



Nicolette N. Bateson, CPA
Chief Financial Officer/Treasurer
735 Randolph Street, Suite 1608
Detroit, Michigan 48226
Phone: 313-964-9201

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To: Board of Directors

From: Nicolette N. Bateson, CPA, Chief Financial Officer & Treasurer

CC: Sue F. McCormick, Chief Executive Officer

RE: COVID-19 Pandemic - Financial Update

The COVID-19 pandemic has impacted or created several financial matters. The purpose of this memo is to brief you on those items and what we are doing to mitigate those impacts.

1. *FY 2020* Operations & Maintenance Budget - Revenues and Expenses
2. *FY 2021* Operations & Maintenance Budget - Revenues and Expenses
3. Wholesale Cash Collections
4. DWSD Retail Cash Collections/Budget Shortfall
5. 2020 Bond Transaction
6. Member Partner Procurement Cooperative

1. GLWA FY 2020 Budget - Revenues and Expenses

On the next page, *Table 1 - GLWA FY 2020 Operations & Maintenance Budget Impacts of COVID-19*, presents a summary of the budget strategies being put into place to address a) increased costs as a result of COVID-19, b) reductions in forecasted revenue due to a decline in demand for water service, c) reductions in investment income as a result of economic changes, and d) reductions across all expense categories and operating areas to overcome the revenue shortfall and ensure resources for continuity of operations.

The FY 2020 wholesale water system forecasted revenue shortfall is \$7.4 million, which is offset by net cost containments of \$7.415 million in expense reductions. The FY 2020 sewer system revenue shortfall is limited to \$1.0 million in investment income while net cost containments identified equal \$9.92 million. The expense reductions and deferrals include the allocation of centralized and administrative services.

Further discussion of the FY 2020 Budget is on Friday's Audit Committee meeting agenda.

Table 1 – GLWA FY 2020 Operations & Maintenance Budget Impacts of COVID-19

Great Lakes Water Authority Operations & Maintenance Budget Impacts of COVID-19 FY 2020 Contingency & Continuity Resources As of April 21, 2020				
Line #	Category	Water	Sewer	Total
1	Vacant Positions			98
2	Salary As originally budgeted for those vacant positions			\$ 5,914,000
3	Vacant Salary - As adjusted earlier in FY 2020 within line item versus use of contingency for merit, progression, and market	\$ 1,340,000	\$ 1,517,000	\$ 2,857,000
4	Vacant Fringes based on Line 3 above	352,000	354,000	706,000
5	Cashflow - pause on start/defer project	409,000	613,000	1,022,000
6	Cashflow - slower project pace	354,000	1,256,000	1,610,000
7	Budget - Other (cancel; amend; reduction or positive cost variance)	2,010,000	3,047,000	5,057,000
8	Cashflow - Capital Program Management progress	(312,000)	(288,000)	(600,000)
9	Increased expenses as a result of COVID-19	(721,000)	(1,079,000)	(1,800,000)
10	Designate Use of Unallocated Reserve as of January 31, 2020	3,983,000	4,500,000	8,483,000
11	Subtotal - Expenses	7,415,000	9,920,000	17,335,000
12	Wholesale Water Revenue Variance through March 2020	(4,600,000)	-	(4,600,000)
13	Wholesale Water Revenue Variance estimated April through June 2020	(1,800,000)	-	(1,800,000)
14	Investment Income	(1,000,000)	(1,000,000)	(2,000,000)
15	Subtotal - Revenues	(7,400,000)	(1,000,000)	(8,400,000)
16	FY 2020 Contingency & Continuity Resources After Adjustments	\$ 15,000	\$ 8,920,000	\$ 8,935,000

2. GLWA FY 2021 Operations & Maintenance Budget - Revenues and Expenses

It is expected that the next 30 days will provide greater insight into the operational impacts of COVID-19 and related modifications to the FY 2021 Budget. Presently, the driver of those modifications is expected to be a potential decline in water revenues. On today's agenda is a proposed delay in the effective date of the approved FY 2021 charges until October 1, 2020. Part of the rationale is that GLWA is able to defer some expenses (and related cashflow demands). This proposal will provide budget relief to our Member Partner communities while they also address the challenges brought on by COVID-19. The budget impact of this proposal is estimated at \$3 million for the water fund and \$2.65 million for the sewer fund. Given that this is a question that we are often asked, the impact of this proposal provides charge relief to DWSD for approximately \$315,000 for water and \$1,075,000 for sewer for a total of \$1.39 million. The charge relief to the City of Flint would be approximately \$83,000 for water.

GLWA Procurement team members and leadership in the GLWA operating areas are working through scenario planning as it relates to COVID-19 related supplies and service expenses through the next twelve months. The range of expense forecasts, as of this date, appear to be able to be addressed within the budgeted unallocated reserve.

3. GLWA Wholesale Cash Collections

Times of uncertainty, increased unemployment, and decline in commerce combined with a pause on traditional water utility collection methods such as discontinuing service for non-payment, have resulted in a decline in collection at many municipal utilities across the country. For GLWA however, the wholesale cash collections have remained steady to date. The largest challenge has been that most wholesale Member Partners pay by check and rely on U.S. Mail delivery. This has resulted in additional steps (and delays) in picking up mail from a PO Box and making deposits into the wholesale lockbox. A communication is being prepared to encourage Member Partners to participate in some form of electronic payment.

