



June 2022 Preliminary Financial Review

BOWC Finance Committee

October 5, 2022

June 2022 Highlights

Audit Status

- Plante & Moran, DWSD's external auditor, is currently on site to complete the FY 2022 Financial Statements audit.
- Currently waiting on certain Employee Benefits entries from the City to complete the final close of books.
- Expect the audit to be completed by December 2022.
- Information in this presentation is preliminary pending completion of the audit.

Cash and Investments

- DWSD's Cash and Investment balances have remained stable through FY 2022.
- As of June 30, 2022, Cash and Investments amounted to \$230.9 million (\$137.1 in the Water Fund and \$93.8 million in the Sewer Fund). This includes Operating, I&E and Construction Cash and Investments.
- Slide 9 shows DWSD's Cash and Investments position by Financial Institutions and by Fund since 2019.
- In addition, DWSD has \$27.9 million (\$13.3 and \$14.6 million in the Water and Sewer Funds, respectively), in Trust accounts, which are held by GLWA.

Capital Spending

- DWSD spent down approximately \$19 million in Water and Sewer Construction cash in FY 2022.
- Delay in starting certain projects have slowed the planned rate of spending.

June 2022 Highlights

Revenue Metrics and Trends

- Water volumes have exceeded allocated budgets in each month of FY 22 and trended at 8.2% over budget and Meter Equivalents trended at 0.6% over budget through June.
- Water (Commodity) revenues trended above budgeted revenues by 10.8% and Service Charges trended above budget by 3.7% for the year.
- Sewer Volumes are 4.0 % over budget, while Sewer Meters exceeded budget levels by 1.8%.
- Sewer (Commodity) revenues and Service Charge exceeded budgets by 4.7% and 4.3%, respectively.
- In July 2021, the budgeted Billable Impervious Acreage was increased based on recent flyover data.
- Drainage revenue budget shortfall of 1.1 million.

Year-to-Date Budget vs Actual Revenues and Expenses

- Since the June revenue and expense numbers are preliminary (pending completion of audit), the Budget vs Actual report for the year ended June 30, 2022 will be presented after the audit is completed.

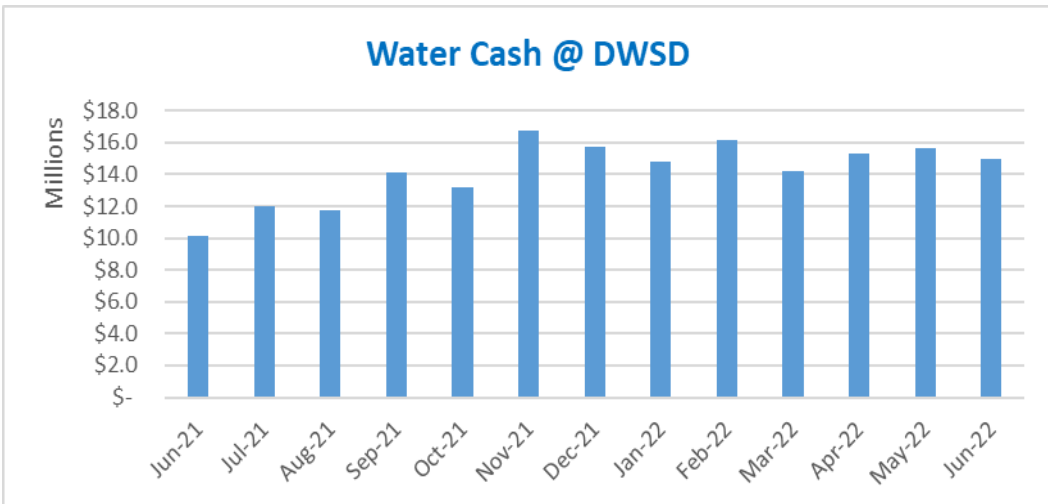
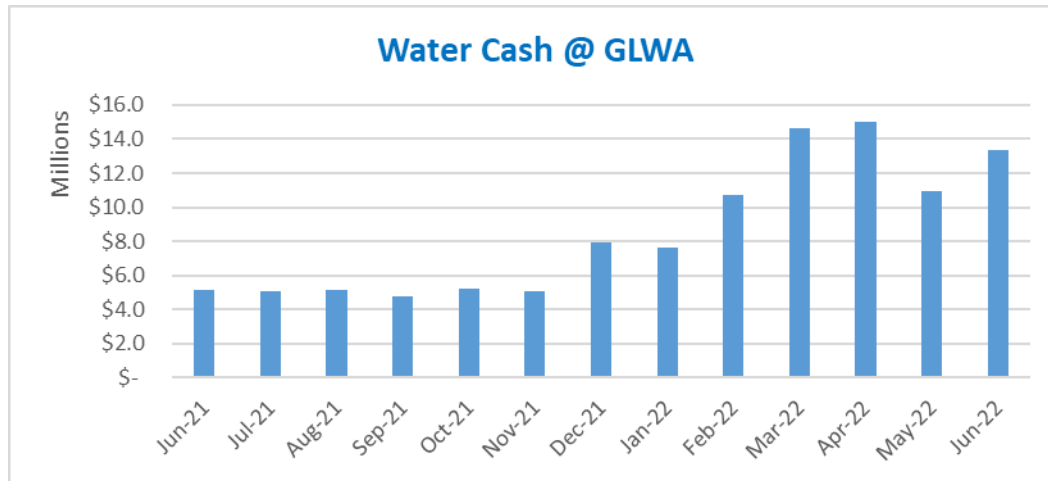
June 2022 Highlights



