
SALT LAKE CITY COUNCIL STAFF REPORT

DATE: June 1, 2004

SUBJECT: **BUDGET FOR THE METROPOLITAN WATER DISTRICT OF SALT LAKE AND SANDY**

STAFF REPORT BY: Gary Mumford

CC: Rocky Fluhart, Sam Guevara, John Carman, Reed Jensen, LeRoy Hooton, DJ Baxter

The Council has traditionally received a briefing on the proposed budget for the Metropolitan Water District of Salt Lake and Sandy. Verbal feedback can be provided to representatives of the District at the briefing. The Council has on occasion also provided written comments to board members representing Salt Lake City. Salt Lake City appoints five of the seven board members of the Metropolitan Water District. Sandy City appoints the remaining two board members.

Utah Code Annotated, §17A-1-502, provides that constituent entities of a special district can request a meeting with representatives of a district to discuss the budget. The law does not prevent the board of a special district from approving and implementing a budget over protests or objections of constituent entities.

The Metropolitan Water District of Salt Lake and Sandy is proposing an operating budget of \$8,623,411 for fiscal year 2004-05. The proposed operating budget represents an increase of \$686,459 or 8.6%. In addition, the Metropolitan Water District is proposing a budget for debt service of \$9,406,918 and a budget for capital improvements of \$94,627,880.

OPTIONS

Salt Lake City, as a constituent entity of the District, can provide input regarding the proposed budget to District management and/or the Board of Trustees. The City Council is not required to take any official action regarding the District's proposed budget. On June 21, 2004, the Metropolitan Water District will hold a public hearing on its budget. The Members of the Board are scheduled to consider adoption of the budget immediately following the public hearing.

The City Council has discussed establishing a subcommittee of three Council Members to discuss water issues. If a subcommittee is established, it may wish to include issues relating to the Metropolitan Water District in its upcoming discussions.

Metropolitan Water District of Salt Lake & Sandy Tentative Budget				
	2003-04 Budget	2004-05 Proposed Budget	Difference	Percent Change
Sources of Funds				
Water sales & other operating revenue	\$ 8,896,510	\$ 9,350,800	\$454,290	5.1%
Revenue for CUP water (revenue not received; purchase not needed)	1,140,080		(1,140,080)	(100.0%)
Pass through costs of purchasing spot market water	500,000	546,000	46,000	9.2%
Tax revenue (net of reimbursement to one Sandy City neighborhood that has separate water system)	4,579,891	4,365,767	(214,124)	(4.7%)
Interest revenue	340,000	1,240,000	900,000	264.7%
Lab fees, power and miscellaneous	134,000	114,000	(20,000)	(14.9%)
Vehicle sales		250,000	250,000	
Assessments	1,000,000	6,317,827	5,317,827	531.8%
Bond proceeds	90,000,000		(90,000,000)	(100.0%)
Use of reserves/prior bond proceeds		91,981,805	91,981,805	
Total sources of funds	\$106,590,481	\$114,166,199	\$ 7,575,718	7.1%
Uses of Funds				
Operations				
Salaries, wages & benefits	\$ 3,118,270	\$ 3,313,555	\$195,285	6.3%
Seminars, training, travel	106,700	115,470	8,770	8.2%
Professional & contractual services	589,970	777,126	187,156	31.7%
Utilities	665,050	664,650	(400)	(0.1%)
Repairs & maintenance	569,100	639,300	70,200	12.3%
Chemicals & supplies	840,710	929,760	89,050	10.6%
Property & liability insurance	346,900	403,500	56,600	16.3%
Provo River Water Users maintenance assessment	1,090,362	1,110,600	20,238	1.9%
Jordan Valley Plant - water treatment	360,000	420,000	60,000	16.7%
Other expenses	249,890	249,450	(440)	0.2%
Spot market water purchases	500,000	831,000	331,000	66.2%
Transport fee - Bureau of Reclamation	46,750	46,750		
CUP water subscription		630,240	630,240	
Debt service				
Interest expense	3,342,700	6,434,140	3,091,440	92.5%
Principal	1,347,788	2,972,778	1,624,990	120.6%
Capital improvements	37,100,366	94,627,880	57,527,514	155.1%
Increase reserves for capital projects	56,315,925		(56,315,925)	(100.0%)

Total uses of funds	\$106,590,481	\$114,166,199	\$ 7,575,718	7.1%
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Some of the issues regarding the Metropolitan Water District or major changes reflected in the District's proposed budget include:

