

Office of the
Legislative Fiscal Analyst

FY 2005 Budget Recommendations

Joint Appropriations Subcommittee for
Natural Resources

Utah Department of Natural Resources
Water Development Revolving Loan Funds

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1.0 Summary: Water Development Revolving Loan Funds

Given that Utah has the second lowest annual precipitation of any state, residents throughout history have been compelled to adjust to limited water resources or develop more water. As the demand for water has grown, the Legislature has established various loan funds to provide funding for water development.

Five state boards currently direct the various loan programs of the state. These are the Water Resources Board, the Water Quality Board, the Drinking Water Board, the Permanent Community Impact Board, and the Soil Conservation Commission. It has been estimated that these state funding sources have been funding approximately 20% of the state's water and wastewater development needs. The Natural Resources Appropriations Subcommittee oversees the Water Resources Board and the Soil Conservation Commission.

The Board of Water Resources manages three loan funds:

- The **Cities Water Loan Fund**, established in 1974
- The **Revolving Construction Fund**, established in 1947, and
- The **Conservation and Development Fund**, established in 1978

Beginning in FY 1998, legislation directed a portion of revenues from a 1/16% sales tax to be deposited in the Conservation and Development Fund. This generated an average of approximately \$8.5 million per year for various projects, including CUP mitigation (requirement ended in FY 2001 but was supplanted by a new requirement for species protection), dam safety mandates, engineering and planning, and actual water development projects. More information on the use of the sales tax money can be found the Conservation and Development Fund section.

Debate between the executive and legislative branches of government has created scrutiny of the state's current methods of funding water development. A Task Force on Alternative Revenue Sources was created to study other options. The task force reported their findings in November 2002 and November 2003. Their reports recommend maintaining the current system and emphasize that more funding will be needed. The task force also found that the state loan funds should develop clear and consistent criteria for making loans only to those entities that cannot otherwise get credit in the private sector.

The Water Resources Board has a goal to reduce water consumption in Utah by 25% by the year 2050. If this can be accomplished, it would provide the same benefit as development of 400,000 acre feet of water per year, over a billion dollars' worth of savings. All of the state water boards require water conservation plans as a condition of financing.

1.1 Summary: Water Resources - Cities Water Loan Fund

The Legislature has recognized that the development, protection and maintenance of adequate and safe culinary water supplies is vital to the quality of life in the state, and that there is a need to assist cities, towns, and other municipalities in providing an adequate and safe water supply.

The energy crisis of the 1970s brought rapid growth to many Utah counties. To help local leaders expand and upgrade culinary water systems, the 1974 Legislature created the Cities Water Loan Fund. The Fund provides financing to help construct culinary water systems for cities, towns, improvement districts and special service districts. Today all funding comes from loan repayments with low interest. The State Treasurer invests any funds not loaned out, with interest accruing to the account.

No new state money is appropriated into this revolving loan fund. Monies already in a loan fund do not require an additional appropriation before they can be used. Therefore, unless the Legislature takes other action, the financing information shown below will not appear in the Appropriations Act. The information is provided for purposes of committee oversight.

As stated earlier, other state boards provide funding for water projects. For example, the Permanent Community Impact Board (PCIB) also makes some loans and grants available to governmental agencies. Funds come from mineral lease royalties. [In FY 2003, the PCIB granted \\$3,176,300 and loaned \\$6,887,100 for water projects \(not counting sewer\) in cities and counties affected by mineral developments.](#)

[It is estimated that \\$1,706,800 will be repaid to the Cities Water Loan Fund in FY 2005. This will be the fund's only revenue source.](#)

3.1 Programs: Water Resources - Cities Water Loan Fund

3.1.1 Cities Water Loan Fund

Recommendation No new state money is recommended for appropriation into this fund.

**Anticipated
Financing Not
Appropriated**

	2003	2004	2005	Est/Analyst
	Actual	Estimated	Analyst	Difference
Financing				
Repayments	1,626,500	1,727,900	1,706,800	(21,100)
Beginning Nonlapsing	684,300	432,200		(432,200)
Closing Nonlapsing	(432,200)			
Total	<u>\$1,878,600</u>	<u>\$2,160,100</u>	<u>\$1,706,800</u>	<u>(\$453,300)</u>
Expenditures				
Other Charges/Pass Thru	1,878,600	2,160,100	1,706,800	(453,300)
Total	<u>\$1,878,600</u>	<u>\$2,160,100</u>	<u>\$1,706,800</u>	<u>(\$453,300)</u>

Purpose

This fund helps finance improved or new culinary water systems for municipalities and districts. Generally the Board of Water Resources buys general obligation or revenue bonds from the municipality.

