

2008 was an unprecedented year in the SNWA's financial history. The weakened global economy was felt at home, impacting Southern Nevada's economy and consequently, SNWA's revenue streams.

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PICTURE



The SNWA experienced unprecedented revenue shortfalls in 2008 due to a combination of declining water use, housing foreclosures and the abandonment of several commercial construction projects that required the rebate of millions of dollars in connection charges.

To continue to ensure its fiscal stability, the Water Authority deferred millions of dollars in major construction projects, with the exception of Lake Mead's critical third intake. The new intake will allow the SNWA to continue drawing cooler water even if persistent drought conditions cause Lake Mead's level to drop below the upper intake.

The SNWA has a financial reserve fund of \$480 million, which allows the SNWA to sell bonds through the Las Vegas Valley Water District and the State and County Bond Banks to finance capital improvement projects such as the third intake at Lake Mead.

The SNWA operates from three primary sub funds:

- Wholesale Delivery Operations, which is funded by wholesale delivery charges paid by retail purveyor members of the Water Authority;
- New Expansion Debt Service, which is funded primarily by connection charges, usage fees and sales taxes; and
- Capital Improvements Construction, which is funded almost entirely by tax-exempt municipal bonds the SNWA has sold.

Sub funds for the SNWA's Groundwater Management Program and for the Las Vegas Wash are also operated, but their activity is minimal.

By state statute, the SNWA operates as a single proprietary fund. Costs of providing goods and services to customers are recovered through user charges.

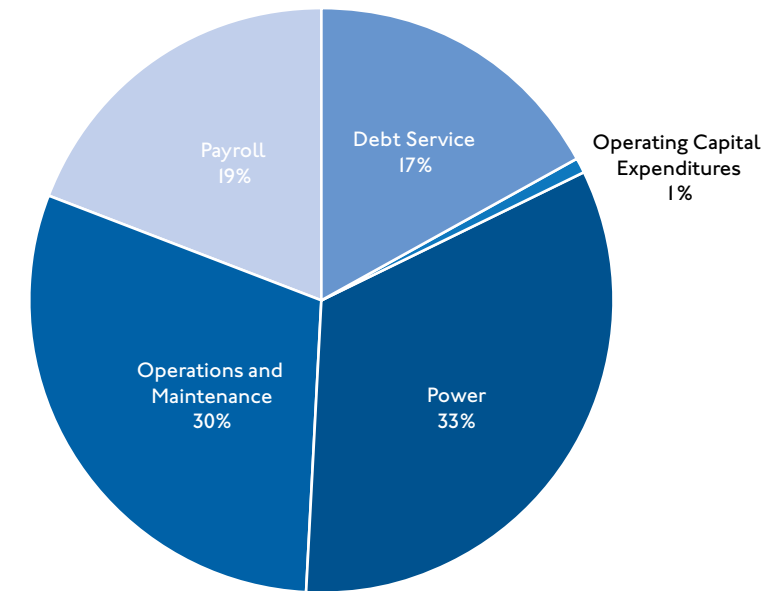
In the last Fiscal Year, the SNWA provided 19,900 acre-feet less water to its purveyor members than the previous year. A portion of the reduction was attributable to planned, aggressive conservation efforts; however, the economic downturn resulted in unforeseen revenue losses. Decreased water demand is predicted to result in a revenue shortfall of more than \$8 million between Fiscal Years 2007 and 2009. To help mitigate these impacts, the SNWA deferred most construction projects and restructured the Water Smart Landscapes program in November 2008. Under the revised program, the SNWA rebates \$1.50 per square foot for the first 5,000 square feet converted and \$1 per square foot for the remainder. Properties are limited to \$300,000 in rebates per fiscal year. Previously, participants received \$1.50 per square foot without limitation. The program revision produced \$4 million in savings for Fiscal Year 2008, while still supporting nearly 25 million square feet of conversions.

