



COUNCIL STAFF REPORT

CITY COUNCIL of SALT LAKE CITY

TO: City Council Members

FROM: Sam Owen, Policy Analyst

DATE: April 12, 2022

RE: FISCAL YEAR 2022-23 BUDGET,
DEPARTMENT OF PUBLIC UTILITIES,
Water, Sewer, Stormwater, and Street Lighting Funds

Item Schedule:

Briefing: April 12, 2022

Public Hearing: May 17 and
June 7 with the Annual Budget
schedule.

Potential Action: TBD, possibly
June 14, 2022

KEY POINTS

The Department of Public Utilities has submitted a budget totaling \$413 million across all four Funds, which will cover operating, capital, and debt payments. The driving factor for the significant budget, as in previous years, is the large-scale capital projects and related bonding activity.

Rate increases: Based on financial modeling the city is doing now, the projections show that rate increases will be needed each year, and are necessary to pay the debt and secure good bond agreements. This year's approximate increase of 15% in each utility except Street Lighting is anticipated to be slightly higher than those in the later years. The rate increases are projected to continue, although rate increases alone do not raise revenue sufficient to cover the department's cash for capital projects.

Furthermore, revenue for the water utility decreases with conservation, which the City strongly encourages. However, a certain portion of the cost of operating the water utility is fixed and does not decrease with water conservation, so the rate increases are shouldering two burdens at once in at least that instance.

Capital Projects & Bonding: A few key notes related to the proposed bond issuance:

- The Department intends to issue bonds in an amount contemplated at one of three levels, depending on which projects are prioritized in the whole financial context of the decision. Those levels are currently \$279, \$305 or \$347 million.
- Bonding will fund infrastructure construction.
- The bond amounts are calculated and annual debt payments rely on each of the utilities' revenues from rates. The bond increase bond payments are what affects the projected future rate increases.
- (It should be noted, however, that the City and its revenue streams secure the bonds as well if an unlikely scenario occurs where a Utility Fund cannot cover a debt payment.)



- Total debt obligation on the Public Utilities infrastructure projects is still climbing, and will peak in 2029.
- The Department is pursuing additional funding, such as federal grant and loan funding, through state and federal channels, to offset the amount of bonding necessary for the capital projects.

Plans & Studies: Of note, the Department also requests funding for two measures that relate to cost, community impacts and potential mitigation. The corresponding costs are included not as a signal the projects are either a priority or concern but for reference:

1. A rate study, taking place this year. The study engages people and groups throughout the community in evaluating realistic scenarios of household cost, business cost and other factors. Constituents from each Council district historically served. Issues of economic significance such as current inflation could make the feedback robust.
2. Impact fee planning. Previous partial updates to the Department's impact fee planning were discarded or postponed and are no longer valuable for the effort. The Department proposes new impact fee planning with at least two components:
 - a. Updates to the amount charged when new construction connects to a city utility system. In fact, the term for a Public Utilities impact fee is connection fee. So the basis for the fee is the added cost to the system of serving the new connection.
 - i. Similarly, customer rates reflect the ongoing and regular cost of the service, which increases as the utilities expand, maintain and update critical infrastructure across the valley.
 - ii. State and federal regulatory mandates drive projects and thus costs. Regulatory deadlines largely do not account for construction market flux.
 - b. Impact fee facilities plan, a document developed with consultants that carefully observes and implements state code strictly governing spending of this revenue source. With a new plan comes new opportunities for cost effective leveraging of impact fees on necessary utility projects. The Department historically applies impact fees on the many projects underway eligible for the source.

