

SALT LAKE CITY COUNCIL STAFF REPORT
BUDGET ANALYSIS – FISCAL YEAR 2004-05

DATE: April 9, 2004
SUBJECT: **WATER FUND**
STAFF REPORT BY: Gary Mumford
CC: Rocky Fluhart, Sam Guevara, LeRoy Hooton, Jeff Niermeyer,
Jim Lewis, Steve Fawcett, Susi Kontgis, DJ Baxter

The operating budget for the Water Enterprise Fund for fiscal year 2004-05 is proposed to be \$34,040,480, which is an increase of \$1,893,243. The proposed budget includes the first year of a \$210 million assessment by the Metropolitan Water District to pay for its new water treatment plant and other capital improvements. The first assessment is \$3.5 million followed by a \$7 million assessment each year for thirty years with the last assessment in 2035 being \$3.5 million. The Department of Public Utilities requests a 3% water rate increase to begin on July 1, 2004, and a 6% rate increase is proposed for July 1, 2005.

WATER FUND PROPOSED BUDGET				
	Adopted 2003-04	Proposed 2004-05	Difference	Percent Change
Revenue & other sources				
Metered sales	\$41,413,498	\$42,655,903	\$1,242,405	3.0%
Interest income	800,000	500,000	(300,000)	(37.5%)
Interfund charges	2,126,425	2,126,425	-	
Sale of used equipment	50,000	50,000	-	
Impact fees	500,000	1,439,752	939,752	53.2%
Contributions by developers	855,000	905,000	50,000	5.8%
Use of cash reserves	16,489,577	13,703,109	(2,786,468)	(16.9%)
Total revenue & other sources	\$62,234,500	\$61,380,189	\$(854,311)	(1.4%)
Expenses				
Salaries, wages & benefits	\$13,621,812	\$14,001,913	\$380,101	2.8%
Water purchases	9,050,000	6,965,000	(2,065,000)	(22.9%)
Metropolitan Water District Assessment	-	3,510,000	3,510,000	
Materials & supplies	2,394,399	2,373,149	(21,250)	9.5%
Charges for services	7,081,026	7,190,418	109,392	1.5%
Capital Outlay				
Capital improvement	23,708,148	20,619,261	(3,088,887)	(13.0%)
Vehicles & equipment	1,636,411	1,982,700	346,289	21.2%

Debt Services	4,742,704	4,737,748	(4,956)	(0.1%)
Total Expenses & Capital Outlay	\$62,234,500	\$61,380,189	\$(854,311)	(1.4%)

POTENTIAL MATTERS AT ISSUE

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

- Water conservation rate structure - The Department of Public Utilities recommends leaving the water conservation rate structure in place because it has been successful in reducing water consumption. The Department has identified the need to reduce per capita use of water as a part of the City's long term water supply strategy. During the current fiscal year, the conservation rates have resulted in an approximate break-even revenue position for the Water Fund, while water usage per capita has decreased from 235 to 218 gallons per day. *Council Members and staff have received several calls and letters from water customers during the past year requesting that the Council reconsider the water rate structure. If the Council desires, Council staff can identify options for returning to the former rate structure or modifying the current rate structure. The current structure appears to meet the Council's established policy objectives of encouraging water conservation while maintaining the basic revenue levels.*
- Annual assessments to Metropolitan Water District - In 2004-05, Salt Lake City's Department of Public Utilities will be assessed \$3.5 million for capital improvements of the Metropolitan Water District. In 2005-06 the assessment will be \$7 million and will continue at that level for 30 years with the exception of the last assessment in fiscal year 2034-35, which will be \$3.5 million. Sandy City is also making assessment payments to the Metropolitan Water District for their share of project costs.
- Use of cash reserves - The budget proposes the use of \$13.7 million of cash reserves to supplement the capital improvement budget. This will deplete most of the Water Fund's reserves leaving only \$1 million for contingencies. This represents only 3% of operating expenses or an 11-day reserve. The Department's goal is to have a one-month cash reserve of operating expenses. The proposed 3% rate increase for July 2004 followed by a proposed 6% rate increase in July 2005 is projected to restore cash reserves to a one-month supply.
- Two proposed water rate increases - In June 2001, the City Council approved four consecutive annual water rate increases to finance the City's share of costs related to the Metropolitan Water District's capital improvement program. The rate increases were 4% effective July 1, 2002; 3% on July 1, 2003; 3% on July 1, 2004; and 3% on July 1, 2005. The last two rate increases were not continued with adoption of the conservation rate structure; because the Department wanted to analyze its revenue position following implementation of the new conservation rates structure.

The Department is now requesting re-adoption of the 3% water rate increase for July 1, 2004 to help finance the \$3.5 million assessment from the Metropolitan Water District. Each 1% adjustment to water rates is estimated

to result in approximately \$414,000 of revenue. The Department is proposing the rate increase be implemented to the water service charge and to all three water rate blocks. This proposal would add about \$7 to the annual water bill of an average water customer and about \$21 to the annual bill of a larger residential account according to the Department. The Department's paperwork gives some other options for implementing the rate increase such as making it applicable to only second and third blocks. *The Council may wish to discuss the implementation options. The Council may also wish to discuss with representatives of the Department options and potential impacts for deferring a rate increase.*

The Department is also proposing a 6% rate increase effective July 1, 2005 to help finance the capital improvement program and to replenish a portion of the cash reserves. In connection with the presentation of the Mayor's Recommended Budget on the first Tuesday in May, the Department may provide a proposed ordinance that includes a 3% rate increase effective July 1, 2004 and a 6% rate increase for July 1, 2005. *The Council may wish to discuss whether to adopt a rate increase for fiscal year 2005 or whether to wait on the second year until more time has transpired from the time of implementing the conservation rate structure. While adoption of a second-year rate increase does not bind a future Council, it makes it necessary for a future Council to take formal action to halt or change the planned rate increase. In the past when the Council has approved multi-year rate plans it has noted the value of advance planning and clearly articulating policy direction. Another option is to adopt a single 6% rate increase this year rather than increases in both of the next two years. A 6% rate increase would result in the same amount of additional revenue over the two-year period.*

