MINUTES OF THE EXECUTIVE WATER FINANCE BOARD

Monday August 19, 2019

1:00 p.m.

Utah State Capitol, 350 N. State Street, Room 450

Members Present:

Phil Dean, Chairman

Laura Briefer

Evan Curtis

Jon Bronson

David Damschen

Eric Millis

Juliette Tennert

Staff Present:

Miranda Jones Cox, Board Staff

1. Call to Order

Chair Phil Dean called the meeting to order at 1:05 p.m.

a. Approval of minutes

Jon Bronson moved to approve the May and July meeting minutes. Laura Briefer seconded the motion. The motion passed unanimously.

2. Water Studies Update

Phil introduced representatives from the Balmoral Group and the study of water elasticity they are doing for the state. Valerie Seidel and Craig Diamond from the Balmoral Group introduced themselves.

Valerie prefaced by stating that price elasticity is the percentage increase in price causing a percent decrease in quantity demanded. She explained the findings of an economic literature review of price elasticity in arid western areas. Valerie also indicated that the literature indicates that income elasticities vary across income levels.

Valerie explained the methodology of the analysis, including data collection from utilities across Utah, validation of the data, and interpretation of the results. She stated that both impact fees and water block rate structures are being analyzed and showing various charts and graphs of the rate structures of different Utah water retailers. She continued by stating that early results indicate that as water rates increase, consumption decreases, consistent with economic theory. She also mentioned income elasticity results.

Valerie concluded by stating that the analysis is still being modeled, and that preliminary results are anticipated to be provided in coming months.

Jon Bronson asked if they received adequate data from Washington and Kane Counties. Valerie replied that they had St. George and Washington data with adequate variation. Treasurer Damschen echoed Jon’s comments of on the need for data adequacy.

Phil asked if the elasticity response varies depending on consumer's awareness of pricing, since consumers may not be fully aware of marginal rates.

Jon asked how they are treating water wholesaler rates passed on to water retailers. Valerie explained that with the full costs passed on to the consumer and that where the cost is originally incurred is less important than end user rates experienced by consumers.

Valerie concluded her presentation.

Klair White and Dan Peckham from Ernst and Young (EY) introduced themselves to the board, explaining their financial model that outlines potential funding, financing, and revenue scenarios for major water projects such as the Lake Powell Pipeline. Klair indicated that EY is not providing recommendations as a formal municipal advisor to the state, but is providing background information and formulating a tool for the state to explore various options for large-scale water projects and providing that information to the state's registered municipal advisor, Zions Public Finance.

Dan explained phase one of the project, which identified potential financing and funding sources from state, federal, and local levels. They identified the capacity, cost of capital, tenor, access, risk and credit reliance of each source.

Klair explained that they appraised various repayment revenue sources including impact fees, property taxes, and user rates. They assessed these particular revenues taking into account economic and population growth, water conservation, price elasticity, and affordability.

Treasurer Damschen and Phil discussed the functionality of the model and how the work of Balmoral could potentially be incorporated. Jon noted that there may be some refinements needed, noting its complexity, but that he is very pleased with the work of EY thus far.

The group discussed when the model would be available for the public to review.

3. Commercial Water Use

Phil introduced current Weber County Commissioner and former State Senator Scott Jenkins to the board.

Commissioner Jenkins introduced himself to the board and shared his background and relationship with water. Specifically, he shared his frustrations with water inefficiency and his perspective as a business owner with landscaping ordinances, and a 10% green space he was required to provide with his plumbing business, even though much of the mandated green space was required to be fenced off so it wasn't even visible to the public.

The commissioner also stated that he once ran a bill when he was in the Utah State Legislature to make anything above a 5% required green space illegal, but the bill failed to pass. He commented that he believes business owners are willing to xeriscape if they were allowed, but that they are held to green space requirements that don't always make sense.

Phil agreed that mandated business and industrial turf requirements are an issue that should be considered.

Commissioner Jenkins, with his background in plumbing, provided insights into water-wise fixtures.

Laura noted that there are municipalities that have meaningful landscape ordinances, and Juliette asked if 'flip-your-strip' incentives are available for commercial use or strictly for residential.

4. Conservation Efforts

Wayne Bradshaw from the Utah League of Cities and Towns presented on the League's various conservation efforts. He stated that the conservation tools used include operational, structural, ordinances, zoning, education, rate pricing, incentive/retro-fit programs, and metering. He then stated that the challenges to conservation at a local level are fiscal impacts, climate, staffing and public support.

Evan and Wayne then spoke about how land use planners can work with utilities to encourage conservation.

Treasurer Damschen also asked how comfortable cities are with overall requirements for conservation. Wayne replied that there is some uniformity among cities, but because municipalities are so diverse, that uniformity does not account for variation and the league opposes uniform requirements for all cities.

Phil spoke about water rates and discretionary use of water. He asked for consideration of meaningful water rates for those that come to the State of Utah for water financing and funding. He stated that the true cost of water should be embedded in prices.

Jon asked if the League was familiar with the American Water Works Association water audit program, which helps municipalities identify lost water in their systems.

