

A Performance Audit of the

Salt Lake City Public Utilities

A Review of Water and Sewer
Planning, Funding, and Rate Setting

Office of the Legislative
Auditor General

Report to the UTAH LEGISLATURE







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09/15/2026

TO: THE UTAH STATE LEGISLATURE

Transmitted herewith is our report:

A Performance Audit of Salt Lake City Public Utilities: A Review of Water and Sewer
Planning, Funding, and Rate Setting

An audit summary is found at the front of the report. The scope and objectives of the audit are included in the audit summary. In addition, each chapter has a corresponding chapter summary found at its beginning.

[Utah Code 36-12-15.3\(2\)](#) requires the Office of the Legislative Auditor General to designate an audited entity's chief officer. Therefore, the designated chief officer for the entity is Laura Briefer. Laura Briefer has been notified that they must comply with the audit response and reporting requirements as outlined in this section of *Utah Code*.

We will be happy to meet with appropriate legislative committees, individual legislators, and other state officials to discuss any item contained in the report in order to facilitate the implementation of the recommendations.

Sincerely,

Kade R. Minchey, CIA, CFE

Auditor General

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AUDIT

Independent, objective, evidence-based reviews that identify opportunities to strengthen performance, accountability, efficiency, and outcomes.

LEAD

A high standard for audit excellence: continuously improving our methods, embracing innovation, and applying the most effective tools and techniques available.

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Every engagement approached with determination, professionalism, and a commitment to overcoming challenges in pursuit of meaningful improvements.

***Audit. Lead. Achieve.** These principles reflect both what we do and how we do it. We believe every organization can improve, and we can help. Our goal is to provide decision-makers with actionable information that supports continuous improvement, informed governance, and long-term success. To meet this goal, our findings must be objective, independent, and grounded in evidence. We design recommendations to be constructive, practical, and focused on helping organizations build upon their strengths. Our audits are designed to help policymakers better serve the people of Utah.*

What Salt Lake City Public Utilities Is Doing Well

SLCDPU is taking steps to prepare for the future. The department has invested in major infrastructure improvements, is planning for future capital needs, and has already begun adjusting rates and studying additional options to address increasing costs. The utility is also modernizing operations through a new billing system and improved metering practices. Additionally, our audit found no evidence that enterprise funds were used inappropriately.

How This Report Supports Improvement

This report is intended to support SLCDPU's ongoing efforts to provide reliable water and sewer service. The recommendations focus on improving long-term financial planning, evaluating funding and governance options, strengthening sewer billing methodologies, and enhancing customer data systems. These improvements can help SLCDPU better plan for future infrastructure needs, improve transparency, and support informed decision-making.

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PERFORMANCE AUDIT

A Performance Audit of Salt Lake City Public Utilities

AUDIT REQUEST

The Legislature prioritized an audit of the Salt Lake City Department of Public Utilities (SLCDPU) in October 2025. The request specifically pointed out large billing increases for non-residential customers.



KEY FINDINGS

- ✓ Governance and Revenue Constraints Limit Public Utilities' Long-Term Financial Sustainability
- ✓ The 70% RTS Methodology Resulted in Significant Bill Increases for Some Non-Residential Customers
- ✓ Customer Data Quality Limits SLCDPU's Ability to Evaluate Billing Outcomes

BACKGROUND

The Salt Lake City Department of Public Utilities (SLCDPU) provides essential water and sewer services but faces significant long-term financial challenges. SLCDPU has long struggled with matching income and rates to its costs. Infrastructure projects cost hundreds of millions of dollars and rates need to be affordable for customers. These two issues create real challenges for the city.



RECOMMENDATIONS

- ✓ **Recommendation 1.1 (Leadership)**
The Salt Lake City Department of Public Utilities should formally ask the Salt Lake City Mayor and City Council to consider funding changes needed for long-term financial sustainability, including a dedicated property-tax-supported revenue tool or comparable stabilization mechanism.
- ✓ **Recommendation 1.2 (Leadership)**
If the current city governance structure cannot provide sufficient financial stability, the Salt Lake City Department of Public Utilities should formally ask the Salt Lake City Mayor and City Council to evaluate alternative governance models, including an independent water and sewer district or similar entity.
- ✓ **Recommendation 2.1 (Structure)**
The Salt Lake City Department of Public Utilities should develop, document, and periodically evaluate the methodology used to estimate sewer flow for non-residential customers. The evaluation should assess whether the methodology reasonably reflects actual customer usage patterns and whether modifications are needed to improve billing accuracy and equity.
- ✓ **Recommendation 2.2 (Process)**
The Salt Lake City Department of Public Utilities should use its new billing system to improve billing accuracy, transparency, and equity. The system should capture the customer data, meter information, billing adjustments, and reporting needed to evaluate billing outcomes and identify customers affected by current rate methodologies.

REPORT SUMMARY

Governance and Revenue Constraints

The audit found that the utility's current governance and funding structure may limit its ability to reliably plan for and finance major infrastructure needs. SLCDPU has incurred substantial debt to replace aging infrastructure and expects additional large capital investments in the future. However, as an enterprise fund, it relies primarily on rates and fees and does not directly control many key financial decisions, including rate changes and other major funding mechanisms.

Sewer Billing

The audit also reviewed recent sewer billing changes. In 2025, SLCDPU replaced its previous non-residential sewer billing methodology with a uniform 70 percent return-to-sewer assumption. The audit found that this change resulted in substantial bill increases for some customers and that SLCDPU had not demonstrated that the methodology was sufficiently analyzed, documented, or validated before implementation. In addition, limitations in customer and billing data make it difficult for SLCDPU to assess the full impact of the change. The audit recommends that Public Utilities develop and periodically evaluate its methodology for estimating sewer usage and use its new billing system to improve data quality, billing transparency, and the ability to evaluate customer impacts.

Figure 1.1 Public Utilities Debt Obligations Exceed Operating Income and Cash Flow
In. SLCDPU is working on additional rate adjustments to better address its needs.