**Performance
Measure: Financial
Position**

Water Resources Cities Water Loan Fund	
Balance Sheet - as of October 15, 2003	
<u>Assets:</u>	
Cash	362,500
Investments with State Treasurer	69,700
Misc. Accounts Receivable	
Interest Receivable	397,800
Unbilled Accounts Receivable	23,700
Loans Receivable	1,467,000
Loans Receivable Long Term	24,318,300
Due From Other Funds	0
	<u>\$26,639,000</u>
<u>Liabilities:</u>	
Accounts Payable	0
Contributed Working Capital	21,505,600
Retained Earnings	5,133,400
	<u>\$26,639,000</u>

4.1 Additional Information: Water Resources - Cities Water Loan Fund

4.1.1 Funding History – Not Appropriated

	2001	2002	2003	2004	2005
Financing	Actual	Actual	Actual	Estimated	Analyst
Repayments	2,912,100	1,683,200	1,626,500	1,727,900	1,706,800
Beginning Nonlapsing	183,900	116,100	684,300	432,200	
Closing Nonlapsing	(116,100)	(684,300)	(432,200)		
Total	\$2,979,900	\$1,115,000	\$1,878,600	\$2,160,100	\$1,706,800
Programs					
Cities Water Loan Fund	2,979,900	1,115,000	1,878,600	2,160,100	1,706,800
Total	\$2,979,900	\$1,115,000	\$1,878,600	\$2,160,100	\$1,706,800
Expenditures					
Current Expense	162,000				
Other Charges/Pass Thru	2,817,900	1,115,000	1,878,600	2,160,100	1,706,800
Total	\$2,979,900	\$1,115,000	\$1,878,600	\$2,160,100	\$1,706,800

1.2 Summary: Water Resources - Revolving Construction Fund

Established in UCA 73-10-8, the Revolving Construction Fund helps finance irrigation projects, wells, rural culinary water systems, and dam safety. Funding comes to the account from:

- Repayments with low interest.
- Revenue from the 500,000 acres of land (currently 45,814 acres) selected for the establishment of reservoirs at the time of statehood.
- Charges assessed to water users.
- Interest from investments with the State Treasurer.
- Other appropriations made by the Legislature. \$3,800,000 is transferred annually from the Conservation and Development Fund for grants for state-mandated dam safety improvements.

	Analyst FY 2005 Base	Analyst FY 2005 Changes	Analyst FY 2005 Total
Financing			
General Fund	539,100		539,100
Water Resources C&D	3,800,000		3,800,000
Total	\$4,339,100	\$0	\$4,339,100
Programs			
Construction Fund	4,339,100		4,339,100
Total	\$4,339,100	\$0	\$4,339,100

In addition to the financing shown above, it is estimated that **\$3,015,200** will be repaid to the Revolving Construction Fund in FY 2005.

3.2 Programs: Water Resources - Revolving Construction Fund

3.2.1 Revolving Construction Fund

Recommendation The Analyst recommends \$539,100 from the General Fund and a transfer of \$3,800,000 from the Conservation and Development Fund. Monies already in a loan fund do not require an additional appropriation before they can be used. Therefore, unless the Legislature takes other action, the Appropriations Act will show General Fund and C&D financing only. All financing information is provided here for purposes of committee oversight.

	2003	2004	2005	Est/Analyst
Financing	Actual	Estimated*	Analyst	Difference
General Fund	539,100	539,100	539,100	
Water Resources C&D	2,810,000	3,800,000	3,800,000	
Total	\$3,349,100	\$4,339,100	\$4,339,100	\$0
Expenditures				
Other Charges/Pass Thru	3,349,100	4,339,100	4,339,100	
Total	\$3,349,100	\$4,339,100	\$4,339,100	\$0

*Non-state funds as estimated by agency

The information below is provided for purposes of committee oversight.

Anticipated Financing Not Appropriated

	2003	2004	2005	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
Repayments	2,963,600	2,940,700	3,015,200	74,500
Beginning Nonlapsing	3,368,200	4,490,800		(4,490,800)
Closing Nonlapsing	(4,490,800)			
Total	\$1,841,000	\$7,431,500	\$3,015,200	(\$4,416,300)
Expenditures				
Other Charges/Pass Thru	1,841,000	7,431,500	3,015,200	(4,416,300)
Total	\$1,841,000	\$7,431,500	\$3,015,200	(\$4,416,300)

Purpose

The Revolving Construction Fund was created by the 1947 Legislature to help finance projects the board determines will conserve the water resources of the state for the best interests of the citizens. Funds may pay for construction, engineering, investigation, and inspection of water projects. These projects have developed approximately almost one million acre-feet of water for use on most of the irrigated farmland in the state.

