

SALT LAKE CITY COUNCIL STAFF REPORT
BUDGET AMENDMENT ANALYSIS – FISCAL YEAR 2002-03

DATE: May 10, 2002
BUDGET FOR: **WATER FUND**
STAFF REPORT BY: Gary Mumford
cc: Rocky Fluhart, David Nimkin, LeRoy Hooton, Jeff Niermeyer,
Jim Lewis, Steve Fawcett, Susi Kontgis, DJ Baxter

The budget that the Council adopted in June 2001 for the Water Fund's fiscal year 2002-2003 totaled \$49,679,421. The Department of Public Utilities is proposing an amendment to increase the budget by \$9,829,430 for capital improvement projects and a small increase for postage costs.

MATTERS AT ISSUE

- The majority of the proposed budget amendment relates to accelerating the upgrades to the City Creek Water Treatment Plant. *The Council may wish to discuss the proposed improvement with representatives of the Department of Public Utilities.*
- The Department is requesting that the Fluoridation costs that were included in the 2001-2002 Budget be transferred to fiscal year 2003 plus addition funding of \$855,000 to adjust for consultant's recommendations and improvement to existing buildings to store equipment required. This would bring the total for this project to \$1.5 million.
- Statement #34 of the Governmental Accounting Standards Board, which is now in effect, requires the Department of Public Utilities to record contributions from contractors (e.g., water lines installed by developer of subdivision) as revenue rather than as contributed capital. The proposed amendment includes \$500,000 from contributions by developers. This does not represent any additional actual cash receipts or cash disbursements.
- Postage expenses for mailing water bills are estimated to cost an additional \$26,000 because of postal rate increases.
- Capital projects include \$120,000 for water conservation projects. They include demonstration gardens at Day Riverside Library, Washington Square, and the front of the Utilities Administration Building. The Council may wish to clarify how the Washington Square funding relates to the request for RDA funds for that project.
- The adopted budget for fiscal year 2002-2003 includes the first of four water rate increases approved by the Council in June 2001 to finance the Metropolitan Water District's capital improvement program, which will require the City to pay higher wholesale water rates (from \$125 to \$150 per acre-foot). The City's rate increase effective July 1, 2002 is 4%. While last year's Council action does not bind the current Council, it becomes it necessary for the

Council to take formal action in order for the planned rate increases not to be implemented.

- The Administration continues to evaluate rate structure changes in relation to conservation.
- Council Member Lambert asked about the systemic incentive to encourage, rather than discourage, water use due to the rate structures typical to western communities. Public Utilities representatives will provide additional information at the briefing relating to:
 - Salt Lake City has officially recognized that the advantages of conserving are numerous.
 - In 1994 the Administration and Council worked together on establishing a conservation or seasonal rate; the City recognized that in order to encourage conservation, rates would need to be increased because 80 percent of the costs are fixed (debt service costs and management of the system needs to be addressed). The Council emphasized the need for the system to have adequate resources to continue quality operations.
 - The conservation approach is considered a success because, on a trend line over the past 12 years:
 - Per capita consumption has gone down
 - Peak day use has gone down
 - Peak month use has gone down
 - Over-all consumption has been nearly flat over the last 12 years, despite the fact that the system has grown by about 20 percent in new connections.
 - The City has been able to delay very costly infrastructure investments due to the success in controlling the peak water use.
 - The City's rates compare well those in cities of similar characteristics.

ANALYSIS OF PROPOSED AMENDMENT

Use of cash reserves – The requested additional appropriation for capital projects will be funded primarily from reserves. A cash flow schedule provided to Council staff shows cash reserves decreasing from about \$17 million to just over \$2 million in fiscal year 2002-2003. However, since the treatment plant improvements will take three years to complete, the cash will actually not decrease all in one year. For budgetary control purposes, City departments must have adequate appropriations before entering into a multi-year construction contract.

Upgrades to City Creek Water Treatment Plant – The upgrades to the City Creek Water Treatment Plant were originally proposed to be accomplished in three phases over 15 years. The Department's consultant is now recommending a two-phase approach. Rather than closing the treatment plant three times, this plan will result in two closures.. In order to accelerate the first two phases into the first phase, the Department is proposing \$11.2 million for construction. The third phase, to be begin in about 10 years, is the seismic upgrade to the sedimentation basin. If the sedimentation basin were to fail before upgrade, the plant could function with modifications for a limited time.