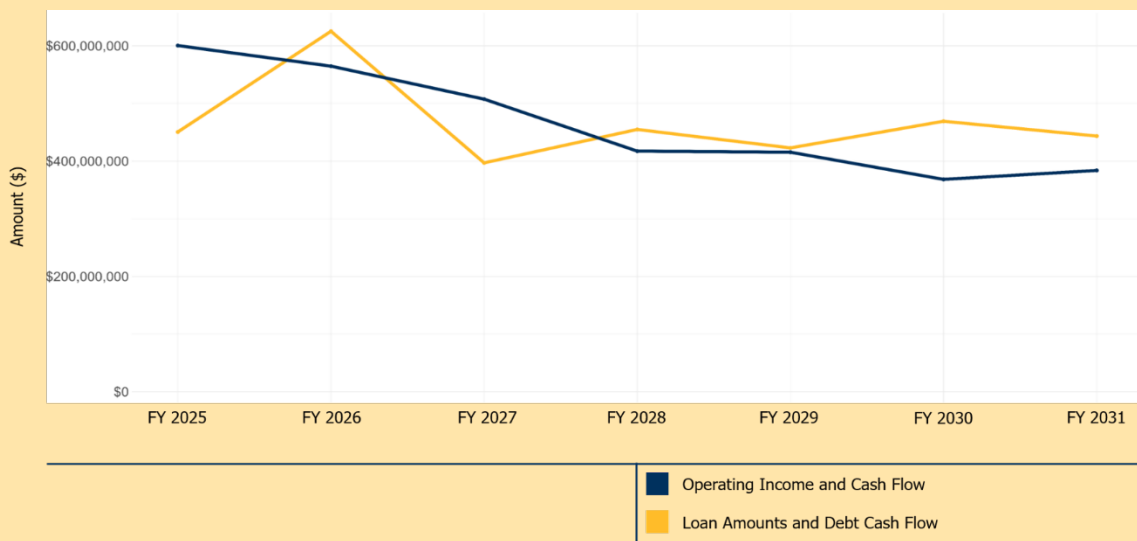


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BACKGROUND

Salt Lake City Department of Public Utilities (SLCDPU) faces significant long-term infrastructure needs, including recently completed water-treatment infrastructure and anticipated future capital investments. SLCDPU has studied its financial needs and implemented rate increases, but projected costs continue to exceed available revenue under current assumptions. As an enterprise fund, Public Utilities relies primarily on rates and fees to support operations, debt service, and future capital investments.

FINDING 1.1

**Governance and Revenue
Constraints Limit Public Utilities'
Long-Term Financial Sustainability**

RECOMMENDATION 1.1

SLCDPU should formally ask the Salt Lake City Council to consider funding changes needed for long-term financial sustainability, including a dedicated property-tax-supported revenue tool or comparable stabilization mechanism.

RECOMMENDATION 1.2

If the current city governance structure cannot provide sufficient financial stability, SLCDPU and the City Council should evaluate alternative governance models, including an independent water and sewer district or similar entity.



CONCLUSION

SLCDPU is taking steps to address future needs through planning efforts, infrastructure investment, and additional rate adjustments. However, the audit concludes that long-term financial sustainability may require broader consideration of funding mechanisms and governance options. Public Utilities and city leadership should evaluate available options and develop a demonstrated plan to support future infrastructure, debt obligations, and utility operations.





Chapter 1

Salt Lake City Public Utilities Must Implement Long-Range Strategies for Success

1.1 Governance and Revenue Constraints Limit Public Utilities' Long-Term Financial Sustainability

Salt Lake City (SLC or the city) must modify the Salt Lake City Department of Public Utilities' (SLCDPU or Public Utilities) governance and funding structures to be able to plan and pay for the future. Public Utilities has had to take out significant debt, over \$600 million to update infrastructure. This debt was assumed with no feasible plan to pay it and future debt off.

In fact, Public Utilities has been implementing short-term plans that have resulted in significant increases in sewer rates for non-residential customers. One such customer, discussed further in Chapter 2, saw increases of nearly 200% when a new rate structure was applied.

Within the next 10 years, SLCDPU expects to need a second facility that will likely cost a similar amount. Public Utilities expects similar capital costs to continue as infrastructure across the system ages and requires replacement rather than repair. To start the process, SLCDPU has studied and raised its rates, but those will not be enough to cover increasing costs. This chapter will offer some options that will help Public Utilities plan and pay for the future. The city must be open to fair but sufficient changes to continue providing its citizens with vital services.

Without a Strong Plan, Public Utilities Has Raised Rates But Has Not Addressed Funding Concerns

In Fiscal Year 2025, SLCDPU changed its rate structure for customers. This has resulted in increased revenues.¹ This increase was essentially its only option because Public Utilities relies mainly on rates and fees to cover its costs. However, regardless of new rates, its current structure soon won't be able to pay for upcoming debt service costs or additional debts SLCDPU expects to take on.² Ideally, rate-setting, and long-term plans should generate enough predictable revenue to cover the full cost of service.

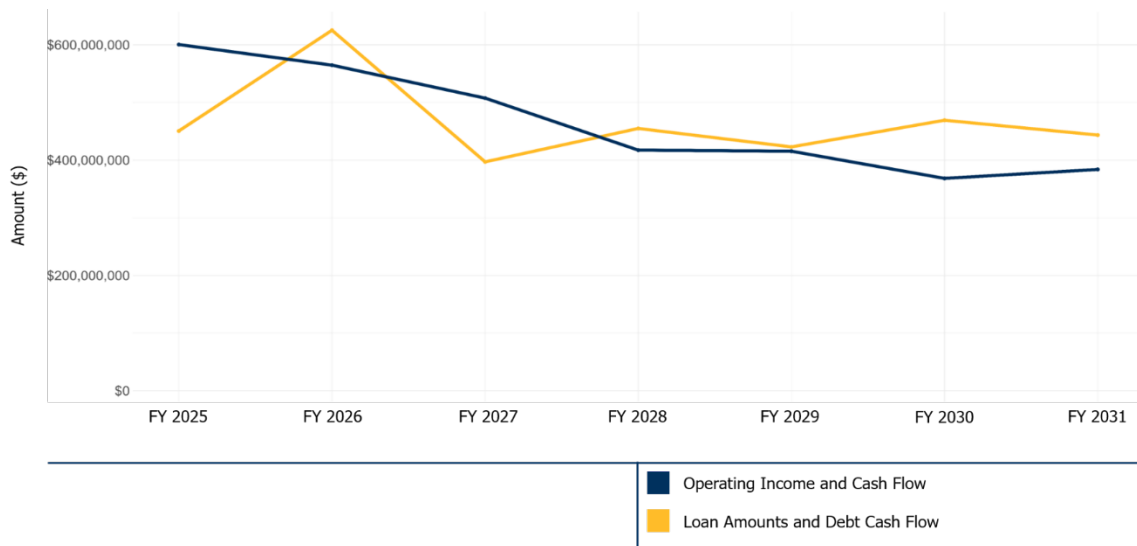
¹ This rate change will be further addressed in Chapter 2.

² Public Utilities is an enterprise fund. "Enterprise fund" means a fund as defined by the Governmental Accounting Standards Board that is used by a municipality to report an activity for which a fee is charged to users for goods or services



Currently, SLCDPU's revenue doesn't reliably cover its full cost of service, even though they have increased rates.³ As of 2026, SLCPUD is in "the negative" with its income versus its debt payments. In other words, they will not be able to pay their debt. This can clearly be seen in Figure 1.1.