Additionally, SNWA reduced its energy expenditures in 2008 through securing lower power prices in prior years and decreasing power requirements due to lower water use. Electric power costs represented 33 percent of operational expenses in 2008, down 6 percent from 2007. The SNWA is one of the largest power users in Southern Nevada and requires power to treat and deliver water to retail purveyors. The SNWA has managed to avoid the impacts of higher energy costs by managing its own power supplies in a cooperative effort with the Colorado River Commission, resulting in an estimated savings of \$35.6 million over the last two years. Mitigating the financial effects of rising power rates will continue to be a primary focus for the SNWA.

The following financial information is based on the Fiscal Year ended June 30, 2008, and represents an overview of the SNWA's individual operating programs, funds, revenues and expenditures.

Wholesale Delivery Operations Expenditures

Fiscal Year ended June 30, 2008



Wholesale Delivery Operations

The Wholesale Delivery Operations sub fund had a balance of \$12.3 million as of June 30, 2008. The Wholesale Delivery Charge is designed to cover the costs of administration and delivery of water through the Southern Nevada Water System. For the fiscal year ended June 30, 2008, the Wholesale Delivery Charge was \$257 per acre-foot of treated Colorado River water delivered to purveyor members of the SNWA. Purveyor members then sell the water to retail customers. The SNWA has no retail customers of its own. Nellis Air Force Base pays a modified Wholesale Delivery Charge, and Boulder City pays a Raw Water Wholesale Delivery Charge.

New Expansion Debt Service

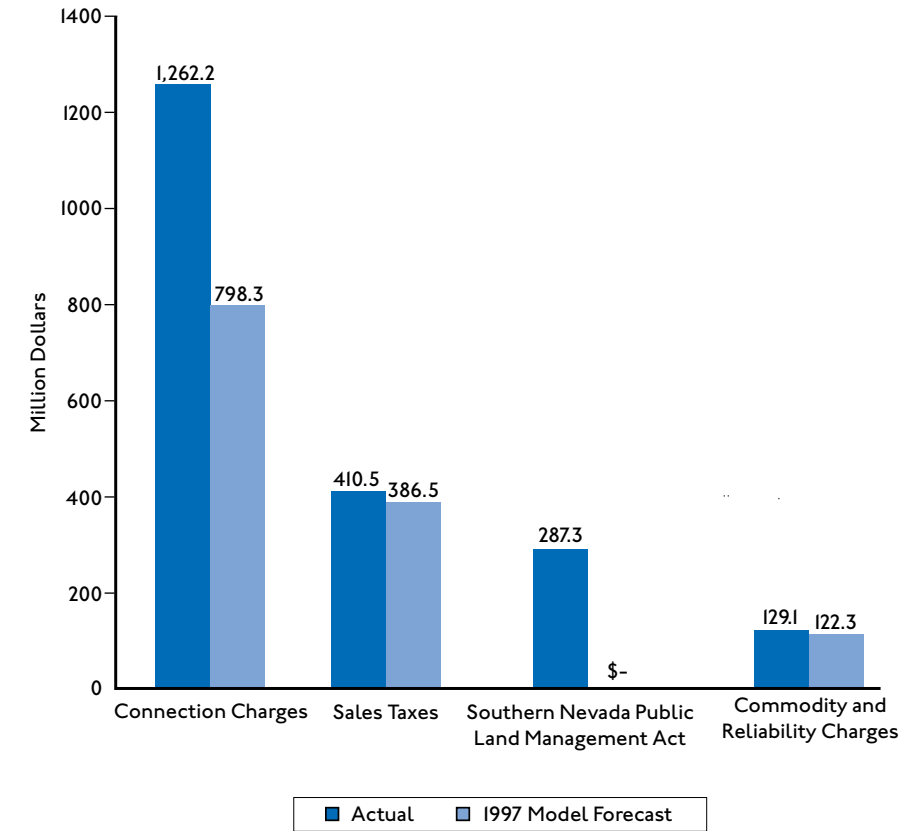
The New Expansion Debt Service sub fund had a balance of \$402.3 million as of June 30, 2008. This balance is needed to provide a prudent debt service coverage ratio, and is consistent with projections of the Capital Improvements Funding Program, which determines how the costs of the SNWA Capital Improvements Plan (CIP) will be funded. Most of the construction costs will be provided by funds from the sale of tax-exempt municipal bonds. The money to make debt service payments on those bonds will continue for years after the last connection to the new system is sold; the balance in this fund is projected to continue to grow for years, and then will begin to decline to a zero balance.

