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**Public Utilities
Minutes
May 27, 2004**

The Public Utilities Advisory meeting was held on May 27, 2004 at 7:00 a.m. at 1530 South West Temple, Salt Lake City, Utah. Committee members present were Leland Myers, Michael Polacek, Jan Striefel, Cullen Battle, Nancy Young, Dick Gaddis, Barbara Ishimatsu and Ken Bullock. Public Utilities employees present were LeRoy W. Hooton, Jr., Jeff Niermeyer, Jim Lewis, Bob Sperling, Chuck Call, Tom Ward, Florence Reynolds, Stephanie Duer and Zee Smith. Also in attendance were Jim Schwing CH2MHILL; Mike Collins, Bowen & Collins; Tom Holstrom, The Keith Companies; Jim Olson, Brown & Caldwell; John Carman, Metropolitan Water District of Salt Lake & Sandy; Chris Bramhall, Salt Lake City Attorneys office; Bob Ramsey & Paul Hirst, CRS; Dru Whitlock, Brown & Caldwell and Leon Allen Carollo Engineers.

Approve Minutes of April 29, 2004

Committee member Leland Myers moved and Nancy Young seconded the motion to approve the minutes of the April, 29, 2004 meeting, which motion carried with all members present voting aye.

Financial Report Ending April 30, 2004

Mr. Jim Lewis presented the financial report for the period ending April 30, 2004. Mr. Lewis stated that all three funds are in better shape financially then they were at the end of the summer period. Water and sewer sales improved as we moved into the late fall period. The Department's water delivered to the conduits is 2% higher than last year, which is real close to our original estimates of 8% below our average deliveries. He then presented a slide showing water deliveries by month compared to last year, which showed a major decrease in deliveries during the July period. The chart did show that water deliveries increased to a level above last year for the months of September and October which helped bring delivery numbers up to original forecast. He then presented slides showing water revenue by month over the last five-year periods. He pointed to a drop in revenue for June and July with increases in both August and September. The next slide presented was a comparison with revenue this year to last with a comparison to budget. He stated that water and sewer revenue were higher then last year due to the effect of the 3% water rate and the 9% sewer rate increases. Jim stated that Water sales are about \$500,000 below expectations, Sewer about \$1million and Storm \$160,000 below expectations.

The next slide presented was a comparison with operating costs compared to last year with the expected budget amount. He stated that operation cost for all three funds were below the expected level for this time of year, with water \$2 million better than expectations with Sewer about \$700,000 and Stormwater about \$200,000 better than expectations. The net effect of the revenue shortages and the favorable operating costs will leave a surplus of \$1.5 in water, a deficit of \$300,000 in Sewer and \$40,000 surplus in the Stormwater fund. He stated that our managers should be complemented for a great job of keeping costs down. The last slide presented listed the capital improvements for each of the funds compared to budget. The Water Utility expended over \$9.9 million in capital improvements with \$5.1 million encumbered at the end of December. The Sewer Utility has expended \$7.1 million with \$29.5 million encumbered at the end of the second quarter. The Stormwater Utility had expended \$761,000 with \$9.2 million encumbered to date. He stated that the department is delaying the bid process on the City Creek Treatment Upgrade Project until fall of this year.

Rate Differential Methodology – Jim Lewis

Jim Lewis presented some slides explaining the county rate differential. The slides included some City and County characteristics: Such as the following:

	City	County
Number of Connections	63.14%	36.86%
Annual Revenue	58.61%	41.39%
Water Delivered	67.0%	33%
Maximum Day	65.0%	35%

He then stated some reasons why county customers pay more:

1. Salt Lake City owns the water rights
2. Salt Lake City residents constructed and paid for the major infrastructure in the county service area by property taxes
3. Salt Lake City owns the insurance risk
4. All outstanding debt is in Salt Lake City's name

If so-called "surplus" water rights reverted to the State, then would County rates be lower?

Jim then presented a slide quoting the AWWA Water Rates Manual M1 "Where water service by municipally owned utilities, it is suggested that the basis for rates in those areas should be determined on the "utility" basis. The assumption may be made that the water utility is the property of the citizens within the municipality and the outside users should pay a rate providing for a reasonable return on the value of all property devoted to the service of the user outside the city. The utility approach to measuring revenue requirements is mandated for all investor-owned water utilities and mandated or permitted for government-owned utilities in jurisdictions where the utility is regulated by a utility commission or other regulatory body."

He stated that the “utility” basis is a common method used for determining revenue requirements to be derived from non resident users.

The difference between the “utility” basis and cash basis is as follows:

“Cash” Basis is based on Operating Costs + Capital improvements + Debt Costs

“Utility” Basis is based on Operating Costs + Depreciation + Return on Rate Base

Using actual numbers the county rates calculated under the two rate models would look like this:

“Cash” basis = \$9,051,540 + \$4,214,095 + \$1,422,811 for a total of \$14,688,447

“Utility” basis = \$9,051,540 + 1,697,215 + \$5,820,140 for a total of \$16,568,895

For a difference of \$1,880,448 between the two rate models.

