MOUNTAIN REGIONAL WATER

SPECIAL SERVICE DISTRICT

2019 ADOPTED BUDGET

And

2018 AMENDED BUDGET

December 5, 2018

TABLE of CONTENTS

1.0 BACKGROUND

1.01 The District

Mountain Regional Water (the District) is a regional public water company established in 2000 to resolve water shortage and water quality problems in Snyderville Basin. It is governed by the Summit County Council who acts as the District's Governing Board. The Council has delegated certain powers to an Administrative Control Board consisting of citizens living within the District. Since its creation numerous small water companies and new developments have joined the District.

The District currently has over 3,850 customers using water and about 1,630 additional connections on standby. It is anticipated by the end of the year the District will annex an additional 500 customers from the former Community Water system located at the base of the Canyons Village resort. In addition, construction recently started on Silver Creek Village, a multi-use development with approval for over 1,000 new units (of which 376 are part of the 1,630 standby connections mentioned above).

The District also wheels up to 2,900 acre-feet of raw water annually to Park City; and entered into an MOA to sell Summit Water 800 acre-feet of surplus culinary water in 2019 under the Western Summit County Project Master Agreement. These two wholesale contracts now account for just over 50% of the District's water production.

1.02 District Budgets

The District has three budgets that require adoption by the Summit County Council each year, based upon accounting guidelines established for governmental enterprise funds:

Operating Budget – This annual accrual based budget includes the overall operation and financing of the District. Under accrual based accounting, revenues are generally recorded when earned or billed - rather than when the cash is collected. In addition, expenses are recorded when incurred regardless of when paid.

This budget includes interest expense on debt (see *Debt Service Budget* below), and the depreciation of capital assets (see *Capital Budget* below). However, it does not include debt proceeds or the upfront cost of capital equipment and projects; or principal payments on debt.

Debt Service Budget – This annual "cash based" budget includes payments due each year on the District's outstanding debt, including both principal and interest. Budgeted cash sources must come from current year operations - or, in certain situations, treatment plant and assessment reserves may be appropriated.

Capital Budget – This project "cash based" budget includes capital equipment, water system infrastructure, buildings, and water rights costing $5,000 or more. These budgets remain in effect over the life of a project rather than a calendar year. Its cash sources typically include debt proceeds, grants, and reserve funds.

2.0 OVERVIEW

The following will be discussed in the sections below:

Section 3.0 – 2019 District Budget Review

- This section provides an overview and analysis of current trends in District operations used for 2019 budget assumptions

Section 4.0 – 2019 Operating Budget

- This section explores the detailed revenue and operating expenses for 2019

Section 5.0 – 2019 Debt Service Budget

- This section details the cash available for debt payments in 2019

Section 6.0 – 2019 Capital Budget

- This section will define the capital projects to be carried over from 2018 and new capital expenditures planned for 2019

Section 7.0 – 2018 Budget Amendments

- This section details budget amendments needed for the 2018 Operating Budget and 2018 Debt Service Budget

3.0 2019 DISTRICT BUDGET REVIEW

3.01 Retail Water Consumption

As shown below in Figure 1, average District culinary consumption per customer over the past twelve months was 168,645 gallons, compared to 162,042 gallons for 2017, a 4.1% increase. Due to continued hot dry summer weather during 2018, the District has experienced the highest consumption per customer since 2012.

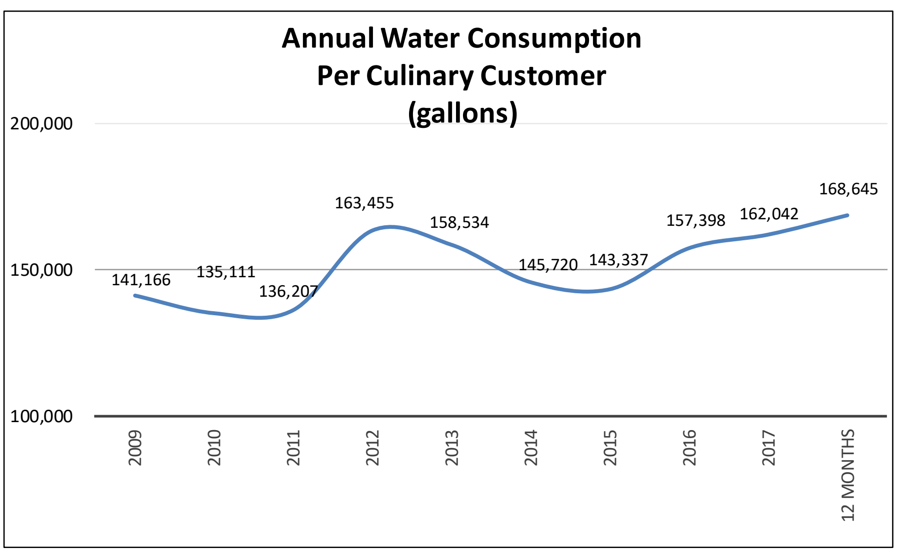

Figure 1: Annual Water Consumption

Due to this higher consumption, it is now projected 2018 retail water sales will be $7.88 million, which is $530,300 (7.22%) above initial budget projections, as shown below in Figure 2.

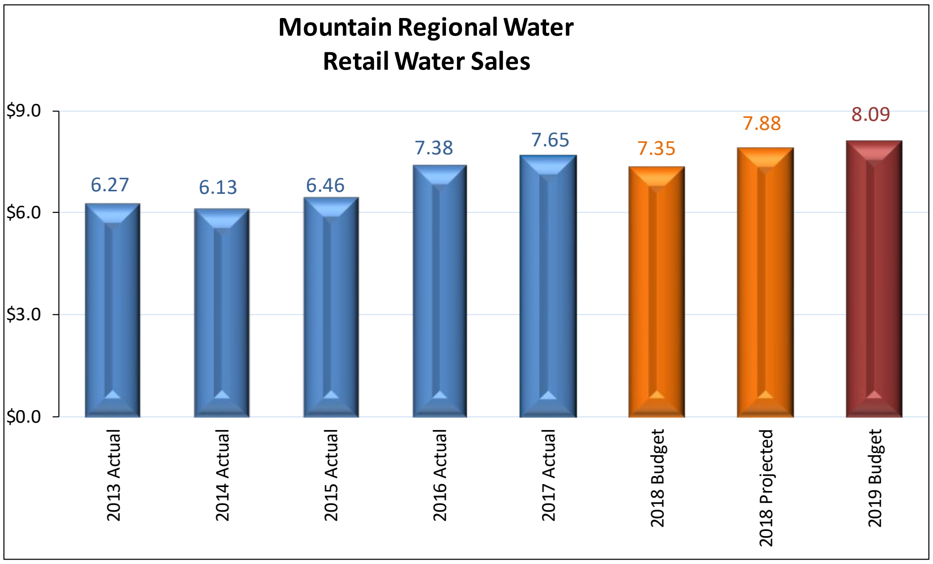

Figure 2: Retail Water Sales

There is more variance in District retail water sales than consumption due to conservation water rates, as water usage charges increase significantly as more water is consumed. This results in a higher average charge per 1,000 gallons when more water is consumed during hot dry weather.

The 2019 retail water sales forecast of $8.09 million is based on three-year average monthly consumption by customer (from 2015-2017) as determined by a 2018 rate study performed by the District in conjunction with Zions Bank. The 2018 study should lead to more accurate forecasts moving forward. See the following ***Section 3.10*** for further discussion of the rate study.

3.02 Development Related Collections Remain Strong

As shown in Figure 3, annual new water connections have averaged 127 since 2014, the highest since the post-Olympic building boom. From 2009 to 2012, average annual connections were only 31. Average annual connections over the past ten years is 80 – the number used for 2019 revenue projections.

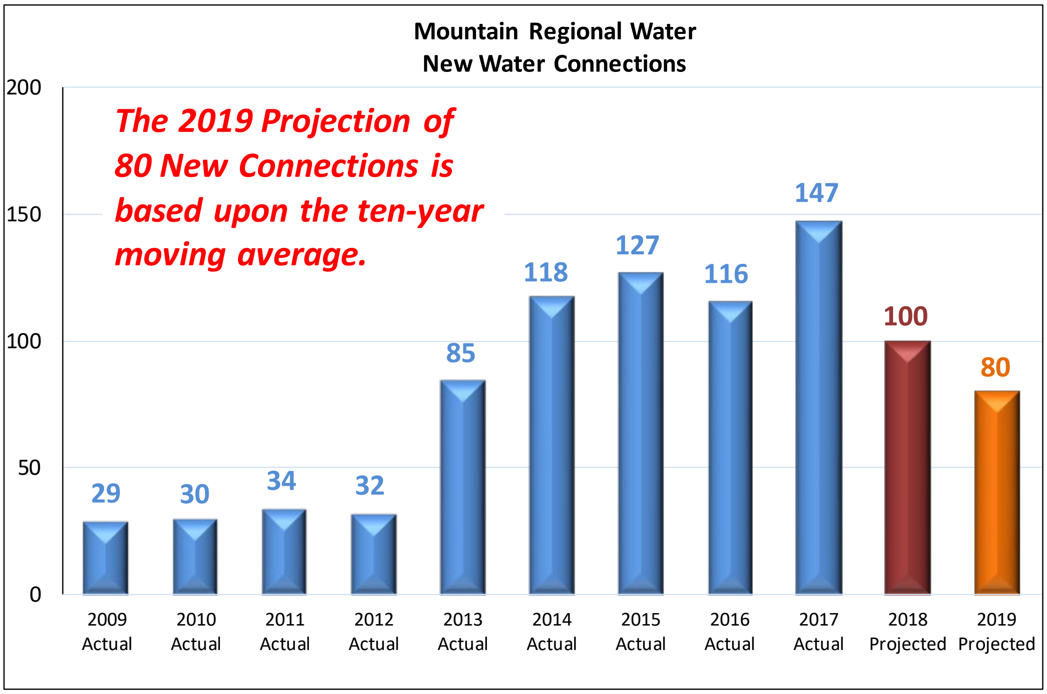

Figure 3: New Water Connections

Based upon an average impact fee of about $8,800 (including prepaid connections), the District projects $700,000 in impact fee collections for 2019, as shown in Figure 4 on the following page.

