MOUNTAIN REGIONAL WATER

SPECIAL SERVICE DISTRICT

2017 ADOPTED BUDGET

And

2016 AMENDED BUDGET

December 7, 2016

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1.0 2017 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 new developments have joined the District.

The District currently has nearly 3,400 customers using water and nearly 1,700 additional lots on standby. In addition, construction recently started on the Silver Creek Village, a multi-use development with Summit County approval for over 1,000 new units (of which 376 are part of the 1,700 standby lots mentioned above).

The District also wheels up to 2,900 acre feet of raw water annually to Park City; and has entered into an agreement to sell Summit Water 800 acre feet of culinary water in 2017 under the Weber Basin regionalization agreement. These two wholesale contracts now account for over 50% of the District's water production.

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.

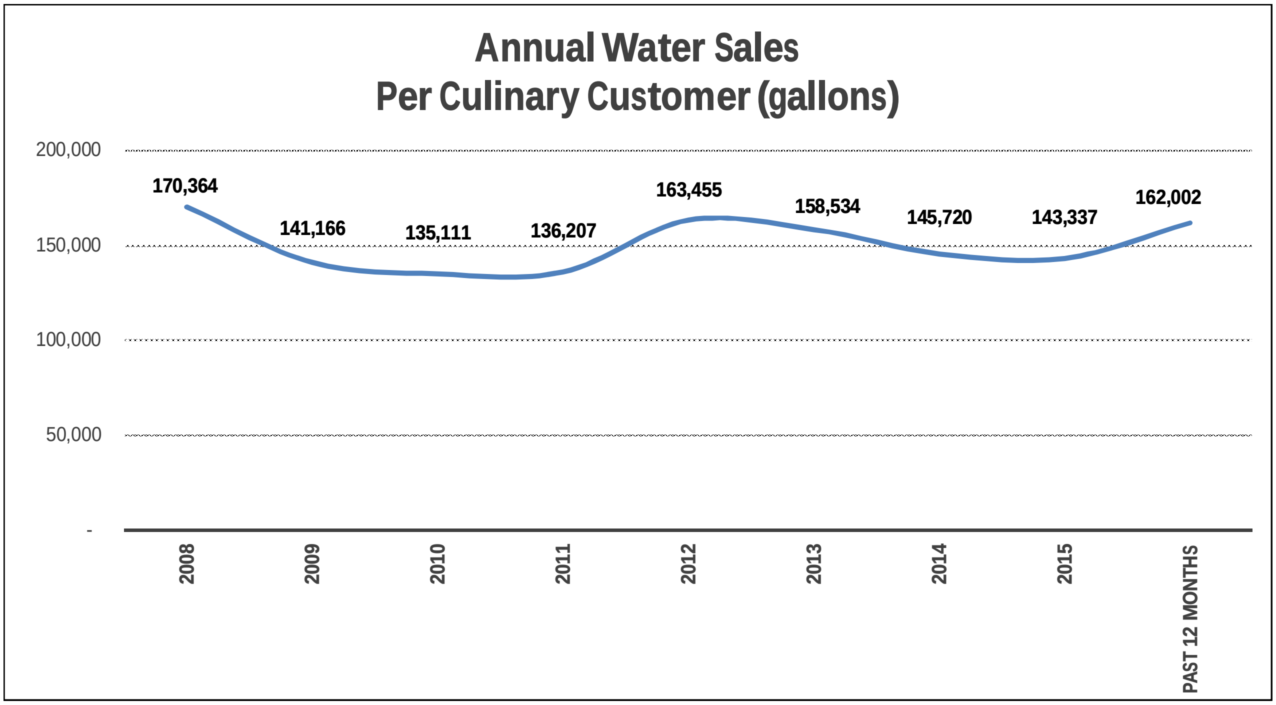
This budget includes interest expense on debt (see *Debt Service Budget* below), and the depreciation of capital assets (see *Capital Budget* below). However, it does not include any debt proceeds or the upfront cost of capital equipment and projects; or the payment of principal on debt.

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. However, if insufficient cash is generated during the year, other reserves can be used.

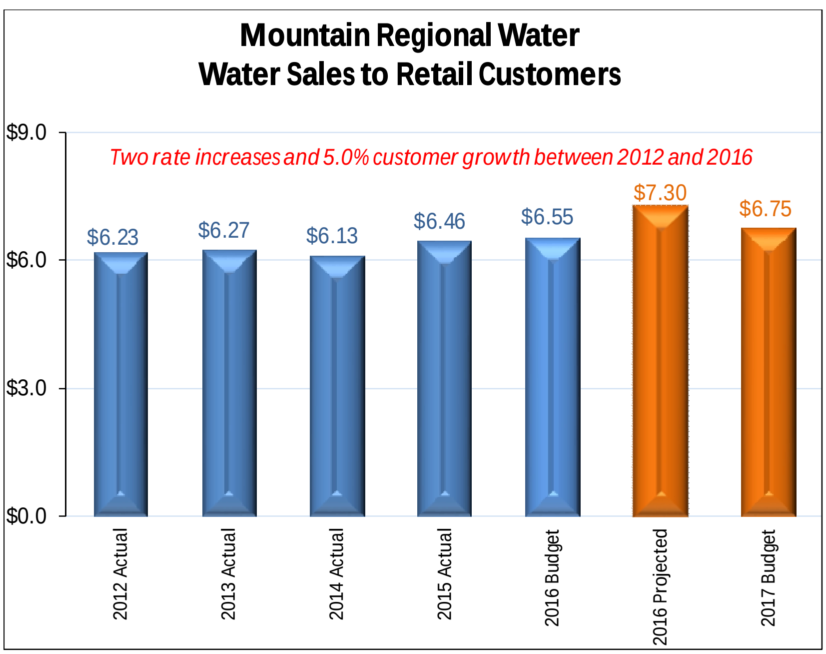
Capital Budget – This project "cash based" budget includes capital equipment costing more than $5,000 and expenditures related to water system infrastructure, buildings, and water rights. These budgets remain in effect over the life of a project rather than a calendar year. Its cash sources typically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

1.03 Retail Water Consumption Rebounded in 2016

As shown below, the District's average culinary consumption the past twelve months was 162,002 gallons. This is the highest since 2012 due to hot dry summer weather. The average culinary consumption per customer since conservation rates were adopted is 148,191 gallons per year. This represents a 3,922 gallons increase over last year's average of 144,269. Starting in 2016, the District began basing its retail water sales forecasts on 144,000 gallons usage for the retail sales forecast.



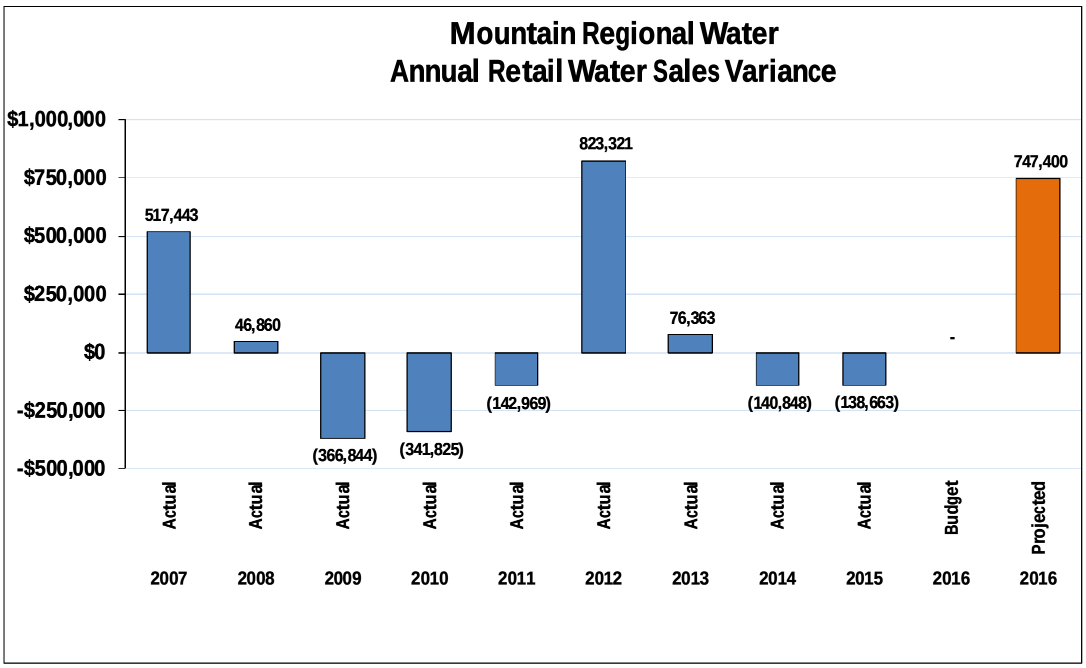
Due to higher consumption, it is now projected 2016 retail water sales will be $7.30 million – which is $747,400 (11.4%) above initial budget projections, as shown below.



Meanwhile, the 2017 retail water sales forecast is $6.75 million. As discussed above, this is based upon the average annual culinary consumption, plus the growth in new customers using water in 2017. It is critical not to base future revenue projections on the amounts collected over the past two or three years, as:

1) Annual water consumption varies depending upon the weather, and
2) Development related collections vary even more dramatically based upon the local building cycle.

