SANDY SUBURBAN IMPROVEMENT DISTRICT
BOARD MEETING AGENDA
8855 SOUTH 700 WEST, SANDY, UTAH
[ANCHOR LOCATION]
THURSDAY, SEPTEMBER 10TH 2026 AT 5:30 P.M.

1. Call to Order
2. Public Hearing/Ceremonies/Presentation/Public Comments
   - A. Solar Report – Jared Oldroyd
   - B. Rain Storm Report – Jared Oldroyd
   - C. Manhole Rehabilitation Report – Jared Oldroyd
   - D. Bridge Rehabilitation Report – Jared Oldroyd
3. Business
4. Discussion and/or Action Items
   - A. Fall 2026 Newsletter
   - B. Conversion to Cost Based Rates
5. Administration Report
6. Consent Items
   - a. Approval of June 2026 Minutes
   - b. Ratify bills for June, July and August 2026
7. Other Business
8. Closed Meeting [if necessary] for purpose(s) described in U.C.A. 52-4-205.

9. Notice of Future Public Meetings: Thursday, October 8th 2026 at 5:30 p.m. This date is subject to change.

10. Adjournment

This may be an electronic meeting. The Anchor location shall be the address listed above.
The order of agenda items may be changed at the discretion of the Trustees. In compliance with the American with Disabilities Act, individuals needing special accommodations, including auxiliary communications aids and services, during these meetings should notify the ADA Coordinator at least three working days prior to the meeting. The District does not discriminate on the basis of age, color, disability, national origin, pregnancy, race, religion, or sex.

PRESENTATIONS


Energy
Day
Three Days
Month
Year
2026
Energy (kWh)
Energy(MWh)
10,000
8,000
6,000
4,000
2,000
0
2026
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep



NEWSLETTER

Fall 2026 - Volume 4

THE PIPELINE

IMPLEMENTING MODERN TECHNOLOGY TO PROVIDE BETTER SERVICE AND LOWER COSTS

Sandy Suburban Improvement District has used several technical innovations to increase our efficiency and provide service at a lower cost. A few key examples are noted below:

Geographic Information Systems (GIS)

This software enables the District to maintain accurate mapping of system features such as manholes and links our record documents to the physical assets. Accurate mapping and management of records enables better maintenance of the system.

Video Inspection Technology

Keeping our video inspection trucks updated enables us to have a better picture of sewer line conditions. This can help identify defects or issues before they become bigger problems. The District has also recently updated the software for logging and reviewing the video information that is captured by our inspection crew. This reduced the time needed to access the latest information on a pipe's condition and makes the system operator's routines more efficient.

Pipe and Manhole Lining Technologies

CIPP (Cast in place pipe) and spray lining extend the service life of pipes, enhance cleaning, and can in some cases provide increased capacity. These methods are considered trenchless technologies which do not require excavation to rehabilitate the pipes. By avoiding open trenching these techniques reduce traffic disruptions, shorten construction schedules, and lessen the inconvenience to businesses and residents.

Our lateral rehabilitation program also uses pipelining technologies which enable the laterals to be maintained at a lower cost and with a smaller excavation footprint.

CONTACT

8855 South 700 West
Sandy, UT 84070
Mon-Thurs 7:30 A.M. to 5:30 P.M.
(801) 561-7662

Board Meetings:
Every 2nd Thursday of the Month
5:30 P.M. at the District Office

These technologies improve the efficiency with which the District is able to operate and maintain the sewer system. They also help us to reduce costs since having better information enables us to make proactive decisions rather than responding to emergencies.. Another benefit of the technologies is that they enable our required maintenance to have fewer impacts on residents and lower impact on vehicle traffic.

Board Member Message

Dear Patrons,

PROTECTING CUSTOMER DATA

Identity theft has become a serious problem in our society. At Sandy Suburban Improvement District, we take the protection of your data seriously. We do not keep your credit card data in our financial system.

For those who have asked us to save their credit card numbers to aid in making payments, those numbers are stored with Xpress Bill Pay who is PCI DSS (Payment Card Industry Data Security Standard) compliant.

The PCI Security Standards Council requires companies who store data to maintain firewalls, encypt data, restrict access, and continually test security among other requirements. Xpress Bill Pay has implemented the required procedures to keep your data safe and is subject to qualified outside assessment to maintain certified compliance.

If you have established an account with Xpress Bill Pay with email notifications, you will receive a notification each month that your sewer bill is available to view online. This notification will come from xpressbillpay.com. We recommend that instead of clicking on links in the email, go directly to your Xpress Bill Pay account in a browser and log in.

If you do receive an email from any other email address regarding your sewer bill, it is a fake and you should delete it without clicking on any links. Sandy Suburban will never send any other request for payment by phone, text or email.

If you receive a suspicious request, do not respond to it. If you have questions, please call us at 801-561-7662 and we can verify your account status.

CONVERSION TO COST BASED RATES

<u>Memorandum</u>

TO: The Board of Trustees
FROM: Tracy Scott Cowdell, General Manager
DATE: August 13, 2026
SUBJECT: ***Cost Based Rates Preliminary Analysis***

At the Board's direction, District Administration has undertaken a comprehensive preliminary study of the District's existing revenue structure and the potential transition to a fully cost based rate system.

We have devoted significant time to this assignment because the issue involves considerably more than simply replacing property tax revenue with increased service fees. It presents important questions concerning transparency, equity, cost allocation, financial stability, customer impacts, public policy, and the District's long term interests. In preparing the attached analysis, the Administration has consulted with the District's financial advisors, bond counsel, Salt Lake County, and others with relevant expertise. We have reviewed applicable legal principles and public finance literature, examined comparable governmental practices, analyzed available District financial and customer information, and attempted to identify both the intended benefits and potential consequences of the alternatives under consideration. Our objective has been to approach the assignment as a serious policy analysis rather than to advocate for a predetermined outcome.

The result is the attached report of nearly fifty pages. The Executive Summary provides a concise statement of the principal issues and conclusions and may be sufficient for purposes of preparing for the Board's initial discussion. Board members who wish to examine particular issues in greater detail will find the underlying analysis, research, and supporting discussion in the body of the report. Administration will also provide a presentation at the Board meeting summarizing the analysis and responding to questions.

At this stage, Administration believes the preliminary work provides the Board with sufficient information to determine whether it wishes to proceed further. The Board presently has four principal options:

1. <u>Transition Toward a Fully Cost Based Rate System</u>. Direct Administration to begin the process necessary to transition away from property tax revenue and toward recovery of the District's revenue requirement through customer rates.

2. Undertake Additional Independent Professional Study. Maintain the existing structure while retaining qualified outside financial expertise to conduct more detailed customer impact modeling, cost of service analysis, and evaluation of the financial, operational, and policy consequences of a potential transition.

3. Maintain the Existing Hybrid Revenue Structure. Determine that the District's existing combination of property taxes and ERU based service charges continues to appropriately serve the District and its customers.

4. Modify the Existing Hybrid Model. Retain both property taxes and user charges while examining whether greater transparency, alternative billing methodologies, modified cost allocations, or other adjustments could advance the Board's objectives without eliminating the property tax component.

The Administration has spent considerable time examining the policy principles underlying each alternative and attempting to understand the foreseeable consequences of a change. The attached report does not presume that any one of these alternatives is necessarily the correct outcome. Rather, it is intended to give the Board a meaningful factual and analytical foundation from which to determine whether further study or action is warranted. The Administration will present the principal findings at the meeting and seeks Board direction regarding whether, and in what manner, the Board wishes to proceed.

Staff Commitment to Board Policy

The General Manager and Executive Staff believe it is important to emphasize at the outset that the District is governed by the Board and that staff is deeply committed to faithfully implementing the policies and priorities established by the Board. The purpose of this memorandum is to provide the Board with a thorough, objective, and candid analysis of the issues associated with the District's revenue structure so that the Board may make a fully informed policy decision. Staff does not view its role as determining that policy outcome. Whatever direction the Board ultimately determines is in the best interests of the District and the community it serves, the General Manager and Executive Staff will support that decision and work diligently to implement it effectively. That same commitment applies not only to the issue addressed in this memorandum, but to all matters of policy entrusted to the Board.

Proposed Board Member Newsletter

If the board decides to proceed with additional study, below is a proposed draft for the newsletter.

The Sandy Suburban Improvement District Board of Trustees is undertaking a careful review of the District's current revenue structure and the concept of "cost based rates." The District currently funds its operations primarily through a combination of sewer service fees and property tax revenue. The Board is studying whether there may be advantages or disadvantages to changing that structure, including the possibility of reducing or eliminating reliance on property taxes and recovering a greater portion of District costs through sewer rates.

No decision has been made. The purpose of this review is to ensure that the Board fully understands the consequences of any potential change before determining whether the District's current system should be modified.

The study will consider transparency, fairness among customers, impacts on residential and commercial properties, long term financial stability, and whether a change would cause some customers to pay more while others pay less. The District will also consider whether other approaches could improve transparency and more clearly connect what customers pay with the cost of providing wastewater services.

The Board believes that an issue of this importance deserves careful study, reliable information, and meaningful public input. The District will provide opportunities for customers to learn about the issues and provide feedback. The Board may also consider creating a citizens advisory committee to provide community perspectives and recommendations as part of the study.

Additional information, updates, and study materials will be available at:
www.sandysid.com/costbasedrates

SANDY SUBURBAN IMPROVEMENT DISTRICT
COST BASED RATES ANALYSIS

Preliminary Analysis of the District's Revenue Structure and Potential Transition to a Fully Cost Based Rate System

September 2026

Prepared by Tracy Scott Cowdell
General Manager
Sandy Suburban Improvement District

EXECUTIVE SUMMARY

The Sandy Suburban Improvement District currently funds its wastewater collection system primarily through two complementary revenue mechanisms: ERU based service charges and property tax revenue. For the current analysis, approximately $3,400,000 is generated through rates and approximately $1,869,036 through property taxes. Together, those two principal sources provide approximately $5,269,036. Property taxes therefore represent approximately 35.5 percent of the combined amount generated from these two principal sources. If the property tax were eliminated while the District maintained the same overall revenue requirement, approximately $1.87 million would need to be recovered through rates or another revenue source.

At the request of the Board, District Administration has undertaken a preliminary review of the concept of Cost Based Rates and the possibility of transitioning from the District's existing hybrid revenue structure to a system funded principally or entirely through customer rates. The purpose of this report is not to advocate for a predetermined result. It is to identify the principal financial, legal, operational, distributional, transparency, and public policy considerations that should inform the Board's decision.

A fully rate based system presents legitimate potential advantages. It could simplify the manner in which customers see the cost of wastewater service, place a greater portion of the District's revenue requirement on the customer bill, and create a more direct relationship between payment and estimated system demand. Those considerations are particularly relevant because increased transparency is one of the principal objectives identified by members of the Board in requesting this review.

The preliminary analysis also demonstrates that eliminating the property tax would be more consequential than simply replacing one source of District revenue with another. A transition could be revenue neutral to the District while materially changing the amount paid by individual customers and customer classes. Property taxes allocate a portion of the District's revenue requirement according to taxable property value. ERU based charges allocate costs according to estimated wastewater demand. Replacing the former with the latter necessarily changes the allocation methodology.

The most significant preliminary distributional finding is that the proposed change would shift financial responsibility among residential properties of different values and between commercial and residential customers. Higher valued residential properties presently contribute more through the property tax component. Commercial properties also contribute property tax revenue in addition to ERU based charges. If property tax revenue is eliminated and the replacement revenue is recovered through generally applicable ERU based rates, some portion of the contribution presently associated with higher valued and commercial property would be redistributed through the rate structure. Precise customer impacts require additional modeling, but revenue neutrality should not be confused with customer neutrality.

The transparency question is similarly more complex than whether a fee is more visible than a tax. A fully rate based system could improve payment transparency by placing substantially all of the principal revenue requirement into a single charge. Meaningful transparency, however, also requires customers to understand what the system costs, how costs are allocated, why the selected methodology is fair, and why some customers pay more or less than others. Public finance scholarship concerning tax salience, fiscal illusion, user charges, and revenue diversification supports the importance of visibility and understandable governmental finance, but does not establish that replacing a tax with a fee is inherently more transparent.

The District's current hybrid structure also provides financial and institutional characteristics that warrant consideration. Property taxes and user charges are collected through different legal mechanisms. The District has historically maintained very strong collections. Property tax revenue is broad, predictable, and supported by the statutory property tax collection system. User charges are also highly reliable, and qualifying delinquent charges may be subject to governmental collection remedies. A transition should therefore be evaluated not on the assumption that either model is inherently unstable, but on the comparative effect upon revenue durability, collection risk, reserves, capital planning, and future financing flexibility.

The District's prior comparative work also indicates that its existing hybrid structure is not unusual among comparable Utah sewer collection districts. That fact does not determine the appropriate policy. It does suggest, however, that a transition to a fully rate based model should be informed by a focused review of comparable districts, particularly any that have made a similar transition and can provide evidence regarding customer impacts, transparency, financial performance, and public acceptance.

Public trust and implementation are also material considerations. A significant restructuring would require more than adoption of a new rate. If the Board continues the inquiry, meaningful customer impact modeling, professional financial analysis, public outreach, communications planning, and operational preparation would be appropriate. Because transparency is a principal objective of the proposal, the process used to evaluate the proposal should itself be transparent and should provide meaningful opportunities for public participation.

The Board presently has several legitimate courses of action. It may direct a transition toward a fully cost based rate system, maintain the existing hybrid structure, retain the hybrid structure while pursuing modifications designed to improve transparency or cost alignment, or continue the study through independent professional analysis before selecting a final policy direction.

District Administration recommends the latter procedural course if the Board wishes to continue considering a significant restructuring. That recommendation is not a recommendation against Cost Based Rates. Rather, the preliminary analysis has identified consequences that are sufficiently significant, and in several respects insufficiently quantified, that independent professional analysis would materially assist the Board before a long term structural decision is made. A comprehensive study should test the preliminary findings, model actual customer impacts, evaluate reasonable alternatives, and identify considerations that may not yet have emerged.

The ultimate question is not simply whether a tax or a fee is preferable. It is which revenue structure best advances the Board's objectives concerning transparency, fairness, cost allocation, financial stability, customer understanding, and the District's long term obligations. The purpose of the next phase, if authorized, should be to provide the Board with the information necessary to answer that question confidently and transparently.