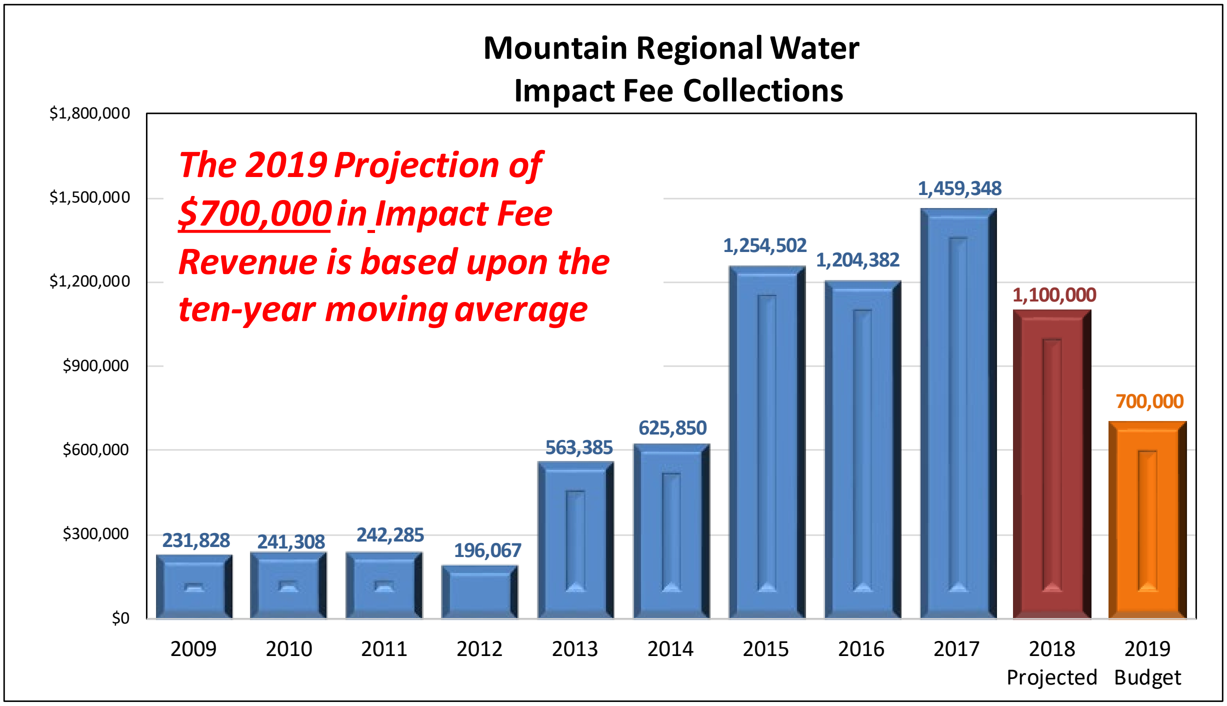

Figure 4: Impact Fee Collections

Figure 4 also demonstrates the dramatic swings in impact fee collections year-to-year due to the local building cycle.

3.03 Major Wholesale Water Contracts

The District has two major wholesale customers that account for about half its annual production. These customers receive lower bulk rates due to the volume of water purchased and minimal distribution and administrative costs.

Park City has contractual rights to wheel up to 2,900 acre-feet of its Rockport Reservoir water leases through the District's Lost Canyon project on an annual basis. Park City pays for this on a take-or-pay basis. The calculation of the wheeling rate is outlined in a contract with Park City, and includes 43.9% of most Lost Canyon production costs.

Park City wheeling revenue is projected to be $707,200 in 2019, slightly higher than what is projected for 2018, due to higher Lost Canyon production costs and increasing power costs.

Summit Water has contracted for 800 acre-feet of wholesale water from the District for 2019 under the Western Summit County Project Master Agreement. This take-or-pay contract will provide $1.0 million in 2019 revenue. This compares to $940,800 in 2018 for 800 acre-feet; as higher production costs, power costs and Weber Basin water lease fees, led to higher pass-thru costs in 2019.

Since both these wholesale contracts are on a take-or-pay basis – which means the purchaser pays the full price for all the water whether they use it or not – these contracts help mitigate a portion of the fluctuation in retail water sales caused by weather.

The only exception to the take-or-pay arrangement of these contracts is that Park City only pays for actual powers costs incurred for its actual usage. If they use more water, the revenue generated by the District will increase the same amount as the power costs.

3.04 District Water Production

As shown in Figure 5, District water production increased significantly in 2012 when Park City began wheeling a large portion of its water through the Lost Canyon project.

Production increased notably again in 2015 when Summit Water started taking water under the Weber Basin regionalization agreement.

Production for 2019 is now projected to be 5,550 acre-feet, which is 251 acre-feet more than is currently forecast for 2018 due to strong customer growth.

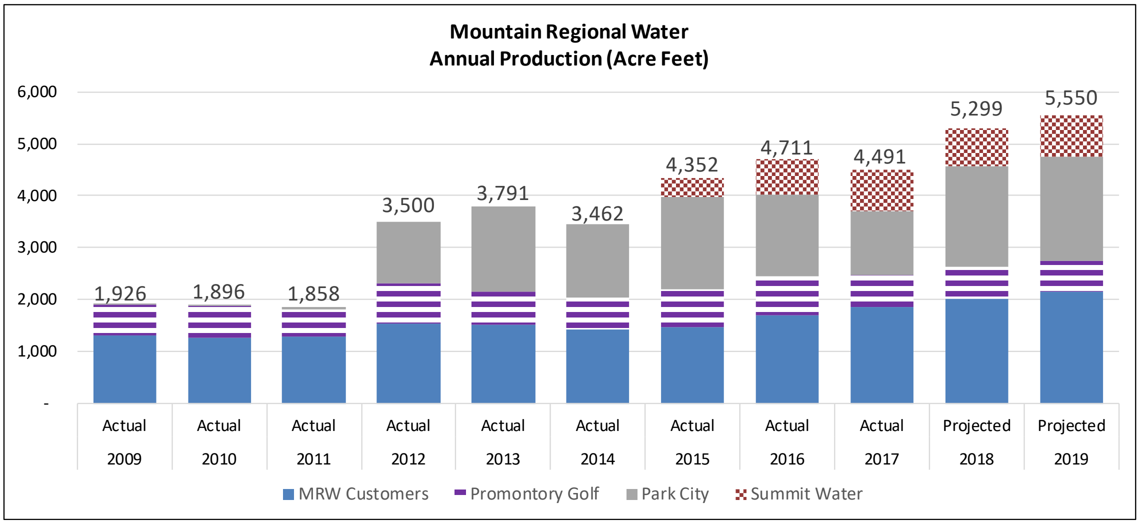

Figure 5: Annual Production (Acre Feet)

3.05 Operations Expense Contingency

In the 2019 budget, the District assumes it will need to pump water during the day, when on-peak power rates are in effect, for a three-month period during the year, despite using average water sales revenue projections. This is done in case the District temporarily needs to pump water during on-peak power rates, or if unusually hot dry weather is experienced.

This practice provides $150,000 per year in operating expense contingencies – which is the amount of operating expense contingency included in the 2019 budget.

Prior to 2018, the District was able to pump off-peak and take advantage of lower rates, which can be seen in Figure 6 below. However, in 2018 due to hot dry weather and Park City taking more water than in prior years, the District needed to pump on-peak at times during the summer and accordingly used a portion of this contingency.

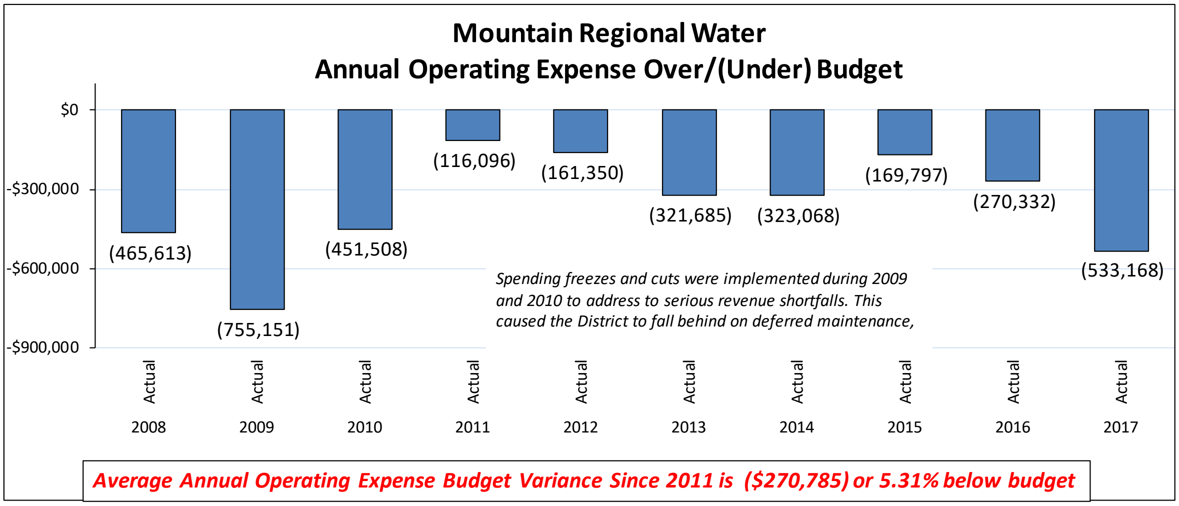

Figure 6: Annual Operating Expense Over/(Under) Budget

3.06 Rate Stabilization Fund

The District's general bond indenture allows it to establish a *Rate Stabilization Fund* that is available to cover revenue shortfalls and/or unexpected expenditures. This is critical for the District as it provides a healthy cushion of cash reserves since its revenue varies significantly year-to-year due to both changing weather patterns and the building cycle.

The *Rate Stabilization Fund* has three components:

<u>Rate Stabilization Fund – Bond Reserves</u> **-** These reserves can only be applied to scheduled annual debt payments in the event cash flow in any given year is insufficient to make those payments. District policy prohibits using these funds when calculating debt coverage for budgeting purposes.

In the event the reserve balance falls below $1.0 million, policy requires the District to restore it to $1.0 million within three years. The projected 2018 year-end reserve balance is $1.1 million. The District has never needed to use these funds.

