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MEMORANDUM

GLWA Cash and Investment Balance Review

July 20, 2018

To: Nicolette Bateson

From: Bart Foster

You have asked for preliminary observations regarding estimated unrestricted GLWA cash and investment balances. The attached exhibits summarize our initial analysis, which supports the next iteration of the scenario projections we prepared and discussed at the May Audit Committee meeting. *Those* initial projections utilized audited FY 2017 information for available cash and investment balances and explored policy decisions regarding ongoing application of such balances. *This* analysis evaluates preliminary FY 2018 cash and investment balances and further explores policy considerations regarding use of those balances.

As we have explored in prior discussions with the Audit Committee, analyses of the adequacy of cash and investment balances are often evaluated via a “days cash on hand” metric. Schedules included in the GLWA audited financial statements include evaluation of this metric utilizing **actual audited** operating expense as a measure of “days” of required operating expense. We believe that this approach is appropriate for purposes of establishing peer comparisons, etc. However, we submit that for purposes of evaluating policy decisions for financial planning the appropriate relative operating expense metric is **budgeted** operating expense, and that this amount should include the operating portion of the legacy pension reimbursement – as long as such amounts are considered an “operating expense” in the various guiding documents and requirements. This approach is outlined on Lines 1 through 3 of the attached exhibit. In essence, the approved FY 2019 Budget establishes a “daily operating cash requirement” of approximately \$349,600 for the Water System and \$553,200 for the Sewer System.

On Line 4 of the exhibit, we have presented the reported (for FY 2017, as reflected in the audited financial statements) and estimated (for FY 2018, unaudited) cash and investment balances in the “unrestricted” GLWA funds and accounts. On Lines 5 through 8, we “designate” application of these available balances to specific Funds established by the Master Bond Ordinance, in accordance with our understanding of current GLWA policy positions. A brief introduction:

- Line 5 - Designated to O&M Minimum Balance: We first designate 120 days of budgeted operating expense as a minimum allocation to the O&M Fund for “working capital purposes.”
 - *The 120 days aligns with our understanding of current GLWA management policy positions.*
- Line 6 – Designated to ER&R Balance: We next designate balances to the current policy position on the minimum ER&R balances.
 - *These balances were established as part of the recent GLWA / DWSD discussions that resulted in the 2018 MOU.*
- Line 7 - Designated to Minimum I&E Balance: We next designate balances to the current policy position regarding carryover balances for each GLWA I&E Fund.
 - *As noted in our May scenario planning analyses, the preliminary policy position establishes a minimum carryover balance of \$90 million for each system.*
- Line 8 - The remaining “unrestricted” cash and investment balances that are “**undesignated**” amounts available to the Water and Sewer Systems.
 - *Based on the assumptions above, our analysis results in estimated 6/30/18 “**undesignated**” cash and investment balances equating to an adjusted “**undesignated** days cash on hand” metric of 440 for the Water System and 14 for the Sewer System.*

The estimated 6/30/18 amounts shown on Line 8 (\$153.8 million for Water and \$7.7 million for Sewer) are intended to reflect estimated “**undesignated** liquidity” balances that can be directed towards cash financing of capital improvements or other financing purposes. Obviously changing the assumptions regarding policy decisions outlined herein would result in alternative “**undesignated**” balances.

We are prepared to elaborate on our initial analysis at the July 20 Audit Committee Meeting and to further discuss this matter at your convenience.