

Date: December 8, 2008
To: Board of Directors
From: Michelle A. Tressler, Assistant Finance Manager
Subject: 2009 Budget for the Pagosa Area Water and Sanitation District

INTRODUCTION

I am pleased to submit the 2009 Budget for the Pagosa Area Water and Sanitation District. This Budget was based on the modified accrual basis of accounting and represents a balanced Budget where expenditures do not exceed the resources available for each fund. The initial Budget was prepared by staff and presented to the Board of Directors prior to October 15, 2008.

Subsequently, a Workshop for discussion of funding of various capital projects for the Water Enterprise and Wastewater Enterprise Funds was held on November 3, 2008. A Public Hearing was held on November 18, 2008.

The Budget presented represents the financial goals and policies of the Board of Directors for the upcoming calendar year. The Budget maintains current service levels, achieves a ratio of revenues to expenditures deemed appropriate by the Board of Directors and provides for funding of all required debt service payments on bonds that have been issued. There has not been an increase in Services Charges in the Enterprise Funds projected in the 2009 Budget. It is anticipated that the Service Charge increase that was effective with the May/June 2008 meter reading period, will offset the projected increase in 2009 operating costs. The District's policy that Enterprise revenues should fully fund the needs of providing service and contribute to on-going capital projects continues to be reflected in the 2009 Budget.

Another significant District policy upheld by the projected Budget is that growth pay its own way. This policy is supported by the allocation of capital project funding between revenues generated through Service Charges to existing customers and Capital Investment Fees assessed to new customers.

BUDGET SUMMARY

The 2009 Budget is comprised of both governmental and proprietary types of funds. The governmental funds are General Fund, Special Revenue Fund, Capital Projects Fund and the Debt Service Fund. The proprietary funds are the Water Enterprise Fund and the Wastewater Enterprise Fund. The 2009 Budget has been prepared to comply with the provisions of the Local Government Budget Law of Colorado. Following is a summation of revenues and expenditures for each fund.

General Fund					
	Actual 2007	Original Budget 2008	Amended Budget 2008	Proposed 2009	% of Change Projected 2008-2009
Beginning Balance	410,431	416,986	454,986	618,155	36%
Revenues					
Property Taxes	986,912	1,354,086	1,278,777	1,328,641	4%
Interest	34,287	40,781	19,000	25,000	32%
Other Revenue	9,750	2,500	2,500	2,500	0%
Total Revenue	1,030,949	1,397,367	1,300,277	1,356,141	4%
Expenditures					
Emergency Fund	10,021	13,962	15,056	15,559	3%
Board Expense	13,993	24,000	14,000	16,000	14%
Insurance	6,772	6,900	5,500	5,748	5%
Legal and Professional	55,299	93,200	141,220	105,375	-25%
Supplies & Publications	11,888	14,000	17,800	21,500	21%
Maintenance	19,548	17,100	12,850	15,300	19%
Salaries and Benefits	188,463	252,111	245,000	290,823	19%
Utilities	14,205	17,500	20,948	16,000	-24%
Permits & Fees	28,794	40,595	44,550	59,479	34%
Inter-fund Transfers	490,000	640,000	575,000	506,000	-12%
Capital Projects	157,432	58,225	45,184	49,300	9%
Total Expenditures	996,415	1,177,593	1,137,108	1,101,084	-3%
Ending Balance	444,965	636,760	618,155	873,212	41%

Special Revenue Fund					
	Actual 2007	Original Budget 2008	Amended Budget 2008	Proposed 2009	% of Change Projected 2008-2009
Beginning Balance	4,897,908	4,183,023	4,231,255	940,151	-78%
Revenues					
Interest	251,929	190,000	163,000	30,000	-82%
Total Revenue	5,149,837	4,373,023	4,394,255	30,000	-99%
Expenditures					
Transfer to Capital Projects	918,582	3,721,559	3,454,104	970,151	-72%
Ending Balance	4,231,255	651,464	940,151	0	-100%

