



Alta Town Council
Staff Report: Water Fund Debt to General Fund
November 1, 2023

According to our General Ledger, the Water Fund owes the General Fund \$368,370. Steve Rowley has recommended the Council decide how we want to treat the debt, so we can account for the debt properly.

The following information and options are being presented for consideration and discussion by the council. These options are illustrative and should not be seen as limiting the council's decision.

This section of Utah Code has been used to guide the options:
<https://le.utah.gov/xcode/Title10/Chapter5/10-5-S120.html>

A bit of background...

The records are ambiguous as the debt built up over many years. It likely accrued from water infrastructure maintenance expenses paid out of the general fund without a corresponding transfer from the water fund to cover those expenses. Some years saw an increase of \$50,000 to \$100,000. In the Town's accounting system, the expenses were appropriately coded to the water fund so the budget seemed in order, but the proper procedures were not followed to reimburse the general fund to costs paid out of the general fund checking account on behalf of the water fund. Although temporary borrowings between funds of a town or city is not unusual, long-term balances should have been addressed more formally, which may have included a formal resolution, written terms of the debt, transfer, and/or a public hearing to approve. Because of the lack of detailed information in the accounting records or other documentation, we were required to make some assumptions about how and why the "debt" was incurred.

What is clear is that a repayment schedule for the debt was never detailed or memorialized and hence the debt remains on the Town's records until a decision is made on what should be done.

The Water Fund is an enterprise fund meaning it is a payment for usage fund. Only consumers of the town's water system are charged. Each year staff identifies the total direct and indirect costs to provide the service and calculate sources and amounts of revenue that are needed to pay for that service. As mentioned previously, the debt repayment terms were not formalized, and therefore neither repayment nor the necessary entries to transfer the borrowed funds were entered in the past, and we have not included any loan repayment costs in our budget calculations in the past 2 years. This means that the current water rates do not reflect amounts to cover repayment of the debt, and

therefore, we have been undercharging water customers since the initial debt was first incurred 30+ years ago.

Inside the Town of Alta municipal boundary, we have constituents on 2 different culinary water systems (Town of Alta and Service Area #3), and those outside the Town's culinary water system (namely Albion Basin). This means we have some residents (those in the service area and outside the Town's boundary area) that pay into and benefit from the general fund but do not support or receive services from the water fund.