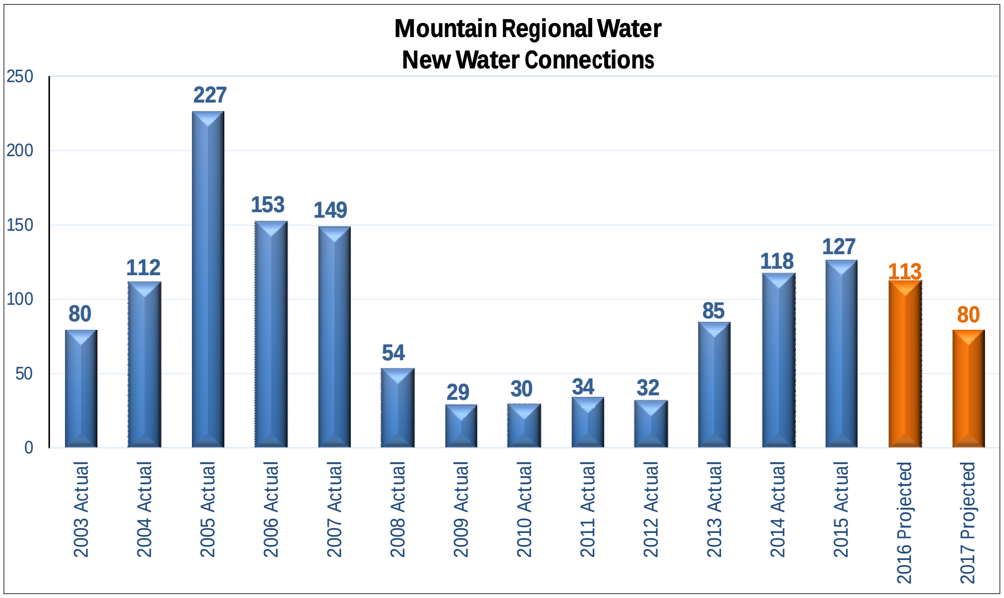
Due to the District's punitive conservation water rates, retail water sales actually vary more dramatically than annual culinary consumption. For example, over the past ten years water sales have fallen as much as $366,844 under budget in a wet year to $823,321 over budget in a hot dry year. In fact, 2016 was a very hot dry year, and retail water sales are now projected to exceed the initial budget by $747,400.



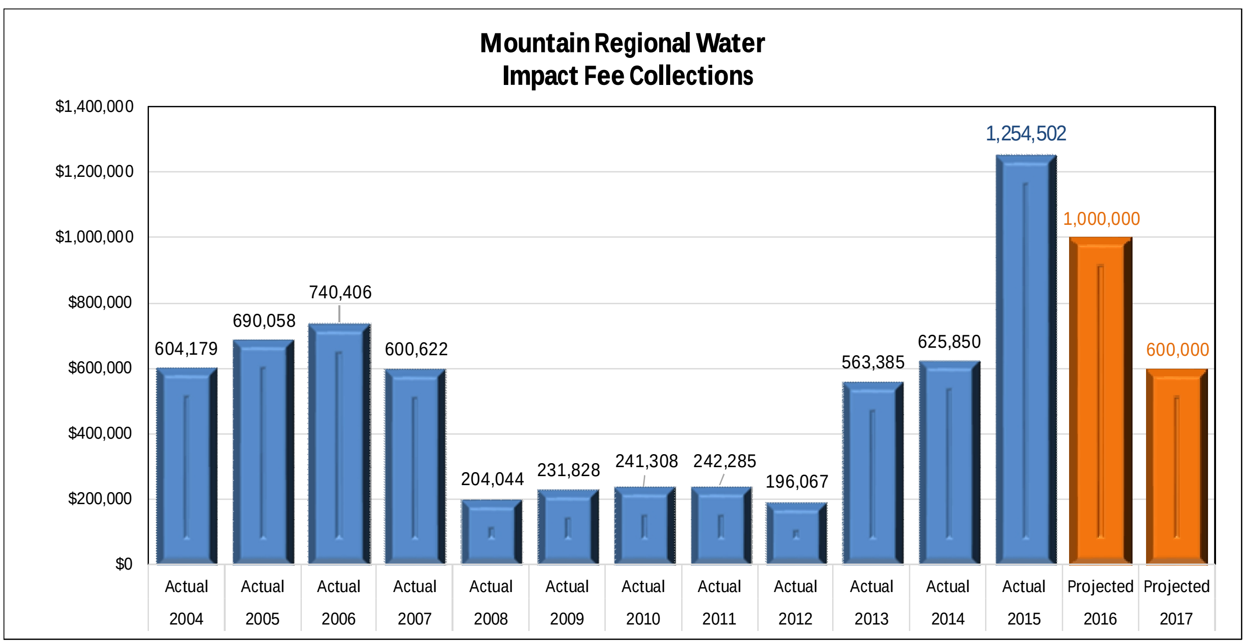
The average annual retail water sales variance over the past ten years is $98,203, or 1.73% above budget; with retail water sales finishing over budget 50% of the time, and under budget 50% of the time. This very small average variance would be expected, as the District's policy is to forecast retail water sales using the ten year annual culinary consumption average.

1.04 Development Related Collections Remain Strong

As shown below, new water connections have averaged 120 new units per year since 2014. This is the highest since the building boom that lasted from 2003 to 2007. However, between 2009 and 2012, average new water connections were only 31 annually.



The average number of new water connections over the past ten years is 80 – which is the number used for the 2017 revenue forecast. Based upon the average impact fee of about $7,400 (including the use of prepaid connections), the District projects $600,000 in impact fee collections for 2017, as shown below. The table below also demonstrates the dramatic swings in impact fee collections year-to-year due to the local building cycle.



1.05 Major Wholesale Water Contracts

Park City has contractual rights to wheel up to 2,900 acre feet of its Rockport Reservoir water through the District's Lost Canyon project on an annual basis. Park City pays for this 2,900 acre feet on a take-or-pay basis, but has only been using about half this amount annually the past few years. The calculation of the wheeling rates are outlined in a contract with Park City, and include 43.9% of most Lost Canyon production costs. Park City wheeling revenue is projected to be $615,200 in 2017, compared to the $615,000 now projected for 2016.

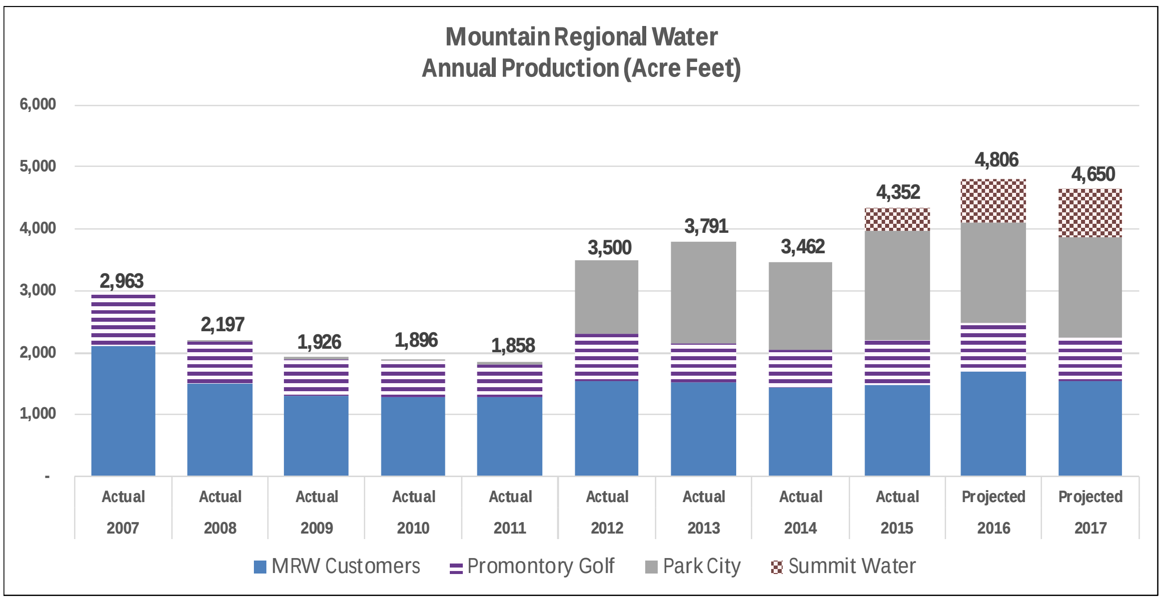
Summit Water has purchased 800 acre feet of wholesale water from the District under the Weber Basin regionalization agreement for 2017. The related take-or-pay contract will provide $889,600 in 2017 revenue. This compares to $684,600 in 2016 for 700 acre feet. The District plans to put 30% of these proceeds into its Regionalization Reserve Fund to help mitigate the $250,000 in new annual costs it will incur due to the regionalization fees that the District must start paying to Weber Basin in 2020.

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 fluctuations in retail water sales

1.06 District Water Production

As shown below, District water production increased significantly in 2012 when Park City began taking 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.

Now that Park City and Summit Water are taking water, the District produces more water for wholesale customers than it produces for its retail customers.



Production for 2016 is now projected to be 4,806 acre feet, which is 156 acre feet more than is currently forecast for 2017 due to the hot dry summer weather experienced in 2016. Without the 100 acre foot increase in water sold to Summit Water in 2017, as discussed in **1.05** above, the projected decline in water production between 2016 and 2017 would have been 256 acre feet.

