

WaterOne
2009 Proposed Budget
BUDGET HIGHLIGHTS

OVERVIEW

WaterOne's 2009 fiscal projections are reflective of the challenging current economic environment. Consistent with the ongoing housing slump, the 2009 budget recognizes the decline in new customers that began in 2006 and continues through 2008. This loss of new customers results in a 0.4% higher rate increase than previously projected. Further stretching the revenue economic envelope was the 2008 cool, wet summer which caused projects and activities budgeted in 2008 to be delayed until 2009 and beyond because of revenue shortfalls. The planned overall rate increase of 4.8% requested for 2009 is \$1.73 per month for the typical residential customer. Also reflected in this increase per month is a 2008 Cost of Service recommendation that enhances future revenue stability by appropriately reassigning costs from volume to service charges.

With the exception of the unavoidable aforementioned new customer decline, the 2009 Budget is on schedule with the rate projections originally forecast in 2005, when WaterOne began smoothing rates in preparation for the 2007 bond issue. 2009 is the fifth year of a six year plan designed to optimally fund Phase V without harsh rate spikes in any given year.

Staff has strived to insure that all other cost components of the projected 2009 budget remain consistent with the prior projections. Despite these challenging conditions the overall goal is still to supply WaterOne's customers with superior service and value at an affordable price. Projects and activities originally requested or planned for 2009 and beyond have been trimmed back, redesigned or reprioritized.

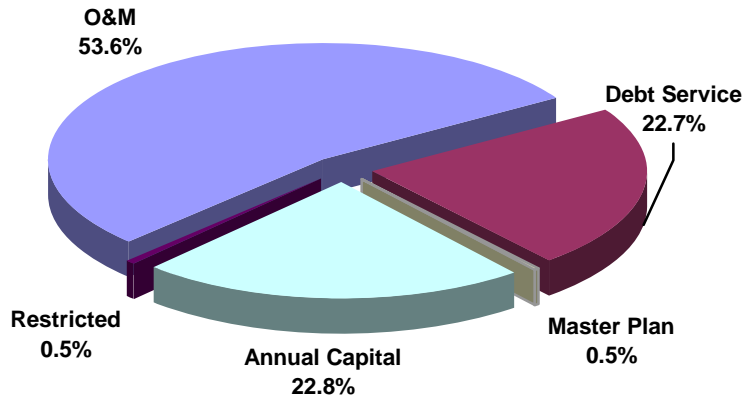
Power and chemical costs are budgeted with an increase to match additional gallons and an increase for price adjustments mid 2009. Some increased costs for items such as fuel are necessary but are offset with small, carefully planned reductions in other areas. Capital projects have been re-evaluated as to necessity, timing and funding sources.

Even though some belt-tightening activities are necessary, WaterOne remains in very stable financial condition, able to meet unforeseen circumstances with little disruption. WaterOne's continuous forward operational and financial planning results in rates designed to be conservative and fiscally prudent yet elastic enough to absorb unforeseen changes.

WaterOne is pleased to present to its rate payers a balanced budget that is consistent with previous plans, incorporates the unexpected, and yet does not sacrifice quality of product or service delivery.

2009 REVENUE REQUIREMENTS - \$86.4M

Revenue requirements for 2009 have been kept under modeled levels for a total increase of \$2.3M or 2.7%. As previously mentioned when unforeseen challenges or opportunities occurred close scrutiny was given to making them fit within the overall expenditure scheme and previously projected rate increase.



The 2009 revenue requirements increased \$2.3M (2.7%) over 2008.

(in millions)

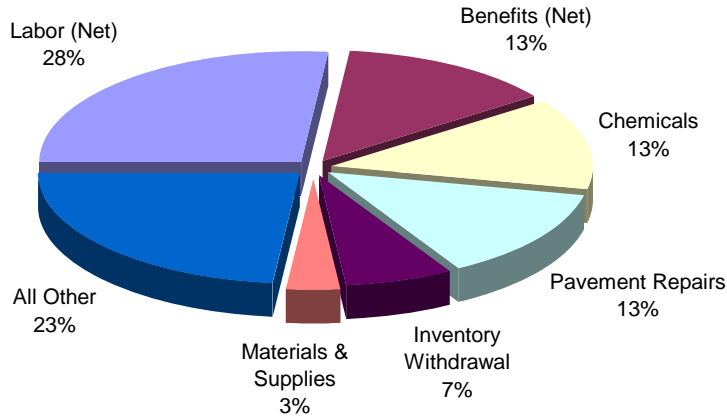
Revenue Requirement	2009 Budget	2008 Budget	\$ Inc (Dec)	% Inc (Dec) over 2008
O&M	\$46.4	\$43.3	\$3.1	7.2%
Debt Service	19.6	20.3	(0.8)	(3.7%)
Annual Capital	19.7	17.5	2.2	12.3%
Restricted	0.4	2.7	(2.3)	(85.9%)
Master Plan	0.4	0.3	0.1	36.7%
Total	\$86.4	\$84.1	\$2.3	2.7%

