

MINUTES OF THE EXECUTIVE WATER FINANCE BOARD

Monday, September 17, 2018

9:00 a.m.

Dixie State University, 225 S 700 E, St. George, UT

Gardner Conference Center Room B

Members Present:

Phil Dean, Chairman

Jon Bronson

Laura Briefer

Evan Curtis

Eric Millis

David Damschen

Members Absent:

Juliette Tennert

Staff Present:

Miranda Jones, Finance Specialist

1. Call to Order

Chair Phil Dean called the meeting to order at about 9:10 A.M.

President Williams of Dixie State University welcomed the board to campus, and the board introduced themselves to the public. Phil excused Juliette Tennert.

a. Approval of minutes

Phil Dean noted that the minutes from the July meeting would be approved at a future meeting.

2. Water Use and Water Use Data

Evan Curtis, State Planning Coordinator, shared various comparisons of second homes by county within the state. He noted that second homes tend to have smaller lots size and less vegetation than primary residences. Phil Dean asked a clarifying question about the data.

Brie Thompson, Associate General Manager from Washington County Water Conservancy District, presented data regarding water use in Washington County, including second homes. Brie discussed the percentage of homes that were second homes, and how water use for second homes compares to primary residence water use.

Phil asked about the water running in multiple locations on the DSU campus and if it was brackish water. Ron Thompson responded. The board discussed potable water, secondary water, and asked Brie what percentage of total water use was commercial and industrial. Laura asked what the commercial and industrial use was, and how it contributes to peak demand on the water system.

Brie shared available information about various types of institutional water use, including metered and unmetered water use. Phil asked about the unmetered water use not included in the information

presented and Brie responded about providing aggregate unmetered use where detailed use data was not available.

Robert Amoroso, a resident of Washington county asked a question regarding water parks and splash pads.

Phil noted that the board should be considering the relationship between water use and economic growth. He shared national data showing the relationship between water use and GDP in different sectors. He also shared data of GDP in the Washington County area by NAICS code classification and indicated that we should know the growing economic sectors to understand the water use demands of economic growth.

Nadene Barish, Washington county resident, asked why we don't ban turf for new developments.

3. Water Supply

Lisa Rutherford, Conserve Southwest Utah, explained the background and organization of Conserve Southwest Utah. She explained their concerns about the financial risk of overallocation of Colorado River water, water quality (including quagga mussels), conservation (cheaper methods not considered), and inadequate planning.

Lisa discussed how the state's official population projections have decreased from what they once were projected to be. She notes that water supply numbers have changed over time and discussed data accuracy issues. She also discussed why she believes there to be excessive water use in Washington County.

Lisa referenced a Local Waters Alternative study from Western Resource Advocates, which recommends increasing water supply by implementing conservation rate structures, metering and reporting secondary water, implementing smart growth principles, and embedding water efficiency in new developments.

Lisa also explained the various water supplies in the county, stating that various water supply opportunities in the county should be taken advantage of, including the Virgin River below the La Verkin hot springs, recognizing that problems would have to be resolved. She also mentioned Warner Valley reservoir.

Lisa also mentioned information from a Fitch bond rating report, reporting that the county has ample water supply. Jon Bronson stated that we should invite a bond-rating agency to a meeting to clarify. Lisa stated that Conserve Southwest Utah believes that repair and replacement should be funded before new infrastructure.

Laura Briefer asked a question about groundwater resources and the Sand Hollow aquifer. She also asked about agricultural water conversion. Jon asked what the right amount is to draw down from Sand Hollow each year, and Laura mentioned a study regarding sustainable yield.

Phil wanted to know what the cost would be to get more connection-level meters for institutional water users that do not currently meter water at the connection level. Phil and Lisa discussed using accurate water data for decision-making.

Collin Weiss mentioned that Saratoga Springs installed a water-metering systems five years ago and cut back water consumption by 30%.

Robert Ford noted that he lives in the Zion corridor and does not receive his water from the conservancy district. He had questions on who would pay for the pipeline and if he would have to pay property tax for a project he did not directly benefit from.

