MOUNTAIN REGIONAL WATER

SPECIAL SERVICE DISTRICT

ADOPTED

2015 BUDGET

And

2014 AMENDED BUDGET

December 10, 2014

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1.0 2014 DISTRICT BUDGET OVERVIEW

1.01 The District

Mountain Regional Water (the District) is a regional public water company established in 2000 to resolve water shortage and 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 who live within the District. Since its creation numerous small water companies and developments have joined the District.

1.02 District Budgets

The District has three budgets that require adoption each year by the Summit County Council, 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 cash is actually collected. In addition, expenses are recorded when incurred regardless of when they are 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 any debt proceeds or the upfront cost of capital equipment and projects; or the payment of principal on debt.

Debt Service Budget – This annual "cash based" budget includes the payments due each year on the District's outstanding debt, including both principal and interest. The budgeted sources of cash must come from the current year operations of the District, or from the Rate Stabilization Fund, and not from other reserves (other reserves can be used if insufficient cash is generated during the year).

Capital Budget – This project "cash based" budget includes capital equipment costing more than $5,000 and expenditures related to water system infrastructure, buildings, and water rights. 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.

1.03 Changes in Government Accounting Standards

Two significant accounting changes made by the Government Accounting Standards Board (GASB) will affect future District budgets and financial statements on an accrual basis that will likely lead to wider fluctuations in the annual change in net position (net income) on an accrual basis moving forward. However, there will be no impact on cash flow or budget compliance.

Retirement Accounting – Starting in 2015, the District will be required to show any actuarial deficit in its defined benefit retirement program as a "net pension liability"; with the year to year change shown as an operating expense. The District is a member of the Utah State Retirement System (URS) and will share any URS actuarial deficits on a pro-rata basis, as determined by the number of employees.

The “net pension liability” ***and*** the related annual change for 2015 will not be known by URS until the February 2016; although fiscal year 2015 ends December 2015. This means the District will not know the actual “net pension liability” and annual change until after the fiscal year ends. To address this in the budget, the District arrived at a solution, in consultation with its independent auditor, in which the District will put “actual amount” for this budget item.

If the District had been required to show the “net pension liability” for 2014, the amount would have been $838,986 – while the annual change for 2014 will not be provided by URS because it is too costly to determine. The annual change will be provided for 2015 and thereafter.

Bonding Issuance Costs – In the past, 3.3% to 5.0% of bond issuance costs were expensed each year over the life of the bonds (generally 30 or 20 years). This had only a minimal impact on the annual change in net position (net income) on a year-to-year basis.

Now all issuance costs, except bond insurance, will be expensed in the year the bonds are issued - which could lead to a significant reduction in net position (net income) in the year the bonds are issued.

For 2014, the District will require a budget amendment for issuance costs related to the proposed Series 2014 bonds. Since the amount of issuance costs is unknown, the requested budget amendment of $350,000 is a worst-case estimate.

1.04 Reduction in Base Water Sales Budget due to Cool, Wet Weather

A very rainy, cool summer has led to reduced water sales in 2014. In fact, water usage through October 2014 is 10.4% less than the average for the previous two years, despite a 115 or 3.7% increase in new customers using water over that period.

Even with the ***average*** 3.75% rate increase that was effective on customer bills sent out September 2014, it is projected water sales will still be $209,600 under budget for 2014. Without the rate increases, it is projected that water sales would have been $263,200 under budget.

District policy has been to budget for water sales assuming normal weather based upon historical usage. Over the past four years, annual collections have finished an average of $74,853 or 1.18% over budget. This suggests the base water sales budget that assumes normal weather is very accurate.

However, on a year-to-year basis, actual water sales have not been within $129,373 of budget three of the past four years, as shown below.

Mountain Regional Water - Actual Water Sales Compared to Budget						
	2011 Actual	**2012 Actual**	**2013 Actual**	**2014 Projected**	**Average**	
Water Sales *(1)*	$5,257,727	$6,868,521	$6,871,264	$6,765,200	$6,440,678	
Budget	5,387,100	6,160,900	6,940,500	6,974,800	6,365,825	
Over (Under) Budget	**(129,373)**	**707,621**	**(69,236)**	**(209,600)**	**74,853**	***1.18%***
	-2.40%	*11.49%*	*-1.00%*	*-3.01%*		

(1) - Includes water sales, Park City wheeling fees, and Stagecoach assessments.

This demonstrates the impact of weather on District revenue. Although the new rate structure adopted by the Summit County Council (Council) in August 2014 should reduce the impact of weather patterns somewhat, District water sales will still be subject to weather.

For 2015 and beyond, District water sales projections will be reduced 1.0% or $70,000 below the "normal weather base projections" to help address this.

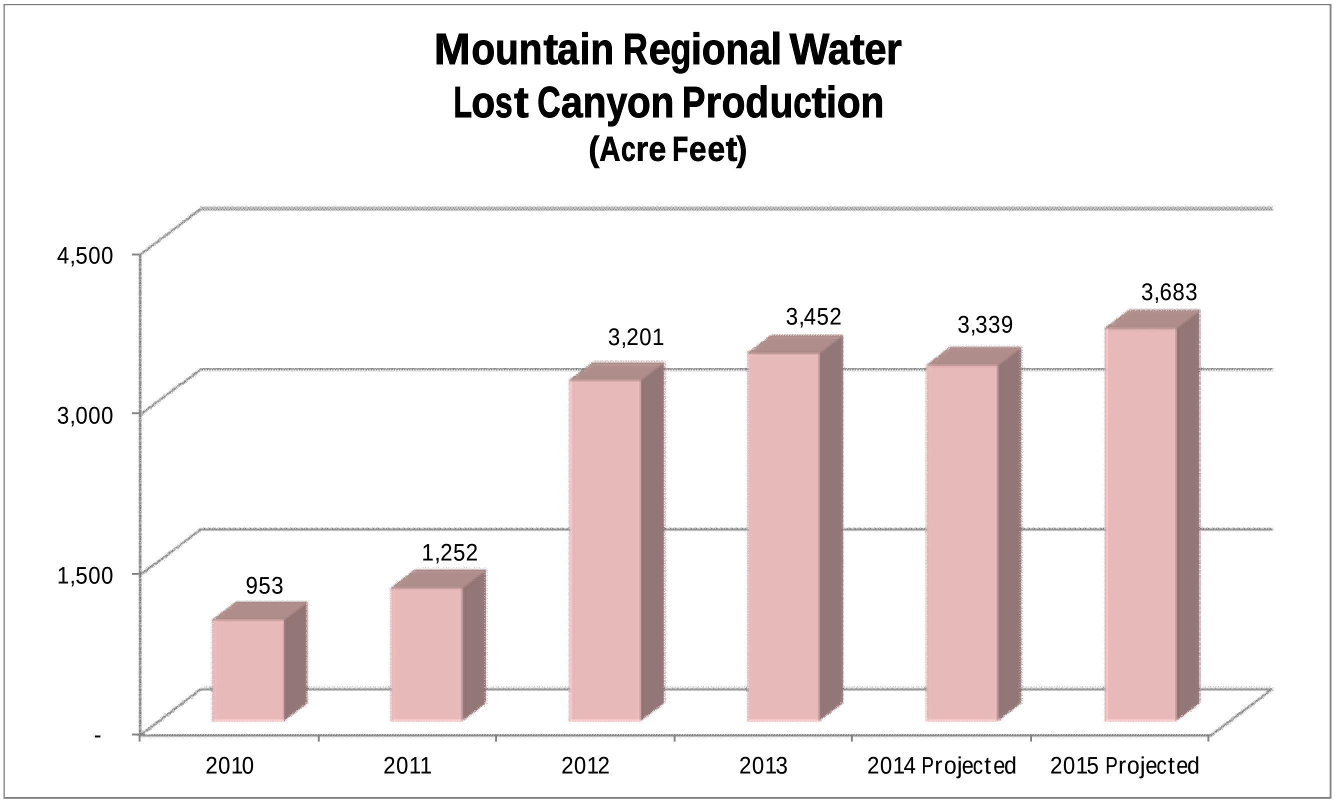
Despite water sales falling below budget three of the past four years, the District still met its 1.25 coverage due to operating expenses falling below budget as well, as shown below.

Mountain Regional Water - Actual Cash Operating Expense Compared to Budget						
	2011 Actual	**2012 Actual**	**2013 Actual**	**2014 Projected**	**Average**	
Cash Operating Expense	$3,713,304	$4,506,350	$4,494,215	$4,921,300	$4,408,792	
Budget	3,829,400	4,667,700	4,815,900	5,063,300	4,594,075	
Over (Under) Budget	**(116,096)**	**(161,350)**	**(321,685)**	**(142,000)**	**(185,283)**	***-4.03%***
	-3.03%	*-3.46%*	*-6.68%*	*-2.80%*		

Cash operating expenses finished an average of $185,283 under budget the past four years. The budget typically includes a $150,000 contingency in case repairs are higher than normal that year – meaning the operating expense budget excluding the contingency have been closer to actual expenses.

1.05 Future Wholesale Water Sales

The District's Lost Canyon water project is now the major water provider for the Snyderville Basin. Annual Lost Canyon production is shown below.



Currently, Lost Canyon is producing about 3,500 acre feet per year. This is about 50.0% capacity, as it was designed to meet the District's water needs at build out - plus provide Park City with 2,900 acre feet annually as well.

