

RESPONSES OF FOUR LARGEST WATER CONSERVANCY DISTRICTS
TO QUESTIONS POSED BY REVENUE AND TAXATION INTERIM COMMITTEE
CHAIRS REGARDING HOW WATER IS AND SHOULD BE PAID FOR,
FOR DISCUSSION AT JUNE 17, 2015, COMMITTEE MEETING

A. PAYING FOR WATER (paying all costs associated with providing water to consumers, including development, extraction, movement, delivery, purification and treatment, conservation, etc.)

Question 1. What funding mechanisms are used to pay for water? (i.e., charges for service and other fees, property taxes, sales taxes, impact fees, etc.)

Response of Four Largest Water Conservancy Districts:

- *Central Utah Water Conservancy District (CUWCD)*
- *Jordan Valley Water Conservancy District (JVWCD)*
- *Washington County Water Conservancy District (WCWCD)*
- *Weber Basin Water Conservancy District (WBWCD)*

In order to answer this question and subsequent questions, it is important to define the phrase “for water.” The range of water-related services that are provided by a water conservancy district include the following:

- *Delivering potable and secondary water to current water customers/users*
- *Managing and replacing aging infrastructure through a repair and replacement/capital asset management program*
- *Providing water-related “public good” value to communities*
- *Purchasing, developing, and financing future water supplies and water infrastructure*
- *Conducting water conservation programs and campaigns to reduce per person water use*

In funding the foregoing range of water-related services, the basic funding model for water conservancy districts has three revenue sources:

- *User charges*
- *Property tax*
- *Impact fees/capital assessments*

Miscellaneous other revenues, such as grant funds, sale of hydroelectric power and interest earnings are received by districts.

The following revenue sources for water apply to agencies other than water conservancy districts:

- *Utah Board of Water Resources – sales tax earmark (1/16th cent), legislative appropriations, loan payments and interest*

- *Water Improvement Districts and Metropolitan Water Districts - user charges, property taxes and capital charges*
- *Cities – user charges*

Question 2. Are there other revenue sources that are used to pay for water? (i.e., grants, interest, etc.)

Response of Water Conservancy Districts:

All water conservancy district revenues are applied to various aspects of their operations and in providing the wide range of water-related services listed in Question 1. These include occasional grants, interest income, hydroelectric power revenues, and other miscellaneous revenues. See the table in response to Question 6 for the magnitude of these other revenue sources.

Question 3. What are the pros and cons of the different funding mechanisms and revenue sources?

Response of Water Conservancy Districts:

- *Utah Board of Water Resources -Sales tax earmark*

Pros – Recognizes the role of water in supporting economic prosperity in Utah in proportion to the value of economic goods purchased.

Cons – The revenue stream is variable, based on economic cycles.

- *Utah Board of Water Resources - Legislative appropriations*

Pros – Good application of one-time funds for critical water infrastructure.

Cons – Variable, based on economic cycles and legislative priorities.

- *Utah Board of Water Resources – Loan payments and interest*

Pros – A revolving loan fund that grows with interest has benefitted many water agencies in Utah.

Cons -

- *Water Districts – User charges*

Pros – Pays operation and maintenance (O&M) costs in proportion to quantity of water used. Provides a price signal to water users for a limited natural resource.

Provides rate-generated capital from current water users to fund infrastructure and replacement capital projects.

Cons – Variable revenue for districts which have high percent of fixed costs. Some districts use a minimum purchase amount in their wholesale water delivery contracts, which provides a certain level of revenue stability from year to year.

- *Water Districts – Property taxes*

Pros – Property tax is a reliable, consistent source of revenue that enables each district to bond at the lowest possible interest rates. The financing made available through bonds funds new water supplies and infrastructure to support population and economic growth. Property taxes are deductible to the property owner on federal and state income tax returns, thus lowering the cost to the homeowner. Federal loans have been utilized to finance construction of large water projects in Utah, such as the Weber River Project, Provo River Project, Weber Basin Project, and Central Utah Project (CUP). This federal financing was obtained based on the ability to use property taxes for repayment commitments. In recent years, federal financing of large water projects has significantly slowed, causing a slowdown in completion of the CUP.

