MOUNTAIN REGIONAL WATER

SPECIAL SERVICE DISTRICT

2021 TENTATIVE BUDGET

And

2020 PROPOSED AMENDED BUDGET

November 4, 2020

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1.0 BACKGROUND

1.01 The District

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

The District currently has 4,597 customers using water and about 1,683 additional connections on standby. In June of 2019 the District annexed 500 customers from the former Community Water system located at the base of the Canyons Village resort. Additionally, construction is progressing as expected at Silver Creek Village, a multi-use development with approval for over 1,000 units. There are currently 58 units already connected and receiving water with roughly 45 units that have either started construction or are expected to in the next few months.

The District also wheels up to 2,900 acre-feet of raw water annually to Park City, and in 2020 and 2021, under the Western Summit County Project Master Agreement, the District will sell 1,100 acre-feet of its Regional Water Supply to Weber Basin Water Conservancy District for delivery to Summit Water located in the Snyderville Basin. These two contracts account for approximately half of the District's current water production.

1.02 District Budgets

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

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

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

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

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

2.0 OVERVIEW

The following will be discussed in the sections below:

Section 3.0 – 2021 District Budget Review

- This section provides an overview and analysis of current trends in District operations used for 2021 budget assumptions

Section 4.0 – 2021 Operating Budget

- This section explores the detailed revenue and operating expenses for 2021

Section 5.0 – 2021 Debt Service Budget

- This section details the cash available for debt payments in 2021

Section 6.0 – 2021 Capital Budget

- This section will define the capital projects to be carried over from 2020 and new capital expenditures planned for 2021

Section 7.0 – 2020 Budget Amendments

- This section details budget amendments needed for the 2020 Operating Budget and 2020 Debt Service Budget

3.0 2021 DISTRICT BUDGET REVIEW

3.01 Retail Water Consumption

As shown below in Figure 1, the average District culinary consumption per customer estimated for 2020 is 158,436 gallons, compared to 139,545 gallons for 2019, a 13.5% increase. This increase would have even been larger if not for the annexation of Community Water customers. As primarily condos and townhomes, the former Community Water customer uses less water per connection than the District's historical average culinary customer. Without the annexation, the usage level per culinary customer would have been slightly higher than 2018, which was a hot and dry summer like 2020.

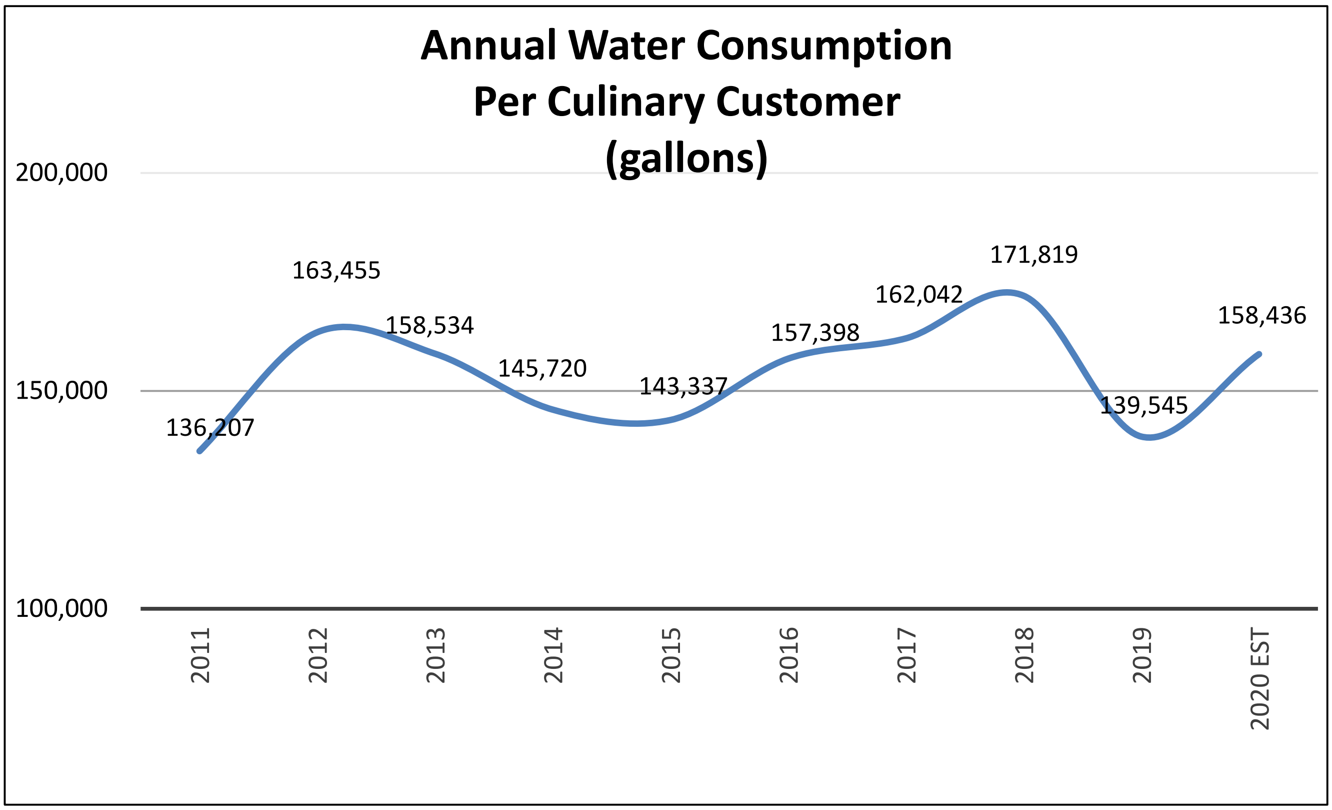

Figure 1: Annual Water Consumption

For 2020, projected retail water sales are above budget at $9.28 million, which is $841,700 (9.97%) higher than initial budget projections. Projected retail water sales revenue for 2020 is significantly higher than previous years due to a combination of customer growth and the hot and dry summer (See Figure 2 below).

A portion of the revenue growth for 2020 comes from the 500 Community Water customers that were annexed halfway through 2019. These customers are estimated to be just under $500,000 of the 2020 projected revenue. The annexation was taken into consideration when building the budget for 2020, however retail water sales revenue is budgeted based on an average customer usage pattern. Due to the hot and dry spring and summer experienced in 2020 revenue was significantly higher than budgeted.

Figure 2 illustrates the volatility of revenue fluctuations due to changes in weather patterns. In 2019, the spring was very cool and wet and the summer was milder as compared to the extended, long, hot and dry summer experienced in 2020. The higher revenue allows the District to add to cash reserves and to continue to fund capital projects from cash on hand.

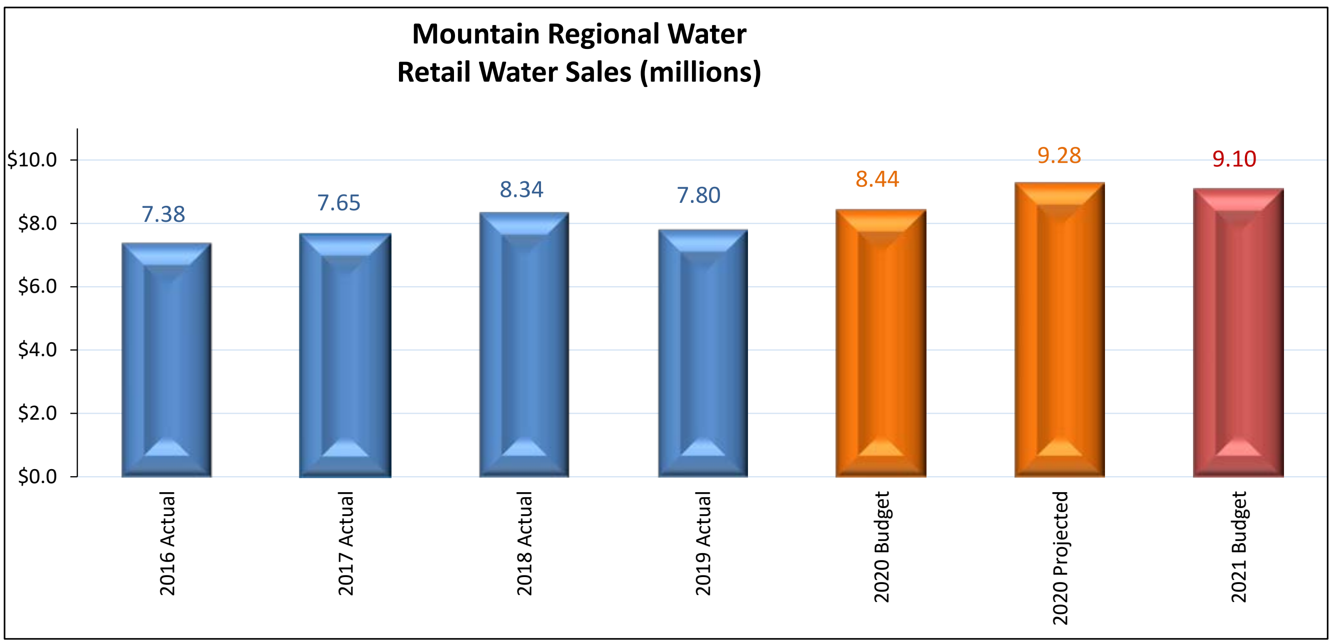

Figure 2: Retail Water Sales

The 2021 retail water sales forecast of $9.10 million is based on a four-year average monthly consumption by customer (from 2017 through projected 2020) as determined by the rate model created by the District in conjunction with Zions Bank in 2018.

The slight decrease of $186,600 from 2020 Projected to 2021 Budget is due the rate model using a four-year average for usage instead of just the 2020 usage which is quite high. The model uses a 2% growth in Residential customers and 1% growth of Commercial customers.

3.02 Development Related Collections Are Declining

As shown in Figure 3, the number of annual new water connections has exceeded 100 since 2014, with the high point being 147 connections in 2017. Projected connections for 2020 are 110 and for 2021 they are 104.