This graph shows the major revenue sources in the New Expansion Debt Service Fund through December 2008. The major revenue source in this fund is the regional connection charge. This charge on every new connection to the system is collected by the SNWA's purveyor members and remitted monthly. By the close of 2008, new connection revenue decreased by more than \$59 million since 2007, and by more than \$126 million since 2006. Regional connections in 2009 are predicted to decrease an additional \$43 million.

The second major revenue source in this fund is sales tax. This is the one-quarter of 1 percent that was added to the existing sales tax rate in Clark County in April 1999. This revenue is collected by the state Department of Taxation and remitted to the SNWA monthly on a two-month lag. The SNWA shares this revenue with wastewater agencies, rural water and wastewater systems and the Las Vegas Wash. Sales tax collections will conclude in June 2025, or when \$2.3 billion has been collected, whichever occurs first. The SNWA has received approximately \$652 million through June 30, 2008, retaining approximately \$410 million, with the balance allocated to the Las Vegas Wash, rural systems and wastewater purveyors.

New Expansion Revenues

Cumulative through June 2008
Actual vs. 1997 Model Forecast



One revenue source that is challenging to forecast is the SNWA's share of revenues from the Southern Nevada Public Land Management Act (SNPLMA), a federal law passed in 1997. The SNPLMA calls for the SNWA to receive an amount equal to 10 percent of the purchase price of certain public land sales in the Las Vegas Valley, with proceeds restricted to paying debt service of construction costs of the SNWA's Capital Improvements Plan.

SNWA revenues from the SNPLMA are based solely on the availability and sale price of public lands in the valley. Since the act was finalized after the 1997 model forecast was prepared, that forecast contained no projection of revenue from this source. The \$287.3 million in SNPLMA revenue received to date makes it the third-largest New Expansion revenue source. However, its prominence as a revenue source is expected to decrease substantially in future years.

The primary outflow of this fund is debt service payments on bonds sold to fund the Capital Improvements Program. Also, according to the Capital Improvements Funding Plan, the fund also pays some construction expenses directly (pay-as-you-go), which eliminates the cost of borrowing (interest).

A fourth revenue source is a combined rate-based commodity charge and reliability surcharge. Southern Nevada residents who are connected to a municipal water system pay the commodity charge monthly. Funds raised from this charge are used to improve water quality and enhance the reliability of the water system. The Water Authority commodity charge is 10 cents per 1,000 gallons of water used and is applied to all customers. This accounts for about 10 percent of Capital Improvements Program (CIP) funding.

The reliability surcharge is based on the need of every customer to have water when they turn on their tap. The reliability surcharge is based on the concept that customers have varying levels of critical need for water and should pay accordingly. The

surcharge shifts some of the financial burden of costs associated with reliability from residential customers to all other customers. The rate, which is applied against the total water bill with a few line item exceptions, has been set at 0.25 percent for residential customers and at 2.5 percent for all other customers. The reliability surcharge provides about 5 percent of CIP funding.