Capital Projects Fund					
	Actual 2007	Original Budget 2008	Amended Budget 2008	Proposed 2009	% of Change Projected 2008-2009
Beginning Balance	0	0	0	0	
Transfers from Special Rev Fund	918,582	3,721,559	3,454,104	970,151	-72%
Transfers from General Fund	157,432	58,225	45,184	49,300	9%
Total Transfers	1,076,014	3,779,784	3,499,288	1,019,451	-71%
Inspection Costs	0	0	28,265	29,712	5%
General Fund Projects	157,432	58,225	45,184	49,300	9%
Bond Issue Projects	918,582	3,721,559	3,425,839	940,439	-73%
Total Expenditures	1,076,014	3,779,784	3,499,288	1,019,451	-71%
Ending Balance	0	0	0	0	

Debt Service Fund					
	Actual 2007	Original Budget 2008	Amended Budget 2008	Proposed 2009	% of Change Projected 2008-2009
Beginning Balance	12,525	1,035	3,083	10,280	233%
Revenues					
Property Tax	1,176,519	1,195,526	1,177,592	1,277,233	8%
Interest	26,234	28,000	9,500	10,500	11%
Transfer from General Fund Tax Shortfall	0	0	64,500	0	
Total Revenue	1,202,753	1,223,526	1,251,592	1,287,733	3%
Debt Service Payments	1,192,195	1,188,395	1,188,395	1,233,997	4%
Transfer of Interest to Ent Funds	20,000	28,000	9,500	10,500	11%
Transfer to General Fund Tax Shortfall	0	0	46,500	18,000	
Ending Balance	3,083	8,166	10,280	35,516	245%

Water Enterprise Fund					
	Actual 2007	Original Budget 2008	Amended Budget 2008	Proposed 2009	% of Change Projected 2008-2009
Beginning Balance	16,018,366	14,581,768	24,987,692	17,480,553	-30%
Revenues					
Service Charge Revenue	1,896,196	2,707,389	2,740,844	3,126,138	14%
CIF/WRF Revenue	1,241,339	1,000,000	678,107	272,100	-60%
Tap Fee/Connection/Inclusion	501,871.00	660,435.00	415,000.00	371,800	-10%
Availability Revenue	322,464	497,640	469,000	484,836	3%
Other Water Sales & Mitigation	65,615.00	83,500.00	57,000.00	57,000.00	0%
Late Fees & Interest Income	673,019.00	736,120.00	429,560.00	343,140	-20%
Bond & Lease Proceeds	8,600,000	6,836,025	10,051,824	7,517,136	-25%
Transfers from General Fund	340,000	467,000	420,000	360,000	-14%
Total Revenues	13,640,504	12,988,109	15,261,335	12,532,150	-18%

Water Enterprise Fund					
	Actual 2007	Original Budget 2008	Amended Budget 2008	Proposed 2009	% of Change Projected 2008-2009
Expenditures					
Connections	209,685	100,000	100,000	72,160	-28%
Source of Supply	143,246	194,300	74,220	107,270	45%
Water Treatment	602,275	744,258	639,235	710,708	11%
Water Distribution	527,897	624,007	619,576	637,352	3%
Laboratory	68,254	68,400	58,400	70,167	20%
Maintenance	129,561	150,459	164,931	169,310	3%
Administration & Billing	471,722	550,254	747,355	603,848	-19%
Revenue Bond Debt Service	808,539	1,378,350	850,896	991,734	17%
Capital Projects (including CIF/Bond)	1,709,999	8,045,381	19,513,860	9,349,401	-52%
Total Expenditures	4,671,178	11,855,409	22,768,474	12,711,950	-44%
Ending Balance	24,987,692	15,714,468	17,480,553	17,300,753	-1%