Cullen Battle asked were does the extra \$1.8 million go? Jim stated that it goes into the department cash flow to pay for capital improvements.

Cullen Battle stated since we are an enterprise fund and since this is a rate of return based on the investment the whole city made, should the money go back into the General Fund? The group then discussed how the enterprise fund paid the General Fund for all assets as part of establishing the enterprise fund.

The rate of return is based on a weighted average of Debt and Equity, see the chart below:

	Rate Base	Weight	Return	Rate of Return
Debt	\$ 32,995,000	15.9%	4.94%	0.79%
Equity	\$174,747,668	84.1%	10.17%	8.55%
Total	\$ 207,742,668	100%		9.34%

Jim then presented a chart showing comparable rate of returns which averaged **10.17%** which is the number used to calculate the return on equity presented above.

Cullen Battle asked how often do you review these numbers – Jim stated that every ten years we perform a rate study to review our rates and the rate differential.

Cullen Battle – asked if this rate will be going down with time? Jim stated that the rate is based on the interest rate of our debt which is currently at an all time low and the equity rate which has changed from 13 to 9 percent over the last twenty years.

Cullen stated have we pegged the rate at the lowest water rate level. Jim stated it could go up as interest rates go up and as the department issues more debt. But it also depends on the capital improvement program and the amount of improvements that serve the county customers.

LeRoy stated that it was the intent of Metropolitan Water District at its inception that the county service area would to be annexed into the City resolving he problem of having two different classes of customers. **Cullen Battle stated that it will never happen.**

Jim then went over some basic questions and answers:

1. Why do County customers pay more?

The City owns the water rights and the water system.

2. How much has the city paid in taxes to construct infrastructure in the county?

The city paid \$9 million in 1970's dollars in 4-mill levy to pay for the construction of Parley's and Big Cottonwood Treatment Plants and other capital improvements. Also, the city paid over \$73 million in property taxes to the Metropolitan Water District since 1936.

3. Is the rate differential calculated fairly?

The rate differential is calculated as if the Public Utilities were under the Public Service Commission.

Cullen Battle stated that it is critical that we have a process that we mimic the Public Service Commission calculation in the rate making process. The public does not see all the process that is involved in calculating the rate differential and rate structure. The public needs to understand the process and this committee needs to be more involved to help make **this process more open to the public.**

The committee then recommended that the rates and the rate differential should be reviewed more often.

Crediting a Cooperative Approach to Managing Biosolids – Jim Schwing

Five wastewater utilities in Northern Utah formed a Biosolids Steering Committee to investigate a cooperative approach to managing biosolids produced at their wastewater treatment plants. Biosolids is a byproduct of wastewater treatment and generally is difficult to manage because of availability of land, public perception, regulations and cost. The Biosolids Steering Committee includes Salt Lake City, South Valley Water Reclamation Facility, Central Davis Sewer District, South Davis Sewer District, and Snyderville Basin Water Reclamation District.

Salt Lake City Water Reclamation Plant currently produces a stabilized biosolids suitable for controlled land application as a soil conditioner. This material is currently applied to the Kennecott tailings pond for reclamation. Long-term use of the Kennecott site is uncertain and Salt Lake City desires a long-term reliable program.

The Steering Committee set an objective to "...investigate developing an interagency agreement or agreements to pursue a common site or sites concept (to biosolids management)."

CH2M HILL assisted the committee with evaluating biosolids use or disposal options and identifying potential sites. The result of this work is a recommendation to purchase 7,000 acres of land in Box Elder County for rangeland application and monofilling. Rangeland application would be used by those utilities that produce stabilized biosolids (Salt Lake City, Central Davis County, and South Davis County). The monofill would be used by two utilities that produce an unstabilized product (South Valley and Snyderville Basin). After a three to five year period, the

monofill material could be removed and applied to rangeland or given to the public for use as topsoil. The monofill would be available to all utilities as a backup if future conditions prevent using rangeland application.

The order-of-magnitude capital cost for this program is \$24,000,000 and would be apportioned to the utilities based upon a yet-to-be-determined cost allocation model.

Required steps to make the program a reality includes developing an interlocal agreement and business plan, refining the selected option to get a refined cost estimate, implementing a pro-active public outreach program, refining the boundary of potential site, purchasing site options, conducting due diligence site investigations, identifying state and local permit requirements, and developing a conceptual design specific to the site.

