

# DRAFT MINUTES OF THE EXECUTIVE WATER FINANCE BOARD

Wednesday, June 13, 2018

9:00 a.m.

Utah State Capitol, Room 445, 350 N. State Street

## Members Present:

Phil Dean, Chair

Jon Bronson

Laura Briefer

Evan Curtis

Eric Millis

## Members Absent:

Juliette Tennert

## Staff Present:

Miranda Jones, Finance Specialist

## 1. Call to Order

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

### a. Approval of minutes

Phil Dean noted that the minutes from the May meeting would be approved at the July 17<sup>th</sup> board meeting.

### b. Other Administrative Matters

Todd Adams from the Division of Water Resources talked about the next state water strategy plan and noted that individuals could submit recommendations via [water.utah.gov/swpoutline.html](http://water.utah.gov/swpoutline.html)

## 2. Washington County Water Conservancy District

Ron Thompson, manager of Washington County Water Conservancy District talked about the anticipated timeline of the Lake Powell Pipeline, including the federal approval process. Ron also mentioned other planned WCWCD water supply projects such as the Ash Creek Pipeline, the Sand Hollow Recharge and Recovery project, as well as others.

Ron referred to the Lake Powell Pipeline Water Needs Assessment and introduced Jeremy Aguero.

Jeremy Aguero, Scott Leavitt, and Chris Drury from Applied Analysis made a presentation entitled Economic and Fiscal Implications of Water Policy in Washington County.

Jeremy reviewed the March 23<sup>rd</sup> meeting in Washington County and stated the Division of Water Resources had recently put out updated estimates of per capita water use.

Jeremy stated that Washington County's assumed estimate of price elasticity of demand was roughly similar to the study given by the University of Utah professors that presented at the previous meeting, with a midpoint estimate of -0.51. Jeremy indicated that price elasticity estimates had been included in all analysis since 2016.

Jeremy noted that Chair Dean had asked him to focus on several questions relative to Washington County's water supply. Jeremy addressed the assumptions and sensitivities relative to WCWCD supply and demand models including: population growth through 2060, balancing water supply with demand, decreased demand and increased conservation from higher water prices, the need for additional water supply, and additional funding to build the Lake Powell Pipeline.

Jeremy addressed what drought conditions might look like if existing water supplies proved less robust than anticipated, the revenue-generating capacity of the district considering price elasticity and conservation, noting the impacts inflation may have on impact fees, impacts if changes to the Lake Powell Pipeline Act were to occur, and what would happen if population growth were faster or slower than expected.

Jeremy then gave state bonding and repayment scenarios, with estimated debt service at \$136 million annually for a \$1.5 billion project, an assumed 15-year loan term and 4.0% interest rate. Jeremy discussed the state and local role in the potential financing scenarios.

Jeremy discussed concerns with the reports provided by University of Utah economics professors, stating his view that the professors used an inaccurate wholesale price of water, which is lower than what users actually pay. Jeremy raised concerns with their methodology and stated his view that this led to flawed calculations under their model.

Phil noted that all parties may not agree on conclusions, but that the goal from this meeting is to better understand the different models' assumptions, especially with the state undertaking an independently-contracted elasticity study.

Phil asked a question regarding retail and wholesale rate changes. Jon Bronson also asked various questions to Jeremy Aguero regarding his model assumptions.

Laura Briefer asked if the financing model addresses intergenerational equity.

Phil raised the issue of buffers, noting that sometimes buffers are more than needed when there are unseen local buffers rather than a seen aggregate buffer. He indicated a desire to identify the range of water management buffers that are available.

Jeremy noted an updated slide with clarification from a prior meeting.

### **3. Gabriel Lozada – University of Utah**

Gabriel Lozada, an Economics Professor from the University of Utah, presented on the model used by University of Utah professors in their analysis of the proposed Lake Powell Pipeline. Gabriel noted the inputs for repayment as property taxes, real estate, impact fees, debt service and water sales.

Gabriel noted that the analysis uses real, not nominal dollars, like the WCWCD. He also stated that impact fees would decrease land value and impact current residents more than it would new residents.

Gabriel addressed criticisms from a recent KUER podcast. Gabriel stated that he used the Governor's population projections, and discussed the relationship between retail and wholesale prices.

He provided criticisms of Washington County's price elasticity model, including that they did not take interest or operations and maintenance funding into account, omits reimbursement of interest payments to the state, and does not account for demand curves.

