

Key Takeaways - GLWA FY 2017 Audit & Financial Reports

1. **Inaugural “Twelve Month” Fiscal Year for the Great Lakes Water Authority (GLWA)** – GLWA assumed operations of the Regional Water and Sewer Systems on January 1, 2016 pursuant to Leases with the city of Detroit. Accordingly, the first fiscal report year ended June 30, 2016 included only six months of activity. FY 2017 is the first full fiscal year with twelve months of operating activity.
2. **Clean Audit Opinion** – Rehmann Robson issued GLWA a “clean” audit opinion for FY 2017.
3. **Revenues are Stable with a Total Positive Budget Variance of \$62.2 million or 7.8% Due Largely to One-time Sources**
 - ✓ Water System revenues from customer charges were approximately \$20.5 million (or 6.2 percent) higher than expectations. This is primarily due to a) services provided to the city of Flint under an emergency services contract (\$13.3 million) and b) net increase in wholesale customer water sales volume of 2.3% over projected volumes resulting in an additional revenue of \$5.9 million.
 - ✓ Sewer System revenues from wholesale customer charges were \$2.6 million (or 0.9%) higher due to reduced actual bad debt expense resulting from the city of Highland Park payments made.
 - ✓ Bad debt recovery from Detroit Water & Sewerage Department (DWSD) retail customer account balances assumed on January 1, 2016 were \$40.1 million (\$5.1 million from the Water System and \$35.0 million from the Sewer System). This recovery of prior years’ bad debt expense is due to increased collection activity from tax lien activity and increased investment in the retail customer service area.
4. **Operations and Maintenance (O&M) Expense Under Budget by \$34.6 million, or 12.1% in Total**
 - ✓ The Water System O&M expense was under budget by \$10.1 million and the Sewer System O&M expense was under budget by \$24.5 million (all amounts excluding depreciation). The positive variance was across all categories of expenses and was unique to GLWA start-up phase where we experienced staff vacancies and delays in spending for programs that were not critical to core operations.
 - ✓ Budgetary savings in one fiscal year are carried forward to offset the cost of capital outlay and infrastructure investment in subsequent years.
5. **Debt Refunding Savings** – In October 2016, GLWA issued refunding bonds of \$773.8 million for the Water System, resulting in savings of \$185.4 million over the next 20 years. Also, in October 2016, GLWA issued refunding bonds of \$421.3 million for the Sewer System, resulting in savings of \$123.7 million over the next 20 years.
6. **Strong Credit Metrics**
 - ✓ The “number of days cash” (i.e. unrestricted cash divided by one day of O&M expense) is 959 days for the Water System and 495 days for the Sewer System. This is important because it demonstrates that sufficient funds are available to maintain and operate the Systems and reduces the GLWA’s reliance on borrowing.
 - ✓ All-in debt service coverage (i.e. pledged revenues divided by debt service) is 1.64x for the Water System and 1.51x for the Sewer System. This metric demonstrates that GLWA has sufficient cash to repay its bondholders.
7. **Closure of Open Water & Sewer System Lease Interpretation Matters** – GLWA and DWSD approved a Memorandum of Understanding (“MOU”) Term Sheet in April 2018 which is reflected in the FY 2017 financial statements. The purpose is to (a) provide clarification of the Leases, Water & Sewer Services Agreement (WSSA) and the Master Bond Ordinance, (b) make adjustments contemplated by the Leases and the WSSA and (c) address the liquidation of specific liabilities. This resulted in a special item charge of \$94.3 million with \$32.8 million attributable to the Water System and \$61.5 million attributable to the Sewer System. Despite the special item, the MOU provides other long-term benefits for both parties which are expected to largely negate the impact over time.
8. **Reports Online** – See <http://www.glwater.org/finances/financial-statements/>