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MEMORANDUM

Series 2020 Bond Results and Impact on  
FY 2021 – 2022 Forecast Update

June 17, 2020

To: Nicolette Bateson

From: Bart Foster

You have asked for executive summary commentary regarding the impact of the results of the Series 2020 Water and Sewer Revenue Refunding Bonds transactions on the financial forecasts for GLWA. The intent of this memorandum is to offer observations on the impact of those transactions, as well as other developments during the pursuit of same, with specific focus on fiscal years 2021 and 2022, those covered by the recently approved GLWA biennial budget. It is our understanding that the developments discussed herein will be evaluated in support of a potential FY 2021 budget amendment to be considered in the first quarter of that fiscal year.

Executive Summary

- Despite jittery market conditions related to COVID-19 and other matters, the GLWA Series 2020 Water and Sewer Bonds were successfully issued and produced a similar amount of savings to those envisioned when the process was started in the fall of 2019.
- The debt service savings in FYs 2021 and 2022 provided by the transactions are slightly greater than those originally projected.
- Compared to the original budget request, the FY 2021 budget and charges review process resulted in reduced charge increases, and a deferral of the implementation of those charges. These developments created a reduction in originally budgeted revenues of approximately \$5 million for Water and \$8.5 million for Sewer.
- The FY 2021 debt service savings provided by the transactions are approximately equal to the reductions in originally requested budgeted revenues noted above.

Some Details

Let's start at the beginning of the process. In September 2019 the Audit Committee (and subsequently the full Board) was briefed on potential savings that could be achieved via issuance of the Series 2020 Bonds. At the time the net present value savings were estimated at approximately \$77 million for Water and \$121 million of Sewer. Estimated annual savings in the FY 2021 and FY 2022 biennial budget years were \$4.8 million for Water and \$7.0

million for Sewer. Original budget planning documents included the impact of achieving these savings. Based on advice from the finance team, GLWA opted to prepare the FY 2021 budget that did not reflect any savings, with the understanding that if/when they were achieved the “top line” revenue budget would remain intact and the debt service savings would accrue to bottom line contributions to Improvement and Extension (“I&E”) Fund reserves.

This approach resulted in an “Original Budget Request” proposal, dated 2/12/20, which included revenue requirement increases of 1.1% for Water and 2.5% for Sewer, and proposed charges of 3.8% for Water and 3.2% for Sewer designed to support the budget increase. The Original Budget Request is summarized in the Lines 1 and 2 of the attached exhibit<sup>1</sup>, which also includes the FY 2022 planning level figures for the biennial budget. This original plan produced budgeted bottom line I&E contributions as shown highlighted in grey in Column 7 on the exhibit. At this point in time, the budget plan was to use any debt service savings achieved as part of the transaction to increase the amounts available for I&E reserves while not impacting top line revenue or any other budget element.

Via the deliberative process of the Board’s review, modifications to the original budget request were made. On March 11 the Board approved service charge increases that reflected a reduction of 0.5% from the originally proposed Water charge increase and 1.25% from the originally proposed Sewer charge increase. The Board’s action further instructed GLWA to balance the budget by reducing the I&E contributions to offset the reductions in budgeted charge revenues. The impact of these decisions is illustrated on Lines 3 and 4 of the exhibit. The revenue reductions shaded in green are offset by reduced I&E contributions shaded in grey. The resulting FY 2021 and FY 2022 biennial budget approved by the Board is summarized on Lines 5 and 6.

During the budget deliberation process GLWA was actively pursuing the Series 2020 refunding transactions, with an intention of executing them in late March. In early March the estimated achievable savings for both the Water and Sewer systems were actually moderately greater than those originally estimated in the fall of 2019. It is our understanding that the budget decision to reduce charges was made in part because the potential debt service savings were deemed to be readily achievable.