numbers may not add due to rounding

OPERATIONS & MAINTENANCE (O&M) EXPENSES – \$46.4M

O&M expenses are 54% of the annual revenue requirements budget. The 2009 O&M increases totaling \$3.1M (7.2%) are \$18,023 (0.04%) less than projected in 2007 for 2009 because of the challenges previously mentioned. Below are the O&M increase highlights for 2009.

**2009 O&M Primary Drivers
 As a % of the \$3.1M Increase**



(in millions)

	2009 Budget	2008 Budget	\$ Inc (Dec)	% of Inc(Dec) over 2008
Labor (Net)	\$17.6	\$16.8	\$0.8	5.0%
Benefits (Net)	8.2	7.8	0.4	5.6%
Chemicals	4.9	4.5	0.4	7.9%
Pavement Repairs	0.9	0.5	0.4	71.1%
Inventory Withdrawal	1.3	1.1	0.2	21.8%
Materials & Supplies	0.9	0.8	0.1	19.8%
All Other	12.6	11.9	0.7	6.1%
Total	\$46.4	\$43.3	\$3.1	7.2%

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Labor

Net Labor includes the impact of 2008 partial year personnel adjustments, average merit and range adjustment increases totaling 3.5%, new 2009 personnel requests, overtime and transfers to capital. In 2008, the forecast for 2009 included fifteen new full-time equivalent positions. These requests were analyzed carefully and reviewed so that only those positions considered absolutely necessary in 2009 would be included in this year's submission. Other requests while important have been reconsidered and either deleted or realigned with estimated workloads in future years. The 2009 Budget includes seven full time (FT) positions. Two new positions are related to bringing the new treatment plant on line in 2009. All of the positions are associated with the dual goals of accommodating new

customers and replacing and maintaining aging infrastructure. Requested 2009 new personnel are as follows:

Additional Personnel

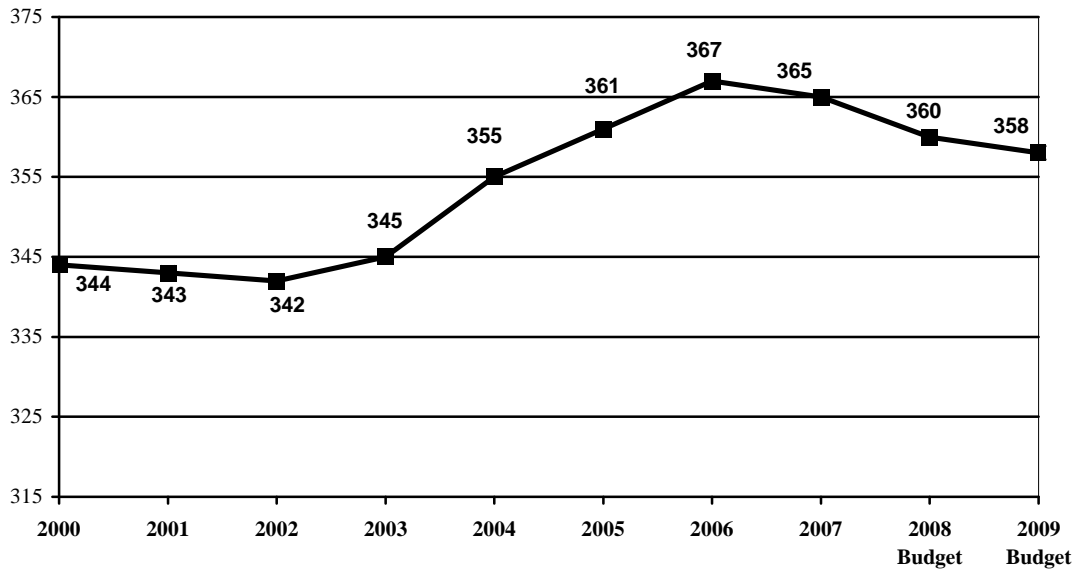
Positions	Title	Department	Justification
1 FT	Emergency II -Stand By	Construction & Maintenance	Safety; Customer Service
1 FT	Utility II –TM main/valve	Construction & Maintenance	Infrastructure Replacement
1 FT	Heavy Equip. Op –TM main/valve	Construction & Maintenance	Infrastructure Replacement
1 FT	Drafter	Distribution Engineering	Infrastructure Replacement
1 FT	Engineering Tech	Facilities Engineering	Infrastructure Cons & Repl.
1 FT	Plant Mechanic	Facilities Maintenance	New Plant; Infrastruct. Maint.
1 FT	Instrument Tech	Facilities Maintenance	New Plant; Infrastruct. Maint.