1. Capital improvement master plan – Fiscal year 2004-05 will be the sixth year of the District's \$237 million capital improvement master plan. The major project is a new water treatment plant near the Point of the Mountain at 300 West 15000 South (east of I-15) in Draper. Excavation work is almost finished, and construction is expected to begin by October 1, 2004. The plant is expected to open in 2007. To help fund the master plan, the District secured a \$34 million revenue bond in 1999, \$20 million in 2003, and \$90 million in March 2004. The District anticipates issuing \$90 million in bonds in about September 2006. *The Council may wish to ask representatives of the District for an update on the status of the master plan improvements and whether the costs are consistent with projections.*
2. Annual assessments to member cities – In fiscal year 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 will also be making assessment payments. In response to the assessments, the City's Department of Public Utilities is requesting retail water rate increases in each of the next two years.

In fiscal year 2003-04, Sandy City made an assessment payment of \$1 million to equalize the revenue from member cities for master plan improvements. About 75% of the District's revenue comes from Salt Lake City and about 25% from Sandy City. Sandy City will receive 37½% of the benefits of the master plan improvements and Salt Lake City will receive 62½% of the benefits.

3. Interest revenue (\$900,000 increase) – The District sold \$90 million of bonds in March 2004. Interest will be earned on these bond proceeds until the money is spent on the new treatment plant construction and other capital improvement projects.
4. Salaries and benefits (\$195,285 increase) – Operating staffing is proposed to increase by one FTE. The budget proposes a general cost of living increase of 1.2%. In addition, some employees are eligible for merit increases, and some employees received salary adjustments during the past year as a result of reorganizations. Retirement contributions are increasing by \$35,000. Although there are increases to employee health insurance premiums, the overall budget for health insurance reflects a decrease because two retirees are no longer eligible for District contributions. Under an old program, retirees could convert sick leave upon retirement to a certain number of months of paid health insurance. There are only two more retirees still receiving this benefit. *The Council may wish to ask about*

the number of increases to the staffing levels over the past five or ten years. The Council may also wish to ask about the salary adjustments made during the year (e.g., areas reorganized, job titles of those receiving pay increases, average percent increase).

A liability is accrued for vacation and sick leave when earned. This account is charged as leave is taken or when vacation leave is paid upon an employee's retirement or separation.

The District's engineering office is requesting 3.5 additional FTEs relating to capital projects. The salary costs of these additional positions will be charged to capital projects. One of the positions will be a transfer from another section, and 2.5 FTEs will be new positions.

5. Wholesale water rates - The Metropolitan Water District increased wholesale water rates from \$85 to \$105 per acre-foot in February 1999, from \$105 to \$125 in July 2001, and from \$125 to \$150 per acre-foot in July 2002. Salt Lake City increased retail water rates in each of these years. *The Council may wish to ask representatives of the District regarding the timing of future rate increases and estimated amounts.*
6. Spot water purchases - The District's proposed budget includes \$831,000 for spot water purchases. Of this amount, the District is planning \$386,000 for Salt Lake City and \$445,000 for Sandy City. Sandy City didn't exercise all of its planned purchases in fiscal year 2003-04 and has a credit for prepayment. Salt Lake City is still determining whether there will be a need to purchase additional water to meet anticipated use. The District's budget can be amended if an additional spot water purchase becomes necessary. Beginning in November 2004, the Metropolitan Water District will receive an annual allotment of 4,000 acre feet of water from the Central Utah Project (CUP). The City's Department of Public Utilities is anticipating that this additional water will alleviate future needs for spot water purchases for Salt Lake City during the next several years. The District's budget includes an expense of \$630,240 for the purchase of this CUP water.
7. Professional and contract services (\$183,000 increase) - The operating budget for professional services is proposed to increase because current year's actual expenses are considerable higher than budget for this category. In addition, more technical support is necessary because of an upgrade that was made to the computer system that monitors water treatment and movement.
8. Property and liability insurance (\$56,600 increase) - Property and liability insurance premiums are expected to increase.
9. Jordan Valley Water Treatment Plant (\$60,000 increase) - An increase to the budget is proposed to pay for Salt Lake City's water treated at the Jordan

Valley Water Treatment Plant. Salt Lake City anticipates a greater need for water that comes to the City from this treatment plant.