Figure 1.1 Public Utilities Debt Obligations Exceed Operating Income and Cash Flow
In. SLCDPU is working on additional rate adjustments to better address its needs.



Source: Auditor analysis of SLCDPU water and sewer data combined.

As the figure shows, covering its existing costs will continue to be a challenge for SLCDPU. Included in these costs, in 2026, Public Utilities completed construction of a wastewater treatment plant that cost \$850 million. Compounding the problem, in coming years, they anticipate replacing a second wastewater treatment plant for a similar amount. This means the graph in Figure 1.1 becomes more extreme, and it appears budget constraints will require that Public Utilities take on more debt and seek out grants for new projects.

³ Our concerns with SLCDPU's recent rate-setting process will be addressed in Chapter 2.



SLCDPU Does Not Have Authority Over Its Long-Term Financial Decisions

While Public Utilities attempts to plan for long-term success, long-range financial planning is inherently uncertain. Inflation, evolving financial conditions, and the need for mayoral approval⁴ of major financial tools, such as rate changes and reserve policies, can limit the utility's ability to fully implement plans as originally designed.



Although Public Utilities is funded primarily through user fees and charges, budget and rate decisions are weighed against other citywide priorities as the City Council balances essential services and available resources across the city.

Public Utilities leadership has not requested that the City Council consider important changes to SLCDPU's revenue structure to ensure long-term financial stability. For example, Public Utilities has not taken a proposal to the Council to consider levying a property tax on residents to ensure income, regardless of revenue collected from rates. Although Public Utilities is funded primarily through user fees and charges, budget and rate decisions are weighed against other citywide priorities as the City Council balances essential services and available resources across the city.

For example, in 2026, the city increased property taxes by 12.5% to support citywide needs. However, because Public Utilities operates through restricted enterprise funds, none of that additional revenue went to support the utility.

We believe the varied concerns do not take away SLCDPU leadership's responsibility to advocate for change. SLCDPU leadership reports speaking to individual council members about the possibility of a property tax for utilities. However, when the council didn't express interest in that option, the idea was dropped.

The Mayor and City Council Options Could Stabilize Utility Funding

Public Utilities should ensure that the City Council is informed of all funding options available to enterprise funds. This could include SLCDPU and the Council exploring the option to impose a dedicated property-tax-supported revenue mechanism, and a comparable stabilization tool for non-residents to meet long-term infrastructure investment, debt service, regulatory compliance, and full cost recovery needs.

If SLCDPU and the City Council determine that a property tax isn't a feasible option within the current city governance structure, then other options could be considered.

⁴ Public Utilities takes its plans and budgets to the mayor, who then approves them being brought to the City Council.



For example, SLCDPU and the Council could explore whether Public Utilities would be more financially sustainable as an independent water and sewer district or similar entity. That review should address legal, financial, and operational issues and determine whether more decision-making authority would help align revenues with long-term infrastructure needs.

Research on utility governance suggests that independent authorities and special districts may provide greater autonomy in decision-making and flexibility in spending, including decisions related to rates, revenues, and long-term infrastructure investments. As a result, an independent district model could provide another way to align utility revenues, expenditures, and infrastructure needs

However, creating or transferring functions to a district would be a major policy choice and would require careful legal, financial, operational, and public accountability analysis.



An independent board sets fees and, importantly, can utilize property taxes. That structure lets the district focus directly on utility operations, regulatory compliance, and long-term planning.

Other water and sewer utilities use different governance models. Some cities, including Provo and Layton, keep utilities inside city government like SLC. Others use special districts or regional authorities with more control over rates, revenue, and financial planning.

In Utah, the Granger-Hunter Improvement District provides water and sewer service to West Valley City residents. An independent board sets fees and, importantly, can utilize property taxes. That structure lets the district focus directly on utility operations, regulatory compliance, and long-term planning.

Several large utilities, including Denver Water, DC Water, and Louisville Water Company, operate under governance structures that are separate from traditional municipal department models and are overseen by utility-focused governing boards. This could be an option for Salt Lake City Public Utilities as well.



RECOMMENDATION 1.1

The Salt Lake City Department of Public Utilities should formally ask the Salt Lake City Mayor and City Council to consider funding changes needed for long-term financial sustainability, including a dedicated property-tax-supported revenue tool or comparable stabilization mechanism.

RECOMMENDATION 1.2

If the current city governance structure cannot provide sufficient financial stability, the Salt Lake City Department of Public Utilities should formally ask the Salt Lake City Mayor and City Council to evaluate alternative governance models, including an independent water and sewer district or similar entity.





BACKGROUND

SLCDPU changed its non-residential sewer-billing methodology after determining that Average Winter Consumption may not have fully captured sewer use or recovered service costs. However, the replacement methodology applies a uniform 70 percent return-to-sewer assumption to customers with widely differing water-use patterns, including customers that use substantial amounts of water outdoors. The audit found that SLCDPU lacked sufficient analysis and customer-level data to demonstrate that this assumption produces equitable billing outcomes.

FINDING 2.1

The 70% Return to Sewer Methodology Resulted in Significant Bill Increases for Some Non-Residential Customers

RECOMMENDATION 2.1 (Structure)

The Salt Lake City Department of Public Utilities should develop, document, and periodically evaluate the methodology used to estimate sewer flow for non-residential customers. The evaluation should assess whether the methodology reasonably reflects actual customer usage patterns and whether modifications are needed to improve billing accuracy and equity.

FINDING 2.2

Customer Data Quality Limits SLCDPU's Ability to Evaluate Billing Outcomes

RECOMMENDATION 2.2 (Process)

The Salt Lake City Department of Public Utilities should use its new billing system to improve billing accuracy, transparency, and equity. The system should capture the customer data, meter information, billing adjustments, and reporting needed to evaluate billing outcomes and identify customers affected by current rate methodologies.



CONCLUSION

SLCDPU has an opportunity to improve sewer-billing accuracy as it replaces its aging billing system. By documenting and testing its sewer-flow methodology and improving the collection of customer, meter, billing-adjustment, and revenue information, SLCDPU can better evaluate customer impacts and determine whether its charges reasonably reflect sewer usage.





Chapter 2

SLCDPU's Sewer Billing Practices May Not Equitably Reflect Customer Usage

Sewer charges should reasonably reflect the amount and quality of the water a customer sends to the sewer system for treatment. In 2025, the Salt Lake City Department of Public Utilities (SLCDPU or Public Utilities) replaced its billing structure of Average Winter Consumption (AWC) with a uniform 70% return to sewer (RTS) factor for non-residential customers. However, Public Utilities did not sufficiently demonstrate that a system-level factor reasonably reflects actual sewer use across all types of non-residential customers. As a result, some customers experienced substantial sewer bill increases and may be charged for water that never enters the sewer system.

