

Tab 5

Metropolitan Water District of Salt Lake & Sandy
Board Meeting Information
Last Update: September 11, 2023

Agenda Item: Update on meetings with member cities to discuss FY25 property tax

Background: During the August 7, 2023 work session, the General Manager reported on the property tax process. The FY2024 tentative budget included an increase to the certified tax rate to 0.00035. Based on feedback from both member cities, the District removed the property tax increase from the FY2024 adopted budget. However, the District still has revenue needs due to increasing capital costs and costs from other entities.

Staff analyzed two methods to increase revenue: (1) increase the certified property tax rate to 0.00035 and (2) increase the water rates. The attached memo summarizes this analysis. The member cities have received a copy of the memo.

Meetings have been scheduled with Salt Lake City Public Utilities staff on September 13th and with Sandy City Public Utilities on September 15th. Sessions will be scheduled with the mayors and city councilmembers from both cities in the upcoming months.

The goal is to reach a consensus in early 2024 from both city councils on the proposed property tax increase.

Recommendation: Reporting item.

Attachment:

- Property tax memo

Memo

TO: City Councilmembers
DATE: September 7, 2023
FROM: Metropolitan Water District of Salt Lake & Sandy
SUBJECT: FY25 Proposed Increase to the Certified Tax Rate
CC: MWDSLS Board of Trustees

ISSUES

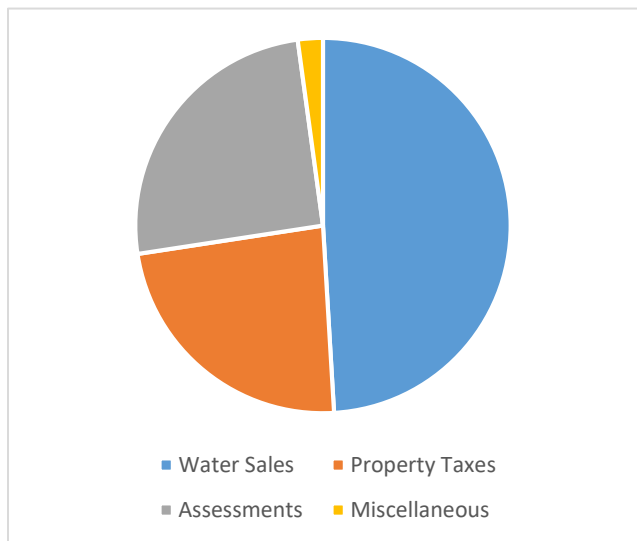
The Metropolitan Water District of Salt Lake & Sandy (“District”) needs revenue.

- Revenue is raised by increasing water rates or property taxes. An increase to water rates is a big hit to the member cities.
- The District does not have a lot of control over the cost increases from other entities (i.e., Central Utah Water Conservancy District, Jordan Valley Water Conservancy District, and Provo River Water Users Association).

BACKGROUND

The Metropolitan Water District of Salt Lake & Sandy is a local district that provides drinking water to Salt Lake City and Sandy City. The District’s board is comprised of seven trustees. The Salt Lake City Council appoints five of the seven trustees. The Sandy City Council appoints two of the trustees.

The District’s three main revenue sources are water sales, property taxes, and assessments. In FY2024, 49.1% of the District’s revenue is received from water sales and 23.5% from property taxes.



FY25 ESCALATING COSTS AND CAPITAL NEEDS FOR AGING INFRASTRUCTURE

The FY2024 budget included a 3% increase to the member cities water sales fixed charge (\$/month) and maintained the certified tax rate. The District’s total FY24 Operations & Maintenance budget increased by 8.23% due to increased chemical costs and employee costs.

The District typically manages increases to the O&M budget through water sales. However, the FY24 budget identified the following escalating capital costs related to vital aging water infrastructure and costs from other water agencies:

Description	Annual Cost	Long-Term Financial Impact
Cottonwoods Connection Project (District/SLC/SC) <u>Purpose:</u> Required project to address aging infrastructure and Salt Lake Aqueduct seismic and other elements of resiliency.	\$2,276,800	\$41.5 Million (repayment of 30 year loan/bond)
Deer Creek Dam Intake Project (PRWUA costs) <u>Purpose:</u> Required project to replace aging dam infrastructure that delivers 85,000 AF of water (80% of water portfolio) to the Salt Lake Valley.	\$1,240,000	\$37 Million (30 years repayment)
Jordan Aqueduct/Jordan Valley Water Treatment Plant Capital and O&M (JWCD costs) <u>Purpose:</u> Address aging infrastructure that delivers water to Northwest quadrant of Salt Lake City.	\$5,023,680 (5 year average)	\$32.5 Million (10 years of capital projects)
Central Utah Project OMR&R (CUWCD costs) <u>Purpose:</u> Expenses related to the District's investment in Central Utah Project water.	\$1,501,500	\$6.9 Million (forecasted target increase)
Total	\$9,371,370	\$117.9 Million

Due to increasing O&M costs, replacement of aging infrastructure, growing capital needs, and escalating costs from other agencies, the District needs to generate more revenue.

