

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

DATE: March 28, 2003
SUBJECT: **SEWER FUND**
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The operating budget for the Sewer Fund for fiscal year 2003-2004 is proposed to be \$9,599,700, which is an increase of \$368,943 or 4% over fiscal year 2002-2003. The capital budget is proposed to be \$33,793,500, which is a decrease of \$1,336,057.

SEWER FUND PROPOSED BUDGETS				
	Adopted 2002-2003	Proposed 2003-2004	Difference	Percent Change
Revenue & other sources				
Sewer services fees	\$14,824,000	\$15,613,160	\$ 789,160	5.3%
Interest income	800,000	450,000	(350,000)	(43.8%)
Permits	85,000	85,000	-	-
Impact fees	600,000	600,000	-	-
Other	807,000	807,000	-	-
Bond proceeds	25,000,000	25,000,000	-	-
Use of cash reserves	5,078,114	4,577,540	(500,574)	(9.9%)
Total revenue & other sources	\$47,194,114	\$47,132,700	\$ (61,414)	(0.1%)
Expenses				
Salaries, wages & benefits	\$5,502,235	\$5,675,520	\$ 173,285	3.1%
Materials & supplies	1,343,620	1,320,352	(23,268)	(1.7%)
Charges for services	2,384,902	2,603,828	218,926	9.2%
Capital Outlay				
Capital improvement	35,129,557	33,793,500	(1,336,057)	(3.8%)
Vehicles & equipment	1,308,800	959,500	(349,300)	(26.7%)
Debt Services	1,525,000	2,780,000	1,255,000	82.3%
Total Expenses & Capital	\$47,194,114	\$47,132,700	\$ (61,414)	(0.1%)

POTENTIAL MATTERS AT ISSUE

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

- Sewer rate increase – 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, 9% on July 1, 2001, 9% on July 1, 2002, and 9% on July 1, 2003. Future rate increases already authorized are 9% on July 1, 2004 and 7% July 1, 2005. While the rate ordinance does not bind future Councils, it makes it necessary for the Council to take formal action in order for the planned increase not to be implemented.

- Capital improvement program – The proposed budget includes the continuation of a \$70 million, six year capital improvement program that was approved the City Council in June 2000. The program includes an upgrade to the waste water reclamation plant to handle an increase in organic loading. The capital improvement plan also includes two major sewer trunk lines. A detail listing of the projects is included in the budget book from the Department. In fiscal year 2000-01, the Council adopted a new sewer rate structure for industrial and commercial customers that included a waste strength component. *The Council may wish to ask representatives of the Department whether the rate structure has been successful in reducing some of the waste strength component.*
- Bond Issue – The budget proposes issuing \$25 million in bonds to upgrade the existing wastewater treatment plant. This bond issue was originally planned for the current fiscal year ending June 2003, but was deferred to fiscal year 2003-04 because design plans were not finalized. The Department is uncertain whether the full \$25 million will need to be issued. Later in fiscal year 2003-04 when the Department prepares a bond briefing document, the Council can have additional discussions before considering authorization of the bonds. The proposed budget for fiscal year 2003-04 includes the use of accumulated reserve funds of \$4,577,540 to help finance the capital improvement program.

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.

- Revenue – Although a 9% rate increase has already been approved to be effective for fiscal year 2003-04, sewer fee revenue is projected to increase only 5% because of water conservation and a down turn in the economy. Sewer charges are based on winter water usage, which is projected to decrease as both residential and businesses strive for conservation of water.
- 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. The budget includes a reduction of 1.3 FTE positions totaling about \$61,000.
- Overtime – The budget includes \$237,080 for overtime. Actual overtime costs for the first nine months of the current fiscal year (as of March 27, 2003) are \$185,870. Some overtime relates to emergency work, but most is due to scheduled overtime at the reclamation plant. Workers at the plant 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. The 12-hour shifts allowed the Department in the past to eliminate one 6-employee crew and one supervisor for a net saving in costs.

- Grounds supplies – A budget of \$84,000 is proposed for outside grounds supplies. Actual fiscal year 2002 expenditures were \$50,580. The Department desires to upgrade some of the irrigation systems around the sewer lift stations and at the Reclamation Plant.
- Chemicals – A budget of \$203,540 is proposed for chemicals. Actual fiscal year 2002 expenditures were \$127,750, and costs for the first nine months of the current fiscal year (as of March 27, 2003) are \$79,600. The increase use of chemicals is proposed to handle the high sewer strength component.
- Electrical power – A budget of \$581,310 is proposed for electricity. Actual fiscal year 2002 expenditures were \$451,445, and costs for the first nine months of the current fiscal year (as of March 27, 2003) are \$290,300. The Department budgets for a normal water table, which allows some water into the sewer system requiring more pumping than when the water table is low because of drought conditions. The water table will probably remain low in fiscal year 2004. Water conservation has also reduced waste flows arriving at the plant for treatment. Therefore, part of the budget for electrical power may not be necessary.
- Sludge management – A budget of \$50,000 is proposed, but actual fiscal year 2002 expenditures were only \$845. There are no expenses during the first nine months of the current fiscal year (as of March 27, 2003). The Department has been able to dispose of sludge at a Kennecott site during the past few years, but the Department doesn't know if it will be allowed to continue this practice. The budget is for landfill costs in case regulators discontinue allowing Kennecott to accept the sludge.
- Fleet maintenance and fuel – A budget of \$270,720 is proposed. Actual fiscal year 2002 expenditures were \$211,390, and costs for the first nine months of the current fiscal year (as of March 27, 2003) are \$131,550. The Department is requesting a budget increase because of fuel price increases and because the Department has deferred replacement of some vehicles to help offset revenue shortfalls. An older fleet usually requires more maintenance.
- Travel, conferences and seminars - A budget of \$48,920 is proposed. Actual fiscal year 2002 expenditures were \$11,430, and costs for the first nine months of the current fiscal year (as of March 27, 2003) are \$12,010. Conference attendance and other discretionary expenses have been limited because of revenue shortfalls.
- Payment in lieu of taxes – The budget of \$284,110 represents an increase of \$154,735 in payments to the General Fund. The payment-in-lieu-of-taxes formula is based on prior year net income.
- “Collection lines” cost center - A budget for the collection lines cost center is proposed to increase by 49% from \$380,215 to \$550,670. (See attached listing of cost centers by division.) Actual costs for fiscal year 2002 were \$314,070. Several streets both within the City and in the County service area are scheduled to receive an asphalt overlay requiring the Department to raise manholes. The costs for the cement crew were not fully budgeted last year. Permit fees have increased in Salt Lake City. Additional asphalt and compacting work are required for street cuts to meet higher restoration requirements.

Capital Improvement Budget

The proposed budget reflects a capital improvement budget of \$33,793,500 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	
Treatment plant	\$29,180,000
Collection lines	4,101,500
Lift stations	450,000
Maintenance & repair shops	37,000
Site improvements	25,000
Total Capital Improvement Program	\$33,793,500

Additional Information

BACKGROUND

The Department of Public Utilities has over 48,350 sewer connections. The Sewer Fund 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 2002-2003 was \$102.65 and is estimated to be \$111.89 in fiscal year 2003-2004.

LEGISLATIVE INTENT STATEMENTS

No legislative intent statements are outstanding for the Sewer Fund.

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

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