

**MINUTES OF AN ORIENTATION MEETING OF THE WEBER BASIN WATER
CONSERVANCY DISTRICT BOARD OF TRUSTEES HELD MONDAY,
NOVEMBER 14, 2022, 9:00 A.M., AT DISTRICT HEADQUARTERS**

Present:

Chairman Marlin K. Jensen
Trustee Mark D. Anderson
Trustee Kym O. Buttschardt
Trustee Randy B. Elliott
Trustee Scott K. Jenkins
Trustee Angie Osguthorpe
Trustee Christopher F. Robinson
Trustee Paul C. Summers

Excused:

Trustee Jared Andersen

Scott W. Paxman, General Manager/CEO
Mike Malmborg, Legal Counsel
Jody Williams, Legal Counsel

Brittney Bateman, Economics Planning Coordinator
Calysta Bravo, Finance Manager
Suzy Eppens, Contracts Administrator
Darren Hess, Assistant General Manager
Brad Nelson, Assistant General Manager
Jon Parry, Assistant General Manager
Kendall Searle, Administration Manager

Fred Philpot, Lewis & Young
David Robinson, Lewis & Young

I

DISCUSSION REGARDING WATER RATE DEFINITIONS & TERMS

Gen. Mgr. Paxman welcomed Coord. Bateman to present. Coord. Bateman went over the definitions of Capital Charge, Impact Fee, District 4/5, and Water Rate Makeup.

Capital Charge: A one-time, upfront charge paid by a customer agency for the capital component of a water rate tier. Generally passed onto the retailer to its residents via an impact fee. The entity will then pay a reduced rate in perpetuity consisting of O&M and CARR.

Impact Fee: A one-time, upfront charge paid by an individual or developer for the capital component of a secondary or replacement water. The resident will then pay the annual retail rate. Requires tracking and an annual report submitted to the State Auditor.

Coord. Bateman further clarified that currently there are only 2 areas with an impact fee, West Haven and South Davis.

District 4/5: Infrastructure to be built will have capacity to serve more than the amount allotted for District 4 and the remaining capacity will be sold under District 5.

Water Rate Makeup: Water rates are broken into different components and budget sub funds. These sub funds include the Repair & Replacement Fund, Operation & Maintenance Costs, and Capital/Bonding Costs. Together these sub funds make up the whole water rate.

Coord. Bateman further stated that District 4/5 supply involves water share acquisition, undeveloped water rights, and optimization of current supplies by way of programs to improve conservation to put into the District 4 block. The District 4 block contains 10,000 a.f. and the District 5 block contains 12,335 a.f. based on current infrastructure and development, which will be dependent on what the updated Supply and Demand Study will show.

Trustee Summers asked if we currently have this water. Gen. Mgr. Paxman replied yes, there is about 30,000 a.f. that remains and that is all we have currently. Coord. Bateman presented a chart showing the current water contracts total 237,096 a.f. and the breakdown of the remaining 30,000 a.f. of water. After the 10,000 a.f. in District 4 and the 12,335 a.f. in District 5, there will be 8,131 a.f. of water in the District's remaining reliable yield.

Trustee Summers asked if the current treatment plants can handle the 30,000 a.f. additional capacity. Gen. Mgr. Paxman replied that the new District 4 rates account for upgrades and expansion of the treatment plants to accommodate the additional capacity. Trustee Robinson questioned whether or not we have enough storage and capacity to fulfill our current contracts. Gen. Mgr. Paxman stated that our reliable water supply is based on eight out of ten years having our reliable yield fill, and that our biggest source of water for future years will be through conservation.

Chairman Jensen asked if these new blocks of water are made up of both culinary and secondary water. Gen. Mgr. Paxman replied that for the new blocks, it is all considered Municipal & Industrial (M&I) water, either treated or untreated water. Some of that may be used as irrigation water, but it will be sold at the M&I rate and there will not be a discount for irrigation uses. Trustee Jenkins asked for confirmation that the Wasatch Front has no connection to our system for culinary use, that we only wholesale to other entities that then distribute drinking water to customers. Gen. Mgr. Paxman confirmed that is correct.

II DISTRICT 4 WATER RATE REPORT

Fred Philpot from Lewis & Young presented the preliminary review of the Capital Financial Plan for the District 4 rate. Mr. Philpot began by outlining the financial plan objectives which include revenue sufficiency, capital cash reserves, and debt service coverage. The revenue sufficiency goal is to ensure capital and operation expenses are covered, the capital cash reserves goal is to maintain a minimum of \$10M, and the debt service coverage ratio goal is to be 1.25 times the minimum. The District has adopted the debt service coverage ratio at 1.75.

