
SALT LAKE CITY COUNCIL

STAFF REPORT

DATE: June 3, 2005

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

STAFF REPORT BY: Lehua Weaver and Gary Mumford

CC: Rocky Fluhart, Sam Guevara, John Carman, Mike Wilson, Reed Jensen, LeRoy Hooton, Susi Kontgis, 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 the Salt Lake City-appointed board members. 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 \$9,850,660 for fiscal year 2005-06. The proposed operating budget represents an increase of \$1,043,809 or 11.9%. In addition, the Metropolitan Water District is proposing a budget for debt service of \$3,702,788 and a budget for capital improvements of \$146,498,679.

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 13, 2005, 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 following the public hearing, but have also reserved the following Monday evening for the vote if extra time is needed.

Metropolitan Water District of Salt Lake & Sandy
Proposed Budget for FY 2005-06

	2004-05 Budget	2005-06 Proposed Budget	Difference	Percent Change
Sources of Funds				
Water sales & other operating revenue	\$ 9,350,800	\$ 10,916,150	\$ 1,565,350	16.7%
Tax revenue (net of reimbursement to one Sandy City neighborhood that has separate water system)	4,660,194	7,021,200	2,361,006	50.7%
Interest revenue	1,240,000	3,395,000	2,155,000	173.8%
Lab fees, power and miscellaneous	114,000	134,000	20,000	17.5%
Vehicle sales	250,000	250,000		
Pass through costs of purchasing spot market water	1,415,000	0	(1,415,000)	(100.0%)
Assessments	6,317,827	12,670,407	6,352,580	100.6%
Use of prior bond proceeds	90,672,818	125,665,370	34,992,552	38.6%
Total sources of funds	\$114,020,639	\$160,052,127	\$46,031,488	40.4%
Uses of Funds				
Operations				
Salaries, wages & benefits	\$ 3,368,565	\$ 4,224,370	\$ 855,805	25.4%
Professional & contractual services	952,126	980,440	28,314	3.0%
Utilities	664,650	664,650		
Repairs & maintenance	620,100	576,110	(43,990)	(7.1%)
Chemicals & supplies	929,760	1,104,620	174,860	18.8%
Property & liability insurance	403,500	365,675	(37,825)	(9.4%)
Provo River Water Users maintenance assessment	1,110,600	1,172,300	61,700	5.6%
Jordan Valley Plant - water treatment	420,000	420,000		
Other expenses	337,550	342,495	4,945	1.5%
Operating Expenses	8,806,851	9,850,660	1,043,809	11.9%
Property Tax Reimbursement (White City)	57,000	0	(57,000)	(100.0%)
Spot market water purchases	500,000	0	(500,000)	(100.0%)
Transport fee - Bureau of Reclamation	46,750	0	(46,750)	(100.0%)
CUP water subscription	630,240	1,188,494	558,254	88.6%
Debt service (principal only)	2,972,778	3,702,788	730,010	24.6%
Interest expense	6,434,140	10,117,300	3,683,160	57.2%
Capital improvements	93,940,350	134,370,885	40,430,535	43.0%
Equipment Purchases	632,530	822,000	189,470	30.0%
Total uses of funds	\$114,020,639	\$160,052,127	\$46,031,488	40.4%

Key Elements

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 2005-06 will be the seventh year of the District's \$250 million capital improvement master plan. The major project is construction of a new water treatment plant near the Point of the Mountain at 300 West 15000 South (east of I-15) in Draper. The plant is expected to open in June of 2007. The master plan also includes expansion of the Little Cottonwood Water Treatment Plant and installation of an aqueduct from the Point of the Mountain Treatment Plant to the Little Cottonwood Treatment Plant.

To help fund the master plan, the District secured a \$34 million revenue bond in 1999, \$20 million in 2003, \$90 million in 2004, and \$82 in 2005. The District anticipates issuing \$40 to \$50 million in bonds in about September 2006 (fiscal year 2007). *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 2005-06, Salt Lake City's Department of Public Utilities will be assessed \$7 million for capital improvements of the Metropolitan Water District. In 2003-04 the assessment was \$3.5 million. The assessment will continue at the \$7 million 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. Partially due to the assessment for the District's capital improvements, the City's Department of Public Utilities requested a two-year water rate increase schedule last year. The second increase of that schedule will take place on July 1, 2005 unless the Council amends the water rate ordinance. The City's Department of Public Utilities also anticipates requesting that the Council approve continuing water rate increases in the coming years.
3. Tax Revenue (\$7,021,200) – Tax revenues are proposed to increase by \$2,361,006 or 50.7% primarily due to a proposed tax increase to both Salt Lake City and Sandy residents. There has not been a tax increase since 1982. The change in certified tax rate for Salt Lake City residents will be from 0.000264 to 0.0004. This increase would represent approximately a \$14.96 increase per year to Salt Lake City residents on a \$200,000 home. The District will be holding a Truth in Taxation hearing regarding the proposed increase in August. *The Council may wish to discuss with District representatives what the tax revenues will be used for, and whether other options, such as decrease to operations and delaying or phasing in certain capital improvements, would eliminate the need for the tax increase.*