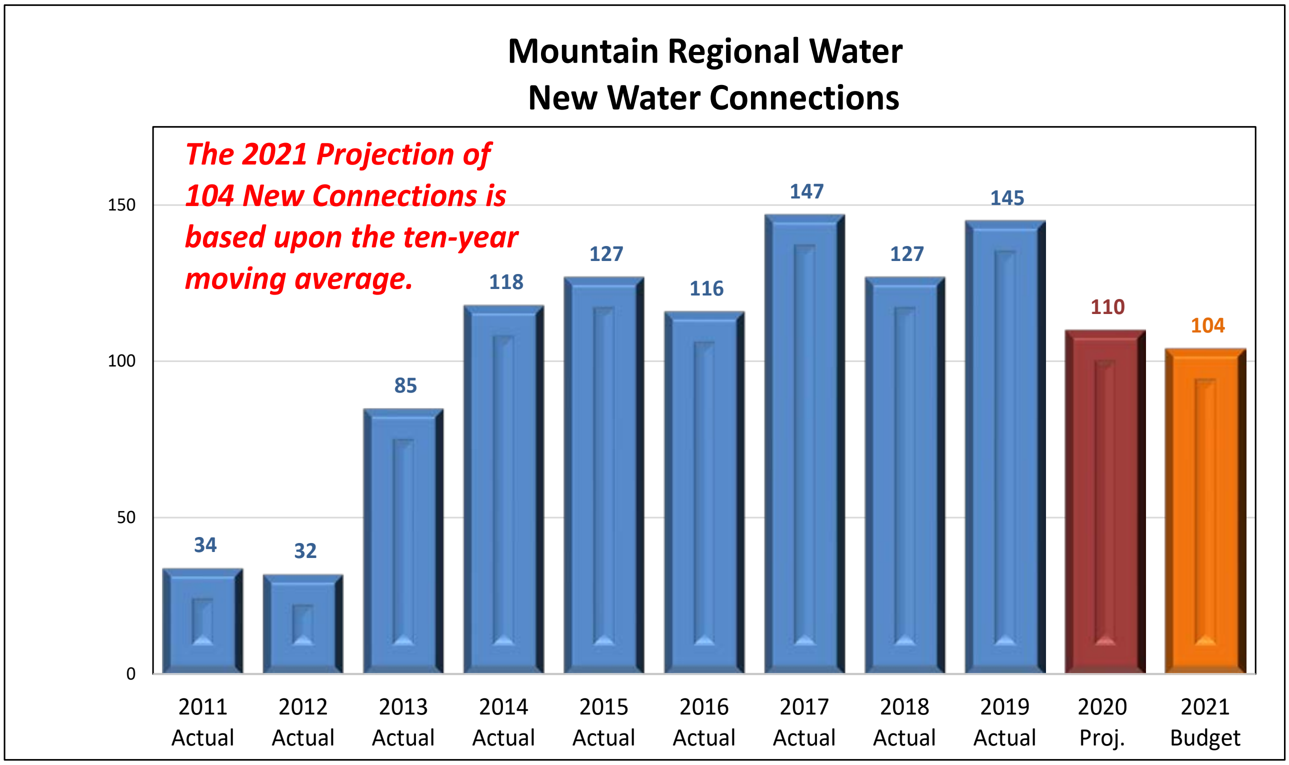

Figure 3: New Water Connections

In comparing Figure 3: New Water Connections and Figure 4: Impact Fee Collections, there is a correlation with the reduced number of connections and reduced revenue, however it's not linear. This is due to two factors. First, the decreased Impact Fee per ERC that was adopted at the end of 2019 (decreased from $10,513 to $8,119). And secondly, the use of prepaid District connections by the developer of Silver Creek Village. The result of this is a disproportionate drop in revenue when compared to connections for projected 2020 and 2021. Based on this information, the District has estimated $600,000 in impact fees for 2021, as shown in Figure 4 on the following page.

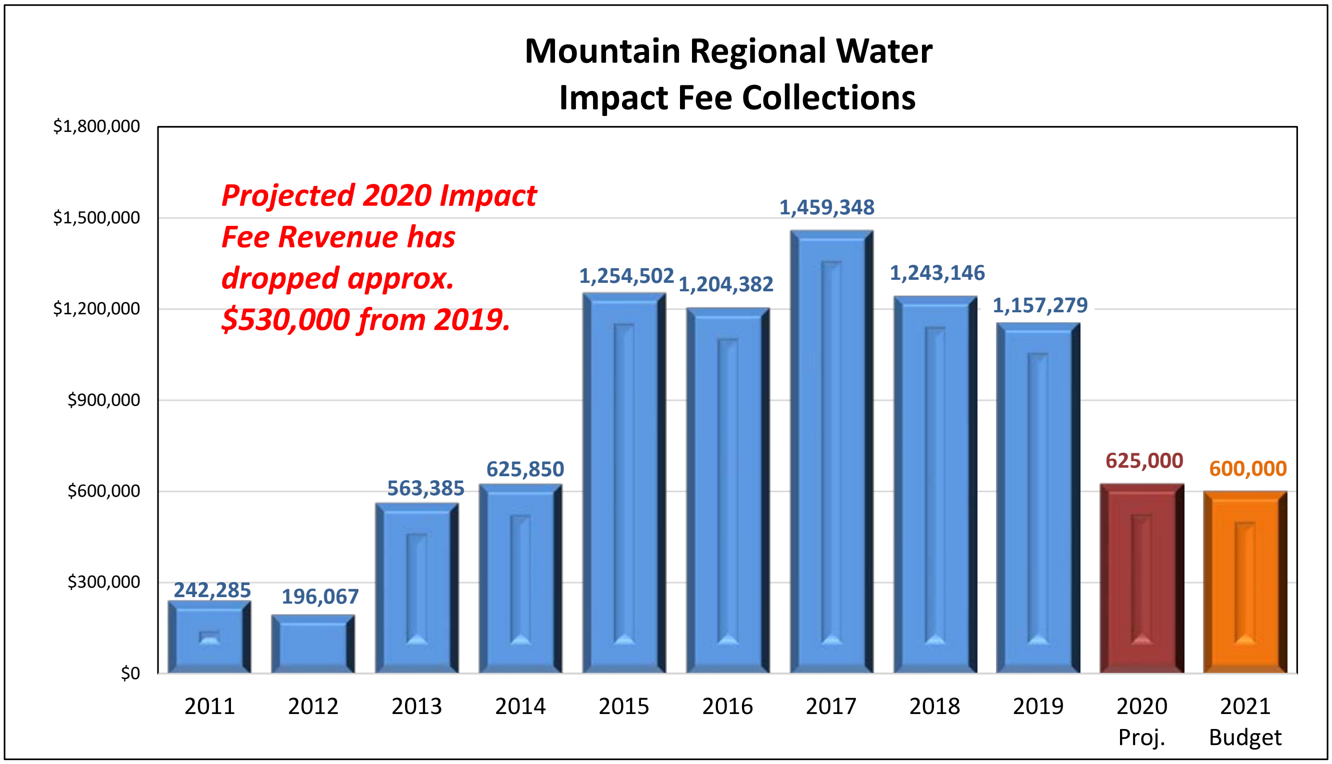

Figure 4: Impact Fee Collections

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

It is difficult to forecast impact fees for three reasons:

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

Due to the above factors and varying economic forecasts, the District has decided to budget based on the most recent results rather than averaging in years of record high impact fees.

3.03 Major Water Contracts

The District has two major water contracts with customers that account for approximately half its annual production. These customers receive lower bulk rates compared to retail customers due to the volume of water purchased and lower distribution and administrative costs. It's important to note that the rate structures for these two customers are different. Park City is paying operation and maintenance fees for untreated water conveyed through the Lost Canyon system and pays the lease fees for this water outside of the contract rate structure. Summit Water is paying comparatively higher rates for water which utilizes the District's transmission (Lost Canyon system), treatment, and distribution systems, and pays for the lease fees within the contract rate structure.

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

Park City wheeling revenue is projected to be $700,000 in 2021, the same as 2020 due to the stabilization of the shared expenses and the consistent amount of water being taken.

Summit Water has contracted for 1,100 acre-feet of the District's treated Regional Water Supply for 2021 under the Western Summit County Project Master Agreement. This take-or-pay contract will provide approximately $1.91 million in 2021 revenue, compared to $1.68 million in 2020. The increase in revenue is due to an increase in rate approved by the Administrative Control Board during a Public Rate Hearing on October 8, 2020. At the end of 2019, the District and the Summit County Council agreed an independent study of the rate charged for this water should take place in 2020. The District contracted with Lewis Young Robertson & Burningham, Inc. to complete this study. Results were shared and reviewed by the stakeholders involved including the Weber Basin Water Conservancy District, Summit Water Distribution Company and the Summit County Council.

As both these water contracts are on a take-or-pay basis (i.e. the purchaser pays the full contracted amount whether or not they use the water) these contracts help mitigate a portion of the fluctuation in retail water sales caused by weather.

3.04 District Water Production

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

Production increased notably again in 2015 when Summit Water started taking water under the Western Summit County Project Master Agreement.

Production for 2018 was up significantly, primarily due to Park City wheeling an additional 900 acre-feet through Lost Canyon and due to a very hot dry summer that led to an additional 300 acre-feet of water used by MRW Customers.

Production for 2020 is projected to reach a record 6,419 acre-feet, primarily due to an additional 300 acre-feet of water supplied to Summit Water, customer growth (including the 500 Community Water customers being connected all year) and the hot dry spring and summer.

Production for 2021 is projected to be very close to the District's production in 2020 as the Regional Water Supply amount stays the same and the usage model predicts close to what was used this year.

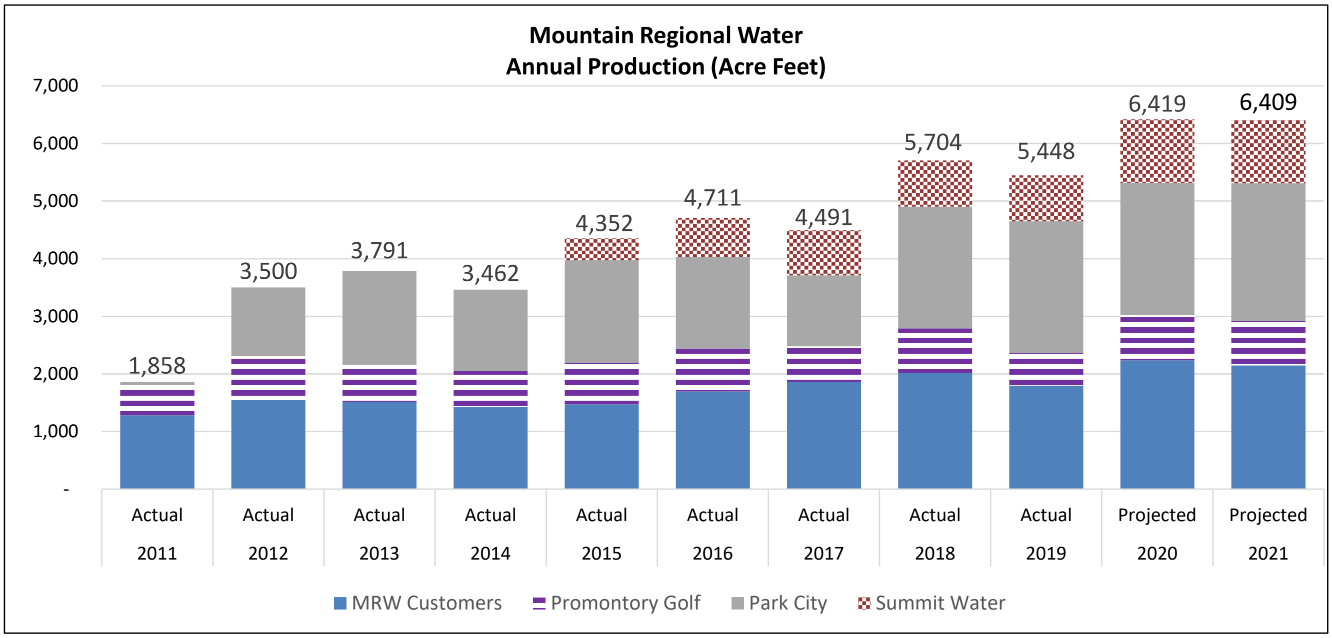

Figure 5: Annual Production (Acre Feet)

3.05 Operations Expense Contingency

In the 2021 budget, the District assumes it will need to pump water during the day for a three-month period, when on-peak power rates are in effect, despite using average water sales revenue projections. This is done to support the need to pump during on-peak periods in the event unusually hot dry weather is experienced.

