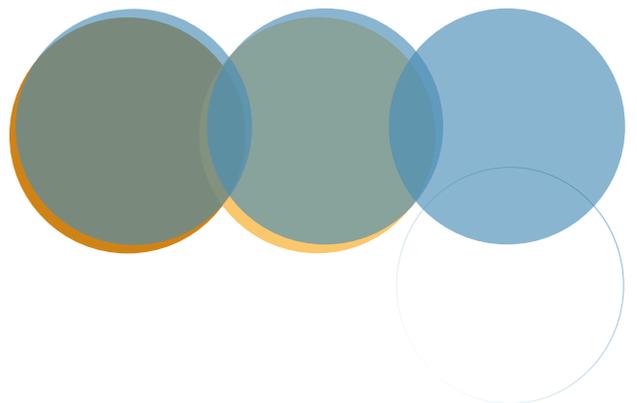


# PAYING FOR WATER

A Brief Summary of the Series



# PAYING FOR WATER

Special thanks to

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150 S. State St., Ste. 444  
Salt Lake City, Utah 84111  
utahfoundation.org

### About Utah Foundation

Utah Foundation's mission is to produce objective, thorough and well-reasoned research and analysis that promotes the effective use of public resources, a thriving economy, a well-prepared workforce and a high quality of life for Utahns. Utah Foundation seeks to help decisionmakers and citizens understand and address complex issues. Utah Foundation also offers constructive guidance to improve governmental policies, programs and structures.

Utah Foundation is an independent, nonpartisan, nonprofit research organization.

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## INTRODUCTION

Utah ranks as one of the nation's driest states — and one of the fastest-growing. It is therefore essential that Utah's water is well managed to ensure the sufficiency of affordable, quality water into the future. Utah Foundation's series of water reports discusses Utah's reliance on both water rates and property taxes to fund water infrastructure, operations and maintenance.

The four reports in the series are:

1. *High and Dry: Water Supply, Management and Funding in Utah* (August 2019)
2. *Drop by Drop: Water Costs and Conservation in Utah* (September 2019)
3. *Who Gets the Bill? Water Finance and Fairness in Utah* (September 2019)
4. *Getting Clear on Water: Practical Considerations in the Tax Versus Fee Debate* (September 2019)

When thinking about Utah's water supply and the role of property taxes, the prioritization of competing goals influence what policy is preferred. Some of the competing goals include:

- Utah officials should encourage people to conserve.
- The costs should be carried by those who benefit from the services.
- Water should be affordable at a basic level, but also have a price that signals when individuals are consuming at higher levels.
- Water providers need stable revenues to help them better provide services.

The following discussion provides a brief overview of the findings from the analyses in the four reports.

## THE PAYING FOR WATER SERIES: PRINCIPAL AREAS OF ANALYSIS

### How Widespread is the Use of Property Taxes?

While the majority of water providers in Utah do not collect property taxes, 90% of Utahns live within the jurisdiction of a water provider that does. Because jurisdictions overlap, some Utahns pay property taxes to two or even three water providers in addition to their monthly water bill. Furthermore, while most providers do not collect property taxes, they often purchase water from a wholesale provider that does, indirectly lowering water rates for consumers.

### Is Utah's Approach Unusual?

A threshold question in our research was, is Utah unusual in its use of property taxes alongside water rates? While no comprehensive national survey exists, Utah Foundation was able to identify instances of successful water agencies using property taxes to supplement water rates in Arizona, California, Colorado, Louisiana and Texas. Utah Foundation was also able to identify a number of successful water agencies covering a wide array of water services while relying solely on water rates.

### Conservation

Regardless of the revenue mix, Utah water providers regularly engage in a variety of conservation efforts. Furthermore, conservation relies heavily on how water rates for consumers are structured rather than simply on whether property tax revenues are used as well. That said, a greater reliance on water rates could help water providers further leverage their rate structures to encourage conservation.



