



Financial Services Audit Committee Communication

Date: July 17, 2020

To: Great Lakes Water Authority Audit Committee

From: Deidre Henry, Treasury Manager
Kathy Smith-Roy, Advisor to CFO

Re: Year-End Cash Review Status

Background: The purpose of this communication is to provide the year-end cash review status pursuant to the Master Bond Ordinance (MBO), Regional System Lease Agreements and Act 94, Public Acts of Michigan, 1933 as amended. GLWA has over 70 bank accounts that are reviewed and included in the analysis of year-end cash requirements. The following individuals contribute to the calculations, estimates and review meetings to ensure compliance: Nicolette Bateson, CFO & Treasurer; Lisa Mancini, Manager, Financial Planning and Analysis; Jon Wheatley, Manager, Public Finance; Kim Garland, Manager, Reporting and Compliance; and Bart Foster, President, The Foster Group. In addition, U.S. Bank (trustee) and PFM (financial advisor) provide additional information on available cash balances, debt payment information, debt reserve calculations and future debt service. Finally, coordination also occurs with the Detroit Water & Sewerage Department financial personnel to align cash requirements as it relates to the MBO Requirements.

Analysis: Each of the funds established in Article 5 of the MBO are reviewed to verify the balances are sufficient to meet a) June 30 (close of one fiscal year) and July 1 (beginning of a new fiscal year) requirements; b) to make adjustments where necessary for differences between budgeted revenue requirement transfers and actual balances; and c) timing of cashflows. The following are the account categories and related requirement and/or methodology for establishing the year-end balances.

- (1) **Revenue Receipts** – All retail and wholesale receipts are deposited in this account before transfer to the receiving fund. The balance in this category generally represents one-to-two days of receipts. For reporting purposes this balance is added to the Receiving Fund at fiscal year-end.
- (2) **Receiving** – The year-end targeted balance is two months of required MBO transfers. The basis for the two months of revenue requirements transfers is the budgeted revenue requirements for May and June charges which are billed in June and July but not collected until July and August. This provides alignment with the MBO funding requirements and budget.

- (3) **Operation and Maintenance (O&M)** – The targeted balance for the Operating and Maintenance is 45 days (1.5 months) of MBO transfers for the subsequent fiscal year. The purpose is to provide sufficient liquidity to meet current operating cash needs including payments for accounts payable and other accrued liabilities.
- (4) **Debt Service (Senior Lien/Second Lien/SRF)** – The year-end balances reflect the amount necessary to make July 1 debt payments and October 1 State Revolving Fund (SRF) loan payments. The budgeted revenue requirement for the year may vary from the actual requirements due to investment earnings, new or refunding debt issues, and variable interest rate debt. Any excess funds are later returned to the receiving fund.
- (5) **Debt Reserve (Senior Lien/Second Lien)** – The year-end balances are computed by the municipal financial advisor team from PFM Financial Advisors LLC and reviewed by GLWA staff and financial consultant. The calculation is based on outstanding debt service and surety values as of July 1. The June 30 balances must meet requirements as defined by the Internal Revenue Service (IRS) and the MBO. Any excess funds are transferred to the debt service accounts.
- (6) **Pension Obligation** – The legacy General Retirement System payment is fixed and paid by June 30 annually. Small balances may remain relating to investment earnings and/or estimates relating to amounts set aside for future invoiced amounts for the Financial Recovery Bonds, Series 2014 B & C by the City of Detroit.
- (7) **WRAP** – The balance is based on amounts established through the budget process and revenue requirements and available for distribution to the Water Residential Assistance Program (WRAP) Administrator in support of program expenses. Investment earnings remain within the account.
- (8) **Budget Stabilization** – The balance was established by the 2018 Memorandum of Understanding (MOU). Investment earnings are transferred to the Receiving Fund. No change is needed at this time.
- (9) **Extraordinary Repair and Replacement Reserve (ER&R)** – The balance was established by the 2018 MOU and pursuant to the MBO is a function of the O&M revenue requirements. Further, per the 2018 MOU, the basis for computation is on forecasted O&M revenue requirements and is deemed sufficient to meet the ER&R MBO requirements through FY 2025. Investment earnings are transferred to the Receiving Fund. No change is needed at this time.
- (10) **Improvement and Extension (I&E)** – The revenue requirement transfers for I&E are made based on the funds available. In addition, any unrestricted funds greater than the recommended balances are transferred to the I&E Fund.

Outcome: During the FY 2020 year-end cash review, the following was noted.

- Overall, yearend balances are in alignment with GLWA's financial plan and forecasts.
- Inherent in the yearend review process in the last few weeks of the fiscal year, it is necessary to estimate of the last several days of receipts. This is because the required bank transfers must be completed before actual June 30 cash receipts are received and accounted for. This year, collections, and timely deposit of collections paid by check, have incurred some delays as a result of the Coronavirus pandemic. This was a consideration in estimating the amount of receipts through June 30, 2020.
- Established goals and compliance requirements for the Receiving, Debt Service, Debt Reserve, Pension Obligation, WRAP, Budget Stabilization Fund and ER&R account categories were met.
- In May and June 2020, GLWA refinanced both Water and Sewer Systems bonds. These transactions included using both debt service and debt reserve funds from those accounts, therefore, no additional adjustments were necessary to the debt service or debt reserve funds.
- Estimated balances of \$3.7 million for water and \$1.7 million for sewer FY 2020 I&E Revenue Requirement are pending at June 30, 2020 and are anticipated to be transferred in the first quarter of FY 2021 after subsequent cashflow reviews.