In 2013, the District entered into a landmark agreement to address the water needs of the Snyderville Basin over the next 50 years. Under the agreement, Weber Basin will construct and pay for all future water importation projects into the basin for Park City, Summit Water and other water entities in the basin. It is anticipated a new project will be needed within the next 10 years.

Until a new project is completed, the District has the opportunity to sell its surplus water to other water entities in the basin; providing additional revenue over the next few years. Other water entities in the basin have made contractual commitments to purchase the District's surplus water starting in 2016, although the District may sell some surplus water starting in 2015.

Based upon these entity's projections, the District could realize a cash flow benefit of several hundred thousand dollars yearly until the new project is completed by Weber Basin. This added cash flow will be needed to help pay for increasing debt service costs and new Weber Basin lease fees.

Starting in 2020, the District will begin paying an estimated $275,000 take-or-pay annual regionalization fee to Weber Basin in exchange for the 1,000 gpm capacity from the East Canyon Treatment Plant, even though this treatment plant capacity may be available prior to 2020. If the District uses any water from the plant, it will also be required to reimburse Weber Basin for its proportionate share of plant operating costs.

1.06 Rate Stabilization Fund

When the District issued its Series 2011A bonds, it amended its general bond indenture to establish a rate stabilization fund. The Rate Stabilization Fund has three components:

Rate Stabilization Fund – Bond Reserves - These reserves can only be applied to scheduled annual debt service payments in the event annual cash flow from any given year is insufficient to meet that year's scheduled debt service payments.

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 2014 year-end reserve balance is $1.06 million.

Rate Stabilization Fund – Treatment Plant Operations – Each year, the District budgets one-tenth of the projected ten year cost for treatment plant carbon and membrane filters. Both carbon and membrane filters are only purchased every few years at a cost of several hundred thousand dollars.

As such, only budgeting for these items during years when they are purchased would lead to wild swings in operating expenses and debt coverage. Thus, if the amount expended for these items is below the budget amount at the end of a year, the difference is deposited into this reserve until it reaches $500,000; while if the amount expended exceeds of the budget amount, the difference is withdrawn from this reserve to supplement ongoing revenue in that year.

The projected 2014 year-end reserve balance is $125,000. Of this, $65,000 will be used in 2015 to help pay for the purchase of carbon for pretreatment.

Rate Stabilization Fund - Expanded Lost Creek Canyon Repair and Replacement – 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 2014 projected year-end balance is $75,000.

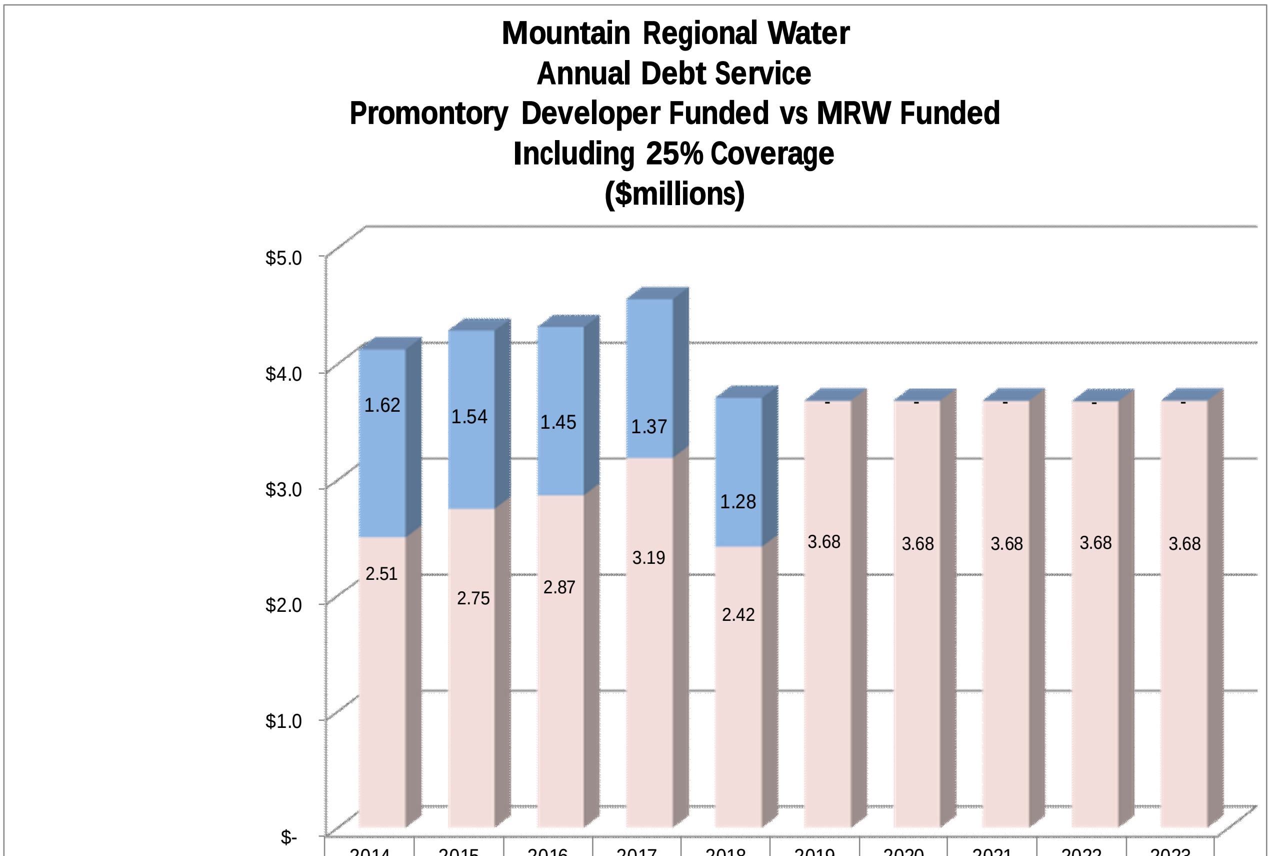
The District has discussed with Park City the need to increase the contributions to this reserve by 50.0% annually. Currently, Park City contributes $44,628 annually while the District contributes $56,988. Park City management is supportive of this increase so it has been included in the 2015 revenue projections. The Park City Council still needs to approve this increase.

The District's goal is to increase this reserve to $250,000.

1.07 Increasing Debt Service Payments and Adopted Rate Increases

As shown on below, annual payments on existing debt, excluding those made by the Promontory developer, are scheduled to increase $246,061 in 2015, and by a total of $1.18 million by 2019. These amounts include the 25% additional coverage required by bond holders.

Meanwhile, the special assessment bond debt service paid for the Promontory developer was $1.62 million in 2014, and gradually declines until 2018 when the last payment of $1.28 million is made. As discussed above, the amount of debt service funded by MRW increases the year after the special assessment bonds are paid off by Promontory.



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Promontory Developer Funded	1.62	1.54	1.45	1.37	1.28	-	-	-	-	-
MRW Funded	2.51	2.75	2.87	3.19	2.42	3.68	3.68	3.68	3.68	3.68

These increasing debt payments funded by MRW, and to a lesser extent projected annual increases in power costs and lease fees, will be funded with the following rate and fee increases that were adopted by the Summit County Council (Council) in August 2014. The average rate and operating fee increases are shown below:

	September 2014	**September 2015**
Water Rates	3.75%	3.75%
Operating Fees	20.0%	---

Lease fees are annual water purchases from Weber Basin Water Conservancy District – the largest supplier of water to the District.

The above rate and fee increases should also help to address the projected lower future impact fee collections. There are four reasons impact fee collections are expected to decline:

1) Reduced impact fee per Equivalent Residential Equivalent (ERC);
2) The largest new development, Silver Creek Village Center, has prepaid impact fee connections;
3) Owners of older developments are marketing their unpaid prepaid impact fee connections; and

4) The District entered into a settlement agreement in 2012 that may result in Summit Water Company receiving a portion of impact fee collections on new development (this does not apply to developments who committed to receive water service from the District prior to 2012).

1.08 Debt Coverage Ratio

Per bond covenants, the District must budget for 1.25 debt coverage each year; meaning once all operational costs are paid, the remaining budgeted revenue must be equal to 1.25 times that year's parity bond principal and interest payments (see **Section 3.0 – 2015 Debt Service Budget**).

Mountain Regional Water Special Service District's Parity Debt Service Coverage Ratio

	2011 Actual	2012 Actual	2013 Actual	2014 Projected	2015 Budget (1)
Water sales	$ 4,864,730	$ 6,226,121	$ 6,266,463	$ 6,099,200	$ 6,598,500
Park City Wheeling	218,887	448,276	444,373	474,800	522,000
Stagecoach Assessments	213,903	198,751	174,109	191,200	167,000
Operating fees	151,616	153,805	259,851	306,700	303,000
Impact fees	242,285	196,067	563,385	548,400	388,900
Promontory Developer SID Assessments	453,020	499,397	794,375	1,620,000	1,536,000
Interest available for debt service	152,710	101,985	26,491	26,000	25,000
Other non-restricted revenue	53,402	258,788	105,311	190,000	190,000
Treatment Plant Stabilization Fund	-	-	-	-	65,000
Total cash available for debt service	6,350,553	8,083,190	8,634,358	9,456,300	9,795,400
Cash operating expenses	(3,713,304)	(4,506,350)	(4,494,215)	(4,921,300)	(5,434,800)
Cash available for debt service	2,637,249	3,576,840	4,140,143	4,535,000	4,360,600
Parity debt service payments	2,092,888	1,738,225	2,300,899	3,203,600	3,151,700
Debt service coverage	1.26	2.06	1.80	1.42	1.38

(1) The debt coverage calculation for 2015 does not include an estimated $275,000 in capitalized interest that will be funded with proceeds from the Series 2014 revenue bonds. This is because the capitalized interest is not funded from ongoing revenues.