Project sponsors receiving financial assistance enter into installment purchase contracts with the board, deeding water rights and irrigation facilities as security.

**Performance
Measure: Financial
Position**

Water Resources Construction Fund Balance Sheet - as of October 15, 2003	
<u>Assets:</u>	
Cash	172,200
Investments with State Treasurer	4,521,600
Misc. Accounts Receivable	85,100
Interest Receivable	0
Unbilled Accounts Receivable	0
Loans Receivable	2,665,700
Loans Receivable Long Term	28,248,800
Due From Other Funds	36,500
	<u>\$35,729,900</u>
 <u>Liabilities:</u>	
Accounts Payable	395,900
Contributed Working Capital	41,481,400
Retained Earnings	(6,147,400)
	<u>\$35,729,900</u>

4.2 Additional Information: Water Resources - Revolving Construction Fund

4.2.1 Funding History – Appropriated

	2001	2002	2003	2004	2005
	Actual	Actual	Actual	Estimated*	Analyst
Financing					
General Fund	563,000	563,000	539,100	539,100	539,100
Water Resources C&D	3,800,000	3,800,000	2,810,000	3,800,000	3,800,000
Repayments	3,419,300				
Beginning Nonlapsing	441,000				
Closing Nonlapsing	(3,155,400)				
Total	\$5,067,900	\$4,363,000	\$3,349,100	\$4,339,100	\$4,339,100
Programs					
Construction Fund	5,067,900	4,363,000	3,349,100	4,339,100	4,339,100
Total	\$5,067,900	\$4,363,000	\$3,349,100	\$4,339,100	\$4,339,100
Expenditures					
Current Expense	606,000				
Other Charges/Pass Thru	4,461,900	4,363,000	3,349,100	4,339,100	4,339,100
Total	\$5,067,900	\$4,363,000	\$3,349,100	\$4,339,100	\$4,339,100

*Non-state funds as estimated by agency.

4.2.2 Funding History – Not Appropriated

	2001	2002	2003	2004	2005
	Actual	Actual	Actual	Estimated	Analyst
Financing					
Repayments	3,419,300	3,071,400	2,963,600	2,940,700	3,015,200
Beginning Nonlapsing	441,000	3,242,600	3,368,200	4,490,800	
Closing Nonlapsing	(3,242,600)	(3,368,200)	(4,490,800)		
Total	\$617,700	\$2,945,800	\$1,841,000	\$7,431,500	\$3,015,200
Programs					
Construction Fund	617,700	2,945,800	1,841,000	7,431,500	3,015,200
Total	\$617,700	\$2,945,800	\$1,841,000	\$7,431,500	\$3,015,200
Expenditures					
Other Charges/Pass Thru	617,700	2,945,800	1,841,000	7,431,500	3,015,200
Total	\$617,700	\$2,945,800	\$1,841,000	\$7,431,500	\$3,015,200

1.3 Summary: Water Resources - Conservation and Development Fund

Established in UCA 73-10-24, the Conservation and Development (C&D) Fund was created in 1978 when the federal government sharply reduced its funding of western water projects. The C&D Fund generally helps sponsors finance multipurpose dams and large water systems.

Monies come to the account from:

- Appropriations made by the Legislature. Approximately \$1.1 million in General Funds has been appropriated annually in the past.
- Designated sales tax revenue. UCA 52-12-103(5) earmarks \$17,500,000 from a 1/16 percent sales tax for water projects. The Conservation and Development Fund receives 41 percent, or \$7,175,000. See [page 17](#) for more information.
- Repayments with interest.
- Interest from investments with the State Treasurer.

Some of the money from this fund is transferred out to other programs in Water Resources, including **\$1,896,900** to the operating budget and **\$3,800,000** to the Construction Fund for dam safety grants.

The following chart shows a history of General Fund and sales tax revenue to the Division of Water Resources, as well as transfers from the Conservation and Development Fund. Note that C&D monies have been replacing General Fund monies since FY 1998 when the C&D fund began receiving sales taxes.