Collection and Receivables

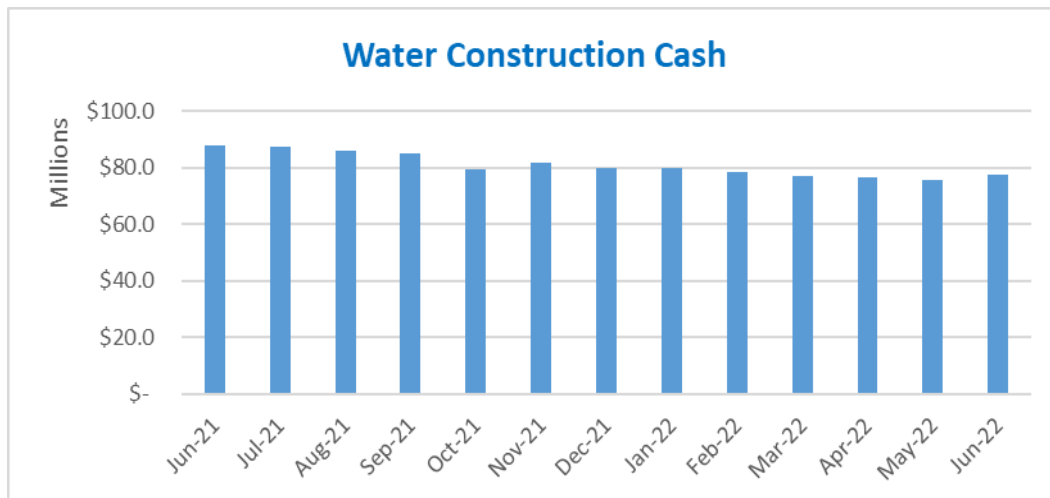
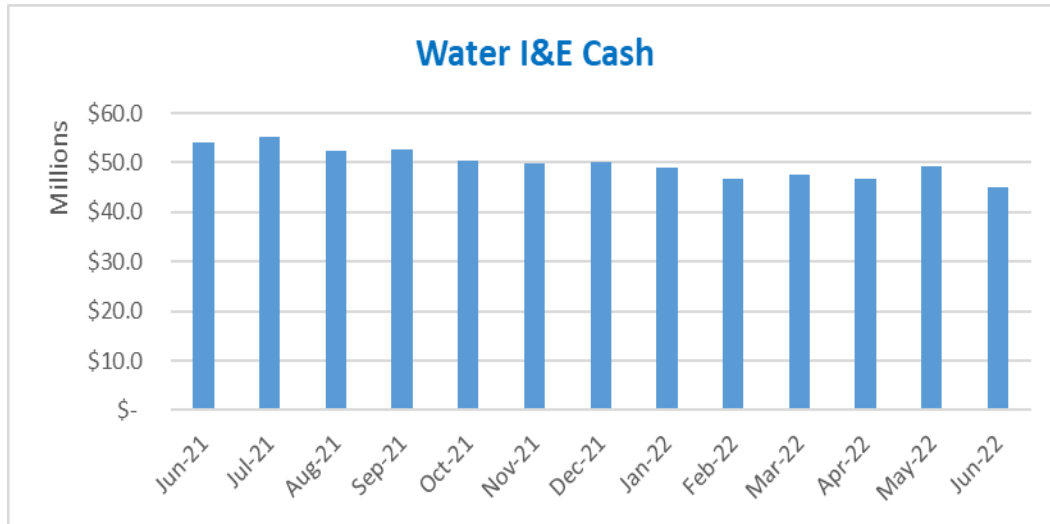
- The average age of residential accounts receivable continues to increase. As of June, active residential accounts averaged 281 days representing an increase of 104 days (59%) since June 2020.
- The 3-month average collection rate for residential accounts was 73% . By comparison, the pre-pandemic collection rate exceeded 95% as of December 2019.
- DWSD continues to increase bad debt estimates due to increase in average age of residential accounts.
- Allowance for bad debt has increased \$114.68 million (80.3%) since June 2020 while total accounts receivable increased by 40.4% over the same period reflecting increased risk of collection due to deteriorated aging.
- Residential sales amounted to 45% of total sales while accounting for 61% of all active receivables.
- Almost 70% of total receivables are over 180 days past due. More than 50% of those are residential accounts.
- The average age of non-residential sales classes have shown improvement due to stepped-up collection effort.
- Commercial and Industrial customers average age has declined from 240 days in June 2020 to 186 days as of June.
- Drainage only accounts aging has also declined from 276 days to 241 days.
- The valuation of total receivables is offset on the balance sheet by an allowance for doubtful accounts of \$257.6 million. The net carrying value of receivables was \$42.8 million as of June 30, 2022.