Property tax revenue pays for the substantial value of water as a “public good.” Property tax revenue provides generational equity and social justice by spreading costs of major water infrastructure over the future generations of users who will benefit from that infrastructure.

Cons – The average Utahn does not recognize which water services property tax pays for, and the values that it brings to the public. (Those values are listed above as “pros”.)

- *Water Districts – Impact fees/capital charges*

Pros – New users who require new water sources and infrastructure pay part or all of the capital cost of new growth.

Cons – Ninety percent of the “new users” are our own children and grandchildren. Other “new users” are Utahns who move from a former house in Utah to a new house in Utah.

- *Cities – User charges*

Pros – Pays for operation, maintenance and replacement costs in proportion to water use. Provides rate-generated capital from current water users to fund infrastructure replacement capital projects.

Cons – Cities have fixed costs for capital debt service, compared with variable revenue from the quantity of water used from year to year.

Question 4. Are different funding mechanisms and revenue sources dedicated to certain costs associated with providing water to consumers?

Response of Water Conservancy Districts:

For water conservancy districts, the following funding strategies are used:

Cost	Revenue Sources/Funding Mechanism
Operation & maintenance (O&M)	User charges Property tax (from revenue bond covenants, to provide additional water revenues to pay bond debt service)
Replacement of aging infrastructure (Capital asset management)	User charges Borrowed funds (from bonds or loans)
Capital projects for compliance with new regulations (that do not provide new water supply or capacity)	Rate-generated capital from user charges
Capital improvements (that provide new water source and capacity)	Borrowed funds Rate-generated capital from user charges Impact fees
Debt service for borrowed funds	User charges
Repayment for federally financed water projects	Property tax User charges
Public good values of water projects	Property tax

Question 5. What role does bonding play in paying for water? When, if ever, are bond proceeds used to provide services?

Response of Water Conservancy Districts:

Most water conservancy districts in Utah have member cities and water improvement districts, and contracts with other water conservancy districts, which are experiencing rapid population growth. Bonding is a principal source of capital funds to construct new water supplies and infrastructure to support population and economic growth. A companion source of capital funds is rate-generated capital provided from annual user charges. Bonding better matches beneficiaries of projects with repayment of bonds, thus accomplishing more generational equity and social justice. This benefits current water users by not placing all future generation water source/infrastructure costs on the shoulders of current water users.

Many bonds issued by water conservancy districts are water revenue bonds, for which property taxes pay O&M costs to offset other district revenues that are then pledged for repayment of bond debt service. Some water conservancy districts have also issued general obligation limited tax (GOLT) bonds. In this case, a majority of the voters in each county involved in water project funding and benefits have voted to commit their property taxes for repayment of federally financed water projects. An example of the use of GOLT bonds is by CUWCD for the CUP. The limited tax authority for GOLT bonds achieves good credit ratings for districts and reduces costs to consumers.

Bond proceeds are not used by water conservancy districts to pay any on-going O&M costs. However, some bond proceeds are used, together with rate-generated capital from user charges, to fund replacement of major infrastructure.

Question 6. For the three most recent fiscal years, what proportion of your revenues come from (a) property taxes, (b) charges for services, (c) other revenues (please specify what the other revenues are)?

Response of Water Conservancy Districts:

Revenue Sources for Four Large Water Conservancy Districts FY Year 2013/2014				
	CUWCD (%)	JVWCD (%)	WCWCD¹ (%)	WBWCD (%)
Property tax	59.3%	24.2%	33.1%	26.9%
User charges (water sales)	25.3%	71.2%	27.1%	60.9%
Federal advances	6.1%	--	--	--
Impact fees/capital charges:				
Wholesale	--	--	31.4%	--
Retail (potable water)	--	0.7%	0.4%	--
Retail (secondary water)	--	--	0.2%	2.7%
Hydroelectric power sales	2.1%	--	2.3%	0.01%
Grant funds	--	--	4.1%	5.8%
Interest and other	7.24% ²	3.9%	1.5%	3.7%

