

**TFG**  
**THE FOSTER GROUP**

**THE FOSTER GROUP, LLC**  
 12719 WENONGA LANE  
 LEAWOOD, KS 66209

BART FOSTER, PRESIDENT  
 CELL: (913) 530-6240  
[BFOSTER@FOSTERGROUPLLC.COM](mailto:BFOSTER@FOSTERGROUPLLC.COM)

MEMORANDUM

Highland Park Bad Debt Expense Review  
 Executive Summary

December 15, 2021

To: Nicolette Bateson

From: Bart Foster

A brief update on Highland Park bad debt expense, and how it impacts charges to other GLWA Member Partners. More thorough discussion and analysis is documented elsewhere.

- The year-end working papers supporting the FY 2021 audit reveal an “allowance for doubtful accounts” for Highland Park totaling approximately \$49.1 million, and a resulting FY 2021 bad debt expense of approximately \$4.16 million, as summarized below.

Highland Park Bad Debt Amounts

	Allowance for Doubtful Accts		Change (a)
	<u>6/30/20</u>	<u>6/30/21</u>	
Sewer	34,584,627	37,509,475	2,924,848
Sewer Industrial Waste Control (b)	1,710,779	1,758,201	47,422
Water	<u>8,634,075</u>	<u>9,821,920</u>	<u>1,187,845</u>
Total (b)	44,929,481	49,089,596	4,160,115

(a) The change in the allowance is equivalent to the bad debt expense during the fiscal year, unless any accounts receivable were written off during the year.

(b) Estimated - prior balance includes a small amount not related to Highland Park.

The remainder of this document discusses Water and Sewer impacts separately.

*[Remainder of page intentionally left blank]*

**Water**

- Starting with the FY 2017 Water service charges, we began effectively increasing charges to ALL Member Partners (including Detroit) by amounts equivalent to Highland Park’s allocated revenue requirement.
- The FY 2021 Water bad debt expense for Highland Park was \$1.19 million, which was consistent with the amount we included in the FY 2021 charges.
- The proposed FY 2023 Water Charges include the entire revenue requirement allocated to Highland Park as a “bad debt revenue requirement” allocable to **all** Member Partners, including Detroit.

**Sewer**

- As shown in the table below, payment performance improved in FYs 2018 and 2019, but fell off during FY 2020 and 2021, and no payments have been made during FY 2022.

<u>Highland Park Sewer Payment History</u>	<u>Billings</u>	<u>Payments</u>	<u>Net</u>	<u>Balance</u>	<u>Collection Rate</u>
FY 2012				10,207,956	
FY 2013	4,987,635	2,206,211	2,781,424	12,989,380	44%
FY 2014	6,980,442	1,612,633	5,367,809	18,357,189	23%
FY 2015	5,553,123	1,444,623	4,108,500	22,465,689	26%
FY 2016	5,612,167	2,022,335	3,589,832	26,055,521	36%
FY 2017	5,802,000	2,309,186	3,492,814	29,548,335	40%
FY 2018	5,657,101	4,108,108	1,548,993	31,097,328	73%
FY 2019	5,617,100	5,241,583	375,517	31,472,845	93%
FY 2020	5,665,400	3,026,117	2,639,283	34,112,128	53%
FY 2021	5,708,400	2,783,552	2,924,848	37,036,976	49%
FY 2022 (5 months)	2,239,200	0	2,239,200	39,276,176	0%
Cumulative	53,822,568	24,754,348	29,068,220		46%
FY 2013 - FY 2017	28,935,367	9,594,988	19,340,379		33%
FY 2018 - FY 2019	11,274,201	9,349,691	1,924,510		83%
FY 2020 - FY 2022	13,613,000	5,809,669	7,803,331		43%

- Through the end of FY 2019, (via a combination of *prospective* bad debt recovery and bad debt *true up* recovery) Member Partners had been charged approximately \$324,500 ***more than*** the actual bad debt incurred by Highland Park. We’ll refer to that figure as the “**Cumulative Balance**” herein.
- By the end of FY 2020, this figure was close to zero.
- Subsequently, the Board deferred implementation of the FY 2021 Charges, leaving the FY 2020 Charges (and the ~ \$188,000 per month of bad debt related amounts that they contained) in effect for the first six months of FY 2021. As a result, suburban wholesale Member Partners were charged an additional \$1.13 million in bad debt related charges that would not have been collected had the FY 2021 Charges been implemented as originally scheduled.

- We took this information into consideration when designing the FY 2022 Sewer Charges. When we developed the FY 2022 suburban wholesale Sewer charges we did not include any amounts related to Highland Park Sewer bad debt in the charges.
  - *This decision was supported, in part, due to the COVID environment and by a desire to implement the FY 2022 SHARES in a revenue neutral fashion.*
- The FY 2021 Sewer bad debt expense for Highland Park was \$2.92 million. This figure increased the Cumulative Balance to \$1.85 million as of June 30, 2021. This amount is technically due from Suburban Wholesale Member Partners via a surcharge to their allocated FY 2023 revenue requirements.

	HP Bad Debt Collected in Sewer Charges				
	Bad Debt <u>Prospective</u>	Bad Debt <u>True Up</u>	Total Bad Debt <u>Collected</u>	Bad Debt <u>Incurred</u>	Cumulative <u>Balance</u>
pre 2016				17,295,300	17,295,300
2016	5,569,200	0	5,569,200	2,975,200	14,701,300
2017	5,600,000	3,459,100	9,059,100	2,782,200	8,424,400
2018	4,390,000	2,810,600	7,200,600	2,100,800	3,324,600
2019	2,780,000	1,871,300	4,651,300	1,002,200	(324,500)
2020	2,260,800	0	2,260,800	2,643,900	58,600
2021 *	<u>2,440,400</u>	<u>(1,310,000)</u>	<u>1,130,400</u>	<u>2,924,800</u>	1,853,000
Subtotal	23,040,400	6,831,000	29,871,400	31,724,400	<b>1,853,000</b>
2022	0	0	0	<b>5,350,000</b>	7,203,000
2023 **	<b>5,350,000</b>	<b>0</b>	5,350,000	<b>5,350,000</b>	<b>7,203,000</b>

\* Via continuation of the FY 2020 Charges for the first 6 months of FY 2021.

\*\* Assumes strategy to recover ~ one year of HP billings during FY 2023. **PRELIMINARY**

- If Highland Park makes no payments during FY 2022 the Cumulative Balance will grow to \$7.2 million, since no surcharge amounts were included in the FY 2022 charges.
- Assuming the non-payment continues, the Cumulative Balance could grow to \$12.5 million by the end of FY 2023. We believe it would be reasonable to include that entire amount and make the System “whole” via the FY 2023 charges, we would have to include over \$13 million as a revenue requirement. That approach would result in a 5.0% charge increase (all else being equal) for the Wholesale Sewer Member Partners (again not Detroit) – before consideration of any budget or other charge related considerations.
- In accordance with our recent discussions, we have included one year’s worth of billing to Highland Park as a “bad debt surcharge” to Suburban Wholesale Member Partners in the proposed FY 2023 Sewer Charges. We believe that this is reasonable approach. It will result in an approximate 2.0% “surcharge” to Suburban Wholesale Member

- Partners during FY 2023. The Sewer Charge calculations in the documentation summarizing our FY 2023 Service Charge Recommendations embrace this approach.
- Note that under current (non) payment performance this approach is forecasted to still result in a Cumulative Balance of \$7.2 million at the end of FY 2023.

We are prepared to discuss this matter at your convenience.