Watermain pipe replacement –The Department plans to replace about 64,700 feet of watermain lines during fiscal year 2002-2003, which is more than the Department's goal of replacing an average of about 40,590 feet of watermain each year. The amendment proposes decreasing the amount of funds for waterline replacement by \$2,967,315. This is because the Department is planning to replace smaller, less expensive pipelines on the west side where there have been recent failures of steel pipe.

Conservation demonstration water projects – The Department of Public Utilities will receive a grant from the Central Utah Project to set up a demonstration garden at Washington Square. At Washington Square, the garden will be between the driveways on the east side of the building. The garden will be an example of what and how to plant to conserve water. Part of the demonstration project at Washington Square will be a joint project with the Department of Public Services with the installation of new automatic sprinkler systems and new design to show proper watering techniques.

Additional capital equipment – The Department of Public Utilities is seeking approval to purchase the following equipment:

- \$29,000 for trucks
- \$32,000 for two pump motors
- \$120,000 for two fluoride feeder tanks
- \$ 98,000 for office and other equipment

Watershed property purchases – Because of a large watershed purchase in fiscal year 2000-2001, the Department didn't originally ask for authorization to make any purchases in fiscal year 2002-2003. However, the Department is aware of some land that may become available and is requesting authorization to spend up to \$500,000.

A summary of the estimated revenue and expenses contained in the proposed budget amendment for the Water Fund is as follows.

WATER FUND PROPOSED BUDGET AMENDMENT Fiscal Year 2002-2003			
	Adopted Budget	Proposed Amendment	Proposed Budget
Revenue & other sources			
Metered sales	\$40,257,000	\$ -	\$40,257,000
Interest income	1,250,000	-	1,250,000
Interfund charges	2,049,020	-	2,049,020
Sale of used equipment	50,000	-	50,000
Contributions by developers	605,000	500,000	1,105,000
Use of cash reserves	5,468,401	9,329,430	14,797,831
Total revenue & other sources	\$49,679,421	\$9,829,430	\$59,508,851
Expenses			
Water quality	\$11,375,445	\$ -	\$11,375,445
Maintenance	9,541,930	-	9,541,930
Engineering	1,238,616	-	1,238,616
Finance (meter reading, customer service, billing)	3,546,799	26,000	3,572,799
Administration	3,706,191	-	3,706,191
Capital Outlay			
Capital improvements	13,638,590	9,720,430	23,359,020
Vehicles & equipment	1,831,850	83,000	1,914,850
Debt service	4,800,000	-	4,800,000
Total Expenses & Capital Outlay	\$49,679,421	\$9,829,430	\$59,508,851

The following table summarizes the proposed capital improvement projects.

CAPITAL IMPROVEMENT PROGRAM PROPOSED PROJECTS Fiscal Year 2002-2003			
Type of Project	Original Adopted Budget	Proposed Amendment	Proposed Budget
Replacement of water lines and hydrants	\$8,805,840	\$(2,967,315)	\$5,838,525
Service line replacement	1,100,000	700,000	1,800,000
Land purchases	-	500,000	500,000
Water meter replacement	2,000,000	(700,000)	1,300,000
Fluoridation implementation	-	1,500,000	1,500,000
Wells	425,000	(393,000)	32,000
Treatment plants	235,000	11,292,745	11,527,745
Reservoirs	8,000	285,000	293,000
Pumping plant upgrades	540,000	(370,000)	170,000
Culverts, flumes & bridges	120,000	(95,000)	25,000
Maintenance buildings	374,750	(152,000)	222,750
Water stock purchases	30,000	-	30,000
Landscaping – Conservation projects	-	120,000	120,000
Total Capital Improvement Program	\$13,638,590	\$9,720,430	\$23,359,020

BACKGROUND

The Salt Lake City's water delivery system to City and County residents depends on a network of dams, aqueducts, water treatment plants, distribution reservoirs, and water mains. Upkeep and maintenance of older systems and construction of new systems is very costly. The Department of Public Utilities has over 90,000 water service connections and provides over 33 billion gallons of water annually. The Water Utility has 1,199 miles of water mains and 167 miles of conduit and supply lines. The Water Fund has 269 employees. In June 1997, the Council adopted a five-year capital improvement program that included 7% rate increase each year for five years. The last of these rate increases occurred on July 1, 2001. The average residential annual water bill in fiscal year 2001-2002 is \$276 and is expected to be \$287 in fiscal year 2002-2003.