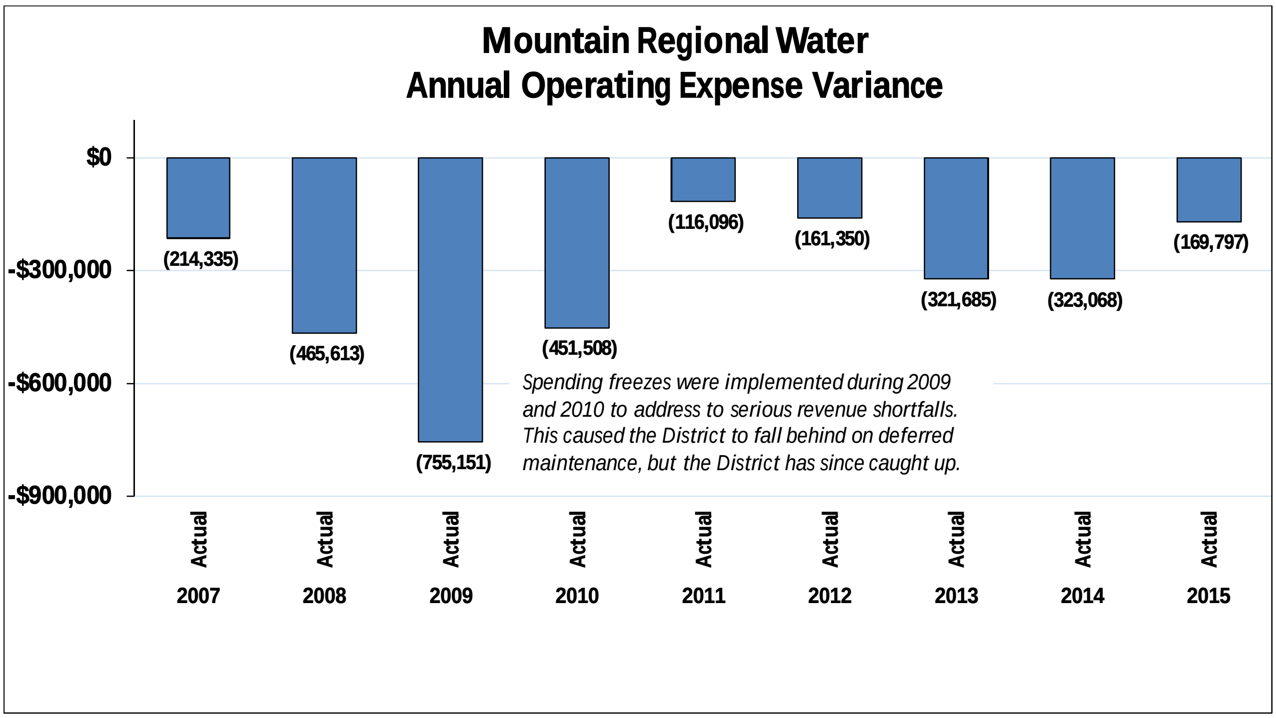
The 2017 projection of 4,650 acre feet was used to develop the 2017 expense budgets. If more water is sold or the District needs to pump water during the day when higher on-peak power rates are in effect, power costs will increase. However, the 2017 budget includes a $150,000 contingency in case this happens.

1.07 Production Expense Contingencies

The District assumes in the budget that 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 forecasts. The purpose for this is in case the District inadvertently or temporarily needs to pump water during on-peak power rates, or if hot dry weather is experienced. This provides a cushion for other operating expenses as well.

This practice provides $150,000 per year in operating expense contingencies – which is the amount of contingency included in the 2017 budget.

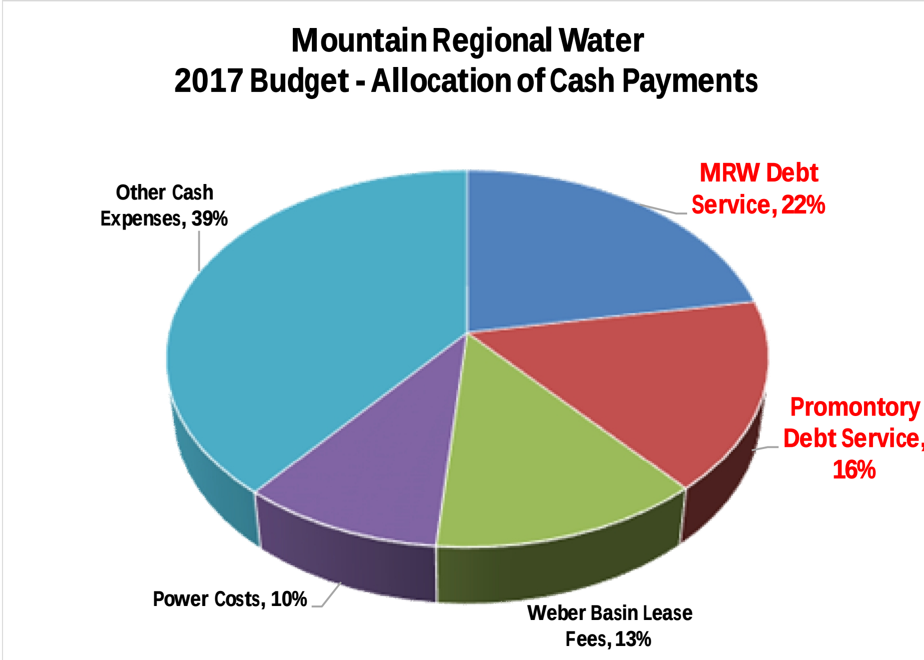
As shown below, the District has exercised prudence by not spending the production cost contingencies for other purposes, as it has not needed to pump water on-peak during the summer for the past few years. Negative numbers represent operating expenses finishing under budget.



In fact, the average operating expense variance since 2011 is $218,399 or 4.59% under budget. The large variances in 2009 and 2010 resulted from mid-year spending freezes implemented due to large revenue shortfalls. This caused the District to fall behind on system maintenance, but the District has since caught up.

1.08 Allocation of Cash Payments

As shown below, debt service, Weber Basin lease fees, and power costs account for 61% of the District budgeted cash payments in the 2017 budget, excluding capital projects.



Debt service currently represents 38% of cash payments. This includes 16% that will be paid from Promontory assessments, and 22% that will largely be funded from water sales and impact fees. However, in 2020 it is projected debt service will represent 40% of cash payments, with only 3% paid from Promontory assessments, and 37% from water sales, impact fees, and other small revenue sources.

Meanwhile Weber Basin lease fees account for 13% of cash payments in the 2017 budget; while, power costs account for only 10% - as the District has taken steps to become more energy efficient.

In fact, a recent study conducted by the Utah State of Environmental Quality determined that the District is saving nearly 40% on its power costs due to its efficiency measures taken over the past few years.

According to this independent study, this represented $392,812 in savings in 2015. The debt service payments for these power conservation measures is about $85,000 per year.

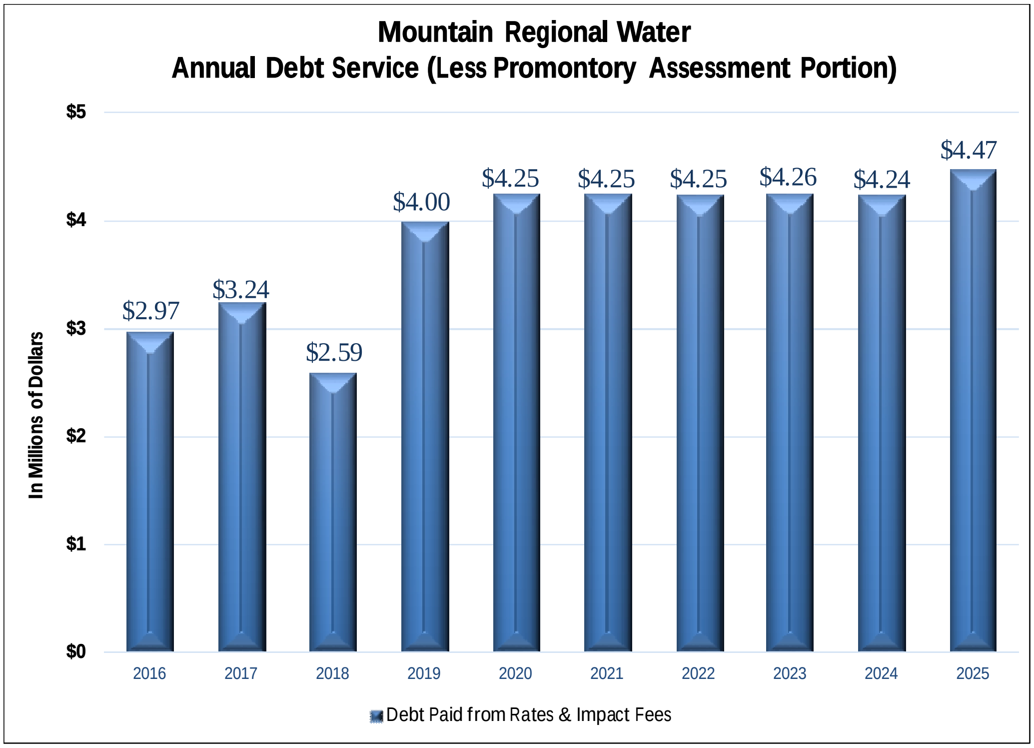
1.09 No Rate or Fee Increases Needed Until 2019

Due to the one-time drop in 2018 debt service requirements, combined with the annual regionalization revenue collections the District will receive from Summit Water (through Weber Basin) over the next few years from the sale of its surplus water, a water rate and fee increase will not be needed before 2019.

However, due to increasing debt service payments starting in 2019, along with the new Weber Basin regionalization fees that the District will start paying in 2020, a rate increase will be needed in 2019.

1.10 Increasing Debt Payments Lead to 2019 Rate & Fee Increases

As shown below, the annual service requirements for existing debt funded from District water sales and impact fees is increasing substantially within the next three years.



In fact, total debt service requirements (including the 25% excess coverage requirement discussed in **Section 1.12**) are scheduled to increase by $1.03 million between 2016 and 2019 – from $2.97 million to $4.0 million. These amounts do not include debt that will be paid from assessments on the Promontory developer.

However, there is a one-time anomaly in 2018, when the payments required on existing debt are scheduled to decline $646,476 when compared with required 2017 debt payments. This is followed by a dramatic $1.41 million increase between 2018 and 2019. This results in a $757,811 net increase between 2017 and 2019.

This dramatic debt service increase in 2019 - combined with the annual $250,000 regionalization fee the District must start paying to Weber Basin in 2020 – will very likely require a water rate and fee increase at that time.

Depending upon new customer growth and potential increases in wholesale water sales, it is anticipated the rate increase could be between $15 and $25 per month.

As such the District established a Regionalization Reserve Fund into which it plans to deposit 30.0% of the revenue collections generated from selling wholesale water under the Weber Basin regionalization agreement.

The District anticipates these funds could then be used to prepay debt between 2019 and 2022 in order to reduce the annual debt service requirements in those years. This would allow the

District to phase in the necessary rate and fee increase in smaller increments over a four year period, and spread it over a larger customer base if strong growth in new customers continues.

1.11 Rate Stabilization Fund

The District's general bond indenture allows it to establish a Rate Stabilization Fund. These funds are available for use to cover revenue shortfalls and/or unexpected expenditures.

