



John Keel, CPA
State Auditor

A Review of
**Bexar Metropolitan Water District's
Projected Financial Data for
Fiscal Years 2009 and 2010**

March 9, 2009

The Honorable Carlos I. Uresti
Co-chair of the Joint Committee on Oversight of the Bexar Metropolitan Water District
and
The Honorable Frank J. Corte, Jr.
Co-chair of the Joint Committee on Oversight of the Bexar Metropolitan Water District:

The Joint Committee on Oversight of the Bexar Metropolitan Water District (Committee) in its interim report to the 81st Legislature requested that the State Auditor's Office review and comment on the Bexar Metropolitan Water District's (District) current financial assessment and forecasted 18-month financials (financials).

The State Auditor's Office could not verify or substantiate the validity of the District's forecasted financial statements taken in their entirety.

The District used flawed methodologies for estimating water sales and impact fee revenue, and it lacked adequate documentation supporting the methodologies it used to prepare its estimates. The District provided the Committee with its financials on January 9, 2009 (see the attachment to this letter for a summary of the District's projected revenue and expenditures).

Additionally, the financial information the District provided did not include the District's plans for long-term capital improvements. These planned capital improvements would significantly affect the District's long-term debt and debt-related payments.

However, according to its unaudited monthly financial statements, the District increased its cash reserves by more than \$4 million, or 91 percent, from May 2008 to December 2008. These increased cash reserves provide the District with an emergency fund.

The District used flawed methodologies for estimating water sales and impact fee revenue for fiscal year 2010. Specifically:

- The District based its water sales projection for fiscal year 2010 on an incorrect formula. In addition, the District relied on an estimate for its April 2009 water sales, but it could not provide auditors with any supporting information for that estimate.
- The District charges developers an impact fee to help fund its cost to develop infrastructure. While the District revised its projected impact fee revenue downward for the second half of fiscal year 2009, it used the original fiscal year 2009 budgeted amounts to calculate revenue projections for fiscal year 2010. As a result, the fiscal year 2010 projections do not account for a decreasing construction market.

SAO Report No. 09-020

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The District lacked adequate documentation in supporting the methodologies it used to prepare its estimates. The District provided auditors with multiple methodologies to support its projections for several line items—such as insurance benefits, water purchase and treatment, and maintenance—in its 2010 forecasted financial statements. Auditors could not replicate the projected amounts using any of the methodologies provided. For example, District personnel provided auditors with three separate methodologies that they said they used to calculate projected maintenance expenditures. As a result, auditors could not determine whether the projections for fiscal year 2010 were reasonable.

The District's financials did not include its plans for long-term capital improvements. Because the District funds its capital projects through long-term debt, auditors requested information about the District's plans for capital projects for the District's fiscal year 2010. But, as of February 11, 2009, the District had not finalized its capital improvement plan. Information regarding the District's ongoing and planned capital projects is critical for gaining an understanding of the District's likely long-term debt and debt-related payments.

Overview of the District's Fiscal Year 2009 Actual and Projected Revenue and Expenditures

The District's revenue and expenditures provided to the Committee for its fiscal year 2009, included six months of actual revenue and expenditures and six months of estimated revenue and expenditures (see the attachment to this letter for details).¹ For fiscal year 2009, the District reported that it:

- Earned \$40,594,277 in actual operating revenue and non-operating revenue. It estimated it would receive an additional \$34,514,831, for a total of \$75,109,108 in operating and non-operating revenue.
- Made \$30,883,540 in actual operating and non-operating expenditures. It estimated it would make \$32,677,052 in additional expenditures for a total of \$63,560,592 in operating and non-operating expenditures. (This total does not include \$8,820,157 in actual and estimated depreciation).

The total estimated expenditures included \$10,686,794 in payments for bond and commercial paper interest, issuance costs, and fees, which represented 16.8 percent of total estimated expenditures.

The District's projection for water sales revenue for its fiscal year 2009 was \$64,863,037, which represented almost 90 percent of the District's total operating revenue. This was a projected 36.8 percent increase from the District's fiscal year 2008 water sales revenue. According to District management, this additional revenue is primarily due to a 14 percent increase in water rates that the District implemented in July 2008. According to information the District provided, it collected \$49,443,011 in water sales revenue from May 2008 through January 2009, which represented 76.23 percent of the total projected water sale revenue for fiscal year 2009.

According to District management, additional revenue from water sales allowed the District to increase its cash reserve account. As of April 30, 2008, the District had a cash reserve balance of \$5,057,587. As of December 31, 2008, that balance had increased to \$9,682,007.

¹ Auditors did not audit the accuracy of the reported revenue and expenditure amounts.