Mr. Philpot stated that the methodology behind the plan was a bookend analysis, looking at

Page 3 – Orientation Meeting – November 14, 2022

maximums and minimums. The analysis takes 23,335 a.f. by 2048 and 10,000 a.f. by 2033. The short-term demand will be in favor of untreated and replacement water at 65% and the long-term demand will be treated water, 53% of demand with remaining 47% untreated.

Trustee Robinson commented that the trend is shifting focus on treated water and doing away with outdoor irrigation use. He further clarified that there is now one analysis for all water, secondary and treated. Trustee Robinson asked if there is a different plan for replacement water verses the rest. Gen. Mgr. Paxman replied no, the differences come in the O&M portion, but the capital portion will be the same throughout the total water rates regardless of water type.

Mr. Philpot stressed that rate studies should be updated and reevaluated on an annual or two-to-three-year basis as assumptions may shift.

Trustee Robinson asked, moving forward what the incremental cost for this next 23,000 AF of water. Gen. Mgr. Paxman stated that in the 1950s, development costs of water were much cheaper than the treatment costs. Today the development/ capital costs are much higher than the treatment costs. It is only going to get worse on the spread between the two costs. Trustee Jenkins stated that O&M will increase as water is more difficult to treat, but that this is still a minimal portion of the rate compared to the overall capital charges for the District 4 block of water.

Mr. Philpot replied we are at the front end of this cost curve. As time moves forward, we go into the construction phase, but later the rate will shift toward the R&R because that will be the demand. The analysis assumes a capital charge per acre-foot around 25%, 35\$M of grant funds over four years at 25% per year, and cash flow of \$6M to \$9M annually. The O&M and R&R assumes a 3% annual increase. The capital component is the primary revenue when looking at these rates.

Trustee Robinson asked about inflation and Mr. Philpot responded yes, we need to take into account inflation with each annual review of the rates plan. He further explained that if these rates are not diligently adjusted, you will start to eat into the capital charge fund and will need to make up the amount elsewhere.

Mr. Philpot continued presenting. Trustee Robinson asked for clarification on the capital facilities capital charge. The capital charge is based on the 23,000 af of development but this is the rate of District 4 and lays the groundwork for District 5 rates. Flexibility is the reason why we do not put the full 23,000 AF in the District 4 block. Trustee Robinson stated the half a billion dollars will be used during the life of the District 4 block. Fred stated building the capital infrastructure will be major over the next 10 years, but this infrastructure will be used for the District 5 block.

David Robertson from Lewis & Young began to present the financing options. He reviewed bonding options and presented the Water Infrastructure Finance and Innovation Act (WIFIA). This act allows borrowing for those who are eligible for this program depending on the nature and type of water. There are hoops to jump through and WIFIA is based on taxable funds so there are higher interest rates. WIFIA will only finance 49% of the total project so the other 51%

Page 4 – Orientation Meeting – November 14, 2022

must be funded elsewhere. There are two big pros for WIFIA, however. The finance costs are spread over a longer period and interest charges can be deferred for five years.

Mr. Philpot presented the conclusion of the analysis with the preliminary annual capital recover rate at \$1,300 per acre-foot with a 4% annual increase, assuming \$300M of bonding in years 2025, 2027, and 2030, and assuming 25% of the demand pays the impact fee/one time capital charge.

Trustee Robinson asked for clarification on the \$1,300 per a.f. rate, and Mr. Philpot answered that the customers either pay the prepayment amount or agree to pay the \$1,300 per acre-foot per year.

Legal Counsel Malmberg asked if there is an end to the \$1,300 per acre-foot and asked if it is over once the 17 years are over, or whenever the debt would be paid, then if the capital charge is paid would that cost be removed from the billing. Trustee Robinson also asked about a sunset on the charge. Mr. Philpot answered that the model does not account for the sunset of that rate, but that the rate sub fund ratios will change. He continued by stating that needs and costs change, and rate proportions need to change accordingly which is why reevaluation is highly encouraged and needed. Gen. Mgr. Paxman commented on the sunset and explained that we do adjust and look at these as we review year after year.

Trustee Jenkins expressed concern over the high rate and asked how the District might reduce that cost. Trustee Robinson replied that the cost cannot go down, but the amount of water needed can go down thereby reducing the need and cost.

Mr. Philpot talked about the future being unknown, but at this current state, this is a plan with which we can achieve our objectives moving forward with the available information.

Mr. Philpot outlined the next steps and stated that based on input, Lewis & Young will adjust the model as needed and prepare the final recommendations and final rate study, then the board will adopt the proposed rates at a public hearing in January of 2023.