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. District policy prohibits the use of these funds when calculating debt coverage for budgeting purposes.

It appears at this time that debt coverage for 2017 may be tight, as it is currently projected to be 1.26 when subordinate debt is included. The existence of this fund provides assurance the District can meets the 1.25 times bond coverage requirements (see **Section 1.12** below) if revenues fall below projections or unanticipated large expenditures are incurred. Projected coverage for just parity debt for 2017 is 1.34.

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 2016 year-end reserve balance is $1.07 million. The District has never needed to use these funds.

Rate Stabilization Fund – Treatment Plant Operations – Each year, the District base budget includes about 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 debt coverage, and possibly rates. Therefore, 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.

Per District Policy, these funds can be used to calculate debt coverage 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 estimated average annual cost for the next ten years).

The District currently budgets $115,000 per year from ongoing revenue. For 2017, it is expected that a large portion of this will be deposited into this stabilization fund.

The year-end 2016 balance is projected at $82,000, as $22,800 was taken from this fund in 2016. This $22,800 will be included in the actual 2016 year-end debt coverage calculation.

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 2016 projected year-end balance is $200,000.

1.12 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 parity bond principal and interest payments (see **Section 3.0 – 2017 Debt Service Budget**). It is the 1.25 coverage requirement that drives rates and fees.

Mountain Regional Water
Parity Debt Service Coverage Ratio

	2014 Actual	2015 Actual	2016 Projected	2017 Budget
Water Sales	$ 6,126,252	$ 6,459,837	$ 7,296,900	$ 6,753,200
Park City Wheeling	492,605	535,223	615,000	615,200
Weber Basin Regionalization Collections	-	367,200	684,600	889,600
Stagecoach Assessments	193,972	208,749	180,000	163,000
Operating Fees	350,920	421,448	378,000	303,300
Impact Fees	625,850	1,254,502	1,000,000	600,000
Promontory Developer Assessments	1,575,816	1,730,632	1,953,600	1,617,100
Interest Available for Debt Service	29,670	80,464	95,000	84,900
Other Non-restricted Revenue	148,208	331,202	60,200	70,000
Treatment Plant Stabilization Fund	-	-	22,800	-
Total Cash Available for Debt Service	9,543,293	11,389,257	12,286,100	11,096,300
Cash Operating Expenses	(4,740,832)	(5,265,003)	(5,898,400)	(6,150,000)
Net Cash Available for Debt Service	4,802,461	6,124,254	6,387,700	4,946,300
Parity Debt Service Payments	3,203,382	3,460,004	3,747,500	3,695,500
Debt Service Coverage	1.50	1.77	1.70	1.34

As shown above, the District has had strong debt coverage ratios the past few years, largely due to much improved development related collections. It is likely that development related collections will decline at some point.

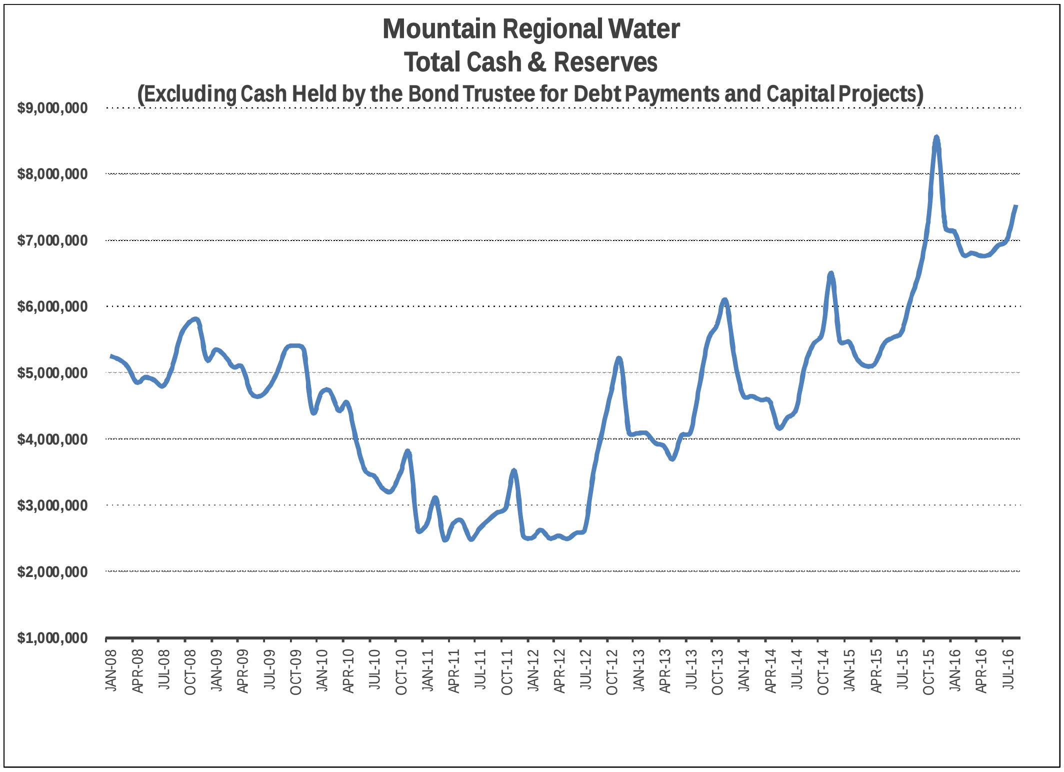
For 2017, a 1.34 debt coverage ratio is projected when only parity debt is included. The ratio if subordinate debt is included is projected to be 1.26.

1.13 Cash

As shown on the following page, the District's cash and reserves (excluding cash held by the bond trustee for debt payments and capital projects) have slowly, but steadily improved since 2011 – at which time a rating agency reported that the District's cash and reserves were "barely adequate".

This upward trend can be attributed to the following factors:

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



Normally, this upward trend would level off moving forward as debt service payments increase. In addition, a significant drop in development related collections would necessitate the drawdown of a portion these funds; plus a budget freeze might also be needed, causing the District to fall behind on system maintenance.

However, the projected increases in the Regionalization Reserve Fund discussed in **Section 1.05** will impact future cash trends.

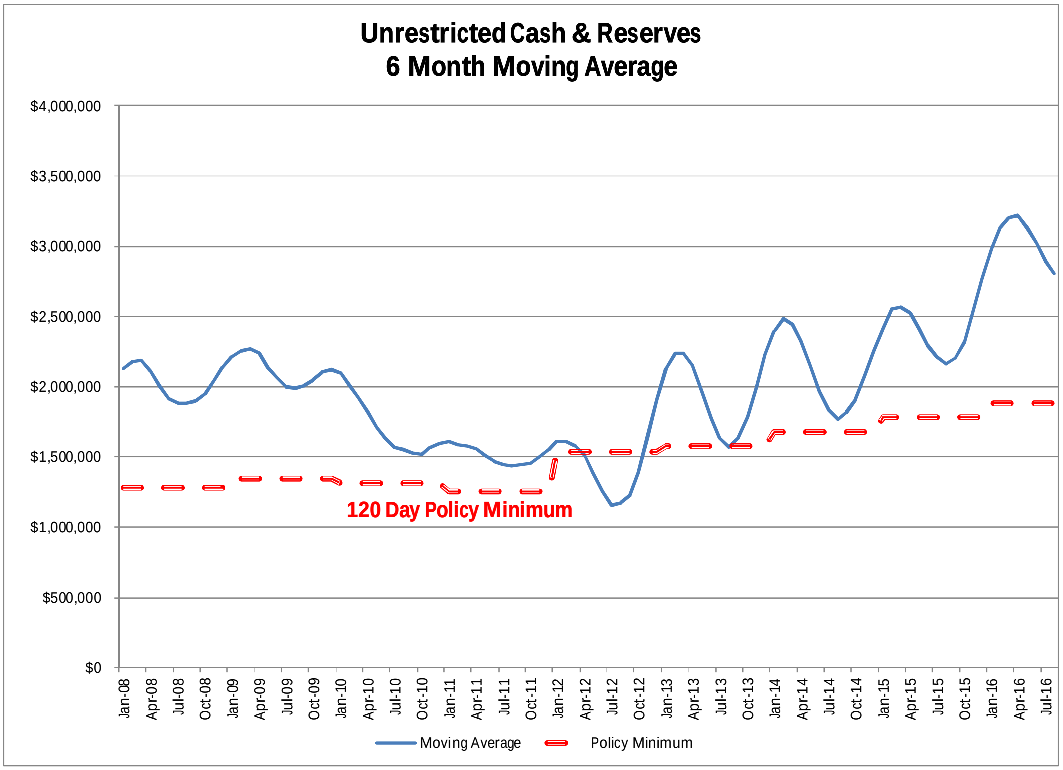
Unrestricted Operating Cash and Reserves

Unrestricted operating cash and reserves can be used for any legitimate District purpose; while restricted cash sources can only be used for the specific purpose outlined either in state law, contractual arrangements, or District policy.

Although funds restricted by District policy are considered unrestricted by governmental accounting standards, they are considered restricted for this cash analysis.

As such, the unrestricted operating cash and reserves shown on the graph below excludes all required capital facility repair funds, the stabilization funds, the impact fee and special assessment funds, bond proceeds, customer deposits, and debt reserves held by the bond trustee.

As shown below, unrestricted cash and reserves have steadily increased since mid-2012 due to the rate and fee increases and the restructuring of debt in 2012. In fact, in 2012 these reserves fell $591,527 below the minimum amount established by policy of 120 days reserves.



The graph above shows a six 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.

Unrestricted operating cash and reserves 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.