10. Emergency response team (\$70,000 increase) – The District is setting up a team of about 15 employees that will receive annual training and some equipment to respond to emergencies. In addition, team members that are on call will receive a small additional remuneration for being assessable to respond. *The Council may wish to ask representatives of the District for an addition explanation of the response team and the \$70,000 cost.*
11. Repairs and maintenance (\$70,200) – Most of this increase is for repairs at Little Dell to the down-stream portal.
12. Chemicals (\$89,050 increase) – The District anticipates the cost of chemicals to increase.
13. Seminars, training, travel (\$8,770 increase) – The District is gearing up for the opening of the Point of the Mountain Treatment Plant, which will be a seasonal plant. Additional training is planned for several maintenance employees so that these employees can operate the plant during the summer season, and maintain lines and facilities during other times of the year. In total, the District is proposing \$115,470 for seminars, training and travel for 59 employees. In contrast, the City’s water utility is budgeting \$36,250 for out-of-town travel and \$34,030 for in-city training for 269 employees. *The Council may wish to ask representatives of the District about its training needs.*
14. Vehicle purchases –The District recently adopted a policy of replacing general purpose vehicles each year. The theory is that a government agency can purchase vehicles at a favorable price under the state contract and sell them in one year to the general public and recover a large portion of the purchase price. Maintenance costs are eliminated under this approach. The District keeps large trucks and other specialized equipment for their useful life. The District tested this policy during the current year with a few vehicles. The capital budget proposes \$337,000 to replace 13 general purpose vehicles that will be one-year old. Revenue from the sale of the one-year old vehicles is projected to be \$250,000. *The Council may wish to ask about the purpose of the 13 vehicles and whether employees take these vehicles home.*
15. Capital improvement projects – A complete list of proposed capital projects is contained in the tentative budget (attached). These projects are summarized as follows:
 - \$85,660,350 – Point of the Mountain Water Treatment Plant and other capital improvements to increase water capacity
 - \$ 4,630,000 – Non-capacity capital improvements (i.e. rehabilitation and modifications of existing facilities)

- \$ 2,500,000 – Capital improvements contingency
- \$ 537,530 – Equipment
- \$ 1,300,000 – Improvements of Jordan Valley Water Conservancy District (Metropolitan Water District is a 28.6% owner of the Jordan Valley Plant.)

BACKGROUND

In 1935, the voters of Salt Lake City created the Metropolitan Water District in order to enter into long-term agreements to build the Provo River Project including Deer Creek Reservoir. The Bureau of Reclamation built the project, and it was necessary to enter into repayment contracts to reimburse the federal government for the construction costs plus interest. The Metropolitan Water District is a 61.7% owner of the Provo River Project. The water rights for the Provo River Project consist of water diverted from the Duchesne and Weber Rivers conveyed through a tunnel and canal system from the two basins to the Provo River for use by the Metropolitan Water District and others. In order to reimburse the Federal Government for the cost of the Provo River Project and Deer Creek Reservoir, the residents of Salt Lake City have paid property taxes since 1935. The Metropolitan Water District continues to build dams and facilities such as Little Dell Reservoir.

In 1990, Sandy City became the second member of the District. Sandy City sought membership in the District to treat its approximately 34 percent water right in Little Cottonwood Creek. Sandy City's annexation in the District increased efficiencies by consolidating water supplies and delivery systems to most of eastern Salt Lake County. As part of the agreement, the District receives water purchase revenue and ad valorem tax revenue from Sandy City. Furthermore, as a part of the annexation Salt Lake City acquired additional water rights in Little Dell Reservoir and \$4 million in water transmission mains installed on the City's west side. Also, the 1990 agreement admitting Sandy City established conjunctive water management practices among Salt Lake City, Sandy City, Jordan Valley Water Conservancy District and the Metropolitan Water District.

In 1998, the Metropolitan Water District updated its capital improvement master plan and identified \$236 million in improvements and expansion of water capacity. The major project is a new water treatment plant near the Point of the Mountain in the Draper area. The Metropolitan Water District owns additional water from the Provo River Project (in non-drought years) but hasn't been able to treat and convey the water to users. Additional water will also be available from the Central Utah Bonneville Unit (Jordanelle Reservoir) beginning in 2005.

The master plan improves redundancy in the event of a water treatment plant or aqueduct failure. Improvements include pipeline connections between the Little Cottonwood Water Treatment Plant, the Jordan Valley Water Treatment Plant, and the Point of the Mountain Water Treatment Plant. This will allow flexibilities in shifting water between major north-south pipelines.