Subsequently, the COVID-19 pandemic emerged and created instability in the credit markets and in day to day business activity. As a result, the Series 2020 Bonds were put on hold as it was not possible to achieve the savings goals established by GLWA. In addition, GLWA and the Board decided to postpone implementation of the FY 2021 Water and Sewer charges from July 1, 2020 to October 1, 2020. This decision was made in order to provide some short-term financial relief to Member Partners to deal with the unknown potential impacts of COVID-19. It was formally approved by Board action on April 22. The impact of this decision created a reduction FY 2021 budgeted revenues of \$3.2 million for Water and \$2.6 million for Sewer, as show on Line 7 of the exhibit. The Board’s action instructed GLWA to work towards a balanced FY 2021 budget via a proposed budget amendment to be considered in the first

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<sup>1</sup> Note the exhibit contains 3 pages: Water, Sewer, Combined Water and Sewer

quarter of the fiscal year. It is our understanding that GLWA intends to propose budgeted reductions in operation and maintenance expense, and to maintain the approved level of deposits to I&E Reserves. This approach is also depicted on Line 7. The green shaded reductions in FY 2021 charge revenue are offset by the identical reductions in O&M Expense. Note that for forecasting purposes we've assumed that the resulting lower FY 2021 O&M expense levels will impact future O&M levels, and therefore FY 2022 shows a reduction as well, as shown on Line 8.

These adjustments result in the "4/22 Adjusted Plan" depiction of the forecast, shown in Lines 9 and 10. This summarizes the version of the forecast we prepared while the GLWA finance team continuing to monitor the credit markets.

The markets turned favorable for the Water transaction in late April, and the Series 2020 Water Bonds closed on May 12, 2020. For market reasons I'll leave to others to explain<sup>2</sup>, the potential Sewer transaction did not provide adequate savings at that time. The markets finally turned favorable for the Sewer transaction in early June, and the Series 2020 Sewer Bonds closed yesterday, June 16, 2020. The results of the Series 2020 bonds on the forecast for FY 2021 and FY 2022 are shown shaded in green on Lines 11 and 12. For FY 2021, the Water debt service savings are \$5.5 million, all of which accrues to the I&E "bottom line." The FY Sewer debt service refunding savings are \$8.1 million, but are slightly offset by increases in the interest rate on some outstanding variable rate debt, and by modifications to estimated State Revolving Fund Loan debt service that were adjusted as part of our review. The net "budget" debt service savings totals \$7.4 million for FY 2021, again all of which accrues to the I&E "bottom line."

In essence, the adjustments to the forecast illustrated on Lines 7 and 11 of the exhibit represent our understanding of the potential FY 2021 budget amendment GLWA will be proposing in the first quarter of the fiscal year. These adjustments produce the "6/17 Working Forecast" figures on Lines 13 and 14. Given the ongoing uncertainty of the potential impacts of COVID-19 on utility business matters, we believe other elements should continue to be evaluated as part of the review process of the potential amendment. Such elements include water sales, collection of receipts, execution of capital programs, and investment earnings.

We look forward to participating in that ongoing review and we are prepared to discuss this matter at your convenience.

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<sup>2</sup> Largely related to longer call dates and negative arbitrage . . .

