

ITEM IV

**SALT LAKE CITY COUNCIL
STAFF REPORT**

DATE: May 7, 2002
SUBJECT: **BUDGET FOR THE METROPOLITAN WATER DISTRICT OF SALT LAKE AND SANDY**
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Document Type	Budget-Related Facts	Policy-Related Facts
Preliminary budget for the Metropolitan Water District of Salt Lake and Sandy	The Metropolitan Water District increased its wholesale water rates to finance a major capital improvement program. In June 2001, the City Council adopted four incremental water rate increases to fund the increased water costs. The first of the City's rate increases (4%) is effective on July 1, 2002.	The capital improvement master plan for the Metropolitan Water District addresses Salt Lake City's projected water needs through the year 2025.

The Metropolitan Water District of Salt Lake and Sandy is proposing an operating budget of \$7,655,580 for fiscal year 2002-2003. The proposed operating budget represents an increase of \$103,950 or 1.4%. In addition, the Metropolitan Water District is proposing a budget for debt service of \$2,941,988 and a budget for capital improvements of \$25,099,462.

Fiscal year 2002-2003 will be the fourth year of implementing a \$237 million capital improvement master plan. A \$34 million revenue bond was secured in 1999 to partially fund the initial phase of the master plan. The major project is a new water treatment plant near the Point of the Mountain in the Draper area. Projects under construction at the Little Cottonwood Treatment Plant include a new maintenance building and expansion of the Little Cottonwood Treatment Plant to increase capacity from 113 million gallons per day to 126 million gallons per day. This project includes a new intake facility to capture additional water from Little Cottonwood Creek. Salt Lake City will be allocated all of the additional capacity of this expansion.

OPTIONS

The Council is not required to approve the budget or take any official action regarding the District's proposed budget. Salt Lake City, as a constituent entity of the District, can provide input regarding the proposed budget to the Board of Trustees. The Members of the Board are scheduled to consider adoption of the budget on June 10, 2002.

ANALYSIS

Annual revenue from water sales is projected to increase primarily because of a rate increase from \$125 to \$150 per acre foot of wholesale water effective on July 1, 2002. The budget for fiscal year 2002-2003 doesn't propose any surplus water sales to the Jordan Valley Water Conservancy District. If the drought continues, future increases to the wholesale water rates may need to be accelerated. Originally, the next rate increase was scheduled to be necessary on July 1, 2006. If the District's wholesale water rates increase again before 2006, the City's Department of Public Utilities may need to ask the City Council for an additional water rate increase to customers. *At the briefing, the Council may wish to ask representatives from the Metropolitan Water District to indicate current projections of effective dates for future wholesale water rate increases.*

Operating costs are proposed to increase 1.4%. Capital improvements and debt service costs of \$28,041,450 are proposed. Part of the capital improvement budget is proposed to be funded from prior reserves.

Metropolitan Water District of Salt Lake & Sandy Tentative Budget				
	2001-2002 Budget	2002-2003 Proposed Budget	Difference	Percent Change
Sources of Funds				
Water sales & other operating revenue	\$ 7,921,180	\$ 8,721,300	\$ 800,120	10.1 %
Tax revenue	4,814,769	4,858,218	43,449	0.9 %
Interest revenue	1,250,000	565,000	(685,000)	(54.8)%
Lab Fees, power and miscellaneous	120,000	132,000	12,000	10.0 %
Central Utah Water Conservation District participation in new treatment plant	5,400,000	-	(5,400,000)	(100.0)%
Use of reserves	13,610,883	21,420,512	7,809,629	57.4 %
Total sources of funds	\$33,116,832	\$35,697,030	\$2,580,198	7.8 %
Uses of Funds				
Operations	\$ 7,551,650	\$ 7,655,580	\$ 103,930	1.4 %
Spot water purchase	442,000	-	(442,000)	(100.0)%
Debt service	3,768,593	2,941,988	(826,605)	(21.9)%
Capital improvements				
Equipment purchases	76,500	420,480	343,980	449.6 %
Operating & maintenance projects	2,416,500	375,500	(2,041,000)	(84.5)%
Capital projects under construction	7,536,000	13,950,000	6,414,000	85.1 %
New capital improvement projects	7,924,000	5,150,000	(2,774,000)	(35.0)%
Engineering	-	766,755	766,755	-
Land	560,250	560,250	-	-
Jordan Valley Plant (28.6% owner)	830,228	1,109,219	278,991	33.6 %
Jordan Aqueduct (28.6% owner)	225,461	857,258	631,797	280.2 %
Contingency	1,785,650	1,910,000	124,350	7.0 %
Total uses of funds	\$33,116,832	\$35,697,030	\$2,580,198	7.8 %