A resident raised concern with the impact on downstream water users.

Resident Nadene Barish noted that the ultimate goal should be conservation.

Another resident spoke about recharging aquifers.

Ron Thompson, General Manager of the Washington County Water Conservancy District spoke to the board about various water supplies in Washington County. He stated that most, if not all water managers are on board with water metering, but noted that the cost of retrofitting systems is very expensive. Phil asked if institutional water meters would be more expensive than a residential meter, and Ron confirmed. Jon Bronson asked if new developments are required to have meter water, including secondary water.

Ron talked about water supply planning and his view that proposed alternative water supply options do not make sense to utilize. Ron stated that the La Verkin hot springs dump tons of salt into the river water and would require reverse osmosis treatment. He also stated that the Virgin River has no new allocations and that there are limited storage/reservoir areas. Ron stated that the Navajo Sandstone Aquifer is over-appropriated.

Ron also talked about the availability of off-stream reservoirs and the right to deplete and convert water. Jon Bronson asked a clarifying question.

Ron also explained the large cost associated with reverse osmosis treatment of water. Jon asked questions about the cost and Ron replied that living inland makes treatment more difficult, and costly.

Laura echoed a comment and asked if Lake Powell is a reliable source, as Utah is one of many states with an allocation from the Colorado River. Ron explained that the purpose of Lake Powell was to ensure that those in the upper basin can use water. Jon asked what would happen to Lake Mead if we built the pipeline, and Ron replied that each year we are sending them much more water than the lower states should be allocated. Eric explained the history behind the Colorado River Compact.

Ron Thompson spoke about different local water alternatives. He addressed the Western Resource Advocates proposal, stating that pursuing other infrastructure, and water use reductions would cost \$100 million dollars more than building the pipeline. He noted that the county can improve in conservation. Karry Rathje informed the board that reverse osmosis only brings in additional irrigation water. Phil asked if there are cost estimates for reverse osmosis.

Jon Fredell, project manager of the Lake Powell Pipeline, stated that water conservation programs would cost \$1.28 billion dollars. Phil asked for additional detail on how that estimate was derived. Phil stated that proper pricing could be used instead of command and control measures. Jon Bronson

then asked Lisa if the study only included agricultural conversion. Lisa responded and suggested the board read the study for additional detail.

4. Public Comment

Robert Ford, a resident of Rockville mentioned Lake Mead issues and if we will be able to keep our full allocation of Colorado River water. He also spoke about groundwater recharge and what could be done to improve that.

Bob Amoroso stated that Utah is the second driest state, but not in terms of water use. He stated that he completed a financial analysis of the pipeline, stating it would be far more expensive than currently estimated.

Nick Schou from the Utah Rivers Council said that Washington County does little in terms of conservation compared to other southwest states. He mentioned discrepancies with numbers the water district reported, and concluded by stating that it is an unbelievably risky water supply, assuming the allowable appropriations will decrease.

Phil asked Eric to speak to the topic of updating FERC with the latest water use data. Jon Fredell and Eric Millis provided information about where they are currently in the process and when information is updated.

Resident Collin Weiss asked Mr. Thompson if it truly took billions of dollars to re-landscape. He stated his disbelief that the LPP is a viable source for water.

Scott Plumber from Santa Clara believed that there must be more available water in the system.

Patrick Barickman asked that the board set up a clearinghouse for water data as he finds it difficult to find proper data and reporting. Karry Rathje pointed him to some resources.

Burle Suthard from Bloomington Hills spoke about his water bill and average monthly use.

Wayne Romprey outlined his problems with the cost of the pipeline and noted how figures have changed.

Roger Roos from Ivins mentioned growth and that it is often seen as inevitable. He believes restrictions on growth should be made.

Richard Kohler talked about the \$1.3 billion conservation number mentioned in the discussion.

Lisa Rutherford stated that the cost of the pipeline being spoken of is \$2.5 billion dollars and noted that the energy components have not been fully looked into. She recommended the board look at the costs of the pumped storage project.

