

SALT LAKE CITY COUNCIL STAFF REPORT
BUDGET ANALYSIS – FISCAL YEAR 2003-04

DATE: March 28, 2003
SUBJECT: **WATER FUND**
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The operating budget for the Water Enterprise Fund for fiscal year 2003-2004 is proposed to be \$32,087,237, which is an increase of \$2,652,256 or 9% increase over fiscal year 2002-2003. Additional water purchases represent 7.4% of the increase. The increase to operations would be only 1.6% if additional water purchases are not considered. The capital budget including debt service is proposed to be \$22,007,831, which is a decrease of \$4,329,602.

WATER FUND PROPOSED BUDGET				
	Adopted 2003-2003	Proposed 2003-2004	Difference	Percent Change
Revenue & other sources				
Metered sales	\$40,257,000	\$41,413,498	\$1,156,498	3.0%
Interest income	1,250,000	800,000	(450,000)	(36.0%)
Interfund charges	2,049,020	2,126,425	77,405	3.8%
Sale of used equipment	50,000	50,000	-	-
Contributions by developers	1,105,000	1,355,000	250,000	22.6%
Use of cash reserves	18,219,708	14,540,349	(3,679,359)	(20.2%)
Total revenue & other sources	\$62,930,728	\$60,285,272	\$(2,645,456)	(4.2%)
Expenses				
Salaries, wages & benefits	\$13,075,538	\$13,616,812	\$ 541,274	4.1%
Water purchases	6,825,000	9,050,000	2,225,000	32.6%
Materials & supplies	2,272,473	2,394,399	121,926	5.4%
Charges for services	7,261,970	7,026,026	(235,944)	3.2%
Capital Outlay				
Capital improvement	26,337,433	22,007,831	(4,329,602)	(16.4%)
Vehicles & equipment	2,358,314	1,447,500	(910,814)	(38.6%)
Debt Services	4,800,000	4,742,704	(57,296)	(1.2%)
Total Expenses & Capital Outlay	\$62,930,728	\$60,285,272	\$(2,645,456)	(4.2%)

POTENTIAL MATTERS AT ISSUE

The major matters reflected in the proposed budgets for the Water Fund include:

- Water conservation rate structure – The Water Fund budget proposes the implementation of a new water rate structure to encourage greater water conservation. The Department briefed the City Council on the rate structure at work sessions on February 6 and March 20. The Department is putting together the following additional information and may be able to give oral reports on some items at the budget briefing.
 - a. Relationship between demand reduction and future rate increases
 - b. Who are the “winners” and “losers”?
 - c. Shift from commercial to residential
 - d. Relationship between demand reduction and future cost savings
 - e. What similar cities in Utah and the West are doing with rates
 - f. Explanation of the calculations/ramifications of city/county multiplier
 - g. Brochure to be mailed to customers to further enhance public understanding of proposed rate restructuring including a “matrix” calculator and savings tips for indoor use
 - h. Calculator that customers can use on the Department’s web site to estimate their bill under new structure
- Water rate increase – In 1996, Salt Lake City Public Utilities conducted a water master plan to determine its water supply needs through the year 2025. Sandy City did likewise. The Metropolitan Water District of Salt Lake and Sandy took the two plans and developed a master plan of improvements to meet both cities’ water needs to 2025. Salt Lake City will need additional water supply and treatment conveyance systems to meet its future growth demand in addition to implementing stronger water conservation measures. The Metropolitan Water District project will provide redundancy in protecting against seismic events and unforeseen loss of water supply or facility failures. The proposed budget for the City’s Water Fund for fiscal year 2003-2004 includes a 3% water rate increase approved by the Council in June 2001 to begin 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 3% rate increase has been built into the proposed new water rate structure. Assessments are also proposed beginning with fiscal year 2004-05.
- Capital improvement program – The total capital improvement and capital outlay budget of \$22,007,831 is the third year of the Department’s five-year capital improvement program approved by the City Council in June 2001. The major project is the upgrade to the City Creek Canyon Water Treatment Plant. A detail listing of the projects is included in the budget book from the Department. *The Council may wish to ask representatives of the Department about the City’s current allocation for capital as compared to industry standards and about plans to move toward the industry standard.*
- Water meter replacement program – The proposed budget includes \$1,300,000 for replacement of water meters. As water meters age, they begin to inaccurately measure water use (read low). The Department has determined that it is cost effective to replace meters that are 15 years old. During the past two years, the Department has replaced 24,000 meters with about 5,000 of these being radio reading devices. *The Council may wish to discuss the success of the radio read meters with representative of the Department and the plans for accelerating the radio read component of the meter replacement program.*

- Elimination of staff positions – The budget proposes eliminating one full-time position (0.5 FTE is applicable to the Water Fund with the other portion applicable to the Sewer Fund and to the Stormwater Fund) and eliminating one vacant part-time position for a total savings of \$40,000.