This practice provides $75,000 in operating expense contingencies for 2021.

The District makes every effort to pump off-peak to take advantage of lower power rates. However, if the District experiences a hot dry summer and Park City takes more water than in prior years, the District may need to pump on-peak at times during the summer and accordingly use a portion of this contingency.

3.06 Rate Stabilization Fund

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

The *Rate Stabilization Fund* has three components:

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

In the event the reserve balance falls below $1.0 million, policy requires the District to restore it to $1.0 million within three years. The projected 2020 year-end reserve balance is $1.2 million. The District has never needed to use these funds.

Rate Stabilization Fund – Treatment Plant Operations – Each year, the District budgets one-seventh of the projected seven-year cost for treatment plant membrane filters, and one-fourth of the projected four-year cost of carbon regeneration/replacement. These items are purchased at these intervals at a cost of several hundred thousand dollars. As such, budgeting for these only in years when they are purchased would lead to swings in debt coverage, and possibly rates.

If the amount expended for these items is below the budget amount at year-end, the difference is deposited into this reserve until it reaches $750,000; while if the amount expended exceeds the budget amount, the difference is drawn from this reserve to supplement ongoing revenue in that year.

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

The current base budget is $135,000 per year. During 2020, $94,800 was expended for carbon replacement and an additional $164,100 was expended for replacement of membrane filters. Accordingly, $123,900 will be added to the debt coverage calculation. The year-end 2020 balance is projected to be $128,400.

During 2021 no funds are expected to be used for carbon or membranes and the cash balance will grow in preparation for a planned expenditure of $115,000 on carbon in 2022.

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 2020 projected year-end balance is expected to exceed $600,000. If the balance in this fund reaches $1.0 million, no additional deposits from Park City and the District will be required until it falls below $1.0 million again.

3.07 Debt Coverage Ratio

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

Mountain Regional Water

Parity Debt Service Coverage Ratio

	2018 Actual	2019 Actual	2020 Projected	2021 Budget
Water Sales	$ 8,335,751	$ 7,804,956	$ 9,284,400	$ 9,097,800
Park City Wheeling	675,450	700,484	675,000	700,000
Weber Basin Regionalization Collections	940,800	1,003,200	1,676,200	1,914,200
Operating Fees	376,970	463,753	425,000	375,000
Impact Fees	1,243,146	1,157,279	625,000	600,000
Promontory Developer Assessments	1,169,735	393,929	389,400	386,400
Stagecoach Assessments	209,426	160,519	163,000	163,000
Community Water Assessments	-	93,477	160,800	159,000
Interest Available for Debt Service	295,388	393,473	166,100	120,000
Other Non-restricted Revenue	237,114	144,426	94,500	77,500
Treatment Plant Stabilization Fund	-	92,334	123,900	-
Total Cash Available for Debt Service	13,483,780	12,407,829	13,783,300	13,592,900
Cash Operating Expenses	(6,117,468)	(6,402,353)	(7,283,600)	(7,770,500)
Net Cash Available for Debt Service	7,366,312	6,005,476	6,499,700	5,822,400
Parity Debt Service Payments	3,314,352	2,814,575	3,555,900	3,552,800
Debt Service Coverage	2.22	2.13	1.83	1.64

Table 1: Parity Debt Service Coverage Ratio

As shown in Table 1 above, the District has had strong debt coverage ratios the past several years. In 2018, high development related collections along with strong water sales from the hot dry summer resulted in a debt ratio of 2.22. In 2019 the ratio of 2.13 resulted from a one-time decreased debt payment along with continued high development related collections, primarily impact fees.

The projected ratio for 2020 is 1.83. Strong water sales due to the hot and dry spring and summer have helped keep the ratio high despite the drop off in impact fee collections.

For 2021, the ratio is projected to drop to 1.64 due to the practice of budgeting water sales based on average customer usage patterns and a decrease in operating fees and impact fee collections. This projected ratio is still above the District goal of 1.35, which allows for a contingency and sufficient funds for capital projects.

3.08 District Cash & Reserves

As shown in Figure 6 below, District cash and reserves (excluding cash held by the bond trustee for debt payments) have steadily improved since 2012.

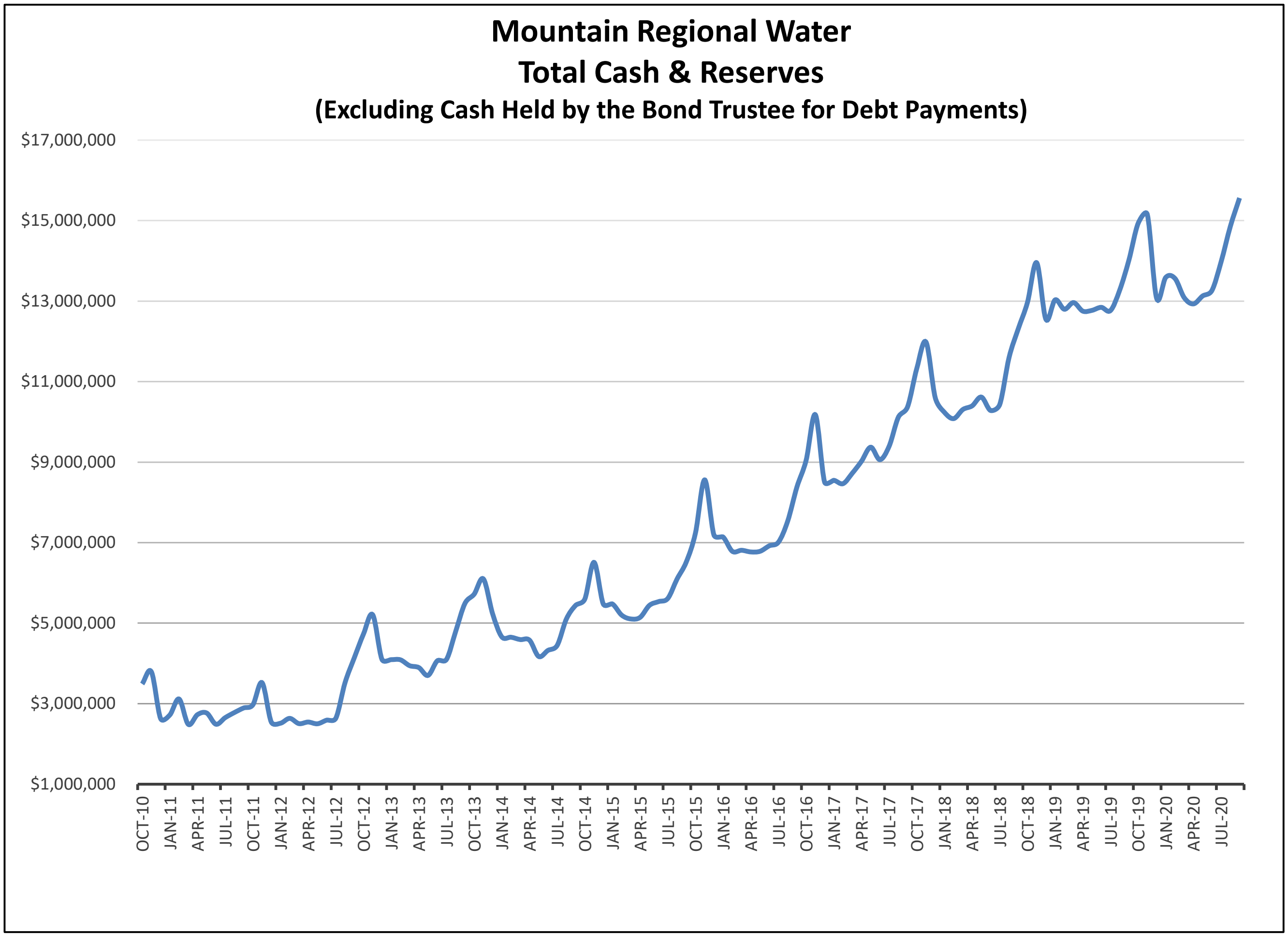

Figure 6: Total Cash & Reserves

This upward trend can be attributed to the following factors:

1) Four of the last five years of hot dry weather, 2016-2018, 2020;
2) A strong local building economy leading to record development related collections, 2015-2019;
3) Debt restructuring;
4) The establishment of a Regionalization Reserve account which receives deposits of 30% of the annual Regional Water Supply revenue
5) The establishment of a $1.0 million rate stabilization fund to replace required bond reserves held by the trustee; and
6) Water Rate increases.

The District anticipates this upward trend will stabilize as cash reserves are applied to capital projects and development related collections do not continue at their record levels. The decrease in development related collections can already be observed in 2020.

Unrestricted Operating Cash and Reserves

Unrestricted Operating Cash and Reserves can be used for any legitimate District purpose; while restricted cash can only be used for specific purposes outlined in state law, District policy, or contractual arrangements.

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

As shown in Figure 7 below, *Unrestricted Operating Cash and Reserves* has steadily increased since 2015 due to several years of hot dry weather and the strong building economy from 2015 through 2019 providing higher operating (new meter) fee collections. However, most of the additional revenue generated from a strong building economy in the form of impact fees is deposited into *Debt Reserves Held by the District* discussed later.