Due to wet weather and a decline in building activity, the District barely met its 1.25 coverage requirement in 2011, as shown above. In fact, mid-year budgets cuts were needed to reach the required coverage that year. Rate increases adopted in 2011 and again in 2014, along with an improved building economy, helped improve the debt coverage for 2012 thru 2015. Parity debt coverage is projected to be a healthy 1.38 in 2015.

In addition to parity debt, the District has subordinate debt, including a Note Payable due to Weber Basin to reimburse it for capital costs to expand the Lost Canyon project. When subordinate debt is included, the projected 2015 debt coverage is 1.26. This calculation includes $150,000 in expense contingencies, meaning the debt coverage will likely be higher than 1.26.

It is District policy to budget for 1.25 coverage including both parity and subordinate debt. This is necessary to ensure sufficient cash flow each year to make required deposits into reserve funds, and to fund capital equipment and small projects in future years.

In addition, rating agencies and bond holders rely on the coverage calculation that includes subordinate debt when determining risk. The District policy to maintain at least 1.25 coverage, including subordinate debt, is important to ensure it can obtain good interest rates when issuing debt.

1.09 Cash Reserves

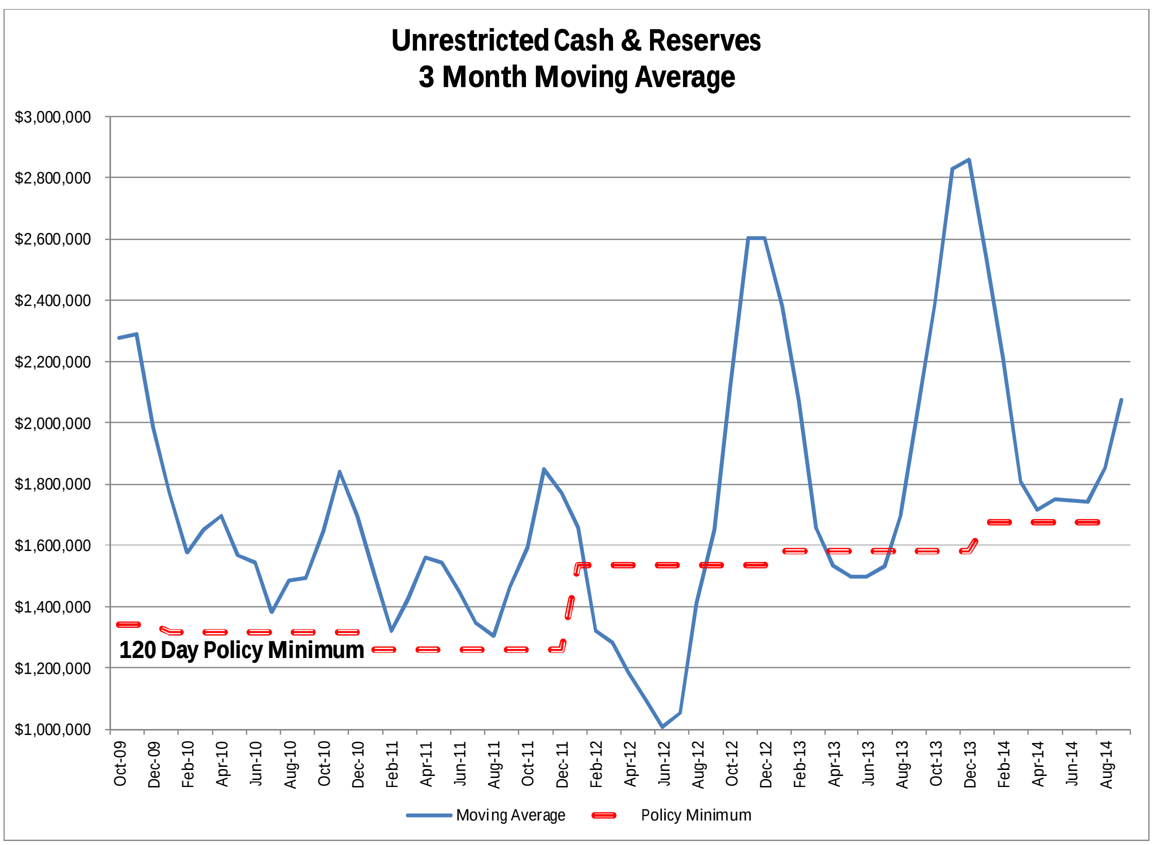
The District's cash and reserves (excluding debt service reserves held by the bond trustee) have slowly, but steadily improved since early 2012. This upward trend can be attributed to the following factors:

1) 2011 rate increases;
2) Series 2012 bond refunding;
3) Improving building economy; and
4) Lower power usage due to cool wet weather that allowed the District to pump most of its water when lower off-peak power rates were in effect.

This upward trend should level off in 2014 as the District's debt service payments increased notably, as discussed above in **Section 1.07** above. In fact, rate increases were adopted in August 2014 to fund increasing debt service requirements moving forward.

Unrestricted Operating Cash and Reserves

Unrestricted operating cash and reserves have steadily increased since mid-2012 for the four reasons enumerated directly above. At that time, unrestricted cash and reserves had fallen about $0.5 million below the minimum amount established by policy.



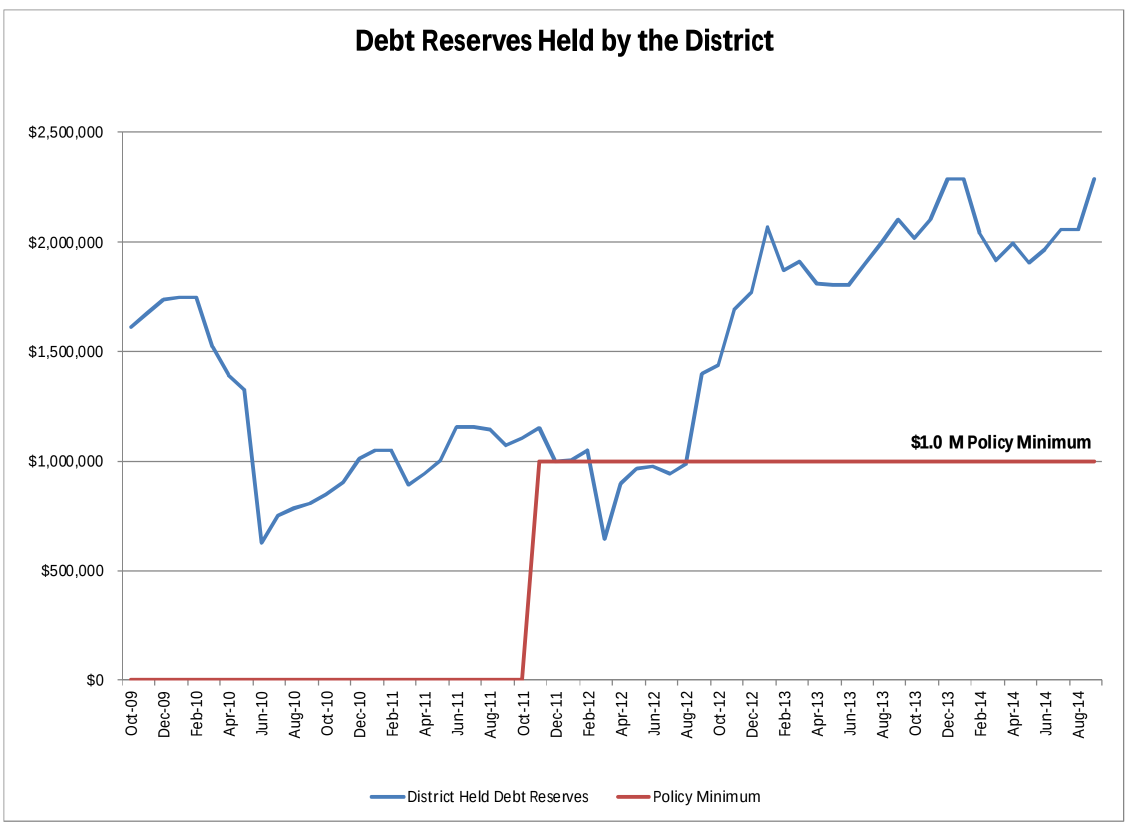
The graph above shows a three month moving average to smooth out monthly fluctuations. The peaks each year are from summer water sales collections, while the sharp decline each year is due to Weber Basin lease payments of nearly $1.2 million that are made each December.

As shown in the graph, unrestricted operating cash and reserves has been trending up since early 2012, and finally reached a level in 2014 where the District should be able to maintain at least 120 days of reserves year-round, in compliance with policy. This graph excludes capital facility repair funds, the stabilization funds, and other funds that are considered “unrestricted” according to GAAP and GASB, but have restrictions placed upon them by District policy.