General Fund Appropriations to Water Resources											
(\$ in Millions)											
	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>	<u>FY02</u>	<u>FY03</u>	<u>Est FY04</u>
Operations	\$2.2	\$5.3	\$5.4	\$5.4	\$2.5	\$2.5	\$2.6	\$2.6	\$2.6	\$2.4	\$2.4
Cities Water	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Construction	0.2	1.3	0.0	3.2	0.6	0.6	0.6	0.6	0.6	0.5	0.5
Conserv & Devel	0.4	0.6	2.5	2.3	1.1	1.1	1.1	1.1	1.0	1.0	1.0
Total	\$2.8	\$7.2	\$7.9	\$10.9	\$4.2	\$4.2	\$4.3	\$4.3	\$4.2	\$3.9	\$3.9
Sales Tax Disbursed to Conserv & Devel Fund											
Conserv & Devel					8.8	8.6	8.2	8.9	7.5	1.6	7.2
Transfers from Conserv & Devel Fund to Other Programs											
To Operations	0.8	2.0	2.0	1.0	1.1	1.6	1.7	1.8	1.8	1.9	1.9
To CUP Mitigation					3.0	3.0	3.0	3.0			
To Dam Safety					3.8	3.8	3.8	3.8	3.8	1.8	3.8
Total	\$0.8	\$2.0	\$2.0	\$1.0	\$7.9	\$8.4	\$8.5	\$8.6	\$5.6	\$3.7	\$5.7

	Analyst FY 2005 Base	Analyst FY 2005 Changes	Analyst FY 2005 Total
Financing			
General Fund	1,043,200		1,043,200
Total	<u>\$1,043,200</u>	\$0	<u>\$1,043,200</u>
Programs			
Conservation and Development	1,043,200		1,043,200
Total	<u>\$1,043,200</u>	\$0	<u>\$1,043,200</u>

In addition to the financing shown above, it is estimated that **\$10,869,800** will be repaid to the Revolving Construction Fund in FY 2005.

3.3 Programs: Water Resources - Conservation and Development Fund

3.3.1 Conservation and Development Fund

Recommendation

The Analyst recommends \$1,043,200 General Funds. The sales tax transfer is in statute and will be handled by the Tax Commission. Other monies shown below are already in the loan fund and do not require an additional appropriation before they can be used. Therefore, unless the Legislature takes other action, the Appropriations Act will show General Fund financing only.

	2003	2004	2005	Est/Analyst
Financing	Actual	Estimated*	Analyst	Difference
General Fund	1,043,200	1,043,200	1,043,200	
Total	\$1,043,200	\$1,043,200	\$1,043,200	\$0
Expenditures				
Other Charges/Pass Thru	1,043,200	1,043,200	1,043,200	
Total	\$1,043,200	\$1,043,200	\$1,043,200	\$0

*Non-state funds as estimated by agency

The information below is provided for committee oversight.

Anticipated Financing Not Appropriated

	2003	2004	2005	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
Designated Sales Tax	1,628,600	7,175,000	7,175,000	0
Transfers	(4,648,100)	(5,702,400)	(5,696,900)	5,500
Repayments	11,484,300	10,140,500	10,869,800	729,300
Beginning Nonlapsing	7,714,500	6,994,900	5,000,000	(1,994,900)
Closing Nonlapsing	(6,994,900)	(5,000,000)	(5,000,000)	0
Total	\$9,184,400	\$13,608,000	\$12,347,900	(\$1,260,100)
Expenditures				
Current Expense	68,000	31,100		(31,100)
Other Charges/Pass Thru	9,116,400	13,576,900	12,347,900	(1,229,000)
Total	\$9,184,400	\$13,608,000	\$12,347,900	(\$1,260,100)

Purpose

The Conservation and Development Fund helps finance multipurpose dams and large water systems. Funding is secured by purchase agreements between the Board and sponsors or by board purchase of general obligation or revenue bonds. Interest rates vary from 0 percent to 7 percent depending on ability to pay.