<u>Rate Stabilization Fund – Treatment Plant Operations</u> – Each year, the District budgets one-tenth of the projected ten-year cost for treatment plant carbon and membrane filters. These items are purchased every few years at a cost of several hundred thousand dollars. As such, budgeting for these only in years when they are purchased would lead to swings in debt coverage, and possibly rates. Therefore, if the amount expended for these items is below the budget amount at year-end, the difference is deposited into this reserve until it reaches $750,000; while if the amount expended exceeds the budget amount, the difference is drawn from this reserve to supplement ongoing revenue in that year.

District Policy allows these funds to be included in debt coverage calculations for budget purposes only up to the amount that the actual projected cost for any given year exceeds the base budget amount (which is the ten-year average). Actual debt coverage calculations can only include the actual annual cost for carbon and membranes, less the base budget amount.

The current base budget is $135,000 per year. For 2019, it is estimated $125,000 will be used for carbon replacement and membranes. The year-end 2018 balance is projected to be $215,000.

<u>Rate Stabilization Fund - Expanded Lost Creek Canyon Repair and Replacement</u> – The District has a contract with Park City that requires it and Park City to deposit a fixed amount into this reserve each month. These funds can only be used to make major repairs to Lost Canyon or to replace expensive equipment. The 2018 projected year-end balance is expected to exceed $400,000. If the balance in this fund reaches $1.0 million, no additional deposits from Park City and the District will be required until it falls below $1.0 million again.

3.07 Debt Coverage Ratio

Per bond covenants, the District must budget for 1.25 parity debt coverage each year; meaning once all cash operational costs are paid, the remaining budgeted cash revenue must be equal to 1.25 times that year's scheduled parity bond principal and interest payments (see ***Section 5.0***). This 1.25 coverage requirement is a significant driver of rates and fees.

Mountain Regional Water
Parity Debt Service Coverage Ratio

	2016 Actual	2017 Actual	2018 Projected	2019 Budget
Water Sales	$ 7,384,473	$ 7,652,899	$ 7,879,200	$ 8,090,300
Park City Wheeling	629,928	583,457	680,000	707,200
Weber Basin Regionalization Collectio	684,600	889,600	940,800	1,003,200
Operating Fees	407,984	442,186	375,000	300,000
Impact Fees	1,204,382	1,459,348	1,100,000	700,000
Promontory Developer Assessments	1,742,175	1,674,531	1,787,800	387,100
Stagecoach Assessments	182,038	188,280	207,000	163,000
Community Water Assessments	-	-	-	79,500
Interest Available for Debt Service	111,291	173,091	290,000	254,300
Other Non-restricted Revenue	114,908	143,419	210,000	80,000
Treatment Plant Stabilization Fund	87,968	-	78,500	85,000
Total Cash Available for Debt Service	12,549,747	13,206,811	13,548,300	11,849,600
Cash Operating Expenses	(5,530,046)	(5,605,845)	(6,543,400)	(7,039,200)
Net Cash Available for Debt Service	7,019,701	7,600,966	7,004,900	4,810,400
Parity Debt Service Payments	3,747,398	3,695,368	3,314,500	3,330,100
Debt Service Coverage	1.87	2.06	2.11	1.44

Table 1: Parity Debt Service Coverage Ratio

As shown in Table 1 above, the District has had strong debt coverage ratios the past few years, largely due to strong development related collections, and hot dry weather. It is likely development related collections will decline at some point, and it is unlikely the hot dry weather will continue indefinitely. Due to the volatility of these revenue sources, 2019 budget projections are based on more conservative rolling averages as previously discussed.

For 2019, the ratio drops significantly to 1.44 due to the decrease in Promontory Developer Assessments, causing a reduction in net cash available for debt service. See ***Section 3.10*** for further discussion on how debt payments add to the necessity of a 3% rate increase in 2019. The ratio, with the proposed rate increase is held above the 1.25 required per bond covenants. The ratio if subordinate debt is included is projected to be 1.34; the District goal 1.35, in order to allow for a contingency and sufficient funds for capital projects.

3.08 District Cash & Reserves

As shown in Figure 7 below, District cash and reserves (excluding cash held by the bond trustee for debt payments and capital projects) have slowly, but steadily improved since 2011.

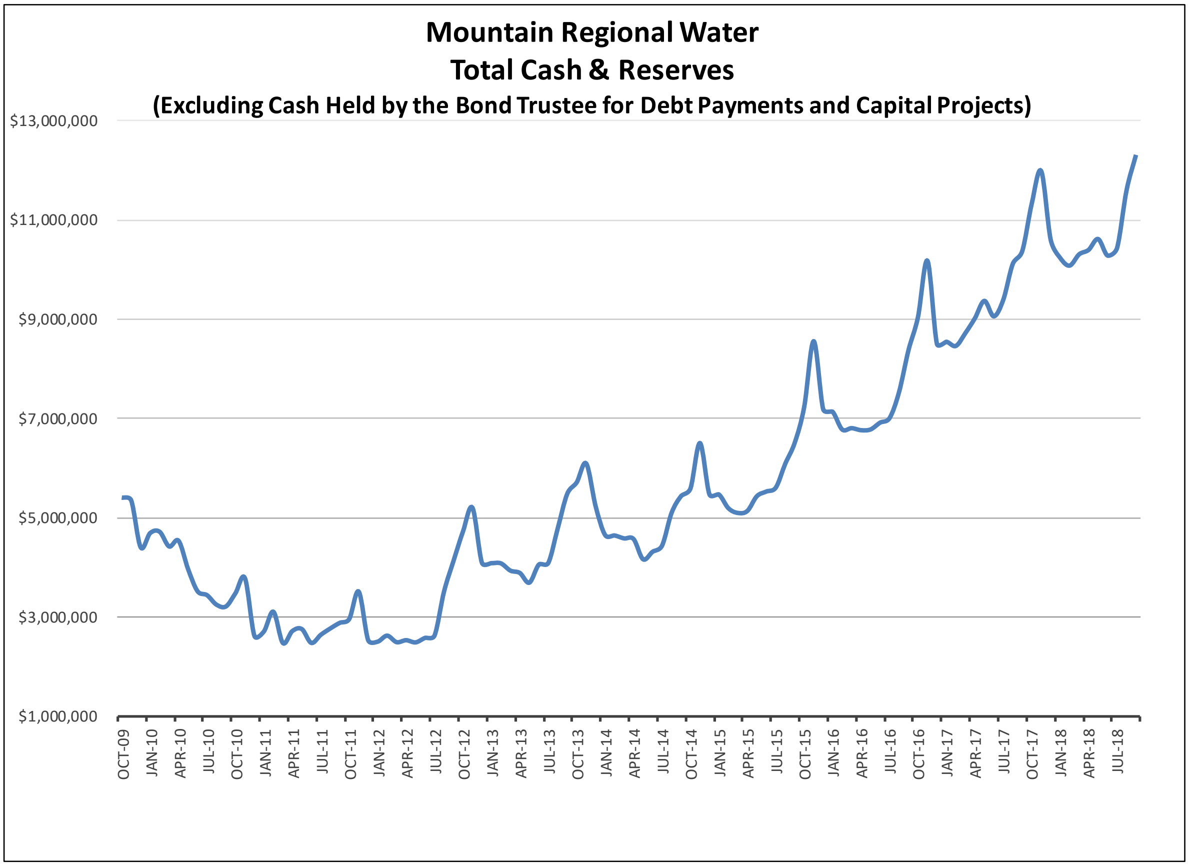

Figure 7: Total Cash & Reserves

This upward trend can be attributed to the following factors:

1) Three successive years of hot dry weather;
2) A strong local building economy leading to record development related collections;
3) Debt restructuring;
4) The establishment of a $1.0 million rate stabilization fund to replace required bond reserves held by the trustee; and
5) Rate and fee increases.

However, this upward trend will end soon as debt payments increase, cash reserves are applied to small capital projects, and callable debt is prepaid in 2021.

The District planned to use a portion of these reserves to defease debt in December 2018. However, due to legislation passed in early 2018, the defeasance process is no longer an option for the District. Accordingly, the District plans to prepay debt through a call, which will be allowed on the Series 2012 bonds starting in December 2021.

Unrestricted Operating Cash and Reserves

Unrestricted Operating Cash and Reserves can be used for any legitimate District purpose; while restricted cash can only be used for specific purposes outlined in state law, District policy, or contractual arrangements. Although cash restricted by District policy is considered unrestricted by governmental accounting standards, they are considered restricted for this analysis.

Unrestricted Operating Cash and Reserves excludes all required capital facility repair, stabilization, impact fee, and assessment reserves held by the District. It also excludes bond proceeds, customer deposits, and debt reserves held by the bond trustee.

As shown in Figure 8 below, *Unrestricted Operating Cash and Reserves* has steadily increased since 2015 due to three years of successive hot dry weather and rate and fee increases. Additionally, although to a slightly lesser extent, the strong building economy the past five years provided an impact, due to higher operating (new meter) fee collections. However, most of the additional revenue generated from a strong building economy is deposited into *Debt Reserves Held by the District* discussed later.

