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Legislative Water Development Commission

Water Infrastructure Funding Study

Presented by
Candice Hasenyager | Director
David Robertson | LRB Public Finance Advisors



Utah Division of Water Resources



water.utah.gov

Background

- Property taxes to fund water has been a major topic of discussion at the state, local levels and in the media
- In 2023, Senator McKay sponsored SB 34 - Water Infrastructure Funding Study
- LRB Public Finance Advisors (“LRB”) was engaged to complete the study



Study Requirements

- Study the use of property tax revenue for payment of costs related to supplying drinking and irrigation water
- Make recommendations for funding of these costs



Process

- Establish goals, timeline and deliverables
- Gathered data on funding sources, publicly offered bonds, rate structures and the like
- Interviewed 30+ entities
- Analyzed property taxes and impact on costs
- Researched federal projects
- Analyzed the cost of water for the same property in different states – the “Dorothy” effect
- Compiled study with input and feedback from Workgroup



Interviews

- Interviewed 30+ various entities that included:
 - Both Utah and non-Utah entities
 - Water purveyors: cities and districts
 - Economists
 - Legislative
 - Water industry professionals
 - Finance professionals



Key Observations

- Utah is not alone in how they charge for water
 - Entities use base rate, tiered rates, property taxes, “impact” fees, miscellaneous
- Comparable States utilized steeper tiered rates
- Utah and Idaho enjoy the lowest costs of water
- Other states also utilize taxes, most often property and sales taxes



Approaches to Pricing Water

- Tiered rates are effective in economically motivating water conservation
- Base rates and property taxes are effective in lowering the costs of water
- Two approaches to pricing water
 1. **Conservation:** Emphasis on a tiered rate structure to motivate water conservation. This approach limits base rates and property taxes to economically encourage water conservation by tying water rates to usage.
 2. **Lowest Cost:** Emphasis on providing water at the lowest costs possible. This approach utilizes base rates and property taxes to lower the costs of water.



Utah Current System

- State Statute does not clearly establish priorities for water systems and define reasonable water rates
- Conversion from agricultural water to M&I helps maintain existing sources
- Federal funding, through the US Bureau of Reclamation, has originated hundreds of millions of dollars to support Utah's infrastructure needs
- Utah's low energy costs, coupled with gravity fed systems has reduced pumping and transport costs
- Utah utilizes base rates and property taxes



Use Property Tax

- Wide array of property tax revenue applications
- Utilizing property taxes and base rates instills confidence and stability in revenue collections
- Base rates and property taxes erode effectiveness of tiered rates
- Limiting property taxes could have the following impacts
 - certain business, higher valued residences & secondary homes could see a reduction in costs
 - certain business, renters, non-profits and other non-tax paying entities could see an increase in costs
- There are means to engaging non-tax paying entities with a special rate
- There would be administrative hurdles to effectively implementing this tool



Tiered Rates

- Tiered rates have proven effective in encouraging water conservation
- Tiered rates can be structured to allow efficient water users to pay less
- 100% reliance on tiered rates introduces financial risks of variable revenues
- Increasing fund balances to stabilize financial operations likely required
- Creating tiered rates for secondary water is a significant opportunity to encourage water conservation



Rate Analysis Findings

- Utah uses property taxes, base rates and tiered rates to fund water
- Property taxes and base rates dilute the effectiveness of tiered rates
- 100% tiered rates introduces risks in securing sufficient revenues for annual operations
- Property taxes provide are a stable source of revenues



Federal Projects

- Federal projects vary by entity; they are not uniform in scope, funding or engagement
- Voters approved property taxes to support these districts' operations
- Property taxes were first directed by Governor's Tax Force
- Local property taxes were important to secure federal funding for projects



Recommendations (1 of 2)

Recommendations/Observations	Perceived Trade-Offs
1. Clarify priorities in statute and define “reasonable water rates”	<ul style="list-style-type: none">→ Should there be a priority in the State Code or defer to retailers→ Some may interpret “reasonable” as “affordable”
2. Any changes to the property tax system requires sufficient time, analysis and thoughtfulness to implement properly	<ul style="list-style-type: none">→ To maintain the existing level of service, eliminating property tax would increase costs of delivering water→ Eliminating property taxes increases cost transparency of water bills
3. Implement more aggressive tiered rates	<ul style="list-style-type: none">→ Tiered rates are effective at economically motivating water conservation→ Smaller group of users in the higher tiers



Recommendations (2 of 2)

Recommendations / Observations	Perceived Trade-Offs
<p>4. Consider implementing a special water rate for non-taxpaying entities.</p>	<ul style="list-style-type: none">→ There are means to engaging non-tax paying entities to pay their fair share of water costs→ There are administrative hurdles to effectively implement in delivering revenues to wholesaling entities
<p>5. Require metering of all drinking water and secondary water connections that culminates in universal metering with tiered rates to encourage water conservation</p>	<ul style="list-style-type: none">→ Large water conservation opportunity→ Converting public who have enjoyed unlimited secondary water→ Will require change in certain communities and increased investment
<p>6. Incentivize cities and retailers to enhance their policies around wise water use and further enable cities to inspect and enforce policies with additional funding for staffing.</p>	<ul style="list-style-type: none">→ Continued efforts to educate and motivate water wise actions→ Efforts to enforce policies can be burdensome



Conclusion

- Utah's water purveyors utilize commonly used best practices to deliver affordable water and have dependable revenues
- Continue utilizing property taxes and base rates while integrating a steeper tiered water rate
- To alter how water is funded requires thoughtful implementation
- Managing risk in revenue collections is critical in establishing rates
- Balancing water conservation and revenue streams is a delicate matter that will require constant attention
- Continued secondary water management to increase water conservation



QUESTIONS

Candice Hasenyager, P.E. | Director
Utah Department of Natural Resources
Division of Water Resources
O 801.538.7278 | E candicehasenyager@utah.gov
water.utah.gov
conservewater.utah.gov

David Robertson | Principal / Owner
LRB Public Finance Advisors
O 801.596.0700 | C 801.647.4823 | E david@lrbfinance.com
lrbfinance.com

**Lewis Young Robertson & Burningham is now
LRB Public Finance Advisors**