Water Operating Cash



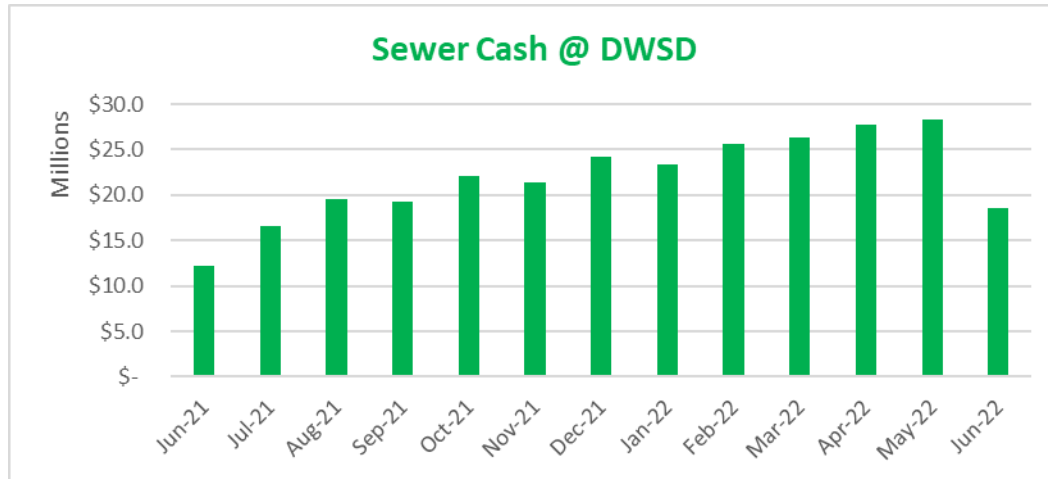
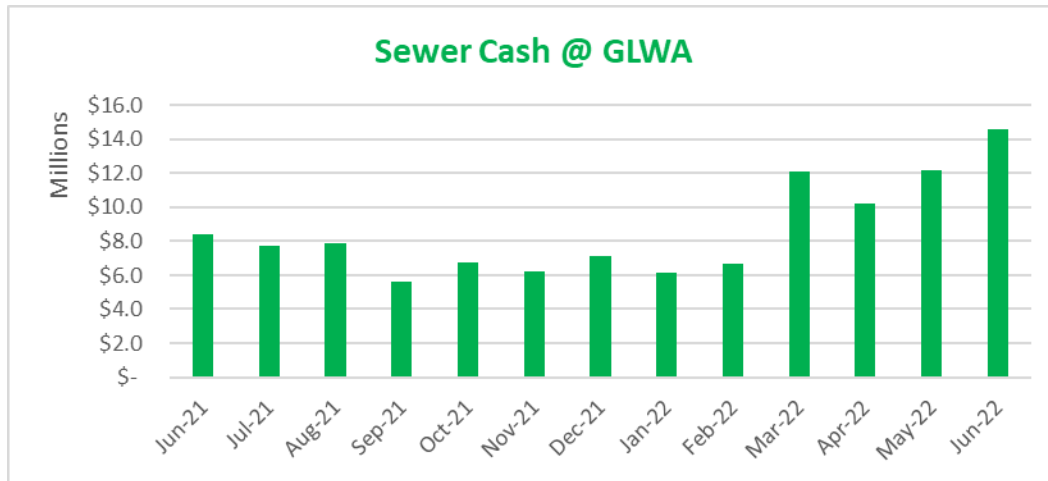
- **Cash @ GLWA** amounted to \$13.3 million on June 30th representing an increase of \$8.2 million over last year.
- Beginning December 2021, excess dollars were transferred for debt service from I&E Cash to Cash @ GLWA in error in the Water Fund. In May 2022, this error was corrected by transferring \$4 million back to I&E Cash.
- **Operating Cash** balances have remained stable through FY 2022.
- As of June 30, 2022, Water **Cash @ DWSD** amounted to \$14,2 million representing an increase of \$4.8 million over last year.