Wastewater Enterprise Fund					
	Actual 2007	Original Budget 2008	Amended Budget 2008	Proposed 2009	% of Change Projected 2008-2009
Beginning Balance	5,162,252	4,173,171	4,681,964	4,867,058	4%
Revenues					
Service Charge Revenue	930,124	1,086,282	1,088,000	1,173,828	8%
CIF Revenue	479,146	260,000	198,000	44,730	-77%
Tap Fee/Connection/Inclusion	347,776	347,080	328,000	164,680	-50%
Availability Revenue	231,525	326,520	274,950	321,000	17%
Waste Hauler/Other Rev/Mitigation	22,523	40,000	14,000	14,000	0%
Late Fees & Interest Income	272,531	308,810	254,140	216,710	-15%
Bond & Lease Proceeds	0	413,975	150,508	0	-100%
Transfers from General Fund	150,000	173,000	155,000	146,000	-6%
Total Revenue	2,433,625	2,955,667	2,462,598	2,080,948	-15%
Expenditures					
Connections	12,065	10,000	3,333	3,480	4%
Wastewater Collection	332,429	369,395	371,021	379,906	2%
Wastewater Treatment	256,086	307,211	279,736	300,387	7%
Laboratory	58,944	64,641	64,641	70,990	10%
Maintenance	59,712	74,058	79,367	83,988	6%
Administration & Billing	230,304	256,141	324,780	266,640	-18%
Revenue Bond Debt Service	302,417	337,270	315,601	360,561	14%
Capital Projects (including CIF/Bond)	1,661,956	1,896,020	839,025	859,234	2%
Total Expenditures	2,913,913	3,314,736	2,277,504	2,325,185	2%
Ending Balance	4,681,964	3,814,102	4,867,058	4,622,821	-5%

BUDGET HIGHLIGHTS

Major highlights of the 2009 Budget are:

- Recent events in the global, national and local economy have been carefully considered in the preparation of the 2009 Budget. Preservation of cash reserves in the event of a prolonged recession as well as reduced demands from growth-driven capital improvements have been reflected by delaying certain capital projects.
- District staff diligently tries to prepare for the future needs of the community. A major focus of energy and resources is currently devoted toward the acquisition of property needed for the Dry Gulch Reservoir. While funds for this endeavor are included in the 2009 Budget, they are specifically derived from the Water Resource Fee component of the Capital Investment Fee and do not affect expenses used to calculate either Water Service Charge or Water Availability of Service Charges.
- The Modified Accrual Fund Balance of the General Fund is increased by approximately \$255,057 during 2009 after utilizing funds for contributions to the Capital Projects Fund. Specific projects which are to be funded in this manner are ongoing administrative computer system support as well as funding of a portion of the Water Conservation Program. The projected reserve balance after these expenditures represents approximately eight months of expenses which the Board of Directors deems appropriate considering the stable nature of revenues for this fund.
- In the Special Revenue Fund, projected major capital expenditures funded by the 2002/2003 Water General Obligation Bond total \$782,151 for wetlands mitigation resulting from the Stevens Reservoir Enlargement. It is projected that this funding will complete this project which has been ongoing since 1989. It is also projected that the 2002/2003 Water General Obligation Bond funds will contribute \$188,000 towards the construction of an additional settling pond at the San Juan River projected to cost \$487,500.
- The Water Enterprise Fund is projected to supplement the funds provided by the Special Revenue Fund for the additional settling pond at the San Juan River as well as provide funding for improvements to various water treatment plants and treated water storage tanks and approximately \$484,900 of distribution system repairs and replacement in accordance with the Capital Plan. These improvements will be partially funded by Capital Investment Fees in harmony with Board policy.
- A Revenue Bond Issue was anticipated for early in 2008 for approximately \$7,250,000 which was to be jointly utilized by the Water Enterprise Fund (\$6,836,025) and the Wastewater Enterprise Fund (\$413,975). Due to the instability of the municipal bond market, which was not evident at the time of the 2008 Budget preparation, a revenue issue similar to the open market issues the District had done in the past was reconsidered early in 2008. Bond insurance costs had escalated immensely, with an insured rating not necessarily having the same assurance to potential investors as previously offered. A loan through the Colorado Water Resources and Power Development Authority offered the immediate advantage of utilizing their natural AAA rating for the issuance of bonds as well as other advantages such as not having to finance a debt service reserve fund and a lower cost of issuance. The District had maintained eligibility for this program over the years and CWRPDA offered a 20% interest subsidy for qualified projects which included the Hatcher Water Treatment Plant micro-filtration project as well as the move to automated meter reading technology. Both projects began in 2008 and are anticipated to be completed in 2009 with interim loan reimbursements throughout the projects. The

Wastewater Enterprise Fund projects were delayed as they did not fit within the criteria required for this financing.