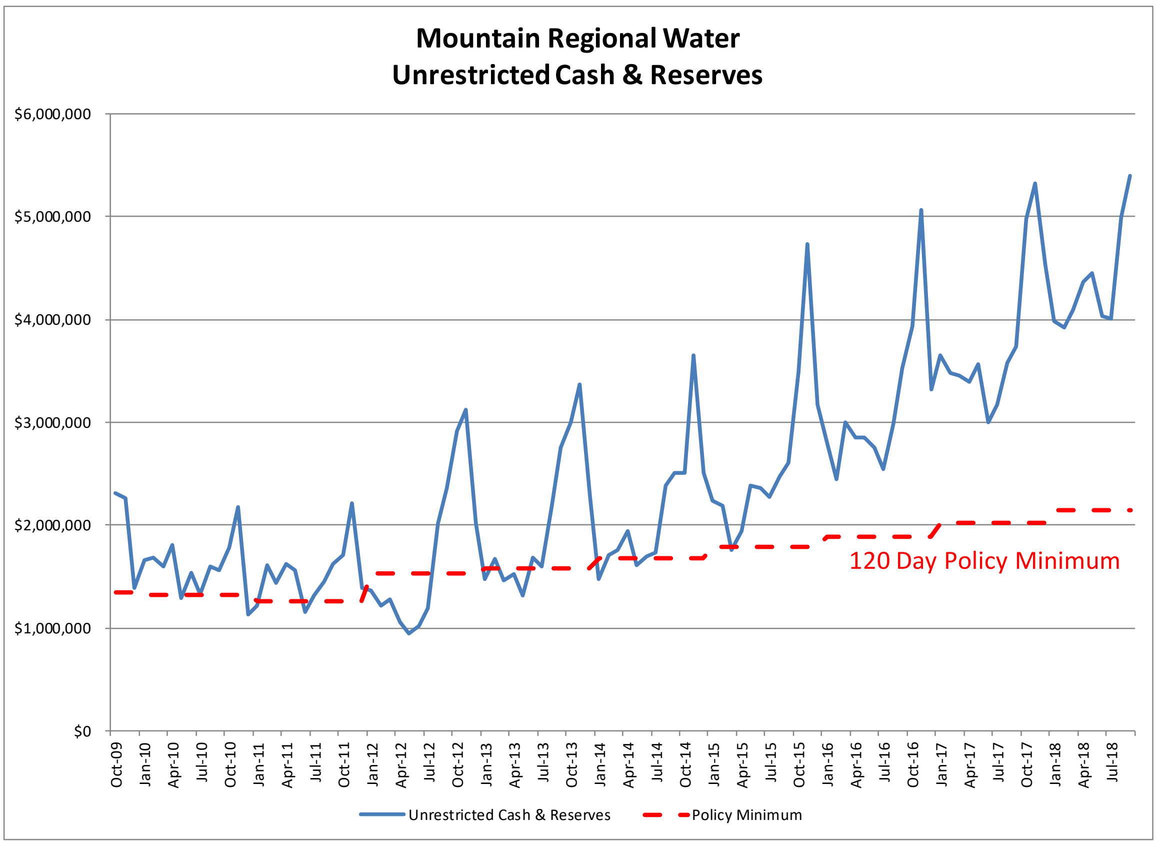

Figure 8: Unrestricted Cash & Reserves

The peaks each year shown in Figure 8 are from summer water sales collections, while the sharp decline once each year is due to large annual Weber Basin lease payments. *Unrestricted Operating Cash and Reserves* have remained above the policy minimum of 120 days reserves (based on budgeted annual cash operating expenses) since 2015. These reserves dropped below the minimum amount several times between 2009 and 2014 due to cool wet weather and lower operating (new meter) fee collections during the recession that started in 2008.

Debt Reserves Held by the District

The District chose, by policy, to hold additional debt reserves beyond those held by the bond trustee in order to mitigate potential revenue shortfalls due to the wide fluctuations in building related revenue and changing weather patterns; as well as for unexpected expenditures.

This included the decision to establish a $1.0 million *Rate Stabilization Fund* (see **Section 3.06)** that led to a net $2.5 million reduction in debt reserves; as the amount of reserves that would have otherwise been required for the Series 2012 and Series 2014 bonds would have increased the amount of those bonds by $3.5 million, greatly increasing annual interest expense. The impact from using District held reserves to cover revenue shortfalls has much less negative impact when compared to the impact if trustee held debt reserves are used.

As shown in Figure 9 below, *Debt Reserves Held by the District* increased dramatically the past six years due to improved building related collections and the establishment of the *Rate Stabilization Fund*.

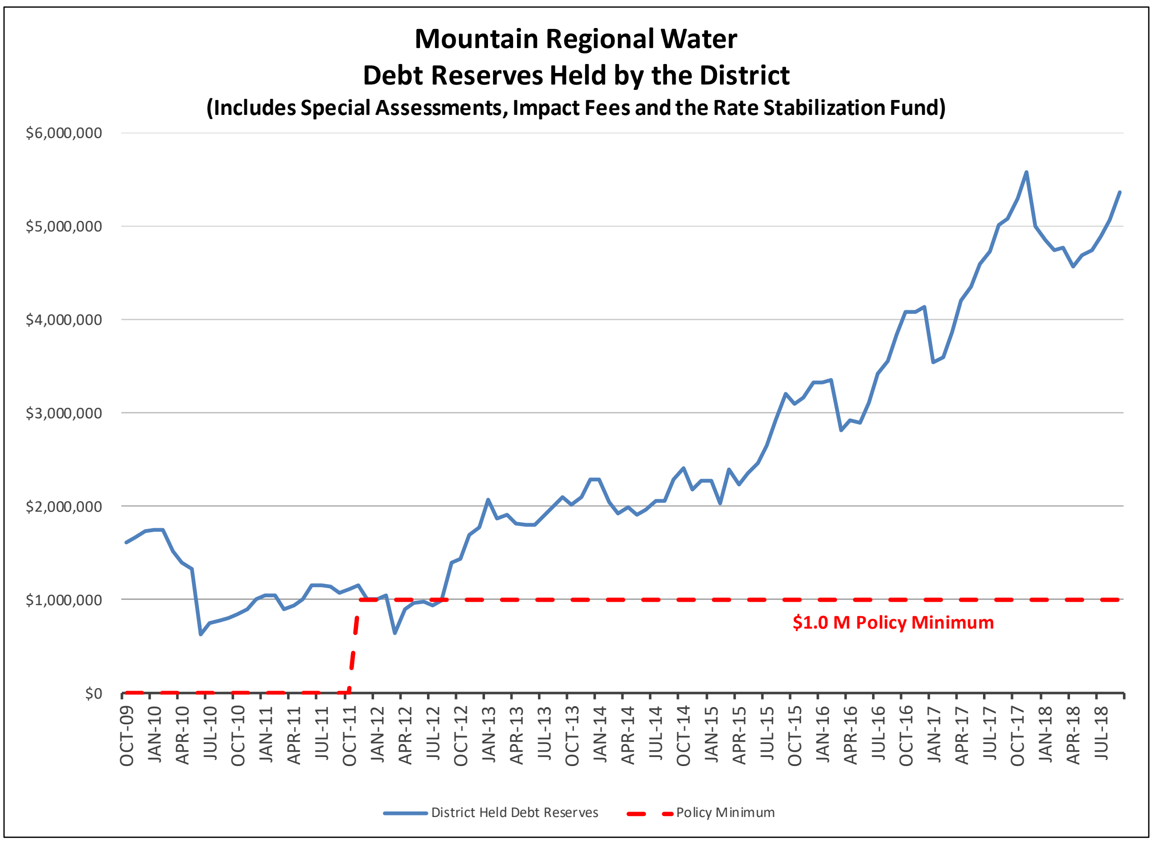

Figure 9: Debt Reserves Held by the District

A portion of these reserves can only be used to make debt payments in years when revenue does not meet projections, or unanticipated expenditures are incurred. On the other hand, impact fee and assessment reserves can also be used to prepay debt. In fact, impact fee and assessment reserves were used during the 2008 to 2012 recession to make debt payments.

If these reserves are healthy, as they are now, the District typically prepays debt on its callable bonds. Currently, no market bonds are callable until those due in December 2022. Accordingly, the District will use a portion of reserves starting in December 2021 (in addition to the regionalization reserves) to prepay debt due in 2022 and 2023 to help reduce rate increases that would otherwise be needed.

Impact fees, which represent almost half of these reserves, experience wide swings in annual collections, as shown on Figure 4 in ***Section 3.02.*** The extreme volatility in impact fee collections year-to-year makes these reserves critical, as annual collections have ranged from a low of $196,067 in 2012 to a high of $1.46 million in 2017.

It is critical the District not become too reliant on strong building related collections to meet its 1.25 bond coverage requirements. Otherwise, large rate and fee increases might be needed when the building economy slows; or serious expense cuts might be needed that result in the District falling behind on system maintenance as happened in 2009 and 2010.

<u>Capital Facility Repair & Replacement Reserves</u>

The District seeks to keep $750,000 to $1.0 million in reserves to fund unanticipated large repairs and non-bonded capital improvements. Currently, these reserves are $1.26 million.

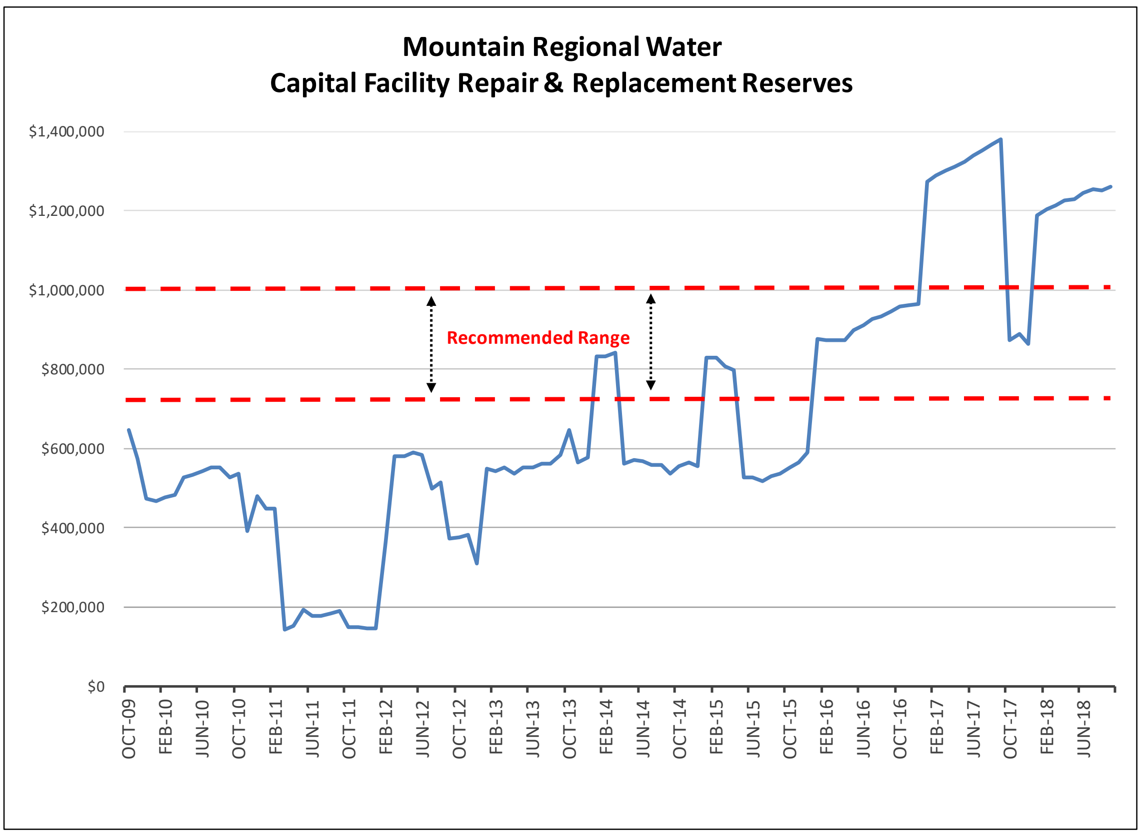

Figure 10: Capital Facility Repair & Replacement Reserves

The District used $500,000 of these reserves in 2017 to fund its meter upgrade program. These new meters provide both the District and customers access to hourly reads on both smart phones and the Internet to help monitor usage and more quickly identify leaks. By year-end 2018, capital facility reserves are projected to be close to $1.31 million – allowing the excess to be used to fund the meter upgrade program and for other capital projects in 2019 and 2020.