The concern is not simply that some customers disagree with the 70% assumption. The larger issue is that Public Utilities has not demonstrated that the methodology was sufficiently evaluated before implementation. Without a documented basis for the methodology, Public Utilities cannot demonstrate that sewer charges are accurate, equitable, and consistently applied across non-residential customer groups in accordance with best practices. SLCDPU faces difficult rate-setting decisions. It must balance equity, affordability, conservation, infrastructure funding, and regulatory compliance. Those decisions are further complicated by inflation, billing-system limitations, and the complexity of serving customers both inside and outside city limits.

Those pressures explain why rate-setting is difficult. They do not eliminate the need for sewer billing practices that reasonably reflect customer usage.

2.1: The 70% Return to Sewer Methodology Resulted in Significant Bill Increases for Some Non-Residential Customers

70% RTS means that a customer's sewer charge is billed as if 70% of the water they use returns to the sewer to be processed at a water reclamation facility. This means that when a customer uses water outdoors for irrigation or other consumptive uses, the water that evaporates and does not return to the sewer for processing may still be included in a customer's sewer bill. The impact of Public Utilities' methodology change in their sewer billing is evident across a group of non-residential customers. Figure 2.1 shows average sewer charges for schools, charities, and churches from FY2021 through FY2026. Average sewer bills remained relatively stable through FY2025 before increasing sharply following implementation of the uniform 70% RTS factor in 2025. According to Public Utilities data, average sewer bills for these customers increased by approximately 110.8% following implementation of the new methodology.



Figure 2.1 The Average Sewer Bill for Schools, Charities, and Churches Increased Sharply from FY 2025 to FY 2026. Sewer bills increased 110.8% following the implementation of the uniform 70% RTS factor in 2025.



Average **Sewer** Bill (Fiscal Year 2021 – 2026)
Schools / Charities / Churches SL Enterprise Customers



*** FY 2026 last two periods estimated using a proportional adjustment multiplier from the five prior years.

Source: Auditor generated based on data provided by SLCDPU.

This increase doesn't prove that every affected customer was overcharged. However, it demonstrates that the methodology change had a significant financial effect on a group of non-residential customers and highlights the importance of understanding whether the underlying assumption accurately reflects actual sewer use.

While Figure 2.1 demonstrates the broader impact of the methodology change, individual customer billing records illustrate how those increases can occur.

Individual Billing Records Demonstrate How the 70% RTS Factor Can Increase Charges

When the rate change went into effect in 2025, some non-residential customers saw very large increases in their sewer bills. Before the 2025 rate changes, Public Utilities used Average Winter Consumption as a proxy for sewer discharge because outdoor water use is generally minimal during winter months. Under that methodology, sewer charges were tied to each customer's own historical water-use patterns. Public Utilities replaced that customer-specific approach with a uniform 70% RTS factor applied to monthly water use.

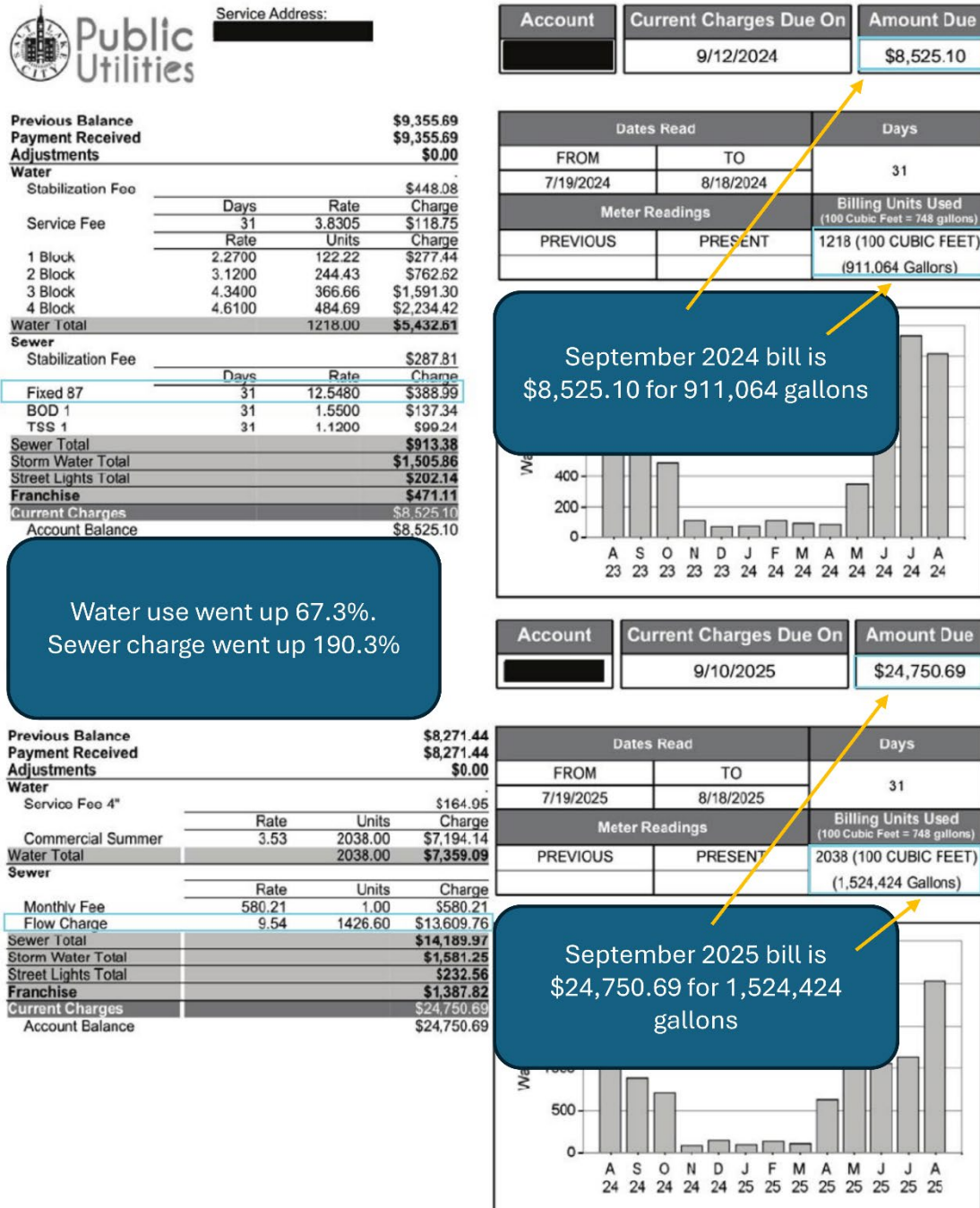


For customers with significant outdoor water use, the change can substantially increase sewer charges because irrigation water is treated as though it enters the sewer system. Figure 2.2 shows one such example. Because the property is non-residential, Public Utilities applies the 70% RTS factor to all metered water use, including irrigation. The customer's bills show that while total water use increased by 67% between September 2024 and September 2025, the sewer charge increased by 190% after Public Utilities adopted the new methodology.