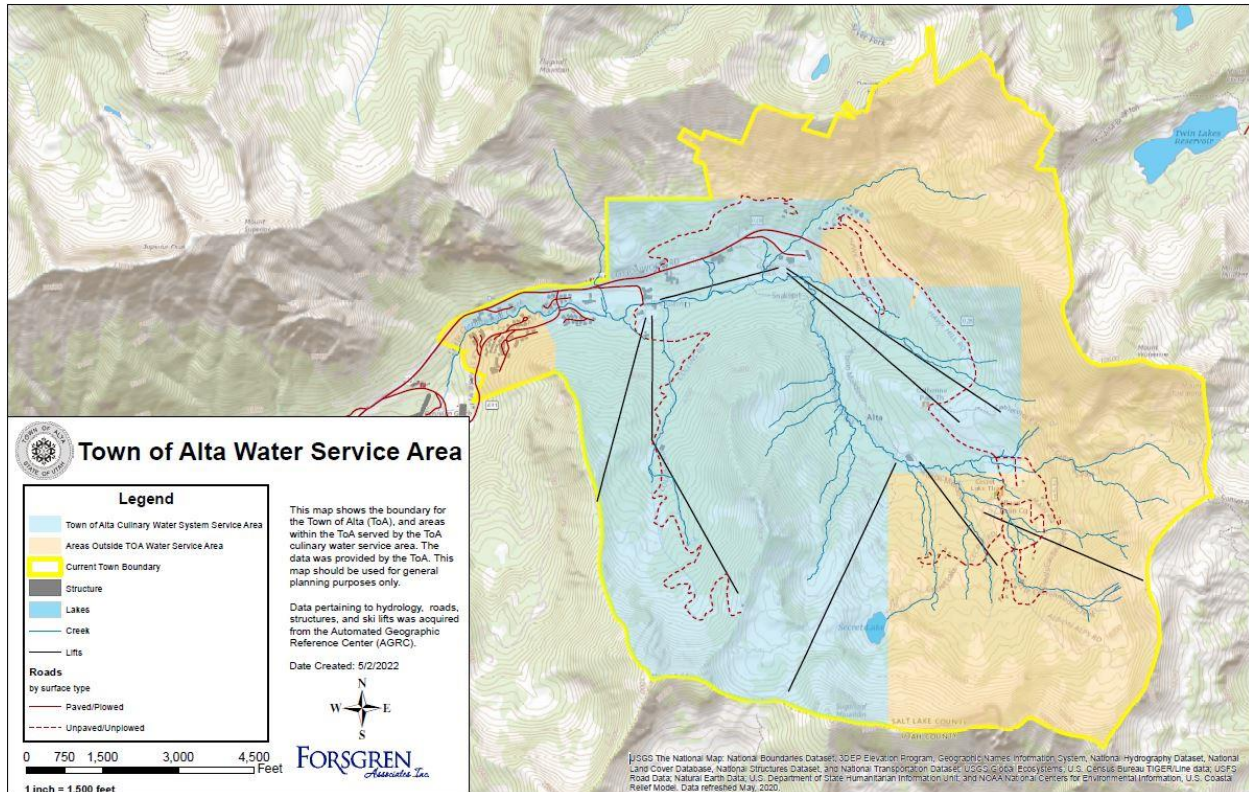


Figure 1: The bright yellow outline represents the Town of Alta municipal boundary. The blue area generally represents the portion of Town served by the Town's culinary water system. The areas in yellow are not served by the Town's culinary water system.

Accounting standards for governments (the Government Accounting Standards Board Statement No. 34), states that “if repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan.” Therefore, the town has three options: repay the loan, “forgive” the debt and treat it as a transfer, or a combination of the two.

Option 1: Pay the debt off through a defined term loan.

Councilmembers could take the position to repay the debt. Councilmembers could assume the entries as debt were indeed the intent, regardless of how or when the debt happened, and that it's the water fund's responsibility to make the general fund whole again. If the council decides to repay the debt, then there should a payment plan put in

place. The good news is that under Utah code ([UCA 10-5-120 \(6\)\(a\)](#)), interest does not need to be included and the maximum repayment term of 10 years doesn't apply because this was a loan from the general fund to another fund of the Town.

If the council chooses the repayment option, then staff recommends one annual payment from the water fund to the general fund to pay down the debt over time. This would easily be tracked over time using the balance sheet and could be initiated with the FY25 Budget.

Annual Payment Options			
Years to Pay off Debt	Annual Payment	Annual Amt Per Year Per ECU	The annual payment as a % of FY23 water fund expenses (\$395k)
10	\$35,837	\$142	9%
15	\$23,891	\$95	6%
20	\$17,919	\$71	5%

As an example, if the \$35,837 annual payment option is selected then that amount would be included in the water fund's annual budget - which determines the amount of revenue necessary to operate the water system. Each water system user is assigned an equivalent capacity unit (ECU) value, which is defined as a unit reflecting that part of the capacity of the water system necessary to serve a standard water customer. All single-family residential buildings are assigned an ECU value of 1.25 and all other buildings ECU values are assigned using the table in the water rates resolution. If the council chooses to pay off the debt over 10 years in equal installments, then each residential property would pay an additional \$177 per year for the life of the debt. For reference, this would result in a 12.5% increase to the current 2024 water rates.

How would the payment affect residential customers?				
Years	Amt Per Residential Unit / Year (1.25 ECU)	Current Annual Water Pymt	New Water Pymt	Increase
10	\$177	\$1,416	\$1,593	13%
15	\$118	\$1,416	\$1,534	8%
20	\$89	\$1,416	\$1,504	6%

How would the payment affect the avg. commercial customer? (ECU 24.98)				
Years	Amount for the Avg Hotel / Year	Current Annual Water Pymt	New Water Pymt	Increase
10	\$3,544	\$28,288	\$31,832	13%
15	\$2,363	\$28,288	\$30,651	8%
20	\$1,772	\$28,288	\$30,060	6%

Options 2: Forgive the debt

Councilmembers could take the position to forgive the debt and report it as a transfer. This debt built up over the course of 30+ years. On an annual basis the average contribution to the debt represents a minimal portion of the general fund's budget ($\$368,370 / 30 \text{ years} = \$12,279$ per year on average). It could be said that the Town and Water Fund have learned a valuable lesson here and that the mistake will not be repeated. While the total sum of the debt is notable, when one considers that it grew over such a long time it diminishes the effect. Some may feel that charging current and future users of the water system who may not have been users of the water system when the debt was incurred for what is in effect Town of Alta procedural error may be unfair. Writing off the debt would be more beneficial to the current and future water system users than it would be detrimental to the general fund and those who have contributed to it over the years.

If the council decides to forgive the loan, Town staff would present a budget amendment to record the transaction as a transfer from the General Fund to the Water Fund, which would require a budget amendment hearing, and ultimately an approving vote from the Town council.

Option 3: A Combination Approach – Forgive a portion (such as half) of the loan and require repayment of the rest.

This approach recognizes both options above and tries to find some middle ground.