REVENUE GOALS AND REQUIREMENTS

When evaluating revenue needs, the following revenue goals and/or requirements are taken into consideration:

- Balance of revenues and expenses.
- Maintain a debt service ratio coverage of 1.25 (policy goal) and 1.15 (by bond covenant).
- Maintain reserve accounts based on bond covenants, contract requirements, and District policy.

REVENUE OPTIONS

The District can increase revenue through property taxes and/or water rates. In order to generate an increase of \$8.6M in revenue in FY25, the District will either increase the certified tax rate to 0.00035 or increase the water sales rate to the member cities by 36.33%. The following analysis explores the two options.

(1) Increase to the Certified Tax Rates

The current certified tax rates for Salt Lake City and Sandy City are 0.000200 and 0.000216 respectively. Fifteen years ago, in 2008, the District increased the certified rate to 0.00035. Over time, the rate has eroded as the value of properties has increased. Since 2008, the District has not implemented a certified rate increase.

As of January 1, 2015 the appointed board of trustees of the Metropolitan Water District of Salt Lake & Sandy must receive approval from their appointed authority to increase the certified tax rate (see code 17B-2a-608(2)). In this case, the city councils from Salt Lake City and Sandy City must authorize a property tax levy that exceeds the certified tax rate for the taxable year. There must be consensus from both councils and each city will be taxed at a uniform and equal rate.

An increase to the certified tax rate increase would offset the need for large water rate increases. Table 1 calculates the annual impact of an increase to the certified tax rate to Sandy City and Salt Lake City property owners. On average, a property owner in the Metropolitan Water District of Salt Lake & Sandy’s service area would see an annual property tax increase of \$47.00.

Table 1: Annual impact of property tax increase to Property Owner

City	2023 Tax Year Certified Tax Rate	Proposed Certified Tax Rate	Percent Increase	Taxable Home Value (55% of medium home value)	Annual Increase to property owner	Monthly increase
Sandy City	0.000216	0.00035	62.04%	\$345,400	\$46.28	\$3.86
Salt Lake City	0.000200	0.00035	75.00%	\$316,800	\$47.52	\$3.96

Attachment A illustrates the 5-year financial impact of a property tax increase. In this scenario, the District maintains a positive net revenue for recurring revenues/expenses. The debt service ratio also meets the minimum requirements.

Table 2 represents the net revenue generated from the certified tax rate increase. The District would receive an additional \$8.6 million in tax revenue. Table 2 also shows the estimated tax revenue from each member city.

Table 2: Dollar amount generated from an increase in the certified tax rate

City	2023 Tax Year Certified Tax Rate	2023 Tax Revenue	Proposed Certified Tax Rate	Estimated 2024 Tax Revenue	Net Revenue Increase
Sandy City	0.000216	\$3,010,170	0.00035	\$ 4,877,590	\$1,867,420
Salt Lake City	0.000200	\$9,030,509	0.00035	\$15,802,603	\$6,772,094
Total MWDSLS Taxes		\$12,040,679	0.00035	\$20,680,193	\$8,639,514

(2) Increase to Water Rates

If either council does not approve an increase to the certified tax rate, then the District recommends an increase to the water rate. The rate must be uniformly applied to all cities comprising this District. The FY24 budget includes a 3% water rate increase; however, this percentage would increase to 36.33% in FY25 in order to generate a revenue increase of \$8.6M. Table 3 represents the current water sales revenue and the projected water rate increase needed to meet the District’s revenue needs.

Table 3: Dollar amount generated from an increase to water rates

City	FY24 Water Sales Revenue	Percent Increase	Estimated FY25 Water Sales Revenue	Net Revenue Increase
Sandy City	\$ 6,658,388	36.33%	\$ 9,077,381	\$2,418,993
Salt Lake City	\$17,121,570	36.33%	\$23,341,836	\$6,220,266
Total MWDSLS Water Sales to Member Cities	\$23,779,958	36.33%	\$32,419,217	\$8,639,259

Attachment B illustrates the 5-year financial impact of at 36.33% water rate increase in FY25. In this scenario, the District maintains a positive net revenue for recurring revenues/expenses and the debt service ratio meets the minimum requirements.

TIMING AND DECISION OF THE INCREASE TO THE CERTIFIED TAX RATE

Consistent with current statute, increasing the certified tax rate requires approval by “the legislative body of each municipality that appoints a member to the board of trustees under Section 17B-2a-604” (17B-2a-608). The timing of this approval needs to occur before the statutory deadline of June 22, 2024.