Gordon Poppitt suggested that the board read a study he provided from the Colorado River group. He also asked if the state would carry out the financing of the project.

Phil Dean called for recess of the meeting for lunch and asked to resume at 1:50 P.M.

5. Lunch / Recess

The board reconvened at 2:05 P.M.

Eric Millis presented to the board about water allocations of Lake Powell and Lake Mead. Eric talked about normal inflow into Lake Mead. Phil and Eric discussed Utah's Colorado River water right, which Eric indicated was secure.

6. Considerations in State Financing of Lake Powell Pipeline Project

Treasurer Damschen stated Jon Bronson's role as municipal advisor to the state and clarified a municipal advisor's responsibilities.

Jon Bronson discussed water revenue bonds and the technical aspects of market financing. Jon provided and explained two hypothetical financing scenarios. The first scenario would be issued by a local water district to deliver \$300 million in construction proceeds. It would have a 30-year amortization with level debt service using 5.0% coupons. The second scenario was the same as scenario one, except for the debt would be guaranteed by the state's AAA bond rating.

Phil noted he asked Jon to provide the analysis to understand differing scenarios and the respective true interest cost for the issue. Jon discussed the process of bond issuance and sale. Phil asked what challenges an entity may face when they go the bond market if their revenue depends heavily on future growth. Jon explained how the market deals with growth factors, and relies on current revenue streams, not projected growth.

Phil provided a handout for the board showing the language of the Lake Powell Pipeline Act, and spoke to various aspects the Lake Powell Pipeline Act. He noted that at least 70% of the water (and related repayments to the state) needed to be contracted for prior to construction beginning. Phil mentioned the remaining 30% of water allocations (and related repayments to the state) are open-ended, with a 50-year repayment after whenever the water was actually taken. He noted the language in the Lake Powell Pipeline Act calling for a 'reasonable interest rate'.

Jeremy Aguero from the Washington County Water Conservancy District made himself available to respond to questions related to his presentations in previous board meetings.

Phil asked Jeremy to discuss the composition of the \$400 million that the District indicated it is able to pay upfront as a down payment for the project. Jeremy addressed the issue and indicated that they plan to primarily utilize impact fees to pay the amount.

Phil asked Jeremy to review interest rate schedules, which assumed a zero percent interest rate on the state's full costs. Jeremy showed slides from the June 2018 board meeting and the district's repayment proposal. He stated that the district would pay back the state's cost in nominal terms. Phil commented that there is a major subsidy with a zero percent interest rate if you view the plan in terms of real dollars. Phil then stated that we should be transparent if the state is subsidizing or is not subsidizing the project because the project is often discussed as not being subsidized.

Jon Bronson showed an analysis of the historic interest rate on the PTIF (Public Treasurers Investment Fund) from 1998 – 2018.

Laura Briefer asked what a takedown commitment would mean for the municipal customer and if there would need to be annual rate increases. Jeremy noted that the District's repayment proposal is that 75% of the takedown would be paid by impact fees, 15% would be covered by water rate increases, and 10% by property tax increases. Jeremy also spoke to the issue of intergenerational equity.

Phil discussed the proposed payback plan and potential implications of a zero percent interest rate for repayment. Board members discussed what would happen if population growth didn't occur as projected. Phil mentioned his concerns with relying so heavily on impact fees, as they are volatile and tend to follow economic cycles.

Ron Thompson mentioned a rainy-day stabilization fund which they hope to be 5X the district's debt service.

Eric Millis spoke to the roughly \$37 million in state costs already incurred for the LPP project. Eric indicated that 2008 through 2010 included the bulk of the environmental assessment costs to date.

Phil explained that in addition to the roughly \$40 million in sales tax currently allocated for major water projects, if the state were to initially assume the entire project cost by itself, the state would potentially have to cover \$80 - \$120 million in annual debt service (which can equate to one entire year of the state's General Fund revenue growth) through a tax increase or redirecting funds from education or transportation. Phil also stated that he supports the idea of minimizing statewide tax increases for the project through local participation like the \$400 million down payment from the conservancy district, and federal participation from WIFIA.

