



Audit Committee

Friday, February 23, 2018 at 8:00 a.m.

5th Floor Board Room, Water Board Building
735 Randolph Street, Detroit, Michigan 48226
GLWater.org

MEETING BINDER ADDENDUM

- ✓ *Agenda Item # 7C – Discussion- Debt Service Coverage Calculations and Lease Agreements*

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MEMORANDUM

GLWA Interim Budget to Actual Report
Preliminary FY 2018 Interim Debt Service Calculations

February 22, 2018

To: Nicolette Bateson

From: Bart Foster

You have asked for preliminary calculations of debt service coverage to accompany the "Interim Budget to Actual Report" being presented at the February 23 meeting of the Audit Committee. Herewith commentary and observations regarding our initial, preliminary calculations summarizing the first six months of FY 2018 activity.

The above captioned report presented today represents a summary of financial results in a "Revenue Requirement Budget Basis" format. As such, it is consistent with budget presentations, and with the basic format used as an input to compute debt service coverage. The report summarizes activity for the first six months of activity for the **GLWA Regional System(s)**. As we have discussed during budget preparation, the debt service coverage commitments defined by the GLWA Master Bond Ordinance (MBO) for both the Water Fund and the Sewer Fund requires an evaluation of the entire **Consolidated System(s)**, including the direct and indirect revenues and revenue requirements associated with the DWSD Local System. This is because GLWA maintains responsibility for all of the outstanding debt, including amounts that are related to the local system and allocated to (and recovered through charges to) the City of Detroit customer class.

Establishing an interim "Revenue Requirement Budget Basis" report for the entire Consolidated System is complicated by certain interrelationships between the Regional and Local Systems that remain under review. Fortunately, a full report of that nature is not necessary to compute debt service coverage ratios. The MBO's define "Net Revenues" as *"all Revenues received during such period of time, except for those Revenues transferred to the Operation and Maintenance Fund."* For purposes of computing interim Net Revenues, we can equate "Revenues" with receipts into the GLWA receiving fund during the first six months of FY 2018. The monthly Audit Committee binders contain reports that set forth specific amounts that are transferred into the various accounts of the Operation and Maintenance Fund - including both the Regional and Local accounts and the Pension Obligation subaccounts within those. So we have all of the data necessary to compute interim "Net Revenues."

The accompanying exhibit illustrates our preliminary, interim calculations of debt service coverage ratios. The FY 2018 budget figures (for the entire year) are shown in Column 1. In Column 2 we present the prorated six-month year to date budget figures, using a simplified assumption that all monthly receipts and disbursements occur in equal amounts. The actual year to date figures through six months are shown in Column 3, based on our review of GLWA financial reports.

As indicated on Line 1, total year to date Water receipts reflect a ***positive*** variance compared to budget of over \$16 million. The ***positive*** variance reflects relatively consistent ***positive*** variances for both the Regional System and Local System receipts. Since (at least for the first six months of the fiscal year) transfers to the various accounts of the Operation and Maintenance Fund are equivalent to budgeted amounts, there is no budget to actual variance in these amounts, and the ***positive*** Revenue variance translates in to an equivalent ***positive*** variance in Net Revenues. Similarly, year to date transfers to debt service payment accounts are equivalent to budgeted amounts. As shown on Lines 10 through 12, the ***positive*** variance in Net Revenues results in reported interim debt service coverage ratios that are higher than budgeted amounts.

A similar analysis for the Sewer Fund is presented on Lines 13 through 24. Year to date Sewer receipts compared to budget reflect a ***negative*** variance of approximately \$11.3 million. This ***negative*** variance is entirely attributable to Local System receipts, as receipts for the Regional System reflect a minor ***positive*** variance. Similar to Water, the Sewer transfers to Operation and Maintenance Fund accounts and debt service payment accounts are effectively equal to budgeted amounts. So the ***negative*** variance in receipts results in lower reported interim debt service coverage ratios than contained in the budget.

We trust that this report is responsive to your request and we are prepared to discuss this matter at your convenience.

GLWA Water and Sewer System
Interim Budget to Actual Report - Debt Service Coverage Calculations
FY 2018 year-to-date through December 31, 2017 (6 months)

	(1)	(2)	(3)	(4)	(5)
	<u>Original Budget</u>	<u>Prorated ytd Budget 6 months</u>	<u>Estimated ytd Actual 6 months</u>	<u>Estimated Variance (3) - (2)</u>	<u>% Variance (4) / (2)</u>
<u>Water System</u>					
1 Total Receipts (a)	410,098,800	205,049,500	221,812,700	16,763,200	8.2%
2 less: GLWA Regional O&M Expense	(121,561,600)	(60,780,800)	(60,781,300)	(500)	0.0%
3 less: DWSD Local O&M Expense	(35,060,000)	(17,530,000)	(17,529,900)	100	0.0%
4 less: GLWA Regional Operating Pension	(6,048,000)	(3,024,000)	(3,024,000)	0	0.0%
5 less: DWSD Local Operating Pension	(4,272,000)	(2,136,000)	(2,136,000)	0	0.0%
6 Consolidated Net Revenue	243,157,200	121,578,700	138,341,500	16,762,800	13.8%
<u>Debt Service</u>					
7 Senior Lien	127,687,400	63,843,700	63,843,700	0	0.0%
8 Senior Lien + Second Lien	170,540,200	85,270,100	85,270,100	0	0.0%
9 All Bonds	172,905,300	86,452,700	86,452,700	0	0.0%
<u>Debt Service Coverage</u>					
10 Senior Lien	1.90	1.90	2.17	0.26	13.8%
11 Senior Lien + Second Lien	1.43	1.43	1.62	0.20	13.8%
12 All Bonds	1.41	1.41	1.60	0.19	13.8%
<u>Sewer System</u>					
13 Total Receipts (b)	559,019,700	279,510,000	268,161,500	(11,348,500)	-4.1%
14 less: GLWA Regional O&M Expense	(191,079,200)	(95,539,600)	(95,539,700)	(100)	0.0%
15 less: DWSD Local O&M Expense	(59,977,500)	(29,988,800)	(30,259,000)	(270,200)	0.9%
16 less: GLWA Regional Operating Pension	(10,824,000)	(5,412,000)	(5,412,000)	0	0.0%
17 less: DWSD Local Operating Pension	(2,856,000)	(1,428,000)	(1,428,000)	0	0.0%
18 Consolidated Net Revenue	294,283,000	147,141,600	135,522,800	(11,618,800)	-7.9%
<u>Debt Service</u>					
19 Senior Lien	142,376,800	71,188,400	71,188,400	0	0.0%
20 Senior Lien + Second Lien	186,366,900	93,183,500	93,183,500	0	0.0%
21 All Bonds	233,252,400	116,626,200	116,626,200	0	0.0%
<u>Debt Service Coverage</u>					
22 Senior Lien	2.07	2.07	1.90	(0.16)	-7.9%
23 Senior Lien + Second Lien	1.58	1.58	1.45	(0.12)	-7.9%
24 All Bonds	1.26	1.26	1.16	(0.10)	-7.9%

(a) The 8% year to date **positive** Water receipt variance is consistent for the Regional System and Local System receipts.

(b) The **negative** Sewer receipt variance is entirely attributable to Local System receipts. Regional receipts reflect a minor **positive** variance.