4. Water Sale Revenue (\$1,565,350 increase) – The charge per acre foot of water is proposed to be increased from \$150 to \$163. Salt Lake City anticipates purchasing 47,000 acre feet in 2005-06. There are planned increases to water rates over the next five years, as shown in the table below. *The Council may wish to ask whether the higher than normal water levels in the reservoirs will affect the amount of surplus water purchased from other entities.*

Budget Year	Water Rate in Acre Feet (AF)	Anticipated Water Purchase in AF	Incremental Budget Impact to SLC
2004-05	\$ 150		
2005-06	163	47,000	\$ 611,000
2006-07	188	47,500	1,187,500
2007-08	200	50,000	600,000
2008-09	213	55,000	715,000
2009-10	219	60,000	360,000

5. Interest revenue (\$2,155,000 increase) – Interest is earned on bond proceeds until the money is spent on the new treatment plant construction and other capital improvement projects. Recent bonding activity has led to this anticipated increase over fiscal year 2004-05 interest revenue.
6. Salaries and benefits (\$855,805 increase) – Operating staffing is proposed to increase by 10 FTEs. At the prompting of the Board, a management audit will be conducted prior to the authorization to hire these proposed FTEs. The audit will address the District’s staffing levels to evaluate the need for additional staff. *The Council may wish to ask representatives of the District how salaries of District employees compare with similar Salt Lake City employees that operate water treatment facilities. The Council may also wish to ask how many of the proposed employees are directly related to the increase in facilities coming online with the major master plan projects.*

The budget also proposes a 6.3% raise for employees, to cover cost of living and merit increases. The Metropolitan Water District Board has been reviewing the benefits package for Metro employees. *The Council may wish to ask about the District’s benefits for employees, and how that compares benefits provided by Salt Lake City.*

7. Professional and contract services (\$28,314 increase) – The District’s proposed budget includes \$200,000 for legal fees, which is a decrease of \$30,000 from fiscal year 2004-05. *The Council may wish to ask if the District has considered hiring a staff attorney, and what the potential savings may be.*
8. Chemicals (\$126,100 increase) – The District anticipates the cost of chemicals to increase due to the cost of liquid oxygen, which is a new component that will be needed at the Little Cottonwood Water Treatment Plant. As additional facilities are made operational during the next few years, this cost will continue to increase.

9. Other expenses – The proposed budget includes \$72,500 for contributions and events. *The Council may wish to ask representatives of the District for examples of contributions from prior years and what benefits the District receives in return for making contributions. The Council may wish to ask what events are anticipated. The proposed budget includes \$53,820 for dues and memberships which is a 97% increase over fiscal year 2004-05. The Council may wish to ask what memberships are proposed and why the large increase.*

10. Vehicle purchases –This is the second year of the district’s 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 \$367,500 to replace 13 vehicles that will be one-year old and to add two new vehicles to the District’s fleet. Revenue from the sale of the one-year old vehicles is projected to be \$250,000. *The Council may wish to ask whether the replacement program has been successful in reducing costs.*

11. Capital improvement projects – A complete list of proposed capital projects is contained in the tentative budget (attached). These projects are summarized as follows:
 - \$123,723,935 – Point of the Mountain Water Treatment Plant, Little Cottonwood Water Treatment Plant, and other capital improvements to increase water capacity
 - \$ 2,815,000 – Non-capacity capital improvements (i.e. rehabilitation and modifications of existing facilities)
 - \$ 7,326,950 – Capital improvements contingency
 - \$ 822,000 – Equipment
 - \$ 505,000 – 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. In 2001, the District entered into an Interlocal Agreement with Sandy and Salt Lake City for implementation of the master plan. 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.

Metropolitan Water District of Salt Lake & Sandy

Budget Alternatives
June 2005

Our Strategy objectives

- We must approach the problem reasonably, sensibly, and responsibly
- Solve the problem, i.e., additional revenue for future maintenance and staffing for new facilities
- Keep the elected officials of our partner cities informed of our intentions & reasons
- Be credible

What we did to keep costs down & correct imbalances of the past

- We have adopted policies regarding the budget, debt service, and investments to use our money wisely
- We have received \$1.3 million in grants; they are:
 - -\$950,000 from Board of Water Resources for interest rate buy down on bonds
 - -\$300,000 from Water 2025 program for Aquifer, Storage, and Recovery
 - -\$45,268 from Homeland Security for Emergency Response Team equipment
- We have cut projects from the original plan to keep within the budget set by our member cities
- We have endeavored to cut what we could from the existing operating budgets, e.g., benefits
- We will operate the Point of the Mountain plant in the summer when it is needed to meet peak demands. Winter time operation will be on an as needed basis only.
- The Board exercises oversight of expenditures by reviewing operating & capital facilities budgets monthly

