

PROPOSAL FOR RAISING FUNDS FOR ANNUAL PAYMENTS OF STATE OF UTAH LOAN June 1, 2013

Introduction and overview

The Emigration Improvement District (EID) is drilling a new well to serve the residents of the Canyon. The decision about whether and where to drill the well have been considered in great detail by the EID board. This new source of water is crucial to providing water reliably to present and future subscribers of the water system. The cost of the new well is expected to be in the range of \$1.6 to \$1.8 million. We have received a 25-year, interest-free loan from the State of Utah to pay the costs of drilling and related development. In order to meet the terms of repayment, the District must raise about \$84,000 more money each year. This letter describes the proposed increases needed to service that debt. This matter will be considered at a public hearing on Thursday, 20 June 2013, 7:00 PM at the Emigration Canyon fire station.

This letter covers three topics: (1) the proposed increase in the base or standby fees to pay for the new well; (2) the proposed inauguration of a fire hydrant fee for those who have access to a hydrant who are not currently paying anything to the District; and (3) the proposed increase in water fees for the heaviest users. This first page outlines the issues and provides the key information for each of these topics, so you should read it even if you are not interested in the details of the proposal. We've added additional explanatory material for those who want to consider these matters in more depth.

Increase in base fees to pay for the new well

We propose to increase the monthly amount of each base and standby fee by \$15. The base fee doesn't vary with the amount of water used, and therefore it represents a reliable source of income. This will provide about 88% of the money needed to satisfy our annual payment requirements.

Inauguration of a fire hydrant fee for non-subscribers

We have 86 households in the Canyon who are within 250 feet of an EID hydrant but who pay nothing to the District for that service. We propose to levy a fee of \$15/mo to help sustain the system and ensure that those hydrants can be used for fire suppression. The policy of the District has been that we would allow use of the hydrants for non-subscribers, but charge a fee for water use in the event they were needed to fight a fire. With this new hydrant fee, the District will eliminate that policy, so that all who have access to a hydrant will be entitled to its use with no emergency water use charge. This fee will yield the additional 12% of the money needed for debt service.

Increase in the water use fee for the heaviest users

The amount of water in the underground reservoirs from which we draw is finite. The purpose of a progressive rate schedule is to discourage heavy consumption of this limited and shared resource. However, even with the increment of 7 cents per 1000 gallons, we still have a significant number of households that use more than 50,000 gallons per month during the hottest months. Heavy use by some affects all who share the system by disproportionately drawing on the aquifers. We propose to increase the 1000-gallon increment to 14 cents per gallon for all use that exceeds 50,000 gallons in a month. Frankly, we would rather have the water than the money, so if you are a heavy user of the system, please consider all available conservation measures to reduce your water use.

Details about the decision to develop a new well

The District has three wells that have been in operation for varying amounts of time. Well #1 came first during the initial development of Emigration Oaks. It is now our least productive well and is used occasionally to rest the other two wells. Well #2 is a moderately productive well, but the water level gets quickly drawn down when the pump is operating, necessitating frequent resting of the well to allow it to recharge from the aquifer. The third well, Brigham Fork, is our best producer, and carries the main load of water production for our subscribers. Last year, in addition to a poor spring runoff which reduced the productivity of the wells, we had significant mechanical problems with the Brigham Fork well and Well #2. The decision to move forward with haste on development of a new well (something the EID board had been working on for several years) was made to increase the reliability of water production system by adding redundancy of wells.

Although a new well will add to the overall productive capacity of our water system, the primary reason for going to the expense of development is to make the system more robust. Our property values depend in part on the presence of a reliable water system. One of the unhappy realities of water in our aquifers is that its chemical characteristics cause corrosion in the motors, pumps, and well structures. It is therefore crucial that we take steps to develop enough redundancy in the system to ensure steady production even during maintenance of a well. We would need the new well even if we added no new users and everyone practiced effective water conservation.