**Performance
Measure: Financial
Position**

Water Resources Conserv. and Development Fund Balance Sheet - as of October 15, 2003	
<u>Assets:</u>	
Cash	428,300
Investments with State Treasurer	6,445,100
Misc. Accounts Receivable	316,200
Interest Receivable	1,813,500
Unbilled Accounts Receivable	3,762,800
Loans Receivable	4,988,100
Loans Receivable Long Term	139,906,300
Due From Other Funds	0
	<u>\$157,660,300</u>
 <u>Liabilities:</u>	
Accounts Payable	45,000
Contributed Working Capital	51,822,600
Retained Earnings	105,792,700
	<u>\$157,660,300</u>

4.3 Additional Information: Water Resources - Conservation and Development Fund

4.3.1 Funding History – Appropriated

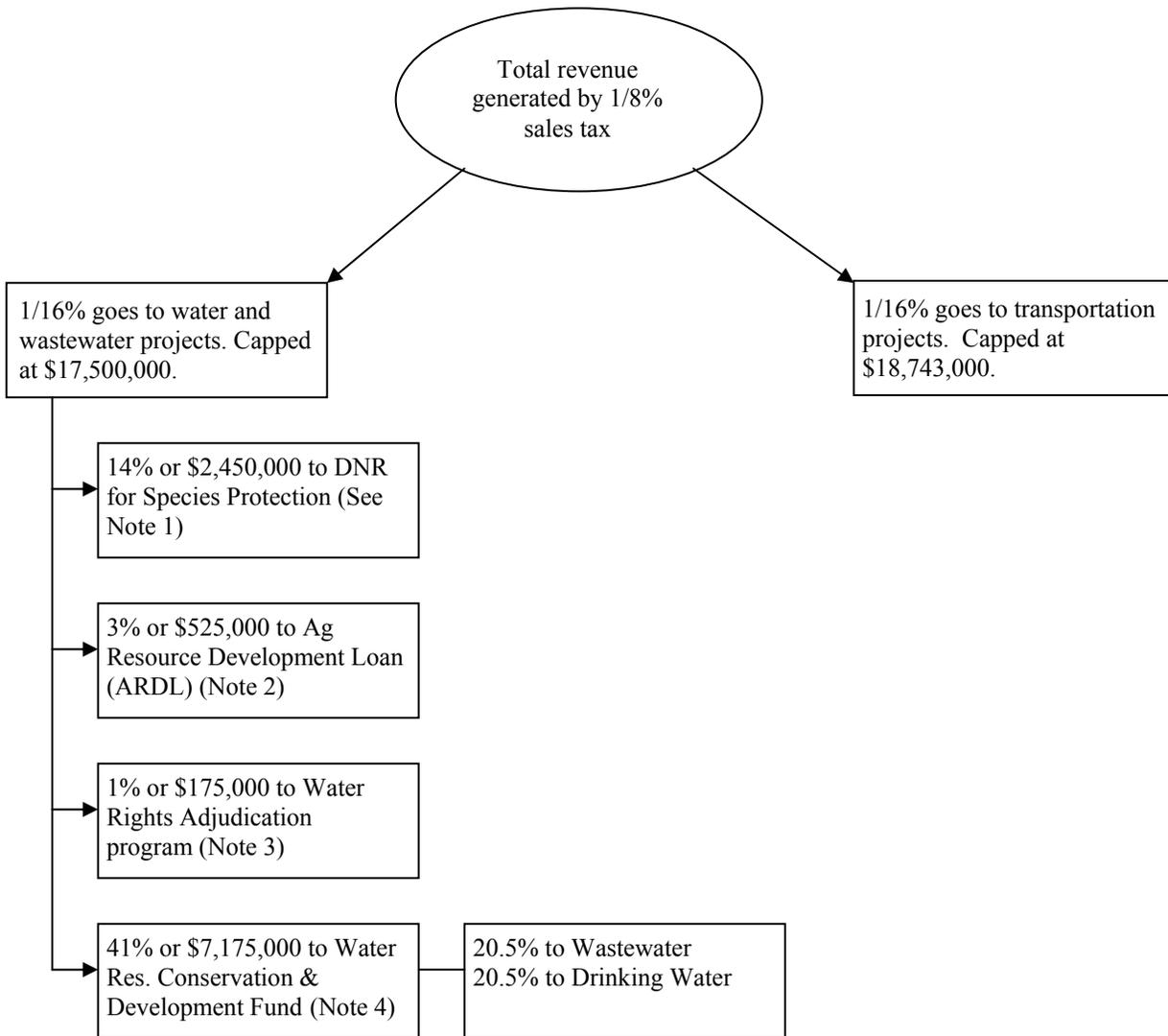
	2001	2002	2003	2004	2005
Financing	Actual	Actual	Actual	Estimated*	Analyst
General Fund	1,089,500	1,089,500	1,043,200	1,043,200	1,043,200
General Fund, One-time		(50,000)			
Total	\$1,089,500	\$1,039,500	\$1,043,200	\$1,043,200	\$1,043,200
Programs					
Conserv & Devel Fund	1,089,500	1,039,500	1,043,200	1,043,200	1,043,200
Total	\$1,089,500	\$1,039,500	\$1,043,200	\$1,043,200	\$1,043,200
Expenditures					
Current Expense					
Other Charges/Pass Thru	1,089,500	1,039,500	1,043,200	1,043,200	1,043,200
Total	\$1,089,500	\$1,039,500	\$1,043,200	\$1,043,200	\$1,043,200

*Non-state funds as estimated by agency.

