Honorable Speaker Lockhart
Utah House of Representatives
350 North State, Suite 350
PO Box 145030
Salt Lake City, Utah 84114

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

Honorable Senator Curtis S. Bramble, Chair
Honorable Representative Patrick Painter, Chair
Revenue and Taxation Interim Committee

October 16, 2012

Dear Speaker Lockhart, President Waddoups, and Senator Bramble,

We are writing with some concern about the repayment claims made with respect to financing the proposed Lake Powell Pipeline. Our preliminary analysis raises important questions regarding the ability of the Washington County Water Conservancy District to repay debt issued by the State of Utah for this project. Our analysis is based on four points described below and summarized on page 3.

As you are no doubt aware, the Lake Powell Pipeline Act includes language mandating that the project cost will be repaid to the State of Utah with interest. The accompanying reference pages includes Utah Code 73-28-402 Agreement for delivery – Period for repayment of costs from the Lake Powell Pipeline Development Act.

1. Water Conservancy District Existing Net Revenues. According to our initial review of the 2011 Audited Financial Statement of the Washington County Water Conservancy District, the agency reported a $10.275 million change in Net Assets in 2011. In a business this would be considered as Net Income. This data is based on the Financial Analysis of the District's Funds Change in Net Assets statement, which is attached.

2. 50 Year Repayment Obligation to State Taxpayers. We prepared a calculation of total annual debt service assuming the portion of the project cost subject to repayment by the Washington County Water Conservancy District is $969 million. This figure was selected because it was presented to the Legislative Water Issues Task Force on November 14, 2011; many people believe the actual project cost will be higher. Assuming a 50 year repayment period, the annual debt service varies by interest rate as follows:

Annual Debt Service Payments
by the Washington County Water Conservancy District

	Interest Rate			
Repayment Cost	**0.03**	**0.04**	**0.05**	**0.07**
$969 Million	$37,660,000	$45,110,000	$53,080,000	$70,210,000

At any of these interest rates, debt service for this level of borrowing over 50 years is clearly significantly larger than the current $10.275 million in Net Annual Revenues of the District.

3. Possible Additional Payments from the District. According to testimony presented to the Legislative Water Issues Task Force on November 14, 2011, the Washington County Water Conservancy District may be planning to repay its debts by making additional payments not included above. The first is to make a 10% down payment. This brings the amount needed to be financed down to $969 - $97 = $872 million. (The proposal is to bond for this $872 million in three steps: first, $126 million; two years later, $373 million; and two years after that, the remaining $373 million.) The second additional financial commitment is for $20 million per year, as shown in red bars in a Revenue Slide presented during the November 14, 2011 discussion (attached below). This figure is simply an estimate, and was supported by testimony presented during the above meeting. As shown from this bar graph and this testimony, this $20 million would be contributed annually from 2020 until 2032.

If the District is able to make the 10% down payment and these $20 million annual payments, the amount they would owe in 2033 would be $1.065 billion if the interest rate is 3% (more if the interest rate were higher); to pay this off by the year 2080, the annual payment needed at 3% would be approximately $47,345,000 per year. It is important to note that this figure is only a projection and based only on materials presented to date. These projections could change.

4. Existing Debt Service by Washington County Water Conservancy District. Based on our preliminary review of the 2011 Audited Financial Statement of the Washington County Water Conservancy District, it appears this agency currently has approximately $10.7 million in existing annual debt service for previous obligations. These obligations are summarized in the adjacent table which is attached.
Note: there may be additional debts by this agency we are unaware of.

Summary of Total Projected Debt Service and Revenue Shortfalls. Based upon this information, future anticipated annual debt service to the Washington County Water Conservancy District due to this project could be $47 million.

As stated above, the current net annual revenues of this agency are currently $10.275 million, which is far less than $47 million. To put this concept into stark terms, if this initial analysis is correct, it would require the Washington County Water Conservancy District to increase its net annual revenues by roughly 370 percent ((47-10)/10).

Given the observed decline in growth rates compared to those predicted in 2006, we wonder where the significant increase in revenues required to repay this project will come from. We could find no information to indicate how the Washington County Water Conservancy District can raise this revenue.

Although there has been testimony these revenues could come from real estate impact fees on new homes and presumably commercial buildings, we could not find any projections indicating total annual revenues expected as a result of impact fee increases. The 2011 Washington County Water Conservancy District Audited Financial statement indicates that existing impact fee collections totaled a mere $4.62 million in 2011, and are already accounted for in the district's net revenues. In order for impact fees to pay the additional debt service level of $47 million, this amount in new impact fees would have to be collected every year during this repayment period. This corresponds to a roughly 10-fold (900 percent) increase in impact fee revenues, which is problematic. Since impact fees are paid only once by new residents and businesses, it is important to determine exactly what rate of growth would be required to raise this large revenue stream and over what period of time.

Accordingly, we suspect that at least some of the increase in revenues would have to come from raising water rates in order to generate an increase in water rate revenues from residents. Depending upon how large these water rate increases would be, they could lead to a significant reduction in total water use. It would be appropriate to ask how a 370 percent increase in net revenues would impact water rates and ratepayers.

Given these facts, the only financially prudent way forward is for the State to carefully study whether Washington County residents have the capacity to actually repay these debt obligations before the State indebts itself with this project. Since this debt service is significantly higher than currently practiced commercial lending standards, we also seek to understand what would occur if this agency defaults on its repayment obligations.

Thank you for the opportunity to provide some input to this discussion.

Sincerely,

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