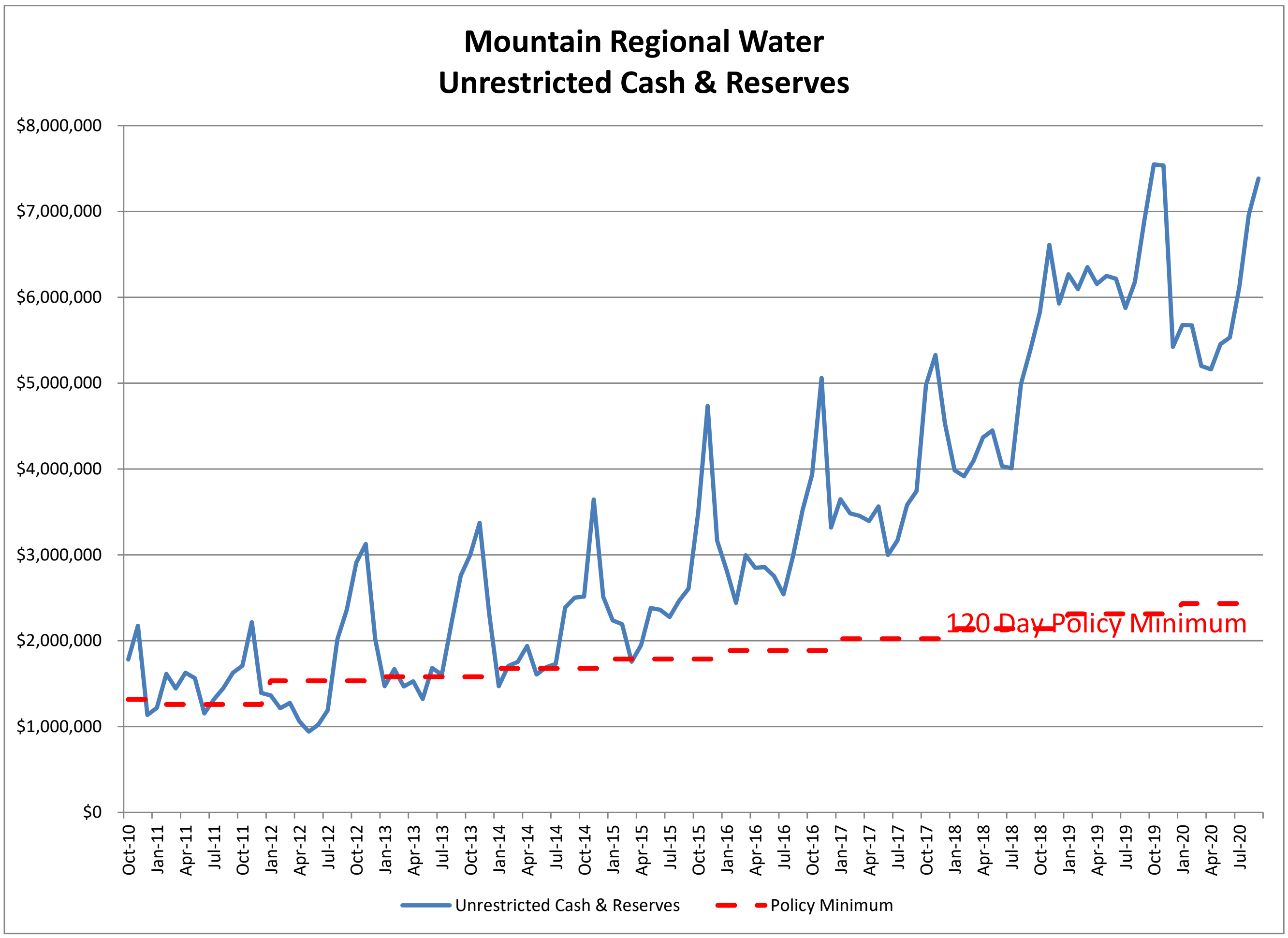

Figure 7: Unrestricted Cash & Reserves

The peaks each year shown in Figure 8 are from summer water sales collections, while the sharp decline once each year is due to large annual Weber Basin lease payments. The cash spike in the late summer of 2019 was not as extreme as in 2018 due to the summer water sales not being as high. Additionally, you will notice the leveling off of *Unrestricted Cash and Reserves* taking place from 2019 to 2020. Since November 2018, *Unrestricted Operating Cash and Reserves* have remained fairly consistent averaging around $6.0 million and just over 300 days reserves as compared to the policy minimum of 120 days reserves (based on budgeted annual cash operating expenses). These reserves dropped below the minimum amount several times between 2009 and 2014 due to cool wet weather and lower operating (new meter) fee collections during the recession that started in 2008.

Debt Reserves Held by the District

The District chose, by policy, to hold additional debt reserves beyond those held by the bond trustee in order to mitigate potential revenue shortfalls due to the wide fluctuations in building related revenue and changing weather patterns; as well as for unexpected expenditures. This included the decision to establish a $1.0 million *Rate Stabilization Fund* (see **Section 3.06)**.

As shown in Figure 8 below, *Debt Reserves Held by the District* has increased significantly from April of 2015 at $2.24 million, to $6.12 million at the end of September 2020. Thus, the District is in a strong position to handle any fluctuations in revenue whether from water sales or impact fees. The District established a Regionalization Reserve in September 2015 to deposit 30% of its wholesale water sales revenue. The Regionalization Reserve has grown to $2.16 million as of September 2020.

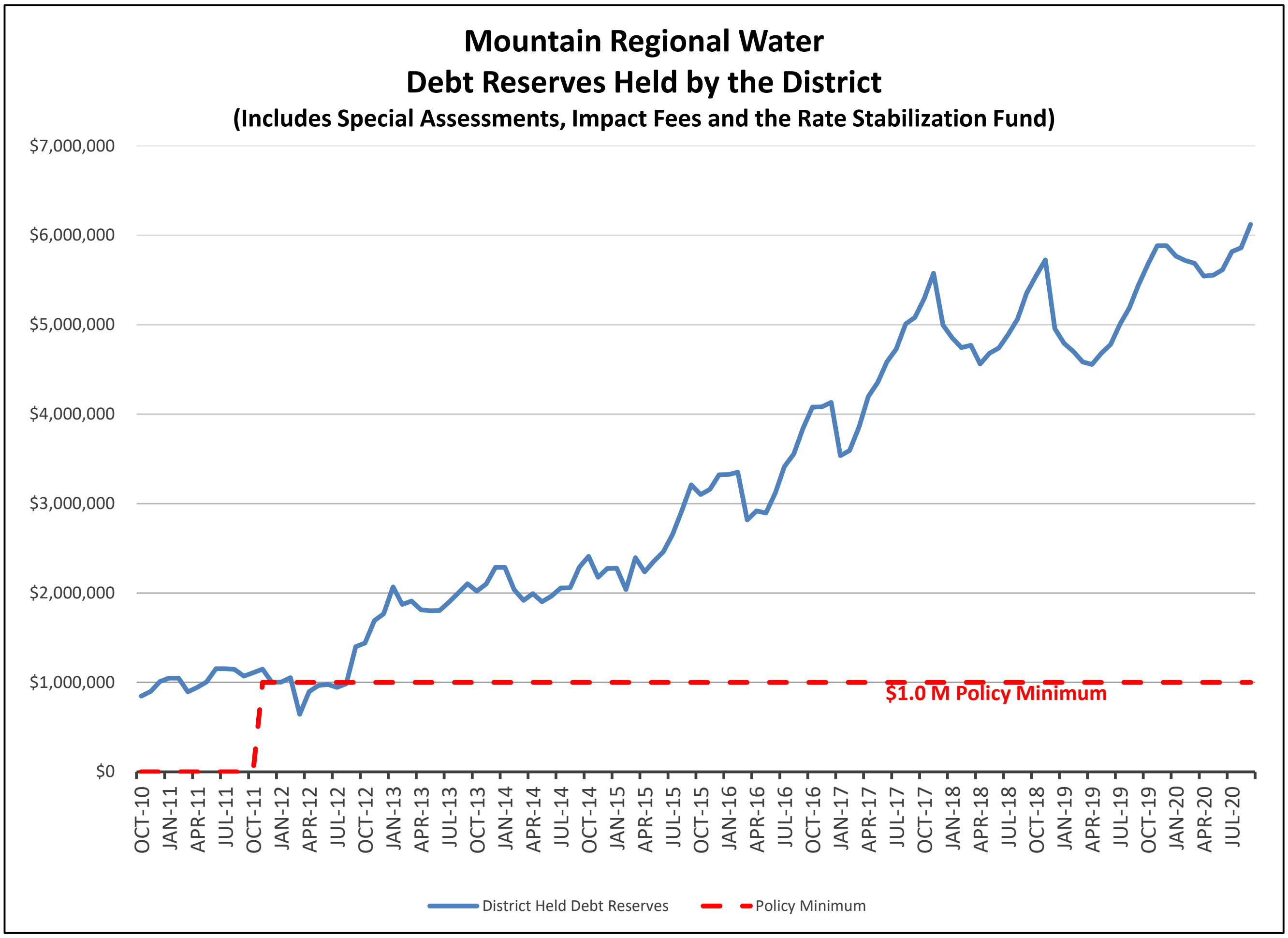

Figure 8: Debt Reserves Held by the District

A portion of these reserves, $1.16 million (current balance in the Rate Stabilization Fund), can only be used to make debt payments in years when revenue does not meet projections, or unanticipated expenditures are incurred. On the other hand, impact fee and assessment reserves can also be used to prepay debt.

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

During 2020 a total of $775,000 of Impact Fees are being spent on capital projects to support growth of the District's customer base.

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

Capital Facility Repair & Replacement Reserves

The District seeks to keep $750,000 to $1.0 million in reserves to fund unanticipated large repairs and non-bonded capital improvements. Currently, these reserves are $1.96 million.