I. INTRODUCTION

The Sandy Suburban Improvement District Board of Trustees has requested a careful review of the District's existing revenue structure and the concept of Cost Based Rates. The inquiry arises principally from a legitimate policy objective: ***whether the District can make the cost of wastewater service more transparent and more directly connected to the charges paid by its customers.***

The District currently operates under a hybrid revenue structure that combines ERU based service charges with property tax revenue. Approximately $3,400,000 is presently generated through rates and approximately $1,869,036 through property taxes. Accordingly, if the Board were to eliminate the property tax while maintaining the same overall revenue requirement, approximately $1.87 million would need to be recovered through rates or another revenue source. The question is therefore not whether the underlying cost disappears, but how that cost should be allocated and collected.

District Administration approaches this review without a predetermined position. Staff is deeply committed to following the policies established by the Board, and whatever policy direction the Board ultimately selects will be implemented faithfully and professionally. The purpose of this report is to provide the Board with a candid preliminary analysis of the issues that should be considered before a significant change is made.

This report examines the existing revenue structure, the meaning of Cost Based Rates, transparency, legal distinctions between taxes and fees, distributional consequences, financial stability, public finance research, public trust, comparable Utah practices, institutional considerations, and potential next steps. It is not intended to substitute for a formal cost of service study, customer impact model, or independent financial analysis. Rather, it is intended to identify the questions that matter, describe the consequences that can presently be anticipated, and determine what additional information may be necessary before final Board action.

The central premise of the report is that a change in revenue source is also a change in cost allocation. A transition may be revenue neutral to the District while producing materially different results for individual customers. The Board should therefore evaluate the proposal not only in terms of simplicity and transparency, but also in terms of equity, financial durability, administrative feasibility, public understanding, and the District's long term institutional interests.

II. CURRENT DISTRICT REVENUE STRUCTURE

A. Primary Revenue Sources

The District's revenues are derived primarily from three principal sources: residential Equivalent Residential Unit ("ERU") charges, commercial ERU charges, and property tax revenue. Although the District receives additional smaller revenue streams, including impact fees, lease revenues from District property, and other miscellaneous revenues, the overwhelming majority of the District's operating revenue is generated through the combination of property taxes and user-based charges.

The District's primary revenue sources can therefore be summarized as follows:

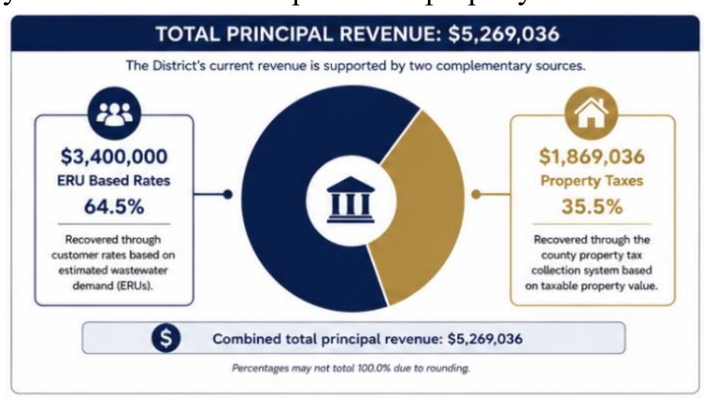
1. **Residential ERU Charges.** Residential customers are generally assigned ERUs based upon dwelling units, with each residential unit serving as the baseline measurement of system demand.

2. **Commercial ERU Charges.** Commercial customers are assigned ERUs based upon the estimated impact their operations have on the wastewater system compared to a typical residential customer. This allows the District to recognize that different commercial uses may place different demands upon the system while maintaining a consistent cost allocation methodology.

3. **Property Tax Revenue.** Property taxes are imposed at the same tax rate upon all taxable properties located within the District. Unlike ERU based charges, property taxes are not directly tied to wastewater usage or individual system demand.

B. Hybrid Enterprise Funding Model

The District's current funding structure is best described as a hybrid enterprise model because it relies upon two primary revenue mechanisms to support the operation, maintenance, and long term obligations of the sewer system. The first component is property tax revenue. Property taxes represent a broad based contribution from all property owners within the District who benefit from the existence, availability, and continued operation of the District's infrastructure. Property tax revenue is not calculated based upon individual wastewater use but rather recognizes that the sewer system is a community infrastructure asset serving all properties within the District.



The second component is the District's rate based revenue structure, which is primarily based upon ERUs. The ERU methodology provides a relationship between customer charges and estimated system demand. Residential customers establish the baseline ERU, while commercial customers are assigned ERUs based upon their anticipated wastewater impact. This hybrid model has historically provided the District with a durable and stable financial structure. By combining property tax revenue with ERU based user charges, the District benefits from revenue diversification rather than relying exclusively upon a single funding source. Property tax revenue provides a broad and predictable revenue source, while ERU charges provide a direct relationship between customer classifications and the costs associated with system usage.

C. Enterprise Fund Structure and Budgeting

The District operates as an enterprise fund. As an enterprise fund, the District functions similarly to a municipal utility fund by establishing revenues and expenditures designed to support the ongoing operation, maintenance, and improvement of the wastewater collection system. The District prepares an annual operating budget that accounts for the costs necessary to operate and maintain the system, including personnel, administration, treatment, maintenance, regulatory compliance, and other operational obligations.

In addition to the annual operating budget, the District separately prepares a capital budget to address long term infrastructure needs. The capital budget addresses system improvements, replacement projects, rehabilitation efforts, and other investments necessary to preserve the reliability and functionality of the District's infrastructure. The District's financial planning therefore involves both immediate operational needs and long term capital obligations.

D. Collection Reliability and Financial Stability

A significant characteristic of the District's current revenue structure is the reliability of its collection system. Because the District receives revenue through both property taxes and user charges, it benefits from multiple collection mechanisms. Property taxes are collected through the county tax collection process and are secured by the statutory remedies associated with property taxation. In addition, unpaid user charges may ultimately be certified and collected through a lien against the property, allowing the District to recover delinquent amounts through established governmental collection procedures.

Historically, the District's collection rate has been very high. Although there have been instances where unpaid user charges have required adjustment or write off, including during periods such as the Great Recession when certain customer obligations were discharged through bankruptcy proceedings, these situations have been limited. Similar issues may occasionally arise with commercial customers experiencing financial distress. These collection challenges generally relate to user fee obligations rather than property tax obligations. Property tax obligations are treated differently under applicable law. Unlike ordinary unsecured obligations that may be discharged in bankruptcy, property tax obligations are secured by the property itself and generally maintain a priority status that provides significant protection to the governmental entity. This distinction is an important consideration when evaluating whether a revenue structure should rely entirely upon user fees or continue to maintain a diversified approach that includes property tax revenue.

E. Preliminary Policy Consideration

Any analysis of whether to transition to a fully rate based system must consider more than questions of transparency and cost allocation. The Board must also consider the financial durability, collection reliability, revenue stability, and long term sustainability provided by the District's existing hybrid enterprise model. The central question is therefore not simply whether taxes or fees are preferable. The question is whether the District's existing combination of property tax revenue and ERU based charges appropriately balances transparency, fairness, financial stability, and the cost of maintaining a critical public infrastructure system.

III. DEFINITION AND ANALYSIS OF COST BASED RATES

A. What Does "Cost Based Rates" Mean?

1. Overview of the Cost Based Rate Concept

The concept of cost based rates is a foundational principle in public utility finance and rate regulation. At its core, cost based rates are designed around the principle that customers should pay charges that reasonably correspond to the cost of providing the service they receive. Under a cost based rate methodology, the District would seek to identify the total cost of providing wastewater services and allocate those costs among customer classes based upon the demands those customers place upon the system. The objective is not necessarily to ensure that every individual customer pays the exact cost of every service component, which is often impossible in a complex public infrastructure system, but rather to ensure that rates are reasonable, equitable, and supported by a rational methodology.

The cost based rate principle generally reflects three primary concepts:

1. Customers should contribute based upon the costs associated with providing service to them.

2. Different customer classes should bear costs in proportion to the demands they place on the system.

3. Any subsidies among customer classes should be intentional, transparent, and supported by a legitimate public policy purpose.

A cost based rate analysis therefore requires the District to evaluate whether its current combination of property tax revenue and ERU based charges appropriately allocates the costs of the wastewater system among residential customers, commercial customers, and other users.

2. Customers Should Pay Based Upon the Cost of Providing Service

The first principle of cost based rates is that customers should pay for the cost of providing the service they receive. In a traditional utility model, this means that the revenue generated from rates should generally recover the utility's cost of service, including:

- Operations and maintenance expenses.
- Administrative costs.
- Treatment costs.
- Regulatory compliance costs.
- Debt obligations.
- Capital replacement costs.
- Long term infrastructure needs.

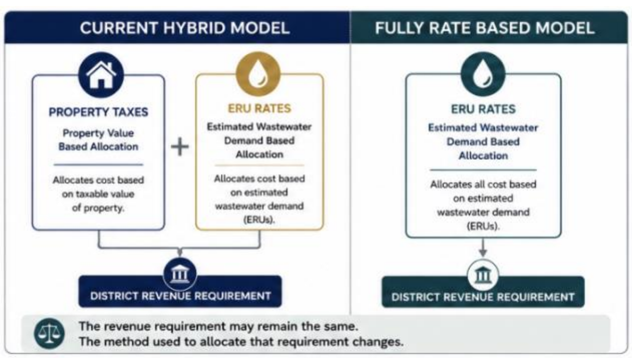
The purpose of a cost based methodology is to establish a connection between the cost of providing service and the amount charged to customers. For the District, this raises an important analytical question:

Should all costs associated with operating and maintaining the wastewater system be recovered through ERU based charges, or should at least some of those costs be supported through property tax revenue?

A sewer system differs from many traditional consumer services because significant portions of the cost are associated with maintaining a system that is continuously available to all properties within the District. The District must maintain treatment capacity, collection infrastructure, regulatory compliance, and emergency capability regardless of the precise amount of wastewater discharged by any individual customer. Therefore, a complete cost based analysis must distinguish between variable costs and fixed system costs.

3. Rates Should Reflect Costs Caused by Different Customer Classes

A second principle of cost based rates is that different customer classes should pay in proportion to the costs they create. The District's current ERU methodology reflects this principle by recognizing that residential and commercial customers may place different demands on the wastewater system. Residential customers generally establish the baseline ERU because a residential dwelling unit represents the standard measurement of wastewater demand. Commercial customers are assigned ERUs based upon the estimated impact of their activities compared to a typical residential customer. A commercial operation such as a restaurant, car wash, or theater may generate significantly different wastewater characteristics and volumes than a typical residence. The purpose of the ERU system is not to perfectly measure every gallon discharged by every customer. Rather, it creates a reasonable and administratively practical method for allocating costs among different customer classes.



4. Preliminary Conclusion

Cost based rates provide an important framework for evaluating the District's revenue structure. They require the District to examine whether customers are paying costs that reasonably correspond to the services they receive. However, a cost based analysis does not automatically require elimination of property taxes. The central question is whether all costs of operating a wastewater system should be considered usage based costs or whether costs represent shared infrastructure obligations that may appropriately be supported through a broader property based funding mechanism. The Board's decision should therefore focus on whether the current hybrid model creates inappropriate disparities or whether it represents a reasonable and intentional allocation of costs among all property owners and users of the District's wastewater system.

IV. PROPERTY TAXES VERSUS USER FEES: TRANSPARENCY ANALYSIS

A. The Argument That Fees Are More Transparent than Property Tax

One of the primary arguments supporting a transition from the District's current hybrid revenue structure to a fully rate based system is that user fees may provide greater transparency to customers. Under this theory, customers should be able to look at their sewer bill and understand the complete cost of providing wastewater service. A fully rate based system would place the entire cost of operating, maintaining, and improving the wastewater system into the customer's monthly or annual sewer charge. Rather than receiving revenue from multiple sources, including both property taxes and user fees, the District would recover its costs through a single customer based charge. Supporters of this approach may argue that a customer is better able to understand the relationship between the service received and the amount paid when the entire cost of service appears on one bill.

1. A Single Bill Showing the Complete Cost of Service

The strongest transparency argument for a fully rate based system is simplicity. Under the current system, a property owner pays a property tax obligation to the District through the county tax collection process and separate sewer bill based upon the customer's ERU assignment. Although both revenue sources support the District's overall obligations, a customer may not immediately understand why both charges exist or how each contributes to the operation of the wastewater system. This approach is consistent with the broader public finance principle that governments should clearly communicate the relationship between services provided and the charges imposed to fund those services.

2. A Clearer Connection Between Payment and Use

A second argument supporting user fees is that they create a stronger connection between payment and consumption. Under an ERU based system, customers are charged based upon an estimate of their relative impact on the wastewater system. The customer's charge is therefore connected to the demand they place upon the system rather than the value of the property they own. Supporters of a fully rate based model may argue that this is a more equitable approach because the sewer system exists to provide a specific service, and those who use that service should pay for the cost of providing it. For example, two residential properties may have substantially different values but may each generate approximately the same wastewater demand. Under a pure ERU system, both properties would generally pay the same sewer charge. This approach emphasizes the principle that the cost of a service should follow the use of the service.

3. Reduced Confusion Regarding Why Customers Pay Both Taxes and Fees

Another argument supporting a transition to cost based rates is that eliminating property taxes may reduce public confusion. Customers may reasonably ask: "Why am I paying a sewer bill and a sewer related property tax?" Without a clear explanation, customers may perceive the two revenue sources as duplicative, even though they serve as components of the District's overall revenue structure. A fully rate based system may therefore improve the public's understanding by eliminating the need to explain why the District uses two different funding mechanisms. The policy question, however, is whether the perceived confusion is caused by the existence of two revenue sources or by insufficient explanation regarding the purpose of each revenue source.

B. The Argument That Taxes May Also Be Transparent

Although fees may provide certain transparency benefits, there is also a legitimate argument that property taxes provide transparency and serve a distinct public purpose. A property tax is not necessarily an alternative to transparency. Rather, it reflects a different policy judgment regarding who benefits from and should contribute to the cost of maintaining public infrastructure.

1. Property Owners Understand That Infrastructure Benefits Property

One argument supporting property tax revenue is that sewer infrastructure provides benefits beyond individual wastewater usage. A functioning wastewater system:

- Protects public health.
- Supports economic activity.
- Preserves property values.
- Enables development.
- Provides long term community infrastructure.

Because the sewer system benefits all properties within the District, regardless of the precise amount of wastewater generated by an individual customer or business, property owners may reasonably be expected to contribute to the cost of maintaining that infrastructure. Under this approach, property taxes are not viewed as payment for individual consumption. Instead, they represent a contribution toward maintaining a public infrastructure asset that benefits all property owners.