Some of the major budget changes in the proposed fiscal year 2002-2003 budget from the current budget are as follows:

- Seven additional staff positions in the engineering division are proposed primarily to be involved with the implementation of the master plan improvements. Total staffing will increase from 45 to 52 full-time employees. The capital budget includes capitalizing \$766,755 of in-house engineering costs.
- \$ 88,200 for salary and benefit increases
- \$ 63,000 for a 15% increase in medical insurance premiums
- \$ 36,000 increase for seasonal employees and overtime payments (In fiscal year 2001-2002, seasonal employee costs were partially offset by a vacant clerk position.)
- \$ 46,000 for a 20% increase in property and liability insurance
- \$164,500 for more water treated at the Jordan Valley Water Treatment Plant intended for increased demand at 21st South for Salt Lake City
- \$ 55,000 for improvements and increased maintenance on the Jordan Aqueduct
- Operating expenses is held to 1.4% partly as a result of properly capitalizing the projects manager's fees whereas in the past these fees have been considered operating expenses.

New capital improvement projects:

- \$4,000,000 – Point of the Mountain Water Treatment Plant
- \$ 500,000 – Jordan Narrows Pump Station Improvements
- \$ 300,000 – Plant Water System
- \$ 250,000 – Remote Data Reporting System Master Plan
- \$ 100,000 – Jordan Aqueduct Separation

The master plan improves redundancy in the event of a water treatment plant or aqueduct failure. Improvements include pipeline connections between the Little Cottonwood Water Treatment Plant, the Jordan Valley Water Treatment Plant, and the Point of the Mountain Water Treatment Plant. This will allow flexibilities in shifting water between major north-south pipelines.

Once the new treatment plant is operational, surplus capacity can be sold to the Jordan Valley Water Conservancy District and the new revenues be used to pay new capacity demand charges based on 62.5% to Salt Lake City's obligation and 37.5% to Sandy's obligation. Surplus water can be made available to the Jordan Valley Water Conservancy District on an annual basis with no guarantees for future years.

BACKGROUND

In 1935, the voters of Salt Lake City formed the Metropolitan Water District in order to enter into long-term agreements to build the Provo River Project including Deer Creek Reservoir. The Bureau of Reclamation built the project, and it was necessary to enter into repayment contracts to reimburse the federal government for the construction costs plus interest. The water rights for the Provo River Project consist of water diverted from the Duchesne and Weber Rivers conveyed through a tunnel and canal system from the two basins to the Provo River for use by the Metropolitan Water District and others. Some water in the Provo River is also stored in Deer Creek Reservoir and available to the Metropolitan Water District. In order to reimburse the Federal Government for the cost of the Provo River Project and Deer Creek Reservoir, the residents of Salt Lake City have paid property taxes since 1935. The Metropolitan Water District continues to build dams and facilities such as Little Dell Reservoir. Sandy City became the second member of the District on February 22, 1990. Salt Lake City appoints five of the seven members of the Metropolitan Water District Board and, therefore, has a controlling interest in the District. Sandy City appoints the remaining two Board members.

Utah Code Annotated, §17A-1-502, provides that constituent entities of a special district can request a meeting with representatives of a district to discuss the budget. The district also holds a public hearing to explain the budget and answer questions. The law does not prevent a special district board from approving and implementing a budget over protests or objections of constituent entities.