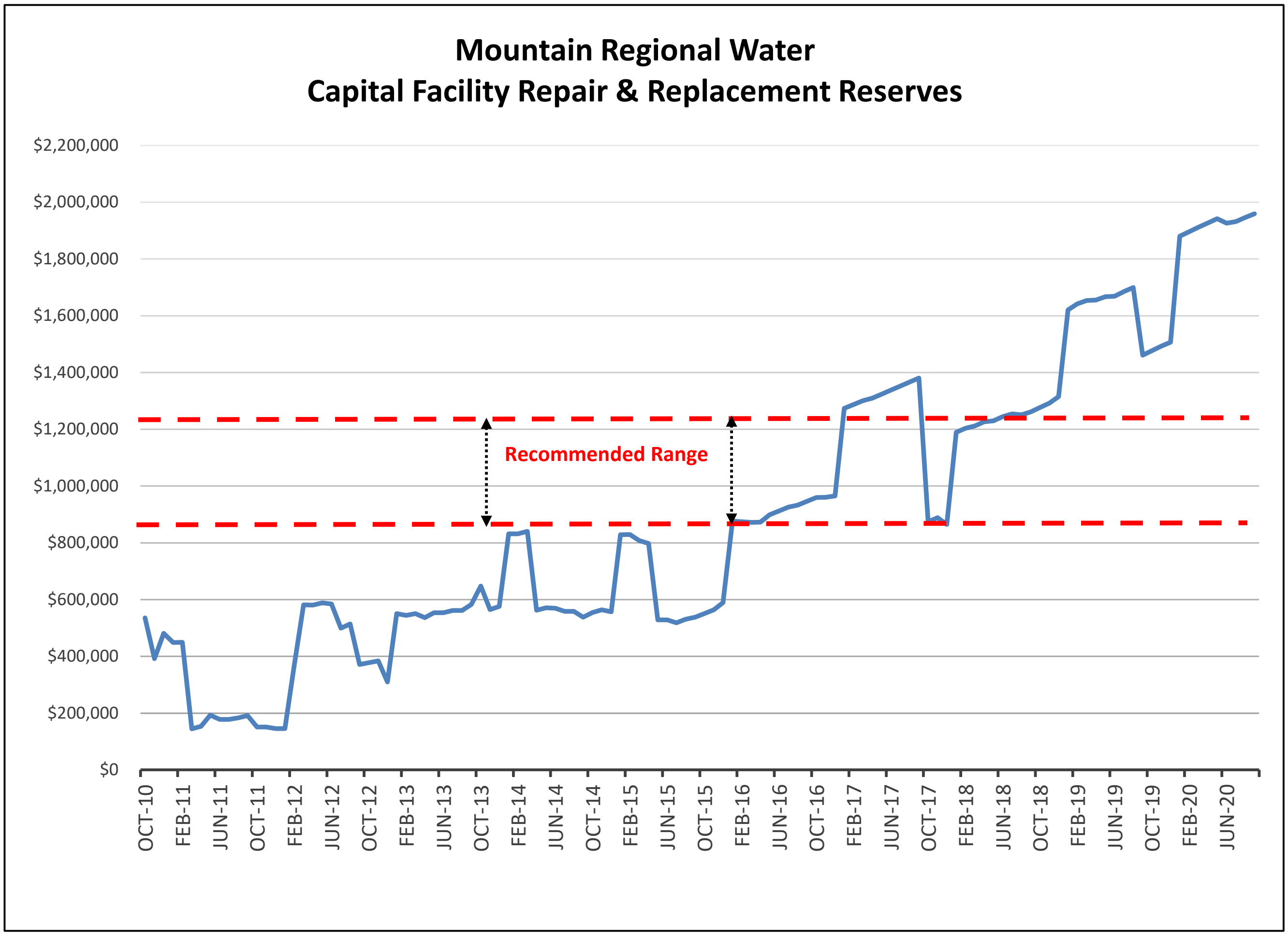

Figure 9: Capital Facility Repair & Replacement Reserves

In the next few months the District will be pulling roughly $320,000 out of these funds to pay for the Cove Pipeline repairs and the Nugget Well upgrades that are underway. By year-end 2020, capital facility reserves are projected to be close to $1.64 million – allowing the excess to be used to fund other capital projects in 2021 and 2022. An additional $620,000 is budgeted to be spent in 2021 on repairs and maintenance of water lines.

<u>2021 Budgeted Cash Change</u>

As shown below, the 2021 budget projects a $2.02 million cash increase, excluding capital budget items being funded with bond proceeds or with current cash on hand.

Mountain Regional Water
2021 Operating Budget - Accrual and Cash Basis
Enterprise Fund

	2021 Control Board Recommended Accrual Basis	2021 Control Board Recommended Cash Basis
OPERATING REVENUE		
Retail Water Sales	$ 9,097,800	$ 9,097,800
Park City Wheeling	700,000	700,000
Weber Basin Regionalization Collections	1,914,200	1,914,200
Operating Fees	375,000	375,000
Other	47,500	47,500
Total Operating Revenue	**12,134,500**	**12,134,500**
OPERATING EXPENSES		
Operations		
Energy & Resource Management	663,800	663,800
Lost Canyon Transmission	1,786,200	1,786,200
Treatment	890,400	890,400
Distribution	2,924,100	2,924,100
Safety	91,000	91,000
General Manager		
Engineering & Development	292,400	292,400
Human Resources	133,200	133,200
Legal Services	70,000	70,000
Public Services	473,500	473,500
Financial Management	445,900	445,900
Depreciation Expense	1,927,300	-
Total Operating Expense	**9,697,800**	**7,770,500**
OPERATING INCOME	**2,436,700**	**4,364,000**
NON-OPERATING REVENUE		
Interest Earnings - Available for Debt Service	120,000	120,000
Interest Earnings - Not Available for Debt Service	2,600	-
Impact Fees	600,000	600,000
Promontory Developer Assessments	386,400	386,400
Stagecoach Infrastructure Assessments	163,000	163,000
Community Water Assessments	159,000	159,000
Other Cash Non-operating Revenue	30,000	30,000
Non-Cash Non-operating Revenue	11,700	-
Total Non-Operating Revenue	**1,472,700**	**1,458,400**
NON-OPERATING EXPENSE		
Interest Expense/Bank Fees	1,013,900	1,102,700
Bond Principal Payments	-	2,699,500
Bond Issuance Expenses	2,100	-
Total Non-Operating Expense	**1,016,000**	**3,802,200**
NON-OPERATING INCOME	**456,700**	**(2,343,800)**
CHANGE IN NET POSITION (NET INCOME BEFORE TRANSFERS)	**2,893,400**	**2,020,200**
TRANSFERS		
NET TRANSFERS	-	-
CHANGE IN NET POSITION (NET INCOME AFTER TRANSFERS)	**$ 2,893,400**	**$ 2,020,200**

The District plans to allocate the $2.02 million cash increase as follows:

Capital Facility Reserves Mandatory Deposit	$ 388,500
Regionalization Reserves	574,300
Capital Projects	1,057,400
Total	**$ 2,020,200**

3.09 Personnel & Compensation

The District currently has 24 full time employees and one part time employee. The 2021 budget includes **NO** new positions. However, the District currently has one vacant position which it intends to fill before year end.

The 2021 Budget includes funding for a 1.0% COLA and a 2.0% average merit pay increase for employees.

In 2021 the Annual Bonus Program has $1,500 per employee included in the budget. This bonus is awarded and amount determined at the discretion of the Administrative Control Board.

All other benefits such as health, dental and AD&D insurance are remaining the same for 2021.

3.10 COVID-19 Discussion

The District has purchased supplies not contemplated in the original 2020 budget such as additional PPE, cleaning supplies and signage. However, the District has also experienced lower expenses in areas such as travel and training.

The District experienced a decrease in usage among commercial/industrial/government customers during the beginning of the COVID-19 pandemic, March through June. However, summer usage in these sectors is only slightly down as the majority of businesses in the District are open. Additionally, these types of customers represent a very small, approximately 4.2%, of the District's total customer base. Higher usage by residential customers due to the hot and dry summer Park City has experienced has offset any small loss of revenue by these commercial/industrial/governmental customers.

The District has not experienced an increase in delinquencies due to COVID-19 pandemic. In fact, customer delinquencies over 60 days are actually down compared to 2019. At the end of August 2020, 60+ days outstanding balances were at 3.5% ($66,813) of the total A/R balance, while August 2019 the 60 + days outstanding balances were at 5.1% ($88,374) of the total receivable balance.

The District did suspend termination of water service for nonpayment during the pandemic. However, that suspension had been removed and a delinquency of greater than 90 days can result in termination of water service or a contractor's lien being placed on a standby lot.

3.11 Bond Rating Increase

Fitch Ratings, Inc. performed a ratings review of the District during September and early October and has upgraded the District's rating from "AA-" to an "AA". The rating increase was based on several factors. The following is the Analytical Conclusion taken directly by the official press release:

ANALYTICAL CONCLUSION

The 'aa' SCP and upgrade on the bond rating to 'AA' is supported by moderating net leverage, measured as net adjusted debt to adjusted funds available for debt service(FADS), of 6.1x in 2019, down from 7.2x in 2015, and the expectation net leverage will remain relatively very low over the forward look, particularly given a recent annexation that has boosted FADS. Very strong demand characteristics supported by a rapidly growing customer base and a rate structure that recovers a significant portion (around 75%) of revenue from a fixed component are reflected in the 'aa' revenue defensibility assessment. The district's operating risk profile is also very strong and assessed at 'aa', reflecting a very low operating cost burden despite the significant growth in its customer base.

The ratings increase is a positive reflection on the overall financial direction of the District and would result in better terms if the District were to bond again.

3.12 No Rate Increase Needed in 2021

With the annexation of 500 new customers from the former private Community Water system in June of 2019, the Regional Water Supply sales to Weber Basin, and more than adequate cash reserve balances, the District is not suggesting a rate increase in 2021.

The District will continue to monitor weather patterns and local development which can lead to significant variances. Each year the rate model will be updated to reflect those building and weather patterns so the District can more appropriately react to trends and adjust rate increases accordingly.

4.0 2021 OPERATING BUDGET

4.01 Summary

As shown below, projected 2021 *Net Income after Transfers* is $2.89 million on an accrual basis.