<u>Debt Reserves Held by the District</u>

The District has chosen, by policy, to hold debt reserves in addition to those required by bond holders and held by a trustee. The District made the policy decision to establish these reserves to mitigate the potential significant shortfall in revenue collections due to weather conditions and wide fluctuations in building related revenue; as well as for unexpected expenditures.

As shown below, these reserves increased dramatically the past two to three years, as a policy decision was made in November 2011 to establish a $1.0 million rate stabilization reserve, as discussed in **Section 1.06** above. In addition to $1.06 million currently in the debt service stabilization fund, the District has another $1.0 million of impact fees and property assessments that have been paid prior to the need to use them to make related debt payments. These impact fee and assessment reserves will be used to make debt payments in years when development related revenue does not meet projections.



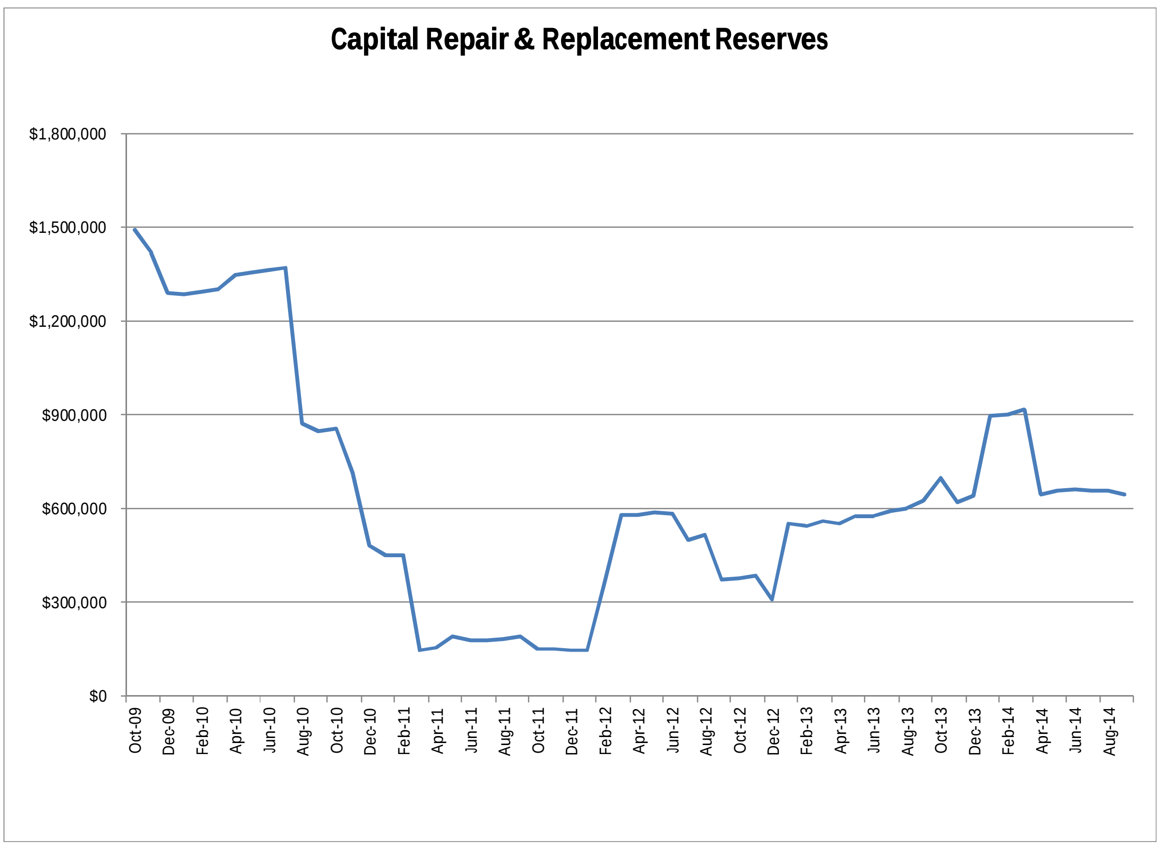
Capital Facility Repair & Replacement Reserves

The District was able to generously fund its capital facility repair and replacement funds during the hot, dry weather and period of strong economic growth between 2003 and 2007.

However cool, wet weather and a slow building economy from 2008 to 2011 required the District to use nearly all the funds for critical small capital projects and equipment, as shown below.

The District's goal is to maintain capital facility and repair funds of at least $1.0 million at the beginning of each year. These reserves are typically set aside to fund unanticipated emergency facility costs or to fund critical small projects; although the District has used these reserves in the past to pay for non-emergency projects that were still a high priority.

It is likely these reserves will level off at about $500,000 moving forward. It would take a $2.50 per month rate increase to build the reserves up to $1.0 million over a three year period.



2015 Budgeted Cash Change

As shown below, the 2015 budget projects a $907,900 cash increase; excluding capital budget items that are being funded with bond proceeds or with cash on hand as of December 2014.

MOUNTAIN REGIONAL WATER
2015 Operating Budget - Accrual and Cash Basis
Enterprise Fund

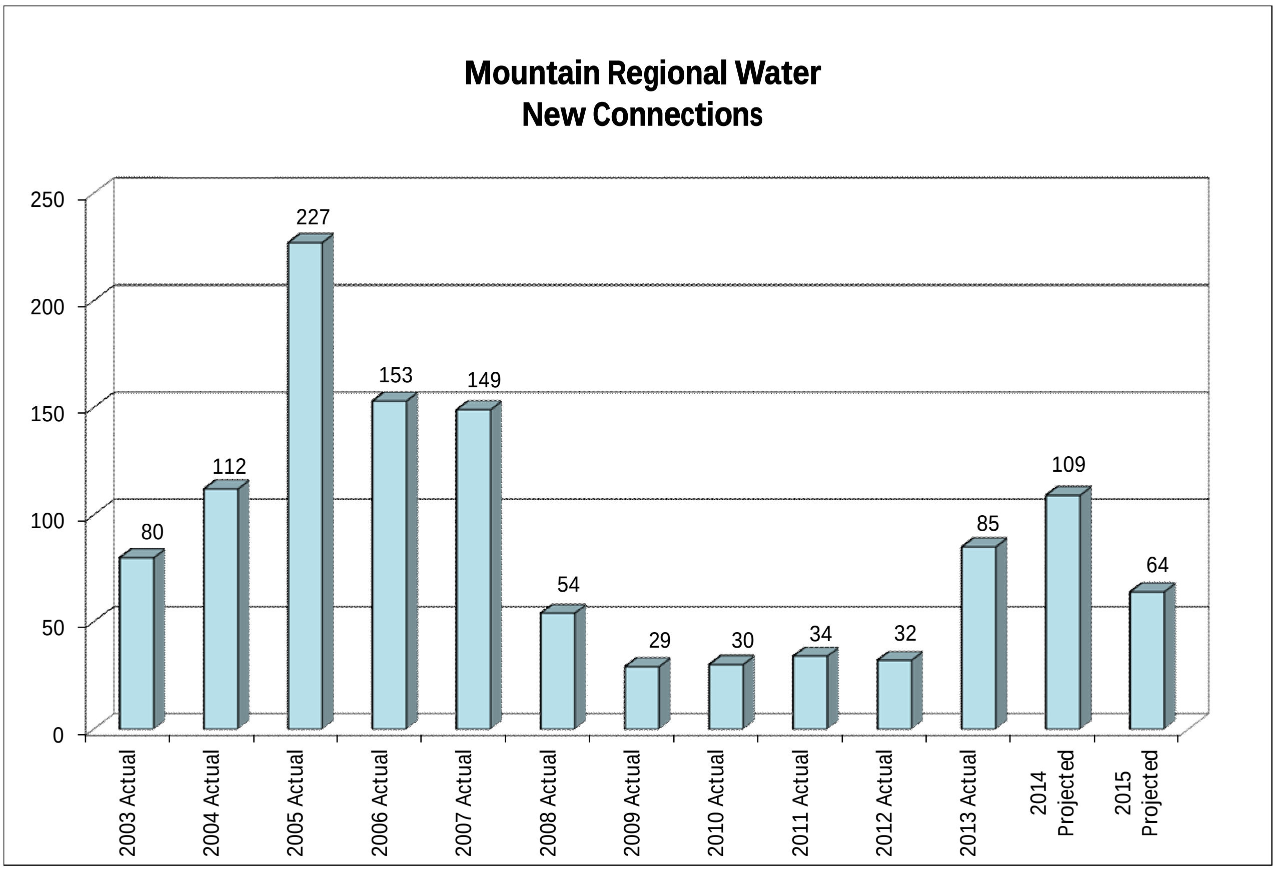
	2015 Control Board Recommended Accrual Basis	2015 Control Board Recommended Cash Basis
OPERATING REVENUE		
Water Sales	$ 6,598,500	$ 6,598,500
Park City Wheeling	522,000	522,000
Stagecoach Assessments	167,000	167,000
Operating Fees	303,000	303,000
Other	65,000	130,000
Total Operating Revenue	**7,655,500**	**7,720,500**
OPERATING EXPENSES		
Operations		
Energy & Resource Management	494,800	494,800
Lost Canyon Transmission	1,251,100	1,251,100
Treatment	536,100	536,100
Distribution	2,149,100	2,149,100
Safety	46,400	46,400
General Manager		
Engineering & Development	102,000	102,000
Human Resources	105,300	105,300
Legal Services	60,000	60,000
Public Services	404,400	404,400
Financial Management	285,600	285,600
Depreciation Expense	1,500,000	-
Retirement Expense	Actual Amount	-
Total Operating Expense	**6,934,800**	**5,434,800**
OPERATING INCOME (LOSS)	**720,700**	**2,285,700**
NON-OPERATING REVENUE		
Interest Earnings - Available for Debt Service	25,000	25,000
Interest Earnings - Not Available for Debt Service	500	-
Impact Fees	388,900	388,900
Promontory Developer SID Assessments	1,536,000	1,536,000
Cash Grants	-	-
Other Cash Non-operating Revenue	125,000	125,000
Non-Cash Non-operating Revenue	11,700	-
Total Non-Operating Revenue	**2,087,100**	**2,074,900**
NON-OPERATING EXPENSE		
Interest Expense/Bank Fees	1,717,500	1,527,500
Bond Principal Payments	-	1,925,200
Bond Issuance Expenses	17,500	-
Total Non-Operating Expense	**1,735,000**	**3,452,700**
NON-OPERATING INCOME (LOSS)	**352,100**	**(1,377,800)**
CHANGE IN NET POSITION (NET INCOME BEFORE TRANSFERS)	**1,072,800**	**907,900**
TRANSFERS		
Contingency	-	-
Governmental Transfers	-	-
Contributions in Aid of Construction	-	-
NET TRANSFERS	**-**	**-**
CHANGE IN NET POSITION (NET INCOME AFTER TRANSFERS)	**$ 1,072,800**	**$ 907,900**