2019 Budgeted Cash Change

As shown below, the 2019 budget projects a $1.15 million cash increase, excluding capital budget items being funded with bond proceeds or with current cash on hand.

Mountain Regional Water
2019 Operating Budget - Accrual and Cash Basis
Enterprise Fund

	2019 Control Board Recommended Accrual Basis	2019 Control Board Recommended Cash Basis
OPERATING REVENUE		
Retail Water Sales	$ 8,090,300	$ 8,090,300
Park City Wheeling	707,200	707,200
Weber Basin Regionalization Collections	1,003,200	1,003,200
Operating Fees	300,000	300,000
Other	50,000	50,000
Total Operating Revenue	**10,150,700**	**10,150,700**
OPERATING EXPENSES		
Operations		
Energy & Resource Management	576,800	576,800
Lost Canyon Transmission	1,803,800	1,803,800
Treatment	765,600	765,600
Distribution	2,316,200	2,316,200
Safety	69,100	69,100
General Manager		
Engineering & Development	345,900	345,900
Human Resources	121,900	121,900
Legal Services	66,000	66,000
Public Services	558,100	558,100
Financial Management	415,800	415,800
Depreciation Expense	1,862,300	-
Total Operating Expense	**8,901,500**	**7,039,200**
OPERATING INCOME	**1,249,200**	**3,111,500**
NON-OPERATING REVENUE		
Interest Earnings - Available for Debt Service	254,300	254,300
Interest Earnings - Not Available for Debt Service	2,600	-
Impact Fees	700,000	700,000
Promontory Developer Assessments	387,100	387,100
Stagecoach Infrastructure Assessments	163,000	163,000
Community Water Assessments	79,500	79,500
Other Cash Non-operating Revenue	30,000	30,000
Non-Cash Non-operating Revenue	11,700	-
Total Non-Operating Revenue	**1,628,200**	**1,613,900**
NON-OPERATING EXPENSE		
Interest Expense/Bank Fees	1,473,400	1,580,900
Bond Principal Payments	-	2,000,700
Bond Issuance Expenses	6,500	-
Total Non-Operating Expense	**1,479,900**	**3,581,600**
NON-OPERATING INCOME	**148,300**	**(1,967,700)**
CHANGE IN NET POSITION (NET INCOME BEFORE TRANSFERS)	**1,397,500**	**1,143,800**
TRANSFERS		
Contingency	-	-
Governmental Transfers	-	-
Contributions in Aid of Construction	-	-
NET TRANSFERS	**-**	**-**
CHANGE IN NET POSITION (NET INCOME AFTER TRANSFERS)	**$ 1,397,500**	**$ 1,143,800**

The District plans to allocate the $1.14 million cash increase as follows:

Capital Facility Reserves Mandatory Deposit	$ 352,000
Community Water Assessments Deposit	79,500
Regionalization Reserves	301,000
Capital Projects	411,300
Total	**$ 1,143,800**

3.09 Personnel & Compensation

The 2019 budget includes one new position for a Level 1 Operator in the Distribution department. To keep up pace with increased operating and maintenance responsibilities resulting from the Community Water annexation.

Additionally, it includes funding for a 3.0% COLA and a 3.0% average merit pay increase, which is consistent with Summit County's projected increases for its employees.

3.10 Rate Increase Needed in 2019

Due to an increase in scheduled debt payments in 2019, along with the new annual $245,000 Weber Basin regionalization fee the District will start paying in January 2020, rate and fee increases for District customers will be needed to maintain a balanced budget and debt service coverage.

In 2018 there was a one-time drop in debt service requirements, as noted in the Table 2 below, however in 2019 debt service costs are increasing due to the loss of Promontory assessment revenue from the Series 2009 Bonds, which will be paid off in December 2018. The actual increase in debt service payments made by the District between 2017 and 2019 is $808,179.

Table 2: Existing Scheduled Debt Service Payments

Year	Debt Payments	Payments With 1.25 Coverage	Paid by Promontory	Debt Paid by MRW	Annual Change	Change 2017 to 2019
2017	3,897,369	4,871,711	1,617,325	3,254,386		
2018	3,544,046	4,430,058	1,787,775	2,642,283	***(612,104)***	
2019	3,559,742	4,449,678	387,113	4,062,565	***1,420,283***	***808,179***
2020	3,909,917	4,887,396	389,413	4,497,984	***435,419***	
2021	3,910,629	4,888,286	386,438	4,501,849	***3,865***	
2022	3,902,117	4,877,646	383,325	4,494,321	***(7,528)***	
2023	3,912,029	4,890,036	385,075	4,504,961	***10,640***	

This does not include the $245,000 annual regionalization fee that starts in January 2020.

The District engaged Zions Bank in June 2018 to assist in rate model development due to these increasing debt service payments, rapid customer growth and inflationary costs resulting in increased operating expenses. Rates must be designed to keep up with these changes as well as to maintain sufficient debt coverage ratios in order to meet bond covenants, and be structured fairly and equitably to serve customer needs.

This rate study confirmed the need for rate and fee increases beginning in 2019 in order to help facilitate revenue generation to cover the increase in debt service along with increasing costs. The District has adopted a 3% increase to base and usage fees beginning in 2019.

As revenue growth is very difficult to forecast, the District's approach is to initiate the 3% rate increase in 2019 and plan to continue with smaller rate increases each year, as necessary, to cover rising costs.

However, new growth and weather patterns can lead to significant variances, thus each year the rate model will be updated to reflect those building and weather patterns so the District can more appropriately react to trends and adjust rate increases accordingly.

The District has had only three rate increases since its inception in 2000, which led to higher more abrupt changes. The recommended methodology moving forward is to do small, more gradual, rate increases annually in conjunction with the annual budgeting process.

In an effort to plan for increasing debt payments in 2019, the District established a *Regionalization Reserve Fund* in 2015 into which it has been, and will continue to deposit in 2019, 30.0% of the revenue collections generated from selling wholesale water under the Western Summit County Project Master Agreement. At year-end 2018, the projected balance in this fund is $1.47 million, and by December 2019 it is projected to be $1.81 million.

The District originally planned to use a portion of these funds in December 2018 to defease debt due between 2019 and 2021 to reduce the annual debt service requirements in those years. As mentioned previously, due to legislation passed in early 2018, the option to defease debt before 2021 is no longer available to the District. Accordingly, the funds will be used to prepay debt that becomes callable in December 2021. This will allow the District to phase in any additional rate increases over several years.

As shown in Table 2 above, debt service costs are flat between 2020 and 2023 as well as into future years. The District does not currently plan to bond for any future capital projects.

4.0 2019 OPERATING BUDGET

4.01 Summary

As shown below, projected 2019 *Net Income after Transfers* is $1.40 million on an accrual basis.

Mountain Regional Water
2019 Operating Budget - Accrual Basis
Enterprise Fund

	2017 Actual	2018 Adopted Budget	2018 Proposed Amended	2019 Control Board Recommended	2019 Recommend to 2018 Amended
OPERATING REVENUE					
Retail Water Sales	$ 7,652,899	$ 7,348,900	$ 7,381,600	$ 8,090,300	$ 708,700
Park City Wheeling	583,457	615,200	615,200	707,200	92,000
Weber Basin Regionalization Collections	889,600	940,800	940,800	1,003,200	62,400
Operating Fees	442,186	279,000	279,000	300,000	21,000
Contract Maintenance	65	2,500	2,500	-	(2,500)
Other	73,795	50,000	50,000	50,000	-
Total Operating Revenue	**9,642,002**	**9,236,400**	**9,269,100**	**10,150,700**	**881,600**
OPERATING EXPENSES					
Operations					
Energy & Resource Management	442,218	560,200	560,200	576,800	16,600
Lost Canyon Transmission	1,355,781	1,647,700	1,647,700	1,803,800	156,100
Treatment Plant	624,494	711,400	711,400	765,600	54,200
Distribution	1,979,424	2,168,200	2,168,200	2,316,200	148,000
Safety	51,698	55,400	55,400	69,100	13,700
General Manager					
Engineering & Development	250,655	283,000	321,100	345,900	24,800
Human Resources	83,690	126,600	126,600	121,900	(4,700)
Legal Services	29,680	50,000	34,000	66,000	32,000
Public Services	476,024	545,200	545,200	558,100	12,900
Financial Management	312,180	363,000	373,600	415,800	42,200
Depreciation Expense	1,579,364	1,762,300	1,762,300	1,862,300	100,000
Total Operating Expense	**7,185,208**	**8,273,000**	**8,305,700**	**8,901,500**	**595,800**
OPERATING INCOME	**2,456,794**	**963,400**	**963,400**	**1,249,200**	**285,800**
NON-OPERATING REVENUE					
Interest Earnings - Available for Debt Service	173,091	126,600	138,000	254,300	116,300
Interest Earnings - Not Available for Debt Service	3,896	500	500	2,600	2,100
Impact Fees	1,459,348	600,000	600,000	700,000	100,000
Promontory Developer Assessments	1,674,531	1,787,800	1,787,800	387,100	(1,400,700)
Stagecoach Assessments	188,280	163,000	163,000	163,000	-
Community Water Assessments	-	-	-	79,500	79,500
Other Cash Non-operating Revenue	69,559	30,000	30,000	30,000	-
Non-Cash Non-operating Revenue	11,667	11,700	11,700	11,700	-
Total Non-Operating Revenue	**3,580,372**	**2,719,600**	**2,731,000**	**1,628,200**	**(1,102,800)**
NON-OPERATING EXPENSE					
Interest Expense/Bank Fees	1,482,967	1,483,100	1,494,500	1,473,400	(21,100)
Bond Issuance Costs and Amortization Expense	15,734	15,800	15,800	6,500	(9,300)
Total Non-Operating Expense	**1,498,701**	**1,498,900**	**1,510,300**	**1,479,900**	**(30,400)**
NON-OPERATING INCOME	**2,081,671**	**1,220,700**	**1,220,700**	**148,300**	**(1,072,400)**
CHANGE IN NET POSITION (NET INCOME BEFORE TRANSFERS)	**4,538,465**	**2,184,100**	**2,184,100**	**1,397,500**	**(786,600)**
TRANSFERS					
Contributions in Aid of Construction	1,284,366	-	-	-	-
NET TRANSFERS	**1,284,366**	**-**	**-**	**-**	**-**
BUDGET CHANGE IN NET POSITION (NET INCOME AFTER TRANSFERS)	**$ 5,822,831**	**$ 2,184,100**	**$ 2,184,100**	**$ 1,397,500**	**$ (786,600)**
GASB 68 ACTUAL RETIREMENT ADJUSTMENTS	*(94,103)*	*TBD*	*TBD*	*TBD*	*N/A*
ACTUAL CHANGE IN NET POSITION (NET INCOME AFTER TRANSFERS)	**$ 5,728,728**	**$ 2,184,100**	**$ 2,184,100**	**$ 1,397,500**	**N/A**

The actual amounts shown above in the program expense budgets have been adjusted to remove the non-cash GASB 68 retirement accrual. This is done to provide a much better year-over-year budget comparison.