To better understand collection challenges that Member Partners may be experiencing, a brief six question online survey was distributed to water system communities. The scope was water system Member Partners with an FY 2021 revenue requirement greater than \$1.5 million. The initial survey responses were received on Monday. There are no clear patterns yet. One item of note is that some organizations bill on monthly, bi-monthly, or quarterly basis so trends may take longer to identify. We will continue to monitor the responses and report back to the Audit Committee.

4. DWSD Retail Cash Collections/Budget Shortfall

On March 9, 2020, the City of Detroit enacted a Coronavirus Water Restart Plan to ensure that all City of Detroit residents have access to water in their homes. Key provisions include:

- ✓ For first 30 days, the State of Michigan will cover costs to reconnect water service for residents who were experiencing, or at risk of experiencing, a water service interruption due to non-payment.
- ✓ After 30 days, for \$25 per month, residents without water can have it restored; those at risk and not in a current plan can avoid service interruption.

On March 23, 2020, Governor Whitmer signed “Stay Home, Stay Safe” Executive Order, directing all non-critical businesses to temporarily close and all Michiganders to stay home or six feet away from others during COVID-19 crisis.

The combined impact of the above two actions, in addition to the related overall impact of COVID-19 on the U.S. economy, have resulted in a material decline in DWSD retail water and sewer system collections. The local retail water system’s cash collections decreased 15% for March 2020 and 36% for April through the 20th of the month compared to the prior year. The local sewer system’s cash collections decreased 13% for March 2020 and 31% for April through the 20th of the month compared to the prior year. See *Table 2 – DWSD Water System Retail Cash Log* and *Table 3 – DWSD Sewer System Retail Cash Log*.

The GLWA CEO and DWSD Director, in addition to the General Counsels, Chief Administrative Officers and CFOs for both organizations, have met to discuss this shortfall on April 8, 16, and 21. These meetings are in addition to weekly meetings with the two CFOs and the exchange of additional cash collection reports between DWSD and GLWA team members starting at the end of March. A regular Reconciliation Committee meeting is also scheduled for April 23, 2020.

Presently, DWSD is working to better understand the retail customer base. They are also developing a 12-month cashflow forecast. In addition to other mitigating budgetary actions DWSD has and/or may take, it appears that DWSD will request a shortfall note – with timing and amount to be determined. This matter will be brought to the Audit Committee and then the full Board as it will require an amendment to GLWA’s budget.

Table 2 – DWSD Water System Retail Cash Log

<u>DWSD Water System Cash Log Receipts - Weekly Analysis</u>				
	2019	2020	Difference	Variance
March 1-7	2,855,457	3,493,555	638,098	22%
March 8-14	2,078,951	2,183,016	104,065	5%
March 15-21	2,494,822	1,175,608	(1,319,213)	-53%
March 22-28	1,436,964	761,985	(674,978)	-47%
March 29-31	458,908	303,423	(155,485)	-34%
March Total	9,325,101	7,917,587	(1,407,514)	-15%
April 1-4	1,854,689	793,536	(1,061,153)	-57%
April 5-11	2,597,922	1,203,140	(1,394,782)	-54%
April 12-18	2,384,998	2,157,967	(227,031)	-10%
April 19-20	127,286	270,076	142,790	112%
April to Date	6,964,895	4,424,719	(2,540,176)	-36%

Table 3 – DWSD Sewer System Retail Cash Log

<u>DWSD Sewer System Cash Log Receipts - Weekly Analysis</u>				
	2019	2020	Difference	Variance
March 1-7	5,919,603	7,591,669	1,672,067	28%
March 8-14	4,291,732	5,069,028	777,296	18%
March 15-21	5,660,020	3,455,685	(2,204,335)	-39%
March 22-28	4,390,574	1,887,509	(2,503,065)	-57%
March 29-31	1,204,724	708,195	(496,529)	-41%
March Total	21,466,652	18,712,086	(2,754,566)	-13%
April 1-4	4,070,370	2,012,914	(2,057,456)	-51%
April 5-11	5,141,021	2,973,404	(2,167,617)	-42%
April 12-18	5,962,369	4,940,489	(1,021,880)	-17%
April 19-20	307,636	707,418	399,782	130%
April to Date	15,481,396	10,634,225	(4,847,171)	-31%

5. 2020 Bond Transaction

We continue to monitor the market for refunding opportunities and the new money request by DWSD for its water system improvements.

Financial criteria for some rating agencies and analysts are increasingly focused on the strength of Member Partners' financial position. For this reason, we are currently working on a project where we are assembling key metrics from audited financial statements into a database. It is expected that this will be completed in early May 2020.

6. Member Partner Procurement Cooperative

On Monday, April 20, 2020 an email was sent to Member Partners to understand the need and interest in cooperative procurement. The questions addressed short-term needs (such as COVID-19 related supplies) and long-term interests. We will continue to monitor the responses and report back to the Audit Committee related to next steps.