Observations – Review of Budget Detail

Council staff reviewed the budget detail and met with Department representatives to obtain explanations of differences between fiscal year 2002 actual costs and the proposed budgeted or variations between fiscal year 2003 budget and the proposed budget. A listing of each cost center by division is attached to this report. The Council may wish to obtain additional explanations from Department representatives regarding the proposed budget.

- Water sales revenue – The Department is projecting that water conservation will result in a loss of 8% of revenue. This estimated decrease in water usage has been built into the proposed rates so that the Water Fund's revenue will not be reduced. Therefore, the revenue budget shows a 3% increase, which was approved by the Council in June 2001 relating to the capital improvement program of the Metropolitan Water District.
- Interest revenue – The Department is projecting a decrease of \$450,000 due to lower interest rates and less cash reserves.
- General pay increase – The budget assumes a 3% general pay increase. The Mayor's proposed salary adjustment, if any, will be included in the Mayor's recommended budget that will be presented to the Council on the first Tuesday in May. Any increases are subject to the Council's consideration.
- Overtime – The budget includes \$475,000 for overtime. Actual overtime costs for the first nine months of the current fiscal year (as of March 27, 2003) are \$477,100. Most of the overtime relates to maintenance costs to cover 24-hour 7-day operations and for emergency work in connection with water line breaks. Overtime of \$112,000 is due to scheduling at the three water treatment plants. Workers at the plants are on 12-hour shifts, working three days one week and four days the next week. The Fair Labor Standards Act requires the City to pay overtime in any week where work exceeds 40 hours. Therefore, workers earn overtime for 8 hours every other week. This built-in scheduled overtime allowed the Department to reduce the number of employees necessary to operate water treatment facilities on a 24-hour 7-day-per-week schedule.
- Water purchases – A budget of \$9,050,000 is proposed for purchases of water from the Metropolitan Water District, from the Central Utah Project and from the spot market. Due to lower than normal stream flows in City Creek, Parleys and Big Cottonwood Creek, additional water will be purchased. Actual fiscal year 2002 expenditures were \$7,648,520. *The Council may wish to ask the Department to report on the latest estimates of the severity of the drought conditions.*
- Chemicals – A budget of \$486,450 is proposed for chemicals. Actual fiscal year 2002 expenditures were \$246,950. Actual costs for the first nine months of the current fiscal year (as of March 27, 2003) are \$128,980 although some invoices relating to this period may not have been paid or recorded. The increase need for chemicals is due to the low water conditions, which contain more sediment. More chemicals are usually required in the purification process to remove higher levels of sediment.

- Electrical power for pumping – A budget of \$1,577,190 is proposed. Actual fiscal year 2002 expenditures were \$1,321,730. The Department projects that irrigation pumping relating to exchange agreements will need to begin in June rather than in mid July.
- Special forms – A budget of \$87,040 is proposed for special forms. Actual fiscal year 2002 expenditures were \$33,500, and costs for the first nine months of the current fiscal year (as of March 27, 2003) are \$52,100. The increase is related to additional flyers for the watershed education program.
- Postage - A budget of \$364,935 is proposed. Actual fiscal year 2002 expenditures were \$288,844. Actual recorded costs for the first nine months of the current fiscal year (as of March 27, 2003) are \$202,480. The increased budget relates to a new contractor for printing and mailing bills. The low bid contractor charges less for printing but more for postage. The Department will be monitoring the contractor's services to determine whether postage costs can be reduced.
- Travel, conferences and seminars - A budget of \$68,980 is proposed. Actual fiscal year 2002 expenditures were \$53,875, and costs for the first nine months of the current fiscal year (as of March 27, 2003) are \$39,770. Conference attendance and other discretionary expenses have been limited because the drought/conservation efforts have reduced revenue. *The Council may wish to ask the Administration whether this level of budget is similar to that in general fund departments or whether there is an extenuating circumstance for the level of funding in Public Utilities.*
- Administrative service fees for General Fund services - A budget of \$650,000 is proposed. Actual fiscal year 2002 expenditures were \$497,408. The General Fund provides attorney support, accounting, payroll, human resource management, purchasing, and other services for the Department of Public Services. The actual amount of the reimbursement is based on a cost study performed quarterly.
- "Meter repair" cost center - A budget for the meter repair cost center is proposed to increase by 25% from \$335,341 to \$420,192. (See attached listing of cost centers by division.) This function routinely tests meters for accuracy and determines timing for replacement. Large meters are reconditioned in the Department's meter repair shop and placed back into service. The meter repair function has recently been involved with installation of the radio read meters.
- "Source of water" cost center - A budget for the source of water cost center is proposed to increase by 25% from \$196,657 to \$246,327. This cost center consists of one hydrologist and one assistant to monitor snow pack and wells. The information recorded by these individuals is important to the Department for projecting water rights. The increase is due to assessment fees charged by the Utah Lake Water Users Association for a capital project.
- "Water quality & analysis" cost center - A budget for this cost center is proposed to increase by 10% from \$589,138 to \$650,354. Employees take water samples and by using scientific analysis determine the amount of chemicals necessary each day at the three treatment plants. The analysis ensures the safety of drinking water and prevents the overuse of chemicals, which results in savings to the Department.