The annual non-cash accruals for retirement expense are not included in the 2019 budget, since the amount won't be known until well after the fiscal year ends. As such, all prior year actual amounts include cash retirement expense for comparison purposes rather than the accrued expense.

4.02 2019 Revenue

Operating Revenue

As shown in Table 3, the District projects $10.15 million in 2019 *Operating Revenue* - which is $914,300 (9.9%) higher than was budgeted for 2018; and $225,700 (2.3%) more than is now projected for 2018. Another unusually hot dry summer experienced in 2018 has led to higher water consumption and an associated increase in retail water sales estimated at $530,300 (7.2%).

Table 3: Operating Revenue

Operating Revenue

	2017 Actual	2018 Adopted Budget	2018 Projection		2019 Control Board Recommended	2019 Recommended to 2018 Budget $ Change	% Change	2019 Recommended to 2018 Projection $ Change	% Change
Retail Water Sales	$ 7,652,899	$ 7,348,900	$ 7,879,200		$ 8,090,300	$ 741,400	*10.1* %	$ 211,100	*2.7* %
Park City Wheeling Fees	583,457	615,200	680,000		707,200	92,000	*15.0*	27,200	*4.0*
Weber Basin Regionalization Collections	889,600	940,800	940,800		1,003,200	62,400	*6.6*	62,400	*6.6*
Operating Fees	442,186	279,000	375,000		300,000	21,000	*7.5*	(75,000)	*(20.0)*
Contract Maintenance	65	2,500	-		-	(2,500)	*(100.0)*	-	*n/a*
Other	73,795	50,000	50,000		50,000	-	-	-	-
Total Operating Revenue	**$ 9,642,002**	**$ 9,236,400**	**$ 9,925,000**		**$ 10,150,700**	**$ 914,300**	**9.9 %**	**$ 225,700**	**2.3 %**
			$ 688,600	*7.5%*					

The 2019 *Retail Water Sales* budget of $8.09 million is $741,400 (10.1%) higher than the 2018 budget. This is the result the 3% rate increase effective January 1, 2019, combined with approximately 80 new customers using water that will generate additional revenue.

The 2019 retail water sales budget is $211,100 (2.7%) higher than now projected for 2018 due to the 2019 rate increase as well as new customer growth. Partially offset by, budget projections based on average customer usage over 2015-2017 which is lower than the 2018 usage numbers seen due to the hot dry summer.

An increase of 4.0% is projected for *Park City Wheeling Fees* in 2019 due to increasing Lost Canyon production costs, as well as higher power costs, as Park City took significant amounts of additional water in 2018 due to repairs being completed at their Quinn's Junction treatment plant.

Weber Basin Regionalization Collections will increase $62,400 (6.6%) to $1.0 million in 2019 due to the pass-thru of higher production and treatment costs.

Operating Fees (including new meter fees) are projected to be $300,000 in 2018 – which is $21,000 (7.5%) more than budgeted for 2018. Although actual 2018 collections will exceed budget due to strong customer growth and from new meter fees collected from condo/apartment complexes at Blackstone Flats (LV4), continued strong customer growth is expected in 2019 with the addition of units in Silver Creek Village.

Non-operating Revenue

As shown in Table 4, *Non-operating Revenue* is projected to be $1.63 million in 2019. This is a $1.1 million (40.1%) decrease when compared to the 2018 budget, as contractually required *Promontory Developer Assessments* are decreasing $1.4 million (78.3%) in 2019. The portion of 2019 debt payments funded by Promontory assessments is decreasing by this same amount.

Table 4: Non-operating Revenue

Non-operating Revenue

	2017 Actual	2018 Adopted Budget	2018 Projection		2019 Control Board Recommended	2019 Recommended to 2018 Budget $ Change	% Change	2019 Recommended to 2018 Projection $ Change	% Change
Interest Earnings	$ 176,987	$ 127,100	$ 297,500		$ 256,900	$ 129,800	*102.1*	$ (40,600)	*(13.6)* %
Impact Fees	1,459,348	600,000	1,100,000		700,000	100,000	*16.7*	(400,000)	*(36.4)*
Promontory Developer Assessments	1,674,531	1,787,800	1,787,800		387,100	(1,400,700)	*(78.3)*	(1,400,700)	*(78.3)*
Stagecoach Assessments	188,280	163,000	207,000		163,000	-	-	(44,000)	*(21.3)*
Community Water Assessments	-	-	-		79,500	79,500	*n/a*	79,500	*n/a*
Other Cash Non-operating Revenue	69,559	30,000	160,000		30,000	-	-	(130,000)	*(81.3)*
Non-Cash Non-operating Revenue	11,667	11,700	11,700		11,700	-	-	-	-
Total Non-operating Revenue	**$ 3,580,372**	**$ 2,719,600**	**$ 3,564,000**		**$ 1,628,200**	**$ (1,091,400)**	**(40.1)** %	**$ (1,935,800)**	**(54.3)** %
			$ 844,400	*31.0%*					

Interest Earnings are projected to increase $129,800 (102.1%) in 2019 when compared to the 2018 budget due to a series of increases in the interest rate paid by the Public Treasurers Investment Fund (PTIF) during 2017 and 2018. Most District cash reserves are deposited with the PTIF, which typically provides better returns than other potential investments that comply with state law for local governments.

The $700,000 projection for 2019 *Impact Fees* is $100,000 (16.7%) higher than the 2018 budget. This is based upon the District's ten-year moving average for impact fee collections.

This average impact fee is lower than the $10,513 base fee since many prepaid connections are being used, plus many of the new water connections are in Promontory - which has a lower impact fee since most of its infrastructure was funded with special assessment bonds.

It is difficult to forecast impact fees for three reasons:

1) New development is cyclical and unpredictable;
2) Developers are exercising or selling their excess prepaid District connections; and
3) The impact fee for homes is based upon livable square footage – which varies drastically among the District's service areas.

Thus, it is District practice to forecast impact fees budget based upon the ten-year moving average for new water connections which is 80 new connections. However, the average impact fee has increased recently as homes with larger impact fees have been collected.

4.03 2019 Expenses

Operating Expenses

The 2019 *Operating Expense* budget is $8.90 million, which is $595,800 (7.2%) higher than the 2018 Proposed Amended Budget, as shown in Table 5.

Table 5: Operating Expenses

Operating Expense	2017 Actual	2018 Adopted Budget	2018 Amended	2019 Recommended	2019 Recommended to 2018 $ Change	% Change
Operations						
Energy & Resource Management	$ 442,218	$ 560,200	$ 560,200	$ 576,800	$ 16,600	
Lost Canyon Transmission	1,355,781	1,647,700	1,647,700	1,803,800	156,100	
Treatment Plant	624,494	711,400	711,400	765,600	54,200	
Distribution	1,979,424	2,168,200	2,168,200	2,316,200	148,000	
Safety	51,698	55,400	55,400	69,100	13,700	
Subtotal Operations	**4,453,615**	**5,142,900**	**5,142,900**	**5,531,500**	**388,600**	***7.6*** %
General Manager						
Engineering & Development	250,655	283,000	321,100	345,900	24,800	
Human Resources	83,690	126,600	126,600	121,900	(4,700)	
Legal Services	29,680	50,000	34,000	66,000	32,000	
Public Services	476,024	545,200	545,200	558,100	12,900	
Financial Management	312,180	363,000	373,600	415,800	42,200	
Subtotal Other Departments	**1,152,229**	**1,367,800**	**1,400,500**	**1,507,700**	**107,200**	***7.7*** %
Depreciation Expense	1,579,364	1,762,300	1,762,300	1,862,300	100,000	
Non-Cash Expenses	**1,579,364**	**1,762,300**	**1,762,300**	**1,862,300**	**100,000**	***5.7*** %
Total Operating Expense	**$ 7,185,208**	**$ 8,273,000**	**$ 8,305,700**	**$ 8,901,500**	**$ 595,800**	***7.2*** **%**
Total Cash Operating Expense	*5,605,844*	*6,510,700*	*6,543,400*	*7,039,200*	*495,800*	***7.6***

Non-cash Depreciation Expense is expected to increase $100,000 (5.7%) as the Silver Creek Tank and Pump Station is completed in December 2018.

Thus, the 2019 budgeted *cash increase* in *Operating Expenses* is $495,800 (7.6%). Of, this approximately $165,000 is for labor, power, lease fees and repair and maintenance costs for Community Water. If these additional costs are excluded (which were not included in the 2018 budget) the actual cash increase is $330,800 (5.1%). This 5.1% increase is consistent with the amount used for the 2018 Rate Study.

A full-time Water Quality technician promoted half-way through 2018 will be charged for a full year to *Engineering* in 2019. This explains the $24,800 increase in *Engineering & Development.*

Human Resources will decrease slightly as the Wellness Program previously provided by the District has been reduced in scope.