Debt Reserves Held by the District

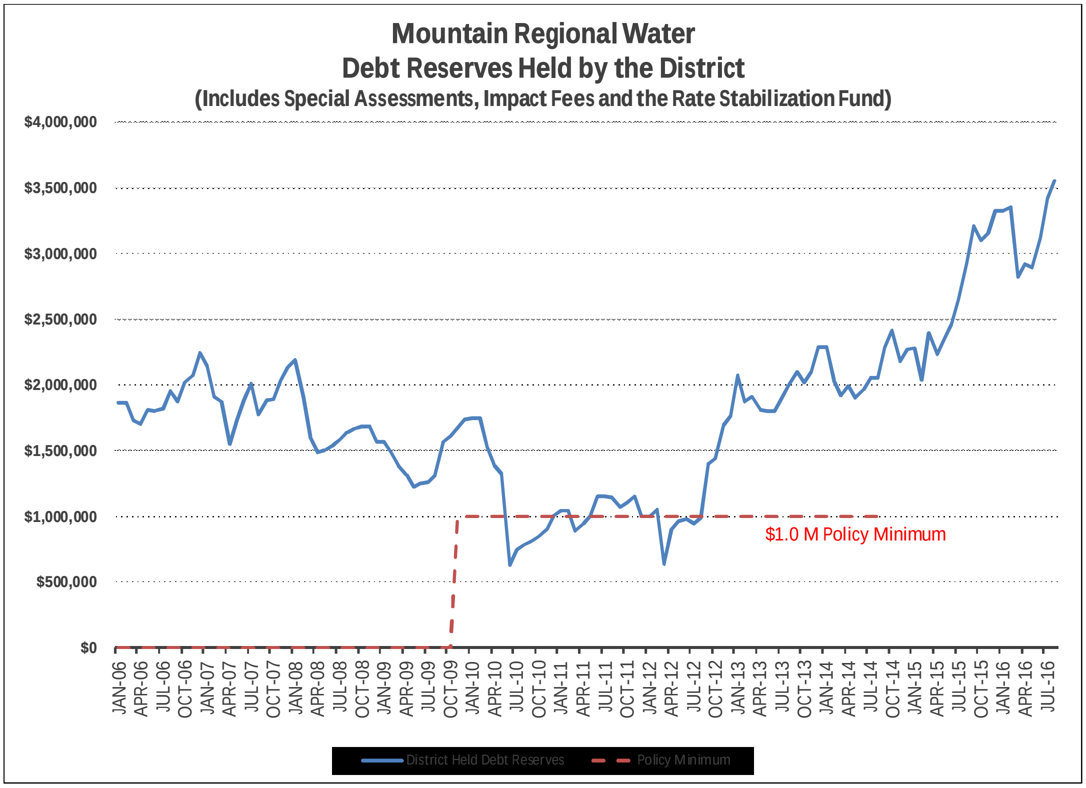
The District has chosen, by policy, to hold debt reserves in addition to those required by bond holders and held by the bond trustee.

The policy decision to establish these reserves was made to mitigate potentially significant shortfalls in revenue collections due to weather conditions and wide fluctuations in building related revenue; as well as for unexpected expenditures.

This also helped allow the District to issue both the Series 2012 and Series 2014 bonds without a debt reserve held by the trustee. The impact from using District held reserves, including the Rate Stabilization Fund, to cover revenue shortfalls or unexpected expenditures has a dramatically lower impact on the District when compared to the impact if trustee held debt reserves are ever used.

Further, the amount of debt reserves that would have been required for the Series 2012 and Series 2014 bonds would have increased the amount those bonds by a combined $3.5 million. Meanwhile, the Rate Stabilization Fund only requires a balance of $1.0 million.

As shown below, these reserves have increased dramatically the past five years due to improved building related collections, along with a policy decision made in November 2011 to establish the $1.0 million Rate Stabilization Fund, as discussed in **Section 1.11** above.



These reserves can only be used to make related debt payments in years when revenue does not meet projections or unanticipated expenditures are incurred. In fact, impact fee and assessment reserves were applied to debt payments during the Great Recession.

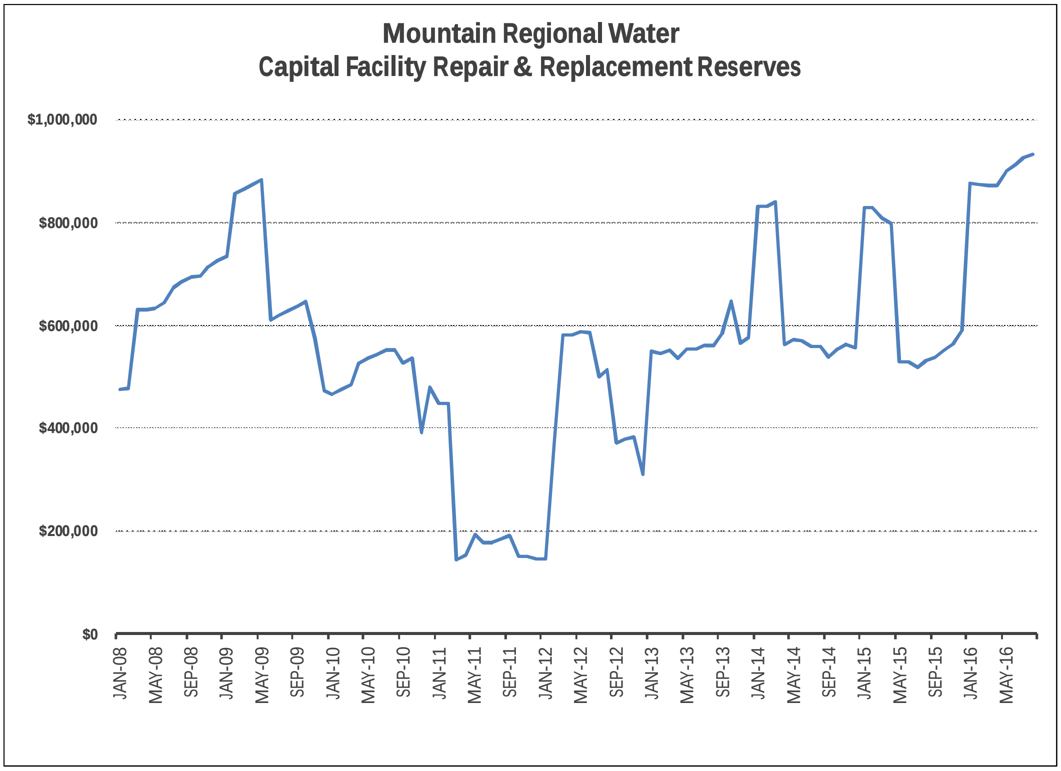
If these reserves are healthy, as they are currently, the District typically prepays debt on its callable bonds. Currently, no market bonds are callable. However, if these reserves remain healthy, the District will use a portion of them, in addition to the regionalization reserves, to prepay debt between 2019 and 2022 to help phase in the notable rate increase that will be needed starting in 2019.

Impact fees, which make up a large portion of these debt reserves, experience wide swings in annual collections, as shown in the table in **Section 1.04**. In fact, 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 $1.25 million in 2015.

Thus, it is critical that the District does not become too reliant upon 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.

Capital Facility Repair & Replacement Reserves

The District likes to maintain between $500,000 and $1.0 million in reserve to fund unanticipated large repairs and critical capital improvements. Currently, these reserves are close to $1.0 million.



The District plans to use $500,000 of the capital facility reserves in 2017 to fund the cost increases for the Silver Creek Tank that resulted from the need to relocate the tank from the original planned site. The new tank site requires additional pumping facilities. The required deposits to the capital facility reserves in 2017, less the use of the $500,000 for the tank, will result in an estimated 2017 year-end balance of $700,000.

<u>2017 Budgeted Cash Change</u>

As shown on the following page, the 2017 budget projects a $1.0 million increase; excluding capital budget items that are being funded with bond proceeds or with cash on hand as of December 2016.

The District plans to allocate this 2016 projected cash increase as follows:

Capital Facility Reserves Mandatory Deposit	$ 307,500
Increase Unrestricted Cash to Maintain Policy Level	135,300
Deposits into Regionalization Reserve	341,500
Future Year Capital Projects	222,000
Total	**$ 1,006,300**

Mountain Regional Water
2017 Operating Budget - Accrual and Cash Basis
Enterprise Fund

	2017 Control Board Recommended Accrual Basis	2017 Control Board Recommended Cash Basis
OPERATING REVENUE		
Retail Water Sales	$ 6,753,200	$ 6,753,200
Park City Wheeling	615,200	615,200
Weber Basin Regionalization Collections	889,600	889,600
Stagecoach Assessments	163,000	163,000
Operating Fees	303,300	303,300
Other	50,000	50,000
Total Operating Revenue	**8,774,300**	**8,774,300**
OPERATING EXPENSES		
Operations		
Energy & Resource Management	411,500	411,500
Lost Canyon Transmission	1,625,800	1,625,800
Treatment	693,600	693,600
Distribution	2,155,700	2,155,700
Safety	45,300	45,300
General Manager		
Engineering & Development	274,500	274,500
Human Resources	122,300	122,300
Legal Services	50,000	50,000
Public Services	490,700	490,700
Financial Management	280,600	280,600
Depreciation Expense	1,662,300	-
Total Operating Expense	**7,812,300**	**6,150,000**
OPERATING INCOME (LOSS)	**962,000**	**2,624,300**
NON-OPERATING REVENUE		
Interest Earnings - Available for Debt Service	84,900	84,900
Interest Earnings - Not Available for Debt Service	500	-
Impact Fees	600,000	600,000
Promontory Developer Assessments	1,617,100	1,617,100
Cash Grants	-	-
Other Cash Non-operating Revenue	20,000	20,000
Non-Cash Non-operating Revenue	11,700	-
Total Non-Operating Revenue	**2,334,200**	**2,322,000**
NON-OPERATING EXPENSE		
Interest Expense/Bank Fees	1,582,600	1,711,800
Bond Principal Payments	-	2,228,200
Bond Issuance Expenses	15,800	-
Total Non-Operating Expense	**1,598,400**	**3,940,000**
NON-OPERATING INCOME (LOSS)	**735,800**	**(1,618,000)**
CHANGE IN NET POSITION (NET INCOME BEFORE TRANSFERS)	**1,697,800**	**1,006,300**
TRANSFERS		
Contingency	-	-
Governmental Transfers	-	-
Contributions in Aid of Construction	-	-
NET TRANSFERS	**-**	**-**
CHANGE IN NET POSITION (NET INCOME AFTER TRANSFERS)	**$ 1,697,800**	**$ 1,006,300**

1.14 Personnel & Compensation

The 2017 budget includes an increase of one net operator position; as one higher paid Level 5 Operator is retiring, and will be replaced with two new entry Level 1 Operators. One of the new operators was hired in October 2016, while it is anticipated the other new operator will be hired in April 2017. This net increase of one position has a minimal impact on the 2017 budget.

