

# SOUTH DAVIS WATER DISTRICT

## BOARD OF TRUSTEES BUDGET WORK MEETING MINUTES

**Monday, November 4, 2025**

**Time:** 12:10 p.m.

**Location:** District Office, 407 W. 3100 S., Bountiful, Utah

### **BOARD MEMBERS PRESENT**

Board members in attendance were Ronald Mortensen, Chair, Kathy Thurston, Trustee, and Elaine Oaks, Trustee.

### **DISTRICT STAFF PRESENT**

Staff present included Jake Ferguson, General Manager, and Tracie James, District Clerk.

### **VISITORS**

There were no visitors present

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### **1. CALL TO ORDER**

Chairman Ronald Mortensen called the budget work meeting to order at 12:10 p.m. in compliance with Utah's Open Meeting Laws. The meeting was recorded in its entirety as a public record. Chairman Mortensen noted that no votes would be taken during this work session, as it is a discussion meeting to prepare for the regular board meeting where formal votes will occur.

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### **2. 2025 AMENDED BUDGET DISCUSSION**

#### **Budget Methodology Change:**

Manager Ferguson presented the proposed amended 2025 budget and explained a significant change in budgeting methodology recommended by the District's independent auditor. The District is transitioning from a depreciation-based budgeting method to a capital outlay approach, which shows actual capital expenditures rather than depreciation expense. Although the state auditor did not require this change, the independent auditor recommended it for greater clarity. This accounting change impacts budget presentation but does not indicate an increase in spending. The Board discussed asset depreciation lifespans, noting that buildings and water lines/infrastructure are depreciated over 50 years, wells over 20 years if fortunate, trucks and vehicles generally over 5 years (although in recent years many vehicles do not last beyond two), tools and equipment over 5 years, water treatment equipment between 20-50 years depending on the specific equipment, telemetering equipment between 5-10 years, and office equipment over various lifespans, with only items priced above \$8,000 being subject to depreciation.

#### **Revenue Updates:**

Manager Ferguson provided updates to revenue figures using actual data through September 2025. Total revenue increased by approximately \$250,000 in the amended budget as a result of Community Development Block Grant (CDBG) funds, PFAS lawsuit settlement money, and transfers from reserve funds. Insurance reimbursement of around \$5,000-\$6,000 for a damaged fire hydrant was added to the penalties and fines category.

## **Capital Outlay - Office Equipment (\$20,000):**

Manager Ferguson described the need for upgrades to computers and the telephone system. Eight weeks prior, Tracie James' computer crashed and needed replacement, and the existing computers are nearing end-of-life with the end of Windows support approaching. The \$20,000 allocation includes the cost for a SCADA computer, manager's computer, and water operator's computer, each estimated between \$2,000-\$3,000. The server, including labor and backup systems, is budgeted around \$10,000, and telephone system repairs are also anticipated due to ongoing issues with dropped calls after hours. Backup hard drives are cycled, with one kept in a safe to protect against viruses; both cloud backup and physical redundancy are employed, with incremental backups conducted throughout the day. New computers are expected to last 5-6 years, while solid-state drives have a shorter lifespan than traditional disk drives but operate much faster.

## **Net Operating Position:**

The amended budget reflects a net loss of approximately \$99,520, even accounting for reserve fund transfers, marking another year of operational net loss for the District. Manager Ferguson emphasized that this is indicative of the need to increase rates.

## **Cash Flow Impact:**

The net loss represents a decrease in the cash balance compared to 2024. The year 2025 involved significant expenses due to a major infrastructure project in which the District completed 3,500 feet of mainline replacement, three times the typical annual amount. Additionally, construction costs have increased considerably as a result of inflationary pressures. The budget for 2026 is designed to help the District rebuild cash reserves.

## **Final Amended Budget Notes:**

The budget incorporates a cushion for any potential issues through year-end. Manager Ferguson expressed confidence that the amended budget would support the District's needs through the remainder of 2025, with insurance reimbursement and other late-year revenues to be factored in. The final audit is scheduled for December and will extend into early 2026.

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### **3. 2026 PROPOSED BUDGET – NEW HIRE CONSIDERATION**

Manager Ferguson presented two scenarios for the 2026 budget: one including a new operator hire at a base wage of \$32 per hour, and another with only current staff receiving COLA and performance increases. Extensive discussion followed regarding the merits and drawbacks of hiring a third operator. In support of hiring, board members noted that existing operators are aging and approach retirement, with recent health concerns highlighting the risk of burnout. Coverage would be jeopardized should an operator be unavailable for an extended period. One of our current operators expressed interest in additional hours and income. The District's on-call structure and strong insurance benefits make the position attractive, and experienced operators might be drawn from neighboring municipalities if wages are competitive. Moreover, the work environment at South Davis Water District is less stressful than larger cities, and operators are consistently busy.