As early as January of 2024, the councils from both member cities will need to arrive at a consensus on the District’s request to increase the certified tax rate to 0.00035. The decision will guide the District’s budget preparation.

The District adheres to the following budget schedule:

- **March:** Work session discussion on budget. Open public meeting for public comments and input.
- **April:** Board approval of the tentative budget. Open public meeting for public comments and input.
- **April-May timeframe:** Meetings with city councils to present tentative budget and address any concerns.
- **May:** Tentative budget public hearing for the water rate increase
- **June:** Approval of the tentative budget that was previously approved, unless an increase to the certified tax rate is being proposed.
- **August:** Adoption of any increase to the certified tax rate

With the approval of both city councils, the certified rate would increase as budgeted and be formally adopted after a Truth in Taxation hearing in August. Otherwise, the existing certified rate would be adopted in June.

Without a certified rate increase in FY25, the District will need to pursue a water rate increase above that which has previously been forecasted to member cities to meet the District’s financial obligations.

Attachment A

Property Tax Increase (.00035); Water Rate Increase 3%/yr (\$8,639,514)

	2024	2025	2026	2027	2028	2029
Recurring Revenues						
Water Sales to member cities	\$ 23,779,958	\$ 24,493,357	\$ 25,228,157	\$ 25,985,002	\$ 26,764,552	\$ 27,567,489
Water sales to others	1,333,278	87,000	87,000	87,000	87,000	87,000
Revenue from ODT water	209,081	121,608	112,157	227,454	276,766	327,414
Property Taxes	12,040,679	20,680,193	20,680,193	20,680,193	20,680,193	20,680,193
Assessments	12,721,539	21,024,369	23,477,894	14,818,837	14,809,114	14,795,592
TOTAL	\$ 50,084,535	\$ 66,406,527	\$ 69,585,401	\$ 61,798,486	\$ 62,617,625	\$ 63,457,688
Recurring Expenses						
Operations and Maintenance (3% Annual Increase)	\$ 20,459,164	\$ 21,030,110	\$ 21,622,893	\$ 22,602,759	\$ 23,351,383	\$ 24,123,252
PRWUA O&M	4,244,885	4,415,061	4,585,633	4,392,023	4,453,242	4,515,512
O&M for CUP and ULS Water	1,501,500	1,617,000	1,732,500	1,834,833	1,943,172	1,809,419
Central Utah Project allotment payment	2,971,200	2,971,200	2,971,200	2,971,200	2,971,200	2,971,200
Water Purchase (CUP ULS Petition)	844,223	844,223	844,223	844,223	844,223	844,223
Debt Service	17,031,648	20,848,522	20,875,308	21,071,172	20,900,470	20,888,386
TOTAL	\$ 47,052,620	\$ 51,726,116	\$ 52,631,757	\$ 53,716,210	\$ 54,463,690	\$ 55,151,992
NET REVENUES	\$ 3,031,916	\$ 14,680,411	\$ 16,953,645	\$ 8,082,276	\$ 8,153,935	\$ 8,305,696

	2024	2025	2026	2027	2028	2029
Non-Recurring Revenue						
Miscellaneous revenue	1,105,537	987,886	1,110,196	692,536	660,119	605,054
Bond Proceeds or Loans	-	41,500,000	-	-	-	-
TOTAL	\$ 1,105,537	\$ 42,487,886	\$ 1,110,196	\$ 692,536	\$ 660,119	\$ 605,054
Non-recurring Expenses						
Non-routine O&M	\$ 965,443	\$ 781,000	\$ 896,000	\$ 872,000	\$ 910,000	\$ 875,000
Capacity Improvements Projects	7,272,721	10,130,406	12,531,259	2,000,000	2,000,000	2,000,000
Non-capacity Improvement Projects	2,400,873	18,623,494	29,375,041	3,847,120	3,320,700	5,972,000
Jordan Aqueduct System & 150th South Pipeline	2,974,643	10,011,671	6,974,186	1,878,718	3,279,183	3,664,934
TOTAL	\$ 13,613,680	\$ 39,546,571	\$ 49,776,486	\$ 8,597,838	\$ 9,509,883	\$ 12,511,934