The District has budgeted for a 5.0% ***average*** increase for 2017. However, it anticipates giving the same percentage raise as Summit County gives its employees for 2017.

2.0 2017 OPERATING BUDGET

2.01 Summary

As shown below, projected 2017 *Net Income after Transfers* is $1.70 million on an accrual basis.

Mountain Regional Water
2017 Operating Budget - Accrual Basis
Enterprise Fund

	2015 Actual	2016 Adopted Budget	2016 Amended Budget	2017 Control Board Recommended	2017 Recommend to 2016 Adopted
OPERATING REVENUE					
Retail Water Sales	$ 6,459,837	$ 6,549,500	$ 6,709,500	$ 6,753,200	203,700
Park City Wheeling	535,223	521,300	521,300	615,200	93,900
Weber Basin Regionalization Collections	367,200	684,600	684,600	889,600	205,000
Stagecoach Assessments	208,749	163,000	163,000	163,000	-
Operating Fees	421,448	303,300	303,300	303,300	-
Contract Maintenance	12,710	5,000	5,000	5,000	-
Other	62,328	40,000	40,000	45,000	5,000
Total Operating Revenue	**8,067,495**	**8,266,700**	**8,426,700**	**8,774,300**	**507,600**
OPERATING EXPENSES					
Operations					
Energy & Resource Management	493,103	532,000	557,000	411,500	(120,500)
Lost Canyon Transmission	1,330,813	1,415,500	1,415,500	1,625,800	210,300
Treatment Plant	494,856	481,400	481,400	693,600	212,200
Distribution	2,013,058	2,297,800	2,432,800	2,155,700	(142,100)
Safety	33,357	53,800	53,800	45,300	(8,500)
General Manager					
Engineering & Development	131,044	104,800	104,800	274,500	169,700
Human Resources	93,662	106,200	106,200	122,300	16,100
Legal Services	24,560	50,000	50,000	50,000	-
Public Services	400,570	414,800	414,800	490,700	75,900
Financial Management	249,980	282,100	282,100	280,600	(1,500)
Depreciation Expense	1,465,973	1,622,300	1,622,300	1,662,300	40,000
Total Operating Expense	**6,730,976**	**7,360,700**	**7,520,700**	**7,812,300**	**451,600**
OPERATING INCOME (LOSS)	**1,336,519**	**906,000**	**906,000**	**962,000**	**56,000**
NON-OPERATING REVENUE					
Interest Earnings - Available for Debt Service	80,464	51,400	51,400	84,900	33,500
Interest Earnings - Not Available for Debt Service	494	500	500	500	-
Impact Fees	1,254,502	600,000	600,000	600,000	-
Promontory Developer Assessments	1,730,632	1,953,600	1,953,600	1,617,100	(336,500)
Cash Grants	-	-	-	-	-
Other Cash Non-operating Revenue	256,164	20,000	20,000	20,000	-
Non-Cash Non-operating Revenue	11,718	11,700	11,700	11,700	-
Total Non-Operating Revenue	**3,333,974**	**2,637,200**	**2,637,200**	**2,334,200**	**(303,000)**
NON-OPERATING EXPENSE					
Interest Expense/Bank Fees	1,667,763	1,652,400	1,652,400	1,582,600	(69,800)
Bond Issuance Costs and Amortization Expense	15,734	15,800	15,800	15,800	-
Total Non-Operating Expense	**1,683,497**	**1,668,200**	**1,668,200**	**1,598,400**	**(69,800)**
NON-OPERATING INCOME (LOSS)	**1,650,477**	**969,000**	**969,000**	**735,800**	**(233,200)**
CHANGE IN NET POSITION (NET INCOME BEFORE TRANSFERS)	**2,986,996**	**1,875,000**	**1,875,000**	**1,697,800**	**(177,200)**
TRANSFERS					
Contributions in Aid of Construction	683,791	-	-	-	-
NET TRANSFERS	**683,791**	**-**	**-**	**-**	**-**
BUDGET CHANGE IN NET POSITION (NET INCOME AFTER TRANSFERS)	**$ 3,670,787**	**$ 1,875,000**	**$ 1,875,000**	**$ 1,697,800**	**$ (177,200)**
GASB 68 ACTUAL RETIREMENT ADJUSTMENTS	*125,447*	*TBD*	*TBD*	*TBD*	*TBD*
ACTUAL CHANGE IN NET POSITION (NET INCOME AFTER TRANSFERS)	**$ 3,796,234**	**$ 1,875,000**	**$ 1,875,000**	**$ 1,697,800**	**$ (177,200)**

The actual amounts shown above in the program exense 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.

It should be noted that the annual non-cash accruals for retirement expense are not included in the 2017 budget, since the amount won't be known until well after the fiscal year ends. As such, all prior years include cash retirement expense for comparison purposes.

When non-cash *Depreciation, Amortization,* and *other non-cash items* are taken into account, along with principal payments, the District anticipates it will generate $1,000,600 in cash from operations in 2017, as discussed in **Section 1.13** above.

2.02 2017 Revenue

Operating Revenue

As shown below, the District is projecting 2017 *Operating Revenue* of $8.77 million, which is 6.1% or $507,600 higher than was budgeted for 2016; but $425,200 less than is now projected for 2016. Unusually hot dry weather has resulted in an increase in 2016 water consumption.

Operating Revenue

	2015 Actual	2016 Adopted Budget	2016 Projection		2017 Control Board Recommended	2017 Recommended to 2016 Budget $ Change	% Change
Retail Water Sales	$ 6,459,837	$ 6,549,500	$ 7,296,900		$ 6,753,200	$ 203,700	*3.1* %
Park City Wheeling Fees	535,223	521,300	615,000		615,200	93,900	*18.0*
Weber Basin Regionalization Collections	367,200	684,600	684,600		889,600	205,000	*29.9*
Stagecoach Assessments	208,749	163,000	180,000		163,000	-	-
Operating Fees	421,448	303,300	378,000		303,300	-	-
Contract Maintenance	12,710	5,000	5,000		5,000	-	-
Other	62,328	40,000	40,000		45,000	5,000	*12.5*
Total Operating Revenue	**$ 8,067,495**	**$ 8,266,700**	**$ 9,199,500**		**$ 8,774,300**	**$ 507,600**	**6.1 %**
			$ 932,800	*11.3%*			

The 2017 *Retail Water Sales* budget of $6.75 million is $203,700 or 3.1% higher than the amount budgeted for 2016. This is the result of 125 new water connections that will generate additional revenue. However, this increase will be partially offset by the collection of fewer standby fees, as new customers using water no longer pay standby fees.

In past years, standby fees remained flat or actually increased despite the growth in new water connections, as new subdivision plats were typically recorded each year. For the past few years or so, the growth in new customers using water is coming largely from existing platted lots – leading to a decline in standby fee collections. Prior to the Great Recession, the recording of new plats often exceeded new water connections.

Although the 2017 retail water sales budget is $543,700 less than now projected for 2016, this is because the District develops its revenue projections based upon average weather; and 2016 was an unusually hot, dry year.

The $93,900 (18.0%) increase in *Park City Wheeling Fees* is the result of higher fixed costs over the past two years that are included in the related rate. Although these costs increased in 2016, this was not reflected in the 2016 budget, although the costs were included in the 2016 rate. This means Park City wheeling fees will exceed budget in 2016. Since Park City pays for its wheeled water on a take-or-pay basis, the projected increase in related revenue is not due to higher water use.

Weber Basin Regionalization Collections will increase $205,000 (29.9%) to $889,600 in 2017 due to a rate increase assessed by Mountain Regional caused by higher production and treatment costs; plus Summit Water contracted for 800 acre feet of wholesale water on a take-or-pay basis in 2017, compared to 700 acre feet in 2016.

Operating Fees (including connection fees) are projected to reach $303,300 in 2017 – the same as budgeted for 2016. Although actual 2016 collections will exceed budget significantly due to very strong customer growth, the District uses the average of 80 new units using water each year when developing revenue projections.

Non-operating Revenue

As shown below, *Non-operating Revenue* is projected to decline by $303,000 (11.5%) in 2017 when compared to the 2016 budget, as the contractually required *Promontory Developer Assessments* are declining by $336,500 (17.2%) in 2017. The portion of 2017 debt payments funded by Promontory assessments is declining by the same amount.

Non-operating Revenue

	2015 Actual	2016 Adopted Budget	2016 Projection		2017 Control Board Recommended	2017 Recommended to 2016 Budget $ Change	% Change
Interest Earnings	$ 80,958	$ 51,900	$ 96,200		$ 85,400	$ 33,500	*64.5* %
Impact Fees	1,254,502	600,000	1,000,000		600,000	-	-
Promontory Developer Assessments	1,730,632	1,953,600	1,953,600		1,617,100	(336,500)	*(17.2)*
Cash Grants	-	-	5,200		-	-	*n/a*
Other Cash Non-operating Revenue	256,164	20,000	10,000		20,000	-	-
Non-Cash Non-opeating Revenue	11,718	11,700	11,700		11,700	-	-
Total Non-operating Revenue	**$ 3,333,974**	**$ 2,637,200**	**$ 3,076,700**		**$ 2,334,200**	**$ (303,000)**	**(11.5)** %
			$ 439,500	*16.7%*			

As shown above, *Interest Earnings* are projected to increase $33,500 (64.5%) in 2017 due a 50 basis point increase in the interest rate paid by the Public Treasurers Investment Fund (PTIF) during 2016, which is where most of the District's cash is deposited.

The $600,000 projection for 2017 *Impact Fees* is the same as for 2016. This is based upon average new customer growth of 80 new water connections and the average impact fee of around $7,400.