Evan asked about repair and replacement, assuming that some cities that are already built out cannot receive impact fees to fund repair and replacement costs. Phil asked if there are legal impediments in the statute for entities to accumulate revenues for water system repair and replacement costs. Wayne replied that caps on reserves are more impactful for rural Utah, and entities with smaller budgets.

Phil also asked how conservation plans vary by entity and asked if Representative Susan Harrison has yet presented to the State Water Task Force. Todd Adams indicated that Rep. Harrison has not yet presented her water conservation approach from the prior legislative session to the Water Task Force.

Phil also asked the best way to work with the League moving forward. Wayne responded by noting the League's Legislative Policy Committee which sets the League's future policy agendas, as well as their working water group which meets during the interim. He noted that they are open to reviewing legislation, and having presentations to those various groups. Laura mentioned that she is on the water working group and offered up her time to inform the group.

5. Revolving Loan Funds

Erica Gaddis and Marie Owens from the Division of Drinking Water and the Division of Water Quality introduced Todd Stonely, Michael Grange, and John Mackey from their organizations to present on the state's revolving loan fund portfolio.

Todd began by presenting on the Division of Water Resources revolving loan funds. He provided a program overview of the fund capacity, current balance, and eligibility of projects and applicants.

Michael Grange presented for the Division of Drinking Water, and the purpose of the loans to protect public health, comply with drinking water standards, and encourage affordability of drinking water. He stated that the annual funding from the division's sales tax earmark for water is capped at $3.59 million annually. He also explained eligible applicants and eligible projects. He stated that ineligible projects are those strictly for growth.

John Mackey then presented for the Division of Water Quality that manages the State Revolving Fund (SRF) program, and noted how the program makes water quality projects affordable by incentivizing water quality to build projects. He noted that most applicants are municipalities, and a small amount from the private sector. He noted entities eligible to apply, and what cannot be funded.

Juliette asked if the three could speak to the default rate, and how often we are allowing recipients to skip or delay repayments. The group stated that they had never had a default from a municipal body, but that some loan recipients will end up delaying payments.

Jon Bronson asked if they believe there is overlap in missions of the groups, to which they agreed that it does overlap to an extent. Jon and Marie then discussed federal and Community Impact Bond funds, which have different requirements than the revolving loan funds.

Jon then commented that these may be bankable entities that could be going to the private market for financing, and that they may have moved away over time from the core mission of these funds. Marie Owens stated that of the thousands of projects applied for, only 80 were funded through these revolving loan funds. She stated that most entities do go to the bond market.

Erica Gaddis spoke to the issue of Provo City and the algal bloom issues in Utah Lake.

Eric Millis clarified that each entity has very different missions and that while it may seem they overlap some, their missions are for different things.

Phil asked if there are areas where there should be greater uniformity. He also stated that with the state's limited resources, it is important to get the greatest return on the state taxpayer investment. Moving forward, he wanted to know how to better utilize these funds for entities.

6. Rating Considerations

Phil introduced Shannon Groff, a director in the San Francisco West office of Fitch Ratings which oversees Utah, Washington, Oregon, California, and others.

Shannon briefly explained methodology behind water ratings, including revenue defensibility, growth and concentration in service areas, demand and growth, debt burden, debt service coverage, liquidity, and others. She also stated that contingent obligations could impact an entity's bond rating.

Shannon stated that Fitch has put out new water criteria for water affordability, based on a percentage of Median Household Income.

Jon Bronson asked how large water projects have been financed, in her experience. Shannon replied that various projects have been funded with state obligations, SRF loans, revenue bonds, WIFIA loans, etc. She expounded by stating that Fitch's approach to credit analysis does not change based on specific financing method.

Shannon also provided insight on impact fees funding large water projects. She stated that they would evaluate coverage of full obligations with and without impact fees. They also discount cash flow streams from impact fees based on historical and expected future volatility. Shannon continued to discuss how Fitch views impact fee revenues.

Shannon then explained how Fitch evaluates property taxes as a revenue stream. She noted that Utah property taxes are generally not subject to major volatility of the revenue stream because of truth in taxation, and is another stable source of revenue.

Shannon noted that Fitch rated several WIFIA projects, and was curious about Utah not applying to date. She stated that many of the recipients from WIFIA were in California. She shared a published report from Fitch on WIFIA, and what the WIFIA ratings have been. She also stated that she was surprised there weren't more public private partnerships with water project financing.

Jon Bronson asked Shannon how Fitch would treat a water district pursuing a large project with revenues dependent upon growth. Shannon discussed stable sources of revenues, and WIFIA.

Shannon responded that with a repayment period of 50 years, property taxes provide more stability than impact fees, and stated that WIFIA gives a 35-year period with a decent rate.

Phil and Shannon discussed how projects are treated when financed jointly from various governmental entities.

Phil asked what the average term of a typical water project financing was. Shannon stated that 20-30 is a standard water bond term.

Laura mentioned that Salt Lake City is the first city in Utah to submit their intent for WIFIA financing, which would potentially save an estimated $50 million in debt costs for the city.

7. Other items/adjourn

Laura briefer moved to adjourn. The motion passed unanimously. Phil adjourned the meeting.