Immediate steps required to move forward include a workshop of representatives of the utility governances to determine the interest in forming an interlocal agreement. If the group is interested in further investigations for an interlocal agreement, then CH2M HILL would assist them with developing the governance provisions and cost allocation method for the agreement. CH2M HILL would also refine the program costs to serve as the basis for the cost allocation method. The estimated cost for this initial work is \$70,000 and Salt Lake City's share would be \$19,600 based upon their biosolids production amount.

Question: Mr. Bullock-Do we have any complaints from private suppliers?

Answer- Mr. Schwing - No there is not a market we are the supplier. We just haul it to Kennecott them and they take it, this is a very economical way to dispose of it.

Question: Mr. Battle - What happens to this stuff if it doesn't go to Kennecott or get used in the manner you are talking about, what do you do with it?

Answer - Mr. Schwing - Well that's the challenge what to do with it if you don't have an outlet like Kennecott.

Question: Mr. Battle - What do other sewer plants do with it?

Answer - Jim Schwing - Several plants have agricultural land next to their property, or compost it or sell it, but composting cost a lot more than the return on it.

Question - Mr. Bullock - Is there a contract with Kennecott?

Answer - Mr. Schwing -Yes I think there is a contract but, it is a contract that can be terminated by either party with a thirty day notice.

Question: Cullen Battle - Do all sewer plants dispose of their biosolids in this manner?

Answer: Jim Schwing - Most do with some sort of land application, some eastern cities incinerate it and land fill the ash.

Question: Mr. Battle -So there is a further waste disposal issue if you don't do something?

Answer: Mr. Schwing - You still have to get rid of biosolids, that's why it such a big challenge.

Leland Myers, in Utah there are three primary methods 1) composting 2) land application under a controlled scenario 3) dispose in land fill.

The PUAC expressed an interest in additional information on regulatory trends, the reuse options considered, and the site selection process. CH2M HILL will present this information at the PUAC Meeting on June 24.

Mr. Niermeyer informed the committee that Salt Lake City's projected water supply is about the same as last year. The months of March, April and May were very poor water producers. The free flowing streams will only produce about 75 percent of normal. The City will have to rely on stored water and increased production from groundwater wells.

It is anticipated that the Provo River Water Users Association will only make a 40 percent water allotment to its shareholders. The Department has been working with Metro to secure additional water on the spot market. It is anticipated that approximately 8,000 ac-ft will be needed.

The 5-year drought has had an effect on Utah Lake. This level this year is slightly better than the level experienced in 1992, when the lake got so low late in August that water no longer could be pumped. This is of great concern again this year. Contingency plans are being prepared to address the potential of the lake being too low to pump in the early fall. The inflow into Utah Lake is projected to be 54 percent of normal.

Stephanie Duer requested that the PUAC approve the creation of a Water Conservation Sub-committee of the PUAC. The purpose of this sub-committee would be to assist in the implementation of the 2004 Water Conservation Master Plan, as articulated in the Plan.

Stephanie Duer presented the following information:

- I. The Water Conservation Sub-committee (PUAC-WCC) would report to the PUAC
 - Proposed Role:
 - i. Assist in plan implementation
 - ii. Assist in initiative evaluation
 - iii. Provide increased dialogue relating to program initiatives
 - iv. Enhance communication between various city departments
 - v. Improve communication with non-city customers through representation
 - Proposed make-up:
 - i. Select representatives of PUAC
 - ii. Department directors or their designees
 - iii. Community representatives
 - iv. Professional/association/organization representatives
 - v. Others
 - vi. Water Conservation Coordinator
 - vii. Water Quality Administrator
 - Schedule:
 - i. Meet monthly

Leland Myers made a motion to follow the Public Utilities recommendation to form a water conservation sub committee, Dick Gaddis seconded the motion with all members present voting aye.

Cullen, Jan, and Ken expressed interest in participating on the sub-committee. Barbara said she would be able to participate during the summer months.

Due to time limitations, the PUAC decided to meet June 3 at noon to finalize committee participants. Cullen, Jan, and Barbara plan on attending. Ken confirmed by phone that he would be attending.

II. Additional Issues:

- Stephanie reported that the state had received the Water Conservation Master Plan, and was told that it was “perfect” by the Water Resources division.
- Stephanie also mentioned some of the programs currently being implemented, including community outreach (through community council meetings and classes); utility participation in two separate research projects relating to water conservation program evaluation (one headed by East Bay MUD and the other by Arizona Water Casa); utility participation in the AWWA Drought Manual re-write; and the resumption of the KRCL water report

Leland Myers made a motion to move to accept the 2004 Water Conservation Master Plan with the above suggestions, and that the Plan be delivered to the Mayor’s office with the recommendation that it be forwarded to the City Council for public hearing and adoption. Dick Gaddis seconded the motion with all members present voting aye.

Adjourn

Committee member Nancy Young moved to adjourn the meeting, Michael Polacek seconded the motion, with all members present voting aye. Meeting adjourned at 9:05 a.m.