Socioeconomics

Item 1: Study plan 10 identifies several key issues related to the proposed project that were not included in the Exhibit E of the license application or in Final Study Report 10. These include the likely cost of water to the participating water districts and their new and existing customers and the estimated financial feasibility of the project. Therefore, please provide the following:

a) An estimate of the cost that would be allocated to each District and how that cost would be allocated among existing and new water users; including the likely impacts on user costs.

b) An estimate of the financial feasibility of the project—including potential fiscal impacts on the State of Utah for funding the project.

UBWR Response:

UBWR believes its detailed response will be most helpful if requests a) and b) are addressed in reverse order.

Financial Feasibility

The license will include an article requiring UBWR to file with the Commission documentation associated with project financing. This material is to be filed at least 90 days before the start of construction, and is to include a demonstration that the licensee has acquired the funds, or commitment for funds, necessary to construct the project in accordance with the license. Financial statements are to be a part of such submission. We anticipate that financing details will be worked out well in advance of the 90 days prior to construction.

Factors such as final alignment, mitigation requirements, and timing of the project must be determined before final costs can be established. This cost estimate and related financial estimates will be updated as the alignment and timing of the project become clearer. In response to FERC’s supplemental information request, Applicant is providing additional cost-related information which is currently available, with the expectation that it will assist FERC in its analysis of the Lake Powell Pipeline’s (LPP) Project financial feasibility.

Applicant would note at the outset that Final Study Report 10 (revised), as filed on October 24, 2016, includes in Chapter 6 an estimated power cost/benefit economic analysis prepared in conformance with Commission policy as utilized since the Mead Corp. decision. See also: City of Tacoma v. FERC, 460 F.3d 53, 72 (D.C. Cir. 2006). UBWR believes this analysis provides all of the information the Commission requires to conduct its analysis under Mead Corp. Relative to the Project as a whole, UBWR responds below.
State of Utah

Construction of the Project, including some of its financial arrangements, is guided by the provisions of the Lake Powell Pipeline Development Act. The State of Utah will need to provide funding for the project (through a bill passed by the Legislature and signed by the Governor) before the Utah Board of Water Resources is authorized to begin project construction. The State of Utah has begun to set aside funds for water projects, which could be appropriated for the LPP project in the future. Although some state reserves from these funds will accumulate, project beneficiaries also plan to make a considerable up-front cash contribution to the project. The State of Utah will likely need to incur bonded debt to have sufficient funds to fully fund the project.

It is important to note that under the Lake Powell Pipeline Development Act, the ultimate project beneficiaries in Washington and Kane counties are not the direct financial sponsors of the Project. The State of Utah is the direct sponsor. However, the project beneficiaries are required to subsequently repay the state for its costs with interest. Notably for purposes of FERC review, the statute provides that the state cannot expend any monies on construction costs “until the Board has contracted with the districts for the sale of at least seventy percent of the water developed by that phase of the project.” The Act further provides that the Board, in consultation with the Legislature, is to establish appropriate prices for the delivered water supply based upon the amount of revenues required to cover capital and operations and maintenance costs. It also identifies some of the contractual terms.

In support of the Lake Powell Pipeline project, the State of Utah will:

- Review and verify the state’s capacity to pay for the project; and
- Independently review and verify local capacity to repay the state, with interest, for its costs associated with the project, including through funding sources such as user fees, impact fees, and property taxes.

It is anticipated that the State of Utah will play a significant role in financing the project, although exact financial details are currently under review. The State of Utah is currently doing due diligence on the project to make these determinations, including through an Executive Water Finance Board created by the Governor and through an independent verification of repayment costs and funding sources. Project beneficiaries indicate that they have the financial capacity to repay the project’s costs to the state.