7 New Positions

The economic downturn in the housing market that caused WaterOne to adjust its 2008 growth estimates from 2600 to 2000 is still occurring. The 2009 estimates are again revised downward for an estimated growth of 1400 customers.

The following chart tracks customers served per employee and is used as a broad measure to check the balance of the number of customers to the number of personnel.

Average Customers Served Per Employee



Benefits

The increase in net benefits is composed principally of health insurance, defined benefit contributions and workers' compensation insurance. Through our wellness program and other efforts, staff has worked diligently to hold down rising health insurance costs. With aggressive negotiations and minor plan design changes, WaterOne has been able to keep

BUDGET HIGHLIGHTS

premium increases to a minimum. A portion of the increase is attributed to providing coverage for seven new full-time employees. Pension costs reflect increases in payroll, participation, and amortized gains and losses. Workers compensation is budgeted based on the broker's estimated premium renewal amount. The estimate includes an anticipated increase in the base payroll budget and the Experience Modification Factor (EMF).

Chemicals

Chemical costs, a major component of water production, increased 7.9% in 2009. A portion of the increase is related to additional customers, but the majority of the increase reflects an expected increase in chemical market pricing driven primarily by transportation and raw material costs.

Pavement Repairs

Pavement repair consists of the restoration of pavement, curbs, and sidewalks damaged because of transmission and distribution construction repairs. The budget is based on historical analysis which includes a trended number of main breaks and a trended cost per break. The number of breaks continues to increase as the distribution system ages. Also, the cost per break continues to increase significantly, driven by the price of asphalt which is a petroleum based product. Asphalt prices are at historically high levels.

Inventory Withdrawals

Inventory consists of materials used in maintenance of the system which are maintained in stock. The increase in the 2009 budget is primarily related to the increase in fuel costs from a budgeted \$2.80/gallon in 2008 to a budget \$4.00/gallon.

Materials and Supplies

A majority of the increase in materials and supplies is a shift of costs for fleet repair materials that have been reallocated from a vehicle repairs settlement account. The remaining increase is related various construction and maintenance costs, predominantly for distribution mains, caused by an increased number of leaks and by price inflation. Also reflected is the inclusion of lubricants previously handled through inventory, but no longer warehoused therefore shifting out of the inventory account.