Water I&E and Construction Cash



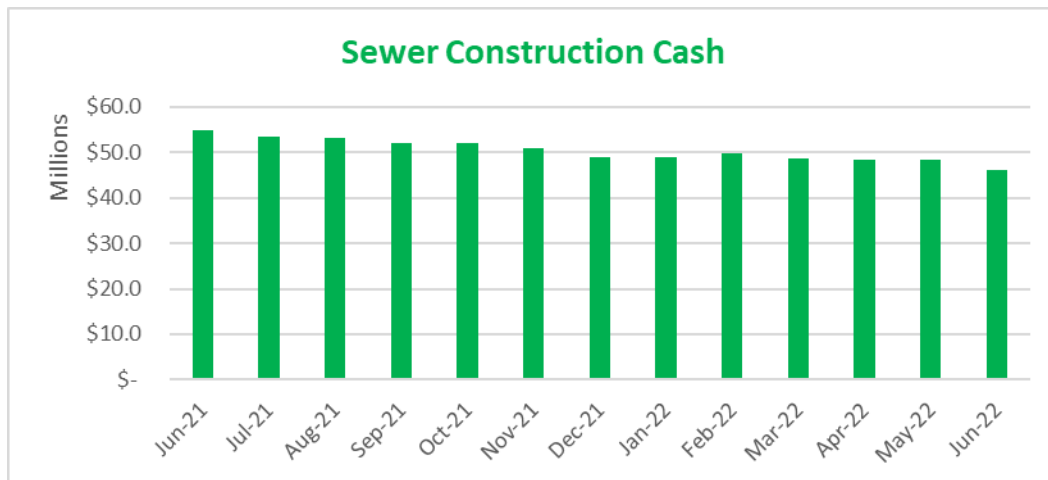
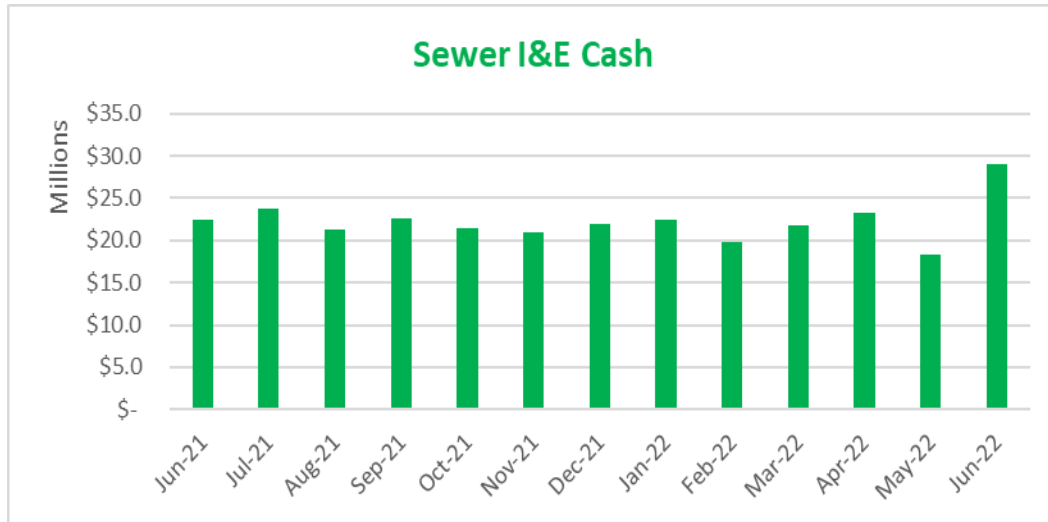
- A balance of \$45.1 million was on deposit in the **I&E Cash** account at the end of June representing a reduction of \$8.8 million over the past twelve months.
- Beginning December 2021, excess dollars were transferred for debt service from I&E Cash to Cash @ GLWA in error in the Water Fund. In May 2022, this error was corrected by transferring \$4 million back to I&E Cash.
- DWSD continues to spend down **Construction Cash** in support of the Water Capital Improvement Program.
- Approximately \$10.1 million of Water construction cash were spent last year leaving a balance of \$77.8 million in the Construction Cash account as of June 30, 2022.
- There are no plans for the issuance of new bonds in the immediate future.

Sewer Operating Cash



- **Cash @ GLWA** amounted to \$14.6 million at the end of June representing an increase of \$6.2 million over last year.
- In the Sewer Fund, no transfers were made from I&E Cash to Cash @ GLWA for debt service. In May this error was corrected by transferring \$4.6 million to Cash @ GLWA.
- **Operating Cash** balances have remained stable through FY 2022.
- As of June 30, 2022, Sewer **Cash @ DWSD** amounted to \$18.6 million representing an increase of \$6.4 million over last year.

Sewer I&E and Construction Cash



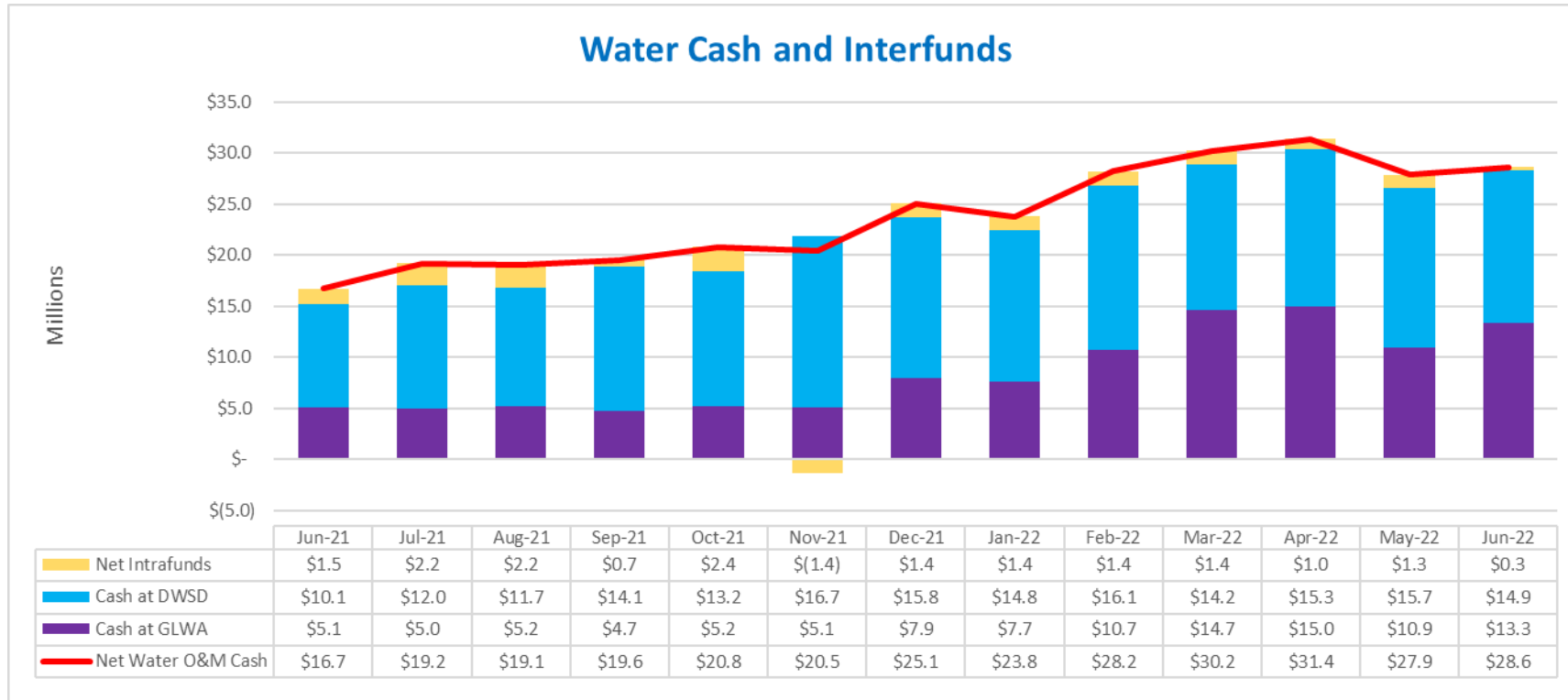
- A balance of \$29.1 million was on deposit in the **I&E Cash** account at the end of June representing an increase of \$6.5 million over the past twelve months.
- In the Sewer Fund, no transfers were made from I&E Cash to Cash @ GLWA for debt service. In May this error was corrected by transferring \$4.6 million to Cash @ GLWA.
- DWSD continues to execute the Capital Improvement Plan and spend down construction cash balances.
- Approximately \$8.8 million of Sewer Construction cash were spent last year leaving a balance of \$46.1 million in the Construction Cash account as of June 30, 2022.
- There are no plans for the issuance of new bonds in the immediate future.