Figure 2.2 The New Sewer Rate Structure Increased Charges for Single Meter Properties

Although water usage increased from 09/24 billing period to 09/25 billing period by about 67%, the sewer charge increased by about 190% after SLCDPU replaced AWC with the 70% RTS rate in July, 2025.



Source: Bills provided by commercial customer.



This comparison is important because it shows that the increase was not driven solely by increased water consumption. The customer's sewer charges also increased because the methodology changed. Under a return to sewer methodology, irrigation water that generally does not enter the sewer system is billed as sewer flow.⁵ Other cities and water/sewer districts in Utah and other states have not changed to the 70% RTS billing methodology. In fact, none of the ten that we reviewed apply a 70% RTS factor to estimate non-residential customer sewer flows. While these cities and districts wrestle with similar issues as SLCDPU, they have not found the 70% RTS to be an appropriate assumption to measure sewer flow. Public Utilities claimed that a 70% assumption is industry standard, which we were unable to verify.

Public Utilities Has Not Demonstrated That the 70% Assumption Is an Appropriate Billing Method

Public Utilities reported that, for many years, Average Winter Consumption (AWC) may have understated sewer use for some non-residential customers and may not have fully recovered the cost of providing sewer service. Public Utilities therefore had a reasonable basis for revisiting whether AWC accurately billed all non-residential customers.

To address those concerns, Public Utilities adopted a 70% return-to-sewer (RTS) factor. The methodology was described as being informed by industry practice, mass-balance analyses, and cost-of-service studies. However, we found that the 70% RTS factor does not reasonably reflect actual sewer use for some non-residential customers. Though the methodology resulted in large bill increases for some non-residential customers, SLCDPU continues to use the 70% RTS assumption.



SLCDPU assumes that 70% of a customer's water use returns to the sewer system for treatment.

As a result, it is unclear what alternatives were evaluated, whether customer impacts were analyzed before implementation, or whether the methodology was tested against actual sewer usage for different types of non-residential customers. As stated earlier, Public Utilities may have had a valid reason to replace AWC with an RTS methodology, but criterion suggests the need for a clear, documented, and defensible basis because the change significantly affected customer bills.

This matters because non-residential customers use water in substantially different ways. Schools, churches, hospitals, commercial properties, industrial facilities, parks, and institutional customers may have different levels of irrigation, cooling, process water, and other uses that do not send water to the sewer system. As customer diversity

⁵ Water Environment Federation. (2018). Financing and charges for wastewater systems (4th ed., Manual of Practice No. 27). Water Environment Federation.



increases, a single class-wide assumption becomes less reliable when applied to individual customers.

If the assumption does not accurately reflect a customer's actual sewer discharge, billing outcomes can vary significantly. Customers whose actual sewer discharge falls below the 70% assumption may pay sewer charges for water that never enters the sewer system, while customers whose discharge exceeds the assumption may pay less than their share of system costs.

We recognize there are many factors that go into setting public utility rates and Salt Lake City may have circumstances that require higher rates. However, the city should be able to demonstrate and document a sufficient methodology for its decisions. Because the 70% assumption does not reasonably reflect actual sewer use for some non-residential customers, it remains unclear whether the methodology produces equitable outcomes for all non-residential customers.

Separate Meter Data Suggests the 70% RTS Assumption Can Substantially Overstate Sewer Use

Because Public Utilities relies on the 70% RTS factor to estimate sewer flow for all non-residential customers, large differences between measured and estimated usage for even a small portion of those customers may conflict with best practices regarding proportionality and equity.

Public Utilities now requires new non-residential buildings to install separate outdoor meters during construction. This requirement recognizes that indoor and outdoor water use can differ significantly and that direct measurement may be necessary to accurately determine sewer usage. However, SLCDPU continues to bill existing non-residential customers using a uniform 70% RTS factor unless the customer independently pursues submetering.

