

Utah Legislature Revenue and Taxation Interim Committee
Presented by Metropolitan Water District of Salt Lake & Sandy

An invitation to share information related to water funding was received on May 29, 2015 from Leif Elder, Policy Analyst for the Office of Legislative Research and General Counsel. The invitation is to respond to questions of the Revenue and Taxation Interim Committee meeting to be held on June 17 at 2:30 p.m. in room 445 of the State Capitol.

The committee is interested in two basic questions:

1. Question: How is water currently paid for? Answer: The District receives revenues from:
 - a. Water sales (ultimately via rates charged by the District's member cities, Salt Lake City and Sandy City, to their water customers (both inside and outside respective city boundaries)):
 - i. Water sales:
 1. Current rate (fiscal year 2016 effective July 1, 2015) for treated water is \$269 per acre foot
 2. \$19,209,517 (46%)
 - ii. Capital assessments:
 1. To pay for new water supply acquired in 2004
 2. To pay for expanded capacity completed in 2007
 3. \$12,146,768 (29%)
 - iii. Total via rates \$31,356,285 (76%)
 - b. Property taxes: \$9,842,378 (24%)
 - c. Other revenues (interest income, cell tower leases, miscellaneous): \$165,015 (<1%)
2. Question: Should property tax continue to be used to pay for water? Answer: As further explained below, the District feels continued use of property tax as a funding source will be appropriate.

The committee chairs would like the list of questions shown below to be addressed:

Paying for Water (paying all costs associated with providing water to consumers, including development, extraction, movement, delivery, purification and treatment, conservation, etc.)

3. Question: What funding mechanisms are used to pay for water? (i.e., charges for service and other user fees, property taxes, sales taxes, impact fees, etc.). Answer: See question 1 above. The District does not levy impact fees. Member cities levy impact fees.
4. Question: Are there other revenue sources that are used to pay for water? (i.e., grants, interest, etc.). Answer: No. See 1.c above; miscellaneous revenues are less than 1% of the total budget.
5. Question: What are the pros and cons of the different funding mechanisms and revenue sources? Answer:
 - a. Water sales:
 - i. Pros:
 1. Water use is tied to pricing.
 2. Member cities are able to exercise discretion of which sources available to them they desire to utilize.
 - ii. Cons:

1. Variable revenue source depending on weather patterns and resulting availability of water sources.
 2. Wet years can be low revenue years because other sources are available to the member cities.
 3. Dry years can be low revenue years due to lessened demand due to drought management practices.
 4. The variability can be managed via higher reserves.
- b. Capital assessments:
- i. Pros:
 1. Stable revenue source.
 2. Assessment tied to specific resource allocation (you get what you pay for). Depending on the level of need for a given member city, the resource (new water supply or new facility), is paid for by that city based on their pro rata share.
 - ii. Cons:
 1. None identified.
- c. Property taxes
- i. Pros:
 1. Stable revenue source.
 2. Provides a revenue source for water system development in anticipation of future growth. This is important when a system is first being developed or new resources are being developed for properties that are not yet using water.
 3. Spreads cost of water system development over the geographical areas that will ultimately benefit from the water system development.
 - ii. Cons:
 1. The nexus to water use is not direct.
- d. Other income:
- i. Pros:
 1. Lessens reliance on other revenue sources.
 - ii. Cons:
 1. Options are limited.
6. Question: Are different funding mechanisms and revenue sources dedicated to certain costs associated with providing water to consumers? Answer: Revenue sources are generally combined and allocated to meet anticipated expenses. In other words, water sales or taxes are not dedicated to certain costs. The exception is capital assessments. They are tied to meeting debt service obligations related to the associated capital projects but they do not cover all of the debt service related to the capital projects.
7. Question: What role does bonding play in paying for water? When, if ever, are bond proceeds used to provide services? Answer: Bond proceeds are used to finance capital improvements. This is important funding tool to be able to spread the cost of a project over several years (typically 20-30 years). Bond proceeds are not used for ongoing operation and maintenance expenses.
8. Question: 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)? Answer:
- a. FY 2016 (budgeted):
 - i. Total via rates--76% (rounded)
 1. Water sales--46%
 2. Capital assessments--29%