Changes in Cash and Investments @ DWSD (2019 – 2022)

(Amounts in thousands)

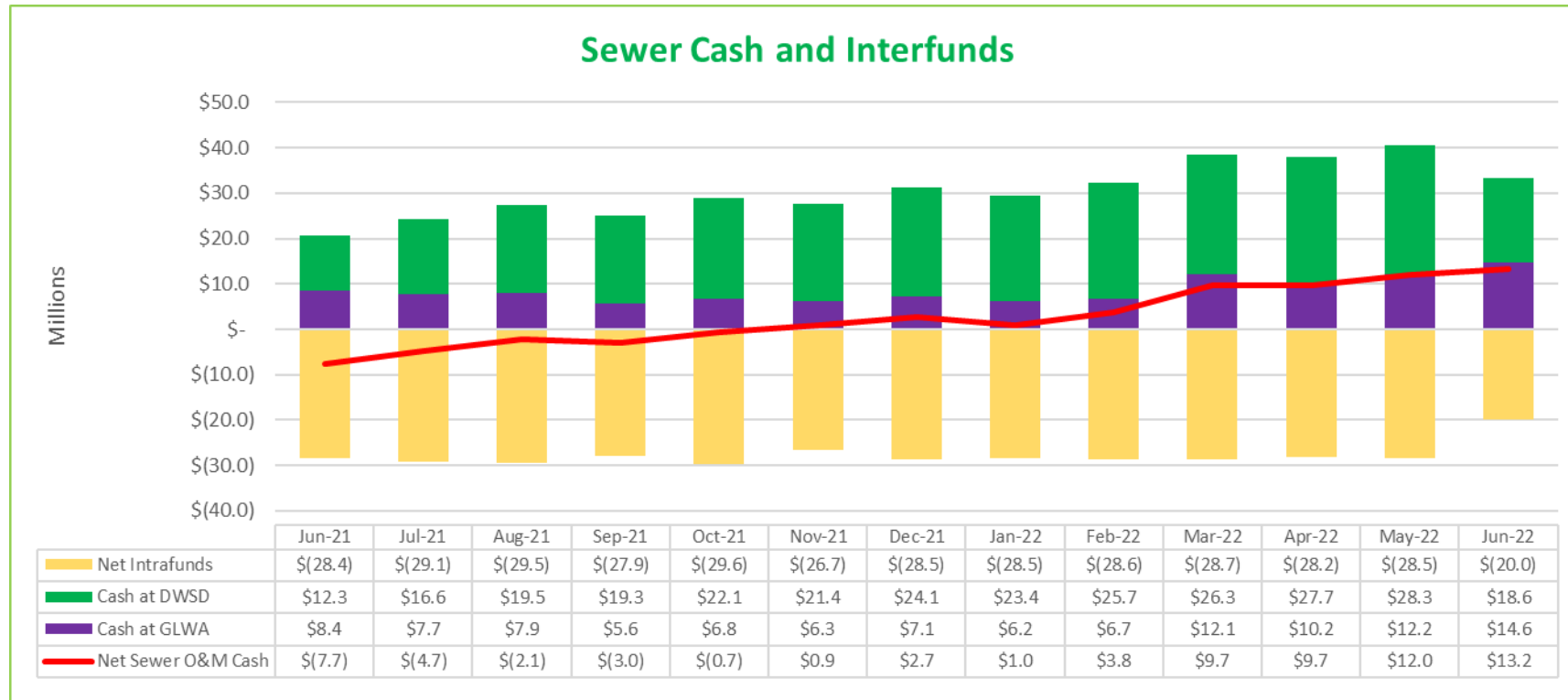
	<u>6/30/2019</u>		<u>6/30/2020</u>		<u>6/30/2021</u>		<u>6/30/2022</u>	
SUMMARY BY INSTITUTION								
US Bank	\$ 3,136	1.3%	\$ 4,392	1.5%	\$ 1,530	0.6%	\$ 8,339	3.6%
JP Morgan Chase	1,426	0.6%	1,662	0.6%	1,919	0.8%	1,716	0.7%
First Independence	52,687	21.1%	34,665	11.7%	21,522	8.9%	22,702	9.8%
Comerica	192,718	77.1%	256,216	86.3%	215,731	89.6%	19,916	8.6%
GovMIC	-	0.0%	-	0.0%	-	0.0%	178,186	77.2%
Total Cash and Investments	<u>\$ 249,967</u>	<u>100.0%</u>	<u>\$ 296,935</u>	<u>100.0%</u>	<u>\$ 240,701</u>	<u>100.0%</u>	<u>\$ 230,858</u>	<u>100.0%</u>
Water Funds								
Operating	\$ 22,770	9.1%	\$ 20,541	6.9%	\$ 9,315	3.9%	\$ 14,222	6.2%
Improvement & Extension	51,340	20.5%	49,777	16.8%	53,920	22.4%	45,113	19.5%
Construction Pre-Bifurcation	5,230	2.1%	6,785	2.3%	-	0.0%	-	0.0%
Construction Series 2013	15,603	6.2%	177	0.1%	-	0.0%	-	0.0%
Construction Series 2020A	-	0.0%	99,565	33.5%	87,848	36.5%	77,764	33.7%
	<u>94,943</u>	<u>38.0%</u>	<u>176,846</u>	<u>59.6%</u>	<u>151,084</u>	<u>62.8%</u>	<u>137,098</u>	<u>59.4%</u>
Sewer Funds								
Operating	29,312	11.7%	25,094	8.5%	12,259	5.1%	18,603	8.1%
Improvement & Extension	29,496	11.8%	18,296	6.2%	22,524	9.4%	29,070	12.6%
Construction Pre-Bifurcation	4,001	1.6%	3,439	1.2%	-	0.0%	13	0.0%
Construction Series 2013	92,215	36.9%	73,260	24.7%	54,835	22.8%	46,074	20.0%
	<u>155,024</u>	<u>62.0%</u>	<u>120,089</u>	<u>40.4%</u>	<u>89,617</u>	<u>37.2%</u>	<u>93,760</u>	<u>40.6%</u>
Total Cash and Investments	<u>\$ 249,967</u>	<u>100.0%</u>	<u>\$ 296,935</u>	<u>100.0%</u>	<u>\$ 240,701</u>	<u>100.0%</u>	<u>\$ 230,858</u>	<u>100.0%</u>