4.3.2 Funding History – Not Appropriated

	2001	2002	2003	2004	2005
Financing	Actual	Actual	Actual	Estimated	Analyst
Designated Sales Tax	8,940,300	7,485,500	1,628,600	7,175,000	7,175,000
Transfers	(8,502,700)	(5,636,700)	(4,648,100)	(5,702,400)	(5,696,900)
Repayments	10,467,400	10,812,400	11,484,300	10,140,500	10,869,800
Beginning Nonlapsing	3,665,100	6,065,700	7,714,500	6,994,900	5,000,000
Closing Nonlapsing	(6,065,700)	(7,714,500)	(6,994,900)	(5,000,000)	(5,000,000)
Total	\$8,504,400	\$11,012,400	\$9,184,400	\$13,608,000	\$12,347,900
Programs					
Conserv & Devel Fund	8,504,400	11,012,400	9,184,400	13,608,000	12,347,900
Total	\$8,504,400	\$11,012,400	\$9,184,400	\$13,608,000	\$12,347,900
Expenditures					
Current Expense	484,800	313,200	68,000	31,100	
Other Charges/Pass Thru	8,019,600	10,699,200	9,116,400	13,576,900	12,347,900
Total	\$8,504,400	\$11,012,400	\$9,184,400	\$13,608,000	\$12,347,900

4.3.3 Distribution of 1/16% sales tax (see HB 6004 2002 Sixth Special Session)



Note 1: Species Protection Program

Prior to H.B. 6004, H.B. 275 (2000 General Session) authorized \$2.3 million to be distributed to DNR’s Species Protection program. Prior to H.B. 275, \$3 million of the funding distributed to Water Resources was passed through to the federal government for Central Utah Project (CUP) mitigation. The final CUP payment was made in FY 2001; the new payment for Species Protection began in FY 2002. H.B. 6004 changed the program’s dedicated funding to \$2,450,000.

Note 2: Agriculture Resource Development Loan (ARDL) Fund

The ARDL was established as a revolving loan fund. House Bill 393, which passed during the 1996 legislative session, authorized \$500,000 to be added annually from the 1/16% sales tax revenue. This provides an automatic growth mechanism to the fund. Other funding sources include loan repayments and interest. Low interest loans may be made to farmers and ranchers for rangeland improvement, watershed protection, flood prevention, soil and water conservation, and

energy efficient farming projects. Senate Bill 200 (2002 General Session) reduced the FY 2003 distribution by \$310,000 (one time). H.B. 6004 changed the program's dedicated funding to \$525,000.

Note 3: Division of Water Rights' Adjudication Program

Current statute requires that \$175,000 per year from the 1/16% sales tax go as dedicated credits to the Division of Water Rights to cover legal costs of water rights adjudication. In addition, the Adjudication program has been receiving an annual appropriation of approximately \$500,000 from the General Fund.

The Division of Water Rights has another connection to the 1/16% sales tax. The State Engineer oversees the Dam Safety program, which regulates the construction, repair, and long-term maintenance of dams. Some 350 dams are inspected annually. When the State Engineer requires a safety improvement, sales tax revenue may be used by the Board of Water Resources to finance the improvement. Approximately \$3.8M of the sales tax revenue that goes to the Water Resources C&D fund each year is granted for this purpose.

Note 4: Water Resources Conservation and Development Fund

Forty-one percent of the sales tax revenue goes to the Conservation and Development (C&D) Fund administered by the Board of Water Resources. The C&D Fund helps finance large multipurpose dams and water systems. The Board of Water Resources also administers two other loan funds: the Revolving Construction Fund (which includes dam safety) and the Cities Water Fund.

Aside from construction, other statutory uses of the sales tax money include:

- Dam safety improvements. \$3.8 million has been transferred annually to the Revolving Construction Fund for grants to finance state-mandated dam safety improvements.
- Operating costs. Approximately \$1.9M per year is transferred to the Water Resources operating budget to investigate applications and manage construction.

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