Phil described the current status of the state budget, noting a narrowing sales tax and gas tax base, and how tight money is in the state General Fund and Transportation funds. Phil discussed tax policy, with a recommended approach of a broad base and a low rate. Phil addressed how changes in transportation and untaxed services have and may continue to impact the future General Fund tax base, creating a tighter General Fund situation and creating the need to modernize the sales tax. Jon Bronson asked Phil about revenue the state will receive from online sales tax collections. Phil indicated that the increased revenue from remote sales was estimated to be fully offset by an enacted sales tax exemption for manufacturers.

Jon Bronson provided an update of the federal WIFIA process, stating that the pipeline fits well within the WIFIA program financing parameters. He indicated that WIFIA has received 43 letters of interest and 12 projects have been funded. Phil recalled from an earlier meeting that the state may currently be too early in the process to apply.

Senator Don Ipson spoke about the revolving loan fund and his belief that the project is a statewide project and that statute shouldn't be changed.

Dave Clark from Washington County Water Conservancy District provided the board with various references to water taxes in other states to follow up on a comment at a prior board meeting. He shared information about state funding for water. Dave Clark discussed intergenerational equity and addressed state subsidies for the project. Dave stated that there is no use of the term opportunity cost in the Lake Powell Pipeline Act, and that the LFA states that it does not measure opportunity cost in fiscal notes.

Phil indicated that the Lake Powell Pipeline Act uses the term "reasonable interest rate" and that opportunity cost was used in that context. He indicated that what the conservancy district had presented with a zero percent interest rate did not account the state's opportunity cost for state repayment in future deflated dollars, which amounts to a state subsidy for the project.

Phil and Dave continued to address opportunity costs, subsidies, and the extent of state repayment.

7. Public Comment

Lisa Rutherford thanked the board for their due diligence and reminded them that the cost of the pipeline has increased significantly since when it originally was passed. She was also curious if we are bumping up against the state's constitutional debt limit.

Mayor Chris Hart from Ivins Utah mentioned that he did not hear a discussion about the economic benefits of the pipeline to the state and ask that the board further include that in the discussion moving forward. Phil mentioned that this topic had been presented by the conservancy district in a previous meeting in Salt Lake.

Tani Pack discussed 'history' 'culture' and 'intention' saying that she believes these are changing and that she is upset with the rhetoric local leaders are using.

Warren Wright mentioned a 20-year-old article and proposed that the pipeline be a public private partnership.

Clark Faucett from Hurricane City believed that as we look forward we should be thankful for individuals that took risks in constructing the very first water projects.

Gordon Poppitt continued to speak about the Colorado River study and asked Jon Bronson a few questions about bonding.

Nick Schou from the Utah Rivers Council asked about the independent validation of financial information and costs. He believes that the total cost of the pipeline may have changed since the initial cost estimate.

Mari Krashowitz from the Home Builders Association commented that they are in support of the pipeline, and that they understand growth is imperative to the area. However, she also expressed concerns with housing affordability and the increasing costs of impact fees.

Troy Belliston asked the board to look at the negative costs that a lack of water would force on the community.

Lisa Rutherford spoke again and clarified a point she made in her presentation.

Travis Segmiller, State Representative House District 62, thanked the board for their work and noted that the day was Constitution Day. He expressed is gratitude that the board and public are able to meet in such a forum and recommended that all try to put aside biases to achieve the best outcome.

Responding to an earlier comment, Treasurer Damschen clarified that light rail and other projects in Northern Utah have not historically been funded with statewide taxpayer dollars, but were paid for locally. He also noted that the state is at 50% of the state's constitutional debt limit. He also discussed the state subsidy with a zero percent interest rate. He indicated that we should be transparent about true costs to state and local taxpayers moving forward.

8. Other Items / Adjourn

Jon Bronson moved to adjourn the meeting at 5:45 P.M.