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June 8, 2019

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Jackie Biskupski, Executive Director
Chris Wharton, Vice Chair of Board of
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cc Via Email: Jackie Biskupski,
mayor@slcgov.com
Chris Wharton, District 3 council person,
chris.wharton@slcgov.com

Re: Supplemental Funding to Move the 4th Ave Well: Over 75 Years, the Future Stream of Revenues from 4th Ave Well Water will collect \$325 Million; Spending \$5-\$6 Million to Move and Build the Well Right is Not Excessive

Comment with respect to:

- a) RDA Board Meeting scheduled June 11, 2019: Item No. 1 – General Comments
- b) Council Working Session scheduled June 11, 2019: Item 2 – Unresolved Budget Issues and Items. Department of Public Utilities (“DPU”) 2019-2020 Budget Request, DPU Detailed Project 5132268-2015-0213 and the General Comments Segment of the Council’s Formal Meeting
- c) Council Formal Session scheduled June 11, 2019: Item 11 - 10. Ordinance: New Water and Sewer Rate Structure related to the Department of Public Utilities budget for Fiscal Year 2019-20
- d) Historic Landmark Commission, postponed June 6, 2019 hearing concerning PLNHLC2018-00557 and PLNHLC2018-00558.

Sirs:

This comment concerns economics relating to proposals to expend an additional \$1.5 million (above the additional budget request of approximately \$3.6 million) to move the proposed DPU 4th Avenue Well to the May 9 open house Option 2c site, the park at State and

Canyon Road in a redesigned anti-terrorist and earthquake hardened structure.¹ Some have suggested that the cost of a more robust pump house moved to a different site would be an outlier in the distribution of the total costs of constructing such critical water facilities. That is a false narrative.

Whether a particular public infrastructure improvement is unreasonably expensive depends on its importance to the community and the projected gross and net revenues expected to be received over the lifespan of the facility. Net revenues from the current or proposed Well design are not available publicly. But gross revenue data sufficient to make a simple estimate of the economic value of the future value of the Well's gross revenue stream is publicly available.

The June 2018 water rate structure for the DPU² recites that residential users are charged at a rate of 748 gallons per "Unit Measure" at a cost of \$1.85 per unit. A typical City residential consumer in the Block 2 category are using between 11 and 30 "unit measures" per month. This implies that the mean revenues per gallon of water sold are 0.0025 dollars per gallon³ or about 400 gallons for one dollar. Assume that the rate of growth in DPU water rates is 2 percent per year and the long-term rate of inflation over 100 years is 3.22%.⁴

The DPU has stated that the 4th Avenue Well Water typically supplies 3 to 7 million gallons of water per day during the summer and dry seasons months.⁵ Assume this covers the 5 months from June to October (or 150 days) and the mean delivered volume is 5 million gallons per day. Assume the useful life-span of the pump station and chlorination plant is 75 years.

Based on these simplifying assumptions, the present annual estimated revenue stream to the City from the 4th Ave Well has an economic value of \$1,875,000 USD per five-month long summer season.⁶ (In comparison, the 2017 Annual Report for the DPU recites \$72,699,328 in

¹ Memorandum by David E. Hansen, Hansen, Allen and Luce, Inc., to B. Stewart, Salt Lake Department of Public Utilities, re: 4th Avenue Well Assessment (hereafter "HAL Report") at 15 (url: https://docs.wixstatic.com/ugd/80b28b_3607f771b2984d63a44ce7a4c3d1c7a9.pdf).

² DPU. June 2018. Water Rates (url: <http://www.slcdocs.com/utilities/PDF%20Files/UtilityRates/WaterrateswebCurrent.pdf>).

³ \$1.85 / 748 gallons = 0.0025 dollars per gallon.

⁴ 1913-2013 based on CPI (https://inflationdata.com/Inflation/Inflation_Rate/Long_Term_Inflation.asp).

⁵ HAL Report at 1 (3 to 7 million gallons per day); see Semerad, T. April 30, 2019. The fight over pump house pits needs of Salt Lake City's thirsty downtown against a quiet neighborhood in Memory Grove. The Salt Lake Tribune (3 to 7 million gallons per day) (url: <https://www.sltrib.com/news/2019/04/30/residents-mouth-memory/>); Stevens, Taylor. June 6, 2019. Pump house fight in Memory Grove neighborhood takes center stage during Salt Lake City budget hearing. The Salt Lake Tribune (url: <https://www.sltrib.com/news/politics/2019/06/05/salt-lake-city-budget/>).