## KEY FINDINGS OF THIS SERIES

- When it comes to water policy, Utah has a complex range of stakeholders, including a variety of water users and beneficiaries, as well as at least 308 public water suppliers.
- Because Utah is both one of the fastest growing and driest states in the nation, the challenge of water management is a pressing matter.
- Utahns divert more than 5 million acre-feet of water for annual use, even though only 3.3 million acre-feet is available for use, meaning that a significant portion of Utah's diverted water is reused, rather than simply consumed.
- Less than 20% of the total diverted water is distributed through public utility systems. Of this water, residential users consume more than two-thirds – mostly for outdoor purposes.
- Per capita water use from public utility systems varies widely based on climate, geography, economy and culture.
- The Wasatch Front has relatively low per-capita use, while south-central Utah has relatively high use.
- In surveying the tiered rate structures of water providers across the state, Utah Foundation found a wide variety of approaches.
- While it is unclear how many water providers outside Utah use property taxes alongside water rates, there are successful examples of both types of water providers: those that use property taxes to lower water rates and those that do not.
- Most Utah water providers have chosen not to directly impose property taxes; however, because of overlapping jurisdictions and because some providers are far larger than others, more than 90% of Utahns live within the jurisdiction of a water provider that collects property taxes.
- Conservation from an increase in water rates might be limited in the short term, but it would increase over the longer term.
- Comparing Utah's water providers shows that, on average, providers with 10% higher rates have 6.5% lower water use.
- A greater dependence on use-based water rates would generally tend to raise those rates and encourage conservation; however, there is currently no clear indication that water providers that depend upon a higher share of property tax revenues have customers with higher water use.
- Some water providers encouraging conservation could find themselves in a position where water use drops so much that they cannot continue to cover costs without raising rates.
- Policymakers could decouple revenues from the quantity of water sold, so conservation does not negatively affect water providers' budgets.
- Generally speaking, conservation is the cheapest way to meet demand for water, followed by agricultural conversion. Building new infrastructure is far more expensive.
- Depending on their water providers' reliance on property taxes, nonprofit institutions and other exempt and partially exempt property owners may pay less than their share for the water they use.
- A shift away from property taxes could result in steep rate increases for some users – including school districts and universities. In some cases, those costs may end up being passed on to the public in other ways.
- Based on who uses the most water, a move to greater reliance on water rates would generally provide for a fairer distribution of the cost.
- Using property taxes ensures that a broader base of those who benefit from water systems share in the cost.
- There are ways to address certain fairness issues without changing the revenue mix, such as by charging differential rates based upon user type.
- To the extent that property taxes lower water rates, they can make water more affordable to lower income Utahns. However, there are ways to adjust water rates to address basic affordability without using property taxes.
- From a broad perspective, a mix of property taxes and water rates allows water providers a means of counterbalancing core fairness characteristics attributable to each funding source.
- While water rate revenues are not as stable as property taxes, they are among the most stable relative to other possible revenue streams commonly used to support revenue bonds.
- Rainy day funds and decoupling of water rates from sales volume can help address budget volatility.
- While it stands to reason that property tax revenues might help push credit ratings higher and thereby make the overall cost of water cheaper, it is only likely to be the case to a marginal degree.
- Market distortions created by using property taxes for wholesale water may increase the overall cost of water.
- A mix of revenue sources allows for more local flexibility by allowing water providers to use the property tax as needed and to counterbalance drawbacks in water rates.
- A full reliance on water rates tends to provide stronger cost transparency because consumers can turn to a single source of information for their use and cost: monthly water bills.

## Fairness

A shift to greater reliance on water rates would promote fairness among users: Those who use more would pay more of the cost of public water. Those who benefit from property tax exemptions and thereby see a reduction in their overall water cost would pay a share of the water costs more commensurate with their use.