Legal Services increased $16,000 from the 2018 budget due to increased costs passed through from Summit County through the District's Interlocal agreement.

The $42,200 increase in *Financial Management* includes an additional $13,000 to fund consultant fees for the District's Capital Facility Plan to be completed in 2019. As well as the costs for a full-time CFO. As succession planning for the District continues and department efficiencies continue to be evaluated, billing and other cash receipting functions currently completed in Public Services will be moved to the Finance department.

Non-operating Expenses

Non-operating Expense consists of *Interest Expense / Bank Fees* and bond related expenses - including issuance costs. As shown below, the 2019 *Non-operating Expense* budget is $1.48 million, which is $19,000 (1.3% less) than the 2018 Proposed Amended Budget. The decline in scheduled 2019 interest payments is the result of 2018 principal payments.

Table 6: Non-operating Expenses

Non-operating Expense

	2017 Actual	2018 Adopted Budget	2018 Proposed Amended	2019 Recommended	2019 Recommended to 2018 Amended Budget $ Change	% Change
Interest Expense / Bank Fees	$ 1,482,967	$ 1,483,100	$ 1,483,100	$ 1,473,400	$ (9,700)	
Bond Issuance Costs & Amortization	15,734	15,800	15,800	6,500	(9,300)	
Total Non-operating Expense	**$ 1,498,701**	**$ 1,498,900**	**$ 1,498,900**	**$ 1,479,900**	**$ (19,000)**	***(1.3) %***

Although not included in the District's *Operating Budget*, principal payments are also increasing significantly in 2019 as discussed in ***Section 3.10***. Principal payments are only included in the *Debt Service Budget* discussed in ***Section 5.0***.

4.04 2019 Transfers

Although the District may receive subdivision infrastructure contributions from developers in 2019, no amount is budgeted since the value of *Contributions-in-Aid of Construction* is not known, and varies significantly year-over-year.

Table 7: Transfers

Transfers

	2016 Actual	2017 Adopted Budget	2017 Projection	2018 Control Board Recommended	2018 Recommended to 2017 Budget $ Change	% Change	2018 Recommended to 2017 Projection $ Change	% Change
Contingency	$ -	$ -	$ -	$ -	$ -		$ -	
Governmental Transfers	-	-	-	-	-		-	
Contributions in Aid of Construction	1,284,366	-	-	-	-		-	
Total Transfers	**$ 1,284,366**	**$ -**	**$ -**	**$ -**	**$ -**	**n/a %**	**$ -**	**n/a %**

Developers building within the District are required to pay for their own subdivision infrastructure and then transfer the related water assets to the District at the time the District approves them for use.

These are non-cash transfers that increase District's change in net position (net income) in the year they are made, but not cash flow. In future years these transfers increase non-cash

Depreciation Expense, and require operation, maintenance and repairs by the District, thereby reducing future change in net position (net income) and cash flow.

5.0 2019 DEBT SERVICE BUDGET

For 2019, the District projects a debt coverage ratio of 1.44 when only parity revenue bonds are included. As discussed in ***Section 3.07***, this ratio is required to meet or exceed 1.25 to comply with bond covenants.

MOUNTAIN REGIONAL WATER
2019 Debt Service Budget - Cash Basis

		2019
COVERAGE CALCULATION FOR PARITY REVENUE BONDS		
Operating Income (Loss)	$	1,249,200
Add Back Depreciation		1,862,300
Add In Interest Available for Debt Service		254,300
Add In Impact Fees		700,000
Add In Promontory SID Assessments on Developer		387,100
Add in Stagecoach Assessments		163,000
Add in Community Water Assessments		79,500
Add in Other Non-operating Income		30,000
Add in Treatment Plant Stabilization Fund		85,000
Total Available For Debt Service	**$**	**4,810,400**
TOTAL DEBT COVERAGE		
Required Coverage Principal	$	2,000,700
Required Coverage Interest/Bank Fees		1,580,900
Total Required Debt Service		**3,581,600**
Debt Service X 1.25	**$**	**4,477,000**
Total Debt Coverage Ratio		**1.34**
REQUIRED PARITY BOND DEBT COVERAGE		
Parity Bond Principal	$	1,861,000
Parity Bond Interest		1,469,100
Total Parity Debt Service		**3,330,100**
Debt Service X 1.25	**$**	**4,162,600**
Parity Debt Coverage Ratio		**1.44**
Cash Excess/(Shortfall)		**1,228,800**
Less Treatment Plant Stabilization Fund		(85,000)
Projected Cash Generated		**1,143,800**
Capital Facility Reserves		(352,000)
Community Water Assessments		(79,500)
Regionalization Reserves		(301,000)
Cash Available for Capital Budgets		**411,300**

It is District policy to budget to meet or exceed the 1.25 requirement when all bonds, including subordinated debt, are included. This is necessary to generate sufficient cash to make required deposits into cash reserve accounts, and to fund capital equipment and small capital projects in future years.

Although the District's bond indentures don't require subordinated debt to be included in the 1.25 coverage threshold, both bond holders and rating agencies include subordinated debt when assessing the risk of municipal revenue bonds.

The projected 1.34 coverage ratio for all 2019 scheduled debt payments would result in a $1.14 million cash increase, excluding cash spent on capital equipment and projects. The District plans to allocate this cash increase as shown at the bottom of the above table.

There are two exceptions to the District's policy to budget for a ratio of 1.25 from the current year cash flows:

1) Every few years, treatment plant maintenance costs will be higher than most other years as expensive membranes need to be replaced in eight to ten-year cycles rather than evenly over the ten-year period. Further, expensive carbon needs to be replaced every two to three years.

   As such, the District currently budgets $135,000 per year from ongoing revenue for these items. If expenses in any given year exceed budget, the balance is transferred from the treatment plant reserve fund and used to calculate debt coverage. If expenses are under budget, the difference is deposited into the treatment plant reserve fund.

2) Assessment related lot sales will exceed projections in some years, and fall below projections other years. The related assessments collected during the years with higher lots sales are deposited into a restricted fund, and may be included in debt coverage calculations in years when lots sales are below projections.

District policy prohibits including the $1.0 million *Rate Stabilization Fund – Bond Reserves* balance to calculate debt coverage for budgeting purposes. These funds are only included in debt coverage calculations at year-end if revenue falls significantly short of budget – or unanticipated expenditures are incurred. The District has never needed to use the funds.

6.0 CAPITAL BUDGET

The District is requesting $1.62 million in new capital spending appropriations for 2019, as shown below.

Mountain Regional Water
2019 Capital Budget

	2018 Adopted Budget	2018 Proposed Amendment	2018 Estimated Completed	2018 Estimated Carryover	Control Board Recommended Increases	2019 Total Estimate
CASH SOURCES						
Previous Year Budget Carryover	$ 157,500	$ -	$ 157,500	$ -	$ -	$ -
Cash Available from Previous Years	1,384,800	-	485,700	438,900	875,200	1,314,100
Cash Available in Excess of 1.25 Coverage	460,200	-	460,200	460,200	-	460,200
Series 2014 Bond Proceeds - MRW	2,143,200	-	2,143,200	-	-	-
Capitalized Items	83,200	-	83,200	-	-	-
Impact Fees	1,138,400	-	1,013,400	125,000	490,000	615,000
District Capital Reserves	792,500	-	792,500	-	250,000	250,000
Series 2018 Bond Proceeds - CW	-	2,600,000	-	2,600,000	-	2,600,000
TOTAL SOURCES	**$ 6,159,800**	**$ 2,600,000**	**$ 5,135,700**	**$ 3,624,100**	**$ 1,615,200**	**$5,239,300**
CASH USES						
Completed Projects						
Silver Creek Tank & Pump Station	$ 3,739,800	$ -	$ 3,554,800	185,000	$ -	$ 185,000
Continuing Projects						
Capitalized Personnel Costs	270,000	-	270,000	-	262,200	262,200
General System Improvements & Equipment	610,500	-	318,400	292,100	453,000	745,100
Meter Program	992,500	-	992,500	-	250,000	250,000
2019 Capital Projects						
Summit Park Restoration (Phase VI)	400,000	(200,000)	-	200,000	-	200,000
Willow Creek/Atkinson Inteconnect	125,000	-	-	125,000	-	125,000
Weber Basin Interconnection Project	-	-	-	-	350,000	350,000
Land Acquisition Well Site	22,000	200,000	-	222,000	-	222,000
Land Acquisition Office Site	-	-	-	-	300,000	300,000
Community Water Infastructure	-	2,600,000	-	2,600,000	-	2,600,000
TOTAL USES	**$ 6,159,800**	**$ 2,600,000**	**$ 5,135,700**	**$ 3,624,100**	**$ 1,615,200**	**$5,239,300**

Funding

No additional borrowing or financing is needed to fund the recommended $1.62 million capital budget increase.

Instead, it can be funded with $875,200 in cash available from prior years, $490,000 from impact fees and $250,000 from capital facility reserves.

Capitalized Personnel Costs

Since District employees spend a portion of their time working on or managing capital projects, the District capitalizes some personnel costs. For 2019, the budget includes $262,200 for this – which will be funded from cash on hand.

General System Improvements & Equipment

The budget includes $336,600 several small capital projects to upgrade pumps and SCADA equipment as well as for line extension and replacement. The remaining $116,400 is for vehicle replacement and a generator for the Old Ranch Road pump station.

Meter Replacement Program

The District is upgrading to meters that can be read hourly, with read information available to both the District and individual customers on the Internet or smart phones. This will allow both the District and customers to better monitor usage and identify potential leaks sooner. Over half of District customers now have the new meters installed.

The 2019 budget includes another $250,000 for the meter replacement program, which will be funded from capital facility reserves. This program will be completed in 2019.

2019 New Capital Projects

In 2019 the District will participate in a regionalization project, administered by Weber Basin, to construct several interconnect facilities. These interconnections will allow connectivity between Park City, Summit Water and the District. The cost is estimated at $1.0 million and will be split evenly between each of the three water entities.

The District will continue discussions in 2019 related to a future site for an office and shop complex. Several sites have been identified in the Silver Creek/Promontory area and the District has allocated $300,000 for this land acquisition.

2018 Carry-Over Capital Projects

The Silver Creek Tank and Pump Station will be complete by the end of the year. However, an additional pipeline needed to serve the tank is currently under review by the Environmental Protection Agency. It is anticipated this review will be complete by early 2019 and the pipeline can be completed in mid-2019.