¹ WCWCD calendar year 2014

² Other revenue consists primarily of interest subsidies on Build America Bonds

Revenue Sources for Four Large Water Conservancy Districts FY Year 2012/2013				
	CUWCD (%)	JVWCD (%)	WCWCD¹ (%)	WBWCD (%)
Property tax	50.6%	24.4%	34.9%	28.3%
User charges (water sales)	19.8%	70.6%	29.5%	59.0%
Federal Advances	18.1%	--	--	--
Impact fees/capital charges:				
Wholesale	--	--	24.5%	--
Retail (potable water)	--	0.4%	0.4%	--
Retail (secondary water)	--	--	0.2%	2.5%
Hydroelectric power sales	2.3%	--	3.3%	0.7%
Grant funds	--	1.0%	5.7%	6.0%
Interest and other	9.2% ²	3.7%	1.5%	3.5%

¹ WCWCD calendar year 2013

² Other revenue consists primarily of interest subsidies on Build America Bonds

Revenue Sources for Four Large Water Conservancy Districts FY Year 2011/2012				
	CUWCD (%)	JVWCD (%)	WCWCD¹ (%)	WBWCD (%)
Property tax	40.0%	23.8%	36.2%	30.0%
User charges (water sales)	31.4%	69.6%	29.2%	56.6%
Federal advances	20.2%	--	--	--
Impact fees/capital charges:				
Wholesale	--	--	25.3%	--
Retail (potable water)	--	0.3%	0.1%	--
Retail (secondary water)	--	--	0.1%	0.6%
Hydroelectric power sales	2.1%	--	3.1%	5.2%
Grant funds	--	3.4%	4.2%	3.3%
Interest and other	6.3% ²	2.8%	1.9%	4.3%

¹ WCWCD calendar year 2012

² Other revenue consists primarily of interest subsidies on Build America Bonds

Question 7. How are fees for water services determined (whether or not to have fees and the amount charged)?

Response of Water Conservancy Districts:

The Board of Trustees for each water conservancy district and metropolitan water district determines whether or not to assess fees (impact fees or capital charges) for new water service and the amount to be charged. For example, the four largest water conservancy districts currently assess fees as follows:

CUWCD

- *For repayment of the federal CUP, repayment costs are established by the federal government. While these are not in the form of impact fees or capital charges, the repayment contracts are amortized capital repayment with interest. These repayment contracts begin when a “block” of water has been developed and related infrastructure built, and the federal government issues a “block notice” to CUWCD, which initiates repayment obligations.*
- *For repayment of the non-federal Central Water Project (CWP), capital charges are assessed to contracting agencies to pay much of the CUWCD capital costs to construct the CWP infrastructure. Some additional CUWCD capital costs are recovered in “annual charges” for CWP deliveries.*

JVWCD

- *For retail water service (about 15 percent of JVWCD water deliveries), a development charge is calculated in accordance with the Impact Fee Act. The current development charge for a 5/8 inch – 3/4 inch residential water meter is \$3,999.*
- *For wholesale water service (about 85 percent of JVWCD water deliveries), no capital charges or impact fees are assessed. However, the Board of Trustees has commissioned a study and held discussions about whether newly annexing lands should be charged capital charges/impact fees in the future.*

WCWCD

- *Residential applicants pay an impact fee based on lot square footage, meter size and payment year. The current impact fee for a 10,000 square-foot (or less) lot with a 3/4 meter that has not signed a water conservation easement agreement is \$6,728 for calendar year 2015. Commercial applicants pay based on meter size, number of meters, non-hardscape area and payment year.*
- *For wholesale water service (about 85 percent of WCWCD water deliveries): no capital charges or impact fees are assessed.*

WBWCD

- *For secondary retail water service, a development charge of up to \$2,351 per acre foot of water is charged, depending on the level of new infrastructure required in the area.*
- *For wholesale water service, no impact fees are charged, and a perpetual capital charge is incorporated in the water rate.*

Question 8. How does the amount of property tax revenue received impact the fees that are charged for water services?

Response of Water Conservancy Districts:

As with question 7, we assume the term “fees” is intended to mean impact fees or capital charges. Since property tax revenue and impact fees/capital assessments revenue are two of the three revenue sources in the water conservancy district funding model, an increase or decrease in either can affect or offset the revenue needed from the other source. However, property tax levy rates are limited by the ceilings imposed by the legislature.

Question 9. Does your revenue exceed the cost of providing water? Why or why not? If your revenue does exceed the cost of providing services, what do you do with the additional revenue?