However, with the property tax, property owners who do not use water but benefit from its development also contribute. Furthermore, many water providers provide a number of services that benefit the broader public, and property taxes broaden the base of those contributing to those services. It should be noted that water providers involved in services beyond delivery can create an enterprise fund to manage water delivery and a general fund to manage broader services and separate the revenue streams accordingly.

There is also the question of societal fairness from the standpoint of low-income water users. Water is a basic need of survival. To the extent that property taxes subsidize water rates, the rates can be made more affordable to low-income households. However, this can be addressed when using water rates alone by using tiered water rates with a low initial tier; it can also be addressed by using water budgets.

Finally, there is the question of intergenerational fairness. Bonds tend to be the traditional method of spreading the costs of infrastructure across the generations that will benefit from it. However, such bonds can be paid down using either property tax revenues or water rate revenues.

## Overall Cost of Water

Distortions may occur in the wholesale market when property taxes allow wholesalers to sell at lower prices, which may increase the overall price users pay for water. To the degree a greater reliance on water rates encourages conservation, expensive water development projects may be delayed, resulting in lower costs for current consumers. These cost savings are associated directly with conservation rather than water rates. As noted earlier, a larger reliance on water rates could help leverage those conservation efforts.

Access to property tax revenues might allow for higher bond ratings and thereby cheaper borrowing rates and lower costs for consumers because water rates are less stable than property taxes. On the other hand, water rates are considered among the safest revenue sources for municipal bonds, and the effect on bond ratings and interest rates will tend to be marginal.

## Funding Flexibility

Local areas with differing needs use property taxes to different degrees to meet local needs. With water rates alone, water providers have the flexibility to balance tiered rates, fixed fees and residential/commercial classification to retain flexibility to meet local needs. But property taxes offer still another revenue option. Property taxes may also be more advantageous when funding upfront costs.

## Transparency

The full cost of water from a single source – monthly water bills – increases transparency, although the level of transparency would likely vary by provider. However, the process of increasing water rates can be less transparent for water rates than revenues generated from property taxes.

**A greater reliance on water rates offers greater leverage for conservation efforts, while property taxes offer revenue flexibility.**

**Figure 1: A Broad Overview of Utah Foundation’s Findings, by Issue Area**

	Better or somewhat better with greater reliance on water rates	Neutral	Better or somewhat better with inclusion of property tax
Conservation	Teal	Light Blue	Light Blue
Fairness among users	Teal	Light Blue	Light Blue
Fairness across society	Light Blue	Light Blue	Green
Intergenerational fairness	Light Blue	Grey	Light Blue
Overall cost of water	Teal	Light Blue	Light Blue
Cost of finance	Light Blue	Light Blue	Green
Revenue stability	Light Blue	Light Blue	Green
Funding flexibility	Light Blue	Light Blue	Green
Transparency - cost	Teal	Light Blue	Light Blue
Transparency - revenue increase	Light Blue	Light Blue	Green
Representation	Light Blue	Grey	Light Blue

Source: Utah Foundation analysis.

**CONCLUSION**

It is not Utah Foundation’s intent to recommend one revenue approach over another. Rather, the purpose of this series of water reports is to provide a resource that compiles the costs and benefits of alternative methods of funding water service in Utah. The series provides stakeholders, policymakers and citizens a single source of information that summarizes competing arguments. These arguments are outlined in detail in parts 2 through 4 and summarized in broad strokes in the table to the left.

Throughout this series, Utah Foundation outlines the costs and benefits of a greater reliance on water rates, and how this might affect each of the areas of concern. During the course of this research, Utah Foundation identified a number of potential solutions to help mitigate or alleviate the negative consequences of either funding method. For example, water providers that use property taxes but are concerned about fairness might charge differential rates reflective of property tax contributions. Similarly, water providers that rely pri-

marily on water rates and fees can address revenue stability by building large reserves or more frequently re-evaluating rates.

Utah water providers have a number of challenges to tackle. They also have a large range of geographic, climatic, economic and demographic factors to consider as they chart the best course forward. Getting the analysis right is a matter that will echo into the future.



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