

**MINUTES OF THE
GUBERNATORIAL AND LEGISLATIVE TASK FORCE ON
ALTERNATIVE REVENUE SOURCES FOR WATER FUNDING**
Monday, August 12, 2002 – 2:00 p.m. – Room 405 State Capitol

Members Present:

Sen. Leonard M. Blackham, Senate Chair
Rep. David Ure, House Chair
Sen. Mike Dmitrich
Rep. James R. Gowans
Mr. Tage Flint
Ms. Natalie Gochnour
Mr. Bob Morgan
Ms. Dianne Nielson
Mr. Dave Ovard
Mr. Warren Petersen
Mr. Ron Thompson

Members Absent:

Mr. Joe Melling

Staff Present:

Mr. Brian Allred, Research Analyst
Ms. Jeanenne B. Larson, Associate General Counsel
Ms. Joy L. Miller, Legislative Secretary

Note: A list of others present and a copy of materials can be found at <http://www.image.le.state.ut.us/imaging/history.asp> or by contacting the committee secretary, Joy Miller, at 538-1032.

Chair Ure called the meeting to order at 2:10 p.m. Members of the task force introduced themselves and indicated whom they represent. Mr. Melling was excused from the meeting.

2. Review of Legislation Creating the Task Force

Mr. Brian Allred, Research Analyst, explained that the task force was created with seven voting members and five nonvoting members. The task force is to review and make recommendations for alternative revenue sources for water funding and to report those recommendations to the State Water Development Commission and to the Natural Resources, Agriculture, and Environment Interim Committee.

3. Overview of Proposed Task Force Guiding Principles

Governor Michael O. Leavitt distributed a list of guiding principles that he and the task force cochair developed. These guidelines include: commitment to water development, statewide interest, efficiency, conservation ethic, adherence to sound financial principles, wholeness of the General Fund, and innovation. He pointed out that 87 percent of Utah's water is used for agriculture. The remaining 13 percent is used for municipal and industrial purposes. As the state's population grows, it is imperative to develop and distribute water efficiently so resources are not wasted. He stressed the need to make water conservation a way of life. Over the next 25 years, the per person consumption of water will need to be reduced by 25 percent. Governor Leavitt said the development of water infrastructure must be financed in a manner consistent with widely accepted and well-proven principles of public finance. He noted that Utah has among the lowest water rates in the country yet per capita use is among the highest. Utah's per capita consumption and per gallon cost for culinary water ought to be comparable to states with similar climates. Governor Leavitt stated that it is important to gradually restore legislative flexibility with the use of the General Fund. Water development has been subsidized with sales tax dollars and to some extent property tax. He stated he did not currently support the elimination of using property tax for the use of

water development but questioned the use of sales tax to subsidize water development. He said the state should rely more on those who use the water to pay for the water.

MOTION: Sen. Dmitrich moved to accept the principles as outlined by the governor. The motion passed unanimously.

4. Review of Current Water Funding Programs and Projected Water Needs

Mr. Larry Anderson, DWR (Division of Water Resources), distributed information regarding DWR programs and projects. He said DWR operates three different water development programs. They are the Revolving Construction Fund which funds small water projects, the Conservation & Development Fund which funds large water projects, and the Cities Water Loan Fund which funds municipal water projects. The total construction money from all funds is \$22,583,000. Mr. Anderson indicated that since 1947 the DWR has received \$180 million in appropriations to fund water projects. The revolving payments of the funds has equaled \$350 million worth of projects the state has funded. He noted that local sponsors are required to provide matching funds. Mr. Anderson stated the DWR receives an average of 30 applications for projects per year. Since 1947 DWR has funded 1158 projects. He gave a brief summary of those projects. He stated that water projects over time have become more expensive. He stressed the need to consider building more storage reservoirs.

Mr. Kevin Brown, DDW (Division of Drinking Water), distributed a summary of information regarding the Drinking Water Loan Program. He said the program is managed by the Drinking Water Board. The state funded program began in 1983 and the 1/16 % sales tax provides \$4.2 million per year, less the recent cut of \$2.5 million. The federally funded program began in 1997 from which the state receives \$8.5 million per year. The federal program requires a 20 percent state match for which the 1/16 % sales tax is used. Mr. Brown noted that 33 percent of the DDW's operating budget is funded from the federal program. State funds can be used by political entities of the state and are more desirable because of less red tape than the federal program. Federal funds can be used by political entities and private water companies to help fund water infrastructure needs. Both state and federal program applications are screened to meet Safe Drinking Water Act requirements for source, treatment, storage tank, and distribution needs. Mr. Brown indicated that current and future needs for the program include helping systems produce new sources of water or redeveloping existing sources during drought, arsenic removal to meet new standards, new treatment and disinfection needs to meet new micro-biological contaminant removal standards, and to help utilities meet the replacement cycle for aging infrastructures. No funds are used to fund "new" development. He noted that the programs provide less than 10 percent of the overall water industry funding. Ratepayers or private banking arrangements cover the remainder of the financing. Mr. Brown explained that the amount available in the Utah Federal SRF (State Revolving Fund) Program is \$43 million. The Drinking Water Board has requested \$135 million to finance water projects.