In 2015, the Legislature created a Water Infrastructure Restricted Account (WIRA), which sets aside funding for water projects, such as the LPP. In 2015, $5 million was appropriated into the account from the General Fund. In 2016, the Legislature established a mechanism for the placement of 1/16 of a cent from state sales tax revenue into the new fund, which will be phased in over several years. Once the phase-in period is complete (in 2021), approximately $34 million will annually be added to the fund. Since such annual revenue is tied to a percentage of a sales tax rate, restricted account revenue will increase to the extent that overall taxable sales increase. Funds provided by the State of Utah from the WIRA fund or other state funding or financing sources will be repaid to the state with interest.

In 2016, the Legislature passed a law directing the Board of Water Resources, in consultation with the Legislative Water Development Commission, to establish criteria for the review of project proponents’ repayment plans. This effort is currently in process. In 2017, the Governor
issued an Executive Order establishing the Executive Water Finance Board. The Board is charged with reviewing and analyzing the impacts of proposed major water projects, including the financial and economic impacts on the state and ratepayers. Applicant is actively involved in the implementation of these initiatives.

As these various efforts demonstrate, the State of Utah is currently in the midst of a due diligence process to assess the financial impacts of the project, both to the State of Utah and for full repayment from project beneficiaries. In addition, the State of Utah will have an open and transparent process that will engage the public with financial and other information as the project proceeds.

The State of Utah is one of only ten states receiving a AAA rating from all three major credit rating agencies, and was recently ranked #4 in the George Mason University Mercatus Center’s Ranking the States by Fiscal Condition report. In its most recent credit opinion, Moody’s Investor Service gave Utah a Aaa rating and assigned the state a stable outlook, citing conservative fiscal management, improved reserves post-recession, a closely managed debt portfolio, a diversified and growing economy and a well-funded retirement system. Earlier this year, Fitch ratings similarly affirmed the state’s AAA rating and stable outlook, commending the state’s conservative fiscal and debt policies, noting the expectation of continued economic growth, and similarly finding that “Utah’s long-term liabilities are below average for a U.S. state.”

The State of Utah maintains its AAA bond rating because it prudently manages its budget. However, even as existing debt is being paid off, the State of Utah is also in the process of incurring significant debt related to transportation projects (about $1 billion) and a prison relocation (about $570 million). Because of this, the State of Utah will need be very mindful about its debt levels as it assesses a funding and financing package for the project. As the project evolves, the State of Utah will better be able to assess project costs and local project beneficiary ability to repay those costs, and then determine how to proceed with funding.

**Repayment Capacity Estimates by Local Project Beneficiaries**

With reference to the financial capacity of Project beneficiaries to meet the repayment obligations, the State of Utah has various processes in progress to assess the viability of full repayment to the state by the Project beneficiaries. A final determination as to the financial capacity of the Project beneficiaries to fully repay the state, with interest, has not been made by the State of Utah.

However, as detailed below, the project beneficiaries represent that, given certain long-term assumptions, sufficient capacity to repay project costs, with interest, exists. It is important to note that the project beneficiaries (Kane County Water Conservancy District (KCWCD) and the Washington County Water Conservancy District (WCWCD)) have not yet identified the exact approach that the entities will employ to ensure that the necessary funds will be available to meet repayment obligations. Options they are considering include increases in water rates, impact fees, and/or property taxes, as well as the potential sale of surplus capital assets. The respective governing bodies continue to evaluate these options and gather public input. Additional detail will be worked out as the State’s due diligence process continues.
In support of the project beneficiary’s assertion that sufficient capacity exists, Washington County is projected to remain the fastest growing county in the state, with an anticipated population of 510,000 by 2065, or approximately 350,000 more people than reside in the county today (per Kem C. Gardner Policy Institute 2017). The current population consumes roughly 17 billion gallons of water annually. Given expected rates of population growth and factoring in certain conservation improvement assumptions, this number is anticipated to increase to more than 50 billion gallons per year by 2065. The average price for water delivered within the WCWCD service territory is currently approximately $2.40 per 1,000 gallons, which is very inexpensive water in comparison to many other Western municipalities. See e.g., Fort Worth, TX, $15.30; Aurora, CO, $5.44; Denver, CO, $2.55 to $6.12; Santa Fe NM, $6.06; San Diego, CA, $6.00+. Even taking into account price elasticity effects, there is significant capacity for water rate increases.