The Willow Creek/Atkinson Interconnect project was delayed this year; however, the District anticipates this project to be completed in 2020. This interconnect will allow water to be transported to the Willow Creek area in the future without the need to pump it up to a tank in the higher elevation Colony development.

A few small general system improvements and a dump truck, approximately $292,100, originally scheduled for purchase in 2018 will be carried over to be purchased in 2019.

Phase VI of the Summit Park Restoration project and Land Acquisition – Well Site, are discussed below.

2018 Capital Budget Amendments

Two amendments are needed in the 2018 capital budget.

1) The first is needed to reallocate $200,000 from the Phase VI Summit Park Restoration project (originally scheduled for 2018 but will now be completed in 2019), to Land Acquisition – Well Site. The District will only be participating in a portion of the Phase VI Summit Park Restoration project, accordingly the $200,000 in savings can be allocated to a land purchase for the Community Water well site.

2) The second is for the $2,600,000 Community Water infrastructure loan which is anticipated to close by year-end.

7.0 2018 BUDGET AMENDMENTS

7.01 2018 Operating Budget

For the 2018 *Operating Budget*, three amendments are needed, totaling $48,700.

MOUNTAIN REGIONAL WATER
2018 Amended Operating Budget - Accrual Basis
Enterprise Fund

	2016 Actual	2017 Actual	2018 Budget	2018 Proposed Amended	2018 Amendments	2018 Projection	2018 Projection to Adopted
OPERATING REVENUE							
Retail Water Sales	$ 7,384,473	$ 7,652,899	$ 7,348,900	$ 7,381,600	$ 32,700	$ 7,879,200	$ 530,300
Park City Wheeling	629,928	583,457	615,200	615,200	-	680,000	64,800
Weber Basin Regionalization Fees	684,600	889,600	940,800	940,800	-	940,800	-
Operating Fees	407,984	442,186	279,000	279,000	-	375,000	96,000
Contract Maintenance	-	65	2,500	2,500	-	-	(2,500)
Other	68,056	73,795	50,000	50,000	-	50,000	-
Total Operating Revenue	**9,175,041**	**9,642,002**	**9,236,400**	**9,269,100**	**32,700**	**9,925,000**	**688,600**
OPERATING EXPENSES							
Operations Management							
Energy & Resource Management	580,822	442,218	560,200	560,200	-	560,200	-
Distribution	2,251,023	1,979,424	2,168,200	2,168,200	-	2,168,200	-
Lost Canyon Transmission	1,270,655	1,355,781	1,647,700	1,647,700	-	1,647,700	-
Treatment Plant	491,014	624,494	711,400	711,400	-	711,400	-
Safety	31,125	51,698	55,400	55,400	-	55,400	-
General Manager							-
Engineering & Development	101,184	250,655	283,000	321,100	38,100	321,100	38,100
Human Resources	91,417	83,690	126,600	126,600	-	126,600	-
Legal Services	13,306	29,680	50,000	34,000	(16,000)	34,000	(16,000)
Public Services	401,438	476,024	545,200	545,200	-	545,200	-
Financial Management	261,084	312,180	363,000	373,600	10,600	373,600	10,600
Depreciation Expense	1,474,478	1,579,364	1,762,300	1,762,300	-	1,762,300	-
Total Operating Expense	**6,967,546**	**7,185,208**	**8,273,000**	**8,305,700**	**32,700**	**8,305,700**	**32,700**
OPERATING INCOME	**2,207,495**	**2,456,794**	**963,400**	**963,400**	**-**	**1,619,300**	**655,900**
NON-OPERATING REVENUE							
Interest Earnings - Available for Debt Service	111,291	173,091	126,600	138,000	11,400	290,000	163,400
Interest Earnings - Not Available for Debt Service	1,650	3,896	500	500	-	7,500	7,000
Impact Fees	1,204,382	1,459,348	600,000	600,000	-	1,100,000	500,000
Promontory Developer SID Assessments	1,742,175	1,674,531	1,787,800	1,787,800	-	1,787,800	-
Stagecoach Infrastructure Assessment	182,038	188,280	163,000	163,000	-	207,000	44,000
Other Cash Non-operating Revenue	46,852	69,559	30,000	30,000	-	160,000	130,000
Non-Cash Non-operating Revenue	11,667	11,667	11,700	11,700	-	11,700	-
Total Non-operating Revenue	**3,300,055**	**3,580,372**	**2,719,600**	**2,731,000**	**11,400**	**3,564,000**	**844,400**
NON-OPERATING EXPENSE							
Interest Expense/Bank Fees	1,514,690	1,482,967	1,483,100	1,494,500	11,400	1,494,500	11,400
Bond Issuance Costs and Amortization Expense	15,734	15,734	15,800	15,800	-	15,800	-
Total Non-operating Expense	**1,530,424**	**1,498,701**	**1,498,900**	**1,510,300**	**11,400**	**1,510,300**	**11,400**
NON-OPERATING INCOME	**1,769,631**	**2,081,671**	**1,220,700**	**1,220,700**	**-**	**2,053,700**	**833,000**
CHANGE IN NET POSITION (NET INCOME BEFORE TRANSFERS)	**3,977,126**	**4,538,465**	**2,184,100**	**2,184,100**	**-**	**3,673,000**	**1,488,900**
TRANFERS							
Contingency	-	-	-	-	-	-	-
Governmental Transfers	-	-	-	-	-	-	-
Contributions in Aid of Construction	35,064	1,284,366	-	-	-	-	-
NET TRANSFERS	**35,064**	**1,284,366**	**-**	**-**	**-**	**-**	**-**
BUDGET CHANGE IN NET POSITION AFTER TRANSFERS	**$ 4,012,190**	**$ 5,822,831**	**$ 2,184,100**	**$ 2,184,100**	**$ -**	**$ 3,673,000**	**$ 1,488,900**
GASB 68 ACTUAL RETIREMENT ADJUSTMENTS	*87,094*	*(94,103)*	*TBD*	*TBD*	*TBD*	*TBD*	*TBD*
ACTUAL CHANGE IN NET POSITION	*4,099,284*	*5,728,728*	*2,184,100*	*2,184,100*	*-*	*3,673,000*	*1,488,900*

The actual amounts shown above in the program expense budgets have been adjusted to remove the non-cash GASB 68 retirement accrual. This is done to provide a much better year-over-year budget comparison.

The first amendment is an additional $38,100 to cover higher personnel costs in the Engineering & Development department due to the severance payout to the former General Manager as well as additional costs for the Interim General Manager.

The second amendment is an additional $10,600 in the Financial Management department due to the former part-time CFO leaving in early 2018 and a full time CFO being promoted into the position.

The funding for these two amendments can come from $16,000 savings in *Legal Services* due to legal fees falling below budget; while the other $32,700 can be funded with the higher than anticipated water sales for 2018.

The last amendment is an additional $11,400 in interest expense from a note payable to Weber Basin, which was finalized in 2018, to pay for an upgrade to the District's power substation at Lost Canyon. This can be funded from higher interest earnings due to higher than anticipated interest earnings on PTIF balances in 2018.

As shown in the "*2018 Projection to Adopted*" column above, the District now anticipates 2018 revenue, (and thus change in net position after transfers) will exceed budget by $1.49 million. $500,000 can be attributed to higher impact fees than budgeted due to the continued strong building economy. Additionally, retail water sales are anticipated to be approximately $500,000 over budget due to higher usage as the area experienced another hot and very dry summer.

Some of this additional revenue will be put into reserves as required by state law or District policy. The remaining revenue will help fund future capital projects and equipment.

7.02 2018 Debt Service Budget

The adopted 2018 *Debt Service Budget* projected a 1.64 parity debt coverage ratio and 1.53 when subordinated debt was included.

Due to the $1.49 million additional revenue the District now expects to collect in 2018 beyond the budgeted amount (see ***Section 7.01***), these ratios are now projected at 2.11 and 1.96 respectively – as shown below.

MOUNTAIN REGIONAL WATER
2018 Debt Coverage Calculation - Cash Basis

	2018 Budget	2018 Projection
COVERAGE CALCULATION FOR PARITY REVENUE BONDS		
Operating Income (Loss)	$ 963,400	$ 1,619,300
Add Back Depreciation	1,762,300	1,762,300
Add in Interest Available for Debt Service	126,600	290,000
Add In Impact Fees	600,000	1,100,000
Add In Promontory SID Assessments on Developer	1,787,800	1,787,800
Add in Stagecoach Assessments	163,000	207,000
Add in Other Non-operating Income	30,000	160,000
Add in Treatment Plant Stabilization Fund	-	80,000
Total Available For Debt Service	**5,433,100**	**7,006,400**
TOTAL DEBT COVERAGE		
Required Coverage Principal	1,934,300	1,942,100
Required Coverage Interest/Bank Fees	1,612,300	1,623,700
Total Required Debt Service	**3,546,600**	**3,565,800**
Debt Service X 1.25	**4,433,300**	**4,457,300**
Total Debt Coverage Ratio	**1.53**	**1.96**
REQUIRED PARITY BOND DEBT COVERAGE		
Parity Bond Principal	1,807,000	1,807,000
Parity Bond Interest	1,507,500	1,507,500
Total Parity Debt Service	**3,314,500**	**3,314,500**
Debt Service X 1.25	**4,143,200**	**4,143,200**
Parity Debt Coverage Ratio	**1.64**	**2.11**
Cash Excess/(Shortfall)	**1,886,500**	**3,440,600**
Less Treatment Plant Stabilization Fund		(80,000)
Projected Cash Generated	**1,886,500**	**3,360,600**
Capital Facility Reserves	(322,700)	(322,700)
Impact Fee Reserves	-	(500,000)
Operating Reserves	(99,800)	(99,800)
Regionalization Reserves	(282,200)	(282,200)
2018 Cash Above 1.25 Coverage Applied to 2018 Capital Budget	-	(460,200)
Cash To Be Used For 2020 Capital Projects	-	(820,500)
Cash Available for 2019 Capital Budget	**1,181,800**	**875,200**

8.0 SUMMARY

In conclusion, with the rate increase in 2019, the District will be in a stable financial position to fund debt service requirements, react to building trends and weather patterns, while still maintaining adequate funding for capital projects. The District will continue to monitor closely the build out of the Silver Creek area and review on an annual basis any adjustments to rates needed after 2019.