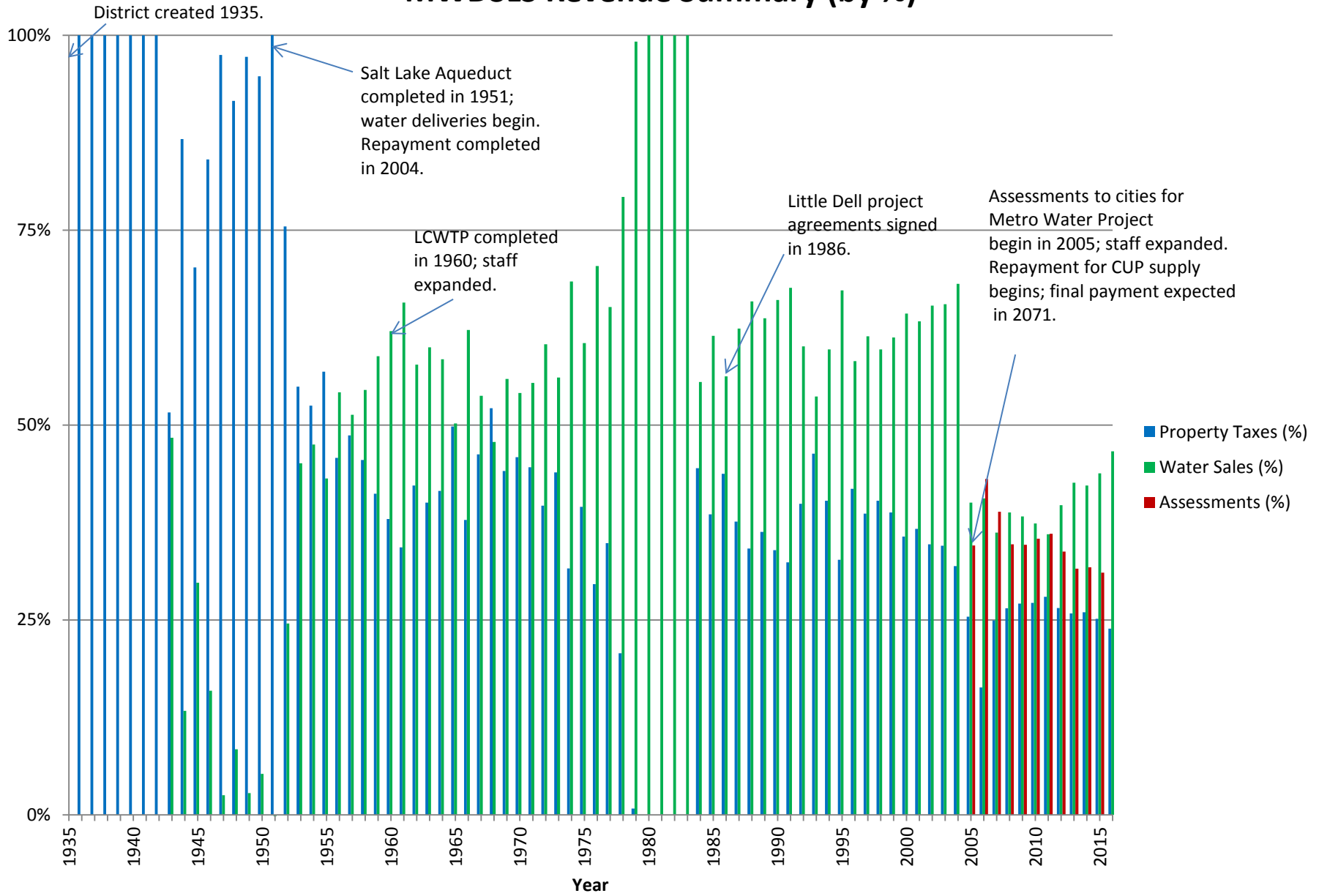
- ii. Property taxes--24%
 - iii. Other revenues (interest income, cell tower leases, miscellaneous)--<1%
 - b. FY 2015 (budgeted):
 - i. Total via rates--75%
 - 1. Water sales--44%
 - 2. Capital assessments--31%
 - ii. Property taxes--24%
 - iii. Other revenues (interest income, cell tower leases, miscellaneous)--1%
 - c. FY 2014 (audited):
 - i. Total via rates--74%
 - 1. Water sales--42%
 - 2. Capital assessments--32%
 - ii. Property taxes--26%
 - iii. Other revenues (interest income, cell tower leases, miscellaneous)--<1%
 - d. See attached table and charts for a complete history (since 1935).
9. Question: How are fees for water services determined (whether or not to have fees and the amount charged)? Answer: Fees are established as part of the annual budgeting process. The budget is approved by the board of trustees after a public process that includes presentations to the city councils and a public hearing. Implementation of property tax rates follows the “truth-in-taxation” process.
10. Question: How does the amount of property tax revenue received impact the fees that are charged for water services? Answer: For the same level of revenues needed, a decrease in property tax revenues will require an increase in water sales revenues (either through more use or higher rates). The opposite is true as well; a decrease in water sales revenues will require an increase in property tax revenues.
11. Question: 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? Answer: Revenue does not exceed the cost of providing water. Reasonable reserve funds are established based on bond covenants, agreements, and District policy.
12. Question: 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? Answer: No revenue of the District is transferred to a general fund type account. The District operates as one enterprise fund. It is typical for city water funds (a type of enterprise fund) to incur expenses from the general funds of the city for support from other city departments.
13. Question: Should property tax continue to be used to pay for water? Why or why not? Answer:
- a. A balanced approach that includes property tax and water sales seems reasonable.
 - b. Why?
 - i. Property tax has been a key factor in establishing bond ratings.
 - ii. Property tax is a stable, predictable source of revenue.
 - iii. Property tax is a tool to collect from properties owners that do not use water at this time but will in the future.
 - iv. Property tax is a tool to provide revenues in case of a catastrophic event when it may not be possible to deliver water for extended periods of time (earthquakes, wild fires, etc.).