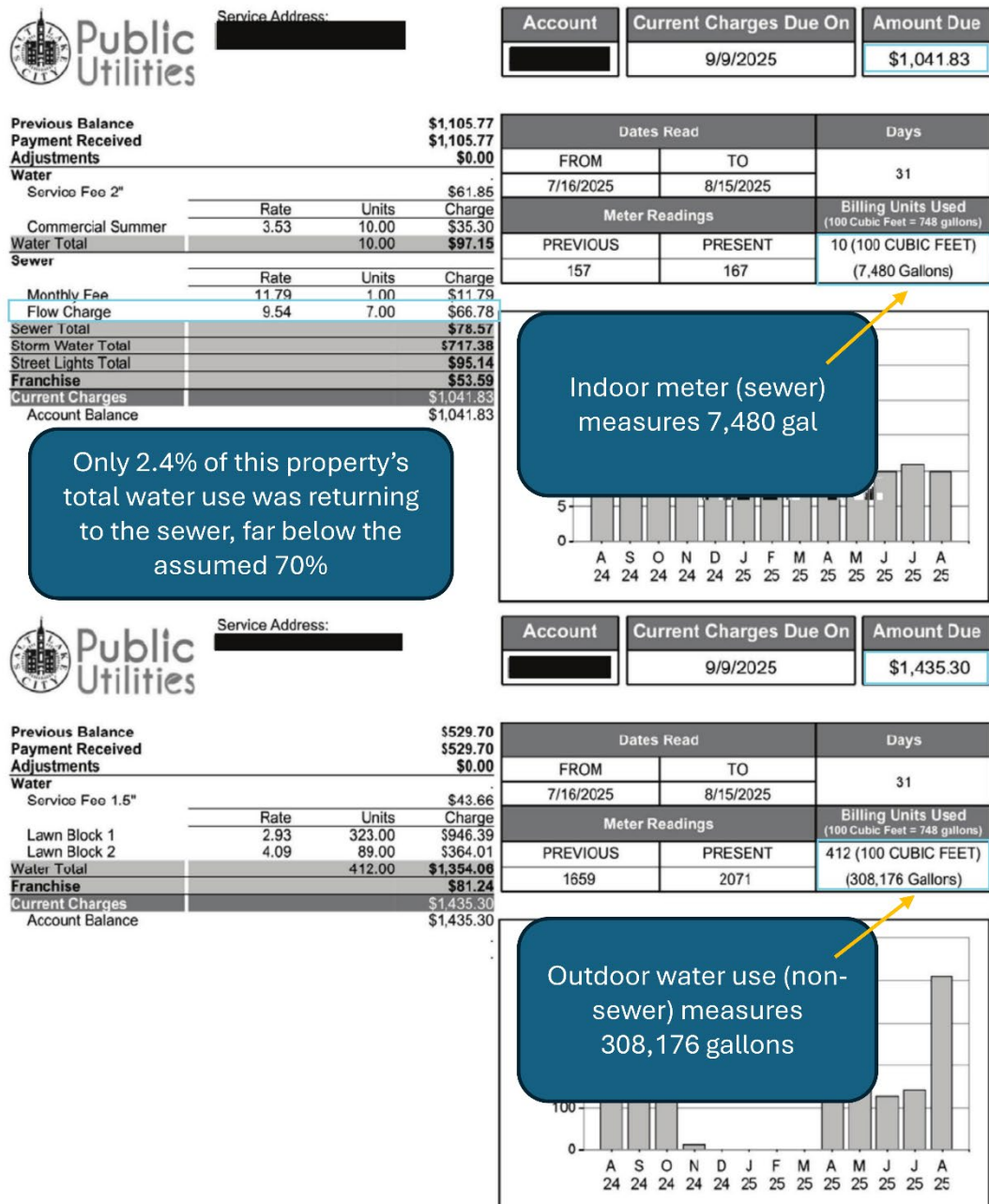


Public Utilities now requires new non-residential buildings to install separate outdoor meters during construction.

Figure 2.3 shows a property with separate indoor and outdoor water meters. During a peak irrigation period, the property used 308,176 gallons of water outdoors and 7,480 gallons indoors. The separately metered data indicates that only a small portion of the property's total water use was associated with indoor use.



Figure 2.3 Separate Meters Show That Indoor and Outdoor Water Use Can Differ Significantly. During peak irrigation months, this property used 308,176 gallons outdoors and 7,480 gallons indoors. Only about 2.5% of total water use entered the sewer system, suggesting that a uniform 70% RTS assumption can substantially overstate sewer use for some customers.



Source: Bills provided by commercial customer.



Because separate meters directly measure indoor usage as a proxy for sewer flow, they provide an opportunity to compare measured water use with the sewer-flow estimate that would result if Public Utilities instead applied the 70% RTS factor to the property's total water use. According to SLCDPU, customers who do not meter indoor and outdoor water separately have no choice but to pay the assumed 70% RTS, even if much of their water is being used outdoors on landscaping (as seen in Figure 2.2).

Submetering Places the Burden of Correcting Billing Assumptions on Customers

SLCDPU offers submetering as a remedy for customers who believe the 70% RTS factor overstates their sewer use. Under this approach, customers install separate meters that distinguish indoor and outdoor water use, allowing sewer charges to be based on measured indoor consumption rather than total water use.



Submetering places the burden of correcting SLCDPU's assumption on the customer. To receive relief, customers must identify the issue, obtain approval, buy meters from SLCDPU, and pay for installation.

While submetering may simplify billing administration, the solution places the burden of correcting the billing assumption on customers. Customers must identify the issue, obtain approval, purchase meters from SLCDPU, and pay installation costs before receiving relief. One customer also noted the need to navigate permit requirements, design specifications, and approval processes before determining whether submetering was even economically feasible.

The same customer reported receiving approval for submetering but experiencing delays obtaining the meter specifications necessary to complete installation. As a result, approved properties continued to be billed under the default 70% RTS methodology. One large property-management customer estimated that purchasing and installing submeters would cost approximately \$50,000 across seven properties.



RECOMMENDATION 2.1

The Salt Lake City Department of Public Utilities should develop, document, and periodically evaluate the methodology used to estimate sewer flow for non-residential customers. The evaluation should assess whether the methodology reasonably reflects actual customer usage patterns and whether modifications are needed to improve billing accuracy and equity.

2.2 Customer Data Quality Limits SLCDPU's Ability to Evaluate Billing Outcomes

The examples in this chapter show how the 70% RTS factor can affect some individual customers. However, SLCDPU did not have sufficient customer-level data to inform the sewer rate methodology change. Therefore, SLCDPU lacks the customer, meter, and billing information needed to determine how many customers are affected by the rate change. In addition, manual adjustments create material differences between billing records and final revenue collections. As a result, SLCDPU may be unable to fully evaluate whether the current sewer billing methodology produces accurate and equitable outcomes or understand its long-term effects on utility revenue and planning.

Customer Data Creates Challenges for Fully Understanding the Scope of Billing Inequities

SLCDPU's aging billing system limits its ability to evaluate the effects of the 70% RTS factor. The system does not consistently track the customer information needed to determine whether sewer bills reflect actual sewer use. For example, SLCDPU stated that they cannot readily identify customers with one meter or separate indoor and outdoor meters. As a result, SLCDPU may not know which customers are most affected by the 70% assumption.



SLCDPU staff reported a 12% to 13% difference between billing records and financial statement revenue.

SLCDPU is replacing its aging billing system. The new system may help address some of the data limitations described. It also creates an opportunity to improve design and controls around customer data, meter configuration, customer adjustments, and rate-methodology assumptions in accordance with best practices. If those controls are built into the system now, SLCDPU will be better positioned to test whether sewer charges align with actual customer usage.



SLCDPU staff reported a 12% to 13% difference between billing records and financial statement revenue. This difference is created by discounts, exceptions, and other manual adjustments applied outside the standard billing process. Billing records alone may not provide a complete picture of customer charges or utility revenue, limiting SLCDPU's ability to understand billing outcomes, forecast revenue needs, and evaluate whether rates are being applied consistently across customer groups.

It appears that SLCDPU cannot be certain that current sewer billing outcomes reflect actual customer sewer usage. Key customer information is missing, and billing records contain a substantial discrepancy from final financial outcomes. As a result, SLCDPU may not be able to fully evaluate whether customer charges are accurate, consistent, or equitable.