Summary I&E Revenue Requirements FY2020

I&E Revenue Requirement Transfers Per FY20 Budget Amendment Report
FY20 Actual I&E Revenue Requirement Transfers thru 6/25/20
FY20 I&E Revenue Requirement transfers pending

	Water	Sewer
I&E Revenue Requirement Transfers Per FY20 Budget Amendment Report	\$ 29,456,300	\$ 20,797,600
FY20 Actual I&E Revenue Requirement Transfers thru 6/25/20	\$ 25,719,751	\$ 19,096,200
FY20 I&E Revenue Requirement transfers pending	\$ 3,736,549	\$ 1,701,400

Proposed Action: Receive and file this report.

Great Lakes Water Authority

Cash and Investment Report by Master Bond Ordinance Classification - ESTIMATE FOR JUNE 30, 2020

	Funded from revenue and other		Funded from Debt Issuance	
	Unrestricted	Restricted	Restricted	6/30/2020
Water Fund				
<u>Flow of funds (per ordinance)</u>				
Receiving fund	\$ 49,216,837 *	\$ -	\$ -	\$ 49,216,837
Operations and maintenance	32,873,502	9,735,882 **	-	42,609,384
Operations and maintenance-pension	-	178,129	-	178,129
Senior lien debt service	-	17,016,562	-	17,016,562
Senior lien bond reserve	-	-	105,350,642	105,350,642
Second & Junior lien debt service	-	28,652,052	-	28,652,052
Second & Junior lien debt reserve	-	-	48,711,818	48,711,818
Legacy Pension Obligation	-	347,883	-	347,883
Water Residential Assistance Program (WRAP)	-	4,508,344	-	4,508,344
Budget Stabilization	-	2,000,000	-	2,000,000
Extraordinary Repair and Replacement	27,426,967	-	-	27,426,967
Improvement and Extension-Regional	277,024,684	-	-	277,024,684
Subtotal - Reserves defined by ordinance	386,541,989	62,438,852	154,062,461	603,043,302
Less: Funded by surety (non-cash)	-	-	(149,601,197)	(149,601,197)
Total - Reserves defined by ordinance (net of Surety coverage)	386,541,989	62,438,852	4,461,264	453,442,105
Cash held for the benefit of DWSD	-	(189,416)	-	(189,416)
Unspent Construction Bond proceeds	-	13,886,732 ***	18,960,299	32,847,031
Total Cash, Cash Equivalents and Investments	<u>\$ 386,541,989</u>	<u>\$ 76,136,168</u>	<u>\$ 23,421,563</u>	<u>\$ 486,099,720</u>

Summary by Financial Statement Classification				
	Unrestricted	Restricted Current	Restricted Noncurrent	Total
Cash and cash equivalents	\$ 86,469,650	\$ 10,471,621	\$ 28,496,119	\$ 125,437,389
Cash held for the benefit of DWSD	-	(189,416)	-	(189,416)
Investments	300,072,340	45,458,886	15,320,520	360,851,746
Total Cash, Cash Equivalents and Investments	<u>\$ 386,541,989</u>	<u>\$ 55,741,092</u>	<u>\$ 43,816,639</u>	<u>\$ 486,099,720</u>

*Balance for two months required transfers

**Construction retainage and deposits

***Amount for current liabilities related to construction funds

Great Lakes Water Authority

Cash and Investment Report by Master Bond Ordinance Classification - ESTIMATE FOR JUNE 30, 2020

	Funded from Revenue and Other		Funded from Debt Issuance	
	Unrestricted	Restricted	Restricted	6/30/2020
Sewer Fund				
<u>Flow of funds (per ordinance)</u>				
Receiving Fund	\$ 66,431,213 *	\$ -	\$ -	\$ 66,431,213
Operations and Maintenance	41,786,441	10,308,517 **	-	52,094,957
Operations and maintenance-pension	-	319,276	-	319,276
Senior Lien Debt Service	-	47,965,837	-	47,965,837
Senior Lien Bond Reserve	-	-	115,954,662	115,954,662
Second & Junior lien debt service	-	44,199,562	-	44,199,562
Second & Junior lien debt reserve	-	-	49,512,273	49,512,273
Legacy Pension Obligation	-	487,204	-	487,204
Water Residential Assistance Program (WRAP)	-	6,125,044	-	6,125,044
Budget Stabilization	-	5,500,000	-	5,500,000
Extraordinary Repair and Replacement	43,859,119	-	-	43,859,119
Improvement and Extension-Regional	125,995,674	-	-	125,995,674
Subtotal - Reserves defined by ordinance	278,072,447	114,905,439	165,466,935	558,444,821
Less: Funded by surety (non-cash)	-	-	(145,205,154)	(145,205,154)
Total - Reserves defined by ordinance (net of Surety coverage)	278,072,447	114,905,439	20,261,781	413,239,667
Cash held for the benefit of DWSD	-	(10,243,500)	-	(10,243,500)
Unspent Construction Bond proceeds	-	13,075,353 ***	21,137,669	34,213,022
Total Cash, Cash Equivalents and Investments	<u>\$ 278,072,447</u>	<u>\$ 117,737,292</u>	<u>\$ 41,399,450</u>	<u>\$ 437,209,189</u>

Summary by Financial Statement Classification	Unrestricted	Restricted	Restricted	Total
		Current	Noncurrent	
Cash and cash equivalents	\$ 113,239,921	\$ 14,997,361	\$ 33,993,798	\$ 162,231,080
Cash held for the benefit of DWSD	-	(10,243,500)	-	(10,243,500)
Investments	164,832,526	88,283,034	32,106,049	285,221,609
Total Cash, Cash Equivalents and Investments	<u>\$ 278,072,447</u>	<u>\$ 93,036,895</u>	<u>\$ 66,099,847</u>	<u>\$ 437,209,189</u>

*Balance for two months required transfers

**Construction retainage and deposits

***Amount for current liabilities related to construction funds