- c. Why not?
 - i. The price signal for water becomes muffled.
 - ii. The current water users bear a bigger burden of building the system.
- d. Other?
 - i. A stronger (or higher) price signal will likely reduce water consumption especially for the long term.
 - ii. Less consumption reduces the need for major capital expenditures to develop water systems.
 - iii. A shift of costs:
 - 1. Non-taxed entities (schools, government facilities, public parks, hospitals, etc.) will pay more via water rates.
 - 2. High value, low water using properties will see savings due to reduced property tax.
 - 3. Typical residential users will be somewhere in the middle.

Transparency

- 14. Question: In general, do people know how much they are paying for water? Answer: By reading and understanding their water bill and their tax notice, a property owner should gain a general understanding of the cost of water related to their property.
- 15. Question: Is it easy to figure out how much one is paying for water? How do you calculate one's total cost of provided water? Answer: By reading and understand their water bill and their tax notice, a property owner should gain a general understanding of the cost of water related to their property. Regarding specific rate structures, retailers (cities, improvement districts, etc.) are best equipped to calculate end user costs based on various rate structures, water use levels, and property taxes.
- 16. Question: 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? Answer:
 - a. Water use is noticed based on water bills from the member cities.
 - b. Property taxes are noticed based on tax notices to property owners.
- 17. Question: 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? Answer:
 - a. The amount varies based on property value and geographic location. Some properties are taxed by more than one water agency.
 - b. A \$250,000 home will pay about \$56 annually to the District.
 - c. A \$250,000 business will pay about \$101 annually to the District.
 - d. Regarding greenbelt property, it is the District's understanding that this type of property is limited within the District's boundaries and that a greenbelt property owner will pay less than the above amounts for a similar property value.
 - e. Properties served by the member cities but that are outside the boundaries of Salt Lake City and Sandy City do not pay a property tax to the District.
- 18. Answer: 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? Answer: The average Salt Lake City customer pays about \$371 annually. The average Sandy City customer pays about \$562 annually.