Response of Water Conservancy Districts:

The revenue of water conservancy districts does not exceed the cost of providing water services. This is because state law does not allow this to occur, since water conservancy districts are public agencies and not-for-profit organizations.

In responding to this question, it is helpful to again consider the range of water-related services that are provided by a water conservancy district. These services include:

- *Delivering potable and secondary water to current water customers/users*
- *Managing aging infrastructure through a repair and replacement/capital asset management program*
- *Providing water-related public good value to communities*
- *Purchasing, developing, and financing future water supplies and water infrastructure*
- *Conducting water conservation programs and campaigns*

Water conservancy district revenues meet but do not exceed the cost of providing these water services.

A recent change in state statute, 17B-2a-1010 - Capital asset assessment, maintenance, and replacement policy, requires the four largest water conservancy districts to adopt, implement, and fund formal capital asset management plans. This is to ensure that repair and replacement of aging infrastructure do not fall behind schedule. 17B2a-1010 requires that the four water conservancy districts each establish a reserve fund for current and future replacement costs of aging infrastructure.

Question 10. How much, if any, of the revenue generated to provide water is transferred to a general fund type account or used for purposes other than providing water? Are you aware of instances among water providers where this happens?

Response of Water Conservancy Districts:

No revenues generated by the four water conservancy districts are transferred to a general fund type account or used for purposes other than providing water services. The list of water services is included in the response to question 9. Revenues will be placed in new capital asset management reserve funds to fund future replacement of aging infrastructure as further described in the response to question 9.

The four water conservancy districts are not aware of specific instances where this has happened.

Question 11. Should property tax continue to be used to pay for water? Why or why not?

Response of Water Conservancy Districts:

Property tax revenue is one of three revenue sources in the water funding model that has existed for water conservancy districts in Utah since the 1940's. The model has served the public well. Each of the three revenue sources in the funding model has important purposes. The important purposes for property tax include:

- Supporting financing of new water supplies and water infrastructure, through water revenue bonds, to support population growth and economic growth. This is important because many new water supply projects are large and expensive, and capital funds must be incurred long before the first drops of water are delivered and the first customer begins repayment.*
- Supporting GOLT bonds to provide funding for construction of federal water projects such as the CUP.*
- In providing a stable revenue source to support financing of future water supplies, property tax serves as an important means of providing generational equity and social justice in payment for those water supplies and infrastructure, by better matching beneficiaries of projects with repayment of bonds. This is important because most water supply projects and infrastructure have useful*

lives exceeding 50 years, and therefore serve more than one generation of water users. The financing allows debt service payments over a period of time approaching the life of the water project, and allows the future generations not yet born to help pay the capital costs of the water supplies and infrastructure that will benefit them. The alternative to this approach would be to place all of the capital costs of multi-generation water supply projects on the shoulders of current rate payers.

- *Water supplies provide extensive and important public good values to the communities they serve. These public good values include: flood control, environmental enhancements, recreation, fire protection, and added entitlement value to lands. While critically important to communities and the prosperous life style of those communities, these public good values are not measured by the volume of water passing through a meter to each water user. They are more appropriately paid for by the landowners of the communities that are benefitted by these public good values.*
- *The nature of costs in providing water to the public result in a large majority of fixed costs. Property tax provides a stable revenue to assist in paying those costs, in the face of variable water revenues from user charges in varying climate conditions from year to year.*

For the foregoing reasons, property tax should continue to be used as one of the important revenue sources in the successful and proven Utah water funding model.

B. TRANSPARENCY

Question 1. Generally, do people know how much they are paying for water?

Response of Water Conservancy Districts:

In responding to this question, the phrase “paying for water” is too simplistic and needs further definition. As previously described, the water services for which Utahns are paying include the following:

- *Delivering potable and secondary water to current water customers/users*
- *Managing aging infrastructure through a repair and replacement/capital asset management program*
- *Providing water-related public good value to communities*
- *Purchasing, developing, and financing future water supplies and water infrastructure*
- *Conducting water conservation programs and campaigns*

Utahns are paying for these services through the three basic revenue sources in the water conservancy district funding model:

- *User charges*
- *Property taxes*
- *Impact fees/capital assessments*

In addition, Utahns pay for additional water services, including costs of establishing the state revolving loan funds and repayment for loans, through a portion of sales tax (1/16th cent).