Mountain Regional Water
2020 Operating Budget - Accrual Basis
Enterprise Fund

	2019 Actual	2020 Adopted Budget	2020 Proposed Amended	2021 Control Board Recommended	2021 Recommend to 2020 Amended
OPERATING REVENUE					
Retail Water Sales	$ 8,335,751	$ 8,442,700	$ 8,442,700	$ 9,097,800	$ 655,100
Park City Wheeling	675,450	700,000	700,000	700,000	-
Weber Basin Regionalization Collections	940,800	1,676,200	1,676,200	1,914,200	238,000
Operating Fees	376,970	288,800	288,800	375,000	86,200
Contract Maintenance	505	2,500	2,500	2,500	-
Other	79,695	45,000	45,000	45,000	-
Total Operating Revenue	**10,409,171**	**11,155,200**	**11,155,200**	**12,134,500**	**979,300**
OPERATING EXPENSES					
Operations					
Energy & Resource Management	512,843	555,900	497,200	663,800	166,600
Lost Canyon Transmission	1,450,316	1,716,200	1,547,700	1,786,200	238,500
Treatment Plant	567,468	865,900	865,900	890,400	24,500
Distribution	2,180,478	2,740,800	2,909,300	2,924,100	14,800
Safety	58,378	70,400	70,400	91,000	20,600
General Manager					
Engineering & Development	316,009	318,000	316,000	292,400	(23,600)
Human Resources	100,269	122,600	122,600	133,200	10,600
Legal Services	29,307	67,000	67,000	70,000	3,000
Public Services	532,468	515,100	515,100	473,500	(41,600)
Financial Management	369,932	433,100	433,100	445,900	12,800
Depreciation Expense	1,634,015	1,798,500	1,859,200	1,927,300	68,100
Total Operating Expense	**7,751,483**	**9,203,500**	**9,203,500**	**9,697,800**	**494,300**
OPERATING INCOME	**2,657,688**	**1,951,700**	**1,951,700**	**2,436,700**	**485,000**
NON-OPERATING REVENUE					
Interest Earnings - Available for Debt Service	295,388	242,800	166,100	120,000	(46,100)
Interest Earnings - Not Available for Debt Service	8,336	7,200	5,900	2,600	(3,300)
Impact Fees	1,243,146	500,000	555,000	600,000	45,000
Promontory Developer Assessments	1,169,735	389,400	389,400	386,400	(3,000)
Stagecoach Assessments	209,426	163,000	163,000	163,000	-
Community Water Assessments	-	159,000	159,000	159,000	-
Other Cash Non-operating Revenue	156,914	30,000	69,900	30,000	(39,900)
Non-Cash Non-operating Revenue	11,667	11,700	11,700	11,700	-
Total Non-Operating Revenue	**3,094,612**	**1,503,100**	**1,520,000**	**1,472,700**	**(47,300)**
NON-OPERATING EXPENSE					
Interest Expense/Bank Fees	1,485,282	1,125,200	1,142,100	1,013,900	(128,200)
Bond Issuance Costs and Amortization Expense	15,734	6,500	6,500	2,100	(4,400)
Total Non-Operating Expense	**1,501,016**	**1,131,700**	**1,148,600**	**1,016,000**	**(132,600)**
NON-OPERATING INCOME	**1,593,596**	**371,400**	**371,400**	**456,700**	**85,300**
CHANGE IN NET POSITION (NET INCOME BEFORE TRANSFERS)	**4,251,284**	**2,323,100**	**2,323,100**	**2,893,400**	**570,300**
TRANSFERS					
Contributions in Aid of Construction	2,126,661	-	-	-	-
NET TRANSFERS	**2,126,661**	**-**	**-**	**-**	**-**
BUDGET CHANGE IN NET POSITION (NET INCOME AFTER TRANSFERS)	**$ 6,377,945**	**$ 2,323,100**	**$ 2,323,100**	**$ 2,893,400**	**$ 570,300**
GASB 68 ACTUAL RETIREMENT ADJUSTMENTS	*22,808*	*TBD*	*TBD*	*TBD*	*N/A*
ACTUAL CHANGE IN NET POSITION (NET INCOME AFTER TRANSFERS)	**$ 6,400,753**	**$ 2,323,100**	**$ 2,323,100**	**$ 2,893,400**	**N/A**

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

The annual non-cash accruals for retirement expense are not included in the 2021 budget, since the amount won't be known until well after the fiscal year ends. As such, prior year actual amounts include cash retirement expense for comparison purposes rather than the accrued expense.

4.02 2021 Revenue

<u>Operating Revenue</u>

As shown in Table 3, the District projects $12.13 million in 2021 *Operating Revenue* - which is $979,300 (8.8%) higher than was budgeted for 2020; and $39,400 (0.3%) higher than is now projected for 2020.

Table 3: Operating Revenue

Operating Revenue

	2019 Actual	2020 Adopted Budget	2020 Projection		2021 Tentative Budget Recommended	2021 Recommended to 2020 Budget $ Change	% Change	2021 Recommended to 2020 Projection $ Change	% Change
Retail Water Sales	$ 7,804,956	$ 8,442,700	$ 9,284,400		$ 9,097,800	$ 655,100	7.8 %	$ (186,600)	(2.0) %
Park City Wheeling Fees	$ 700,484	700,000	675,000		$ 700,000	-	-	25,000	3.7
Weber Basin Regionalization Collections	$ 1,003,200	1,676,200	1,676,200		$ 1,914,200	238,000	14.2	238,000	14.2
Operating Fees	$ 463,753	288,800	425,000		$ 375,000	86,200	29.8	(50,000)	(11.8)
Contract Maintenance	$ 17,194	2,500	500		$ 2,500	-	-	2,000	400.0
Other	$ 50,005	45,000	34,000		$ 45,000	-	-	11,000	32.4
Total Operating Revenue	**$ 10,039,592**	**$ 11,155,200**	**$ 12,095,100**		**$ 12,134,500**	**$ 979,300**	**8.8 %**	**$ 39,400**	**0.3 %**
			$ 939,900	*8.4%*					

The 2021 *Retail Water Sales* budget of $9.10 million is $655,100 (7.8%) higher than the 2020 budget. This is the result of using the last four years to predict usage (3 hot and dry summers 1 wetter mild spring) compared to previously using 5 years of which three were hot and dry summers and two were wet and mild. Additionally, higher than expected water connections during 2020, and additional growth of over 100 new customers in 2021 is expected to generate this additional revenue.

Park City Wheeling Fees are expected to stay flat for 2021 now that the shared expenses have stabilized, and the amount of water being taken is more consistent. The District is budgeting for an expected 2,300 acre-feet, as there are no significant changes to their usage expected in 2021. Park City has a maximum of 2,900 acre-feet that can be wheeled to them in any given year.

Weber Basin Regionalization Collections are expected to increase $238,000 (14.2%) to $1.91 million in 2021 due to the adopted increased rate of the District's Regional Water Supply and the typical 4% increase to Settlement Water. These new rates recommended by Lewis Young Robertson & Burningham, Inc. (per rate study completed in 2020) will more appropriately cover the District's operating costs, Weber Basin lease fees, and previously unrecaptured costs.

Operating Fees (including new meter fees) are projected to be $425,000 in 2020 – which is $136,200 (32.0%) more than budgeted for 2020. The higher than expected water connections during 2020 resulted in this positive variance. The District is increasing the budgeted amount for Operating Fees by $86,200 from 2020 to 2021. The better than expected meter fee collections during 2020 are expected to continue in 2021 as Silver Creek Village continues to build out.

Non-operating Revenue

As shown in Table 4, *Non-operating Revenue* is projected to be $1.47 million in 2021. This is a $30,400 (2.0%) decrease when compared to the 2020 budget, primarily related to a $127,400 projected decrease in interest earnings due to significantly lower interest rate paid by the Public Treasurers Investment Fund (PTIF) during 2020. Most of the District's cash reserves are deposited with the PTIF, which typically provides better returns than other potential investments that comply with state law for local governments. The decrease in interest earnings is partially offset by an increase in impact fees as discussed below.

Table 4: Non-operating Revenue

Non-operating Revenue

	2019 Actual	2020 Adopted Budget	2020 Projection		2021 Tentative Budget Recommended	2021 Recommended to 2020 Budget $ Change	2021 Recommended to 2020 Budget % Change	2021 Recommended to 2020 Projection $ Change	2021 Recommended to 2020 Projection % Change
Interest Earnings	$ 405,844	$ 250,000	$ 172,000		$ 122,600	$ (127,400)	*(51.0)*	$ (49,400)	*(28.7)* %
Impact Fees	1,157,279	500,000	625,000		600,000	100,000	*20.0*	(25,000)	*(4.0)*
Promontory Developer Assessments	393,929	389,400	389,400		386,400	(3,000)	*(0.8)*	(3,000)	*(0.8)*
Stagecoach Assessments	160,519	163,000	163,000		163,000	-	-	-	-
Community Water Assessments	93,477	159,000	160,800		159,000	-	-	(1,800)	*(1.1)*
Other Cash Non-operating Revenue	77,226	30,000	60,000		30,000	-	-	(30,000)	*(50.0)*
Non-Cash Non-operating Revenue	11,767	11,700	11,700		11,700	-	-	-	-
Total Non-operating Revenue	**$ 2,300,041**	**$ 1,503,100**	**$ 1,581,900**		**$ 1,472,700**	**$ (30,400)**	**(2.0)** %	**$ (109,200)**	**(6.9)** %
			$ 78,800	*5.2%*					

The $600,000 projection for 2021 *Impact Fees* is $100,000 (20.0%) higher than the 2020 budget. This is due to better than expected impact fee collections during 2020 showing that although the building economy is weakening, there is still sufficient demand for new construction in the Snyderville Basin to generate a reasonable amount of impact fees.

4.03 2021 Expenses

Operating Expenses

The 2021 *Operating Expense* budget is $9.70 million, which is $494,300 (5.4%) higher than the 2020 Proposed Amended Budget, as shown in Table 5.

Table 5: Operating Expenses

Operating Expense	2019 Actual	2020 Adopted Budget	2020 Amended	2021 Recommended	2021 Recommended to 2020 Amended $ Change	% Change
Operations						
Energy & Resource Management	$ 506,681	$ 555,900	$ 497,200	$ 663,800	$ 166,600	
Lost Canyon Transmission	1,460,105	1,716,200	1,547,700	1,786,200	238,500	
Treatment Plant	845,251	865,900	865,900	890,400	24,500	
Distribution	2,231,029	2,740,800	2,909,300	2,924,100	14,800	
Safety	59,481	70,400	70,400	91,000	20,600	
Subtotal Operations	**5,102,546**	**5,949,200**	**5,890,500**	**6,355,500**	**465,000**	***7.9*** %
General Manager						
Engineering & Development	298,868	318,000	316,000	292,400	(23,600)	
Human Resources	110,849	122,600	122,600	133,200	10,600	
Legal Services	44,918	67,000	67,000	70,000	3,000	
Public Services	498,982	515,100	515,100	473,500	(41,600)	
Financial Management	408,876	433,100	433,100	445,900	12,800	
Subtotal Other Departments	**1,362,493**	**1,455,800**	**1,453,800**	**1,415,000**	**(38,800)**	***(2.7)*** %
Depreciation Expense	1,704,766	1,798,500	1,859,200	1,927,300	68,100	
Non-Cash Expenses	**1,704,766**	**1,798,500**	**1,859,200**	**1,927,300**	**68,100**	***3.7*** %
Total Operating Expense	**$ 8,169,805**	**$ 9,203,500**	**$ 9,203,500**	**$ 9,697,800**	**$ 494,300**	***5.4*** **%**
Total Cash Operating Expense	*6,465,039*	*7,405,000*	*7,344,300*	*7,770,500*	*426,200*	***5.8*** **%**

Non-cash Depreciation Expense is expected to increase $68,100 (3.7%) as compared to the 2020 adopted budget due to the additional assets being depreciated.

Accordingly, the 2021 budgeted *cash increase* in *Operating Expenses* is $426,200 (5.8%). Primarily related to increases in Operating expenses due to hiring a GIS professional into the vacant position in Energy & Technology Management and reestablishing the contingency power costs and repair costs that were lower than normal in 2020 for Lost Canyon operations.

The increase in Operations is partially offset by decreases in administrative departments as compared to the 2020 Adopted Budget as discussed below.

The Engineering & Development department has eliminated a position by sharing responsibilities across departments. Accordingly, the 2021 Budget decreased by this salary and benefit savings.

Additionally, $41,600 of savings will be recognized in Public Services department due to staffing changes.