ADDITIONAL INFORMATION

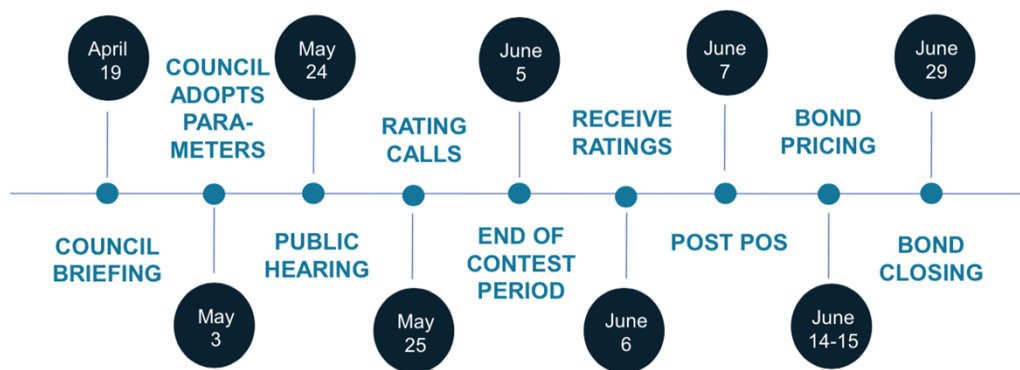
Costs in the Water Utility related to aging infrastructure, now five and six decades old, begin to accumulate next year and in subsequent years. This year's appropriation request is \$9.2 million, where next year's anticipated request is \$48.85 million. **The trend continues upward into the hundreds of millions in total for water treatment plant update and replacement alone.**

Costs in the Sewer Utility related to aging infrastructure and new regulatory requirements have accrued and will continue for years to come. Last year costs on the new Wastewater Reclamation facility closed out near \$190 million. The facility is currently anticipated to **cost up to and even over \$800 million** in total. At one time the projected cost was significantly less. Inflation and the local market are factors, and timing being driven by regulatory mandates means less flexibility to space the project out in a cost effective way.

The personnel-related increase is proposed to be \$2,672,913, resulting in an increased total budget of 49,027,442. This includes the citywide proposed cost of living adjustment (COLA), which this year would be 4.5%. This amount also reflects the Department's proposal to add seven new positions, including: safety inspectors, GIS and IT support, water technician, two engineering positions, and an accountant position. The Department has 470.5 full time equivalent positions and the additional new positions would increase that to 477.5.

POLICY QUESTIONS

1. The Council may wish to ask about the schedule for other more routine capital improvement projects and what residents may observe for other infrastructure repair around the City.
2. The Council may wish to ask about the level of public engagement the Department is doing for the major projects, so that residents and customers are aware of the significant costs that are affecting user rates.
3. The Council may wish to ask for an update on the coordination with the State and other municipalities in our service areas.
4. Council Members have received comments and observations from community members and members of the business community about rising costs. Utility costs are increasing. Council Members might be interested to hear from the department about ways to reduce cost, such as coordinating on-site pretreatment measures with businesses where appropriate.
5. Council Members signal in various contexts a willingness to consider policy that supports water conservation. The Department might have ideas or examples of useful policies that do not inadvertently create other problems for cities and residents. The Council might ask the Department to return with examples.
6. The Department also proposes bonding sooner than previously anticipated. A screenshot of the proposed timeline is below. Council Members might wish to ask questions about any or all of these elements:



7. A few scenarios are discussed for the bond amount being proposed now. They are shown below in case Council Members are inclined to explore the topic.

- Summary of options for proposed Series 2022 and Series 2023

Series 2022 (FY 2022, June Issuance)

	WRF Project	Water Project	Total
Base Case	\$279,864,195	-	\$279,864,195
Scenario 1	\$279,864,195	\$68,000,000	\$347,864,195
Scenario 2	\$279,864,195	\$26,000,000	\$305,864,195

Series 2023 (FY 2024, Fall Issuance)

	WRF Project	Water Project	Total
Base Case	\$28,324,783	\$68,000,000	\$96,324,783
Scenario 1	\$28,324,783	-	\$28,324,783
Scenario 2	\$28,324,783	\$42,000,000	\$70,324,783

- Anticipated Future Bond Issues:

- Series 2025 - \$100,000,000
- Series 2026 - \$24,000,000
- Series 2027 - \$23,000,000