⁶ 5,000,000 gallons per day x 150 days x 0.0025 per gallon. \$1.85 per unit / 748 gallons = \$0.0025 per gallon in revenues.

revenues from all of the DPUs water sales.⁷) Over a 75 year life span, the total amount of revenues that the City will collect selling 4th Avenue Well water, not adjusted for 2% compounded growth or discounted for inflation, is \$140,625,000.⁸ With water rates growing at approximately 2% per year and over 75 years, the total amount collected by the City from the stream of future revenues will be \$326,639,265⁹ If the \$326,639,265 is discounted to present value at a 3.22% long-term annual inflation rate, then the present value of that future income stream is \$84,848,491.¹⁰

These are gross revenue stream estimates and do not include cost-of-operations and cost-of-goods. However, since the principal cost-of-goods component of the DPU's water sales is the cost of the water itself – which is free to the City since the City owns the water rights – a 50% profit margin on gross sales is not an unreasonable guess. The DPU may make as net income from the 4th Avenue Well – that is monies available to defer the cost of other DPU and City operations – \$326,639,265 times 50% or about \$163,319,633 in future revenues – or \$84,848,491 times 50% – that is about \$42,424,146 in future net income discounted to present value.

A \$5 million 4th Ave Well moved to a new location would cost only about 1.5% of the \$326,639,265 in future revenues and 5.9% of the \$84,848,491 present value of those future gross revenues. The net margins on future revenues is so large that bonding the \$5 to \$6 million cost of a relocated 4th Avenue well is an obvious option to finance the project at an alternate site.

These estimates are rough; obviously far more sophisticated estimates could be prepared by the City's and DPU's financial staff. However, one point is inescapable: *Spending \$5 or \$6 million to build a better 4th Avenue Well relocated to a new site is not an unreasonable capital facility expenditure-investment.*

Arguments that a relocated Well is an unreasonable cost outlier in the distribution of total costs of analogous public water treatment and pump house facilities also lack merit. The 4th Avenue and North Canyon Road site has unique design challenges and site characteristics. It should be expected to cost more and be a right-tail outlier in terms of total costs.¹¹ Similarly, the location of the Well – whose water is needed not for the Memory Grove residential pocket homeowners but to fuel economic growth in the Central Business District – provides a unique and disproportionate economic benefit to the City as a whole as compared to the City's approximately 20 other ground water wells. That unique economic benefit justifies spending more on the facility.

⁷ DPU. 2018. 2017 DPU Annual Report (url: <http://www.slcdocs.com/utilities/PDF%20Files/Annual%20Reports/Annual%20PU%202017.pdf>).

⁸ \$1,875,000 per year x 75 years.

⁹ Excel Formula: -FV(0.02,75,1875000,0,1).

¹⁰ Excel Formula: -PV(0.0322,75,1875000,326639265,1).

¹¹ Compare to the 5th Avenue and “U” Street Chlorination Water Treatment Plant also proposed in the DPU's 2019-2020 budget.

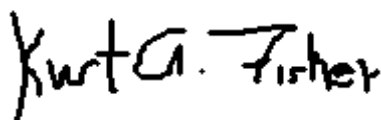
Salt Lake City Department of Public Utilities proposed Well at approximately 200 North Canyon Road in Salt Lake City should be moved to the May 9 open house Option 2c site¹² to the park at State and Canyon Road in a redesigned anti-terrorist and earthquake hardened structure, admittedly at an increased cost (*id*). As noted in other comments, the stasis of the dispute between the DPU and local residents is: “Who will pay an additional 1 to 1.5 million USD to move the DPU’s proposed well from 4th Avenue and Canyon Road to the park to the south, or such other location as the DPU might determine is appropriate?”

Previously, to find the needed \$1.5 million in supplemental funds, your commentator has suggested either deferral of other DPU projects to the future and reallocating budget authority to the 4th Avenue Well or authorizing an 8 mill increase in the DPU water, sewer and lighting rates.¹³ A third option was suggested using tax increment funds of the Redevelopment Agency pursuant to an interlocal agency agreement as authorized by Utah Code Annotated § 17C-1-207(1)(a)(i)(B) (effective May 14, 2019)¹⁴ and-or Utah Code Annotated § 17C-1-204 (effective May 14, 2019)^{15,16}. In this comment, bonding is suggested.

The relevance of the facts and reasoning of this comment to June 11 City Council budget deliberations and to its June 11 planned adoption of DPU rates and to the June 11 RDA budgeting and project proposal meeting is self-evident. With respect to future Historical Landmark Commission deliberations, the Commission is principally concerned with structure height, width and mass and not economics; however, Commission members may have been influenced by various economic arguments reported in the media. Therefore, I ask that this comment concerning economics of moving the Well to an alternative site also be entered into the Briefing Materials record of the Historical Landmark Commission.

Arguments that moving the 4th Ave Well makes the project too expensive is a false narrative, not based in fact. As always your cooperation is appreciated. Please feel free to contact me with any questions that you may have.

Very Truly Yours

A handwritten signature in black ink that reads "Kurt A. Fisher". The signature is written in a cursive, slightly slanted style.

Kurt A. Fisher

¹² HAL Report at 15.

¹³ Letter by K. Fisher to City Council dated May 28, 2019.

¹⁴ url: <https://le.utah.gov/xcode/Title17C/Chapter1/17C-1-S207.html>.

¹⁵ url: <https://le.utah.gov/xcode/Title17C/Chapter1/17C-1-S204.html>.

¹⁶ Petition by K. Fisher to RDA dated May 31, 2019.