GLWA Biennial Budget Crosswalk Summary - \$ millions

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
	Revenue		Revenue Requirements						Debt Svc	
	Charges	Non-Op	Total	O&M	Debt Svc	MBO Reqs	I&E Reserves	Total	Coverage	Comment
<b>WATER SYSTEM</b>										
	<u>2/13 Original Budget Request</u>									
1	FY 2021	338.6	4.8	343.4	137.1	143.2	36.5	26.6	343.4	1.40
2	FY 2022	349.9	3.9	353.7	139.6	141.2	36.6	36.3	353.7	1.47
	<u>Review Adjustments</u>									
3	FY 2021	(1.8)	-	(1.8)	-	-	(0.0)	(1.8)	(1.8)	(0.01) Lower Charge Increase offset by I&E reduction
4	FY 2022	(1.8)	(0.1)	(1.8)	-	-	(0.0)	(1.8)	(1.8)	(0.01) Lower Charge Increase offset by I&E reduction
	<u>3/11 Approved Budget</u>									
5	FY 2021	336.8	4.8	341.6	137.1	143.2	36.5	24.8	341.6	1.39 Moderate DS Covg reduction
6	FY 2022	348.1	3.8	351.9	139.6	141.2	36.6	34.5	351.9	1.46 Moderate DS Covg reduction
	<u>Deferred Implementation</u>									
7	FY 2021	(3.2)	-	(3.2)	(3.2)	-	(0.0)	-	(3.2)	(0.00) Reduced revenues offset by reduced O&M target
8	FY 2022	-	-	-	(3.3)	-	-	3.3	-	0.02 Reduced FY 2021 O&M reduces forecast baseline
	<u>4/22 Adjusted Plan</u>									
9	FY 2021	333.6	4.8	338.4	133.9	143.2	36.5	24.8	338.4	1.39 No Impact on Net Revenues / DS Covg
10	FY 2022	348.1	3.8	351.9	136.4	141.2	36.6	37.8	351.9	1.48 Moderate Reserve / DS Covg increase
	<u>2020 Bond Adjustments</u>									
11	FY 2021	-	-	-	-	(5.5)	-	5.5	-	0.06 Debt Service Savings accrue to bottom line
12	FY 2022	(0.1)	0.1	(0.0)	-	(5.2)	(0.0)	5.2	(0.0)	0.06 Debt Service Savings accrue to bottom line
	<u>6/17 Working Forecast</u>									
13	FY 2021	333.6	4.8	338.4	133.9	137.7	36.5	30.4	338.4	1.44 Six point increase in Regional DS Covg ratio
14	FY 2022	348.0	3.9	351.9	136.4	136.0	36.6	43.0	351.9	1.54 Six point increase in Regional DS Covg ratio

(a) Deposits to I&E Reserves are designed to "balance the budget" via the MBO Flow of Funds

GLWA Biennial Budget Crosswalk Summary - \$ millions

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
	Revenue			Revenue Requirements					Debt Svc	
	Charges	Non-Op	Total	O&M	Debt Svc	MBO Repts	I&E Reserves	Total	Coverage	Comment
<b>SEWER SYSTEM</b>										
<u>2/13 Original Budget Request</u>										
1	FY 2021	487.0	5.6	492.6	184.9	209.7	52.4	45.5	492.6	1.42
2	FY 2022	502.0	5.4	507.4	188.9	215.4	52.5	50.5	507.4	1.43
<u>Review Adjustments</u>										
3	FY 2021	(5.9)	-	(5.9)	-	-	(0.0)	(5.8)	(5.9)	(0.03) Lower Charge Increase offset by I&E reduction
4	FY 2022	(6.0)	(0.1)	(6.0)	-	-	(0.0)	(6.0)	(6.0)	(0.03) Lower Charge Increase offset by I&E reduction
<u>3/11 Approved Budget</u>										
5	FY 2021	481.2	5.6	486.8	184.9	209.7	52.4	39.7	486.8	1.39 Moderate DS Covg reduction
6	FY 2022	496.0	5.3	501.4	188.9	215.4	52.5	44.5	501.4	1.40 Moderate DS Covg reduction
<u>Deferred Implementation</u>										
7	FY 2021	(2.6)	-	(2.6)	(2.6)	-	(0.0)	-	(2.6)	(0.00) Reduced revenues offset by reduced O&M target
8	FY 2022	-	-	-	(2.7)	-	-	2.7	-	0.01 Reduced FY 2021 O&M reduced forecast baseline
<u>4/22 Adjusted Plan</u>										
9	FY 2021	478.5	5.6	484.1	182.3	209.7	52.3	39.7	484.1	1.39 No Impact on Net Revenues / DS Covg
10	FY 2022	496.0	5.3	501.4	186.3	215.4	52.5	47.2	501.4	1.41 Moderate Reserve / DS Covg increase
<u>2020 Bond Adjustments</u>										
11	FY 2021	-	-	-	-	(7.4)	-	7.4	-	0.05 Debt Service Savings accrue to bottom line (b)
12	FY 2022	0.6	(0.6)	0.0	-	(6.4)	(0.0)	6.4	0.0	0.04 Debt Service Savings accrue to bottom line (b)
<u>6/17 Working Forecast</u>										
13	FY 2021	478.5	5.6	484.1	182.3	202.3	52.3	47.1	484.1	1.44 Five point increase in Regional DS Covg ratio
14	FY 2022	496.6	4.8	501.4	186.3	209.0	52.4	53.6	501.4	1.46 Four point increase in Regional DS Covg ratio