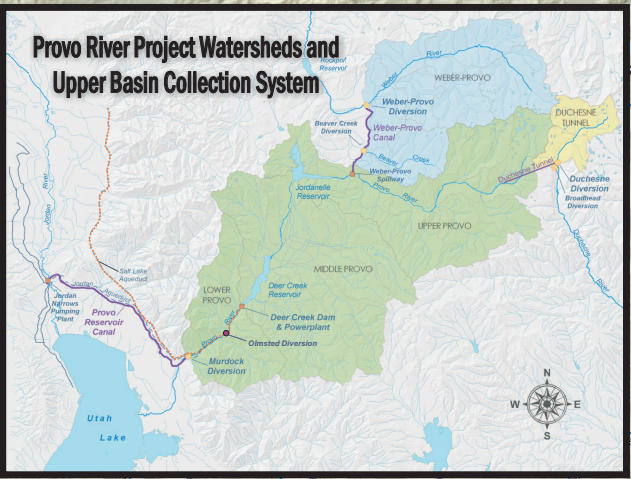
MWDSLS Revenue Summary (by %)





Mission Statement:

- The District is dedicated to providing high quality water and reliable services to our customers in a safe, timely, economical, and environmentally sensitive manner. We promote the wise, long term, and sustainable use of water resources. We accomplish this by effectively managing valuable resources, utilizing practical technologies, and providing employees with opportunities for growth and achievement.
- Organized in 1935 by Utah State Legislature (Sandy City joined in 1990); local district
- Administered by Board of 7 Trustees; 5 from Salt Lake City, 2 from Sandy
- 67 employees
- Water resources and infrastructure include:
 - More than 100,000 acre feet of water supply available from Little Cottonwood Creek; the Provo River (Provo River Project (Deer Creek Reservoir), Central Utah Project (Jordanelle Reservoir), and Ontario Drain Tunnel); Little Dell Reservoir; and the Utah Lake System (Strawberry Reservoir)
 - Owner of more than 271 million gallons per day of drinking water treatment capacity
 - Responsible for more than 57 miles of large diameter (greater than 5 feet diameter) aqueducts
- Conservation
 - Retail conservation rates—Salt Lake City since 1995; Sandy City since 2000
 - Water use has decreased 29% from 289 gallons per capita per day in the year 2000 to 204 gallons per capita per day in the year 2014
- Michael L. Wilson, General Manager; 801.942.9685; wilson@mwdsls.org
- Last update: June 2, 2015



Jordan Aqueduct Reach No. 3
 DESIGN CAPACITY:
 120 CFS (78 MGD)
 FACILITIES:
 (1) 48-inch Pipe

Little Dell Dam
 DESIGN CAPACITY:
 20,500 AC-FT
 FACILITIES:
 (1) 224-foot High Dam
 (2) Outlet Spillway

Terminal Reservoir
 DESIGN CAPACITY:
 40 MG
 FACILITIES:
 (1) Two 20 MG Concrete Reservoirs

Jordanle Reservoir
 DESIGN CAPACITY:
 360,000 AC-FT
 314,000 AC-FT Active Pool
 3,028 AC-FT Dead Pool
 Normal year yield to MWDSLS is 20,000 AC-FT
 FACILITIES:
 (1) Dam
 (2) Land Around Reservoir
 (3) Outlet Works and Spillway

Salt Lake Aqueduct
 DESIGN CAPACITY:
 175 CFS (118 MGD)
 FACILITIES:
 (1) 69-inch Concrete Pipe
 (2) Alpine Tunnel
 (3) Various Welded Steel Siphons
 (4) 42 Miles Total Length
 (5) 33 Miles Untreated Water
 (6) 5 Miles Treated Water

Terminal Reservoir
 DESIGN CAPACITY:
 100 MG
 FACILITIES:
 27 MWDSLS 28.6 MG

Little Cottonwood Water Treatment Plant
 DESIGN CAPACITY:
 143 MGD

Recreation Use:
 Managed by Utah State Parks & Recreation
OUTLET WORKS CAPACITY:
 2,300 CFS
SPILLWAY CAPACITY:
 5,510 CFS
 Bureau of Reclamation Facility (Central Utah Project)
 Operated by Central Utah Water Conservancy District