Non-operating Expenses

Non-operating Expense consists of *Interest Expense / Trustee Fees* and bond related expenses - including issuance costs. As shown below, the 2021 *Non-operating Expense* budget is $1.02 million, which is $132,600 (11.7%) less than the 2020 Proposed Amended Budget. The decline is primarily related the cost savings from the 2019 bond refinancing.

Table 6: Non-operating Expenses

Non-operating Expense

	2019 Actual	2020 Adopted Budget	2020 Proposed Amended	2021 Recommended	2021 Recommended to 2020 Amended Budget $ Change	% Change
Interest Expense / Trustee Fees	$ 944,486	$ 1,125,200	$ 1,142,100	$ 1,013,900	$ (128,200)	
Bond Issuance Costs & Amortization	339,767	6,500	6,500	2,100	(4,400)	
Total Non-operating Expense	**$ 1,284,254**	**$ 1,131,700**	**$ 1,148,600**	**$ 1,016,000**	**$ (132,600)**	***(11.7) %***

4.04 2021 Transfers

Although the District may receive subdivision infrastructure contributions from developers in 2021, no amount is budgeted since the value of *Contributions-in-Aid of Construction* is not known, and varies significantly year-over-year.

Table 7: Transfers

Transfers

	2019 Actual	2020 Adopted Budget	2020 Projection	2021 Control Board Recommended	2021 Recommended to 2020 Budget $ Change	% Change	2021 Recommended to 2020 Projection $ Change	% Change
Contingency	$ -	$ -	$ -	$ -	$ -		$ -	
Governmental Transfers	$ -	-	-	-	-		-	
Contributions in Aid of Construction	$ 1,831,643	-	-	-	-		-	
Total Transfers	**$ 1,831,643**	**$ -**	**$ -**	**$ -**	**$ -**	**n/a %**	**$ -**	**n/a %**

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

These are non-cash transfers that increase the District's change in net position (net income) in the year they are made, but do not impact cash flow. In future years, these transfers increase non-cash *Depreciation Expense*, and require operation, maintenance and repairs by the District, thereby reducing future change in net position (net income) and cash flow.

5.0 2021 DEBT SERVICE BUDGET

For 2021, the District projects a debt coverage ratio of 1.64 when only parity revenue bonds are included. As discussed in ***Section 3.07***, this ratio is required to meet or exceed 1.25 to comply with bond covenants.

MOUNTAIN REGIONAL WATER
2021 Debt Service Budget - Cash Basis

		2021
COVERAGE CALCULATION FOR PARITY REVENUE BONDS		
Operating Income (Loss)	$	2,436,700
Add Back Depreciation		1,927,300
Add In Interest Available for Debt Service		120,000
Add In Impact Fees		600,000
Add In Promontory SID Assessments on Developer		386,400
Add in Stagecoach Assessments		163,000
Add in Community Water Assessments		159,000
Add in Other Non-operating Income		30,000
Total Available For Debt Service	**$**	**5,822,400**
TOTAL DEBT COVERAGE		
Required Coverage Principal	$	2,699,500
Required Coverage Interest/Bank Fees		1,102,700
Total Required Debt Service		**3,802,200**
Debt Service X 1.25	**$**	**4,752,800**
Total Debt Coverage Ratio		**1.53**
REQUIRED PARITY BOND DEBT COVERAGE		
Parity Bond Principal	$	2,552,000
Parity Bond Interest		1,000,800
Total Parity Debt Service		**3,552,800**
Debt Service X 1.25	**$**	**4,441,000**
Parity Debt Coverage Ratio		**1.64**
Cash Excess/(Shortfall)		**2,020,200**
Less Treatment Plant Stabilization Fund		-
Projected Cash Generated		**2,020,200**
Capital Facility Reserves		(388,500)
Regionalization Reserves		(574,300)
Cash Available for Capital Budgets		**1,057,400**

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

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

District policy prohibits including the $1.16 million *Rate Stabilization Fund – Bond Reserves* balance to calculate debt coverage for budgeting purposes. These funds are only included in debt coverage calculations at year-end if revenue falls significantly short of budget – or unanticipated expenditures are incurred. The District has never needed to use the funds.

The projected 1.53 coverage ratio for all 2021 scheduled debt payments would result in a $1.06 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.

6.0 CAPITAL BUDGET

The District is requesting $2.04 million in new capital spending appropriations for 2021, as shown below.

Mountain Regional Water
2021 Capital Budget

	2020 Adopted Budget	2020 Proposed Amendment	2020 Estimated Completed	2020 Estimated Carryover	General Manager Recommended Increases	2021 Total Estimate
CASH SOURCES						
Previous Year Budget Carryover	$ 1,120,500	$ -	$ 364,400	756,100	$ -	$ 756,100
Cash Available from Previous Years	1,164,900		-	1,164,900	1,245,800	2,410,700
Impact Fees	775,000		775,000	-	180,000	180,000
District Capital Reserves	510,000	-	510,000	-	615,000	615,000
Series 2019 Bond Proceeds - CW	2,600,000	-	2,000,000	600,000	-	600,000
TOTAL SOURCES	**$ 6,170,400**	**$ -**	**$ 3,649,400**	**$ 2,521,000**	**$ 2,040,800**	**$4,561,800**
CASH USES						
Completed Projects						
Summit Park Restoration (Phase VI)	700,000	(250,000)	450,000	-	-	-
Glenwild Pump Station Upgrades	135,000	(60,000)	75,000	-	-	-
Office Improvements	25,000	(13,200)	11,800	-	-	-
Continuing Projects						
Community Water Infastructure	2,600,000	-	2,000,000	600,000	-	600,000
Capitalized Personnel Costs	237,800		237,800	-	217,500	217,500
General System Improvements	782,900	13,200	570,100	226,000	305,000	531,000
Willow Creek/Atkinson Inteconnect	140,000	60,000		200,000	-	200,000
Weber Basin Interconnection Project	500,000			500,000	60,000	560,000
Vehicles & Equipment	304,700	-	304,700	-	245,000	245,000
2021 Capital Projects						
Land Acquisition & Office	500,000	250,000	-	750,000		750,000
Silver Creek Maintenance & Storage Yard					443,300	443,300
Treatment Plant Chlorinator Upgrade	120,000		-	120,000	-	120,000
Kilby Road Water Line Replacement				-	615,000	615,000
Kilby Pump Upgrades	125,000	-	-	125,000	15,000	140,000
Treatment Plant Improvements				-	140,000	140,000
TOTAL USES	**$ 6,170,400**	**$ -**	**$ 3,649,400**	**$ 2,521,000**	**$ 2,040,800**	**$4,561,800**

Funding

No additional borrowing or financing is needed to fund the recommended $2.04 million capital budget increase.

Instead, it can be funded with the cash available from prior years in the amount of $1.25 million, $180,000 from impact fees, and $615,000 from capital facility reserves.

Completed Projects

Summit Park Restoration (Phase VI) - This is the next phase of the Summit Park Restoration project that the District is doing in conjunction with Summit County and the Snyderville Basin Water Reclamation District. This project was originally scheduled for 2018 but will be completed this year. By replacing District waterlines at the same time as the sewer lines and roads are replaced, the District's costs are significantly reduced. The District had budgeted $700,000 however the final cost will be less than $450,000.

Glenwild Pump Station Upgrade – This project involves an upgrade to the existing pump station from approximately 200 gpm to 350 gpm capacity to support future demands in the Northridge service area. The upgrade involved replacing the existing pumps with two 350 gpm Grundfos pumps, new suction and discharge headers, valving and electrical upgrades. The project is coming in $60,000 under budget due to District staff completing the project instead of hiring an outside contractor.

Office Improvements – A window was added to the District office to add to the usability of a large office area.

2020 Continuing Projects

Community Water Infrastructure – The Community Water annexation was completed in June 2019 and the $2.6 million infrastructure loan approved by the Division of Drinking Water closed at the end of 2019. It is estimated $2.0 million of the $2.6 million will be completed by year end with the remaining $600,000 being completed in early 2021.

Weber Basin Interconnection Project - In 2019 the District participated in a regionalization project, administered by Weber Basin, to construct several interconnect facilities. These interconnections will allow connectivity between Park City, Summit Water and the District. The portion of the cost attributable to the District was originally estimated to be $500,000. However, the latest estimates have the District's portion at $560,000. The project will be finalized in early 2021 and the District is requesting an additional $60,000 in 2021.

The Willow Creek/Atkinson Interconnect – This interconnect will allow water to be transported to the Willow Creek area in the future without unnecessary pumping to a higher elevation tank in the Colony. This project is under contract at a cost of approximately $200,000. The project will begin in 2020 with completion in 2021.

Capitalized Personnel Costs - As District employees spend a portion of their time working on or managing capital projects, the District capitalizes some personnel costs. For 2021, the budget includes $217,500, which will be funded from cash on hand.

General System Improvements - The budget includes $531,000 for varying items in 2021. These include engineering design fees for projects in Summit Park, the Signal Hill Treatment Plant, and Lost Canyon. Additionally, there will be pump station capacitor upgrades, improvements at the Middle Valley Pump Station and other smaller projects.

Vehicles & Equipment - The District is budgeting to purchase two trucks and a Ditch Witch HX50 vacuum trailer during 2021 along with SCADA upgrades. These purchases are anticipated to cost $245,000.

2021 Capital Projects

Land Acquisition and Office - The District has requested land from Summit County (part of the Gillmor parcel) be set aside for the future site of the District office. The District has allocated $500,000 for this land acquisition and office development. Due to cost savings on the Summit Park Restoration (IV) project, the District is requesting an amendment of $250,000 for preliminary design work be allocated to the Land Acquisition and Office project.

Treatment Plant Chlorinator Upgrade - The current chlorine generation system at the Signal Hill Water Treatment Plant is at its design capacity (100 lbs. per day). A system with higher production capacity (200 lbs. per day) is needed to keep pace with the District's growing water demands. This larger system has been quoted at $120,000.

Silver Creek Maintenance & Storage Yard – The District is planning to make improvements to its Silver Creek property to facilitate storage of equipment, vehicles, and materials. Improvements are planned to include interior storage space, garages, and open material storage bays. This will lead to operating efficiencies and improved care of District equipment. The District is requesting $443,300 for this improvement.

Kilby Pump Upgrades - The electrical panels of the Kilby pump station are planned to be moved from the below ground vault, to an above ground location on the existing pump station structure to improve the safety of our employees working at the facility. These improvements were originally estimated at $125,000. However, the latest estimate has the project closer to $140,000 so an additional $15,000 is in the 2021 General Manager Recommended Increases.

Kilby Road Water Line Replacement – The Kilby Road water main, which services Summit Park, has had a number of leaks, likely resulting from highway salt percolating down to the aging water main and deteriorating it. In 2021 the District will be replacing the portions of the main needing repair as determined through visual inspection. This project has a budgeted cost of $615,000.