Local water prices within Washington County Water Conservancy District’s service area have begun to increase in recent years in response to the cost of meeting necessary infrastructure and supply enhancement demands. Prices are expected to continue to rise at a measured and reasonable pace over the course of the repayment period for the Project. The exact amount and timing of such increases cannot be determined at this time given such variables as the timing of project construction/completion, final project design and alignment determinations, additional non-LPP revenue needs, the pace of growth, increases in community income/wealth, etc. However, by way of example, an increase of $1 per 1000 gallons, phased in at 10 cents per year for ten years, translates into approximately $1.57 billion in incremental water rate revenue through 2065 when applied to total estimated water deliveries by WCWCD. Thus, significant additional water rate revenue is available.

In addition, Washington County is expected to add more than 350,000 new residents by 2065. This will mean new home and business construction, translating into approximately 150,000 additional residential equivalent units and associated impact fees. WCWCD indicates that every $1,000 increase in such fees yields approximately $145 million in revenue through 2065. WCWCD’s current impact fee for 2018 is just over $8,400, or approximately 3.5 percent of the median home price. In 2017, the WCWCD Board of Trustees, in support of both the Project and the balance of the District’s long-term capital program, adopted a schedule governing future fee increases. In general, beginning in 2018, impact fees are scheduled to increase at a rate of $1,000 per year through 2026.

The third primary source of repayment revenue available to WCWCD is property taxes. The total assessed value in the region is currently $13.4 billion. Though the WCWCD is authorized to levy a tax rate of up to 0.1 percent, its current rate is 0.072 percent, leaving capacity of 0.028 percent. Factoring in anticipated population growth and projections about property appreciation, WCWCD indicates that aggregate assessed value is anticipated to increase from the above referenced $13.4 billion in 2017 to more than $168 billion by 2065 and that the resulting revenue potential through 2065 is just shy of $900 million.

Washington County has carefully considered, and will continue to consider as it refines its funding strategy, the socioeconomic factors underlying the construction of the Project.

Project beneficiaries state the same approach, logic and fiscal considerations can also be applied to Kane County. While its growth pattern and economy differ from that of Washington County, it nonetheless bears the same water supply responsibilities to its residents, and its policymakers...
have taken the same general approach to the Project. In terms of fiscal allocation, Kane County accounts for only a small fraction of the Project (approximately 2 percent). However, the two counties are working together to ensure that the long-term water resource needs of the region are addressed in a coordinated and fiscally responsible manner.

Conclusion

The Lake Powell Pipeline project is an important component in meeting the long term water supply needs of Kane and Washington Counties. This area’s population is the fastest growing in Utah and is among the fastest growing in the country.

In support of the Lake Powell Pipeline project, the State of Utah will:

- Review and verify the state’s capacity to pay for the project; and
- Independently review and verify local capacity to repay the state, with interest, for its costs associated with the project, including through funding sources such as user fees, impact fees, and property taxes.

It is anticipated that the State of Utah will play a significant role in financing the project, although exact financial details are currently under review. The State of Utah is currently doing due diligence on the project to make these determinations, including through an Executive Water Finance Board created by the Governor and through an independent verification of repayment costs and funding sources. Project beneficiaries indicate that they have the financial capacity to repay the project’s costs to the state.

Applicant appreciates the opportunity to provide this information, and will provide additional financial analysis as the state completes its due diligence.

Item 3: In item 17 of our July 26, 2016 Request for Clarification and Additional Information, you provide the total per capita water for 2000-2010 broken down for each year into the water use components shown in Figure 3-1 of your Water Needs Assessment. If available, please provide the same data for the years 2011 to 2016.

UBWR Response:

The Utah Division of Water Resources compiled statewide water use numbers in 2010 and 2015 and does not have data for 2011, 2012, 2013 or 2014. The 2015 numbers are currently under review by an independent 3rd party and are not available before anticipated release in early 2018.