The Metropolitan Water District is a legal entity that was created by the voters of Salt Lake City in 1935. Creation of the Water District as a legal entity was necessary to allow the City to enter into long-term agreements to build major projects such as Deer Creek Reservoir, and more recently, Little Dell Reservoir. The District's main purpose in 1935 was to help build the Provo River Project (Deer Creek Reservoir and the associated aqueduct infrastructure). The Provo River Project diverts up to 216,500 acre feet of water from the Duchesne and Weber Basins and up to 100,000 acre feet of surplus Provo River flows for use by the Metropolitan Water District. 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.

SALT LAKE CITY COUNCIL STAFF REPORT
BUDGET AMENDMENT ANALYSIS – FISCAL YEAR 2002-03

DATE: May 10, 2002
BUDGET FOR: SEWER FUND
STAFF REPORT BY: Gary Mumford
cc: Rocky Fluhart, David Nimkin, LeRoy Hooton, Jeff Niermeyer,
Jim Lewis, Steve Fawcett, Susi Kontgis, DJ Baxter

The budget that the Council adopted in June 2001 for the Sewer Fund's fiscal year 2002-2003 totaled \$23,772,257. The Department of Public Utilities is proposing an amendment to increase the budget by \$20,003,400 primarily related to bond proceeds for capital improvements.

MATTERS AT ISSUE

- The Department of Public Utilities is requesting that the bond issue that was included in the budget for fiscal year 2001-2002 be transferred to fiscal year 2002-2003. The \$25 million bond issue is to pay for upgrading the water reclamation treatment plant and other capital improvements. *The Council may wish to discuss with representatives of the Department the pros and cons of bonding for these projects rather than phasing them in on a pay-as-you-go basis.*
- The amendment proposes delaying a \$3 million sewer trunk line until additional studies and evaluations can take place.
- In June 2000, the City Council adopted a six-year incremental sewer rate increase to coincide with a six-year capital improvement plan. Sewer rates were increased 12½% on January 1, 2001 and 9% on July 1, 2001. Future rate increases approved by the Council are 9% on July 1, 2002, 9% on July 1, 2003, 9% on July 1, 2004, and 7% July 1, 2005. While the rate ordinance does not bind future Councils, it makes it necessary for a future Council to take formal action in order for the planned increase not to be implemented.
- Statement #34 of the Governmental Accounting Standards Board, which is now in effect, requires the Department of Public Utilities to record contributions from contractors (e.g., sewer lines installed by developer of subdivision) as revenue rather than as contributed capital. The proposed amendment includes \$500,000 as an estimate of contributions by developers. This does not represent any additional actual cash receipts or cash disbursements.
- There are no changes proposed to the operations budget.

ANALYSIS OF PROPOSED AMENDMENT

Treatment plant improvements - Upgrades to the water reclamation plant were originally scheduled to begin in fiscal year 2001-2002. The initial plan was to accomplish the upgrade over several years in many phases and projects. Following a consultant's study, the Department is recommending the option of completing the upgrade in a single project rather than many projects. The Department is requesting to move the treatment plant appropriation in fiscal year 2001-2002 to fiscal year 2002-2003 and to increase the project amount to \$28,310,000. If the Council approves the budget amendment, final design will take place with construction beginning next spring. Treatment plant improvements included in the budget are:

- \$22,000,000 - secondary treatment expansion
- \$ 3,100,000 - cogeneration rehabilitation
- \$ 3,000,000 - new force main line between pretreatment and treatment plant
- \$ 100,000 - seismic upgrades
- \$ 60,000 - trickling filter center column modification
- \$ 50,000 - electric gate actuator

Collection lines and lift stations - The budget for collection lines and lift stations is proposed to be decreased by \$2,746,600 to help fund the treatment plant improvements. A \$3 million sewer trunk line is delayed until a future year. Construction of a pump station was canceled reducing the sewer budget by \$220,000. Some additional projects have been added. The Council may wish to request that the Administration specify whether these changes will have a potential negative impact on the sewer system.