Water Combined Operating Cash and Interfund Balances



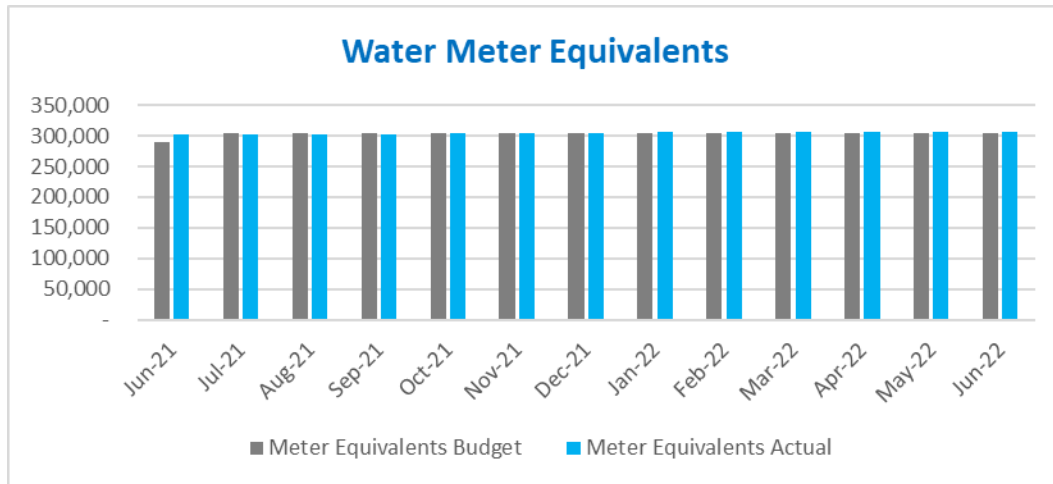
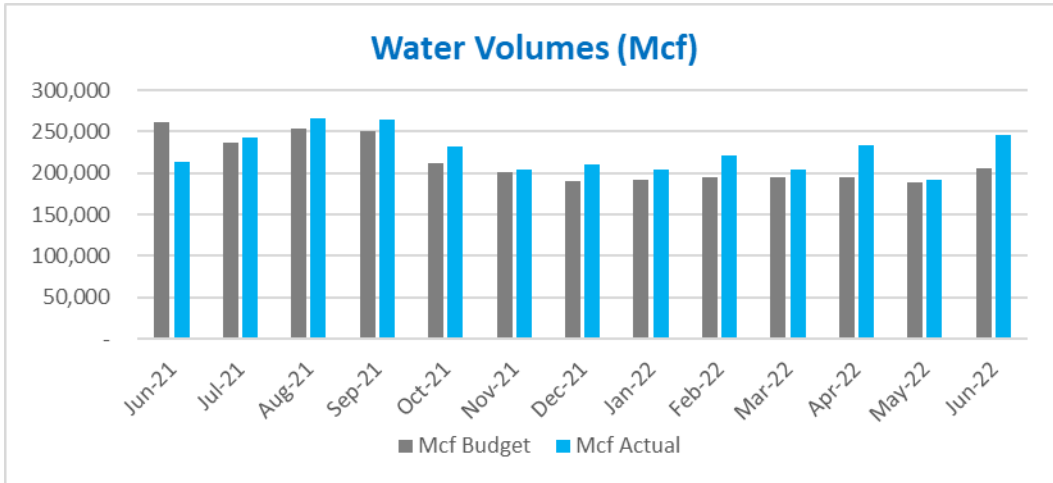
- In May 2022, a \$4 million transfer was made from **Cash @ GLWA** was to the I&E Fund to correct the amount of lease payments applied to pay debt service.
- June's Net Water **Operating Cash** and Interfund position amounted to \$28.6 million, representing an increase of \$11.9 million over the past twelve months.

