county and explained that many smart meters for culinary, and some for secondary were being phased in and installed. Jon Bronson responded by asking if new hookups had required secondary meters.

Ron talked about water infrastructure repair and replacement funding, and mentioned that the district accumulated \$10.5 million for repair and replacement funding. He also mentioned John Valentine's bill from several years prior that removed caps for repair and replacement funding for conservancy district water infrastructure. He stated that funding is set aside every year to fund this liability of the aging infrastructure.

Phil mentioned that this is a topic that the board should continue to study at future meetings.

Mayor Hart of Ivins mentioned that repair and replacement needs to also be built into future projections.

Phil asked if there are state-level constraints, either perceived or actual, on how much local entities can allocate to repair and replacement funding.

## **7. Water Rate Data**

Phil showed current water rates for various Utah cities, with rates in Washington County generally falling on the lower end of water rates in the state. He stated that he is in favor of using market-oriented solutions when it comes to paying for water.

Phil called for a local commitment to show willingness to support the pipeline project through robust local water rates. He noted that the proposed repayment structure is highly reliant on impact fees, and asked about repayment if growth doesn't occur exactly as anticipated. He also mentioned that impact fees impact the pace of development and do not have a direct relationship with water use like water rates do.

Laura Briefer also discussed repair and replacement funding, stating that Salt Lake City has a capital asset program looking 10-15 years out.

Mayor Hart mentioned that the legislature could authorize specific repair and replacement funding guidelines.

Mike Noel expressed his appreciation for Ron Thompson and his leadership.

John Pike, St. George City Mayor addressed repair and replacement funding. He stated that the city does not necessarily feel hampered to put away the funding but that the commitment needs to increase.

Phil Dean mentioned that repair and replacement funding would likely be on the May or April EWFB committee agenda.

Jon Bronson mentioned that impact fees should be spent within six years under current law.

Laura Briefer mentioned that repair and replacement efforts need to be part of a continuous education with public and elected officials. She also noted that it is essential for basic water use to stay at an affordable rate.

A resident expressed that user fees should be representative of demand.

Mayor Hart is concerned that those who are already residents will foot growth costs.

David Kilpak asked if quagga mussels have been considered in cost estimates. Eric Millis responded about quagga mussel containment in the cost estimate.

Another resident asked about concerns with not having the board meet often enough in St. George. He also mentioned dropping water levels in Lake Powell. Eric Millis addressed his concerns.

Residents and Eric Millis discussed the state's allocation of the Colorado River water.

## **8. Planning and Water Use**

Candice Hassenyager from the Division of Water Resources gave an overview of the Department of Natural Resources (DNR) and the vision of the department in water planning. She mentioned the 2015 legislative water audit and indicated that data accuracy has improved since the 2015 audit.

Some of the ways the division has addressed the data concerns are with a revised data portal, specific review efforts at minimizing error, and improved coordination between the department's Division of Water Resources and Division of Water Rights.

Candice presented preliminary 2015 data on gallons per capita per day (gpcd) potable and secondary water. She also talked about efforts to develop a scenario-based water demand model and updated the board on a state water plan, including transparent online water data.

A resident asked if there would be any supply data analyzed in the future. The mayor of Ivins expressed concerns with data comparisons.

Dirk Clayson from Kane County mentioned that he would like DNR to look at residential water GPCD and Mike Noel expressed concerns with rural communities' water.

Todd Adams from DNR noted that 1/3 of municipal and industrial (M&I) water use is secondary water.

Phil echoed that the more granular the data the better for making decisions about water strategy.

## **9. Population Projections**

Juliette Tennert gave an overview of state population projections from the Kem C. Gardner Policy Institute at the University of Utah, where she works.

Juliette noted that the Census has recently ranked Washington County as the fastest growing county in the nation. She explained how the Gardner Institute provided county-level high and low economic and demographic projections and gave a low-baseline and high-baseline projection assuming different scenarios.

Juliette also explained that there is more intense in-migration in Washington County compared to other locations in the state.

Dave Clark commended the State of Utah for its fiscal management and noted that the county needs more than a single water source.

Phil adjourned the meeting at 4:24 P.M.