The District plans to allocate this 2015 projected cash increase as follows:

Required Deposits into Capital Facility Reserves	$ 271,700
Required Deposits into Treatment Plant Sinking Fund	0
Unrestricted Cash to Policy Level	203,700
Future Year Capital Projects	432,500
Total	**$ 907,900**

1.10 Impact of Economy on Customer Growth

As shown below, a moderate rebound in new construction units occurred in 2013. This follows four years of lower new units the District experienced after the initial banking crisis in 2008.



The District's 2014 projection for new units is 64. There are two factors that led to this projection. First, in talking with local developers, the growth the past two years includes pent up demand. Second it represents a trend similar to that experienced between 2003 and 2007.

In years when related impact fees exceed projections, the balance is put into a reserve account that can be used in years when collections fall below projections. In addition, these reserves have also been used to prepay debt.

In a typical year, impact fee collections total about 50% of related debt payments attributable to new growth, meaning water sales and operating fees have to make up the difference in impact fee related debt payments. This happens because facilities are built prior to when needed, and the full build-out of the District will likely take longer than it does to pay off the related debt. Once this debt is retired, the impact fees collected after that time can be used to “reimburse” the water sales and operating fees used to supplement impact fee related debt payments.

1.11 Revenue Trends

The District now projects total revenue will be very close to budget in 2014, as shown below. In fact, total 2014 revenue is projected to exceed budget by just $60,300 or 0.60%. Without the rate and fee increases adopted in August 2014, and the sale of a surplus lot in Summit Park, it is likely 2014 revenue would have fallen below projections due to the cool, wet summer weather.

MOUNTAIN REGIONAL WATER
Revenue History

	2012 Actual	2013 Actual	2014 Adopted Budget	2014 Projected	2015 Control Board Recommend	2015 Recommended to 2014 Budget		2015 Recommended to 2014 Projected	
CASH REVENUE (Less Grants)									
Operating Revenue									
Water Sales	$ 6,226,121	$ 6,266,463	$ 6,267,100	$ 6,099,200	$ 6,598,500	$ 331,400		$ 499,300	
Park City Wheeling	448,276	444,373	540,000	474,800	522,000	(18,000)		47,200	
Stagecoach Assessment	198,751	174,109	167,700	191,200	167,000	(700)		(24,200)	
Operating Fees	153,805	259,851	246,400	306,700	303,000	56,600		(3,700)	
Other Operating	236,215	69,330	40,000	50,500	65,000	25,000		14,500	
Subtotal	**7,263,168**	**7,214,126**	**7,261,200**	**7,122,400**	**7,655,500**	**394,300**	*5.4%*	**533,100**	*7.5%*
Non-operating Revenue									
Interest Earnings	102,678	26,789	30,400	26,400	25,500	(4,900)		(900)	
Impact Fees	196,067	563,385	450,000	548,400	388,900	(61,100)		(159,500)	
Promontory Developer SID Assessments	499,397	794,375	1,620,000	1,620,000	1,536,000	(84,000)		(84,000)	
Other Non-operating	22,563	(13,780)	35,000	139,700	125,000	90,000		(14,700)	
Subtotal	**820,705**	**1,370,769**	**2,135,400**	**2,334,500**	**2,075,400**	**(60,000)**	*-2.8%*	**(259,100)**	*-11.1%*
TOTAL CASH REVENUE (Less Grants)	**$ 8,083,873**	**$ 8,584,895**	**$ 9,396,600**	**$ 9,456,900**	**$ 9,730,900**	**$ 334,300**	*3.6%*	**$ 274,000**	*2.9%*
OTHER REVENUE									
Cash Grants	-	35,981	-	-	-	-		-	
Non-Cash Amortization	11,667	11,667	11,700	11,700	11,700	-		-	
OTHER REVENUE	**$ 11,667**	**$ 47,648**	**$ 11,700**	**$ 11,700**	**$ 11,700**	**$ -**	*0.0%*	**$ -**	*0.0%*
TOTAL REVENUE	**$ 8,095,540**	**$ 8,632,543**	**$ 9,408,300**	**$ 9,468,600**	**$ 9,742,600**	**$ 334,300**	*3.6%*	**$ 274,000**	*2.9%*
			2014 Projected to 2014 Budget:	**$ 60,300**	**0.6%**				

The June 2014 adoption of the impact fee reduction per Equivalent Residential Connection (ERC) was not effective until nearly October 2014 – meaning the reduction per ERC will have only a small effect on 2014 impact fee collections, which are now projected to exceed budget by $98,400.

For 2015, revenue growth is projected at $334,300 or 3.6% more than budgeted for 2014, but only $274,000 more than the current 2014 projections – as the 2014 projections includes the surplus lot sale.

Water Sales projections for 2015 are based upon normal weather, less a 1.0% contingency. Sales are projected to increase $331,400 over the 2014 budget due to rate increases and new customer growth. This includes additional standby lots from new development at Woodside, and new plats at Promontory and the Colony.

Operating Fees (including connection fees) for 2015 are projected to increase by $56,600 over the 2014 budget due to the fee increases adopted in August 2014. The 2015 projections is based upon moderate customer growth.

Impact Fees are projected to decline by $61,100 in 2015 compared to the 2014 budget. This decline can be attributed to several factors:

1) Reduced impact fee per Equivalent Residential Equivalent (ERC);
2) The largest new development, Silver Creek Village Center, has prepaid impact fee connections;
3) Owners of older developments are marketing their unpaid prepaid impact fee connections; and
4) The District entered into a settlement agreement in 2012 that may result in Summit Water Company receiving a portion of impact fee collections on new development (this does not apply to developments who committed to receive water service from the District prior to 2012).

1.12 Compensation

The District is proposing a 3.25% ***average*** MERIT increase for 2015. This is in line with what the county HR department indicated it is recommending as the average raise for county employees.

2.0 2015 OPERATING BUDGET

2.01 Summary

As shown below, projected 2015 *Net Income after Transfers* is $1.07 million on an accrual basis.

