



COUNCIL STAFF REPORT

CITY COUNCIL of SALT LAKE CITY

TO: City Council Members

FROM: Sam Owen, Policy Analyst

DATE: April 18, 2023

RE: FISCAL YEAR 2023-24 BUDGET,
DEPARTMENT OF PUBLIC UTILITIES,
Water, Sewer, Stormwater, and Streetlighting Funds

Item Schedule:
 Briefing: April 18, 2023
 Public Hearing: May 16 & June 6, 2023
 Potential Action: June 13, 2023 (TBD)

Updated after the 4-18-23 work session to reflect the following corrected rows from a table below. The update was also made in the verbal introduction to the work session.

Water	18%	\$10.41	\$62,346,000
Sewer	15%	\$7.08	\$51,285,000*

ISSUE AT-A-GLANCE

The Mayor’s Recommended Budget for the Department of Public Utilities includes the Water, Sewer, Stormwater, and Street Lighting Enterprise Funds, totals \$508,733,032 for revenue, capital and operating expenses for fiscal year 2024, with \$17,607,489 from reserves. The four utilities are enterprise funds, each one generating revenue through user fees and separately allocated staffing, materials budgets and capital improvement programs. The management and administration of the funds is under the Department of Public Utilities.

Major budget items in the proposal include system upgrades and expansions in response to aging infrastructure and new regulatory requirements using debt issued by the City along with leveraging significant federal grant dollars. The budget also proposes a new fee, a “drought surcharge” for heavy water users (see below). The proposal also includes a request for 16 additional staff positions. These positions will help address, for example, ongoing capital projects and requirements resulting from recent State legislation on subdivision approval reviews.

The addition, along with a proposed 5% cost of living adjustment (COLA), as well as merit increases and other changes related to benefits and compensation would result in a \$54.2 million total budget for personnel services.

The department’s budget book includes the below table showing side-by-side the requested budget for operations, capital and debt service by each fund.

KEY TOTALS FOR FISCAL YEAR 2024

Funds	Operations	Capital	Debt	Fund Totals
Water	88,097,398	79,686,023	10,170,366	177,953,787
Sewer	30,464,257	242,154,639	29,168,726	301,787,622
Storm	11,288,220	9,924,000	1,735,254	22,947,474
Street	3,610,587	2,240,000	193,562	6,044,149
Total	\$ 133,460,462	\$ 334,004,662	\$ 41,267,908	\$ 508,733,032

The following chart shows proposed fee increases for the fiscal year 2024 budget for each fund, with an average monthly impact based on a medium residential user. The budget book includes more information about other classes of users for each utility listed. The chart also shows the proposed bonds for each fund, which will facilitate major infrastructure improvements mentioned above. Public Utilities has noted for several budget cycles that multiple years of fee increases are needed to keep pace with infrastructure requirements, some from the federal government. The City has had gradual fee increases for Public Utilities for the last several budget cycles.

UTILITY	PROPOSED INCREASE	MONTHLY IMPACT (avg residential user)	PROPOSED BOND PROCEEDS FY24
Water	18%	\$10.41	\$62,346,000
Sewer	15%	\$7.08	\$51,285,000*
Stormwater	10%	\$0.96	\$5,028,000
Street lighting	10%	\$0.57	N/A

*(additional to a Water Infrastructure Financing Innovations Act, or WIFIA, loan disbursement of \$158,517,000)

The rate increases will facilitate continued increases in operating costs and debt service. Payments on outstanding bonds will increase this year and in the next several years. The Streetlighting Utility is requesting its first rate increase since the department acquired this program in 2013. Rate increases are projected to continue

for the next five years and beyond. The department’s budget book includes analysis and review of rate increase burden to households experiencing higher barriers to economic security. The review is connected with a US Environmental Protection Agency (EPA) framework for evaluating community capacity to pay.

The fiscal 2024 proposal also includes a request to fund a rate study update. The department typically does these about every five years and the last one was 2017-18.

Notably, this year’s budget proposal **includes a request to add a drought surcharge** in the water utility. This additional fee would be applied to users of water who enter blocks three and four of the four-block tiered pricing structure already in place. Different rates can apply to each block respectively.