2. Taxes Openly Distribute Costs Among Property Owners

A second argument is that property taxes provide a transparent method of allocating shared infrastructure costs. Property taxes are visible. They appear on property tax notices, are subject to public budget processes, and are approved through established governmental procedures. Unlike a hidden cost, a property tax is a publicly disclosed obligation that identifies the amount paid by property owners. A property tax model also recognizes that infrastructure costs may not always correspond precisely with individual usage. The entire community benefits from having a reliable sewer system available. The policy question therefore becomes whether costs should be allocated based upon:

- Benefit received;
- System availability;
- Actual or estimated usage; or
- Ability to pay.

Different revenue structures emphasize different policy considerations.

3. Property Value May Represent an Ability to Pay and Higher Usage

A property tax based system also reflects the principle that property value may represent an individual property owner's ability to contribute toward the cost of maintaining essential community infrastructure. Within the District, however, the relationship between property value and wastewater service may present an additional consideration. Although property value is certainly not a precise measurement of wastewater usage, there may be some correlation between higher residential property values, larger and more intensively used residential properties, and greater potential demands upon the wastewater system. This consideration is particularly relevant because property values are not evenly distributed throughout the District. Generally speaking, assessed property values increase as one moves east through the District. Portions of the eastern area contain some of the most valuable residential properties in the State of Utah. Conversely, portions of Historic Sandy, White City, and neighborhoods west of 700 East generally contain more modestly valued residential properties, including areas in which household incomes and property values are substantially lower.

These differences are significant under the District's current hybrid revenue structure. A residential dwelling unit generally pays the same ERU based rate regardless of the size or value of the residence. Accordingly, a relatively modest home with two bathrooms may pay the same residential ERU charge as a substantially larger and more valuable residence containing numerous bathrooms, an accessory dwelling unit, a pool house, or other improvements that may increase the number of occupants or the potential wastewater demand associated with the property. The current ERU methodology does not attempt to capture these differences because a residential dwelling unit generally constitutes the applicable unit of measurement. The property tax component, however, produces a different result. Although the larger and more valuable residence does not necessarily pay a higher ERU based rate, it generally contributes substantially more property tax revenue because of its higher assessed value. Thus, the existing hybrid model may indirectly recognize differences among residential properties that the uniform residential ERU methodology does not recognize.

This does not mean that assessed property value should be treated as a direct proxy for wastewater consumption. A high value residence may have relatively few occupants and comparatively modest wastewater usage, while a lower value residence may contain a larger household and generate substantially greater wastewater demand. Property value, number of bathrooms, square footage, accessory structures, and actual wastewater generation are related concepts only imperfectly. A careful cost of service analysis should therefore avoid assuming that property value necessarily establishes actual system usage. Nevertheless, the issue is relevant to the Board's consideration because eliminating property taxes would also eliminate the only significant component of the current residential revenue structure that differentiates among properties based upon value. Under a pure ERU based model, absent some modification to the residential rate methodology, a modest residence in a lower valued portion of the District could pay essentially the same residential sewer rate as a multimillion dollar residence with substantially greater physical capacity for wastewater generation.

Accordingly, the property tax component may presently serve two potentially important distributional functions. First, it incorporates an ability to pay principle because owners of higher valued properties generally contribute more toward the District's overall revenue requirement. Second, although imperfectly, it may capture some differences associated with larger and more intensively developed residential properties that are not otherwise reflected in the District's uniform residential ERU charge. Supporters of the existing hybrid approach may therefore argue that the property tax component provides an additional measure of equity. Those owning substantially more valuable properties contribute more toward maintaining the community infrastructure from which their properties benefit, while residents owning more modestly valued properties contribute less through the property tax component. To the extent that higher valued residential properties also tend, on average, to have greater wastewater generating capacity, the property tax component may also partially compensate for limitations inherent in treating every residential dwelling unit as essentially equivalent for rate purposes.

Conversely, supporters of a pure ERU based model may reasonably argue that neither property value nor presumed ability to pay is an appropriate measure of wastewater system demand. Under that view, a sewer utility should charge customers according to the cost of providing wastewater service, and the value of the customer's home should be irrelevant. If the District believes that larger residences or properties with accessory dwelling units impose greater costs, the preferable response may be to refine the rate methodology rather than rely upon property taxation as an indirect proxy for those differences. This presents a fundamental policy question for the Board.

Should sewer costs be allocated primarily according to estimated use of the system, even when the available ERU methodology treats residential properties with potentially very different usage characteristics similarly?

Or should some portion of the District's revenue requirement continue to be allocated through property taxation, thereby recognizing broader community benefit, differences in property value and ability to pay, and potentially some differences in the intensity of residential development?

The answer ultimately depends upon the principle of equity the Board determines should govern the District's revenue structure. What is clear, however, is that eliminating the property tax component would do more than change the mechanism through which the District collects revenue. It would also remove an existing mechanism through which higher valued properties presently contribute a greater share of the District's overall revenue requirement.

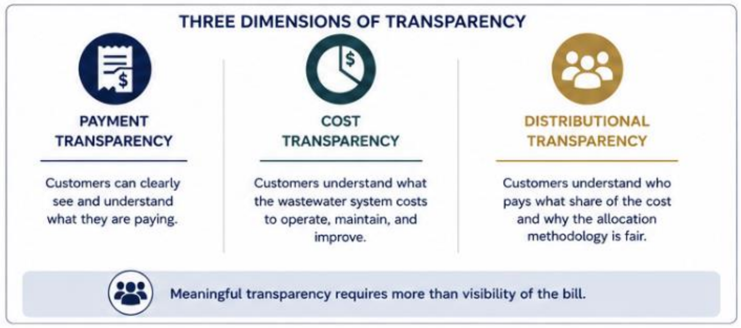
C. Are User Fees Inherently More Transparent Than Property Taxes?

The argument that replacing the District's property tax revenue with user fees would increase transparency deserves careful consideration. At first impression, the argument has considerable intuitive appeal. A customer who receives a sewer bill containing the entire amount necessary to provide wastewater service may perceive a more direct relationship between the service received and the amount paid. Conversely, under the District's existing hybrid model, a portion of the cost appears on the customer's sewer bill while another portion is collected

through the property tax system. The relevant academic literature, however, suggests that the relationship between the form of governmental revenue and actual transparency is considerably more complicated. Public finance scholarship generally does not establish that a user fee is inherently more transparent than a tax. Rather, transparency appears to depend upon several related concepts, including the salience of the charge, the complexity of the overall revenue system, the ability of citizens to understand the relationship between payments and governmental services, and the manner in which government communicates the true cost of those services.

1. Transparency, Visibility, and Salience Are Different Concepts

An important distinction exists between a governmental charge being visible and the charge actually being understood. A customer may plainly see a sewer charge on a monthly bill. That makes the charge visible. It does not necessarily mean that the customer understands how the rate was calculated, what costs are included within the rate, why one customer pays more than another, how capital replacement costs are incorporated, or whether the charge represents the full cost of maintaining the wastewater system. Similarly, a property tax may appear less directly connected to wastewater service because it is collected as part of a larger property tax bill. Nevertheless, property taxes are highly visible governmental charges. Property owners generally receive an annual statement identifying the governmental entities imposing the tax and the amount attributable to those entities.



This distinction is supported by an important body of economic research concerning tax salience. Raj Chetty, Adam Looney, and Kory Kroft examined whether individuals respond differently to taxes depending upon how prominently the tax is presented. Their research demonstrated that consumers do, in fact, respond differently depending upon the visibility of a tax. In their field experiment, displaying tax inclusive prices reduced demand by approximately eight percent. Their broader conclusion was that consumers "underreact to taxes that are not salient." The importance of this research to the District is not that sales taxes are comparable to wastewater charges. They plainly are not. The important principle is that the economic form of a governmental charge does not itself determine whether citizens appreciate its true cost. Presentation, visibility, timing, and salience matter. Accordingly, replacing a property tax with a sewer fee does not necessarily establish greater transparency. It changes the manner in which the charge becomes salient to the customer.

2. Fiscal Illusion and the Public's Understanding of Governmental Costs

A related body of public finance scholarship examines the concept of fiscal illusion. Fiscal illusion generally describes circumstances in which citizens misperceive the actual cost of government because of the manner in which governmental revenues are collected. Whitney Afonso, writing specifically about state and local government finance, describes fiscal illusion as a circumstance in which citizens "systematically misperceive their tax burdens" and, consequently, the cost of government. This concept is directly relevant to the transparency argument presented to the District. The concern supporting a fully rate based system could be stated as follows: when the District collects the cost of wastewater service through both property taxes and sewer rates, customers may not recognize the combined amount as the actual cost of maintaining the wastewater system. Consolidating the revenue requirement into a single sewer charge could therefore make the total cost more apparent. That is a legitimate transparency argument. The fiscal illusion literature, however, also cautions against assuming that changing the form of a governmental charge necessarily produces genuine understanding. A customer presented with a single sewer charge may know the amount of the bill without understanding the governmental and policy decisions embedded within that amount. A customer may still not know:

- ***What portion represents current operations?***
- ***What portion supports capital replacement?***
- ***What portion maintains system capacity?***
- ***How ERUs are calculated?***
- ***Whether different customer classes subsidize one another?***
- ***Why the District selected one allocation methodology rather than another?***

Thus, eliminating one revenue source may simplify the revenue structure without necessarily providing complete fiscal transparency.

3. Revenue Complexity and Fiscal Transparency

The literature concerning municipal revenue diversification provides additional insight. Deborah Carroll examined municipal revenue structures and the relationship among revenue diversification, complexity, fiscal illusion, and financial stability. The theoretical concern she examined is particularly relevant here: as governments employ more mechanisms to collect revenue, citizens may find it more difficult to determine the actual price of governmental services. Carroll explains the underlying theory as follows: **"*As a revenue structure becomes more complex, it becomes more difficult for citizens to develop accurate perceptions regarding the price of public outputs*."**

That proposition provides meaningful support for the argument favoring simplification of the District's revenue structure. The District currently uses both property taxes and rates to fund the same enterprise operation. As a theoretical matter, consolidating those revenue sources could make the total revenue requirement easier to identify. Importantly, however, Carroll's empirical findings were considerably more nuanced than the underlying fiscal illusion theory. Her analysis of municipal governments did not find statistically significant evidence that increasing the number of tax or nontax revenue sources resulted in the increased governmental expenditures predicted by the fiscal illusion hypothesis. This is important because it cautions against treating the theoretical relationship between revenue simplicity and transparency as an established empirical rule.

Revenue simplicity may promote understanding. It does not follow that every diversified revenue structure necessarily obscures governmental costs or that every single source revenue structure necessarily improves public understanding.

4. User Fees and the Benefit Principle

There is nevertheless an important theoretical advantage associated with user fees that should be recognized. Public finance literature has long associated user charges with the benefit principle. Under that principle, the amount an individual pays for a governmental service should bear some relationship to the benefit received or the demand placed upon the service. Richard Bird and Thomas Tsiopoulos, in their work concerning user charges for public services, explain that appropriately designed user charges can serve both a revenue function and an informational function by connecting the cost of governmental services with the public's willingness to pay for those services. This is an important argument supporting cost based rates. A properly designed wastewater rate can communicate: This is the cost associated with providing this service, and this is your allocated share of that cost. That relationship may be more intuitive to customers than a property tax calculated according to assessed property value. But the benefit principle answers a somewhat different question from transparency. It addresses how costs should be allocated, not necessarily whether customers understand those costs. A rate can be closely related to benefits received and still be poorly understood. Conversely, a property tax can allocate costs according to a different policy principle while being completely disclosed and readily identifiable.

5. The Shift From Taxes to Fees Can Reflect Political Considerations as Well as Transparency

The Board should also recognize that the national movement toward user fees has not occurred solely because policymakers determined that fees were inherently more transparent or economically superior. Research concerning local government finance demonstrates that the increased reliance upon user fees has sometimes resulted from political and legal limitations on taxation. For example, Pengju Zhang and Yilin Hou examined local government finance in New England and found that state imposed tax and expenditure limitations contributed to a shift from taxation toward user fees and charges. Their research describes the national movement toward user charges as having important "efficiency and equity implications" and found that fiscal constraints themselves contributed to the substitution of fees for taxes. This literature is relevant because it demonstrates that the label attached to a governmental revenue source should not substitute for substantive analysis. A government can reduce taxes and simultaneously increase fees without reducing the overall amount its citizens pay for governmental services. From the customer's perspective, the economically relevant question is ultimately not whether the payment is called a tax or a fee. It is: ***How much am I paying in total, what am I receiving in return, and why has the government determined that this is my appropriate share?***

6. Transparency Must Include Distributional Transparency

There is another dimension of transparency that is particularly important for the District. Transparency should not be limited to making the total charge more visible. It should also include transparency regarding who pays and why. A fully rate based system may make the total cost of wastewater service more apparent on a customer's bill. At the same time, however, eliminating property taxes would change the distribution of that cost among District customers.

As discussed elsewhere in this memorandum, higher valued residential and commercial properties presently contribute more through property taxation. Eliminating the property tax component would remove that allocation mechanism and transfer the corresponding revenue requirement to rates.

Accordingly, genuine transparency would require the District to explain not merely: "We are eliminating the property tax." It would also require the District to explain: "We are eliminating the property tax, increasing rates to replace that revenue, and this decision will cause certain customers to pay less and other customers to pay more." That second statement provides substantially more information about the actual policy decision. Transparency therefore includes both revenue transparency and distributional transparency.

7. Transparency May Be Achievable Under Either Revenue Model

The academic literature suggests that the Board should be cautious about treating transparency as an inherent characteristic of either taxes or fees. A fully rate based system can be transparent if the District clearly explains:

- The total revenue requirement.
- The methodology used to establish rates.
- The allocation of costs among customer classes.
- The assumptions underlying ERU assignments.
- The capital and operating costs included within rates.

Likewise, the existing hybrid system can be transparent if the District clearly explains:

- The total cost of operating and maintaining the wastewater system.
- The amount recovered through property taxes.
- The amount recovered through rates.
- Why the District uses both revenue sources.
- How the combination affects different classes of customers.

The relevant policy question may therefore not be whether the District must eliminate property taxes to achieve transparency. The question may instead be whether the District can adequately explain and disclose the existing system or any alternative system it chooses.

8. Preliminary Conclusion

The scholarly literature provides meaningful support for the proposition that salience, simplicity, and a visible connection between payment and service can improve public understanding of governmental costs. This lends legitimate support to the argument for a fully rate based system. The literature does not, however, establish that a fee is inherently more transparent than a tax. Research concerning tax salience demonstrates that the manner in which a charge is presented affects whether individuals recognize and respond to it. Fiscal illusion scholarship demonstrates that citizens can misunderstand governmental costs when revenue systems become difficult to comprehend. Research concerning user fees demonstrates that fees can strengthen the relationship between payment and benefits received. At the same time, empirical research concerning municipal revenue complexity cautions against assuming that diversified revenue structures necessarily produce fiscal illusion.