RECOMMENDATION 2.2

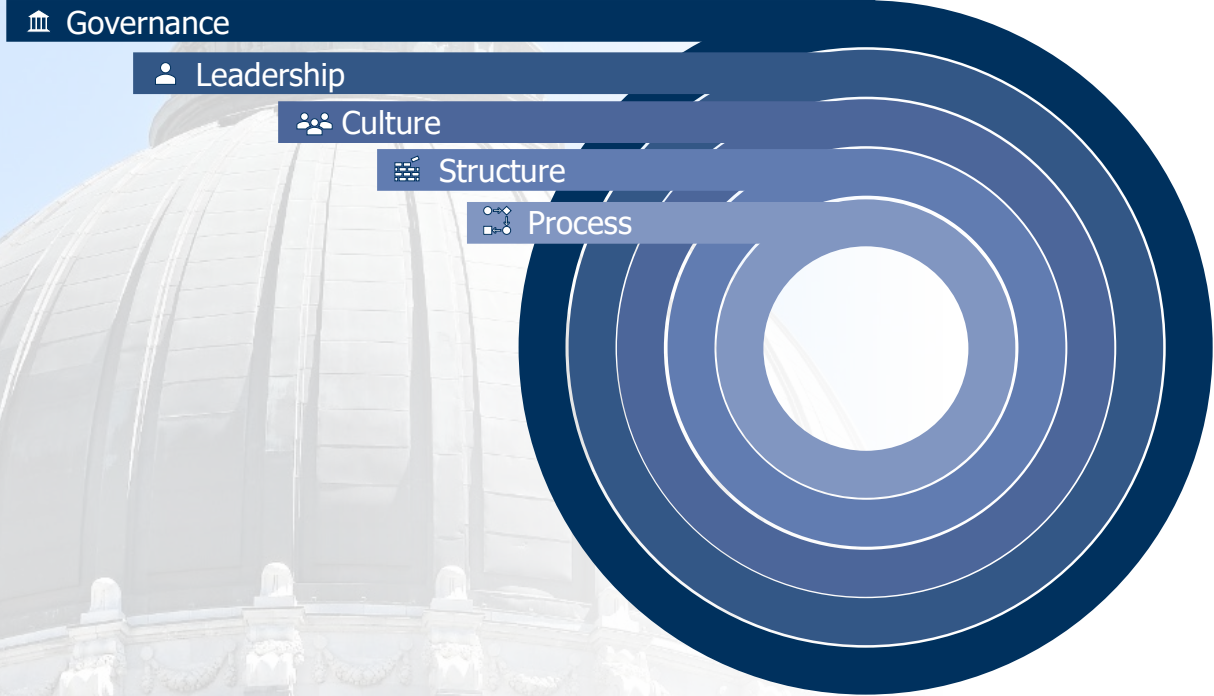
The Salt Lake City Department of Public Utilities should use its new billing system to improve billing accuracy, transparency, and equity. The system should capture the customer data, meter information, billing adjustments, and reporting needed to evaluate billing outcomes and identify customers affected by current rate methodologies.



Complete List of Audit Recommendations

THE FIVE LAYERS OF CAUSE

We developed the Five Layers of Cause Framework to assist leaders in identifying the causes of organizational success and failure. To truly improve as an organization, leaders must understand the causes of major risks. Only when leaders understand these causes and their roots can they make meaningful improvements. Root causes are deeper and more fundamental.



The five layers of cause are defined below. They are ranked from most impactful in organizational change to least. The next page identifies the layer of cause in each recommendation.



GOVERNANCE

The laws and rules that establish the organization's mission, accountability, and funding. Governance empowers the organization with the leadership and resources needed to achieve meaningful results.



LEADERSHIP

The competency and character of the leaders of the organization. Leadership is the decisive force that transforms vision into action and effort into results.



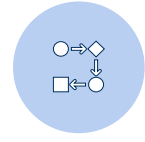
CULTURE

The collective beliefs, values, and behaviors of the organization. An organization's culture can determine employee engagement and morale, willingness to innovate, and quality of product.



STRUCTURE

The policies and standards that guide an organization's work. Structures direct the flow of work and establish what is and is not acceptable.



PROCESS

The steps taken to accomplish a task. Processes are the logistics—the capital, workflows, timing, and practices—that move work along.



Complete List of Audit Recommendations

This report made the following four recommendations. The numbering convention assigned to each recommendation consists of its chapter followed by a period and recommendation number within that chapter.

Recommendation 1.1 (Leadership)

The Salt Lake City Department of Public Utilities should formally ask the Salt Lake City Mayor and City Council to consider funding changes needed for long-term financial sustainability, including a dedicated property-tax-supported revenue tool or comparable stabilization mechanism.

Recommendation 1.2 (Leadership)

If the current city governance structure cannot provide sufficient financial stability, the Salt Lake City Department of Public Utilities should formally ask the Salt Lake City Mayor and City Council to evaluate alternative governance models, including an independent water and sewer district or similar entity.

Recommendation 2.1 (Structure)

The Salt Lake City Department of Public Utilities should develop, document, and periodically evaluate the methodology used to estimate sewer flow for non-residential customers. The evaluation should assess whether the methodology reasonably reflects actual customer usage patterns and whether modifications are needed to improve billing accuracy and equity.

Recommendation 2.2 (Process)

The Salt Lake City Department of Public Utilities should use its new billing system to improve billing accuracy, transparency, and equity. The system should capture the customer data, meter information, billing adjustments, and reporting needed to evaluate billing outcomes and identify customers affected by current rate methodologies.





Appendix



**A. Salt Lake Enterprise Funds Were Used
Appropriately for 2100 South Road Project**



Salt Lake Enterprise Funds Were Used Appropriately for 2100 South Road Project

The audit request asked us to determine whether Salt Lake City used enterprise funds appropriately during the 2100 South Road Improvement Project. *Utah Code*⁶ generally designates enterprise fund expenditures for purposes related to the utility or service for which the fund was established. We reviewed project expenditures to determine whether Salt Lake City allocated costs among funding sources in accordance with *Utah Code*.⁷ Our review found no evidence of inappropriate use of enterprise funds.

We believe that improper use of enterprise funds could result in utility ratepayers subsidizing costs unrelated to the services they receive. It could also conflict with statutory restrictions governing enterprise fund expenditures. Projects involving both enterprise funds and general fund resources warrant particular scrutiny because they present the greatest risk of inappropriate cost allocation.

We analyzed five years of Salt Lake City Department of Public Utilities' (SLCDPU) financial transactions, isolating projects related to the larger 2100 South project. To do this, we reviewed invoices and project expenditure totals to assess how costs were assigned among funding sources. We also searched general-ledger transaction descriptions for terms that could indicate transfers, adjustments, or other potential cost shifting between enterprise funds and non-enterprise funding sources.

We examined projects that combined enterprise funds and general fund resources. Discussions with SLCDPU leadership helped to identify the records and transactions relevant to these funding decisions. City financial records documented the general fund's role in funding portions of the 2100 South project. The records showed that roadway-related costs were charged to non-enterprise funding sources, while water, sewer, and other utility infrastructure costs were charged to the corresponding enterprise fund. One example involved utility infrastructure that was upsized to accommodate anticipated growth along 2100 South. Due to timeframe and funding source constraints, SLCDPU stated that it could not pay for immediate capacity upgrades. Instead, the city paid for the upgrades through a one-time general fund balance transfer.