Current Capital Improvements

- \$250 million worth of projects
 - Expansion of existing water plant
 - Construction of new water plant (Point of the Mountain)
 - Construction of new Point of Mountain Aqueduct which connects to existing plant
 - Acquisition of the Salt Lake Aqueduct via Title Transfer from the federal government
 - Provo Reservoir Canal

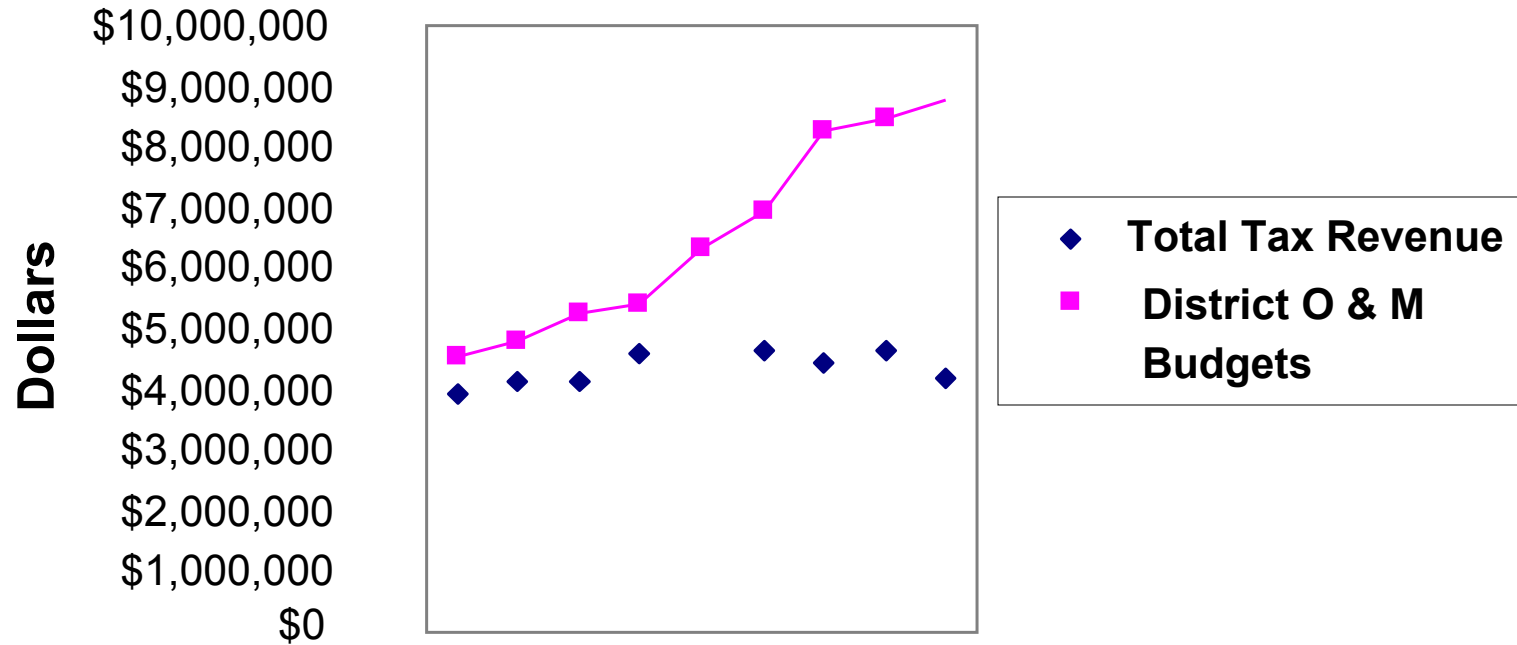
2001 Interlocal Agreement

- The Board is committed to live within the capital assessments and water rates discussed and contemplated at the time of the agreement
- Strong oversight
 - Monthly financial reports
 - Board members serve on Engineering, Management Advisory & Finance Committees to go into details of the projects and costs
 - Constant reports back to the Board as a whole

Tax Increase being considered

- No tax increase since 1982
- We have adjusted our revenues to reflect inflation for the last twenty years
- With this increase, we will have adequate budget to maintain infrastructure and do ongoing maintenance.
- We will conduct a study comparing staffing for comparative water districts before any new staff is hired
- Our budget process is not yet complete

District Tax Revenues vs. O & M Budget



It would be irresponsible of us to not address the problem

- We can not continue to live off reserves
- The facilities will not be maintained properly
- Action at a future time will be more costly
- This action will provide adequate revenues to maintain our facilities and operate them effectively & efficiently