

Who Pays for Waste?

For decades, Utahns have been told they are on the verge of running out of water.

But Utahns are among America's most wasteful water users (per person). Even though most U.S. cities outside the Beehive State use much less water than Utah's cities, water managers claim Utah cannot 'conserve enough' to provide water for Utah's future growth.

Yet virtually all such claims come from water suppliers who depend heavily on imposing property taxes on homeowners and businesses. In fact, many Utah water suppliers receive more money from collecting property taxes than from selling water. These property taxes lower the price of water, thereby encouraging people and government institutions to use and waste water.

For over 10 years, Utahns have been wondering how much water could be saved if property taxes for water were phased out and what would happen to residents' water rates.

This report answers this question for eight Utah cities, including several who would receive water from new water projects like the \$2 billion Bear River Development and \$2 billion Lake Powell Pipeline.

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“The fundamental water problem in Utah (and other western states) is not that existing supplies will prove to be inadequate to meeting increasing future demands... The basic problem is that pricing policy has been infected and distorted by political favors in the form of subsidies and concessions to different interest groups. Using property taxes as a revenue substitute for direct water prices is one such example.”

B. Delworth Gardner, Professor emeritus at Brigham Young University, in his recently published book, *Aquanomics*.

Executive Summary

Utah is unique in imposing property taxes on taxpayers that go directly to government water suppliers to lower the price of water. These property taxes act to lower the price of water, sometimes drastically, which in turn encourage individuals, businesses and especially government institutions to use and waste water. Cheap water prices result in high consumption and explain why Utahns are among the most wasteful users of water (per person) in the entire U.S. Although most Utahns embrace free market principles, property taxes for water, or water taxes, discourage the efficient use of water. This is the cornerstone of market economics: cheap prices drive high consumption.

Many fiscally-conservative Utahns are surprised to learn that most water suppliers outside Utah don't use property taxes to fund their operations. Many voters are surprised to learn they pay two, three or even four different water taxes on their homes and businesses, while large government landowners and nonprofits pay nothing. In other words, government golf courses, schools, universities and all government buildings are forcing Utah taxpayers to absorb the cost burden of their water waste, which can be substantial. In some Utah communities, these exempt water users use nearly 20 percent of all water used in the area.

One can no longer ignore the fact that virtually all the opposition to phasing out property taxes for water comes almost entirely from those water agencies who receive these taxes.

At first glance, low water rates may seem beneficial for those living in poverty, until one examines the water taxes they are also forced to pay. Low-income families use just a small fraction of the water used by high-income households yet they pay more water taxes compared to their actual use. These water taxes also unfairly burden low-income families because these payments are a much larger percentage of their total income. In our current system, Utah is effectively asking low-income residents to pay for the water use of higher income residents, governments and nonprofit institutions.

Executive Summary (continued)

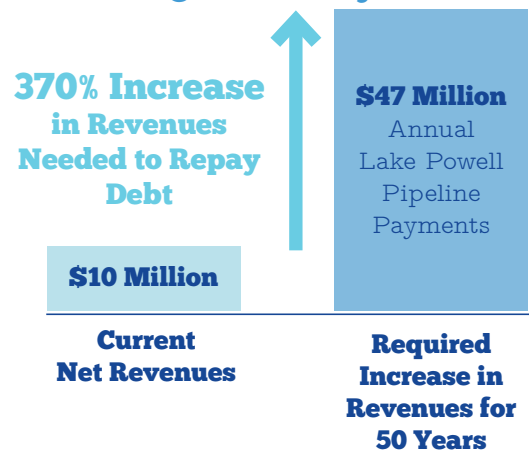
Phasing out property taxes for water would address this inequity while extending our water supply. Besides saving water, phasing out water taxes would help reduce government spending needed for water infrastructure including delivery systems, new treatment plants and new water sources. For example, phasing out water taxes would delay or eliminate the need for the proposed \$2 billion Lake Powell Pipeline, which all Utah taxpayers would pay for in the hopes they might one day be repaid by project recipients in St. George.

Although we are told that property tax collections for water go to essential water delivery needs, its not uncommon for revenues to be used for marketing campaigns and lobbying contracts.