Accordingly, the better conclusion may be that transparency is a characteristic of the overall revenue system and the manner in which that system is communicated, rather than an inherent characteristic of the particular revenue instrument selected. For the District, meaningful transparency should permit a reasonable customer to understand four fundamental matters:

1. **What does the wastewater system actually cost?**
2. **How much am I paying toward that cost?**
3. **Why is my share calculated in this manner?**
4. **Who pays more or less under this system, and why?**

A transition from property taxes to user fees may make some of those answers easier to communicate. It may also create new questions concerning cost allocation and distributional fairness. The Board should therefore evaluate transparency by examining the revenue system as a whole rather than assuming that replacing a tax with a fee necessarily makes the underlying cost more transparent.

Selected Scholarly Authorities

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D. Preliminary Conclusion

The transparency argument presents a legitimate policy consideration, but the analysis does not support the conclusion that a fully rate based system is inherently more transparent than the District’s existing hybrid revenue structure. A fully rate based system offers an important advantage in simplicity. Consolidating the District’s principal revenue requirement into a single sewer charge could make the total amount paid for wastewater service more visible and could create a more intuitive connection between the customer’s payment and the service provided. Those are meaningful advantages and should not be discounted.

At the same time, simplicity and transparency are not necessarily the same thing. A customer may readily understand the amount appearing on a sewer bill without understanding how that amount was calculated, why particular costs were allocated through ERUs, why one customer pays more or less than another, how capital and system availability costs are incorporated into the rate, or what policy judgments underlie the allocation of those costs. Conversely, the use of two revenue sources does not necessarily render the existing system opaque if the District clearly identifies the amount collected through each source and explains the purpose served by each. The scholarly literature discussed above reinforces this distinction. Visibility and salience can improve a customer’s awareness of governmental costs, and excessive complexity can make those costs more difficult to understand. However, the literature does not establish that replacing a tax with a fee necessarily produces greater fiscal transparency. Indeed, the relevant inquiry is broader: whether citizens can reasonably understand the total cost of the governmental service, the amount they are required to contribute, the methodology used to determine that contribution, and the policy rationale supporting the allocation.

This distinction becomes particularly important because the proposed change would not merely consolidate two charges into one. Eliminating property taxes would alter the manner in which the District’s total revenue requirement is distributed among its customers. Higher valued residential and commercial properties presently contribute more through the property tax component. Under a pure rate based system, that contribution would disappear and the lost revenue would necessarily be recovered through rates. Thus, some customers would pay less and others would pay more. Any meaningful claim of increased transparency should disclose that distributional consequence as clearly as it discloses the elimination of the property tax.

Accordingly, the Board should consider at least three distinct dimensions of transparency. First, there is payment transparency, meaning whether a customer can readily identify the total amount being paid to support the District. Second, there is cost transparency, meaning whether a customer can understand what it costs to operate, maintain, replace, and provide capacity for the wastewater system. Third, there is distributional transparency, meaning whether customers can understand how those costs are allocated among residential customers, commercial customers, higher valued properties, lower valued properties, and other customer classes. A fully rate based system may improve the first form of transparency by placing substantially all of the District's principal revenue requirement into a single charge. It does not necessarily improve the second or third. Those forms of transparency depend principally upon the quality of the District's cost allocation methodology and its ability to explain that methodology to the public.

The same observation applies to the current hybrid system. The District could potentially improve transparency without changing its revenue structure by providing customers with clearer information concerning the total cost of wastewater service, the respective amounts recovered through property taxes and ERU based rates, the reasons for maintaining both revenue sources, and the distributional consequences of that allocation. Whether that approach would provide sufficient transparency is ultimately a policy determination for the Board.

The transparency inquiry therefore should not be framed simply as a choice between a "transparent fee" and a "less transparent tax." The more precise question is: Which revenue structure allows the District to most clearly and accurately explain what the wastewater system costs, how those costs are allocated, why that allocation is fair, and what each customer is ultimately required to pay? Viewed in this manner, the case for a fully rate based system rests principally upon simplicity, salience, and the direct relationship between the charge and the service. The case for the existing hybrid system rests upon the proposition that transparency can coexist with multiple revenue sources and that property taxation may transparently reflect separate policy considerations, including shared infrastructure responsibility, property based benefit, ability to pay, and the distribution of system costs among customers with materially different property values.

The preliminary analysis therefore does not establish that either revenue model possesses an inherent transparency advantage sufficient, standing alone, to resolve the policy question. Rather, it suggests that transparency should be evaluated together with equity, cost allocation, financial stability, administrative feasibility, and public understanding. The Board should ultimately determine not merely which system is easier to describe, but which system can be most fully explained and justified to the District's customers.

V. TAX VERSUS FEE LEGAL DIFFERENCES

The distinction between property taxes and user fees is not merely one of terminology or billing methodology. The two revenue sources arise under different legal frameworks and may carry different collection rights, enforcement mechanisms, bankruptcy consequences, and financial risks. Those differences should be considered in evaluating whether the District should replace its property tax revenue with additional user fee revenue. At the same time, the practical differences should not be overstated. The District has historically maintained a very high collection rate for its user fees, and the District has confirmed through preliminary discussions with Salt Lake County that it would retain the ability to certify qualifying delinquent sewer charges to the County for collection even if the District discontinued its property tax levy. Accordingly, the relevant inquiry is not whether property taxes are collectible and user fees are not. Both are highly collectible revenue sources for the District. The more precise inquiry is whether their different legal characteristics create material differences in collection security, timing, bankruptcy exposure, administrative burden, or financial risk.

A. Collection Rights

Property taxes provide governmental entities with particularly strong and reliable collection mechanisms. Property taxes are associated with the underlying real property and are collected through an established statutory system. When property taxes remain unpaid, the obligation is secured through the property tax lien and collection process rather than depending solely upon the financial condition or willingness of the individual property owner to pay. The District benefits from Salt Lake County's established property tax administration and collection system. Property taxes are assessed and collected through regular governmental processes, with statutory enforcement mechanisms available for delinquent amounts. The existence and value of the underlying property provide substantial security for ultimate collection. These characteristics contribute to the predictability and reliability of property tax revenue and reduce the amount of direct collection activity required of the District.

User fees differ in character because they arise from the provision and availability of wastewater service rather than from the assessed value of the property. The District's residential and commercial ERU charges represent governmental charges for wastewater service and are subject to the collection remedies provided by applicable law. Although their legal origin differs from that of a property tax, the District also possesses substantial mechanisms for collecting delinquent user charges. Importantly, the District has undertaken a preliminary inquiry with Salt Lake County regarding whether the County certification and collection process would remain available if the District eliminated its property tax levy. Based upon those discussions, the District understands that eliminating the property tax levy would not eliminate the District's ability to certify qualifying delinquent sewer charges to Salt Lake County for collection through the County's property tax collection process. Thus, even if Salt Lake County were no longer collecting a District property tax, the District could continue to certify qualifying delinquent user charges to the County and have those amounts collected through the County's established collection system.

This is particularly important because County certification already constitutes a meaningful component of the District's collection practices. Some residential customers do not directly pay their District charges during the ordinary billing and collection process. For those accounts, the District may ultimately receive payment when qualifying delinquent amounts are certified to Salt Lake County and collected through the County process. Accordingly, a transition away from property taxation would not require the District to abandon an important collection mechanism upon which it already relies. The continued availability of County certification substantially mitigates one potential collection concern associated with a fully rate based system. The District would not be limited exclusively to voluntary customer payments, ordinary billing procedures, or conventional collection activities. It would retain an important governmental mechanism for the ultimate collection of qualifying delinquent sewer charges.

Nevertheless, the two revenue sources should not be assumed to be legally or practically identical merely because both may involve Salt Lake County at some point in the collection process. Property taxes enter the County collection system as taxes in the ordinary course. User fees are initially billed and collected by the District, and qualifying delinquent amounts must subsequently proceed through the applicable certification process. The timing, administrative requirements, legal status, and potential exposure before certification may therefore differ. The appropriate comparison is consequently not between a collectible property tax and an uncollectible user fee. Rather, the Board should evaluate whether the differences between direct property tax collection and the District's existing user fee collection and certification process are sufficiently material to affect the wisdom of changing the revenue structure.

B. Bankruptcy Considerations

The distinction between property taxes and user fees also becomes important when an individual or commercial customer experiences insolvency or enters bankruptcy. Property tax obligations generally occupy a materially different legal position because applicable tax obligations and liens are associated with the underlying real property. The property therefore provides security for the obligation even when the financial circumstances of the individual taxpayer deteriorate. Utility charges may receive different treatment. Depending upon the nature of the obligation, the timing of the charges, whether an enforceable lien has attached, and the applicable provisions of bankruptcy law, unpaid utility charges may be subject to treatment different from secured property tax obligations. The fact that a delinquent user charge may ultimately be certified for collection does not necessarily mean that the charge occupies precisely the same legal position as a property tax at every stage of the collection process.

This distinction is not merely theoretical for the District. The District has historically experienced circumstances in which unpaid user fee obligations were affected by bankruptcy proceedings. This occurred particularly during the economic disruption associated with the Great Recession, when certain amounts ultimately had to be written off. Similar risks may arise when commercial customers become insolvent, cease operations, or seek bankruptcy protection. The historical magnitude of these losses should be quantified before the Board draws conclusions concerning their significance. If historical bankruptcy related losses and uncollectible accounts have been immaterial, the legal distinction between taxes and fees may have relatively little practical effect upon the District's financial position. If those losses have been meaningful, increasing the proportion of District revenue collected through user fees deserves greater consideration. The District should therefore examine its actual historical experience, including the frequency of residential and commercial bankruptcies, amounts affected, amounts ultimately recovered, amounts written off, and whether County certification materially reduced those losses. Actual District experience should provide a more useful basis for evaluating risk than relying solely upon the theoretical legal distinctions between the two revenue sources.

C. Financial and Collection Risk Associated With a Transition

A transition to a fully rate based system would necessarily increase the percentage of the District's revenue collected initially through customer rates. That fact warrants analysis, but it does not necessarily establish that the transition would create a significant collection problem. The District's historically strong collection performance provides substantial reason for confidence. Moreover, the continued availability of Salt Lake County certification means that eliminating the property tax would not eliminate the District's access to an important governmental collection mechanism. These considerations substantially reduce the concern that moving to a fully rate based model would expose the District to the risks ordinarily associated with relying exclusively upon unsecured customer accounts.

The Board should nevertheless evaluate whether increasing user rates to replace property tax revenue could have practical consequences for collection performance. Higher periodic sewer bills would make a greater portion of each customer's total District contribution immediately payable through the District's billing system. For some customers, particularly households experiencing financial hardship or businesses experiencing economic distress, a larger periodic payment obligation could potentially affect delinquency rates, payment arrangements, collection activity, or the amount ultimately requiring County certification.

There may also be a timing consideration. Property tax revenue is collected through the established annual property tax process. User fees are billed by the District and, when unpaid, may not result in collection until the delinquent amount has proceeded through the District's billing procedures and ultimately been certified to the County. Even if the District ultimately collects substantially all amounts owed, differences in the timing of receipt could affect cash flow, administrative workload, and financial planning. The analysis should therefore include actual District data concerning historical delinquency rates, County certifications, bankruptcy losses, write offs, collection costs, and the period between initial delinquency and ultimate collection. Those historical figures can then be applied to the substantially larger amount of user fee revenue that would exist under a fully rate based system.

The Board should also distinguish between residential and commercial collection experience. The consequences of an individual residential delinquency may be relatively small, while the insolvency or closure of a significant commercial customer could involve materially greater amounts. Because eliminating property taxes may also alter the relative contributions of commercial and residential customers, collection risk should be considered together with the broader distributional analysis contained elsewhere in this memorandum.

D. Preliminary Conclusion

The legal and collection differences between property taxes and user fees are relevant to the Board's consideration, but the preliminary analysis does not suggest that those differences, standing alone, resolve the larger policy question. Property taxes provide substantial collection security through an established statutory system tied directly to the underlying real property. They also provide predictable revenue and minimize the District's direct involvement in collecting the tax itself. Those characteristics constitute legitimate advantages of retaining property tax revenue.

User fees have different legal characteristics and may present different issues in bankruptcy or during periods of customer financial distress. The District's own experience confirms that user fee obligations have occasionally been affected by bankruptcy and have, in some circumstances, resulted in amounts that could not ultimately be collected. On the other hand, the practical collection distinction is materially reduced by the District's existing collection experience and available remedies. The District historically maintains a very high collection rate, and some customers who do not pay directly are ultimately collected through certification to Salt Lake County. Most importantly, based upon preliminary discussions with the County, the District understands that this certification mechanism would remain available even if the District eliminated its property tax levy. Accordingly, eliminating property taxes would not mean exchanging a secured governmental collection system for an ordinary unsecured billing system. The District would continue to possess significant statutory collection remedies, including the ability to certify qualifying delinquent charges to Salt Lake County.

The more appropriate question is therefore whether the remaining differences in collection timing, bankruptcy treatment, administrative responsibility, and financial exposure are material enough to influence the Board's policy decision. That determination should be based primarily upon the District's actual historical experience and quantitative financial data. Before eliminating the property tax component, the District should determine how much user fee revenue has historically become delinquent, how much has been certified to Salt Lake County, how long collection typically takes, how much has been affected by bankruptcy, how much has ultimately been written off, and what additional exposure would result if the amount collected through user fees materially increased.

The preliminary conclusion is therefore neither that property taxes are necessary to assure collection nor that the collection characteristics of the two revenue sources are identical. Rather, property taxes appear to provide certain legal and administrative advantages, while the District's County certification authority substantially mitigates many of the collection concerns associated with user fees. Further analysis should determine whether the remaining differences are financially significant enough to constitute a meaningful factor in deciding whether to retain the District's existing hybrid revenue structure.

VI. EQUITY AND DISTRIBUTIONAL CONSEQUENCES OF ELIMINATING PROPERTY TAXES

Eliminating the District's property tax would not merely change the form in which the District collects revenue. It would change the allocation of the District's financial responsibility among residential and commercial customers. Under the District's existing hybrid model, revenue is allocated through two principal mechanisms. ERU based charges allocate a portion of the District's revenue requirement according to assigned wastewater demand. Property taxes allocate another portion according to taxable property value. Because those two methodologies allocate costs differently, eliminating the property tax component and replacing that revenue through rates necessarily changes who ultimately pays the District's costs.

The preliminary analysis indicates that the redistribution would occur in at least two significant ways. First, a portion of the revenue responsibility would shift from higher valued residential properties, which are concentrated more heavily in the eastern portions of the District, toward lower and moderately valued residential properties in the central and western portions of the District. Second, a portion of the revenue responsibility currently borne by commercial properties through property taxation would shift into the rate structure and therefore be borne in part by residential customers. For many residential customers, these two effects would occur simultaneously.