The surcharge would apply to all regular customers of the utility who enter blocks 3 and 4 on water use, meaning the charge would apply above monthly water usage of 30 ccf, an abbreviation of hundred cubic feet (or 748 gallons).

For a higher use residential household consuming 70 ccf, or seventy times 748 gallons, the additional monthly surcharge would be about \$20 up to block 4, when it would shift into the higher surcharge rate and add another \$12 to the monthly bill, a total cost of \$32 for the higher block usage. Water utility customers could review summer month water bills to evaluate past usage.

Block Number	Recovery Allocation	FY 2024 Rate/CCF	Drought Surcharge/CCF	Total Block Rate
Block 3	40% (\$2,000,000)	\$3.70	\$0.66	\$4.36
Block 4	60% (\$3,000,000)	\$3.96	\$1.17	\$5.13

The chart above is from the department’s budget presentation to its advisory board. The department indicates that most residential water users will not encounter the surcharge. High residential water users might encounter the surcharge.

One purpose of the surcharge is to encourage wise water use in the region’s continued drought status. It also allows the department to recoup \$5 million of approximately \$30 million in revenue shortfall over the last two complete fiscal years. The revenue shortfall occurred because people are using less water, which is good, and the utility uses reserves to balance in those years. However, accounting requirements and bond obligations say the utility must recover its lost revenue.

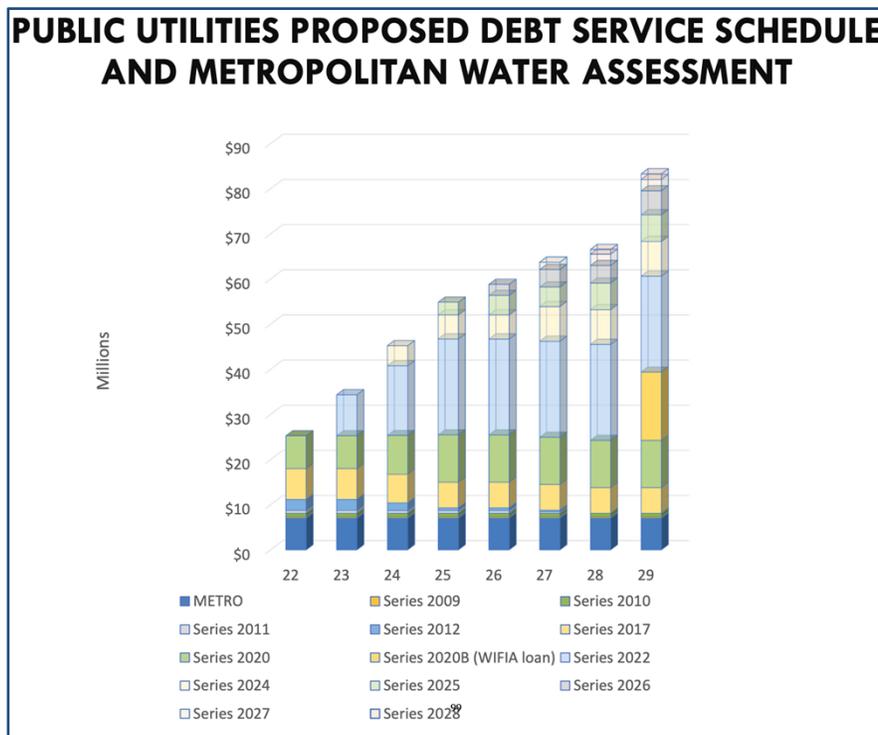
POLICY QUESTIONS

1. Are there more robust measures the City could implement with financial support for customers, in particular with regard to fee increases and the proposed drought surcharge?
2. Council Members might wish to review alternate options for the drought surcharge, or request more information. For example, based on recent years:
 - a) how many accounts do they expect to enter these upper tiers, and
 - b) could customers receiving utility assistance receive a notice upon entering one of these higher blocks before the charge would apply?
 - c) Could customers with multiple households on one utility account (for example, multi-generational households or ADUs where there is not a separate water account) apply for exemptions or another form of relief?