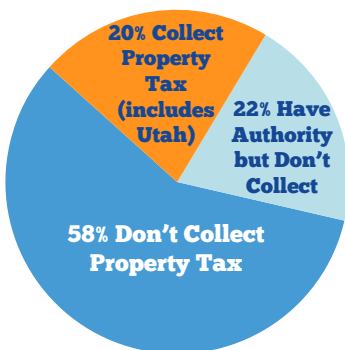
The government water supplier proposing the Lake Powell Pipeline project receives as much money collecting water taxes as they do from selling water, according to their audited financial statement. Phasing out these taxes would delay the need for this project for at least 20 years, but this government agency is adamantly opposed to even studying phasing out the water tax. This is ironic because repaying the \$2 billion borrowed from Utah taxpayers would require this entity to increase water rates and property tax revenues on St. George customers by at least 370 percent, according to a dozen Utah economists.

An Audit conducted by the Legislative Auditor General of the Central Utah Water District found the agency was over-collecting property taxes: “Prior district taxing plans would collect \$81 million more than necessary by 2011 and \$170 million more than necessary by 2015.”

Lake Powell Pipeline Debt Burden on Washington County Residents



Western Water Suppliers Collecting Property Tax



Phasing out property taxes for water would mean that Utah taxpayers would pay only for the water they use and no one would get a free ride to waste water. This would lower taxes for Utah residents and eliminate the need for excessive government spending. The day has come for Utah water suppliers to utilize the free market and make water prices more transparent and equitable.

Source: Mirage in the Desert: Property Tax Subsidies for Water

Utah's wasteful water tax

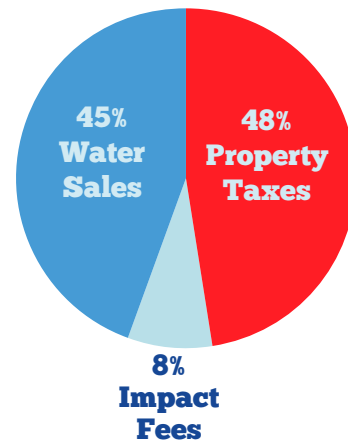
Utah is unique in collecting property taxes by water suppliers to lower the price of water. These water taxes encourage many to waste water including large government landowners who don't pay these taxes. These water taxes are why Utahns use more water (per person) than nearly every other city resident in the American West.

Property taxes act to lower the price of water, sometimes drastically, which in turn encourage individuals, businesses and especially government institutions that do not pay taxes to use and waste water. Cheap water prices result in high consumption and are the reason Utahns are among the most wasteful users of water (per person) in the entire U.S.

Although most Utahns embrace free market principles, property taxes for water, or water taxes, discourage the efficient use of water. This is the cornerstone of market economics: cheap prices drive high consumption.

A survey of Western water suppliers showed 82 percent of water suppliers outside of Utah do not collect property taxes as a source of revenue and price the full cost of water deliveries in water bills. Many fiscally-conservative Utahns are surprised to learn that most water suppliers outside Utah don't use property taxes to fund their operations. Many homeowners are surprised to learn they pay two, three or even four different water taxes on their homes and businesses, while large government landowners and nonprofits pay nothing.

Utah Water Conservancy Districts' Statewide Revenues



Every water conservancy district in the State of Utah collects property taxes to lower the price of water. These taxes make up nearly half of the statewide revenues for these water wholesalers.



Learn more at WhoPaysforWaste.com



How Much Water Can Utah Save by Removing Water Taxes?

An economic model created at the University of Utah demonstrates how much water could be saved if property taxes for water were phased out.¹ This model took over a year to develop and demonstrates that Utah could save billions of gallons of water. Reducing water waste would also delay or eliminate the need for BILLIONS of dollars in taxpayer spending and debt.

Water Supplier Revenues



Phasing out the water tax is the cheapest source of water for growth.

Indoor water rates would not need to be raised if property taxes were phased out, according to a model created at the University of Utah, which assumes revenue neutrality for water suppliers.² If property taxes were phased out in urban areas, large government water users would have to pay the entire cost of their water use. Virtually all of the opposition to phasing out water taxes comes from the agencies receiving this money. The tax funds collected by these agencies are used for lobbying, marketing, salaries and other items.

The Substantial Savings from Phasing Out the Water Tax for Utah Cities⁵

City	Water Savings	Current Price at 15,000 gal	Change in Price	Average Property Tax Refund
Salt Lake City	-16%	\$2.15	\$0.93	\$98
Sandy	-14%	\$2.63	\$0.96	\$109
South Jordan	-13%	\$1.77	\$0.55	\$116
West Jordan	-25%	\$1.26	\$0.98	\$80
Riverton	-24%	\$1.33	\$0.95	\$101
Herriman	-15%	\$1.85	\$0.73	\$105
Bluffdale	-26%	\$1.95	\$1.57	\$153
St. George	-27%	\$1.00	\$0.88	\$193