(a) Deposits to I&E Reserves are designed to "balance the budget" via the MBO Flow of Funds

(b) Actual refinancing savings ~ \$8.1 million offset by change in variable rate on existing bonds and refined SRF evaluation

GLWA Biennial Budget Crosswalk Summary - \$ millions

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
	Revenue			Revenue Requirements					Debt Svc	
	Charges	Non-Op	Total	O&M	Debt Svc	MBO Reqs	I&E Reserves	Total	Coverage	Comment
<b>WATER + SEWER</b>										
<u>2/13 Original Budget Request</u>										
1	FY 2021	825.6	10.4	<b>836.0</b>	322.1	352.9	88.9	72.1	<b>836.0</b>	
2	FY 2022	851.8	9.3	<b>861.1</b>	328.6	356.6	89.1	86.9	<b>861.1</b>	
<u>Review Adjustments</u>										
3	FY 2021	(7.6)	-	(7.6)	-	-	(0.0)	(7.6)	(7.6)	Lower Charge Increase offset by I&E reduction
4	FY 2022	(7.7)	(0.1)	(7.8)	-	-	(0.0)	(7.8)	(7.8)	Lower Charge Increase offset by I&E reduction
<u>3/11 Approved Budget</u>										
5	FY 2021	818.0	10.4	<b>828.4</b>	184.9	209.7	52.4	381.3	<b>828.4</b>	Moderate DS Covg reduction
6	FY 2022	844.1	9.2	<b>853.2</b>	188.9	215.4	52.5	396.4	<b>853.2</b>	Moderate DS Covg reduction
<u>Deferred Implementation</u>										
7	FY 2021	(5.8)	-	(5.8)	(5.8)	-	(0.0)	-	(5.8)	Reduced revenues offset by reduced O&M target
8	FY 2022	-	-	-	(5.9)	-	-	5.9	-	Reduced FY 2021 O&M reduced forecast baseline
<u>4/22 Adjusted Plan</u>										
9	FY 2021	812.1	10.4	<b>822.5</b>	182.3	209.7	52.3	378.1	<b>822.5</b>	No Impact on Net Revenues / DS Covg
10	FY 2022	844.1	9.2	<b>853.2</b>	186.3	215.4	52.5	399.1	<b>853.2</b>	Moderate Reserve / DS Covg increase
<u>2020 Bond Adjustments</u>										
11	FY 2021	-	-	-	-	(12.9)	-	12.9	-	Debt Service Savings accrue to bottom line (b)
12	FY 2022	0.5	(0.5)	<b>0.0</b>	-	(11.6)	(0.0)	11.7	<b>0.0</b>	Debt Service Savings accrue to bottom line (b)
<u>6/17 Working Forecast</u>										
13	FY 2021	812.1	10.4	<b>822.5</b>	182.3	202.3	52.3	385.5	<b>822.5</b>	Five point increase in Regional DS Covg ratio
14	FY 2022	844.6	8.6	<b>853.2</b>	186.3	209.0	52.4	405.5	<b>853.2</b>	Four point increase in Regional DS Covg ratio

(a) Deposits to I&E Reserves are designed to "balance the budget" via the MBO Flow of Funds

(b) Actual refinancing savings ~ \$13.6 million offset by change in variable rate on existing bonds and refined SRF evaluation