A. The District's Current Allocation of Costs

The District's present hybrid revenue model does more than employ two different collection mechanisms. It employs two different cost allocation mechanisms. Residential and commercial ERU based charges allocate costs according to assigned ERUs. The rate component therefore reflects estimated wastewater demand and the characteristics of the customer's use. Property taxes allocate costs according to taxable property value. A property with greater assessed value contributes more through the property tax component than a lower valued property subject to the same tax rate. The combination of these two mechanisms creates the existing distribution of the District's revenue responsibility. Customers contribute through rates based upon assigned ERUs and through property taxes based upon property value. Accordingly, eliminating one of those mechanisms cannot be distributionally neutral. Even if the District collects precisely the same total amount of revenue after the change, the individuals and businesses providing that revenue will not necessarily be the same.

B. Residential Distributional Consequences

The District contains substantial differences in residential property values. Generally speaking, residential property values increase as one moves east through the District. Portions of the eastern District contain some of the most valuable residential properties in Utah. Conversely, the District also includes substantially more modestly valued residential properties in Historic Sandy, White City, neighborhoods west of 700 East, and other areas farther west. Under the current hybrid model, a residential dwelling unit generally pays the same ERU based rate as another similarly classified residential dwelling unit, regardless of the value of the residence.

The property tax component, however, produces a substantially different contribution based upon taxable value. Accordingly, two residential customers may each pay the same ERU based rate while paying dramatically different amounts in property tax. A highly valued residence in the eastern portion of the District may presently contribute several times the property tax paid by a more modestly valued residence elsewhere in the District. The current hybrid model therefore causes higher valued residential properties to bear a greater portion of the District's total revenue requirement. Eliminating the property tax removes that differential. Once the property tax component is eliminated, the owner of the higher valued residence no longer makes the greater contribution associated with the taxable value of that property. The revenue formerly generated through that larger property tax payment does not disappear. The District must recover the same revenue through increased rates.

The result is a redistribution of responsibility. Higher valued residential properties that currently contribute substantially more through property taxation will generally experience a reduction in their relative contribution. Lower and moderately valued residential properties that presently contribute less through property taxation will necessarily bear a greater proportion of the replacement rate revenue. The geographic consequence follows directly from the distribution of property values within the District. Because higher valued residential properties are concentrated more heavily in the eastern portions of the District, eliminating the property tax generally shifts a portion of the District's revenue responsibility from east to west. Based upon the District's preliminary analysis, a substantial portion of residential customers located approximately from 1300 East westward are likely to pay more when their total District contribution is compared under the existing hybrid structure and a fully rate based structure.

The precise amount of the increase for any particular customer requires additional financial modeling. The direction of the shift, however, follows from the existing allocation methodology.

C. Commercial Distributional Consequences

Commercial customers presently contribute to the District through both property taxes and ERU based charges. A commercial property's ERU based charge is determined through the District's existing rate structure. Separately, the commercial property contributes property tax revenue based upon its taxable value. For certain commercial properties, the property tax contribution is substantial. A highly valued retail, office, industrial, or other commercial property may therefore contribute materially to the District's revenue requirement through property taxation in addition to its ERU based charges. If the property tax is eliminated, that commercial property tax contribution disappears. The District's overall revenue requirement does not disappear with it. The lost revenue must be recovered through increased rates.

Because the replacement revenue would be collected through the District's rate structure, it would be distributed across the existing ERU base rather than according to the taxable values of the commercial properties that previously generated the tax revenue. The practical consequence is that some commercial properties that presently make substantial property tax contributions will pay less in total relative to the existing hybrid structure. The revenue responsibility formerly borne by those commercial properties through taxation must then be absorbed elsewhere within the rate structure. Residential customers necessarily bear a portion of that replacement revenue.

A large retail property illustrates the phenomenon. Under the current system, a property such as Walmart contributes to the District through both its assigned ERUs and its property tax obligation. If the property tax component is eliminated, the tax contribution disappears, while the rate component remains. The revenue formerly received through the property tax must then be recovered through increased rates paid across the District's customer base. Accordingly, eliminating the property tax would create not only a geographic redistribution among residential customers, but also a redistribution between commercial and residential customers.

D. Combined Effect on Residential Customers

The combined effect of these two redistributions is particularly significant. Many residential customers would not experience only one cost shift. They would experience both. The first shift results from differences in residential property value. A lower or moderately valued homeowner presently contributes less through property taxation than the owner of a substantially higher valued residence. Eliminating the property tax removes that differential and shifts a greater proportion of the replacement revenue into the residential rate structure. The second shift results from commercial property taxation. Commercial properties presently contribute a portion of the District's revenue requirement through property taxes. Eliminating that commercial tax contribution also moves revenue responsibility into the rate structure. A residential customer therefore may assume additional responsibility from two separate sources.

SANDY SUBURBAN IMPROVEMENT DISTRICT

PROPERTY TAX ANALYSIS

CATEGORY	MACU	WHITE CITY	PEPPERWOOD
CURRENT			
Annual rate	$2,250.00	$180.48	$180.48
Property tax	$26,791.40	$55.00	$175.00
TOTAL	$29,041.40	$235.48	$355.48
PROPOSED			
Annual rate	$365.87	$352.08	$352.08
DIFFERENCE	($28,675.53)	$116.60	($3.40)

Analysis compares current annual cost (rate + property tax) to proposed cost under a fully rate-based system. Positive difference indicates an increase. Negative difference indicates a decrease.

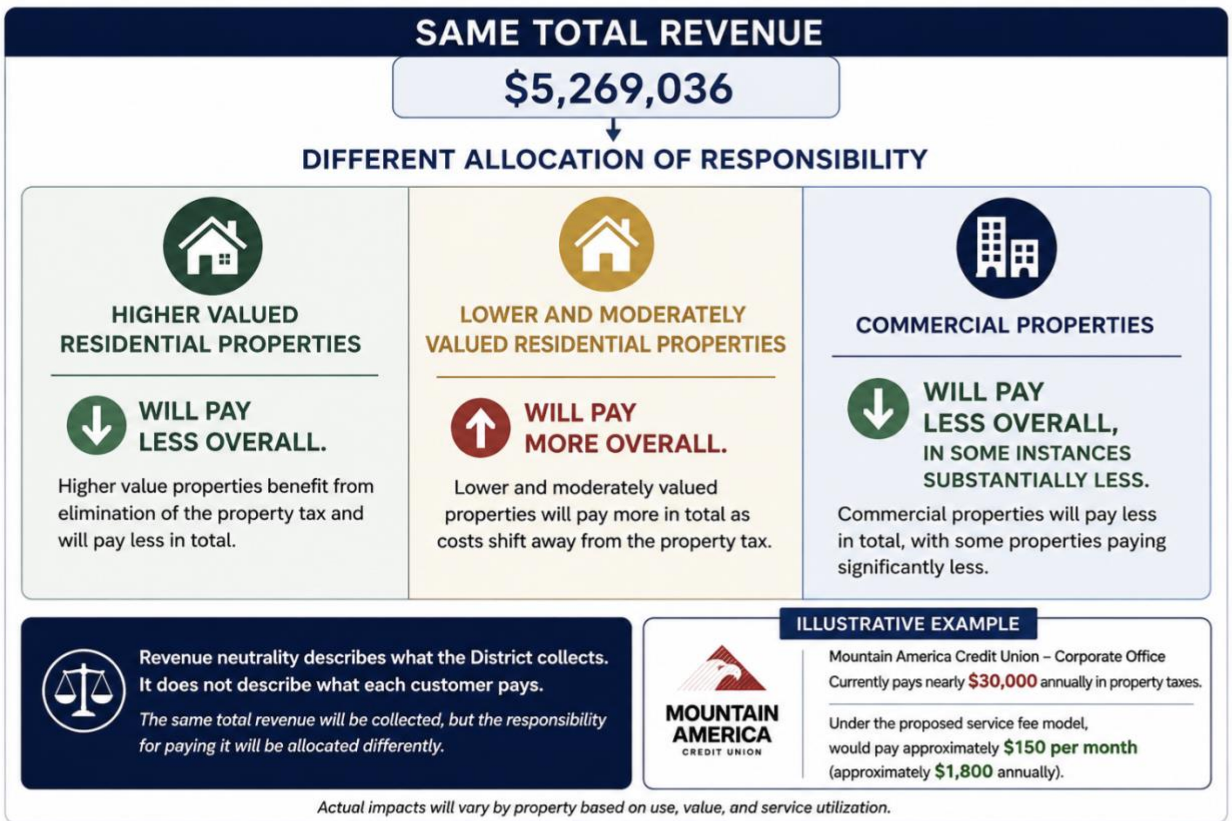
First, the customer may absorb part of the revenue responsibility previously borne by higher valued residential properties. Second, the same customer may absorb part of the revenue responsibility previously borne by commercial property. These effects occur simultaneously. For residential customers in lower and moderately valued areas of the District, particularly in the central and western portions of the District, the combined effect may therefore be materially greater than the effect of either shift considered independently. This is one of the most important consequences for the Board to understand.

The proposal should not be viewed simply as eliminating a tax and replacing it with an equivalent amount of rate revenue. At the District wide level, the transition could be designed to produce the same aggregate revenue. At the individual customer level, however, the transition would necessarily redistribute financial responsibility. Some customers will pay less. Some customers will pay more. The preliminary analysis indicates that higher valued residential properties will generally benefit from the removal of the property value component. Commercial properties with substantial property tax contributions may also experience a reduction in their relative contribution. Conversely, lower and moderately valued residential properties will generally bear a greater proportion of the District's overall revenue requirement through increased rates. For many residential customers, particularly those located in the central and western portions of the District, the residential property value shift and the commercial shift will compound one another.

E. Revenue Neutrality Does Not Mean Customer Neutrality

This distinction deserves particular emphasis. The District could eliminate the property tax, increase rates, and collect precisely the same total amount of revenue that it presently collects. From the District's institutional perspective, such a transition could therefore be described as revenue neutral. Revenue neutrality does not mean customer neutrality. A revenue neutral transition means only that the District collects the same aggregate amount of money. It does not mean that the same customers provide that money in the same proportions. If one dollar of property tax revenue is eliminated and one dollar of rate revenue is added, the District remains financially whole. The individual or business paying the replacement dollar, however, may not be the person or business that previously paid the property tax dollar. That is the central distributional consequence of the proposal.

Accordingly, any public description of the proposed change as revenue neutral should also make clear that the transition would not be neutral among customers. It would change the allocation of costs among residential properties of different values, between eastern and western portions of the District, and between commercial and residential customers.



F. Preliminary Conclusion

The preliminary analysis indicates that eliminating the District's property tax and replacing that revenue through rates would produce a meaningful redistribution of the District's financial responsibility. The first redistribution would occur among residential customers. Higher valued residential properties, particularly those concentrated in the eastern portions of the District, presently contribute substantially more through property taxes than lower valued residential properties. Eliminating the property tax removes that differential and shifts a greater proportion of the revenue requirement toward the residential rate base.

The second redistribution would occur between commercial and residential customers. Commercial properties presently contribute significant property tax revenue in addition to their ERU based charges. When that property tax contribution is eliminated and the revenue is replaced through rates, residential customers necessarily bear a portion of the replacement revenue. For many residential customers, particularly those owning lower and moderately valued homes in the central and western portions of the District, these two effects would operate together.

The precise dollar impact upon individual customers will require additional financial modeling. The direction of the redistribution, however, is sufficiently apparent from the District's existing revenue structure to warrant serious consideration by the Board. Eliminating the property tax would therefore do more than change the mechanism through which the District collects its revenue. It would change the allocation of financial responsibility among District customers and, ultimately, who pays the District's revenue requirement. That distributional consequence should be treated as one of the central policy considerations in determining whether the District should retain its existing hybrid model or transition to a fully rate based system.

Importantly, this fundamental consequence does not disappear if the District subsequently adopts a different methodology for allocating user charges. The District could continue using ERUs, incorporate winter water consumption or meter data, or develop another cost based methodology for calculating customer charges. Each alternative could alter the degree to which costs are redistributed among individual customers, and a more individualized methodology could mitigate some inequities. Nevertheless, permanently eliminating the property tax necessarily removes property value as one component of the District's cost allocation structure. The revenue presently contributed on the basis of property value must then be recovered from customers through some other methodology. Accordingly, while the choice of billing methodology may materially affect how the resulting redistribution occurs, it does not eliminate the redistribution created by removing property taxation from the District's revenue structure.

VII. FINANCIAL STABILITY AND LONG-TERM PLANNING

An important consideration in evaluating a transition from the District's current hybrid revenue structure to a fully rate based system is the effect upon long term financial stability. The District operates critical public infrastructure requiring consistent funding for operations, maintenance, regulatory compliance, capital replacement, and reserves. The revenue structure should therefore be evaluated not only for transparency and equity, but also for predictability, financial flexibility, and long term sustainability.

A. Revenue Predictability and Diversification

The District's current hybrid model provides two principal revenue sources: property taxes and ERU based rates. This provides revenue diversification and reduces dependence upon a single funding source. Property tax revenue has historically provided a predictable annual revenue stream collected through an established governmental process. The certified rate is highly predictable. ERU based rates also provide predictable revenue, particularly given the District's strong collection history and ability to certify delinquent charges to Salt Lake County. A fully rate based system would concentrate a greater portion of the District's revenue within a single funding mechanism. This does not necessarily create financial instability. Many utilities operate successfully using rate revenue. It does, however, increase the importance of maintaining appropriate rates and making timely rate adjustments as operating and capital costs increase.

The relevant question is whether the existing diversification provides a meaningful financial advantage and, if so, whether eliminating that advantage is justified by the benefits of a fully rate based system.

B. Capital Needs, Reserves, and Financial Flexibility

The District's financial obligations extend well beyond annual operations. Wastewater infrastructure requires continuing investment in system rehabilitation, replacement of aging infrastructure, regulatory compliance, capacity, and other capital improvements. These obligations exist regardless of short-term fluctuations in customer demand. The District must also maintain appropriate reserves for emergencies, unexpected infrastructure failures, regulatory changes, economic downturns, and unanticipated capital requirements. A sound revenue structure must therefore provide sufficient flexibility to address both anticipated and unexpected financial obligations.

Under a fully rate based model, future increases in operating expenses, capital requirements, or reserve needs would generally need to be addressed through rates. The Board should consider whether this would require more frequent or larger rate adjustments and whether concentrating the District's revenue requirement within rates would materially reduce financial flexibility. This does not mean that a fully rate based system cannot adequately support capital investment and reserves. Rather, the question is whether eliminating a historically stable revenue source provides a financial benefit sufficient to justify greater reliance upon rates.