Treatment Plant Improvements – There are a number of facility improvements needed on the District's Signal Hill Water Treatment Plant including insulation repairs, driveway rehabilitation, pump capacity upgrades, strainer replacement, and exterior staining. The costs of these improvements are budgeted at $140,000.

2020 Capital Budget Amendments

Several amendments are needed in the 2020 capital budget.

1) The first is needed to reallocate $250,000 from the *Summit Park Restoration (PhaseVI)* project which came in under the budgeted amount. Accordingly, $250,000 in savings can be allocated to a *Land Acquisition and Office Site.*

2) The second is needed to reallocate $60,000 from the *Glewild Pump Station Upgrades* as having District staff complete the work instead of contracting externally resulted in savings from the originally budget amount. The *Willow Creek/Atkinson Interconnect*, is coming in $60,000 higher than the engineer's estimate so the savings is being allocated here.

3) The third amendment is needed to reallocate $13,200 from *Office Improvements* to *General System Improvements. Office Improvements* were done for less than the originally estimated amount so the savings can be allocated to *General System Improvements.*

7.0 2020 BUDGET AMENDMENTS

7.01 2020 Operating Budget

For the 2020 *Operating Budget*, three amendments are needed of $168,500, $60,700 and $94,900 respectively.

MOUNTAIN REGIONAL WATER
2020 Amended Operating Budget - Accrual Basis
Enterprise Fund

	2018 Actual	2019 Actual	2020 Budget	2020 Proposed Amended	2020 Amendments	2020 Projection	2020 Projection to Adopted
OPERATING REVENUE							
Retail Water Sales	$ 8,335,751	$ 7,804,956	$ 8,442,700	$ 8,442,700	$ -	$ 9,284,400	$ 841,700
Park City Wheeling	675,450	700,484	700,000	700,000	-	675,000	(25,000)
Weber Basin Regionalization Fees	940,800	1,003,200	1,676,200	1,676,200	-	1,676,200	-
Operating Fees	376,970	463,753	288,800	288,800	-	425,000	136,200
Contract Maintenance	505	17,194	2,500	2,500	-	500	(2,000)
Other	79,695	50,005	45,000	45,000	-	34,000	(11,000)
Total Operating Revenue	**10,409,171**	**10,039,592**	**11,155,200**	**11,155,200**	**-**	**12,095,100**	**939,900**
OPERATING EXPENSES							
Operations Management							
Energy & Resource Management	512,843	506,681	555,900	497,200	(58,700)	477,400	(78,500)
Distribution	2,180,478	2,231,029	2,740,800	2,909,300	168,500	2,909,300	168,500
Lost Canyon Transmission	1,450,316	1,460,105	1,716,200	1,547,700	(168,500)	1,538,300	(177,900)
Treatment Plant	567,468	845,251	865,900	865,900	-	931,300	65,400
Safety	58,378	59,481	70,400	70,400	-	68,100	(2,300)
General Manager							-
Engineering & Development	316,009	298,868	318,000	316,000	(2,000)	251,000	(67,000)
Human Resources	100,269	110,849	122,600	122,600	-	115,200	(7,400)
Legal Services	29,307	44,918	67,000	67,000	-	67,000	-
Public Services	532,468	498,982	515,100	515,100	-	500,900	(14,200)
Financial Management	369,932	408,876	433,100	433,100	-	425,100	(8,000)
Depreciation Expense	1,634,015	1,704,766	1,798,500	1,859,200	60,700	1,859,200	60,700
Total Operating Expense	**7,751,483**	**8,169,805**	**9,203,500**	**9,203,500**	**-**	**9,142,800**	**(60,700)**
OPERATING INCOME	**2,657,688**	**1,869,787**	**1,951,700**	**1,951,700**	**-**	**2,952,300**	**1,000,600**
NON-OPERATING REVENUE							
Interest Earnings - Available for Debt Service	295,388	393,473	242,800	166,100	(76,700)	166,100	(76,700)
Interest Earnings - Not Available for Debt Service	8,336	12,371	7,200	5,900	(1,300)	5,900	(1,300)
Impact Fees	1,243,146	1,157,279	500,000	555,000	55,000	625,000	125,000
Promontory Developer SID Assessments	1,169,735	393,929	389,400	389,400	-	389,400	-
Stagecoach Infrastructure Assessment	209,426	160,519	163,000	163,000	-	163,000	-
Community Water Infrastrcture Assessment	-	93,477	159,000	159,000	-	160,800	1,800
Other Cash Non-operating Revenue	156,914	77,226	30,000	69,900	39,900	60,000	30,000
Non-Cash Non-operating Revenue	11,667	11,767	11,700	11,700	-	11,700	-
Total Non-operating Revenue	**3,094,612**	**2,300,041**	**1,503,100**	**1,520,000**	**16,900**	**1,581,900**	**78,800**
NON-OPERATING EXPENSE							
Interest Expense/Bank Fees	1,485,282	944,486	1,125,200	1,142,100	16,900	1,142,100	16,900
Bond Issuance Costs and Amortization Expense	15,734	339,767	6,500	6,500	-	2,100	(4,400)
Total Non-operating Expense	**1,501,016**	**1,284,254**	**1,131,700**	**1,148,600**	**16,900**	**1,144,200**	**12,500**
NON-OPERATING INCOME	**1,593,596**	**1,015,787**	**371,400**	**371,400**	**-**	**437,700**	**66,300**
CHANGE IN NET POSITION (NET INCOME BEFORE TRANSFERS)	**4,251,284**	**2,885,574**	**2,323,100**	**2,323,100**	**-**	**3,390,000**	**1,066,900**
TRANFERS							
Contingency	-		-	-	-	-	-
Governmental Transfers	-		-	-	-	-	-
Contributions in Aid of Construction	2,126,661	1,831,643	-	-	-	-	-
NET TRANSFERS	**2,126,661**	**1,831,643**	**-**	**-**	**-**	**-**	**-**
BUDGET CHANGE IN NET POSITION AFTER TRANSFERS	**$ 6,377,945**	**$ 4,717,217**	**$ 2,323,100**	**$ 2,323,100**	**$ -**	**$ 3,390,000**	**$ 1,066,900**
GASB 68 ACTUAL RETIREMENT ADJUSTMENTS	*22,808*	-	*TBD*	*TBD*	*TBD*	*TBD*	*TBD*
ACTUAL CHANGE IN NET POSITION	*6,400,753*	*4,717,217*	*2,323,100*	*2,323,100*	-	*3,390,000*	*1,066,900*

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

The first amendment of $168,500 is needed to reallocate expenses between departments in Operations. Due to the high volume of usage this summer and many needed repairs, the Distribution department is projected to exceed their operating budget by $168,500. The overage in this department can be offset with savings in Lost Canyon operations. Lost Canyon experienced savings in lease fees, lower power and repair costs due to using groundwater sources during the beginning of the coronavirus pandemic in order to conserve treatment plant supplies, and optimizing the time to run pumps.

The second amendment of $60,700 resulted from underestimating the depreciation expense of the Community Water assets. This non-cash expense can be offset by actual cash savings coming from Energy & Technology Management and Engineering & Development departments. The savings in these departments come from delaying the hiring of one vacant position and spreading the responsibilities of another vacant position across departments.

The third amendment of $94,900 is made of two pieces. First, a shortfall in interest earnings ($78,000) as the return on the (PTIF) dropped from near 3% at the beginning of 2020 to 0.5% by the end of September. Second, a slight miscalculation in the interest expense for 2020 after the refinancing right at the end of 2019 ($16,900).

These negative variances are being offset by non-operating revenues in Impact Fees and Other Cash Non-operating fees that are higher than originally budgeted.

As shown in the "*2020 Projection to Adopted*" column above, the District now anticipates 2020 Change in Net Position, will exceed budget by $1.07 million. Primarily attributable to higher Operating Revenue ($939,900) and some savings in Operating Expenses and marginally higher Non-operating revenue.

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

7.02 2020 Debt Service Budget

The adopted 2020 *Debt Service Budget* projected a 1.50 parity debt coverage ratio and 1.40 when subordinated debt was included.

Due to the higher than expected revenue ($1.2 million) and moderate cost savings the 2020 ratios are now projected at 1.71 and 1.83 respectively – as shown below.

MOUNTAIN REGIONAL WATER
2020 Debt Coverage Calculation - Cash Basis

	2020 Budget	2020 Projection
COVERAGE CALCULATION FOR PARITY REVENUE BONDS		
Operating Income (Loss)	$ 1,951,700	$ 2,952,300
Add Back Depreciation	1,798,500	1,859,200
Add in Interest Available for Debt Service	240,000	166,100
Add In Impact Fees	500,000	625,000
Add In Promontory SID Assessments on Developer	389,400	389,400
Add in Stagecoach Assessments	163,000	163,000
Add in Community Water Assessments	159,000	160,800
Add in Other Non-operating Income	30,000	60,000
Add in Treatment Plant Stabilization Fund	85,000	123,900
Total Available For Debt Service	**5,316,600**	**6,499,700**
TOTAL DEBT COVERAGE		
Required Coverage Principal	2,572,500	2,566,000
Required Coverage Interest/Bank Fees	1,232,700	1,236,200
Total Required Debt Service	**3,805,200**	**3,802,200**
Debt Service X 1.25	**4,756,500**	**4,752,800**
Total Debt Coverage Ratio	**1.40**	**1.71**
REQUIRED PARITY BOND DEBT COVERAGE		
Parity Bond Principal	2,425,000	2,425,000
Parity Bond Interest	1,130,900	1,130,900
Total Parity Debt Service	**3,555,900**	**3,555,900**
Debt Service X 1.25	**4,444,900**	**4,444,900**
Parity Debt Coverage Ratio	**1.50**	**1.83**
Cash Excess/(Shortfall)	**1,511,400**	**2,697,500**
Less Treatment Plant Stabilization Fund	(85,000)	(123,900)
Projected Cash Generated	**1,426,400**	**2,573,600**
Capital Facility Reserves	(370,300)	(387,000)
Impact Fee Reserves	-	(125,000)
Regionalization Reserves	(502,900)	(502,900)
Excess Cash from 2019 for 2021 Capital Budget	482,100	482,100
Cash Available for 2021 Capital Budget	**1,035,300**	**2,040,800**

8.0 SUMMARY

In conclusion, continuing strong water sales, a declining but adequate building economy, and high cash reserves have the District in a stable financial position to fund debt service requirements, react to building trends and weather patterns, while still maintaining adequate funding for capital projects. The District will continue to monitor closely the continuing build out of the Silver Creek area and overall growth within the District's boundaries. The District reviews on an annual basis any adjustments to rates as needed. When preparing the budget for 2022 the District will consider changing weather patterns, customer growth and the decrease in Regional Supply water sales already contracted for 2022.