On the other side, another operator is seeking less on-call time. Adding qualified staff would substantially increase the budget—by approximately 4% in the rate increase. There is also a risk that hiring an inexperienced operator would require significant training, and such a person might depart after investing those resources. Contractors can be used to cover work as needed, and the District has operated effectively with only two operators. Manager Ferguson stated his preference for hiring, emphasizing the need to attract a seasoned operator with the proposed \$32/hour wage, and indicated he had candidates

in mind. He noted that hiring at a lower rate would possibly result in increased challenges, as inexperienced hires could create more problems than not hiring at all. Ultimately, board consensus led to direction that staff prepare the 2026 budget with the additional operator hire (Scenario A), and that Manager Ferguson would confer with current operators to assess the impact on current operators' on-call compensation. The final decision regarding the hire can be postponed even if the budget allocates funding for this position.

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#### 4. RATE INCREASE PROPOSALS

Manager Ferguson offered rate comparisons with surrounding water providers. For culinary water rates (10,000 gallons per month), South Davis Water District currently charges \$51 bi-monthly, while Woods Cross is closest in pricing. Chair Mortensen reported that Bountiful City recently increased its rates, with a \$27.49 charge per month for 5,000 gallons and \$54.98 per month for 10,000 gallons (for 5/8" lines) and \$38.90 per month for 5,000 gallons and \$77.80 per month for 10,000 gallons (for 1" lines). Manager Ferguson noted that most connections in Bountiful are 1" lines. South Davis Water District maintains the most cost-effective rates in Davis County. Bountiful City's tiered structure includes a base rate and various tiers, with Tier 1 at \$2.30 per 1,000 gallons from 5,000-70,000 gallons, Tier 2 at \$2.53 per 1,000 gallons for 70,000-100,000 gallons, and Tier 5 at \$6.12 per 1,000 gallons after 400,000 gallons. It was observed that Bountiful City's tier structure does not optimally support conservation.

For irrigation water, Bountiful Irrigation is estimated at approximately \$1,000 per acre, although rates are not published online, while South Davis Water District currently charges \$330 per acre plus a \$135 connection fee (totaling \$465 per acre). Manager Ferguson pointed out that Bountiful Irrigation's rates must be obtained by phone.

Under Scenario A (with the new hire), culinary water rates would increase by 11.3% (to roughly \$56-\$57 bi-monthly) and irrigation rates by 35.8% (to approximately \$448 per acre plus the connection fee). Scenario B (current staff only) would result in a 7.5% increase for culinary water and a roughly 23% overall increase for the total cost per acre of land for irrigation water. Both scenarios are designed to eliminate the operational deficit, with the new operator's cost constituting the 4% difference in rate increase. Manager Ferguson explained that the proposed increases are intended both to eliminate the deficit and, for Scenario A, fund the new operator position.

Typical residential customers (10,000 gallons or less bi-monthly) under Scenario A will see a \$36 annual increase (\$3 per month) in culinary rates and a \$166/acre annual increase in irrigation rates. Scenario B would mean a \$24 annual culinary increase (\$2 per month) and a \$160/acre irrigation increase annually. The difference between the scenarios is \$12 per year (\$1 per month) for culinary rates and a slightly higher impact on irrigation.

Manager Ferguson argued for a more substantial percentage increase in irrigation than culinary because irrigation rates have been much lower compared to similar services. Operators spend roughly 40% of their time on irrigation, which generates approximately half the revenue of culinary water. The board weighed whether the structure resulted in cross-subsidization between customer groups and observed that about 10% of customers do not receive irrigation service and rely on culinary water for landscaping, incurring higher costs in the summer. The consensus was that irrigation should bear a fair share of the costs. Tracie James commented that complaints about irrigation rates remain rare. Finally, culinary water use remains stable historically, making forecasting reliable, and there has not been a significant reduction in irrigation hookups.

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## 5. 2026 BUDGET – CAPITAL PROJECTS

The board reviewed several major planned capital projects for 2026. The PFAS mitigation project, budgeted between \$345,000–\$350,000, includes engineering and survey work for mitigation at the Val Verda well. A grant application for funding from the State Revolving Fund has been submitted, though state directors tabled the application pending additional information. The resulting revenue and expense would essentially cancel out if the grant is approved, and Manager Ferguson still expects to budget for this project. Water main replacement, planned at about 1,000 feet per year, is part of the District's regular maintenance program; in 2025, the District completed 3,500 feet—a significant increase—at a favorable contractor rate in an area with particular need. Pipe replacement decisions are guided by main break frequency and the condition of existing infrastructure, and soil conditions are a major factor in pipe lifespan.