This average impact fee is lower than the $10,513 base fee since many prepaid connections are being used, and many of the new water connections are in the Promontory development. Promontory 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 selling their excess prepaid District connections; and
3) The impact fee for homes is now 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 10 year average for new water connections – which is 80 units; and to build up reserves during years that fees exceed budget to make debt payments in years when fees fall short of budget.

2.03 2017 Expenses

<u>Operating Expenses</u>

The 2017 *Operating Expense* budget is $7.81 million, which is $451,600 or 6.1% higher than the 2016 adopted budget, as shown below.

Operating Expense

	2015 Actual	2016 Adopted Budget	2016 Amended	2016 Amended to Adopted		2017 Recommended	2017 Recommended to 2016 Adopted Budget $ Change	% Change
Operations								
Energy & Resource Management	$ 493,103	$ 532,000	$ 557,000	$ 25,000		$ 411,500	$ (120,500)	
Lost Canyon Transmission	1,330,813	1,415,500	1,415,500	-		1,625,800	210,300	
Treatment Plant	494,856	481,400	481,400	-		693,600	212,200	
Distribution	2,013,058	2,297,800	2,432,800	135,000		2,155,700	(142,100)	
Safety	33,357	53,800	53,800	-		45,300	(8,500)	
Subtotal Operations	**4,365,187**	**4,780,500**	**4,940,500**	**160,000**	*3.3*	**4,931,900**	**151,400**	*3.2* %
General Manager								
Engineering & Development	131,044	104,800	104,800	-		274,500	169,700	
Human Resources	93,662	106,200	106,200	-		122,300	16,100	
Legal Services	24,560	50,000	50,000	-		50,000	-	
Public Services	400,570	414,800	414,800	-		490,700	75,900	
Financial Management	249,980	282,100	282,100	-		280,600	(1,500)	
Subtotal Other Departments	**899,816**	**957,900**	**957,900**	**-**	**-**	**1,218,100**	**260,200**	*27.2* %
Depreciation Expense	1,465,973	1,622,300	1,622,300	-		1,662,300	40,000	
Non-Cash Expenses	**1,465,973**	**1,622,300**	**1,622,300**	**-**	-	**1,662,300**	**40,000**	*2.5* %
Total Operating Expense	**$ 6,730,976**	**$ 7,360,700**	**$ 7,520,700**	**$ 160,000**	*2.2*	**$ 7,812,300**	**$ 451,600**	*6.1* %

Non-cash *Depreciation Expense* is expected to increase $40,000 as projects funded from the Series 2014 bond proceeds are completed. Thus, the cash increase in *Operating Expenses* is $411,600; including $131,400 in higher Weber Basin lease fees charged to operations, and another $50,000 was added to the 2017 expense budget to cover the higher costs resulting from the increase in wholesale water sales.

The line item and program budget changes shown above vary significantly due to a shift of personnel costs within the budget programs. For example, a full-time engineering position was moved from *Energy and Resource Management* to *Engineering & Development*.

Further, two employees in *Distribution* were transferred: one to *Lost Canyon Transmission*, and one to the *Treatment Plant*. In addition, the *Lost Canyon Transmission* increase includes higher Weber Basin leases fees; while the *Treatment Plant* increase includes more funding for treatment membranes and carbon due to higher production, including higher wholesale water sales to Summit Water (through Weber Basin).

In addition, one high paid *Distribution* operator who plans to retire will be replaced with two new entry level operators - one of which will report to *Public Services* to work on service orders and meter reading, while the other operator will work in *Distribution*.

Non-operating Expenses

Non-operating Expense consists of *Interest Expense / Bank Fees* and bond related expenses - including issuance costs. As shown below, the 2017 *Non-operating Expense* budget is nearly $1.60 million, which is $69,800 or 4.2% less than budgeted for 2016. The decline in scheduled interest payments is the result of 2016 principal payments.

Non-operating Expense

	2015 Actual	2016 Adopted Budget	2016 Amended	2017 Control Board Recommended	2017 Recommended to 2016 Adopted Budget $ Change	% Change
Interest Expense / Bank Fees	$ 1,667,763	$ 1,652,400	$ 1,652,400	$ 1,582,600	$ (69,800)	
Bond Issuance Costs & Amortization	15,734	15,800	15,800	15,800	-	
Total Non-operating Expense	**$ 1,683,497**	**$ 1,668,200**	**$ 1,668,200**	**$ 1,598,400**	**$ (69,800)**	***(4.2)* %**
	2016 Adopted to Amended	***$ -***	***0.0%***			

However, as mentioned in **Section 1.10,** total 2017 debt service payments funded with water sales and impact fees are increasing due to higher principal payments. As discussed in **Section 1.02**, principal payments are only included in the debt service budget and not the budget shown above.

2.04 2017 Transfers

Although the District may receive subdivision infrastructure donations from developers in 2017, no amount is budgeted since the value of *Contributions-in-Aid of Construction* is not known.

Transfers

	2015 Actual	2016 Adopted Budget	2016 Projection	2017 Control Board Recommended	2017 Recommended to 2016 Budget $ Change	% Change
Contingency	$ -	$ -	$ -	$ -	$ -	
Governmental Transfers	-	-	-	-	-	
Contributions in Aid of Construction	683,791	-	-	-	-	
Total Transfers	**$ 683,791**	**$ -**	**$ -**	**$ -**	**$ -**	**n/a %**

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 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.

3.0 2017 DEBT SERVICE BUDGET

For 2017, the District projects a debt coverage ratio of 1.34 when only parity revenue bonds are included. As discussed in **Section 1.12** above, this ratio is required to meet or exceed 1.26 to comply with bond covenants.

MOUNTAIN REGIONAL WATER
2017 Debt Service Budget - Cash Basis

		2017
COVERAGE CALCULATION FOR PARITY REVENUE BONDS		
Operating Income (Loss)	$	962,000
Add Back Depreciation		1,662,300
Add In Interest Available for Debt Service		84,900
Add In Impact Fees		600,000
Add In Promontory SID Assessments on Developer		1,617,100
Add in Other Non-operating Income		20,000
Add in Treatment Plant Stabilization Fund		-
Total Available For Debt Service	**$**	**4,946,300**
TOTAL DEBT COVERAGE		
Required Coverage Principal	$	2,228,200
Required Coverage Interest/Bank Fees		1,711,800
Total Required Debt Service		**3,940,000**
Debt Service X 1.25	**$**	**4,925,100**
Required Debt Coverage Ratio		**1.26**
REQUIRED PARITY BOND DEBT COVERAGE		
Parity Bond Principal	$	2,119,000
Parity Bond Interest		1,576,500
Total Parity Debt Service		**3,695,500**
Debt Service X 1.25	**$**	**4,619,400**
Parity Debt Coverage Ratio		**1.34**
Cash Excess/(Shortfall)		**1,006,300**
Less Treatment Plant Stabilization Fund		-
Projected Cash Generated		**1,006,300**
Capital Facility Reserves		(307,500)
Operating Reserves		(135,300)
Regionalization Reserves		(341,500)
Cash Available for 2018 Capital Budget		**222,000**

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 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.

A 1.26 coverage ratio for all debt payments due in 2017 results in a projected $1.0 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 flow:

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. As such, the District currently budgets $115,000 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) Promontory lot 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 may be included in debt coverage calculations in years when lots sales are below projections.

District policy prohibits the use of 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 fall significantly short of budget – or unanticipated expenditures are incurred. These funds have never needed to be used.

4.0 CAPITAL BUDGET

The District is requesting $1.43 million in new capital spending authorization for 2017, as shown below.

Mountain Regional Water

	2016 Adopted Budget	2016 Estimated Completed	2016 Estimated Carryover	Control Board Recommended Increases	2017 Total Estimate
CASH SOURCES					
Previous Year Budget Carryover	$ 66,200	$ 66,200	$ 131,700	$ -	$ 131,700
Cash Available from Previous Years	816,000	816,000	-	900,000	900,000
Capital Facility Reserves	-	-	-	500,000	500,000
Series 2014 Bond Proceeds - Promontory	4,267,700	4,267,700	-	-	-
Series 2014 Bond Proceeds - MRW	4,094,700	132,000	3,962,700	29,200	3,991,900
TOTAL SOURCES	**$ 9,244,600**	**$ 5,281,900**	**$ 4,094,400**	**$ 1,429,200**	**$ 5,523,600**
CASH USES					
2016 Completed Small Projects & Equipment (est.)	$ 507,000	$ 507,000	$ -	$ -	$ -
Capitalized Personnel Costs	243,500	243,500	-	256,900	256,900
General System Improvements & Equipment (est.)	131,700	-	131,700	443,100	574,800
Promontory SAA Bond Projects	4,267,700	4,267,700	-	-	-
Mountain Regional Revenue Bond Projects	4,094,700	132,000	3,962,700	729,200	4,691,900
TOTAL USES	**$ 9,244,600**	**$ 5,150,200**	**$ 4,094,400**	**$ 1,429,200**	**$ 5,523,600**

Funding

This additional spending authorization will be funded with $900,000 in cash available from prior years, another $29,200 in additional interest earnings on the Series 2014 Bond proceeds, and $500,000 will be taken from capital facility reserves.

Series 2014 Revenue Bond Projects

These bond projects require an additional $729,200 to cover the higher cost resulting from increasing the size of the Silver Creek Tank (from 1.5 M Gals to 2.0 M Gals). This upsizing will delay the need to construct additional pipelines; and more importantly will allow the District to sell an additional 200 acre feet of surplus water to Summit Water through the regionalization agreement. This will generate $225,000 of additional revenue each year.

In addition, the District needed to relocate the Silver Creek Tank that will be completed in 2017 due to difficulties getting the proper approvals from Park City. This relocation necessitated the construction of a pump station that is estimated to cost around $1.13 million.

In addition to the Silver Creek Tank, the remaining bond projects currently moving forward include the Bison Bluff Well that will be completed in 2016; and the Bear Hollow Pump Station and Silver Springs Pump Station upgrades that will be completed in 2017.

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 2017, the budget includes $256,900 for this.