The water conservancy districts believe that, in general, people do know how much they are paying for water. They are aware of the user charges in their monthly or annual water bills. They are aware of the property tax paid to water districts in their annual property tax notice, in which the water property taxes are clearly shown. And they are aware of impact fees that they pay for new home purchases and new commercial establishments. The water conservancy districts believe that, in general, people are less aware of amounts they are paying for water to the state through a portion of sales tax.

Question 2. Is it easy to figure out how much one is paying for water? How do you calculate one's total cost of provided water?

Response of Water Conservancy Districts:

One would calculate the total cost of providing the range of water services listed in the response to question 1 by adding the following charges:

- *User charges, as shown in monthly or annual water delivery bills*
- *Property tax, as shown annually on a property owner's property tax notice*
- *Impact fees paid, generally when a building permit is issued or at time of closing, when purchasing a new home or establishing a new commercial business*
- *1/16th cent sales tax for items purchased*

It is easy to figure out how much one is paying for the range of water services for the first three charges listed above. It is less easy for a Utahn to figure how much he/she is paying in sales tax increment for state revolving loan fund and other water-related services.

Question 3. For each of the funding mechanisms and revenue streams used, how are people put on notice that the money paid is being used to provide water?

Response of Water Conservancy Districts:

As noted above, the phrase "to provide water" is overly simplistic, and may not recognize the following range of water services that are provided:

- *Delivering potable and secondary water to current water customers/users*
- *Managing aging infrastructure through a repair and replacement/capital asset management program*
- *Providing water-related public good value to communities*

- *Purchasing, developing, and financing future water supplies and water infrastructure*
- *Conducting water conservation programs and campaigns*

The people are put on notice that money paid is being used to provide water services as follows:

- *User charges for quantities of water delivered are directly billed to customers, and are shown on monthly or annual water bills*
- *Property tax charges for water are shown to taxpayers on their annual property tax notices*
- *Impact fees are shown on closing statements for purchase of a new home or establishment of a new business, or are shown on a bill when paid at the time of building permit issuance.*
- *For the 1/16th cent sales tax increment for state-provided water services and revolving loan funds, there is no practical means of putting people on notice.*

Question 4. For the property tax that you levy, how much property tax does a typical homeowner pay? A typical business owner? A typical greenbelt or farm property owner?

Response of Water Conservancy Districts:

Water Conservancy District	Average Annual Property Tax Payment		
	Typical Home Owner ¹	Typical Business Owner	Typical Farm Property Owner
CUWCD	\$55	²	³
JVWCD	\$55	\$1,000 ⁴	\$5
WCWCD	\$110	\$200 ¹	Less than \$1
WBWCD	\$28	\$500 ⁴	³

¹ Assumes an assessed valuation of \$250,000

² Business owners pay property tax at the certified tax rate multiplied by their business property assessed valuation.

³ Farm property owners pay property tax at the certified tax rate multiplied by their farm property assessed valuation. This amount is then substantially reduced under Utah Greenbelt tax provisions.

⁴ Assumes an assessed valuation of \$2,500,000

Question 5. On an annual basis, how much in user fees/service charges does a typical homeowner pay? A typical business owner? A typical greenbelt or farm property owner?

Response of Water Conservancy Districts:

Water Conservancy District	User Charges		
	Typical Home Owner	Typical Business Owner	Typical Farm Property Owner
CUWCD	N/A	N/A	N/A
JVWCD	\$550	\$850	N/A
WCWCD	\$360	\$1,500	N/A
WBWCD	N/A	N/A	N/A ¹

¹ Most increases to agricultural water are contractually prohibited

Summary Comments of Water Conservancy Districts

The preceding responses outline that the range of water services in Utah is wide:

- *Delivering potable and secondary water to current water customers/users*
- *Managing aging infrastructure through a repair and replacement/capital asset management program*
- *Providing water-related public good value to communities*
- *Purchasing, developing, and financing future water supplies and water infrastructure*
- *Conducting water conservation programs and campaigns*

The water conservancy districts believe that the Utah water funding model, especially pertaining to water conservancy districts, is sound and has proven itself over the years in supporting economic prosperity in Utah. That economic prosperity is the envy of the nation.