MOUNTAIN REGIONAL WATER
2015 Operating Budget - Accrual Basis
Enterprise Fund

	2012 Actual	2013 Actual	2014 Adopted Budget	2014 Amended Budget	2015 Control Board Recommended	2015 Recommend to 2014 Amended
OPERATING REVENUE						
Water Sales	$ 6,226,121	$ 6,266,463	$ 6,267,100	$ 6,267,100	$ 6,598,500	$ 331,400
Park City Wheeling	448,276	444,373	540,000	540,000	522,000	(18,000)
Stagecoach Assessments	198,751	174,109	167,700	167,700	167,000	(700)
Operating Fees	153,805	259,851	246,400	246,400	303,000	56,600
Other	236,215	69,330	40,000	40,000	65,000	25,000
Total Operating Revenue	**7,263,168**	**7,214,126**	**7,261,200**	**7,261,200**	**7,655,500**	**394,300**
OPERATING EXPENSES						
Operations						
Energy & Resource Management	323,309	327,724	351,500	351,500	494,800	143,300
Lost Canyon Transmission	1,085,581	1,157,602	1,303,500	1,253,500	1,251,100	(2,400)
Treatment Plant	642,992	369,898	459,800	459,800	536,100	76,300
Distribution	1,762,278	1,837,028	2,009,000	2,009,000	2,149,100	140,100
Safety	26,685	33,772	36,100	36,100	46,400	10,300
General Manager						
Engineering & Development	92,535	95,475	97,800	97,800	102,000	4,200
Human Resources	36,138	76,198	92,200	92,200	105,300	13,100
Legal Services	4,805	30,254	50,000	80,000	60,000	(20,000)
Public Services	330,663	348,267	387,700	387,700	404,400	16,700
Financial Management	201,364	217,997	275,700	275,700	285,600	9,900
Depreciation Expense	1,412,111	1,374,783	1,500,300	1,500,300	1,500,000	(300)
Retirement Expense	-	-	-	-	Actual Amount	n/a
Total Operating Expense	**5,918,461**	**5,868,998**	**6,563,600**	**6,543,600**	**6,934,800**	**391,200**
OPERATING INCOME (LOSS)	**1,344,707**	**1,345,128**	**697,600**	**717,600**	**720,700**	**3,100**
NON-OPERATING REVENUE						
Interest Earnings - Available for Debt Service	101,985	26,491	29,900	29,900	25,000	(4,900)
Interest Earnings - Not Available for Debt Service	693	298	500	500	500	-
Impact Fees	196,067	563,385	450,000	450,000	388,900	(61,100)
Promontory Developer SID Assessments	499,397	794,375	1,620,000	1,620,000	1,536,000	(84,000)
Cash Grants	-	35,981	-	-	-	-
Other Cash Non-operating Revenue	22,563	(13,780)	35,000	35,000	125,000	90,000
Non-Cash Non-operating Revenue	11,667	11,667	11,700	11,700	11,700	-
Total Non-Operating Revenue	**832,372**	**1,418,417**	**2,147,100**	**2,147,100**	**2,087,100**	**(60,000)**
NON-OPERATING EXPENSE						
Interest Expense/Bank Fees	1,689,534	1,573,721	1,466,000	1,476,000	1,717,500	241,500
Bond Issuance Costs and Amortization Expense	1,107,774	17,414	17,500	367,500	17,500	(350,000)
Total Non-Operating Expense	**2,797,308**	**1,591,135**	**1,483,500**	**1,843,500**	**1,735,000**	**(108,500)**
NON-OPERATING INCOME (LOSS)	**(1,964,936)**	**(172,718)**	**663,600**	**303,600**	**352,100**	**48,500**
CHANGE IN NET POSITION (NET INCOME BEFORE TRANSFERS)	**(620,229)**	**1,172,410**	**1,361,200**	**1,021,200**	**1,072,800**	**51,600**
TRANSFERS						
Contributions in Aid of Construction	369,677	288,413	-	-	-	-
NET TRANSFERS	**369,677**	**288,413**	**-**	**-**	**-**	**-**
CHANGE IN NET POSITION (NET INCOME AFTER TRANSFERS)	**$ (250,552)**	**$ 1,460,823**	**$ 1,361,200**	**$ 1,021,200**	**$ 1,072,800**	**$ 51,600**

When non-cash *Depreciation, Amortization, and other non-cash items* are taken into account, the District anticipates it will generate $907,900 in cash from operations in 2015, as discussed above in **Section 1.09** above.

2.02 2015 Revenue

Operating Revenue

The District is projecting 2015 *Operating Revenue* of $7.66 million, which is 5.4% or $394,300 higher than was budgeted for 2014, as shown below.

Operating Revenue

	2012 Actual	2013 Actual	2014 Adopted Budget	2014 Projection	2015 Control Board Recommended	2015 Recommended to 2014 Budget $ Change	% Change
Water Sales	$ 6,226,121	$ 6,266,463	$ 6,267,100	$ 6,099,200	$ 6,598,500	$ 331,400	*5.3* %
Park City Wheeling Fees	448,276	444,373	540,000	474,800	522,000	(18,000)	*(3.3)*
Stagecoach Assessments	198,751	174,109	167,700	191,200	167,000	(700)	*(0.4)*
Operating Fees	153,805	259,851	246,400	306,700	303,000	56,600	*23.0*
Other	236,215	69,330	40,000	50,500	65,000	25,000	*62.5*
Total Operating Revenue	**$ 7,263,168**	**$ 7,214,126**	**$ 7,261,200**	**$ 7,122,400**	**$ 7,655,500**	**$ 394,300**	**5.4 %**

An increase of $331,400 or 5.3% is projected for 2015 *Water Sales* due to modest customer growth, and the rate increases adopted in August 2014. The rate increases will provide a 3.75% increase in water sales revenue from January to July 2015, and 7.5% from August to December.

For 2014, the District budgeted for normal weather. However, water sales would have fallen an estimated $263,200 below projections in 2014 without the rate increases. Even with the rate increases, it is projected water sales will still finish 2014 about $209,600 under budget.

As such, the 2015 water sales projections were reduced 1.0% or $70,000 below the “normal weather” projection in order to help mitigate the impact of weather on water sales. This was discussed in more detail in **Section 1.04** above.

Operating Fees (including connection fees) are projected to increase by $56,600 in 2015 over the 2014 budget, a 23.0% increase. The increase is due to fee increases adopted in August 2014. This 2015 projection assumes moderate building activity.

Non-operating Revenue

As shown below, the District’s 2015 *Non-operating Revenue* budget is $2.09 million, which is $60,000 - or 2.6% less than 2014.

Non-operating Revenue

	2012 Actual	2013 Actual	2014 Adopted Budget	2014 Projection	2015 Control Board Recommended	2015 Recommended to 2014 Budget $ Change	% Change
Interest Earnings	$ 102,678	$ 26,789	$ 30,400	$ 26,400	$ 25,500	$ (4,900)	*(18.6)*
Impact Fees	196,067	563,385	450,000	548,400	388,900	(61,100)	*(11.1)*
Promontory Developer SID Assessments	499,397	794,375	1,620,000	1,620,000	1,536,000	(84,000)	*(5.2)*
Cash Grants	-	35,981	-	-	-	-	*n/a*
Other Cash Non-operating Revenue	22,563	(13,780)	35,000	139,700	125,000	90,000	*64.4*
Non-Cash Non-opeating Revenue	11,667	11,667	11,700	11,700	11,700	-	-
Total Non-operating Revenue	**$ 832,372**	**$ 1,418,417**	**$ 2,147,100**	**$ 2,346,200**	**$ 2,087,100**	**$ (60,000)**	**(2.6)** %

Other Cash Non-operating revenue is projected to increase $90,000 in 2015 as the District anticipates collecting significant inspection and plan review fees for new development. Most of this is for the new Promontory special assessment area infrastructure that will be funded from the Series 2014 bonds. These additional fees will help fund the District's part-time engineer who will move to full-time in 2015 (see **2.03** below).

For 2014, *Other Cash Non-operating revenue* is projected to exceed budget by $104,700 due to the sale of a surplus lot in Summit Park, and an increase in inspection and plan review fees for new development

Impact Fees are projected to decline by $61,100 in 2015 compared to the 2014 budget. Once again, this decline can be attributed to several factors:

1) Reduced impact fee per Equivalent Residential Equivalent (ERC);
2) The largest new development, Silver Creek Village Center, has prepaid impact fee connections;
3) Owners of older developments are marketing their unpaid prepaid impact fee connections; and
4) The District entered into a settlement agreement in 2012 that may result in Summit Water Company receiving a portion of impact fee collections on new development (this does not apply to developments who committed to receive water service from the District prior to 2012).

Promontory Developer SID Assessments related to the 2003 Promontory SID bonds are scheduled to decline next year as the developer is paying down the principal on those bonds – resulting in lower interest expense that the Promontory developer needs to pay through assessments.

2.03 2015 Expenses

Operating Expenses

The 2015 *Operating Expense* budget is $6.93 million, which is $371,200 or 5.7% higher than the adopted 2014 budget, as shown below. The 3.25% set aside for pay increases represents $63,350 of this.

Operations

Operations accounts for $317,600 of this increase, including its share of the pay increases.

A staff engineer was added part-time in 2014, and is moving to full-time in May 2015. This employee is an expert at modeling water systems. The District expects an increase in water system reviews and inspections for 2015 based upon recent building activity. The related fees from these reviews and inspections will fund most of this position.

In addition, this hire was part of the District's senior management transition program. The District expects up to four of its five senior managers to retire within the next three to five years. One of those is the District's only licensed engineer. This new employee is reflected in the *Energy & Resource Management* budget.

Mountain Regional Water
Operating Expense Summary

	2012 Actual	2013 Actual	2014 Adopted Budget	2014 Amended	2015 Control Board Recommended	2015 Recommended to 2014 Amend Budget $ Change	% Change
Operations							
Energy & Resource Management	$ 323,309	$ 327,724	$ 351,500	$ 351,500	$ 494,800	$ 143,300	
Lost Canyon Transmission	1,085,581	1,157,602	1,303,500	1,253,500	1,251,100	(52,400)	
Treatment Plant	642,992	369,898	459,800	459,800	536,100	76,300	
Distribution	1,762,278	1,837,028	2,009,000	2,009,000	2,149,100	140,100	
Safety	26,685	33,772	36,100	36,100	46,400	10,300	
Subtotal Operations	**3,840,845**	**3,726,024**	**4,159,900**	**4,109,900**	**4,477,500**	**317,600**	***7.6*** %
General Manager							
Engineering & Development	92,535	95,475	97,800	97,800	102,000	4,200	
Human Resources	36,138	76,198	92,200	92,200	105,300	13,100	
Legal Services	4,805	30,254	50,000	80,000	60,000	10,000	
Public Services	330,663	348,267	387,700	387,700	404,400	16,700	
Financial Management	201,364	217,997	275,700	275,700	285,600	9,900	
Subtotal Other Departments	**665,505**	**768,191**	**903,400**	**933,400**	**957,300**	**53,900**	***6.0*** %
Depreciation Expense	1,412,111	1,374,783	1,500,300	1,500,300	1,500,000	(300)	
Retirement Expense	-	-	-	-	Actual Amount	n/a	
Non-Cash Expenses	**1,412,111**	**1,374,783**	**1,500,300**	**1,500,300**	**1,500,000**	**(300)**	***(0.0)*** %
Total Operating Expense	**$ 5,918,461**	**$ 5,868,998**	**$ 6,563,600**	**$ 6,543,600**	**$ 6,934,800**	**$ 371,200**	***5.7*** **%**
			2014 Adopted to Amended	***$ (20,000)***	***-0.3%***		

Distribution has a budgeted 2015 increase of $140,100. This includes additional funding for pump repairs not related to Lost Canyon, and additional power costs. The *Lost Canyon Transmission* budget shows a decline of $52,400 as a portion of its power budget was shifted to *Distribution* since *Distribution* now uses more power. Overall, power rates will likely increase.