C. Bond Capacity and External Financial Review

The District currently has no outstanding general obligation bond indebtedness. Nevertheless, future infrastructure needs may require financing. The effect of a revenue restructuring upon future borrowing capacity should therefore be considered before eliminating an existing revenue source. Financial advisors, lenders, bond purchasers, and rating agencies may consider revenue stability, collection history, reserves, rate setting authority, financial flexibility, and the District's willingness and ability to adjust rates when necessary. Revenue diversification may be viewed favorably because it reduces reliance upon a single funding source. Conversely, a fully rate based system may also be financially sound if supported by adequate rates, strong collections, appropriate reserves, and demonstrated rate setting discipline. Before implementing a significant change, the District should consult its financial advisor and, as appropriate, bond counsel regarding whether eliminating property tax revenue could affect future financing costs, credit considerations, or borrowing flexibility.

D. Preliminary Conclusion

Both the existing hybrid model and a fully rate based model can provide financially sustainable funding. The relevant question is therefore comparative: whether eliminating property tax revenue would materially affect the District's revenue stability, capital planning, reserves, borrowing capacity, or financial flexibility. The current hybrid model provides diversification through two historically reliable revenue sources. A fully rate based model would simplify the revenue structure but place greater reliance upon rates and future rate adjustments. Before changing the existing model, the Board should understand whether that increased concentration creates any material financial consequence. Accordingly, the financial analysis should include consultation with the District's financial professionals and modeling of anticipated operating expenses, capital requirements, reserves, and future rate needs under both revenue structures. The Board can then evaluate the proposed change based upon its actual financial consequences rather than upon assumptions regarding either model.

VIII. PUBLIC POLICY AND ACADEMIC RESEARCH

The District's consideration of a fully rate based system implicates broader principles of public finance. Academic literature does not establish a universally preferred method for funding public infrastructure. Instead, the literature identifies competing principles involving the benefit received from governmental services, ability to pay, fiscal transparency, revenue stability, and the distinction between individual services and community infrastructure. These principles provide useful context for the Board's policy decision. They do not, however, dictate a particular outcome.

A. Competing Principles of Public Finance

Public finance literature generally recognizes two important principles for allocating governmental costs: the benefit principle and the ability to pay principle. The benefit principle generally provides that those receiving or using a governmental service should bear costs associated with providing that service. User fees are consistent with this principle because they create a relationship between the service provided and the amount charged. The District's ERU based rates incorporate this concept by allocating costs according to estimated wastewater demand.

The ability to pay principle takes a different approach. It recognizes that governmental costs may appropriately be allocated according to economic capacity rather than exclusively according to individual consumption. Property taxation incorporates this principle because higher valued properties generally contribute more than lower valued properties.

Neither principle provides a complete answer for wastewater infrastructure. Wastewater service provides a direct benefit to individual customers, but the existence of a functioning wastewater system also provides broader community benefits. Those benefits include protection of public health, environmental compliance, support for economic development, infrastructure reliability, and protection of property values. The District's current hybrid model incorporates elements of both principles. Rates reflect estimated use, while property taxes allocate a portion of the District's revenue requirement according to property value and the broader benefits associated with community infrastructure.

B. Transparency and Fiscal Illusion

As discussed more fully in Section IV, academic literature concerning fiscal illusion and tax salience suggests that the manner in which governmental costs are presented can affect how citizens perceive those costs. Revenue systems that are unnecessarily complex may make the total cost of government more difficult to understand. Conversely, greater visibility of a governmental charge may increase public awareness of its cost. The literature does not establish, however, that a fee is inherently more transparent than a tax. A single sewer charge may make the total payment more visible while leaving customers uncertain about how the charge was calculated or how costs are distributed among customers. Likewise, a hybrid system can be transparent if the government clearly explains the total cost of service, the sources of revenue, and the reasons for the allocation. Accordingly, the scholarly literature supports the importance of transparency but does not establish that eliminating property taxes is necessary to achieve it.

C. Community Infrastructure Component

Wastewater service is not exclusively a commodity consumed by an individual customer. The collection system is also permanent public infrastructure that serves and benefits property throughout the District. The availability of a functioning wastewater system supports public health, development, economic activity, environmental protection, and property values regardless of the precise amount of wastewater generated by a particular property during a particular period. This distinction is relevant to the meaning of a cost based system. Some District costs can reasonably be associated with estimated customer demand. Other costs arise from constructing, maintaining, replacing, and preserving an infrastructure network that must remain available to serve the community as a whole.

Property taxation can reflect this broader infrastructure principle. Property owners contribute toward an infrastructure system that serves their property and supports the community in which that property exists. Under this view, the property tax component is not necessarily inconsistent with cost based funding. Rather, it may represent a policy determination that some portion of the cost of maintaining community infrastructure should be allocated according to property ownership and value rather than exclusively according to estimated wastewater demand. The Board's policy question is therefore not simply whether customers should pay for the wastewater service they use. They unquestionably should. The additional question is whether some portion of the District's costs appropriately reflects the broader value of maintaining wastewater infrastructure available to all property within the District.

D. Application to the District

The principal lesson from the academic literature is that the Board is considering competing legitimate principles rather than choosing between a theoretically correct and incorrect revenue model. A fully rate based system would place greater emphasis upon the benefit principle and the direct relationship between payment and wastewater service. The existing hybrid system recognizes that principle through ERU based rates while also incorporating property value, broader community benefit, revenue diversification, and ability to pay. Accordingly, the policy question cannot be resolved solely by determining which revenue source appears simpler or more directly connected to wastewater service. The Board must instead determine which combination of principles most appropriately reflects the nature of the District and the infrastructure it operates.

E. Preliminary Conclusion

The academic literature does not establish that taxes or user fees are inherently superior methods of funding wastewater infrastructure. Both are recognized governmental revenue mechanisms, and each reflects different principles of public finance. The literature does support several conclusions relevant to the Board's analysis. Charges should be understandable. Cost allocation should have a rational relationship to the policy principles selected by the governing body. The distributional consequences of those choices should be understood. The revenue structure should also provide sufficient stability to maintain essential infrastructure over the long term.

The benefit principle also need not be limited to measured or estimated wastewater consumption. Property may receive a benefit from the existence and availability of wastewater infrastructure itself. A functioning collection system permits development and continued occupancy, protects public health and the environment, supports economic activity, and contributes to the utility and value of property. Accordingly, the policy question is not necessarily a choice between a user who receives a benefit and a property owner who does not. Both may receive benefits, although the nature of those benefits differs.

Accordingly, academic research provides a framework for evaluating the District's choices rather than a predetermined answer. The Board's ultimate determination is a policy judgment concerning the appropriate balance among use, community benefit, ability to pay, transparency, equity, and financial stability.

IX. PUBLIC TRUST, COMMUNICATION, AND PUBLIC ACCEPTANCE

A significant change to the District's longstanding revenue structure should be evaluated not only on its financial and legal merits, but also on whether the change can be credibly explained to the public and implemented without unnecessarily impairing public confidence in the District. The District is not merely managing a revenue structure. It is managing a public institution and an ongoing relationship with its customers. A revenue model may be financially sound and legally permissible, but its practical success will depend in part upon whether customers understand why the change is being made, believe that the resulting allocation is fair, and have confidence that the District is acting responsibly.

This consideration is particularly important here because the contemplated change would produce different financial consequences for different customers. As discussed in Section VI, some customers would pay less and others would pay more. Accordingly, the communication issue is not simply how to explain the elimination of a property tax. The District would need to explain why the change is appropriate notwithstanding the resulting redistribution of costs.

A. Public Trust and Institutional Reputation

Before undertaking a significant restructuring, the Board should consider the District's existing relationship with its customers. Relevant considerations include the District's reputation for financial management, the reliability and quality of its service, the level of customer satisfaction, and the extent to which customers presently understand the District and its charges. If the District currently enjoys substantial public confidence and provides reliable service at a comparatively reasonable cost, that institutional reputation has value. A change should therefore have a sufficiently identifiable public benefit to justify the possibility of creating confusion or controversy concerning a system that customers may presently regard as functioning well.

The principal reputational risk is that customers may perceive the proposal differently from the manner in which the Board intends it. A proposal intended to improve transparency could instead be perceived as eliminating a tax while increasing a fee. Customers whose rates increase may understandably focus upon the amount they are required to pay rather than upon the theoretical distinction between the two revenue sources. The District should therefore anticipate straightforward questions. Customers may ask why the property tax existed if rates can now fund the entire system. They may ask whether the District is collecting more revenue. Customers who pay more may ask why their costs increased while other customers received a reduction. These are legitimate questions and would require clear answers.

The relevant consideration is whether the proposed change would strengthen public confidence by making the District's finances more understandable, or whether it could create skepticism concerning an otherwise well functioning public institution.

B. Ability to Communicate the Change

The practical test of the transparency rationale is whether the proposed system can actually be explained more clearly to the average customer than the existing system. Any communication strategy would need to explain the existing hybrid model, the reason for considering a change, the amount of revenue being replaced, and the effect upon individual customers. Most importantly, the District would need to explain why some customers will pay more while others will pay less. That last issue is particularly significant. Describing the proposal merely as the elimination of a property tax could be incomplete if the corresponding rate increase and distributional consequences were not equally clear. Similarly, describing the proposal as revenue neutral could create misunderstanding unless customers are also informed that revenue neutrality for the District does not mean that the change is financially neutral for individual customers.

The District should therefore determine whether the proposed change can be described accurately in a concise and understandable manner. If explaining the change requires extensive qualifications concerning property values, commercial contributions, ERUs, cost shifting, and revenue neutrality, the Board should consider whether the proposed structure actually achieves the intended improvement in transparency. Conversely, if the District can clearly demonstrate the existing payment, the proposed payment, the reason for the difference, and the policy rationale supporting the change, a comprehensive communication effort may enhance public understanding.

C. Public Engagement and Implementation

If the Board ultimately determines that a transition should be considered, public communication should occur before implementation rather than after the policy decision has effectively been completed. The District could provide customers with direct comparisons showing their existing total District contribution and their estimated contribution under the proposed system. Public meetings, written materials, the District's website, public hearings, and other educational efforts could then explain the rationale and consequences of the proposal. Providing individualized or representative comparisons may be particularly important. Abstract explanations of tax policy and rate methodology are unlikely to answer the question most customers will immediately ask: "What does this mean for me?"

The Board should also consider the administrative and financial cost of a substantial public engagement effort. If the principal justification for changing the revenue structure is improved transparency, the amount of effort necessary to make the new structure understandable is itself relevant to determining whether the change produces a meaningful public benefit. If implementation proceeds, the Board could also consider whether advance notice, prospective bill comparisons, or a phased transition would reduce customer confusion or financial disruption. Those implementation questions should follow, rather than precede, a determination that the underlying policy change is warranted.

D. Public Outreach and Community Engagement

If the Board determines that a significant change to the District's revenue structure warrants further consideration, meaningful public outreach would likely be necessary before any final implementation decision. Given the complexity of the issues and the differing financial consequences among customers, this effort would need to extend beyond the ordinary public hearing process. A comprehensive outreach effort would likely require the assistance of professional public engagement or communications consultants. The District could also consider establishing a citizens advisory committee representing different geographic areas, residential customers, commercial customers, and other affected interests. Smaller workshops or focus groups could provide opportunities to explain the proposal, identify areas of misunderstanding, and obtain meaningful public feedback before presenting a final recommendation to the Board.

The District would also need a coordinated communications program. This could include regular newsletter communications, dedicated online information, explanatory materials, public presentations, frequently asked questions, and representative customer comparisons. To the extent reasonably practicable, direct communication with individual customers could provide the clearest explanation of how the proposed change would affect them. This would be a substantial undertaking. Professional consultants, public meetings, workshops, printed materials, online resources, staff time, customer specific analysis, and direct communications would require both financial and administrative resources. The cost should be identified as part of the overall cost of considering and potentially implementing the proposed change rather than treated as incidental to the transition.

The Board should therefore consider whether the anticipated benefits of changing the revenue structure justify the public outreach effort and expense necessary to implement the change responsibly. If increased transparency is a principal objective of the proposal, a meaningful investment in public understanding would likely be essential to achieving that objective.

F. Preliminary Conclusion

Public trust and communication should not independently determine the District's revenue policy. A sound policy should not be rejected merely because it requires explanation. Likewise, the existing revenue structure should not be retained merely because it is familiar. The more important question is whether the benefits expected from changing the revenue structure are sufficiently substantial to justify the financial, administrative, institutional, and public engagement consequences associated with the change.

This consideration is particularly important because increased transparency is one of the principal reasons for considering a fully rate based system. The Board should therefore evaluate whether the proposed change would actually make the District's finances more understandable to its customers. A system that appears simpler in theory does not necessarily improve transparency if customers have difficulty understanding why their individual costs changed or why financial responsibility shifted among residential properties, geographic areas, and commercial and residential customers. A responsible transition would also require a substantial public outreach effort. Professional consultants, a citizens advisory committee, workshops, public meetings, written and online communications, customer comparisons, and potentially direct customer outreach would require meaningful expenditures of District funds and significant commitments of Board and staff time. Those costs and administrative demands should be considered part of the proposed change itself.

The Board should therefore consider not only whether a fully rate based system can be explained, but whether the resulting improvement in public understanding would be sufficient to justify the undertaking necessary to achieve it. If substantial public education is required merely to explain why some customers will pay more while others will pay less, that circumstance is relevant to whether the proposed change actually advances the stated objective of greater transparency. Conversely, if further analysis demonstrates that the new structure provides a meaningful improvement in transparency, fairness, or accountability, and the District can clearly explain the resulting allocation of costs and individual customer impacts, the required public outreach may constitute a worthwhile investment.

Ultimately, the relevant inquiry is whether the proposed change would produce a meaningful public benefit sufficient to justify both its substantive consequences and the considerable undertaking required to explain and implement it responsibly.

X. COMPARABLE UTAH SEWER DISTRICT PRACTICES

Comparable governmental practices provide useful context for the Board's consideration of the District's revenue structure. The purpose of this comparison is not to suggest that the District should retain a particular funding model merely because other districts use it. Rather, the comparison helps determine whether the District's existing structure is unusual, whether a fully rate based structure is common among comparable Utah entities, and whether there is experience from other districts that may inform the Board's decision.

