Honorable Governor Herbert
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350 North State Street, Suite 200
PO Box 142220
Salt Lake City, Utah 84114

Honorable President Niederhauser
Utah State Senate
320 State Capitol
PO Box 145115
Salt Lake City, Utah 84114

Honorable Speaker Hughes
Utah House of Representatives
350 North State, Suite 350
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October 26, 2015

Dear Governor Hebert, President Niederhauser, and Speaker Hughes,

There has been discussion over the last several years regarding the Utah Division of Water Resources' proposed Lake Powell Pipeline ("LPP") project and the subsequent repayment obligations of the taxpayers of Washington County. We have conducted an analysis of the indebtedness of the Washington County Water Conservancy District ("the District") and the residents of Washington County by virtue of their participation in the LPP. Based on our analysis we have major concerns about the debt and increased water rates and/or increased impact fees that will be caused by this proposal.

The following pages summarize our findings, based on the LPP Preliminary Application Documents, the District's audited financial statements, and other public documents made available by various agencies. Based on this initial analysis, we have major concerns about the likelihood that Utah taxpayers will be repaid by the District for the costs of the LPP.

The District intends to participate in the LPP, proposing to receive 94.5% of the water from the pipeline. This would amount to 69,000 acre-feet, according to the project's 2011 Water Needs Assessment. We calculated different repayment scenarios based upon the 2012 Socioeconomics and Water Resource Economics Report's low and high project cost projections of $1.4 billion and $1.8 billion, respectively, assuming an interest rate of four percent and a 50-year repayment period. These cost estimates are in 2012 dollars and this analysis did not account for inflation.

The District will have to repay between $61.8 and $131 million of LPP debt annually on top of its existing debt portfolio, depending on final LPP project costs. The District's current annual revenues are approximately $29 million and current annual expenses are approximately $20 million. The remaining $9 million in net revenues available to shoulder additional LPP debt is not sufficient to service the debt. This shortfall poses a major challenge for the District, its ratepayers and Utah taxpayers.

This LPP debt service is equivalent to $369–$781 every year for 50 years for every man, woman, and child currently living in Washington County. Unless the District increases water rates, impact fees, and/or other revenues, its existing and LPP debt will not be repaid at the end of the 50-year loan period. This outstanding debt assumes the District's revenues increase at the same rate as the county's population.

Assuming the $1.8 billion high-cost LPP alternative from the 2012 Socioeconomics and Water Resource Economics Report, the District could raise the needed funds by:

- raising impact fees 138 percent, to an average of $14,514 per connection; together with
- raising water rates by 678 percent; together with
- selling 1200 acres of land owned by the District; together with
- continuing to collect property taxes near the maximum levy rate allowed by state law.

Assuming the $1.4 billion low-cost LPP alternative from the 2012 Socioeconomics and Water Resource Economics Report, the District could raise the needed funds by:

- raising impact fees 123 percent, to an average of $13,630 per connection; together with
- raising water rates by 576 percent; together with
- selling 1200 acres of land owned by the District; together with
- continuing to collect property taxes near the maximum levy rate allowed by state law.

Of course, increasing water rates this much would significantly decrease Washington County residents' demand for water—in our analysis, demand decreased so much that the LPP water would go unused—which the Division of Water Resources did not consider. Dozens of economic studies document the correlation between higher water prices and reduced water demand (citations available upon request). This fundamental principle of economics should be considered in forecasting future water demand in Washington County.

Currently, Washington County has some of the lowest water rates in the American West because the District collects property taxes on homes and businesses, which effectively lowers the price of water. Eliminating these property tax subsidies for water would lower the tax burden in the county while allowing the free-market forces of supply and demand to achieve more economically-rational water use. This is one of several water sources the Division of Water Resources has not considered in its most recent LPP proposal.

Other sources of future water which state water planners are not considering were revealed in the 2015 Legislative Audit of the Utah Division of Water Resources. The audit found that local water providers, including cities and towns, have the ability to expand their sources of water supply. The auditors noted that St. George City has the ability to expand its water supply without the assistance of the District through new well drilling and other water sources. The audit also showed the area's water supply is actually growing as new residential development occurs, due to water formerly used by agricultural operations being transferred to municipal uses. As Washington County continues to grow, more and more of its irrigated farmland will be transformed into sites for homes and businesses, adding large amounts of water to the public supply.

The auditors also noted Washington County has some of the highest water conservation potential in the nation. The area's per-person water use is over twice the national average and their current conservation goal would still put their per-person water use above nearly every similar community in the West. If the area implemented a more aggressive water conservation program they could further extend their water supply. When these additional water sources are included in the water supply estimates for Southwestern Utah, the need for the LPP becomes questionable.

Additionally, according to the Utah Division of Water Resources, the District claims it has supplemental water infrastructure needs outside of the LPP that total an added $1.1 billion in new debt for facilities, including a Master Plan, the Warner Valley Reservoir, and water treatment upgrades. Our analysis does not include this additional debt, which will require even larger increases in water rates and/or impact fees than described above.

Furthermore, the projected cost alternatives are now four to seven years old and these costs are likely to have increased because of inflation. Increased costs due to construction delays are not uncommon with water projects of such large size and cost, which would require additional increases in water rates and/or impact fees. While impact fees might appear to fall only on newcomers, free market competition for housing development among surrounding counties means that the District's impact fees will depress the value of Washington County land relative to its neighbors' land and relative to its current value.

In the past, the Division of Water Resources has claimed they have devised a repayment scenario, coined "Pay-As-You-Go," allowing the District to take portions of the water from the LPP and only pay the debt associated with this smaller portion. This scenario does not address the operation and maintenance costs, among other costs, which must be paid annually regardless of wen the project's water is used by the District. If "Pay-As-You-Go" involves no State subsidy (that is, if it entails "negative amortization"), we find it causes ballooning debt as a function of not paying down the loan, unless the District raises water rates and/or impact fees even more. If, on the other hand "Pay-As-You-Go" does involve a State subsidy, then it constitutes an almost 50-year interest-free loan, a gift by Utah taxpayers potentially totaling billions of dollars. Finally, if the Division of Water Resources contends that only a portion of the LPP water is needed over the next 20–40 years and the area has a variety of alternative water sources, we question why the project is being proposed now.

We conclude from our initial analysis that these debt obligations raise serious questions about the project the Division of Water Resources is proposing. The State should not facilitate Washington County's acquisition of this debt without a careful and thoroughly detailed study of whether Washington County residents have the need for this water, the will to pay dramatically more in water rates and/or impact fees, and the financial capacity to repay this large debt owed to the taxpayers of Utah. Without this study and subsequent discussion, there is no assurance that Utah taxpayers will ever see their loan repaid. Indeed if repayment really was highly likely, the District by itself could have borrowed the money on the bond market from eager investors and started construction already, without any State financial involvement, as the District has done on many past occasions.

Thank you for the opportunity to participate in this discussion.

Sincerely,

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