The following table summarizes the proposed capital improvement projects:

CAPITAL IMPROVEMENT PROGRAM PROPOSED PROJECTS FISCAL YEAR 2002-2003			
Type of Project	Original Adopted Budget Fiscal Year 2002-2003	Proposed Budget Amendment	Proposed Budget Fiscal Year 2002-2003
Treatment plant	\$4,060,000	\$24,250,000	\$28,310,000
Collection lines	5,898,700	(2,526,600)	3,372,100
Lift stations	400,000	(220,000)	180,000
Maintenance and repair shop	12,000	-	12,000
Site improvements	15,000	90,000	105,000
Post-treatment pilot demo	90,000	(90,000)	-
Total Capital Improvement Program	\$10,475,700	\$21,503,400	\$31,979,100

A summary of the estimated operating revenue and expenses contained in the proposed budget amendment for the Sewer Fund is as follows.

SEWER FUND PROPOSED BUDGET AMENDMENT Fiscal Year 2002-2003			
	Adopted Budget	Proposed Amendment	Proposed Budget
Revenue & other sources			
Charges for sewer services	\$14,170,000	\$654,000	\$14,824,000
Interest income	800,000	-	800,000
Permits	85,000	-	85,000
Contributions by developers	-	500,000	500,000
Other revenue	167,000		167,000
Impact fees	600,000	-	600,000
Interfund charges	140,000		140,000
Bond proceeds	-	25,000,000	25,000,000
Use of cash reserves	7,810,257	(6,150,600)	1,659,657
Total revenue & other sources	\$23,772,257	\$20,003,400	\$43,775,657
Expenses			
Wastewater treatment	\$5,365,741	\$ -	\$5,365,741
Maintenance	1,122,085	-	1,122,085
Engineering	620,536	-	620,536
Water quality	371,411	-	371,411
Finance (meter reading, customer service, billing)	722,708	-	722,708
Administration	1,028,276	-	1,028,276
Capital Outlay			
Capital improvements	10,475,700	21,503,400	31,979,100
Vehicles & equipment	1,040,800	-	1,040,800
Debt service	3,025,000	(1,500,000)	1,525,000
Total Expenses & Capital Outlay	\$23,772,257	\$20,003,400	\$43,775,657

BACKGROUND

The Department of Public Utilities has over 48,350 sewer connections. The Sewer Utility maintains 633 miles of sanitary sewer pipe and connection lines. The reclamation plant treats an average of 35,000,000 gallons of sanitary sewer per day. Maintaining the sewer lines and operating the lift stations and reclamation plant is accomplished with 102 employees. Effective January 1, 2001, sewer fees are based on discharge strength as well as volume. Approximately 1,700 of the 48,000 accounts are charged an additional fee because they discharge sewage with strengths greater than domestic or residential sewer flows. This change sets rates so that residential customers or commercial customers with domestic discharges do not subsidize customers with greater than domestic strength discharges. This rate structure encourages businesses to reduce discharge strengths. The average residential sewer bill in fiscal year 2001-2002 was about \$94 and is estimated to be \$103 in fiscal year 2002-2003.

SALT LAKE CITY COUNCIL STAFF REPORT
BUDGET AMENDMENT ANALYSIS – FISCAL YEAR 2002-03

DATE: May 10, 2002
BUDGET FOR: **STORMWATER FUND**
STAFF REPORT BY: Gary Mumford
cc: Rocky Fluhart, David Nimkin, LeRoy Hooton, Jeff Niermeyer,
Jim Lewis, Steve Fawcett, Susi Kontgis, DJ Baxter

The budget that the Council adopted last year for the Stormwater Fund for fiscal year 2002-2003 totaled \$12,193,062. The Department of Public Utilities is proposing an amendment to decrease the budget by \$2,971,000 to defer some capital improvement projects.