Removing the water tax would allow the free-market to set water prices and would avoid large future rate increases by delaying or eliminating the need for replacement of current systems and new water sources.³

Most Western water suppliers do not collect property taxes for water and operate solely on water sales revenue.⁴

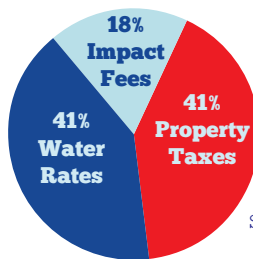
Utah's water tax burden

Utah is unique in collecting property taxes by water suppliers to lower the price of water.⁶ These water taxes encourage many to waste water including large government landowners who don't pay these taxes.⁷ These water taxes are why Utahns use more water (per person) than nearly every other city resident in the American West.

Phasing out water taxes would save millions of gallons of water and billions of dollars in government spending.

Using property taxes to lower the price of water is a bad deal for taxpayers. Cheap water rates seem like a good deal until one realizes these water taxes encourage many to waste water. These water taxes also lead to billions of dollars in unnecessary government spending. This spending creates immense debt that will force enormous increases in water rates, property taxes and impact fees.⁸

Washington County Water District Revenues



Source: 2013 Audited
Financial Statement

Despite being in the business of selling water, the government water agency pushing the \$2 billion Lake Powell Pipeline receives as much money collecting taxes as from selling water.⁹ Basic market economics dictate that phasing out these taxes would save huge quantities of water.

The wasteful \$2 billion Lake Powell Pipeline exemplifies the problem with Utah's property tax for water. The government agency proposing this spending, the Washington County Water District, is adamantly opposed to phasing out these taxes and uses these tax funds to lobby and market for the hugely wasteful project.

If this agency embraced the free market, like most Utahns do, they would phase out property taxes and let the full cost of water be paid for in water bills. This would save millions of gallons overnight and delay or eliminate the need for billions in government spending.¹⁰

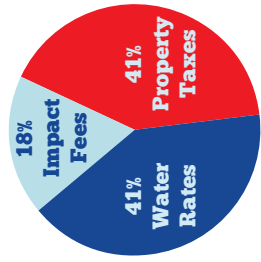
If water is precious, why does Utah collect water taxes to lower water prices thereby encouraging people to waste water?

Water Prices in Western Cities¹¹

Misleading St. George

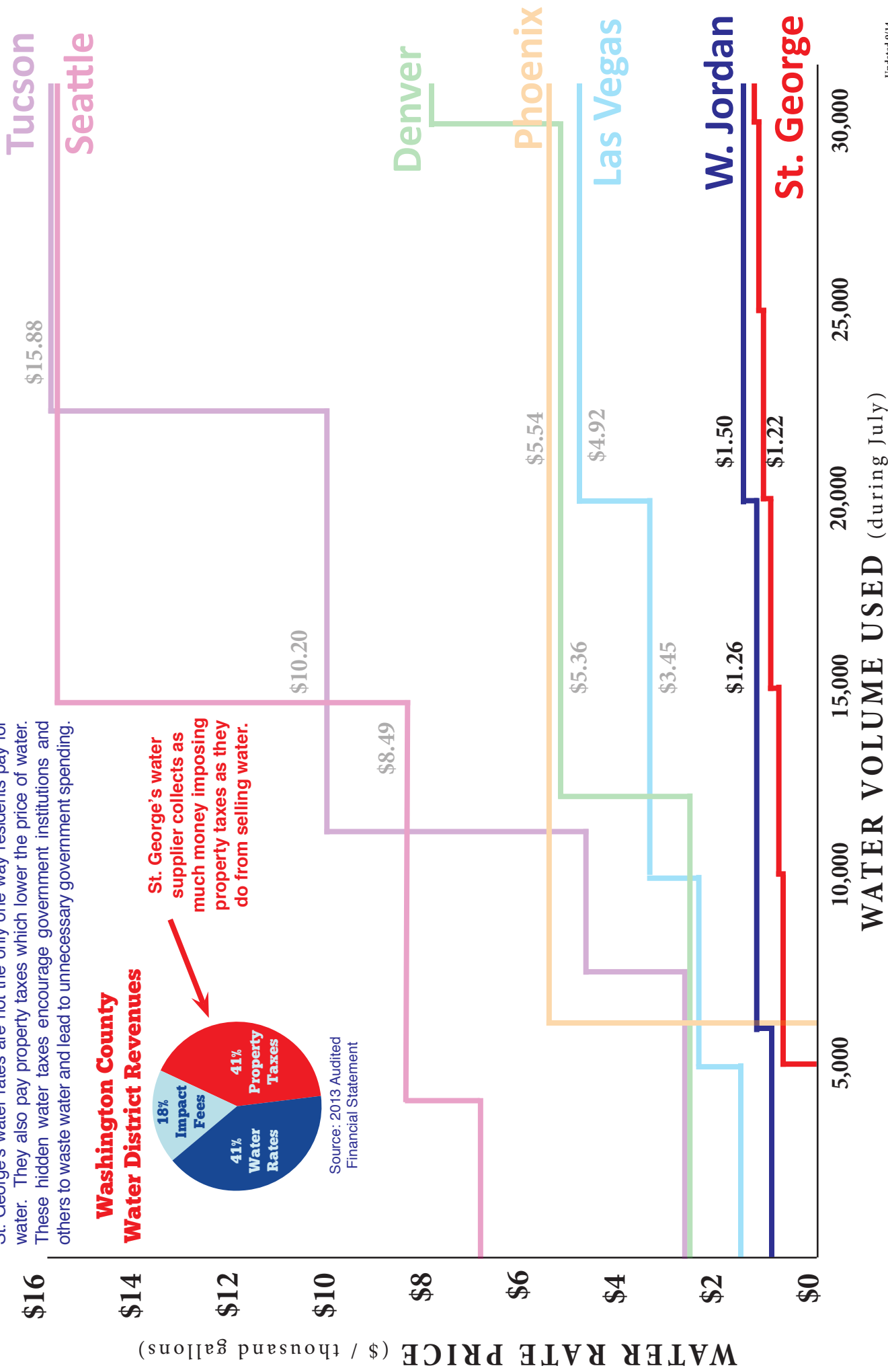
St. George's water rates are not the only one way residents pay for water. They also pay property taxes which lower the price of water. These hidden water taxes encourage government institutions and others to waste water and lead to unnecessary government spending.

