



*June 5, 2003*

*Price incentives reduce need for water projects.*

Of course water in our semi-desert environment costs more as we first develop easier sources and then build more expensive projects. Yet because city leadership has relied on economic studies that *expressly exclude* utilities from their calculations of the costs of population growth, price hikes are now headline news (*Steep utility hike coming, 5/22/03*). For the last decade we have been assured of an almost limitless supply of cheap water. These same studies are often cited to show that new development more than covers *all* its costs, yielding a growth “dividend” to the city.

Yet a study under completion at the Center for Colorado Policy Studies (<http://web.uccs.edu/ccps>) finds that for the last two decades, before drought, fees for water rose steadily in excess of average inflation. This contrasts with many cities where increased density of development and urbanization *reduce* water costs per resident. The difference? Transmountain diversion of water from the Western slope and expensive storage and transmission systems. Our costs rise in ways that cities with greater rainfall don't encounter.

A recent study by two University of New Mexico economists (*Professors push for higher water charges, 5/25/03*) pointed out the lack of incentives in the West to treat water as a scarce resource. Although new projects in our region carry high engineering and legal costs, water prices generally reflect only the current cost of delivery. These economists calculate the cost of a daily shower in Minneapolis as twice what it costs in Denver or Albuquerque, although they receive no more than half the annual rainfall of Minneapolis.

The price of showering in Colorado Springs is slated to increase sharply in the next few years according to the Gazette article of 5/22. But is an across the board 50% increase in water fees the best way to encourage more respectful and efficient use of this scarce resource? The Gazette (*Don't take our word for it, 5/28/03*) is right to question City Council's mandate to keep rates both low and “competitive.” A low price ignores the effects of limited supply and growing demand. “Competitive” must refer not to how we price water but to a desire to bring more population and generate demand for new homes.

For starters, it is a fallacy to argue that we need enormous new supplies of water to accommodate population growth. Serious water conservation strategies such as tiered pricing for basic and high use as well as incentives for water efficient appliances and landscaping can be *more* effective than massive new projects. Yet our pricing tiers increase very modestly and the budget allocated to rebate programs is miniscule in comparison to our population. Are we failing to get serious about incentives for conservation because we take it for granted that the major dollars will always go into new projects?

Half of all water used residentially in Colorado Springs goes showers to our lawns. Unfortunately, many with bluegrass lawns find the cost of conversion to xeriscape prohibitive. Even if water rates doubled (instead of the proposed 50% increase) it would take decades to recover the investment. That's why most existing homeowners are making only incremental changes to their landscaping and their watering systems.

Incentives to save water are great, but simple economics tell us that brand new home buyers will be more responsive than those with an already embedded cost in a bluegrass lawn and a sprinkler system. If we aren't willing to require new homes to have water efficient appliances and xeriscape we could at least raise tap fees substantially, waiving or reducing for compliance. This will yield more water conservation than a stand alone general price increase since it targets those more able to respond. (We might also find more existing homeowners jumping on the bandwagon and investing in xeriscape to "update" the look of their home and improve resale value).

We need an intelligent debate on how to deal with scarce resources like water and how to ensure that costs of new development don't outweigh the benefits to the citizens of Colorado Springs. Spreading the cost of new development to all residents won't yield nearly as much reduction in water use as targeting it to those who haven't yet incurred the fixed cost of landscaping. Perhaps the shock of this latest announcement about future water bills will start a long overdue and serious discussion of the options available and how to best use price incentives.

*Daphne Greenwood ( Ph. D., Economics) is Professor and Director of the Center for Colorado Policy Studies at the University of Colorado, Colorado Springs.*