

## SALT LAKE CITY COUNCIL STAFF REPORT

### BUDGET ANALYSIS – FISCAL YEAR 2003-04

**DATE:** March 18, 2003

**SUBJECT:** **WATER FUND**

**STAFF REPORT BY:** Gary Mumford

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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. Spot-market water purchases represent 7.4% of the increase. The increase to operations would be only 1.6% if spot-market 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.

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

## POTENTIAL MATTERS AT ISSUE

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

- 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 City 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. *The Council may wish to discuss funding of the future assessments with representatives of the Department.*

- Purchase of spot-market water – The budget anticipates the purchase of \$2,225,000 of water on the spot market to meet summer demand. *The Council may wish to ask representatives of the Department to report on the latest estimates of the severity of the drought conditions.*
- 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.
- 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 position – 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.
- 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.

- Water conservation rate structure – The Water Fund budget proposes the implementation of a new water rate structure to encourage greater water conservation. Water conservation will result in some loss of revenue, which the Department is estimating at 8%. The Department proposes to include the shortfall within the new rate structure. *The Council may wish to ask representatives of the Department whether they have been able to absorb a portion of the loss of revenue with operating cost reductions and efficiencies. The Council may wish to receive a more detailed briefing on the proposed Water Fund budget or assign Council staff to scrutinize the proposed budget to a greater detail and identify potential reductions for further discussion with representatives of the Department.*

### **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).

<b>Proposed Capital Improvement Program Fiscal year 2003-2004</b>	
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
<b>Total Capital Improvement Program</b>	<b>\$22,007,831</b>

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### *Additional Information*

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### **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.*