

## **Lake Durango Water Authority**

### **Budget Message 2010 Budget**

The Lake Durango Water Authority (LDWA) proposed budget for the calendar year 2010 is attached. LDWA was formed in December 2007 with the approval of an Establishment Agreement by Durango West Metropolitan Districts No. 1 and No. 2 (DW1 and DW2) and the Board of County Commissioners of LaPlata County. The 2009 Budget was filed anticipating LDWA would acquire the assets of Lake Durango Water Company (LDWC) by the 1<sup>st</sup> of the calendar year 2009 and would take over all operations of the company at that time. LDWA acquired the assets of LDWC on July 15, 2009 and took over all operations at that time. The 2010 budget uses an accrual basis for budgetary accounting.

The 2009 financial information reflects actual and projected revenues and expenses incurred after the acquisition of the LDWC. 2009 LDWA expenses prior to the purchase have been categorized as purchase and formation costs to be amortized from the acquisition surcharge in future years.

Prior to acquisition the costs associated with operating and improving the water system were not well known. After five and a half months of operation and extensive review of Lake Durango Water Company's financial records the Authority has developed a better understanding of the water system and its finances and has developed the 2010 budget accordingly.

Projected revenues for 2010 are based on the past 6 years of LDWC water sales and 5 ½ months of LDWA operations. It should be noted that revenues from water sales for 2009 are considerably less than were anticipated prior to acquisition. The revenues include base fees for active taps, water sales using the same tiered rate structured developed by the Public Utilities Commission for LDWC, water royalty fees equal to the water royalty payments scheduled to the seller, late fees, and acquisition surcharge applied to all tap holders for the costs of purchasing the Water Company, its assets, and all costs associated with the development and implementation of the Authority and all closing costs. The Authority plans to amortize the purchase and formation costs over a period of two to three years which, along with transfers from the operating reserve fund, will cover revenue shortfalls. It is anticipated that system improvements will decrease operating expenses and the identification and utilization of additional water sources will increase future revenues. The Authority plans to complete a formal rate study in 2010. Additionally, LDWA entered into a two year contract with the Department of Local Affairs (DOLA) in October of 2009 for the \$500,000 grant that was awarded in 2008 for capital improvements, deferred maintenance, engineering and a rate study. Approximately \$300,000 of these funds are scheduled to be expended for identified source and supply, treatment, and distribution projects in 2010 and will be reimbursed by DOLA.

Estimated operating expenses for 2010 are based on a review of the past 6 years of LDWC expenses and 5 ½ months of LDWA operations. In an effort to reduce a backlog of deferred maintenance, projected maintenance and repairs, materials and supplies, and engineering expenses projected for 2010 substantially exceed LDWC expenditures for those categories previous years. Although every effort has been made to identify operating expenses a \$30,000 contingency has been included to cover unforeseen costs.