A. Prior District Comparative Analysis

The District has previously undertaken a comparative analysis of sewer collection costs among districts located along the I 15 corridor in Utah. That analysis was presented to the Board and provides a useful starting point for the present review. The prior analysis indicated that the District compared favorably with other sewer collection districts on overall customer cost. The District was the second lowest cost district among the sewer collection districts included in that comparison. The study also demonstrated that the District's use of both property taxes and service fees is not unusual. Of the districts included in the comparison, all but one collected revenue through both service fees and property taxes. This information is important for two reasons. First, the District's hybrid revenue structure appears to be consistent with the predominant practice among the Utah sewer collection districts previously studied. Second, the District has maintained comparatively low overall customer costs while operating under that hybrid structure.

Neither fact establishes that the existing model should remain unchanged. They do, however, provide relevant context. The Board is not considering whether to replace an unusual or demonstrably unsuccessful funding structure. Rather, it is considering whether to modify a revenue model that is commonly used among comparable Utah districts and under which the District has historically maintained comparatively low customer costs.

B. Additional Comparative Review

The prior study was designed principally to compare customer costs and was not undertaken specifically to answer the questions presented by this memorandum. Accordingly, additional comparative analysis may be useful before the Board makes a final decision. That review should be focused and practical. For comparable Utah sewer collection districts, the District should determine the relative amounts collected through property taxes and service rates, whether any comparable district operates without property tax revenue, and whether any district has recently transitioned from a hybrid model to a fully rate based model. If a comparable district has eliminated its property tax, that experience would be particularly instructive. The District should determine why the change was made, how rates were affected, whether costs shifted among customer classes, whether the anticipated transparency benefits were realized, and whether the district experienced any significant financial or public acceptance issues following the transition.

The objective should not be to conduct an exhaustive survey of every governmental utility in Utah. The most useful comparison is with entities that perform substantially similar wastewater collection functions and operate under reasonably comparable circumstances.

C. Preliminary Conclusion

The information presently available suggests that the District's hybrid funding structure is consistent with the predominant practice among the Utah sewer collection districts previously studied. The District's prior comparative analysis also indicates that the existing model has operated while maintaining comparatively low overall customer costs. Those facts do not resolve the policy question before the Board. A commonly used practice is not necessarily the best practice, and the Board may determine that a different model better advances its objectives.

They do, however, affect the nature of the inquiry. The question is not whether the District should abandon an unusual financing model in favor of the model generally used by its peers. Based upon the prior comparison, the opposite appears to be true. A fully rate based model would represent a departure from the predominant funding approach among the comparable Utah sewer collection districts previously studied. Before making that departure, the Board should understand whether comparable districts have successfully made similar transitions and, if so, whether those transitions produced measurable improvements in transparency, equity, administration, or financial performance.

XI. ADDITIONAL PROFESSIONAL ANALYSIS AND DUE DILIGENCE

A. Need for Additional Professional Analysis

The preliminary analysis demonstrates that the District already knows a considerable amount about the likely consequences of eliminating property tax revenue. The amount of revenue to be replaced can be calculated. The general direction of the resulting cost shifts can be identified. The District can also reasonably anticipate many of the legal, financial, administrative, and public communication issues associated with a transition. At the same time, there remains a substantial amount that the District does not yet know. Some of these questions have been identified and can be answered through additional analysis. Others may emerge only after more detailed financial modeling and professional review. A change of this magnitude involves numerous interacting variables, and the District should be careful not to assume that the issues identified in this preliminary review constitute an exhaustive list.

If the Board wishes to continue considering a significant change to the District's revenue structure, staff recommends retaining an independent financial consultant with specific expertise in governmental finance, utility rates, taxation, and special district funding. Firms such as Zions Public Finance, Lewis Young Robertson & Burningham, or another similarly qualified independent advisor could assist the District in testing the preliminary conclusions contained in this report, identifying issues that may not yet have been considered, and developing the financial modeling necessary for an informed Board decision.

The purpose of retaining an outside expert would not be to advocate for either the existing hybrid model or a fully rate based system. Rather, the purpose would be to subject the proposal to an independent and comprehensive analysis before the District materially alters a longstanding revenue structure. An independent consultant could evaluate the assumptions underlying the analysis, model customer impacts, examine long term financial consequences, review comparable governmental practices, identify potential unintended consequences, and advise the Board regarding additional matters requiring consideration.

There will also necessarily remain some uncertainty. No study can identify every consequence of fundamentally restructuring a governmental revenue system. Customer behavior, economic conditions, administrative requirements, future capital needs, and other circumstances may change in ways that cannot presently be predicted. The existence of those uncertainties does not mean the District should reject change. It does mean that the District should obtain and evaluate all information reasonably available before making the change.

The objective should therefore be straightforward: before the Board makes a final decision, it should be satisfied that it knows everything that reasonably can be known, has tested the assumptions underlying the proposal, and has obtained independent professional advice concerning matters outside the District's ordinary experience. The significance and long term consequences of the decision warrant that level of diligence.

B. Alternative Means of Advancing the Board's Policy Objectives

Additional professional analysis should not be limited to determining whether the District should retain its existing revenue structure or eliminate property taxes entirely. The analysis should also consider whether the policy objectives underlying the proposal can be advanced through modifications to the existing system or through other revenue and billing alternatives. If the principal objective is increased transparency, for example, the District could evaluate whether the existing hybrid model can be made substantially more transparent. Customers could receive clearer information regarding the total cost of District services, the respective amounts collected through property taxes and rates, the purposes served by each revenue source, and the manner in which those revenues support District operations and infrastructure. Improved annual statements, newsletters, online information, and other direct customer communications could potentially advance the transparency objective without fundamentally restructuring the District's revenue model.

The District could also evaluate whether modifications to its billing practices would create a more direct relationship between customer use and payment. One potential alternative would be to obtain water consumption data from the municipalities and other water providers serving District customers. Winter water consumption or another appropriate measurement could potentially be used, in whole or in part, as a proxy for residential wastewater generation. Such an approach could permit greater differentiation among residential customers based upon estimated actual usage rather than relying exclusively upon a uniform residential ERU.

Other alternatives may emerge through professional review. The District could consider modifications to the relative amounts collected through taxes and rates, changes in the manner in which customers receive information regarding their total District contribution, alternative rate structures, or combinations of these approaches. Each alternative would require analysis of its legal, financial, operational, administrative, and distributional consequences.

Accordingly, if the Board elects to proceed with additional study, the inquiry should begin with the Board's underlying policy objectives rather than with a predetermined revenue model. The appropriate question is not simply whether the District should eliminate property taxes. The broader question is whether there are reasonable alternatives that could achieve the Board's objectives of greater transparency, accountability, and understandable cost allocation while avoiding unnecessary financial disruption, administrative expense, or unintended shifts among District customers.

C. Preliminary Conclusion

The preliminary analysis does not establish that the District should either retain its existing hybrid revenue structure or transition to a fully rate based system. It does, however, demonstrate that eliminating the property tax would be considerably more consequential than simply replacing one source of revenue with another. Several consequences can already be reasonably anticipated. Eliminating the property tax and replacing that revenue through rates would redistribute costs among District customers. Higher valued properties would generally lose the greater contribution presently associated with property value. Commercial property tax

contributions would also be removed, with a portion of that revenue responsibility necessarily shifting to residential customers. The change would therefore produce different financial consequences for different customers even if the District remained revenue neutral overall.

The preliminary analysis also identifies legitimate considerations supporting further study. A fully rate based system could provide a simpler and more visible method of presenting the cost of wastewater service. Conversely, the existing hybrid model provides revenue diversification and allocates a portion of the cost of community infrastructure according to property value. The District has also historically maintained strong collections and comparatively low customer costs under the existing structure.

Significant questions nevertheless remain. The precise customer impacts require additional modeling. The long term financial consequences should be independently evaluated.

Comparable governmental experience should be examined further. The costs and feasibility of implementation and public engagement should also be quantified. In addition, professional analysis may identify considerations that have not yet emerged through this preliminary review. Importantly, additional study should not be limited to a binary choice between the existing system and complete elimination of the property tax. The Board's underlying objectives may potentially be advanced through other means, including greater transparency within the existing hybrid model, modifications to the District's revenue structure, alternative billing practices, or more individualized methods of estimating wastewater demand. Accordingly, the principal conclusion of this preliminary analysis is that the issue warrants careful and independent professional study before any fundamental change is made. If the Board wishes to proceed, the District should retain qualified outside financial expertise to verify the preliminary findings, model the consequences of the available alternatives, identify additional considerations, and provide the Board with the information necessary to make an informed policy decision.

The objective of that process should not be to validate a predetermined result. It should be to determine which approach, including reasonable alternatives to the two principal models presently under consideration, best advances the Board's objectives while protecting the District's financial stability, maintaining equitable treatment of its customers, and preserving the long term interests of the community.

XII. ADDITIONAL POLICY AND INSTITUTIONAL CONSIDERATIONS

A change to the District's longstanding revenue structure raises several considerations that do not fit neatly within the financial, legal, transparency, or distributional analyses discussed above. None of these considerations independently establishes whether the District should retain or modify its existing revenue structure. They are, however, matters that should be understood as part of a comprehensive evaluation before the Board makes a significant and potentially long-lasting policy decision.

A. Preservation of Taxing Authority

The District's authority to levy property taxes is a significant governmental and institutional financing tool. Utah law presently authorizes the District to levy and collect property taxes, subject to applicable statutory limitations and requirements. That authority, however, should not necessarily be regarded as permanent or immune from future legislative change. The taxing authority of special districts remains the subject of legislative attention. Organizations representing special districts regularly monitor and participate in the legislative process concerning proposals that could affect local taxing authority. Accordingly, the Board should consider whether voluntarily eliminating or materially reducing reliance upon an existing taxing authority could have consequences beyond the immediate financial calculation.

This does not mean that the District should retain a property tax merely because it presently possesses the authority to impose one. Rather, the Board should understand whether eliminating the tax could affect the District's practical or political ability to restore it in the future, whether the action could have implications for other special districts, and whether circumstances could arise in which future Boards would benefit from having preserved multiple financing tools.

The relevant consideration is therefore one of institutional flexibility. Before relinquishing or materially reducing reliance upon a financing mechanism that has historically been available to the District, the Board should understand the consequences of doing so and the practical ability to reverse that decision if future circumstances change.

B. Nature and Magnitude of the Public Policy Concern

The Board should also evaluate the nature and magnitude of the problem the proposed change is intended to address. Increased transparency is a legitimate governmental objective. The question is whether customers presently perceive the District's hybrid revenue structure as confusing, unfair, or insufficiently transparent and, if so, the extent of that concern.

This inquiry should not be understood as questioning the legitimacy of studying cost based rates. To the contrary, careful study provides an opportunity to determine whether the concern is broadly shared by District customers and whether changing the revenue structure would meaningfully address it. The District should therefore consider obtaining objective information regarding existing customer satisfaction and public understanding. If customers are generally satisfied with the District's service, rates, and financial stewardship, that institutional goodwill is an asset that should be considered when evaluating any substantial change. Conversely, if meaningful public concern exists regarding transparency or the relationship between taxes and rates, that information would provide additional support for considering reform. The central question is whether the proposed change addresses a demonstrated public policy concern and whether the magnitude of the anticipated benefit justifies the financial, administrative, and institutional undertaking necessary to accomplish it.

C. Public Expectations and Risk of Customer Dissatisfaction

Any restructuring that causes some customers to pay less and others to pay more creates a risk of customer dissatisfaction, even where the total amount collected by the District remains unchanged. Customers whose total contribution decreases may readily understand the benefit of the change. Customers whose contribution increases may view the proposal differently. This creates a potential institutional consequence that should be considered in advance. The District may presently enjoy substantial goodwill because customers generally receive reliable service at a comparatively reasonable cost. A significant restructuring could affect that relationship if customers perceive that they are being asked to pay more without receiving an identifiable additional service.

This risk is neither unusual nor insurmountable. It does, however, reinforce the importance of careful public engagement. A poorly communicated transition could cause customers to misunderstand the purpose of the change, believe that the District is increasing its overall revenue when it is merely reallocating existing costs, or attribute individual increases to institutional mismanagement rather than to the deliberate redistribution inherent in the new methodology. The Board should therefore consider public acceptance as one factor in determining both whether to proceed and, if it proceeds, how the change should be implemented. A significant policy change should be accompanied by sufficient communication, public participation, and customer specific information to permit affected residents and businesses to understand both the rationale and the consequences.

D. Revenue Durability During Economic Downturns

The District should also consider whether eliminating property tax revenue would alter the durability of its revenue structure during periods of economic stress. Both property taxes and District rates have historically provided reliable revenue. Property tax revenue, however, possesses characteristics that make it particularly stable. Utah’s certified tax rate system is generally structured to preserve the taxing entity’s property tax revenue notwithstanding changes in taxable valuation, subject to applicable statutory adjustments and limitations. Consequently, reductions in property values do not necessarily produce corresponding reductions in the District’s property tax revenue. The District’s experience during the Great Recession also provides useful institutional history. During that period, the District encountered circumstances in which individuals and businesses experienced financial distress and certain fee obligations were affected by bankruptcy. Property tax obligations presented materially different collection characteristics.

A fully rate based system can unquestionably be financially stable, and many governmental utilities successfully operate under such models. The relevant question is narrower: whether replacing a particularly durable revenue source with greater reliance upon rates would marginally increase the District’s exposure during severe economic downturns. This issue should be evaluated through professional financial modeling rather than assumption. If the difference in risk is immaterial, that fact would support the feasibility of a fully rate based system. If the difference is meaningful, the Board should understand the tradeoff before making the change.

E. Property Value, Usage, and the Meaning of Equity

One of the philosophical arguments supporting a fully rate based system is that similarly situated customers should pay similarly for wastewater service rather than paying different amounts because their properties have different values. That is a legitimate equity argument and deserves serious consideration. Property taxation reflects a different conception of equity. The tax rate is applied uniformly to taxable value, meaning that similarly valued taxable property is subject to the same rate while owners of more valuable property contribute more dollars. Whether that represents an appropriate method of funding a portion of wastewater infrastructure is ultimately a policy determination for the Board.

The District's particular circumstances may make the inquiry more complicated than property value alone. Preliminary operational information suggests that some portions of the eastern District may also impose different demands upon the wastewater system. Larger residences may contain additional bathrooms, accessory dwelling units, pool houses, and other facilities associated with wastewater generation.

The District has also observed higher salt concentrations associated with wastewater originating in portions of the eastern service area, potentially including impacts associated with greater use of residential water softeners. To the extent those characteristics increase treatment costs or system load, they should be verified and quantified before being relied upon in the final analysis. The purpose of examining these considerations is not to suggest that assessed property value is an accurate proxy for wastewater usage. It plainly is not. Rather, the Board should avoid assuming that the present difference in total contributions between higher and lower valued residential properties necessarily bears no relationship whatsoever to differences in system demand or cost. Additional operational analysis may help determine whether such differences are material.