Capital Improvements Construction

The Capital Improvements Construction sub fund ended Fiscal Year 2008 with a balance of zero as of June 30, 2008. The sub fund opened Fiscal Year 2008 with a balance of \$291 million. This fund receives bond proceeds and pays construction expenses with those proceeds. When bond funds are depleted, the cash balance in the New Expansion Debt Service sub fund is used until additional bonds can be sold. At that time the New Expansion Debt Service sub fund is reimbursed for its capital expenditures and the remaining bond funds stay in the Capital Improvements Construction sub fund to pay for future capital expenses. The SNWA sold additional bonds in November 2006. The Capital Improvements Construction sub fund is almost always "over-committed but under-expended," meaning construction contract commitments generally exceed the amount of bond proceeds on hand. This fund has earned an estimated \$6 million in tax-exempt arbitrage interest by complying with federal requirements for exemption. These interest earnings have reduced the overall costs associated with the Capital Improvements Construction sub fund. Debt-management strategies are expected to save an additional \$370 million over the life of the projects.

Groundwater Program

The Groundwater Program sub fund had a balance of \$4 million as of June 30, 2008. As authorized by state law, the SNWA assesses an annual fee of \$30 per acre-foot of permitted groundwater rights, or \$30 per domestic well. Proceeds from this fee are used to manage the aquifer, fund permanent recharge of the aquifer and, when needed, fund well abandonment and conversion to municipal water systems. Much of the ending balance will be spent on artificial recharge and well conversions in future fiscal years.

Las Vegas Wash

The Las Vegas Wash sub fund had a balance of \$1.2 million as of June 30, 2008. The SNWA invests in programs and research to find solutions to critical environmental issues surrounding the Las Vegas Wash, the natural channel that returns runoff from the Las Vegas Valley to Lake Mead. To assist in this, the SNWA organized the Las Vegas Wash Coordination Committee, which comprises stakeholders in the Las Vegas Wash. Operating costs are funded by assessments of member agencies. In addition, the Las Vegas Wash receives 4 percent of sales-tax proceeds received by the SNWA. These proceeds have been used to fund capital improvements in the Wash, such as the construction of weirs to stabilize and protect wash banks. However, a funding formula is in place for stakeholders in the Las Vegas Wash to reimburse the SNWA for operations of the committee. Grants also represent a significant revenue source for activity related to the Wash.

The following table provides a ledger view of sources and uses of funds within the individual sub funds discussed in this financial overview for the Fiscal Year ending June 30, 2008. The first half of the ledger represents sources of funds received during the Fiscal Year; the bottom half represents expenditures of those funds. Dollar amounts in each row are added across for a total. The numbers shown in the beginning and ending balance rows are balances in these funds before and after this year's sources and uses of funds. Dollar amounts are presented in millions.

Sources and Uses of Funds Summary

Fiscal Year Ended June 30, 2008
(In millions of dollars)

	Wholesale Delivery Operations	New Expansion Debt Service	Capital Improvements Construction	Groundwater Program	Las Vegas Wash	Total
Beginning Balance (July 1, 2007)	17.9	506.3	290.7	3.3	0.2	818.4
Sources of Funds						
Operating Revenues	118.8			2.0	1.2	122.0
Other Revenues	1.3	0.1			9.3	10.7
New Expansion Revenues		135.0			3.5	138.5
Intra Fund Loans	(18.3)	(5.0)	25.2		(1.9)	(0.0)
Interest Income	0.6	24.9	6.2	0.2	-	31.9
Total Sources of Funds	102.4	155.0	31.4	2.2	12.1	303.1
Uses of Funds						
Power Costs	(35.2)					(35.2)
Payroll Costs	(32.1)			(0.3)	(0.8)	(33.2)
Operations and Maintenance	(20.8)			(1.2)		(22.0)
Operating Capital Expenditures	(1.5)				(0.7)	(2.2)
Reclassifying Prior Period Expenses					1.4	1.4
Const. & Resource Expenditures		(123.6)	(322.1)		(11.0)	(456.7)
Debt Service	(18.4)	(135.4)				(153.8)
Total Uses of Funds	(108.0)	(259.0)	(322.1)	(1.5)	(11.1)	(701.7)
Fiscal Year Net Change	(5.6)	(104.0)	(290.7)	0.7	1.0	(398.6)
Ending Balance (June 30, 2008)	12.3	402.3	-	4.0	1.2	419.8