General System Improvements & Equipment

The budget includes $443,100 for capital equipment, vehicle replacement, and small capital projects. Between $200,000 and $250,000 will be used to begin a five-year program that will result in the replacement of existing meters with new meters that can be read daily via satellite.

These new meters cost less per meter than the ones the District currently uses – and many of these meters need to be replaced anyway. The replacement of these older meters could also increase water sales, as old meters tend to under read usage. In addition, it is anticipated the ability to read all meters daily will help the District locate leaks.

5.0 2016 BUDGET AMENDMENTS

5.01 2016 Operating Budget

For 2016, two budget amendments are needed, as shown below.

MOUNTAIN REGIONAL WATER
2016 Amended Operating Budget - Accrual Basis
Enterprise Fund

	2014 Actual	2015 Actual	2016 Adopted Budget	2016 Amended Budget	2016 Amended to Adopted	2016 Projection	2016 Projection to Adopted
OPERATING REVENUE							
Retail Water Sales	$ 6,126,252	$ 6,459,837	$ 6,549,500	$ 6,709,500	$ 160,000	$ 7,296,900	$ 747,400
Park City Wheeling	492,605	535,223	521,300	521,300	-	615,000	93,700
Weber Basin Regionalization Fees	-	367,200	684,600	684,600	-	684,600	-
Stagecoach Assessment	193,972	208,749	163,000	163,000	-	180,000	17,000
Operating Fees	350,920	421,448	303,300	303,300	-	378,000	74,700
Contract Maintenance	-	12,710	5,000	5,000	-	5,000	-
Other	52,913	62,328	40,000	40,000	-	40,000	-
Total Operating Revenue	**7,216,662**	**8,067,495**	**8,266,700**	**8,426,700**	**160,000**	**9,199,500**	**932,800**
OPERATING EXPENSES							
Operations Management							
Energy & Resource Management	345,813	493,103	532,000	557,000	25,000	557,000	25,000
Distribution	1,962,004	2,013,058	2,297,800	2,432,800	135,000	2,432,800	135,000
Lost Canyon Transmission	1,165,515	1,330,813	1,415,500	1,415,500	-	1,415,500	-
Treatment Plant	368,396	494,856	481,400	481,400	-	481,400	-
Safety	31,856	33,357	53,800	53,800	-	53,800	-
General Manager							-
Engineering & Development	94,450	131,044	104,800	104,800	-	104,800	-
Human Resources	80,966	93,662	106,200	106,200	-	106,200	-
Legal Services	45,499	24,560	50,000	50,000	-	50,000	-
Public Services	382,042	400,570	414,800	414,800	-	414,800	-
Financial Management	264,291	249,980	282,100	282,100	-	282,100	-
Depreciation Expense	1,429,555	1,465,973	1,622,300	1,622,300	-	1,622,300	-
Total Operating Expense	**6,170,387**	**6,730,976**	**7,360,700**	**7,520,700**	**160,000**	**7,520,700**	**160,000**
OPERATING INCOME (LOSS)	**1,046,275**	**1,336,519**	**906,000**	**906,000**	**-**	**1,678,800**	**772,800**
NON-OPERATING REVENUE							
Interest Earnings - Available for Debt Service	29,670	80,464	51,400	51,400	-	95,000	43,600
Interest Earnings - Not Available for Debt Service	412	494	500	500	-	1,200	700
Impact Fees	625,850	1,254,502	600,000	600,000	-	1,000,000	400,000
Promontory Developer SID Assessments	1,575,816	1,730,632	1,953,600	1,953,600	-	1,953,600	-
Cash Grants	-	-	-	-	-	10,000	10,000
Other Cash Non-operating Revenue	95,295	256,164	20,000	20,000	-	11,700	(8,300)
Non-Cash Non-operating Revenue	11,667	11,718	11,700	11,700	-	5,200	(6,500)
Total Non-operating Revenue	**2,338,710**	**3,333,974**	**2,637,200**	**2,637,200**	**-**	**3,076,700**	**439,500**
NON-OPERATING EXPENSE							
Interest Expense/Bank Fees	1,485,491	1,667,763	1,652,400	1,652,400	-	1,652,400	-
Bond Issuance Costs and Amortization Expense	195,032	15,734	15,800	15,800	-	15,800	-
Total Non-operating Expense	**1,680,523**	**1,683,497**	**1,668,200**	**1,668,200**	**-**	**1,668,200**	**-**
NON-OPERATING INCOME (LOSS)	**658,187**	**1,650,477**	**969,000**	**969,000**	**-**	**1,408,500**	**439,500**
CHANGE IN NET POSITION (NET INCOME BEFORE TRANSFERS)	**1,704,462**	**2,986,996**	**1,875,000**	**1,875,000**	**-**	**3,087,300**	**1,212,300**
TRANFERS							
Contingency	-	-	-	-	-	-	-
Governmental Transfers	-	-	-	-	-	-	-
Contributions in Aid of Construction	618,390	683,791	-	-	-	-	-
NET TRANSFERS	**618,390**	**683,791**	**-**	**-**	**-**	**-**	**-**
BUDGET CHANGE IN NET POSITION AFTER TRANSFERS	**$ 2,322,852**	**$ 3,670,787**	**$ 1,875,000**	**$ 1,875,000**	**$ -**	**$ 3,087,300**	**$ 1,212,300**
GASB 68 ACTUAL RETIREMENT ADJUSTMENTS	*Not Required*	*125,447*	*TBD*	*TBD*	*TBD*	*TBD*	*TBD*
ACTUAL CHANGE IN NET POSITION	*2,322,852*	*3,796,234*	*1,875,000*	*1,875,000*	*-*	*3,087,300*	*1,212,300*

The actual amounts shown above in the program exense 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.

An additional $135,000 is needed to accrue the past three years' of Davis Weber reservation fees expense paid for by Weber Basin. In 2016, Weber Basin notified the District, that in 2020, it will be required to reimburse Weber Basin in full for the reservation fees on 1,000 acre feet of Davis Weber water that Weber Basin is paying between 2013 and 2019. The annual reservation fee is $45,000.

The District received the rights to lease this 1,000 acre feet of Davis Weber water in perpetuity starting in 2020 as part of the 2013 Regionalization Agreement between Weber Basin and the District, Park City, and Summit Water

The District, Park City, and Summit Water have a different interpretation of this agreement than Weber Basin; and do not believe they are required to pay the reservation fees accrued between 2013 and 2019. These parties are attempting to resolve this dispute, but have yet to reach agreement.

As such, the District is expensing $135,000 of Davis Weber reservation fees in 2016 that have accrued between 2013 and 2016 as a precautionary measure. Otherwise, if it is ultimately determined that the District is required to reimburse Weber Basin for these accrued reservation fees in 2020, it will not be a big hit on the budget at a time when rate increases are needed.

The District will expense the $45,000 Davis Weber reservation fees annually moving forward through 2019 – or until it is determined the District is not obligated to reimburse Weber Basin for them. All parties agree that the District must start paying the $45,000 annual reservation fee to Davis Weber starting in 2020.

The amounts expensed each year for the Davis Weber lease fees will be deposited into the Regionalization Reserve Fund. This is in addition to the 30% of regionalization water sales that will be deposited.

The second amendment is a $25,000 increase to the Energy Management & Resource program – which includes information technology. This is needed as the District moves more of its data into the cloud – which provides better security and data backups.

Both these amendments can be funded with the higher than anticipated water sales for 2016.

In fact, it is now projected that 2016 revenue will exceed budget by $1.37 million. As shown the table on the previous page; water sales, connection fees, interest earnings and impact fees should all exceed the 2016 budget projections.

5.02 2016 Debt Service Budget

The adopted 2016 *Debt Service Budget* projected a 1.38 parity debt coverage ratio and 1.29 when subordinated debt was included. These ratios are now projected at 1.70 and 1.60 respectively; as most revenue sources are now projected to exceed budget, as discussed in **Section 5.01** above.

MOUNTAIN REGIONAL WATER
2016 Debt Coverage Calculation - Cash Basis

	2016 Budget	2016 Projection
COVERAGE CALCULATION FOR PARITY REVENUE BONDS		
Operating Income (Loss)	$ 906,000	$ 1,678,800
Add Back Depreciation	1,622,300	1,622,300
Add in Interest Available for Debt Service	51,400	95,000
Add In Impact Fees	600,000	1,000,000
Add In Promontory SID Assessments on Developer	1,953,600	1,953,600
Add in Other Non-operating Income	15,000	10,000
Add in Treatment Plant Stabilization Fund	25,000	22,800
Total Available For Debt Service	**5,173,300**	**6,382,500**
TOTAL DEBT COVERAGE		
Required Coverage Principal	2,214,500	2,214,500
Required Coverage Interest/Bank Fees	1,781,600	1,781,600
Capitalized Interest on Series 2014 Bonds	***Funded with Bond Proceeds***	***Funded with Bond Proceeds***
Total Required Debt Service	**3,996,100**	**3,996,100**
Debt Service X 1.25	**4,995,200**	**4,995,200**
Required Debt Coverage Ratio	**1.29**	**1.60**
REQUIRED PARITY BOND DEBT COVERAGE		
Parity Bond Principal	2,110,000	2,110,000
Parity Bond Interest	1,637,500	1,637,500
Total Parity Debt Service	**3,747,500**	**3,747,500**
Debt Service X 1.25	**4,684,400**	**4,684,400**
Parity Debt Coverage Ratio	**1.38**	**1.70**
Cash Excess/(Shortfall)	**1,177,200**	**2,386,400**
Less Treatment Plant Stabilization Fund	(25,000)	(22,800)
Projected Cash Generated	**1,152,200**	**2,363,600**
Capital Facility Reserves	(286,900)	(286,900)
Impact Fee Reserves	-	(400,000)
Operating Reserves	(125,000)	(125,000)
Regionalization Reserves	(365,000)	(365,000)
Cash Available for 2017 Capital Budget	**375,300**	**1,186,700**

The additional revenue now projected for 2016 resulted from hot, dry weather and stronger than anticipated building growth.