Washington County Water District Revenues



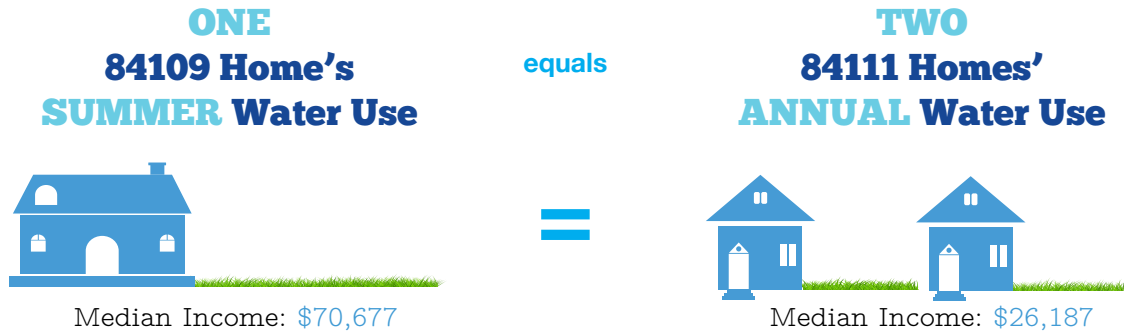
St. George's water supplier collects as much money imposing property taxes as they do from selling water.

Source: 2013 Audited Financial Statement



Poverty & Utah's Water Tax Inequity

Low-income households subsidize high-income households to use water



A high-income household in Salt Lake City uses as much water in the summer as the annual water use of two low-income households.¹² This peak water use burdens water systems.¹³

How Property Taxes Unfairly Burden Low-Income Households:

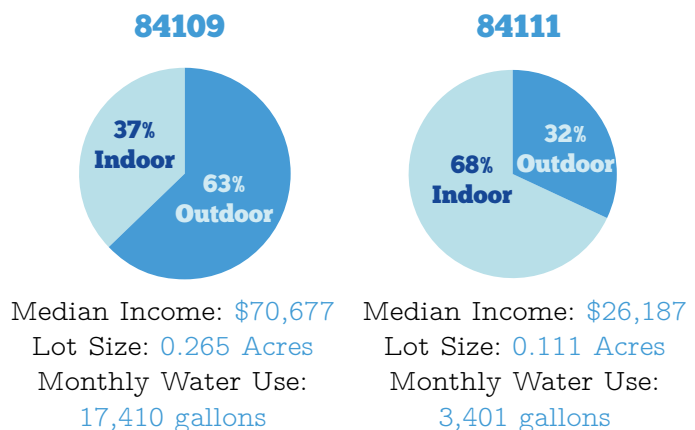
- Low income households use most of their water inside the home and use very little water on average.¹⁴
- High income households use much more water on average and most of it is used outside the home during summer months.¹⁵
- Low income households pay a larger percentage of water property taxes, compared to their water bills, than high income households.¹⁶
- Government institutions, universities and schools use lots of water but pay no property taxes, meaning their water is partly paid in part by low income residents.