Gen. Mgr. Paxman reminded all that there will be another Orientation Meeting on November 28 and if there are any other considerations to address them there, and at the December meeting the plan will be discussed and a date for the public hearing can be set.

There were various comments on how these rates will encourage conservation.

III DISCUSSION OF CURRENT WATER RATE INCREASES

Coord. Bateman presented the different scenarios of catching up the current water rate over two years, four years, or at a 10% increase and how long each would take to get water rates up to where they need to be to cover the true cost. Coord. Bateman said project rates will have the highest percentage increases and she will take a more in depth look at those. She stated a two-year approach is around a 26% increase to the overall rate. A four-year approach is around a 15%

Page 5 – Orientation Meeting – November 14, 2022

increase to the overall rate.

Gen. Mgr. Paxman explained that our Board historically has said that new growth should pay for the new development. We are looking to change this, and even out the burden.

Coord. Bateman stated that the Repair and Replacement portion (R&R) is a newer piece of the rate which is another reason project rates are behind and explains the need for the fast rate increase.

Trustee Jenkins asked if the goal is to have everyone pay the same rate and establish equity. Gen. Mgr. Paxman responded, yes, that it will take decades to get there but that is the goal. Trustee Jenkins stated that now is the time to do these changes because water is on the minds of everyone.

Coord. Bateman continued to move through the rate increases through Municipal, Industrial, Secondary Retail, Secondary Wholesale, and Irrigation. Coord. Bateman shared that the industrial rate is a steeper increase because they use pipe that only serves industrial, therefore the burden is not shared with many. It will take the full ten years if we only increase at the 10% rate. Trustee Osguthorpe asked if the District can afford to extend the rates out over the course of ten years. Gen. Mgr. Paxman replied no and stated that it will get harder as inflation continues rates will still rise. Trustee Summers stated that we need to remember that taxes are paid as well.

Counsel Malmborg asked if we charge differently for project agriculture water and secondary water. Coord. Bateman replied yes, that when the project was created that's how it was set up. The District was encouraged to make the O&M cheaper on agricultural water than other water.

Coord. Bateman continued by explaining that the District has the ability to adjust rates for O&M and R&R. Trustee Jenkins asked when we compare our water to Echo water how we look in our rates compared to their rates. Gen. Mgr. Paxman stated that we are similar but do not compete in the same way since Echo water uses shares in the company and not contract water like the District has.

Chairman Jensen asked if we are obligated to stay within these restrictions that were set up 50+ years ago. Counsel Malmborg replied that very recently the District repaid the project to the Federal Government, so restrictions might not need to remain the same.

Discussion continued. Gen. Mgr. Paxman commented that this will also be a part of the public hearing. Coord. Bateman stated that this increase will really hit in 2025 so we can give our customer agencies a two-year lead time.

IV REPORT ON WATER EFFICIENCY STANDARDS FOR THE WASATCH FRONT

AGM Parry started with a quote: A small group of thoughtful people can change the world, indeed it is the only thing that ever has.

Page 6 Orientation Meeting – November 14, 2022

AGM Parry stated that change is happening, and this dictates how we change. AGM Parry continued by saying it is not easy or simple but very complicated. He presented the differences between the Wasatch Front and Back, the District goals, and the state goals that we must meet.

The State of Utah within the Weber River region, which is our service area, needs to reduce total water use to 175 gallons per capita per day (GPCD) which is about a 30% reduction. The current use is 250 GPCD so the goals are aggressive. These are now the District's goals per legislation that passed earlier this year.

AGM Parry presented our programs that will catalyze reaching these goals including our Water Conservation Management Plan, various incentives, updated policies, and metering.

Trustee Robinson asked if rate increases were included in the plan. AGM Parry said yes, as part of the metering and rates section. Trustee Jenkins asked if we could have our customer agencies report to the District. Gen. Mgr. Paxman stated, yes, we do have them report and will continue to do so. Trustee Robinson questioned this legislation and our limitations with enforcing these goals. Gen. Mgr. Paxman stressed that we need to work arm in arm and have a cooperative spirit with our cities and agencies to reach these goals.

AGM Parry presented the success of the Flip Your Strip Program. The progress and interest we have seen with cities is very encouraging. Trustee Robinson asked for a summary of the standards and what the cities have moved forward with as far as requirements. AGM Parry explained our standards that the cities must adopt before they are considered eligible for the program. There are many variables which make developing standards difficult and different for each city such as varied population and varied number in each household requiring flexibility for each city.

V ADJOURNMENT

There being no further business for discussion, meeting adjourned at 11:39 a.m.

Respectfully submitted,



Scott W. Paxman, General Manager / CEO