Mr. Walt Baker, DWQ (Division of Water Quality), distributed a summary of the Utah Wastewater Project Financial Assistance Program. He stated that from 1972 to 1990, the EPA (Environmental Protection Agency) made grants to communities which were administered by the state. Approximately 2/3 or more of the wastewater infrastructure in the state was funded through the EPA grants. Much of

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the infrastructure from that time needs to be updated. Mr. Baker reviewed the SRF, State Loan Program, and the Hardship Grant Program. Approximately 2/3 of the Utah Wastewater Project Financial Assistance Program is funded with federal monies. Combined, there is approximately \$23 million annually which the program receives. However, it is subject to congressional appropriation. Mr. Baker indicated they prioritize all the projects. He reviewed those priorities with the task force and the types of projects that are funded. Terms of financing include: variable interest rate based upon ability to pay using median household income, variable repayment terms based upon ability to pay and useful life of project, and grants which are only considered when an economic hardship is created even with zero percent interest rates and it is imperative to solve a public health or water quality problem. Mr. Baker pointed out that the Year 2000 EPA Wastewater Needs Survey for Utah shows a need for \$793 million. Currently, pending applications for funding total \$59 million. He commented that the DWQ funds less than 15 percent of the wastewater needs in the state. The rest are funded through larger communities that have the ability to finance the projects.

Commissioner Cary Peterson, Department of Agriculture and Food, discussed the Agricultural Resource Development Loan Program. He said it has primarily been a conservation initiative to improve the efficiency of the delivery systems. It has done a tremendous amount of good in watershed development and in making private lands that produce water more productive. The program totals \$28 million.

Mr. Warren Petersen discussed the Community Impact Board which provides grants and loans. The source of money is the federal lease money. It is providing a great deal of money toward water development needs.

5. Discussion of Alternatives and Task Force Direction

Mr. Ron Thompson stated that the user and the taxpayer are the same person. He suggested researching what other states are doing since many other states are dealing with serious drought issues. It should be determined how much water is diverted and used for agriculture and how much is diverted and used for municipal purposes. He discussed the possibility of a surcharge and requested information on whether other states have imposed a surcharge on water users. He suggested the task force also discuss the social utility costs.

Ms. Natalie Gochnour pointed out that when agriculture is brought into the issue, it makes it much more complex. She asked that the information obtained from surrounding states include water rates, per capita consumption, source of funding, sales, property, rates, and state vs. local. She stated the neighboring states with similar climates should be researched.

Mr. Dave Ovard said the Jordan Valley Water Conservancy District will be doing a comprehensive review of its financial situation and addressing many issues that have been raised. A consultant has been hired for that purpose. Part of the review will include a representative study of all the major population areas in the west. They will try to determine the total cost of water including such issues as rates, taxes, and impact fees. The study concerning water rates is scheduled to be completed next March and would

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be available to the task force at that time. Mr. Ovard said they do have a partial study of the west that is immediately available.

Mr. Anderson pointed out that the Western States Water Council has collected data over the years on the issues that are being discussed. He suggested staff contact them to obtain copies of the information that has been gathered.

Sen. Blackham stated the task force should discuss conservation since it is an important part of what needs to be accomplished over the next several years. Personal conservation as well as market conservation should be studied. He said the high cost concerns municipal and industrial development. There is not a great deal of opportunity for development of new water in the state.

Mr. Ovard commented that growth numbers indicate there will be 70 percent more population in the state over the next 30 years. Over 80 percent of that will be natural increase. If the Governor's goal of reducing per capita water consumption by 25 percent could be met, it would save approximately 500,000 acre feet of water. It would also save \$1 billion in capital development costs over the next 30 years.

Mr. Petersen indicated that defining conservation may be a complicated issue. He stated that conservation education will pay some big dividends in the future.

Mr. Ovard questioned if a mechanism could be created for the state to facilitate water loans without using the state's capital. He said the task force should also better define how property taxes are used.

Mr. Tage Flint stated water is a complex industry and the water representatives on the task force are all willing to be involved in a working group to help facilitate the process.

MOTION: Ms. Gochnour moved to appoint a subcommittee from the members of the task force representing the water community and Mr. Melling to determine and identify alternative revenue sources for water funding options for the task force to consider. The motion passed unanimously.

Mr. Bob Morgan stated some of the water divisions would be available to the subcommittee if needed.

Rep. Ure indicated that task force staff would work with the subcommittee. He appointed Mr. Ovard as chair of the working group.

6. Future Task Force Meeting Dates

Future meetings of the task force were scheduled for Friday, October 4 at 10:00 am. and Monday, October 21 at 10:00 a.m.

7. Other Items / Adjourn

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MOTION: Ms. Gochnour moved to adjourn the meeting. The motion passed unanimously. Chair Ure adjourned the meeting at 5:05 p.m.