F. Geographic Distribution of Infrastructure

The District should also consider the geographic nature of its collection system. Wastewater infrastructure is a network rather than a collection of isolated services. Properties throughout the District depend upon an integrated system of lines, facilities, capacity, and treatment infrastructure. At the same time, the amount and location of infrastructure necessary to serve different portions of the District are not necessarily identical. Properties located farther from treatment facilities may depend upon a greater geographic extent of collection infrastructure than properties located closer to those facilities. Conversely, infrastructure located in one area may provide capacity, redundancy, operational flexibility, or other systemwide benefits that cannot reasonably be attributed only to the properties immediately served by it.

This consideration therefore cuts in both directions. It may support further examination of whether the cost of serving different geographic areas varies. It also demonstrates why wastewater infrastructure cannot always be divided into discrete costs attributable to individual customers or neighborhoods. If geographic differences in infrastructure cost are potentially material, they should be evaluated through engineering and cost of service analysis rather than assumed. The objective should be to understand whether those differences materially affect the proposition that a uniform residential ERU represents an equitable allocation of the District's complete revenue requirement.

G. Preliminary Conclusion

None of these additional considerations provides an independent answer to the policy question before the Board. Nor should they be viewed as reasons to avoid studying or considering a fully rate based system. Rather, they demonstrate why a significant restructuring of the District's revenue model warrants a comprehensive analysis. Some considerations may ultimately prove immaterial. Others may support a transition. Still others may favor retaining some component of the existing hybrid model. The purpose of identifying them at this stage is to ensure that the Board's ultimate decision is informed not merely by the immediate arithmetic of replacing property tax revenue with rate revenue, but by the broader financial, institutional, operational, and community consequences of that decision.

If the Board elects to continue the study, these issues should be tested through appropriate financial, legal, engineering, operational, and public engagement analysis. The objective should not be to establish reasons why the District cannot change. It should be to ensure that, if the District does change, the Board does so with a clear understanding of both the intended benefits and the reasonably foreseeable consequences.

XIII. NEXT STEPS AND IMPLEMENTATION CONSIDERATIONS

The analysis presented in this report is preliminary. It identifies significant considerations associated with the District's existing hybrid revenue structure and a potential transition to a fully cost based rate system. It also identifies several matters that require additional analysis before the Board could responsibly implement a significant change to the District's longstanding revenue structure. The Board is not required to resolve every question identified in this report before determining whether the issue warrants further consideration. If the Board wishes to proceed, however, the next phase should be structured to develop the financial, legal, operational, and customer specific information necessary for an informed final policy decision.

A. Additional Professional Analysis

If the Board determines that further study is appropriate, the District should consider retaining an independent financial advisor or other qualified professional with experience in governmental finance, utility rates, taxation, and special district funding. The purpose of that engagement would not be to advocate for a particular outcome, but to test the preliminary analysis, develop reliable financial modeling, identify additional considerations, and provide the Board with independent professional advice. The next phase of analysis could include:

- A comprehensive financial impact analysis.
- A cost of service study.
- Customer specific and customer class impact modeling.
- Analysis of the anticipated redistribution of costs among residential customers, commercial customers, and properties of different assessed values.
- Review of the District's existing ERU allocations and methodology.
- Long term revenue, reserve, and capital planning analysis.
- Collection and financial risk analysis.
- Additional legal review.
- Evaluation of the administrative and operational costs associated with a change.
- Identification of alternative approaches that may advance the Board's objectives without necessarily requiring complete elimination of the property tax.

The purpose of this additional work would be to ensure that the Board knows everything that reasonably can be known before making a long term structural decision.

B. Public Engagement

If the Board continues the study, meaningful public engagement should occur before a final policy decision is made. The District should provide customers with sufficient information to understand the existing system, the alternatives under consideration, and the anticipated consequences of each alternative.

Potential public engagement efforts could include:

- Retain a professional communications consulting team.
- Creation of a citizens advisory committee representing different portions of the District and different customer perspectives.
- Public workshops and smaller stakeholder meetings.
- Direct engagement with residential and commercial customers.
- Publication of explanatory materials through the District's newsletter and website.
- Representative customer comparisons showing how different alternatives would affect actual customers.
- Opportunities for public comment and feedback before final Board action.
- Because increased transparency is one of the principal objectives underlying this review, the process used to evaluate the issue should itself be transparent and provide meaningful opportunities for customer participation.

C. Implementation and Transition Planning

If the Board ultimately determines that the District should transition to a different revenue structure, implementation would require considerably more than adoption of a new rate. The District would need a deliberate implementation plan addressing the financial, legal, administrative, operational, and communication requirements associated with the change. A potential transition could include the following phases:

1. **Completion of financial, legal, operational, and customer impact studies.**
2. **Retention of appropriate professional consultants and preparation of a detailed implementation plan.**
3. **Public outreach and community engagement.**
4. **Formal Board consideration and selection of the preferred revenue model.**
5. **Adoption of necessary rates, policies, and administrative procedures.**
6. **Coordination with other governmental partners.**
7. **Customer notification and education concerning individual financial impacts.**
8. **Implementation of the new revenue structure, including consideration of whether a phased transition would be appropriate.**

9. **Post implementation review to identify unintended consequences and determine whether adjustments are necessary.**

The implementation analysis should also identify both one time transition costs and any permanent increases in administrative costs. The Board should understand not only what it would cost to change the system, but also whether the alternative system would be more expensive or complicated to administer on an ongoing basis.

D. Options for Board Consideration

At the conclusion of this preliminary review, the Board has several potential courses of action. These alternatives are not necessarily exhaustive, and additional options may emerge through further professional analysis and public engagement.

Option One: Transition Toward a Fully Cost Based Rate System

The Board could direct staff to begin the process of eliminating property tax revenue and transitioning toward recovery of the District's revenue requirement through customer rates. Selection of this option would establish the Board's policy direction, although additional financial, legal, operational, public engagement, and implementation work would still be required before the transition could be completed.

Option Two: Direct a Comprehensive Professional Study

The Board could maintain the existing revenue structure while retaining qualified independent professionals to conduct additional financial, cost of service, customer impact, legal, operational, and comparative analysis. This option would permit the Board to obtain more complete information concerning the anticipated benefits, costs, distributional consequences, and risks before making a final decision regarding the District's long term revenue structure.

Option Three: Maintain the Current Hybrid Revenue Structure

The Board could determine that the District's existing combination of property tax revenue and ERU based charges remains an appropriate method of funding District operations and infrastructure. Under this option, the District would continue its existing revenue structure while remaining free to review rates, taxes, and financial practices through its ordinary budgeting and policy processes.

Option Four: Maintain the Hybrid Structure With Modifications

The Board could retain the fundamental hybrid revenue model while considering modifications designed to advance the policy objectives that prompted this review. Potential measures could include enhanced transparency concerning the respective roles of taxes and rates, improved customer communications, adjustments to the relative allocation between revenue sources, or further study of alternative billing and rate methodologies. This option recognizes that the Board's policy objectives and the particular mechanism proposed to accomplish those objectives are separate questions. The Board may determine that greater transparency, accountability, or alignment between cost and payment is desirable while concluding that those objectives can be advanced without completely eliminating the property tax component.

XIV. CONCLUSION

The purpose of this preliminary analysis is not to establish a predetermined outcome. Each of the alternatives identified above presents legitimate policy considerations, and the ultimate determination belongs to the Board. The analysis does demonstrate, however, that a transition from the District's existing hybrid revenue structure to a fully rate based system would be more than a change in billing methodology. It would alter the manner in which the District's revenue requirement is distributed among customers and would have financial, legal, operational, administrative, and institutional consequences that warrant careful consideration.

If the Board determines that additional study is appropriate, the next phase should therefore be designed to test the preliminary conclusions contained in this report, quantify customer impacts, identify reasonable alternatives, obtain meaningful public input, and provide the Board with independent professional analysis. At the conclusion of that process, the Board should be positioned to determine which approach best advances its objectives concerning transparency, fairness, financial stability, customer understanding, and the District's long term interests.

Administration Report

ADMINISTRATIVE REPORT

TO:	The Board of Trustees
FROM:	District Administration
DATE:	September 3, 2026
SUBJECT:	***September 2026 Administrative Report***

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1. Annual Dinner and Party. We are excited to begin planning our annual year end dinner and party and are proposing December 3, 2026, at Carver's. It is always a wonderful opportunity to spend time together, celebrate the year, and enjoy one another's company outside of our regular work. Please check your calendars and let us know if you have any conflicts with the proposed date.

2. Solar Report. Jared will present an update regarding the District's solar program, including current performance, operational information, and any other developments.

3. August 13, 2026 Storm Event. On August 13, 2026, a significant rainstorm moved through Sandy and surrounding areas, producing unusually heavy rainfall and localized flooding. The storm had a substantial impact on flows through the District's collection system. The District ordinarily delivers approximately 4 million gallons per day, or MGD, to the South Valley Water Reclamation Facility. On August 13, flows increased to approximately 12 MGD, representing roughly three times the District's normal daily flow. The event provided a significant real-world stress test of the collection system under unusually high flow conditions. We are going to purchase some additional flow monitors and take other measures based on what we know concerning the storm. Jared will give a report on this issue. The treatment plant also received a significant stress test.

4. Manhole Rehabilitation. As the Board is aware, the District has been placing increased emphasis on the rehabilitation of aging manholes. As part of that effort, we continue to expand our use of modern trenchless technologies that allow us to rehabilitate infrastructure with little or no excavation, reducing both costs and disruption to the public. Following the District's procurement policies, staff completed a competitive procurement process and selected qualified contractors to provide trenchless manhole rehabilitation services utilizing spray applied structural liner systems. Jared will provide a report regarding the

procurement process, the selected contractors, and the status of this rehabilitation program.

5. Building Rehabilitation and Pedestrian Bridge. As outlined in my August Administrative Report, staff have been working through several maintenance and capital improvement projects associated with the rehabilitation of the District's approximately twenty-five-year-old administrative and maintenance facilities. These efforts include coordinating the repairs associated with the recent flood damage with other planned building improvements so that the work can be completed efficiently and cost effectively.

   One of the more significant items identified during that process is the deterioration of the pedestrian bridge at the main entrance to the administrative building. Staff have continued evaluating the condition of the bridge and the work necessary to rehabilitate it. Jared will provide the Board with a brief update regarding the bridge and the proposed repair plan.

6. Newsletter. A draft of the District newsletter is included in the Board packet for your review and comment. This edition provides an update regarding the District's ongoing efforts to safeguard customer information, highlights our expanding use of modern trenchless technologies to reduce costs and minimize impacts to the community, and includes other District news.

   I have also drafted a sample board column draft concerning Cost Based Rates. It is included with those materials.

7. Tentative Schedule for Future Meetings:

October:	Cost Based Rates Discussion (Second Reading) Budget (First Reading) Adopting Tentative Budget Setting Time and Place for Public Hearing
November:	Safety Report and Update Annual Lateral Policy Review Adopt 2027 Budget General Manager Review Fall Newsletter
December:	Amending 2026 Budget Adopting 2027 Meeting Schedule

Minutes

SANDY SUBURBAN IMPROVEMENT DISTRICT
BOARD MEETING
8855 SOUTH 700 WEST, SANDY, UT
THURSDAY, JUNE 18TH 2026 AT 12:00 P.M.

PRESENT: Scott Harrington, Board Chairperson
Renee P. Christensen, Trustee
Katie Bradshaw, Trustee (via phone call)
Tracy Cowdell, General Manager
Darren Andersen, Chief Financial Officer
Jared Oldroyd, JWO Engineering
Caitlin Whetten, District Clerk
Danny Barlow, Squire & Co, P.C.

1. CALL TO ORDER

Mr. Harrington welcomed those in attendance to the Sandy Suburban Improvement District Board Meeting. The meeting was called to order at 12:00 p.m.

2. 2025 AUDIT PRESENTATION - DANNY BARLOW, SQUIRE & CO, P.C.

Mr. Barlow presented the District's 2025 audit report to the Board. It was a clean audit and a clean opinion. There were no significant difficulties, unusual transactions, or identified or suspected fraud. There were no questions or concerns from the Board. Mr. Barlow was thanked for his report and excused.

3. BUSINESS

A. CONSIDERATION OF RESOLUTION NO. 26-06-11-01

A RESOLUTION ADOPTING A TAX RATE FOR THE PURPOSE OF LEVYING TAXES WITHIN THE DISTRICT FOR THE YEAR 2026

A motion was made by Renee P. Christensen, seconded by Scott Harrington, and passed unanimously to adopt a tax rate for the purpose of levying taxes within the District for the year 2026.

Scott Harrington voted yes.

Renee P. Christensen voted yes.

Katie Bradshaw voted yes.

B. CONSIDERATION OF RESOLUTION NO. 26-06-11-02

A RESOLUTION OF THE SANDY SUBURBAN IMPROVEMENT DISTRICT AMENDING THE FISCAL YEAR 2026 BUDGET

A motion was made by Renee P. Christensen, seconded by Katie Bradshaw, and passed unanimously to amend the fiscal year 2026 budget.

Scott Harrington voted yes.

Renee P. Christensen voted yes.

Katie Bradshaw voted yes.

C. CONSIDERATION OF RESOLUTION NO. 26-06-11-03

A RESOLUTION OF THE BOARD OF TRUSTEES OF THE SANDY SUBURBAN IMPROVEMENT DISTRICT ADOPTING A PRIVACY PROGRAM POLICY

A motion was made by Renee P. Christensen, seconded by Katie Bradshaw, and passed unanimously to adopt a privacy program policy for the District.

Scott Harrington voted yes.

Renee P. Christensen voted yes.

Katie Bradshaw voted yes.

4. DISCUSSION AND/OR ACTION ITEMS

Mr. Cowdell gave an update on safety issues and procedures put in place around the District due to an incident at an entity covered by the Local Governments Trust. He reported that, at a future staff meeting, staff will be asked to be more cognizant and cautious, and to identify areas where the administration can make adjustments for a safer environment for employees.

5. CONSENT ITEMS

A. MINUTES

A motion was made by Renee P. Christensen, seconded by Katie Bradshaw, and passed unanimously to approve the minutes of April 2026.

B. BILLS

A motion was made by Renee P. Christensen, seconded by Katie Bradshaw, and passed unanimously to ratify the bills for April and May 2026.

6. OTHER BUSINESS

The November meeting was scheduled for Thursday, November 12th, 2026 at 6:00 p.m.

7. NOTICE OF FUTURE PUBLIC MEETINGS

The next meeting will be held on Thursday, August 13th, 2026 at 5:30 p.m.

8. ADJOURNMENT

There being no other business to come before the Trustees, Mr. Harrington motioned to adjourn at 12:46 p.m.

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Chairperson