Gabriel also noted concerns about agricultural water use and the proportion of the state's water use that it makes up. He also mentioned the idea of a policy change to compensate hay farmers to not farm. Gabriel then talked about the differences in water conservation in rural vs. urban areas.

Jon Bronson raised the concern that when it comes to consumer behavior, retail not wholesale price seems more appropriate. Jon, Gabriel, and Phil continued to discuss retail vs. wholesale rates.

Phil mentioned that he would like to see a more robust discussion regarding the state's opportunity cost when bonding and how that would be incorporated into a repayment interest rate.

Jon Bronson asked questions regarding potential conflicts of interest. Gabriel Lozada noted that he does not have a financial stake and has not been paid for his research. He mentioned Gail Blattenberger's background and research involvement with water.

Laura Briefer mentioned that she would like to see the analysis include rate structures. Phil mentioned that these models will be studied.

Treasurer Damschen noted that there are not the same assumptions across the board and noted that groups should ideally be able to come together and create a consensus model.

#### **4. Property Taxes – Gary Cornia**

Gary Cornia, former Professor and Dean of the BYU Marriott School of Management and President of the National Tax Association, presented to the board on property taxes, impact fees, and user fees as it relates to the Lake Powell Pipeline.

Gary stated that tax capitalization and subsidized prices are the two greatest public policy challenges faced in financing a water project, noting the misalignment of goods and services with property taxes, leading to tax capitalization where the value of the property drops from where it would otherwise be, reflecting the property tax increases.

Gary used a basic supply and demand curve to demonstrate that when water use is subsidized by taxes such as the property tax, this will lower prices perceived by water users and increase the quantity of water demanded, creating an inefficient outcome as marginal costs exceed the marginal benefit.

Gary also noted that user fees, or charges, reflect standard economic theory and are a market-based solution to balance supply and demand for water. He indicated that user fees fully inform consumers, allowing them to make choices about water use. Reduced reliance on the property tax for water, which can be funded by user fees, would allow more freedom to use the property tax to fund K-12 education.

Gary discussed impact fees, stating that they create an intergenerational transfer of wealth and that in exclusive and high-end areas, buyers may share more of the fee burden, and explained that market-driven allocation of water and that marginal cost pricing is key to efficiency. Regarding price elasticity, he noted that elasticities may differ at different times of the year, as well as changing between the short-run and long-run time periods.

Gary concluded by noting the population pressure that will certainly occur in Washington County. Tax subsidization of water projects creates inefficient outcomes, property tax creates inequities, and impact fees internalize the costs and benefits of water infrastructure on current property owners.

Jon Bronson addressed Mr. Cornia's comments, stating that historically whenever there is a large expansion of a water project, that there has been a property tax aspect to it. Mr. Cornia replied by noting that there are various ways to make revenue bonds attractive. Phil asked why the bond market wouldn't rely on future impact fees for a revenue bond, noting that the market is reluctant to bear risk that development will not occur, and that the state would assume this risk that markets may be unwilling to bear.

Phil indicated that even though the State of Utah does not collect a property tax to pay its bonds, it pledges to impose the property tax if other revenue sources are insufficient to pay bonds. Phil asked if local governments can similarly issue general obligation bonds with a property tax pledge, but using other revenue sources for repayment.

Phil mentioned the need for transparency with taxpayers statewide if the State of Utah is assuming financial risks that the private market is not willing to take on. He also indicated that he assumes that most residents are likely not aware that property tax capitalization is taking place, and that they are likely not aware of the true burden of impact fees. Addressing the difficulty of local water rate increases for local elected officials, Phil also mentioned that statewide tax increases are hard for state policymakers, and that the state may need to consider which tax increases it plans to impose if it is going to take on a significantly expanded role in water development projects.

## **5. Public Comment**

Zac Frankel from the Utah Rivers Council stated that he believes project opponents are given less time to speak than proponents of the Lake Powell Pipeline. He noted that Fitch's bond rating stated that Washington County had adequate water supply. He also noted institutions that are exempt from property tax, and also stated that he would like the opportunity to speak to the board himself at a future meeting.

Nick Schou from the Rivers Council also spoke and stated that Washington County denied a GRAMA request from the council to see their economic model, and that DNR also denied the Council's water data GRAMA request.

## **6. Other Items / Adjourn**

Phil concluded the meeting by stating his concerns about ensuring transparency and that if the state does finance a major water development project, that both those who will be burdened with repayment and state taxpayers who finance the project up front should have clarity as to the financial consequences of the project and loan repayment terms.

Treasurer Damschen moved to adjourn the meeting at 12:49 PM. The motion passed unanimously.