Water in the Canyon is relatively expensive. In addition to our setting, a rural community in a desert climate, we have challenges associated with the terrain, and a comparatively small base of subscribers. We can continue to meet our needs for this essential resource through a sensible combination of production capacity and conservation.

Details about the decision to pay for the new well through an increase in base and standby fees

Adding a new well increases the District's capital assets. The cost of increasing that asset is paid through capital assessments. There is a useful distinction to be drawn between capital assessments and water use fees. Capital assessments pay for increases in the value of the production and delivery system, whereas use fees pay for the subsequent production and delivery of the water. Everyone benefits equally from the existence of a robust water system. However, different households draw on the system in varying degrees, and therefore pay varying amounts for the product they receive.

The capital investment in the water system for Emigration Oaks residents is hidden in the cost of their property, but it was a very real part of the purchase price of their lot. New subscribers to the system pay an impact fee of up to \$5700 to purchase their share of the system. Those fees are completely separate from the charges for water use, which all pay in proportion to their consumption of water.

The addition of the capital asset the new well benefits everyone equally. Those who are not currently drawing water from the system might argue that they are not direct beneficiaries of the system, but that represents only the narrowest view of benefit. If Emigration Canyon developed a reputation for unreliable provision of water, everyone's property value would decrease and home insurance rates might well rise. The fact that the Canyon has a capable system in place is a community-wide benefit.

Using increases in water rates to pay for capital improvements is a bad idea for several reasons. First, it results in an unfair increase in the capital contribution of those who use more water. While we believe it is

entirely appropriate for heavier users to pay proportionately more for their water use (as the current rate structure demands), it is not fair for those users to pay a larger share for an asset that all benefit from equally. Secondly, the income from water use fees is unreliable. Consider the following example. Suppose that the low water runoff conditions we have seen for the past two years continued for another two or three years. We might at that point be forced into water-use restrictions that would result in a significant reduction in the income to the District. That would have little effect on our ability to pay for water production costs, which would fall more or less in concert with the revenue from use. But if we were relying on use fees to pay the annual fixed bond payment, what would we tell the State when those revenues were not sufficient for us to meet our bond debt service? Do we really want to live in a community that has a reputation for defaulting on our obligations because we chose a faulty income model? We received our latest bond from the State Water Resources board at a 0% interest rate—do we want to weaken our position with them for future funding requests? Those are very real risks if we choose to pay for capital improvements from use fees that are sensitive to both price and availability.

Details about the decision to levy a fire hydrant fee

The only households affected by this charge will be the 86 who have the benefit of a proximate hydrant but who pay nothing at all to the entity that provided it, the EID. Charging the modest proposed fee will remove a historical inequity, where some residents receive a benefit for which they pay nothing. Please note that around 40% of households which pay a base or standby fee do not now use EID water.

Details about the rate change for heavy water use

The heaviest months of use for the community are July and August, although June and September are often heavy as well, depending on the climate conditions during the summer. During the period of most intense use, our community-wide consumption has exceeded 9,000,000 gallons a month. Last July, the 18% of households who used more than 50,000 gallons a month accounted for about 47% of the 8,000,000 gallons used that month. If we deduct their first 50,000 gallons and only look at their collective use of water exceeding 50,000 gallons, we find that amounts to fully 20% of the total community use.

An examination of water use the following month is instructive. As subscribers became aware of the problems we were having with the wells, they (you) began to reduce use. August use was about three-fourths of the use in July, and the percentage of households whose use exceeded 50,000 gallons dropped from 18% to 11%. Consequently, their excessive use (>50,000 gallons) accounted for just 8% of the total use. If we could treat every summer month as we did last August, and keep our community-wide consumption to around 6,000,000 during those hot times, we'd certainly breathe easier during the summer. Let us emphasize yet again: The proposed rate increase is not primarily an income measure, but rather an incentive to conserve.

EMIGRATION IMPROVEMENT DISTRICT BOARD

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