⁶ *Utah Code* 51-5-4 Public Fund Functions

⁷ *Utah Code* 51-5-4 Public Fund Functions

Analysis of invoices, project budgets, and supporting documentation found no evidence that enterprise funds were used outside their authorized functions. Even among projects presenting the highest risk of overlap between enterprise funds and general fund activities, costs were appropriately separated according to the work performed and the funding source responsible for that work. We identified no evidence that enterprise funds subsidized unrelated city activities or other expenditures that should have been borne by non-enterprise funding sources.



Agency Response Plan





September 4, 2026

Kade R. Minchey CIA, CFE, Auditor General
Office of the Legislative Auditor General
Utah State Capitol Complex
Rebecca Lockhart House Building, Suite W315
PO Box 145315
Salt Lake City, UT 84114-5315

Dear Mr. Minchey:

Thank you for the opportunity to respond to the recommendations in *A Performance Audit of Salt Lake City Public Utilities, A Review of Water and Sewer Planning, Funding, and Rate Setting*. We are grateful for the time, effort, collaboration, and professionalism of your staff as the audit was conducted.

The long-term reliability of our water and wastewater systems is an underpinning of our prosperity, public welfare, and environmental health. We believe that the results of this collaboration will help to ensure the ongoing stewardship of Salt Lake City's water and wastewater systems, while we address the challenges of water scarcity, environmental health and regulation, affordability, inflation, and aging infrastructure.

Salt Lake City concurs with the recommendations in this report. Our actions and timelines for each of the recommendations are attached. We continue to be committed to providing safe, reliable, equitable, and affordable public services, including water services to nearly 400,000 people in Salt Lake County, and wastewater services to the more than 210,000 Salt Lake City residents.

Sincerely,

A handwritten signature in black ink, appearing to read "Rachel Otto".

Rachel Otto
Chief of Staff



Chapter 1

Recommendation 1.1: The Salt Lake City Department of Public Utilities should formally ask the Salt Lake City Mayor and City Council to consider funding changes needed for long-term financial sustainability, including a dedicated property-tax-supported revenue tool or comparable stabilization mechanism.

Agency Response: Salt Lake City concurs and has already begun preparation of long-term financial plans and updated rate studies.

What: The Salt Lake City Department of Public Utilities is conducting rate studies and preparing long-range financial plans to be presented to the Mayor and Council ahead of fiscal year 2027-2028.

How: Rate studies and financial plans will integrate long-range infrastructure and operational needs with revenue strategies.

- Revenue strategies will include long-term rate scenarios for water and wastewater utilities;
- Rate revenue scenarios will include the possibility of a capital reserve to avoid additional debt in the future;
- Rate revenue scenarios will identify levels of service associated with each scenario;
- Appropriate impact fee increases to address infrastructure capacity needs related to growth; and
- Property tax revenue for capital needs and reserves will be evaluated.

When: Rate studies and financial plans are in process and anticipated to be finalized by June 2027. Impact fee increases are currently in the public hearing process, to be implemented in early 2027.

Contact: Laura Briefer, Director, Salt Lake City Department of Public Utilities.

Recommendation 1.2: If the current city governance structure cannot provide sufficient financial stability, the Salt Lake City Department of Public Utilities should formally ask the Salt Lake City Mayor and City Council to evaluate alternative governance models, including an independent water and sewer district or similar entity.

Agency Response: Salt Lake City concurs that governance structure is a critical element in the long-term financial and infrastructure health of the City's water and wastewater utilities. The



importance of governance is recognized on a national and international scale as water and wastewater providers across the globe engage in similar challenges of deepening water crises, aging infrastructure, and affordability and water access concerns. We believe the current Mayor-Council form of governance in Salt Lake City can provide sufficient financial stability. The Salt Lake City Mayor and Council have supported substantial rate increases for the City's water and wastewater utilities over the last ten years to implement significant generational water and wastewater infrastructure replacement. This includes raising sewer rates to replace the City's wastewater treatment plant and raising water rates to replace one of the City's three drinking water treatment plants, along with other major infrastructure and regulatory programs. The current governance structure and support has resulted in Salt Lake City Department of Public Utilities maintaining its AAA bond rating. This track record indicates that the current governance structure can provide the necessary support for long-term financial stability.

What: The Salt Lake City Department of Public Utilities will provide detailed analyses and recommendations gathered from rate studies, long-range financial plans, and property tax analyses referenced in Recommendation 1.1 to the Mayor and City Council.

How: The Salt Lake City Department of Public Utilities will present recommendations that provide the following:

- Rate increases and capital reserve scenarios to address future aging infrastructure replacement;
- Impact fee increases to address growth-related infrastructure costs;
- Other revenue sources, including property tax scenarios;
- Levels of service associated with each scenario;
- Levels of future debt associated with each scenario; and
- Implementation options, including a multi-year rate setting process rather than the current year-over-year rate setting associated with annual budgets.

When: Recommendations, discussions, and public engagement will occur by June 2027.

Contact: Laura Briefer, Director, Salt Lake City Department of Public Utilities



Chapter 2

Recommendation 2.1: The Salt Lake City Department of Public Utilities should develop, document, and periodically evaluate the methodology used to estimate sewer flow for non-residential customers. The evaluation should assess whether the methodology reasonably reflects actual customer usage patterns and whether modifications are needed to improve billing accuracy and equity.

Agency Response: Salt Lake City concurs with this recommendation.

What: The Salt Lake City Department of Public Utilities will conduct rate studies, as referenced in Recommendation 1.1.

How: The current rate study that is underway will evaluate rate design for the water and sewer utilities. The existing return to sewer rate design was developed during a similar rate study process in 2024, and in response to equity and operational issues associated with the previous annual winter consumption rate design and raised by some non-residential customers. The Salt Lake City Department of Public Utilities will revisit the return to sewer rate design and methodology during our new rate study in process.

When: The rate study will be completed and implemented by July 2027.

Contact: Lisa Tarufelli, Finance Administrator, Salt Lake City Department of Public Utilities.

Recommendation 2.2: The Salt Lake City Department of Public Utilities should use its new billing system to improve billing accuracy, transparency, and equity. The system should capture the customer data, meter information, billing adjustments, and reporting needed to evaluate billing outcomes and identify customers affected by current rate methodologies.

Agency Response: Salt Lake City concurs.

What: The Salt Lake City Department of Public Utilities is currently implementing a new billing system, customer self-service portal, meter data management system, reporting system, and secure payment processor.

How: The Salt Lake City Department of Public Utilities has budgeted for and is under contract with a software provider to implement a new billing system, customer self-service portal, meter data management system, reporting system, and secure payment processor. The project is currently 36% complete. The scope of work includes the following:



- Improve access and organization of customer data;
- Improve important analysis to support future rate designs; and
- Empower customers to make service requests and view data associated with their account and consumption.

When: The new billing system is planned to be implemented by the summer of 2027.

Contact: Lisa Tarufelli, Finance Administrator, Salt Lake City Department of Public Utilities





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