Treatment Plant shows a $76,300 budget increase. Most of this increase will be used to replace the carbon filters at the plant. Carbon is only purchased every few years, so $65,000 of the *Treatment Plant* budget increase is one-time.

Other Departments

Other departments account for $53,900 of the increase. The increases in the Human Resources include funding for the wellness program. In addition, a 15 hour per week payables clerk will be hired mid-year to free up time to provide training for the accountant so this person is qualified to eventually replace the Chief Financial Officer, who is moving to part-time the next three to five years before he plans to retire.

Non-operating Expenses

Non-operating Expense consists of *Interest Expense / Bank Fees* and bond related costs, including issuance costs.

Non-operating Expense

	2012 Actual	2013 Actual	2014 Adopted Budget	2014 Amended	2015 Control Board Recommended	2015 Recommended to 2014 Amend Budget $ Change	% Change
Interest Expense / Bank Fees	$ 1,689,534	$ 1,573,721	$ 1,466,000	$ 1,476,000	$ 1,717,500	$ 251,500	
Bond Issuance Costs and Amortization Exp	1,107,774	17,414	17,500	367,500	17,500	-	-
Total Non-operating Expense	**$ 2,797,308**	**$ 1,591,135**	**$ 1,483,500**	**$ 1,843,500**	**$ 1,735,000**	**$ 251,500**	***17.0 %***
			2014 Adopted to Amended	***$ 360,000***	***24.3%***		

As shown above, the 2015 *Non-operating Expense* budget is $1.74 million, which is $251,500 or 17.0% more than budgeted for 2014. This reflects an estimated $275,000 in capitalized interest costs for the proposed Series 2014 bonds. This capitalized interest will be paid from the bond proceeds, and not ongoing revenue.

Moving forward, special assessments paid by the Promontory developer will fund about 70.0% of the debt service cost for the proposed Series 2014 bonds over the next five years.

The increase in annual debt service costs for existing bonds discussed in **Section 1.07** above is not reflected in this budget, as those increases are due to higher principal payments. Principal payments are not accounted for in the operating budget; they are accounted for in the 2015 debt service budget discussed in **Section 3.0** below.

For 2014, a $350,000 budget amendment for issuance costs associated with the proposed Series 2014 revenue bonds will be funded with bond proceeds (and not rates). The $350,000 is a worst-case estimate, so the actual issuance costs will likely be less than this amount.

The $1.1 million in 2012 bond costs is due to the issuance of the Series 2012 bonds. These issuance costs were funded from bond proceeds.

2.04 2015 Transfers

Although the District may receive subdivision infrastructure donations from developers in 2015, no amount is budgeted since the value of *Contributions-in-Aid of Construction* is not known.

Transfers							
	2012 Actual	2013 Actual	2014 Adopted Budget	2014 Projection	2015 Control Board Recommended	2015 Recommended to 2014 Budget $ Change	% Change
Contingency	$ -	$ -	$ -	$ -	$ -	$ -	
Governmental Transfers	-	-	-	-	-	-	
Contributions in Aid of Construction	369,677	288,413	-	(28,000)	-	-	
Total Transfers	**$ 369,677**	**$ 288,413**	**$ -**	**$ (28,000)**	**$ -**	**$ -**	**- %**

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

These are non-cash transfers that increase net income 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 net income and cash flow.

3.0 2015 DEBT SERVICE BUDGET

For 2015, the District projects a debt coverage ratio of 1.39 when only parity revenue bonds are included. As discussed in **Section 1.08** above, this ratio is required to meet or exceed 1.25 to comply with bond covenants.

The coverage calculation shown below does not included $275,000 in capitalized interest that will be paid with proceeds from the proposed Series 2014 bonds, as this interest will not be paid from cash generated by ongoing operations.

MOUNTAIN REGIONAL WATER
2015 Debt Service Budget - Cash Basis
(Excludes Rate Stabilization Fund)

		2015 Control Board	
COVERAGE CALCULATION FOR PARITY REVENUE BONDS			
Operating Income (Loss)	$	720,700	
Add Back Depreciation		1,500,000	
Add In Interest Available for Debt Service		25,000	
Add In Impact Fees		388,900	
Add In Promontory SID Assessments on Developer		1,536,000	
Add in Other Non-operating Income		125,000	
Add in Treatment Plant Stabilization Fund		65,000	
Total Available For Debt Service	**$**	**4,360,600**	
TOTAL DEBT COVERAGE			
Required Coverage Principal	$	1,925,200	
Required Coverage Interest/Bank Fees		1,527,500	
Capitalized Interest on Series 2014 Bonds		***Funded with Bond Proceeds***	***(1)***
Total Required Debt Service		**3,452,700**	
Debt Service X 1.25	**$**	**4,315,900**	
Required Debt Coverage Ratio		**1.26**	
REQUIRED PARITY BOND DEBT COVERAGE			
Parity Bond Principal	$	1,776,000	
Parity Bond Interest		1,375,700	
Capitalized Interest on Series 2014 Bonds		***Funded with Bond Proceeds***	***(1)***
Total Parity Debt Service		**3,151,700**	
Debt Service X 1.25	**$**	**3,939,700**	
Parity Debt Coverage Ratio		**1.38**	
Total Cash Generated from Operations	**$**	**907,900**	
Appropriation to Capital Facilities Repair & Replacement Funds	$	271,700	
Appropriation to Treatment Plant Sinking Fund		-	
To Mantain Operating Reserves to Level Outlined in District Policy		203,700	
Total Cash Appropriations	**$**	**475,400**	
Unallocated Portion of Cash Increase	**$**	**432,500**	

(1) The debt coverage calculation for 2015 does not include an estimated $275,000 in capitalized interest that will be funded with proceeds from the Series 2014 revenue bonds.

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 in order to generate sufficient cash to make required deposits to reserves and to fund future capital equipment and small projects. For 2015, this ratio is projected to be 1.26 or higher, as the Districts expense budgets include $150,000 in contingencies.

A 1.26 projected coverage ratio for all debt would result in a $907,900 increase in cash in 2015, excluding cash spent on capital equipment and projects. The District plans to allocate this cash increase as shown at the bottom of the table above.

The 2015 ratios include $65,000 from the Treatment Plant Operations stabilization reserves to help pay an estimated $125,000 for pretreatment carbon.

The District's policy is to budget for a ratio of 1.25 from the current year cash flow, with two exceptions:

1) Every few years, treatment plant maintenance costs will be higher than most years as expensive membranes need to be replaced in 8 to 10 year cycles, and not evenly over the ten year period. Further, expensive carbon needs to be replaced every two to three years; and

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

As discussed in more detail in **Section 1.06** above, the rate stabilization funds have the following projected year-end balances for 2014:

1) Debt Service Reserves **-** $1.06 million

2) Treatment Plant Operations – $125,000

3) Expanded Lost Creek Canyon Repair and Replacement – $75,000

4.0 CAPITAL BUDGET

The District is requesting $8.78 million in new capital spending authorization for 2015.

Mountain Regional Water
Capital Budget

	2014 Adopted Budget	2014 Projected Actual	2014 Budget Savings	2014 Savings Carryover	Control Board Recommended Increases	2015 Total Budget	2014 & 2015 Total Budget
CASH SOURCES							
2014 Budget Carryover				$ 81,900	$ 81,900		
Cash Available from Previous Years					437,500		
Capital Facility Reserves					62,500		
Series 2014 Revenue Bond (net proceeds after issuance costs)					8,200,000		
TOTAL SOURCES				**81,900**	**8,781,900**		
CASH USES							
2014 Completed Projects	2,108,741	2,026,841	81,900	81,900	-	81,900	2,108,741
General System Improvements & Equipment					346,400	346,400	346,400
Capitalized Personnel Costs					235,500	235,500	235,500
Promontory SAA Bond Projects					4,400,000	4,400,000	4,400,000
Mountain Regional Revenue Bond Projects					3,800,000	3,800,000	3,800,000
TOTAL USES	**2,108,741**	**2,026,841**	**81,900**	**81,900**	**8,781,900**	**8,863,800**	**10,890,641**

As shown above, the budget recommendation includes $8.2 million in new Series 2014 revenue bonds proceeds that will be available once bond issuance costs are paid for the proposed Series 2014 bonds. Closing costs are not expected to exceed $350,000.

These bonds are to be used to fund $4.4 million in projects in a new Promontory Special Assessment Area. This portion of the bonds would be paid off over 15 years using special assessments paid by the Promontory developer. The projects include a new storage tank and the related pumping and waterline infrastructure. The storage is needed for future Promontory growth.

