



Albuquerque Bernalillo County Water Authority

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FY/14 3rd Quarter Operating Financial Reports

Submitted to the Board for review and informational purposes are the financial reports for the quarter ended March 31, 2014. These reports provide a year to date comparison between the approved FY/13 budget and actual expenditures through March 31, 2014. These reports also include revenue and expenditure projections to June 30, 2014. The projections are based on actual, trend and historical information. As with any estimates, this information is subject to adjustment.

Fund 21 General Operating Fund

Revenues:

Third quarter revenues are about \$1.6 million above the same period in FY/13. This revenue increase includes decreased revenue from water sales of \$0.9 million, San Juan Chama Strategy implementation \$.5 million, increases Sewer revenue \$2.1 million and other miscellaneous revenues of approx. \$0.9 million. The FY/14 revenues are down from the FY/13 revenues for the same time period due to decreased water usage as a result of a 12% reduction in consumption as compared to the same 9-month period of FY/13. The reduction is offset by the 5% Rate Revenue increase implemented at July 1, 2013. Factors affecting the reduction are increased precipitation in the months of July and September as compared to the same period of FY/13 and normal precipitation for that same period. In addition, the increase in rates that went into effect on July 1 along with the 200% water use block level in the rate structure has had an impact on customer's usage patterns. Projected revenues are off by approximately \$8.7 million for the first 9 months of FY/14 and are in line to be below the approved budget for FY/14. Revenue projections to June 30, 2014 have been adjusted from the approved budget on the 3rd quarter report. Approved budget revenues amounts were derived with the expectation of very limited growth in the service area for the next several years coupled with continued 2% reductions in consumption due to the very effective conservation efforts of the Water Authority.

Expenditures:

Third quarter total expenditures are \$3.1 million above the same period in FY/13. This increase is mainly in the Interfund Transfers \$6 million and General Government \$4.7 million. The increase in the General Government is due to the large Risk Insurance Premiums the Water Authority paid as it transferred its Risk Program away from the City of Albuquerque. It is anticipated that the Water Authority will be under budget in the expenditures at the end of the fiscal year. These two increases were offset by decreases in other operating categories. In FY/14, in conjunction with the move to a new ERP system, the Water Authority added a General Government division to the chart of accounts structure to move Water Authority-wide appropriations out of individual departments. This division is comprised of the following departments, appropriations for Utilities, Electricity, and Natural Gas. Additional appropriations for Workers Compensation, Tort and Risk, Franchise Fees, Water Conservation Fees, Admin Fees to the City of Albuquerque, and Interfund Transfers. These appropriations had, in previous years been tracked in individual departments or divisions. At this time due to the revenue shortfall, the Water Authority will continue postponing the transfer from Operating to CIP. This will generate savings of approximately \$8 million for FY/14. The projected expenditure at June 30, 2014, is estimated to be \$4.3 million under the approved appropriation. Including the savings that will be derived by the reduction of the CIP transfer, it is estimated the projected expenditures at June 30, 2014 will be \$12.3 million under approved appropriation.

Working capital or fund balance is projected to be \$1.4 million, compared to a beginning balance in 2014 of (\$14.9) million which includes the life insurance liability that was booked in FY13 per GASB 45. The fund balance trend has reversed as planned and will eventually meet the target of 1/12.

FISCAL IMPACT:

Due to the reduction in revenue, the transfer to CIP in the amount of \$8 million has been postponed. It is clear that reduced consumption has caused revenues to decline. If this trend continues, a combination of reducing operating expenses and increasing fixed portion of the rate structure will need to be evaluated. \$4.3 million in anticipation of this trend have already reduced operating expenses. Use of the rate reserve fund will be evaluated prior to any consideration of rate adjustments.

The reduction in consumption is a positive result for conservation goals, however, the costs of maintaining the utility are primarily fixed in nature and the revenue requirements for operating, and debt service payments, reserves, and debt service coverage are not variable. It appears at this point that an adjustment to the fixed charges will be necessary to continue upgrading infrastructure as planned. A rate consultant is currently evaluating this situation and has made a presentation to the Customer Advisory Committee to make a recommendation for FY15.