- “Storehouse” cost center - A budget for the storehouse cost center is proposed to increase by 21% from \$177,628 to \$215,956. Four employees manage the inventory of pipe, fittings, tools, gloves, etc. and account for acquisitions and use. The increase relates to reclassifications following an audit by Human Resource Management Division. For internal control purposes this function reports to the Finance Director rather than to the Maintenance Division. The
- “Customer service” cost center - A budget for this cost center is proposed to increase by 15% from \$898,552 to \$1,032,062. Employees in the contract office and in the billing office are being cross trained to backup the customer service function. Training and backup time is charged to the customer service cost center.
- “GIS” cost center - A budget for the GIS cost center is proposed to increase by 9% from \$527,386 to \$577,294. Actual costs for fiscal year 2002 were \$452,296. The GIS function provides mapping and locating services for all three funds (water, sewer and stormwater). Costs are allocated to the three funds based on actual services performed. The increase is due to transferring one employee from the engineering cost center to the GIS cost center.

Capital Improvement Budget

The proposed budget reflects a capital improvement budget of \$22,007,831 for fiscal year 2003-2004. A detail listing of the projects is included in the budget book from the Department (included in your packet).

Proposed Capital Improvement Program Fiscal year 2003-2004	
Treatment plants	\$13,345,000
Replacement of water lines and hydrants	5,106,831
Service line replacement	1,800,000
Water meter replacement	1,300,000
Land purchases	250,000
Pumping plant upgrades	61,000
Landscaping – conservation projects	60,000
Maintenance buildings	55,000
Water stock purchases	30,000
Total Capital Improvement Program	\$22,007,831

Additional Information

BACKGROUND

Salt Lake City's water delivery system to City and County residents depends on a complex 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. The Department maintains treatment plants, wells, reservoirs, 1,199 miles of water mains, and 167 miles of conduit and supply lines.

LEGISLATIVE INTENT STATEMENTS

The Council previously issued the following legislative intent statements that relate to the Water Fund.

Radio-Reading Water Meter Pilot Program - It is the intent of the City Council that the Administration briefs the Council on the effectiveness of the radio-reading water meter pilot program after approximately 4,000 hard-to-read meters are replaced with radio reading devices and the Administration calculates the cost versus the benefits of the program including long-term benefits.

Results/Steps Taken: In addition to the pilot program, the Department has replaced another 1,000 meters. The pilot program was generally very successful especially on driving routes where the meter reader doesn't need to exit the vehicle. The Department has decided to expand the program to the areas on the City's high east side.

Secondary Water Systems - It is the intent of the City Council that the Department of Public Utilities continues developing secondary water systems for parks and golf courses and considers including a secondary parallel water system in new developments within the Northwest Quadrant.

Results/Steps Taken: The Administration will continue its current policy of looking for cost-effective ways to use secondary water sources for the greening of public property. The Department of Public Utilities completed a water efficiency study in May 2002, which reviewed all green spaces and the cost-effectiveness of implementing secondary water use. The Department will use this information to encourage wise water use and promote secondary parallel water systems in new developments within the Northwest Quadrant.

During the briefing on the proposed budget, the Council may wish to identify legislative intents relating to the Department of Public Utilities.

During the briefing, the Council may wish to identify potential programs or functions to be added to the Council's list for future audits.