Sewer Combined Operating Cash and Interfund Balances



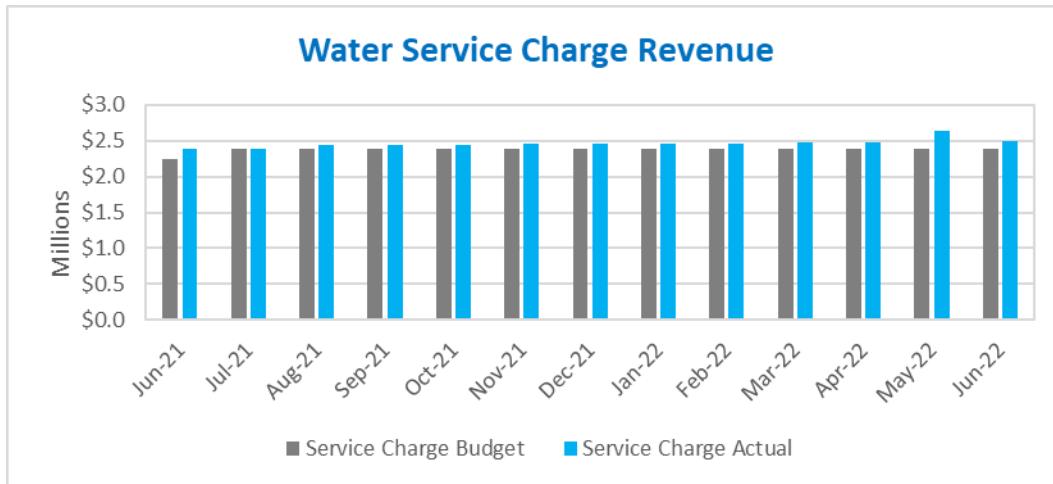
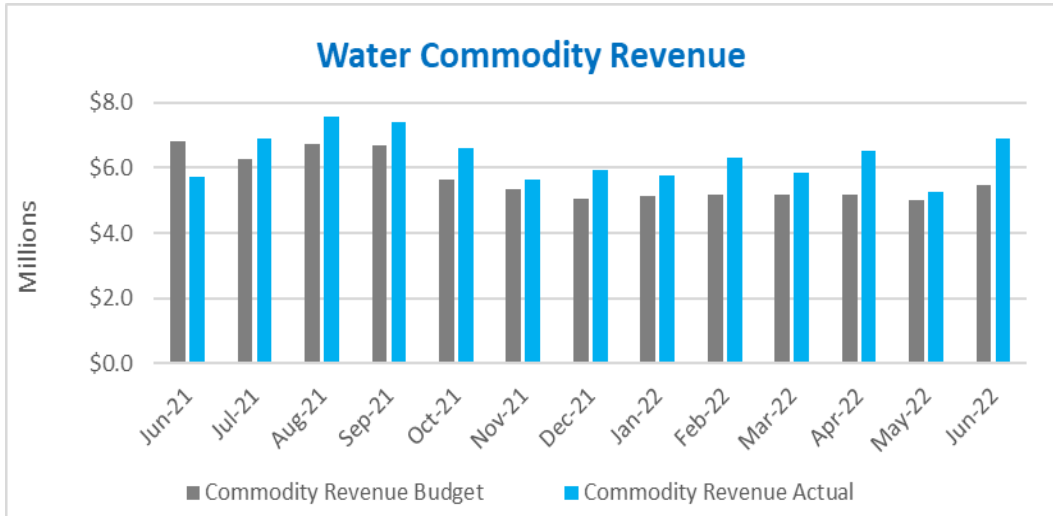
- Net Sewer **Operating Cash** has steadily improved since accruing a \$50 million shortfall over the first two years following bifurcation.
- June’s Net Sewer **Operating Cash** and Interfund position amounted to \$13.3 million, representing an increase of \$20.9 million over the past twelve months.