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ATTACHMENTS

Attachment 1, Public Utilities FY2023 proposed budget

APPENDIX

Public Utilities Proposed Consulting Studies for FY 2022-2023

Division	Cost Center	Study or Project Description	Lighting	Water	Sewer	Storm	Total
Administration	5100200	Great Salt Lake Basin Study - Year 1		25,000			25,000
Administration	5103000	Special Consultant - Emergency Preparedness Plan		15,000			15,000
Administration	5103700	Public Engagement - Rate Study		30,000			30,000
Administration	5100200	Special Consultant NAWC and DNR Cloud Seeding		80,000			80,000
Administration	5100200	Special Consultant - University of Utah Climate Study		95,000			95,000
Administration	4848000	Implementation plan, and Misc. Needs	90,000				90,000
Administration	4848000	Engagement	80,000				80,000
Administration	4848000	Rate Study	50,000				50,000
Administration	5100200	Special Consultant - Measurement and Device Study		50,000			50,000
Administration	5100200	Water Supply and Demand Study - Update		50,000			50,000
Administration	4848000	Smart Cities Plan-Contribution	40,000				40,000
Administration	5100200	Sustainability Opportunities Study for Public Utilities		50,000			50,000
Engineering	5101300	AMP for Storage Reservoirs		135,000			135,000
Engineering	5210400	Jacobs Program Support - Operations share			300,000		300,000
Engineering	5210400	Sewer Master Plan Update - initiation			100,000		100,000
Engineering	5310300	Storm Water Master Plan				350,000	350,000
Engineering	5310300	Jacobs Program Support - Operations share				75,000	75,000
Engineering	5101300	Jacobs Program Support - Operations share		300,000			300,000
Engineering	5101300	Well Siting Study		285,000			285,000
Finance	5310500	Energy Retro-Commissioning Study - Sustainability Opportunities				35,000	35,000
Finance	5103200	Special Consultant		500,000			500,000
Finance	5211700	Energy Retro-Commissioning Study - Sustainability Opportunities			55,000		55,000
Finance	5103200	Diversity, Equity, and Inclusion Plan Facilitator		48,000			48,000
Finance	5211700	Diversity, Equity, and Inclusion Plan Facilitator			20,250		20,250
Finance	5310500	Diversity, Equity, and Inclusion Plan Facilitator				6,750	6,750
Finance	5103200	Utility Rate Study		287,500			287,500
Finance	5211700	Utility Rate Study			172,500		172,500
Finance	5310500	Utility Rate Study				115,000	115,000
Finance	5211700	Sampling in support of rate study			150,000		150,000
Finance	5103200	Space Needs Assessment		125,000			125,000
Finance	5211700	Space Needs Assessment			62,500		62,500
Finance	5310500	Space Needs Assessment				62,500	62,500
GIS	5101600	Special Consultant		37,500			37,500
Maintenance	5100100	Site Cleanup		60,000			60,000
Maintenance	5100300	Consultants - Wells		100,000			100,000
Maintenance	5100100	Geotech Consultants		50,000			50,000
Reclamation	5211300	Wasatch Front Water Quality Council (WFWQC)			150,000		150,000
Water Quality	5101800	Public Relations		8,000			8,000
Water Quality	5101800	Utah State University Canal Analysis		35,300			35,300
Water Quality	5101800	Water Quality Analysis-Variou		70,000			70,000
Water Quality	5100600	Watershed Management Plan		50,000			50,000
Water Quality	5100600	Misc Needs		10,000			10,000
Water Quality	5100600	PR Keep it Pure Campaign-Continuous work		40,000			40,000
Water Quality	5310700	Various regulatory reports - permit compliance Stormwater				20,000	20,000
Water Quality	5100600	PMAA Remediation and Restoration Design		500,000			500,000
Water Quality	5310700	IWM-Plan and Planning Documents				150,000	150,000
Water Quality	5101000	Lead & Copper Support		250,000			250,000
Water Quality	5100600	Watershed Management Plan-Stakeholder and public engagement		50,000			50,000
			260,000	3,336,300	1,010,250	814,250	5,420,800