Jordan Aqueduct Reach No. 2
 DESIGN CAPACITY:
 270 CFS (175 MGD)
 FACILITIES:
 (1) 78-inch Pipe

Point of the Mountain Aqueduct (Treated Water)
 DESIGN CAPACITY:
 North to South (Gravity) - 100 MGD
 South to North (Pumped) - 80 MGD
 FACILITIES:
 (1) 60-inch Welded Steel Pipe
 (2) 12 Miles in Length

Deer Creek Dam & Reservoir
 DESIGN CAPACITY:
 462,564 AC-FT
 149,700 AC-FT Active Pool
 2,864 AC-FT Dead Pool
 49,700 AC-FT Carry Over
 100,000 Association Shares
 Normal year yield to MWDSLS is 61,700 AC-FT
 FACILITIES:
 (1) Dam
 (2) Land Around Reservoir
 (3) Outlet Works and Spillway
 (4) Salt Lake Aqueduct Intake
 (MWDSLS Facility)

Point of the Mountain Aqueduct (Untreated Water)
 DESIGN CAPACITY:
 151 MGD
 FACILITIES:
 (1) 84-inch Pipe
 (2) 2.5 Miles in Length

Recreation Use:
 Managed by Utah State Parks & Recreation
OUTLET WORKS CAPACITY:
 2 Tube Valves
SPILLWAY CAPACITY:
 12,000 CFS
 Bureau of Reclamation Facility (Provo River Project)
 Operated by Provo River Water Users Association

Jordan Valley Water Treatment Plant
 DESIGN CAPACITY:
 180 MGD
 2/7 MWDSLS 51 MGD

Point of the Mountain Water Treatment Plant
 DESIGN CAPACITY:
 70 MGD

Jordan Aqueduct Reach No. 1
 DESIGN CAPACITY:
 270 CFS (175 MGD)
 FACILITIES:
 (1) 78-inch Pipe

■ MWDSLS SERVICE AREA

Facilities

- 1 DEER CREEK DAM
- 2 MURDOCK DIVERSION
- 3 OLMSTED TUNNEL & SIPHON
- 4 POINT OF THE MOUNTAIN AQUEDUCT UNTREATED WATER INTAKE
- 5 JORDAN NARROWS INTAKE & SIPHON
- 6 JORDAN NARROWS TURBINE & PUMPING PLANT
- 7 ALPINE DRAPER TUNNEL (Salt Lake Aqueduct)
- 8 MURRAY POWER PLANT INTAKE
- 9 LITTLE COTTONWOOD & BELL CANYON CREEK INTAKE
- 10 LITTLE COTTONWOOD WATER TREATMENT PLANT
- 11 10 MG RESERVOIR
- 12 TERMINAL RESERVOIR
- 13 POINT OF THE MOUNTAIN WATER TREATMENT PLANT
- 14 OLMSTED DIVERSION
- 15 JORDAN VALLEY WATER TREATMENT PLANT
- 16 100 MG TERMINAL RESERVOIR
- 17 LITTLE DELL RESERVOIR
- 18 UTAH LAKE PUMP STATION

Utah Lake Pump Station
 DESIGN CAPACITY:
 789 CFS Total
 135 CFS MWDSLS (17.6%)
 FACILITIES:
 (1) 4 Vertical Propeller Pumps @ 200 CFS Each
 (2) 1400 HP Total

Provo River Aqueduct
 DESIGN CAPACITY:
 626 CFS Maximum
 187 CFS MWDSLS
 FACILITIES:
 (1) 21.5 miles of 126-inch and 120-inch diameter welded steel pipe

Jordan Aqueduct Reach No. 1
 DESIGN CAPACITY:
 270 CFS (175 MGD)
 FACILITIES:
 (1) 72-inch & 66-inch Welded Steel Pipe

Deer Creek Powerhouse
 DESIGN CAPACITY:
 5 MW
 FACILITIES:
 (1) 2-2,475 kW Generators

Murdock Diversion
 DESIGN CAPACITY:
 650 CFS
 FACILITIES:
 (1) Diversion Dam

SYSTEM FACILITIES
 Metropolitan Water District
 of Salt Lake & Sandy