The remaining $3.80 million in District projects would be paid for over 20 years. Most of these projects are part of the impact fee facilities plan the Council adopted this summer. As such, the related debt service will be paid mostly from a combination of impact fees and wholesale water sales.

About half the District's $3.8 million share of the bonds proceeds are needed to construct Well 15C, which is needed to ensure the District has sufficient backup source for future wholesale water sales anticipated under the regionalization agreement with Weber Basin Water Conservancy District, Park City, and Summit Water.

The remainder of the District's projects include two much needed pump station upgrades at Silver Springs and Bear Hollow, an interconnect pipeline to improve fire flow in lower Silver Springs, a new Summit Park/Timberline storage tank, and an air-break tank.

Since District employees spend a portion of their time working on or managing capital projects, the District capitalizes some personnel costs. For 2015, the budget includes $235,500 for this.

An additional $346,400 has been budgeted for capital equipment, vehicle replacement, and other small capital projects and repairs.

5.0 2014 BUDGET AMENDMENTS

5.01 2014 OPERATING BUDGET

For 2014, three budget increases are needed that will be completely offset by a $50,000 reduction in the power usage resulting from cool wet weather and an estimated $350,000 in Series 2014 bond issuance costs that will be paid from bond proceeds.

MOUNTAIN REGIONAL WATER
2014 Amended Operating Budget - Accrual Basis
Enterprise Fund

	2012 Actual	2013 Actual	2014 Adopted Budget	2014 Amended Budget	2014 Amended to Adopted	2014 Projection	2014 Projection to Adopted
OPERATING REVENUE							
Water Sales	$ 6,226,121	$ 6,266,463	$ 6,267,100	$ 6,267,100	$ -	$ 6,099,200	$ (167,900)
Park City Wheeling	448,276	444,373	540,000	540,000	-	474,800	(65,200)
Stagecoach Assessment	198,751	174,109	167,700	167,700	-	191,200	23,500
Operating Fees	153,805	259,851	246,400	246,400	-	306,700	60,300
Contract Maintenance	-	-	-	-	-	-	-
Other	236,215	69,330	40,000	40,000	-	50,500	10,500
Total Operating Revenue	**7,263,168**	**7,214,126**	**7,261,200**	**7,261,200**	**-**	**7,122,400**	**(138,800)**
OPERATING EXPENSES							
Operations Management							
Energy & Resource Management	323,309	327,724	351,500	351,500	-	351,500	-
Distribution	1,762,278	1,837,028	2,009,000	2,009,000	-	2,009,000	-
Lost Canyon Transmission	1,085,581	1,157,602	1,303,500	1,253,500	(50,000)	1,214,800	(88,700)
Treatment Plant	642,992	369,898	459,800	459,800	-	384,800	(75,000)
Safety	26,685	33,772	36,100	36,100	-	36,100	-
General Manager					-		-
Engineering & Development	92,535	95,475	97,800	97,800	-	97,800	-
Human Resources	36,138	76,198	92,200	92,200	-	92,200	-
Legal Services	4,805	30,254	50,000	80,000	30,000	80,000	30,000
Public Services	330,663	348,267	387,700	387,700	-	385,400	(2,300)
Financial Management	201,364	217,997	275,700	275,700	-	269,700	(6,000)
Depreciation Expense	1,412,111	1,374,783	1,500,300	1,500,300	-	1,500,300	-
Total Operating Expense	**5,918,461**	**5,868,998**	**6,563,600**	**6,543,600**	**(20,000)**	**6,421,600**	**(142,000)**
OPERATING INCOME (LOSS)	**1,344,707**	**1,345,128**	**697,600**	**717,600**	**20,000**	**700,800**	**3,200**
NON-OPERATING REVENUE							
Interest Earnings - Available for Debt Service	101,985	26,491	29,900	29,900	-	26,000	(3,900)
Interest Earnings - Not Available for Debt Service	693	298	500	500	-	400	(100)
Impact Fees	196,067	563,385	450,000	450,000	-	548,400	98,400
Promontory Developer SID Assessments	499,397	794,375	1,620,000	1,620,000	-	1,620,000	-
Cash Grants	22,563	(13,780)	35,000	35,000	-	139,700	104,700
Other Cash Non-operating Revenue	11,667	11,667	11,700	11,700	-	11,700	-
Non-Cash Non-operating Revenue	-	35,981	-	-	-	-	-
Total Non-operating Revenue	**832,372**	**1,418,417**	**2,147,100**	**2,147,100**	**-**	**2,346,200**	**199,100**
NON-OPERATING EXPENSE							
Interest Expense/Bank Fees	1,689,534	1,573,721	1,466,000	1,476,000	10,000	1,476,000	10,000
Bond Issuance Costs and Amortization Expense	1,107,774	17,414	17,500	367,500	350,000	367,500	350,000
Total Non-operating Expense	**2,797,308**	**1,591,135**	**1,483,500**	**1,843,500**	**360,000**	**1,843,500**	**360,000**
NON-OPERATING INCOME (LOSS)	**(1,964,936)**	**(172,718)**	**663,600**	**303,600**	**(360,000)**	**502,700**	**(160,900)**
CHANGE IN NET POSITION (NET INCOME BEFORE TRANSFERS)	**(620,229)**	**1,172,410**	**1,361,200**	**1,021,200**	**(340,000)**	**1,203,500**	**(157,700)**
TRANFERS							
Contingency	-	-	-	-	-	-	-
Governmental Transfers	-	-	-	-	-	-	-
Contributions in Aid of Construction	369,677	288,413	-	-	-	(28,000)	(28,000)
NET TRANSFERS	**369,677**	**288,413**	**-**	**-**	**-**	**(28,000)**	**(28,000)**
CHANGE IN NET POSITION (NET INCOME AFTER TRANSFERS)	**$ (250,552)**	**$ 1,460,823**	**$ 1,361,200**	**$ 1,021,200**	**$ (340,000)**	**$ 1,175,500**	**$ (185,700)**

Excluding the bond proceeds that will be used to pay related bond issuance costs, the budget amendments net to a $10,000 decrease.

First, the 2014 amendments include $30,000 for *Legal Services* related to the impact fee study, the transfer of water rights, legal issues related to the Summit Water settlement agreement, and the adoption of new personnel and procurement policies.

Second, the budget for *Bond Issuance Costs* has been increased $350,000 to pay the closing costs related to two property acquisition loans (the Promontory property and the Lost Canyon property); and the issuance costs for the Series 2014 bonds.

Third, the *Interest Expense* budget has been increased $10,000 due to the recalculation of an amortized amount.

As shown above, the District now projects the 2014 change in net position of $1.18 million – which is $185,700 less than initially projected. Excluding the $350,000 increase in one-time bond issuance costs, the change in net position would be $164,300 more than budget.

Operating Expenses for 2014 are projected to finish $142,000 below budget. This is due to lower power usage resulting from cool wet weather and fewer repairs than anticipated in the budget.

Non-operating Expenses are projected to be $360,000 higher than the initial budget due the $350,000 amendment for Series 2014 bond issuance costs and the $10,000 amendment for interest expense amortization.

Operating Revenue is expected to be $138,800 below initial 2014 projections despite the rate and fee increases adopted in August 2014. This is due to cool wet weather that was only partly offset by higher operating fee collections.

Meanwhile, *Non-operating Revenue* is expected to be $199,100 over initial projections due to higher impact fee collections that reflect the improved building economy, plus the one-time lot sale in Summit Park. The impact fee per ERC will decline in 2015 as discussed in **Section 1.11** above.

5.02 2014 DEBT SERVICE BUDGET

The 2014 *Debt Service Budget* projected a 1.35 parity debt coverage ratio and 1.26 when subordinated debt was included. These ratios are now projected at 1.42 and 1.32 respectively, due to improving impact and operating fee collections, lower power usage due to a cool wet summer, and the rate and fee increases adopted in August 2014.

MOUNTAIN REGIONAL WATER
2014 Debt Coverage Calculation - Cash Basis

	2014 Budget	2014 Projection
COVERAGE CALCULATION FOR PARITY REVENUE BONDS		
Operating Income (Loss)	$ 697,600	$ 700,800
Add Back Depreciation	1,500,300	1,500,300
Add in Interest Available for Debt Service	29,900	26,000
Add In Impact Fees	450,000	548,400
Add In Promontory SID Assessments on Developer	1,620,000	1,620,000
Add in Other Non-operating Income	35,000	139,700
Bond Issuance Costs Funded with Bond Proceeds	n/a	nets to zero
Total Available For Debt Service	**4,332,800**	**4,535,200**
TOTAL DEBT COVERAGE		
Required Coverage Principal	1,879,500	1,879,500
Required Coverage Interest/Bank Fees	1,551,000	1,561,000
Total Required Debt Service	**3,430,500**	**3,440,500**
Debt Service X 1.25	**4,288,200**	**4,300,700**
Required Debt Coverage Ratio	**1.26**	**1.32**
REQUIRED PARITY BOND DEBT COVERAGE		
Parity Bond Principal	1,783,000	1,783,000
Parity Bond Interest	1,420,600	1,420,600
Total Parity Debt Service	**3,203,600**	**3,203,600**
Debt Service X 1.25	**4,004,600**	**4,004,600**
Parity Debt Coverage Ratio	**1.35**	**1.42**