Another anticipated project is the CDBG grant. If funding is approved, the most likely project location is 3000 South above Davis Boulevard, an area with frequent water main breaks. CDBG revenue and expense will be budgeted together to avoid requiring a year-end amendment. The District is prioritizing the rebuilding of reserve funds. A transfer of \$244,000 is planned for 2026, restoring the reserve fund to the appropriate level after depletion in 2025.

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## 6. WATER SYSTEM OPERATIONS DISCUSSION

The District does not adhere to a predetermined replacement schedule for water lines, instead prioritizing repairs based on need as identified through main break tracking. Operators record all repairs and patches in the computer system, and areas with frequent breaks are marked as high-priority for replacements. Pipe condition assessments focus on visible corrosion and deterioration, and local soil conditions are known to greatly affect pipe longevity. Earlier installations used native soil as backfill, which led to improper compaction, whereas modern installations use road base and proper compaction, reducing the risk of fractures. Voids under pipes from inadequate compaction contribute to stress fractures over time. The District maintains detailed maps of line installations and replacement history.

In a prior meeting, the District debated installing frequency drive pumps but ultimately opted to fund pipe replacements, as many pipes required replacement regardless of pump upgrades. Now, with most problem pipes replaced, the use of frequency drives may be reconsidered.

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## 7. RESERVE FUND AND FINANCIAL POLICIES

The Board discussed the irrigation water metering fee of \$59, established several years ago to fund state-mandated secondary water meters. The state denied the District's appeal for exemption, so it will operate under the state groundwater management plan instead of installing meters. Originally, the plan called for fee collection over three years, but only the first year was implemented. The Board proposed reallocating this \$59 fee to the reserve fund, clarifying the ongoing purpose for customers. This change will result in a total annual contribution of approximately \$122,000 to the reserve fund. The motion to reallocate the fee will be considered at the regular board meeting and highlighted at the public hearing. Following major projects in 2025, the reserve fund balance is currently low, but, combined with the planned \$244,000 transfer, reserve levels are expected to substantially improve next year.

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## 8. RATE STRUCTURE DISCUSSION

The Board reviewed the District's culinary tiered pricing structure, which currently extends from Tiers 1 through 5, with Tier 5 proposed to increase from \$4.50 to \$5.01 per 1,000 gallons for bi-monthly usage above 41,000 gallons. Discussion addressed whether to add a sixth tier to encourage conservation and deter high-volume irrigation with culinary water, protect against future commercial developments, and underscore the District's conservation and aquifer protection priorities. Arguments against an additional tier pointed out that current pricing is already substantial and could unfairly penalize residents without access to secondary water, as well as commercial accounts. Manager Ferguson expressed comfort with the existing tier structure, and the Board agreed to table further consideration until the 2027 rate review, requesting a report on the number of customers reaching various tier levels for future analysis. The District's bi-monthly billing structure, which includes up to 10,000 gallons per period (5,000 gallons per month) in the base rate, remains competitive compared to monthly billing practices. Tracie James noted most customers in the highest tiers are summer irrigation users or commercial accounts.

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## 9. FINAL BUDGET PREPARATION GUIDANCE

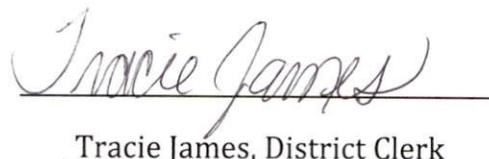
The Board directed staff to prepare the final 2026 budget incorporating these priorities: Include the new operator hire at \$32 per hour, propose culinary water rate increases of 11.3% and irrigation rate increases of 35.8%, add the CDBG project at \$200,000, adjust the PFAS mitigation figure to \$350,000, transfer \$244,000 to reserves, and reallocate the \$59 per connection irrigation metering fee (approximately \$122,000 total) to reserves. The board also emphasized budgeting for PFAS mitigation, standard water main replacement (1,000 feet) and conditional budgeting for the CDBG project. Conservation tier review was scheduled for the 2027 budget cycle, and Manager Ferguson was directed to create tier usage reports for future analysis. The next steps include Manager Ferguson preparing the final 2026 budget for board approval, public hearing notices for rate increases, a public hearing in December 2025, and formal votes at the regular November meeting.

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## 10. ADJOURNMENT

All discussion items on the agenda were completed, including the review of the 2025 amended budget, 2026 proposed budget scenarios, consideration of a new operator hire, rate increase proposals and their customer impact, capital project planning, reserve fund allocation strategy, and rate structure analysis. Outstanding items for the regular board meeting will include formal votes on the amended and proposed budgets, rate increases, the reallocation of the irrigation metering fee to the reserve fund, and scheduling of the public hearing. Chairman Mortensen noted completion of all budget work session agenda items, and the session concluded at approximately 2:10 p.m.

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Tracie James

Tracie James, District Clerk