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Additionally, the District projected that its impact fee revenue would increase from \$2,596,880 in fiscal year 2009 to \$5,604,000 in fiscal year 2010. These projections were based in part on a planned increase in the amount that the District charges for impact fees. The District expects these fee increases to become effective in July 2009. However, as of February 10, 2009, the planned increase had not been approved by the District's Board of Directors.

If you have any questions, please contact Angelica Martinez, Audit Manager, or me at (512) 936-9500.

Sincerely,

John Keel, CPA
State Auditor

Attachment

cc: Mr. Don Durden, Member of the Joint Committee on Oversight of the Bexar Metropolitan Water District
Members of the Legislative Audit Committee
The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Joe Straus III, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas "Tommy" Williams, Member, Texas Senate
The Honorable Jim Pitts, House Appropriations Committee
The Honorable Rene Oliveira, House Ways and Means Committee
The Honorable Rick Perry, Governor
Members of the Bexar Metropolitan Water District Board of Directors
Ms. Guadalupe I. Lopez, President
Ms. Debra Eaton, Vice President
Ms. Blanche Atkinson, Secretary
Mr. John Shackelford, Treasurer
Mr. Andy Carr, Director
Ms. Lesley Wenger, Director
Ms. Vanessa Ybarra, Director
Mr. Jesse Morin, Interim General Manager, Bexar Metropolitan Water District



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Attachment

Summary of the Bexar Metropolitan Water District's Actual and Projected Revenue and Expenditures for Fiscal Years 2009 and 2010

Table 1 summarizes the Bexar Metropolitan Water District's actual and estimated revenue and expenditures for fiscal year 2009 (May 1, 2008, to April 30, 2009) and projected revenue and expenditures for fiscal year 2010 (May 1, 2009, through April 30, 2010).

Table 1

Summary of the Bexar Metropolitan Water District's Actual and Projected Revenue and Expenditures Fiscal Years 2009 and 2010				
Category	Fiscal Year 2009 Actuals (May 2008 - October 2008)	Fiscal Year 2009 Estimates (November 2008 - April 2009)	Total Projected Fiscal Year 2009 ^a	Projected Fiscal Year 2010
Operating Revenue				
Water Sales	\$ 34,973,823	\$ 29,889,214	\$ 64,863,037	\$ 64,334,739
Impact and Development Fees	1,671,880	925,000	2,596,880	5,604,000
Other Operating Revenue	2,546,817	2,259,935	4,806,752	5,001,553
Total Operating Revenue	\$ 39,192,520	\$ 33,074,149	\$72,266,669	\$74,940,292
Operating Expenditures				
Production Expenditures	\$ 18,440,019	\$ 19,428,202	\$ 37,868,220	\$ 40,177,853
Administrative Expenditures	7,392,096	7,613,480	15,005,577	15,477,463
Depreciation	4,375,473	4,444,684	8,820,157	9,000,000
Total Operating Expenditures	\$ 30,207,588	\$ 31,486,366	\$61,693,953	\$64,655,316
Net Operating Income	\$ 8,984,932	\$ 1,587,783	\$10,572,716	\$10,284,976
Non-operating Revenue	\$ 1,401,757	\$ 1,440,682	\$ 2,842,439	\$ 2,807,840
Non-operating Expenditures	\$ 5,051,424	\$ 5,635,370	\$ 10,686,794	\$ 13,107,700
Increase in Net Assets	\$ 5,335,265	\$(2,606,905)	\$ 2,728,360	\$ (14,884)
^a Totals may not sum exactly due to rounding.				

Source: Unaudited 18-month financial projections provided by the Bexar Metropolitan Water District.

Objective, Scope, and Methodology

The objective was to review the Bexar Metropolitan Water District's (District) forecasted 18-month financials it provided to the Joint Committee on Oversight of the Bexar Metropolitan Water District to determine whether the projections were reasonable.

This project was a review; therefore, the information in this report was not subjected to all the tests and confirmations that would be performed in an audit. However, the information in this report was subject to certain quality control procedures to help ensure accuracy.

The scope of the review was limited to the District's forecasted 18-month financials, which consisted of projected revenue and projected expenditures for the District's fiscal years ending April 30, 2009 (projections for 6 months only) and April 30, 2010. Auditors used self-reported information provided by the District.

The methodology included (1) comparing the District's projected revenue and expenditures to its fiscal year 2008 audited financial statements and (2) reviewing the methodologies that the District used to calculate the projections.

The following members of the State Auditor's Office performed this review:

- Audrey O'Neill, CGAP (Project Manager)
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- Angelica Martinez, CPA (Audit Manager)