- The projected Modified Accrual Fund Balance for the Water Enterprise Fund at the end of 2009 is projected to be \$17,300,753. Removing the effect of interim loan related expenditures and reimbursements, the projected unrestricted reserves would be almost 80% of the 2009 projected revenues and are sufficient to carry nine months of operating expenditures and one year of debt service.
- On-going support of the District's active Water Conservation Program is anticipated in the 2009 Budget. The successful Toilet Rebate Program will be continued indefinitely as well as the program to encourage the installation of water-efficient washing machines and restaurant pre-rinse valves. Programs targeting school-age children's education, water-wise landscaping and water efficiency audits will be among the many programs planned for 2009.
- The Wastewater Enterprise Fund is projected to contribute approximately \$833,230 for various improvements to the collection and treatment facilities in accordance with the Capital Plan, with approximately \$365,000 being funded by Capital Investment Fees and \$468,230 being funded through operating capital.
- The projected Modified Accrual Fund Balance for the Wastewater Enterprise Fund at the end of 2009 is projected to be \$4,622,821. The projected unrestricted reserves are almost double the 2009 projected revenues and are sufficient to carry well over one year of operating expenditures and debt service.

OPERATING REVENUE

Service Charge revenues are projected to increase by approximately \$385,000 in the Water Enterprise Fund and approximately \$86,000 in the Wastewater Enterprise Fund. This is due to the increases in Service Charges which were effective May/June of 2008 for both the Water and Wastewater Enterprise Funds as well as new connections that were added to the systems during 2008. Although certain operating expenses are anticipated to be greater in 2009, service charge revenues are expected to be sufficient for both the Water and Wastewater Enterprise Funds.

OPERATING EXPENSES

Using zero-based budgeting techniques, various functions of the District were examined and the minimal amount of resources needed to maintain the high level of service the District provides its customers was determined. Operating expenses are projected to increase/decrease in 2009 as follows: General Fund – overall decrease of 3% most significantly due to a reduction in legal and professional services; Water Enterprise Fund – overall increases in Source of Supply, Treatment and Laboratory costs are largely offset by a decrease in Administrative and Billing costs due to significant write-offs of amounts due on County-held property in 2008; Wastewater Enterprise Fund – overall increases in Treatment and Laboratory are largely offset by a decrease in Administrative and Billing costs due to significant write-offs of amounts due on County-held property in 2008.

The increase in operating expenditures in the 2009 Budget is due to several items:

- Employee health insurance is projected to increase 10%.
- Water Enterprise Fund operating expenses are projected to increase in almost every department but most significantly in Treatment (11%), Source of Supply (45%) and Laboratory (20%).

- Wastewater Enterprise fund operating expenses are project to increase throughout almost every department. Significant areas include Laboratory (10%), Treatment (7%) and Maintenance (6%).
- A 5% increase in electrical costs and a 30% increase in natural gas is projected.
- Significant increases in regulatory permits and fees from the Colorado Department of Public Health and Environment (16%) have been published.

PREPARING FOR THE FUTURE

Continuing the commitment of maintaining our service levels and infrastructure while preparing for the future, several items are included in the proposed Budget that work towards increasing efficiencies and enhancing services for citizens.

- Data is being accumulated for a future energy efficiency audit that may reduce costs and promote conservation practices in the future.
- Continued investment toward the beneficial use of biosolids is budgeted. The cost to dispose of treated wastewater solids has been increasing exponentially in recent years and in the interest of future planning for the community, beneficial use could not only cut costs but also reduce impact on the Archuleta County Landfill.
- An upgrade to enhanced utility management software is planned for early in 2009.
- The complete retrofit of District meter reading equipment to radio read technology during 2008 is anticipated to significantly reduce water wasted due to undetected leaks during the November through March period when historically meters were not read particularly due to snow cover.

PERSONNEL

The 2009 Budget allows for the addition of one administrative staff member. This additional staff person will be responsible for working with the Mosaic automated meter reading technology to reduce water waste through leaks and for monitoring data resulting from other water conservation program functions, in addition to other duties. The administrative staff position will be recruited as soon as possible after Budget approval so that training can be accomplished during the remainder of the winter months.

CONCLUSION

The Pagosa Area Water and Sanitation District is in a stable financial condition and well-poised for the challenges presented by growth in the community. The 2009 Budget is balanced, meets all statutory requirements and follows the long-term capital plan established to provide quality services to the community.