- d) Staff note: the surcharge would be added to the City’s consolidated fee schedule, and as such, would be subject to Council approval each year. However, the Council may wish to ask the department if the intention is to continue this fee in perpetuity or until revenue is recovered.
3. Is there information about the scale of changes being considered for the department’s impact fee update? (These are also sometimes referred to as “connection fees.”) The existing impact fee schedule for the department’s divisions is out of date. The Council may wish to ask the department when an update will be sent to the Council for consideration?
 4. Council Members have received comments and observations from community members and members of the business community regarding the status of the City’s one-stop planning services. What kind of a public facing impact or service level change might the public anticipate with regard to new positions potentially being added and filled, especially in plan review?

MAJOR ITEM DETAIL

Long-term Debt Obligations



This chart from the department’s budget book shows the timing of debt service on bonds and loans. Cash generated from the debt funds capital programs in all four utilities.

Debt service increases notably this fiscal year and in the coming fiscal years . The debt (bonds issued by the City) depicted in the chart above funds massive infrastructure maintenance, upgrades and construction. Staff note: the department has reduced debt used from its own funds by applying for and receiving significant federal grant dollars. The timing of these infrastructure costs is determined partially by regulatory requirements from state and federal governments. Timing is also determined by opportunities to coordinate projects with the City’s

other capital programs such as road reconstruction. The major driver of the utilities' infrastructure programs is maintaining critical service delivery citywide (e.g. water service and stormwater conveyance).

Water Utility

This utility's total expense & other uses budget is proposed at \$177,953,787, a 34% increase over last year's adopted \$132,752,815. The utility proposes to draw down reserves by \$1,316,499 and finish fiscal 2024 with a projected cash balance of \$44,333,726. Its debt service as a percent of gross operating revenue is projected at 10% for the coming year.

Costs related to the Metropolitan Water District of Salt Lake and Sandy will increase by \$524,340, totaling approximately \$25 million between water purchases and an ongoing capital assessment based on historical infrastructure improvements implemented by the district and its member cities.

Major capital projects include dam rehabilitation, water treatment facility upgrades and reconstruction, as well as ongoing water main replacement. Federal grant money allowed the department to use less of its own money on water treatment plant renovations necessary for the upcoming fiscal year. For example, the BRIC (Building Resilient Infrastructure and Communities) grant awarded to the city during the calendar year 2023 will supply \$10,150,000 for treatment plant upgrades at City Creek. Total planned expenditures on water treatment plants during the coming fiscal year figure is \$38,340,000.

Sewer Utility

This utility's total expense & other uses budget is proposed at \$301,787,622, an 18% increase from last year's adopted \$255,914,580. The utility proposes to draw down reserves by \$11,846,444 and finish fiscal 2024 with a projected cash balance of \$73,098,329. Its debt service as a percent of operating revenue is projected at 37% for the coming year. The utility is projected to enter more comfortable debt service coverage by fiscal year 2027.

The wastewater reclamation facility is now anticipated to cost about \$910 million when it's complete circa 2026. This is the major capital focus in this fund, along with sewer line replacement and other infrastructure related to conveyance (e.g. pump stations). From the budget book: "SLCDPU is expanding capacity of the sewer collection system, in large part to meet growth requirements related to the new State Correctional Facility, the Airport expansion, and new development occurring in the Northwest Quadrant of Salt Lake City."

Stormwater Utility

This utility's total expense & other uses budget is proposed at \$22,947,474, a 23% increase from last year's adopted \$18,699,722. The utility proposes to draw down reserves by \$3,081,582 and finish fiscal 2024 with a projected cash balance of \$8,817,003. Its debt service as a percent of operating revenue is projected at 12% for the coming year. This utility is also projected to enter more comfortable debt service coverage by fiscal year 2027.

Street Lighting Utility

This utility's total expense & other uses budget is proposed at \$6,044,149, a 5% increase from last year's adopted \$5,757,825. Contractual obligations in the capital program will cause the actuals for this total in fiscal 2023 to come in around \$5,779,511. The utility proposes to draw down reserves by \$ 1,362,964 and finish fiscal 2024 with a projected cash balance of \$ 3,038,748. Its debt service as a percent of operating revenue is projected at 4.2% for the coming year.