“ Phasing out property taxes for water would lower the burden on low income residents. Most residents would pay less on water because government agencies would finally pay the full cost of their water waste and large lot landowners would no longer be subsidized to use water. ”

Even though low-income households in Salt Lake City use much less water than other residents, they pay a greater proportion of property taxes towards water than high-income households. In other words, low income residents pay more than they actually use while high income residents use more than they pay.¹⁷

This analysis was based on a multi year research project that combined over 100,000 water billing records into one database by a PhD student at the University of Utah.¹⁸

Annual Water Use¹⁹



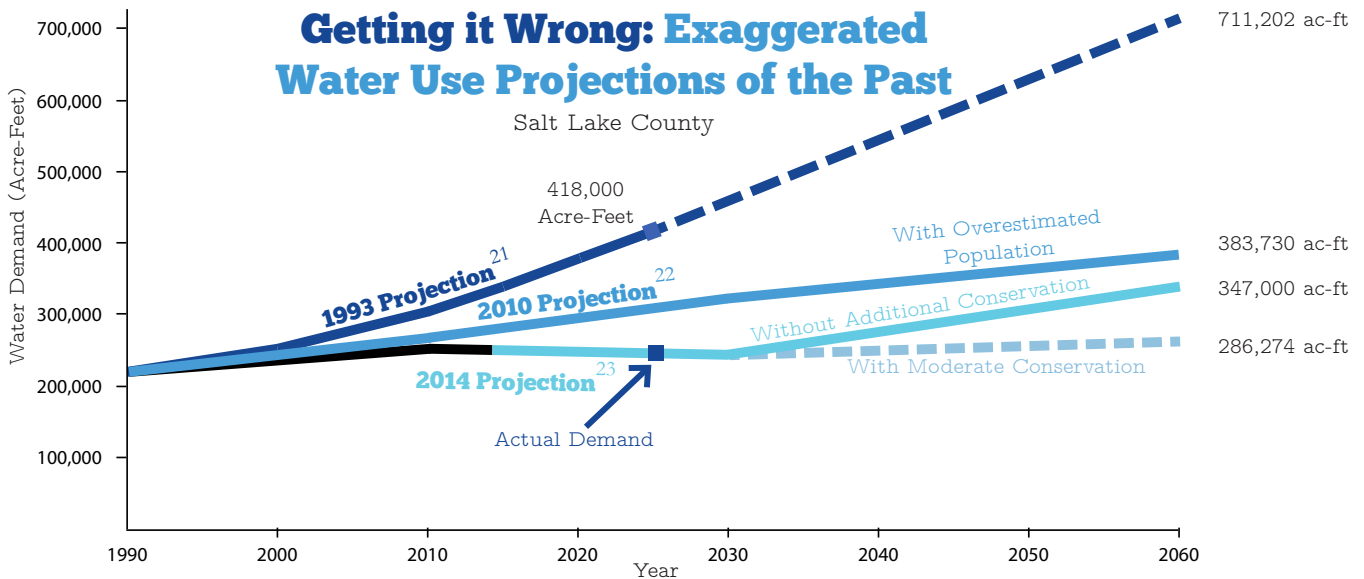
**scare
tactic
exaggerations:
20 years
of errors**

Appointed Water Officials Have Exaggerated Future Needs for 20+ Years

Utah water suppliers have taken a page from Chicken Little's playbook using fear to scare the public into believing Utah is on the verge of a water crisis. The sky is not falling in Utah because there is no water crisis, but appointed government agencies are still proposing to burden every man, woman and child in Utah with \$11,000 in debt²⁰, instead of embracing the free market to ensure a reliable water future.

Government water suppliers are using junk science and flashy marketing to scare the public into believing we are running out of water. Amazingly, they've been doing this for over 20 years and their water claims have been consistently wrong.

- **For 20 years, Utah Water Planners have been exaggerating water use to make the case for increased government spending.**



In 1993, appointed Utah water suppliers claimed Salt Lake County was running out of water and needed to spend hundreds of millions in new water projects.²⁴ But their water predictions were greatly exaggerated, just as they were in 1997²⁵ and again in 2010.²⁶

“ Before we rush to indebt generations of Utahns with **Billions** in new spending, shouldn't we have an open discussion about the many **Inexpensive Alternatives** that can provide water for growth? ”

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