- Comparison of water rates to some other Utah cities – The average Salt Lake City annual residential water charge is currently \$305 and is estimated to be \$315 if the Council approves the proposed 3% increase. The proposed rate is higher than West Jordan, South Salt Lake, Murray, Riverton, Orem and Provo but lower than South Jordan, Park City, Draper and Sandy.
- Increase water impact fees – As a result of an updated study of impact fees, the Department is proposing significant increases to impact fees. These increases can be justified based on direct costs resulting from development. The fee for a residential connection is proposed to increase from \$881 to \$1,716. The fee for a four inch commercial line will increase from \$13,067 to \$25,100 with this proposal. Impact fees allow new developments to pay for growth related impacts rather than charging existing customers for these costs. The proposed fees are higher than Draper, Bountiful, Pleasant Grove and Provo, but lower than Park City, West Jordan, Kearns, Murray, Orem, and Taylorsville. *The Council may wish to discuss the effect that these increased fees may have on new residential or business development. The Council has previously indicated support for impact fees: "Growth and development activity should pay a proportionate share of the cost ... to serve the growth and development activity. The Council further finds that impact fees are necessary to achieve an equitable allocation*

to the costs borne in the past and to be borne in the future, in comparison to the benefits already received and yet to be received.”

- Continuation of the existing capital improvement program – The capital improvement budget is proposed to be \$20.6 million including \$11.3 million for the phase I of the City Creek Water Treatment Plant upgrade project. The Department is tentatively proposing rate increases each year for the next eight years (including the two years listed above) to finance increased operation costs and infrastructure replacement. *The Council may wish to discuss the need for future rate increases with representatives of the Department.*
- Elimination of staff positions and creation of additional maintenance crew – The Department proposes creating a three-person crew to work afternoons and evenings in order to eliminate a substantial amount of overtime. Three vacant positions will be eliminated: customer services representative, hydrologist, and engineering technician. The Water Utility will be transferring one engineering position to the Sewer Utility to assist during the reclamation plant upgrade project. The Water Utility will also eliminate an additional 1.3 engineering tech positions.
- Salary adjustments – The proposed budget includes \$378,000 for employee compensation adjustments. Most of the Department’s employees (76%) are 100 and 200 series employees with pay increases included in the third year of a memorandum of understanding agreed to by the City and the American Federation of State County & Municipal Employees Local 1004 (AFSCME). Contact required salary increases of 2½% effective June 20, 2004 and merit increases on each employee’s employment anniversary date (unless topped out) are included in the proposed budget. The Department developed the budget before the Administration made any decisions regarding pay adjustments for other employees. To be conservative, the Department of Public Utilities included a 3% adjustment for other employees. However, the Department didn’t project increases to insurance and retirement premium as great as they will actually be. If no pay adjustments are provided to employees other than the 100 and 200 series, the Water Fund could have an excess budget of \$38,705 after netting the additional amounts necessary for insurance and retirement premiums.
- Fleet maintenance expense – The Department is projecting an increase of \$176,900 in gasoline/fuel and vehicle maintenance charges.
- Waterline replacement program – Over the past several years, the Department has been replacing approximately 38,000 feet of waterlines annually, which equates to 0.6% of the system each year or 167 years to replace the entire system. In the current fiscal year (2003-04), the Department accelerated replacement to 0.8%. The Department proposes increasing the replacement to 1% each year beginning with fiscal year 2004-

05, which will take 100 years to replace the entire system at that rate of replacement.

- Reclaimed and secondary water – The Department completed a water efficiency study in May 2002, which reviewed all green spaces in the service delivery area and analyzed the cost effectiveness of implementing secondary water uses. The Department has hired an engineering consultant firm to determine the required water standards for the most likely customers and to identify the treatment processes to implement water reuse. The study will identify the capital projects required to implement water reuse.
- Water meter replacement program – As water meters age, they begin to inaccurately measure water use (under read). The Department has determined that it is cost effective to replace meters that are 15 years old. During the past four years, the Department has replaced 45,920 meters with about 8,445 of these being radio reading devices. Radio-read meters cost about \$73 more than regular meters and have a battery life of 8 to 10 years. Within the next two years, radio-read meters will be installed in neighborhoods east of Highland Drive in the County service area, east of Fort Union Boulevard, and above 11th Avenue.
- Fire protection in County service area – The Department is negotiating with the County to upgrade the water distribution system in the Millcreek area and Big Cottonwood area to provide fire flow requirements. Under existing agreement, the City is to provide 4 inch lines. Fire flows guidelines are 8-inch water lines. Following successful negotiations, the Department will come to the Council with proposed interlocal agreement to resolve a long standing dilemma.

Capital Improvement Budget

The proposed budget reflects a capital improvement budget of \$20,619,261 for fiscal year 2004-05. 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 2004-05	
Treatment plants	\$10,059,000
Replacement of water lines and hydrants	5,675,261
Service line replacement	1,800,000
Water meter replacement	1,300,000
Reservoirs	789,000
Land purchases	500,000
Maintenance buildings	240,000
Pumping plant upgrades	145,000
Culverts, flumes & bridges	36,000
Wells	35,000

Water stock purchases	30,000
Landscaping – conservation projects	10,000
Total Capital Improvement Program	\$20,619,261

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 did not issue any legislative intent statements last year relating to the Water Fund.

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.