MATTERS AT ISSUE

- The budget continues plans to issue bonds in fiscal year 2002-2003 for about \$9 million to help finance stormwater projects.
- The 900 South project from 700 East to the Jordan River is delayed until fiscal year 2003-3004 to correspond with the revised street reconstruction schedule.
- Statement #34 of the Governmental Accounting Standards Board, which is now in effect, requires the Department of Public Utilities to record contributions from contractors (e.g., stormwater lines installed by developer of subdivision) as revenue rather than as contributed capital. The proposed amendment includes \$500,000 as an estimate of contributions by developers. This does not represent any additional actual cash receipts or cash disbursements.
- There are no changes proposed to the operations budget.
- No fee increase is recommended.

ANALYSIS OF PROPOSED AMENDMENT

Bonding – The Department of Public Utilities plans to issue \$9,000,000 in bonds that were previously included in the fiscal year 2002-2003 budget. Debt service for fiscal year 2002-2003 can be reduced by \$525,000 because the Department anticipates issuing the bonds later in the fiscal year rather than at the beginning. Bonding will require an approximate payback of \$900,000 annually. The Department of Public Utilities estimates that a rate increase will be necessary in approximately fiscal year 2007-2008.

Capital project adjustments - The amendment proposes adjustments to capital projects as follows:

- Reduction of \$3,500,000 for the 900 South line, which is delayed to meet a revised timetable
- Addition of \$190,000 for lift stations - The Department of Public Utilities operates 21 stormwater lift stations in relatively low sections of the City where gravity flow is not possible without pumping or lifting the stormwater about 20 feet higher. (Note: The Department also operates 30 sanitary sewer lift stations.)
- Addition of \$874,000 for projects and lines budgeted in fiscal year 2001-2002 but not expected to be completed by June 30, 2002 - Each year the Council routinely carries over the unexpended amounts of ongoing capital projects to the next fiscal year by budget amendment.
- Reduction of \$650,000 for delaying the replacement of the 500 East line until fiscal year 2004-2005

A summary of the estimated operating revenue and expenses contained in the proposed budget amendment for the Stormwater Fund is as follows.

STORMWATER FUND PROPOSED BUDGET AMENDMENT Fiscal Year 2002-2003			
	Adopted Budget	Proposed Amendment	Proposed Budget
Revenue & other sources			
Stormwater service fee	\$ 4,998,490	\$ 296,709	\$ 5,295,199
County Flood Control Reimbursement	200,000	-	200,000
Interest	300,000	-	300,000
Interfund reimbursement	35,000	-	35,000
Impact fees	250,000	-	250,000
Contribution by developers	-	500,000	500,000
Other revenue	21,000	-	21,000
Bond proceeds	9,000,000	-	9,000,000
Total revenue & other sources	\$14,804,490	\$ 796,709	\$15,601,199
Expenses			
Maintenance	\$ 1,075,436	-	\$ 1,075,436
Engineering	599,832	-	599,832
Water quality	149,541	-	149,541
Administration (including customer service, billing)	1,033,053	-	1,033,053
Capital Outlay			
Capital improvements	7,951,200	(2,446,000)	5,505,200
Vehicles & equipment	484,000	-	484,000
Debt service	900,000	(525,000)	375,000
Increase to reserves	2,611,428	3,767,709	6,379,137
Total expenses & capital outlay	\$14,804,490	\$ 796,709	\$15,601,199

Proposed Capital Outlay: The following table summarizes the proposed capital improvement projects:

CAPITAL IMPROVEMENT PROGRAM PROPOSED PROJECTS FISCAL YEAR 2002-2003			
Type of Project	Original Adopted Budget Fiscal Year 2002-2003	Proposed Budget Amendment	Proposed Budget Fiscal Year 2002-2003
Collection lines	\$7,851,200	\$(2,636,000)	5,215,200
Lift stations	100,800	190,000	290,000
Total Capital Improvement Program	\$7,951,200	\$(2,446,000)	\$5,505,200

BACKGROUND

The Department of Public Utilities maintains over 436 miles of stormwater pipe and collection lines using 28 employees. The stormwater responsibility was transferred from the General Fund to Public Utilities in 1991. That year a new stormwater fee was implemented. Since that time, there have been no rate increases and no public tax dollars have been used to help the system. When this enterprise fund was established a public process was used to review the list of capital needs and establish a priority for addressing the needs.