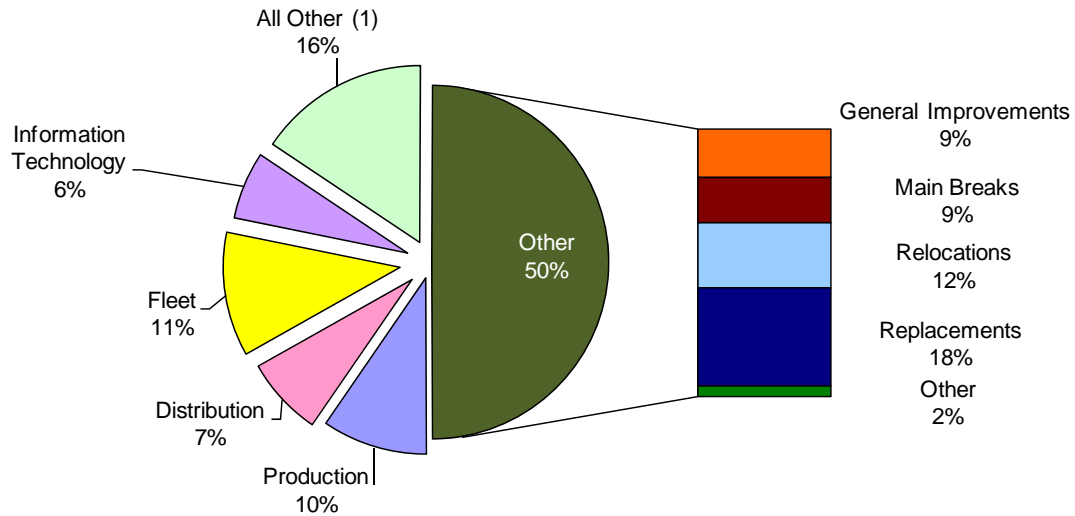
DEBT SERVICE - \$19.6M

2009 reflects a slight decrease in debt service due to the structuring of debt service for manageable rate increases.

ANNUAL CAPITAL - \$19.7M

The total Annual Capital Budget for 2009 is \$19.7M. It is segregated into two components. The Transmission & Distribution (T&D) component of the Annual Capital budget increased approximately \$980,000 in 2009 to \$9.8M. Included under T&D are capitalized main breaks, relocations, replacements, and general improvements. The majority of the increase is to continue the systematic replacement of aging infrastructure. The \$9.9M balance in Annual Capital is for Regular Annual Capital to replace obsolete or worn-out capital equipment, purchase new equipment and technology, and fund various capital enhancement projects. Regular Annual Capital increased \$1.2M in 2009. Approximately \$1.7M of Regular Annual Capital is for new purchases, \$5.3M is for replacements and \$2.5M is held for 2008 delayed projects due to weather-related revenue shortfall in 2008.

Percent of Total Budget by Function



The 2009 annual capital increased \$2.2 or 12.3% over 2008.

(In millions)

	2009 Budget	2008 Budget	\$ Inc (Dec)	% of Change Inc(Dec)
Transmission & Distribution	\$9.8	\$8.8	\$1.0	11.1%
Production	1.9	4.1	(2.2)	(54.0%)
Distribution	1.4	1.7	(0.3)	(18.4%)
Fleet	2.2	1.1	1.1	106.1%
Information Technology	1.2	1.1	0.1	8.5%
All Other (1)	3.1	0.6	2.5	405.0%
Total	\$19.7	\$17.5	\$2.2	12.3%

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- 1) "All Other" consists of all remaining Divisions, District Facilities, Funding to Benefit Area Refunds, Omissions & Contingencies and \$2.5M being held open for 2008 delayed projects.

BUDGET HIGHLIGHTS**RESTRICTED – \$0.4**

The Restricted category consists of Master Plan investment income and required funding to certain reserves specified by the bond covenants. Changes from year to year in Master Plan investment income are tied directly to investment income on SDC funds and Bond funds. Both SDC funds and Bond construction funds retain the interest they earn so these monies are not available for general operating expenditures. The reduction in restricted investment income is due to the spend down of bond funds as construction on the new plant progresses. Also included is an annual increase for funding section 703 of the Bond Resolution which is restricted by covenant.

MASTER PLAN – \$0.4

The designated reserve for Master Plan funding recognizes that existing customers benefit from some of the projects in Master Plan.

2009 PROJECTED REVENUES – \$86.9M**Comparison of Revenues**

Revenue Type	(in millions)			
	2009 Budget	2008 Budget	\$ Inc (Dec)	% Inc (Dec)
Water Sales	\$84.2	\$78.7	\$5.6	7.1%
Misc. Revenues	1.3	1.0	0.3	29.9%
Investment Income	1.4	4.9	(3.5)	(71.2%)
Total	\$86.9	\$84.6	\$2.3	2.7%

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2009 revenues are projected to increase 2.7% over 2008 revenues. The increase is primarily attributable to:

- Additional revenues from the projected 4.8% rate increase are projected to be \$3.9M.
- Customer growth of 1,400 new customers adds \$1.1M and an adjustment for prior year's customer growth adds \$0.6M.
- Overall investment income decreases in 2009 primarily because of the decrease in bond funds available after the spend down of the construction funds and the projected rate of return on investments being decreased from 3.75% in 2008 to 2.0% in 2009 to reflect recent downturns in the economy.

IN CONCLUSION

Despite downturns in customer growth and continued inflationary pressures WaterOne's economic environment continues to be strong. Conservative planning has provided the flexibility necessary to maintain stability. Even with the tough choices that are necessary to face the current fiscal challenges, WaterOne's Board and staff remain committed to fulfilling our vision of *Setting the Standard for Utility Excellence*.

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