Recurring plus Non-Recurring Revenue	\$ 51,190,072	\$ 108,894,413	\$ 70,695,597	\$ 62,491,022	\$ 63,277,744	\$ 64,062,742
Recurring plus Non-Recurring Expenses	\$ 60,666,300	\$ 91,272,687	\$ 102,408,243	\$ 62,314,048	\$ 63,973,573	\$ 67,663,926
Revenue minus expenses	\$ (9,476,227)	\$ 17,621,726	\$ (31,712,645)	\$ 176,974	\$ (695,829)	\$ (3,601,184)
Available Reserves	\$ 53,957,597	\$ 73,400,482	\$ 43,804,357	\$ 44,473,806	\$ 43,957,602	\$ 40,335,388
Restricted Reserves - Total	7,543,983	7,713,330	7,963,118	8,180,611	8,421,023	8,650,898
Assigned Reserves - Total	22,602,275	17,575,894	10,870,340	10,391,680	9,616,042	9,768,286
Unassigned Reserves	23,811,339	48,111,257	24,970,899	25,901,516	25,920,537	21,916,204
Debit Service Ratio	1.41	2.32	2.11	1.56	1.57	1.57

Attachment B

Water Rate Increase to equal a 0.00035 tax increase (\$8,639,514)

	2024	2025	2026	2027	2028	2029
Recurring Revenues						
Water Sales to member cities	\$ 23,779,958	\$ 32,419,217	\$ 33,391,793	\$ 34,393,547	\$ 35,425,353	\$ 36,488,114
Water sales to others	1,333,278	87,000	87,000	87,000	87,000	87,000
Revenue from ODT water	209,081	121,608	112,157	227,454	276,766	327,414
Property Taxes	12,040,679	12,040,679	12,040,679	12,040,679	12,040,679	12,040,679
Assessments	12,721,539	21,024,369	23,477,894	14,818,837	14,809,114	14,795,592
TOTAL	\$ 50,084,535	\$ 65,692,873	\$ 69,109,523	\$ 61,567,517	\$ 62,638,912	\$ 63,738,799
Recurring Expenses						
Operations and Maintenance (3% Annual Increase)	\$ 20,459,164	\$ 21,030,110	\$ 21,622,893	\$ 22,602,759	\$ 23,351,383	\$ 24,123,252
PRWUA O&M	4,244,885	4,415,061	4,585,633	4,392,023	4,453,242	4,515,512
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Central Utah Project allotment payment	2,971,200	2,971,200	2,971,200	2,971,200	2,971,200	2,971,200
Water Purchase (CUP ULS Petition)	844,223	844,223	844,223	844,223	844,223	844,223
Debt Service	17,031,648	20,848,522	20,875,308	21,071,172	20,900,470	20,888,386
TOTAL	\$ 47,052,620	\$ 51,726,116	\$ 52,631,757	\$ 53,716,210	\$ 54,463,690	\$ 55,151,992
NET REVENUES	\$ 3,031,916	\$ 13,966,757	\$ 16,477,766	\$ 7,851,307	\$ 8,175,223	\$ 8,586,807

	2024	2025	2026	2027	2028	2029
Non-Recurring Revenue						
Miscellaneous revenue	1,105,537	987,886	1,110,196	692,536	660,119	605,054
Bond Proceeds or Loans	-	41,500,000	-	-	-	-
TOTAL	\$ 1,105,537	\$ 42,487,886	\$ 1,110,196	\$ 692,536	\$ 660,119	\$ 605,054
Non-recurring Expenses						
Non-routine O&M	\$ 965,443	\$ 781,000	\$ 896,000	\$ 872,000	\$ 910,000	\$ 875,000
Capacity Improvements Projects	7,272,721	10,130,406	12,531,259	2,000,000	2,000,000	2,000,000
Non-capacity Improvement Projects	2,400,873	18,623,494	29,375,041	3,847,120	3,320,700	5,972,000
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TOTAL	\$ 13,613,680	\$ 39,546,571	\$ 49,776,486	\$ 8,597,838	\$ 9,509,883	\$ 12,511,934

Recurring plus Non-Recurring Revenue	\$ 51,190,072	\$ 108,180,759	\$ 70,219,719	\$ 62,260,053	\$ 63,299,031	\$ 64,343,853
Recurring plus Non-Recurring Expenses	\$ 60,666,300	\$ 91,272,687	\$ 102,408,243	\$ 62,314,048	\$ 63,973,573	\$ 67,663,926
Revenue minus expenses	\$ (9,476,227)	\$ 16,908,072	\$ (32,188,524)	\$ (53,995)	\$ (674,541)	\$ (3,320,073)
Available Reserves	\$ 53,957,597	\$ 72,686,828	\$ 42,603,377	\$ 43,022,592	\$ 42,504,395	\$ 39,139,981
Restricted Reserves - Total	7,543,983	7,713,330	7,963,118	8,180,611	8,421,023	8,650,898
Assigned Reserves - Total	22,602,275	17,575,894	10,870,340	10,391,680	9,616,042	9,768,286
Unassigned Reserves	23,811,339	47,397,603	23,769,919	24,450,301	24,467,330	20,720,797
Debit Service Ratio	1.41	2.29	2.08	1.55	1.57	1.58