Water Revenue Metrics



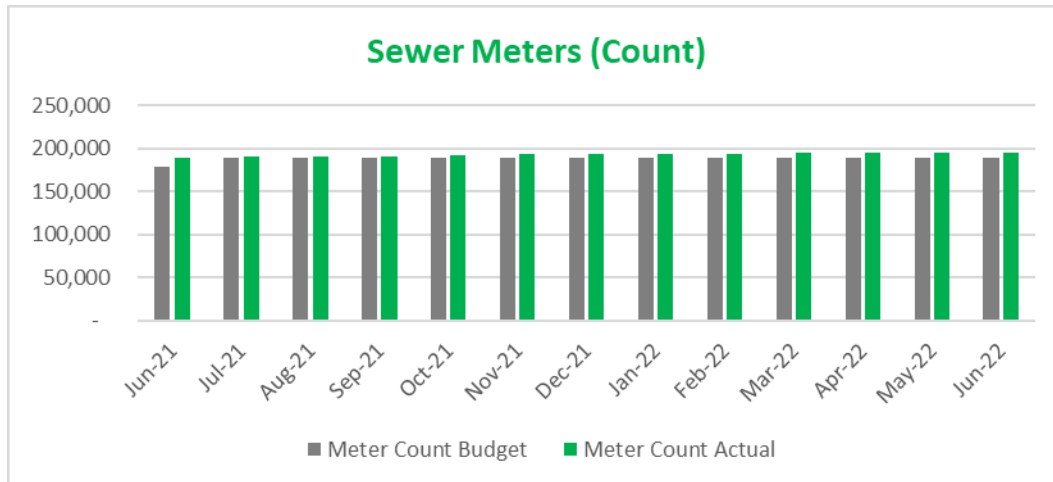
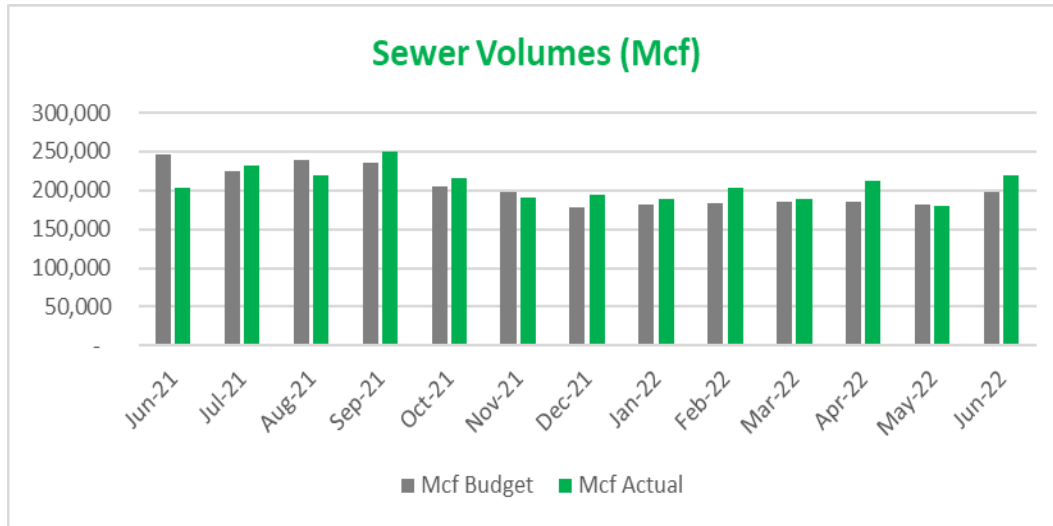
- Actual *Water Volumes* of 2.7 million Mcf exceeded budgeted volumes of 2.5 million Mcf in FY 2022.
- For the year ended June 30, monthly *Water Volumes* averaged 8.2% over allocated budgets.
- *Water Meter Equivalents* remained slightly ahead of budgeted levels throughout the year.
- Total *Meter Equivalents* increased by approximately 5,300 (1.8%) since June 2021. Monthly average increases were 0.6% for the year.

Water Revenue Trends



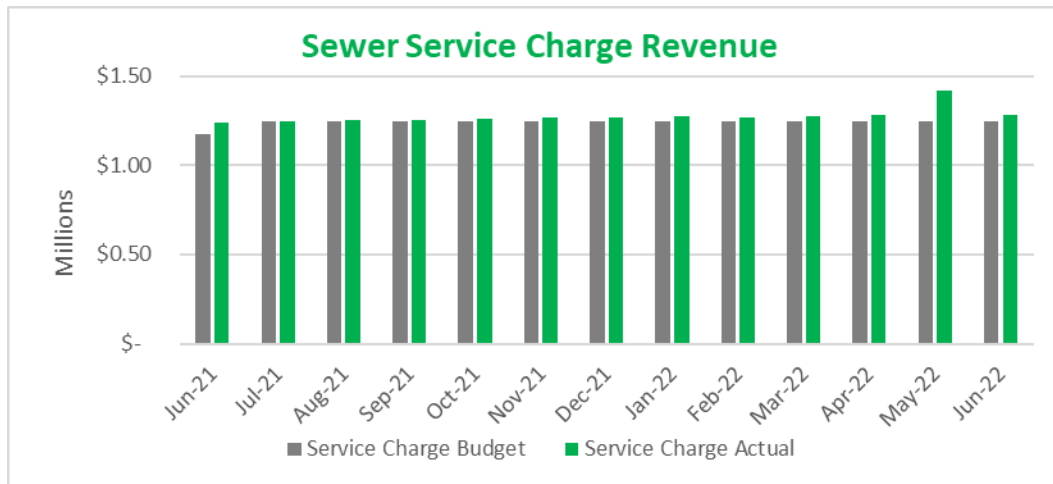
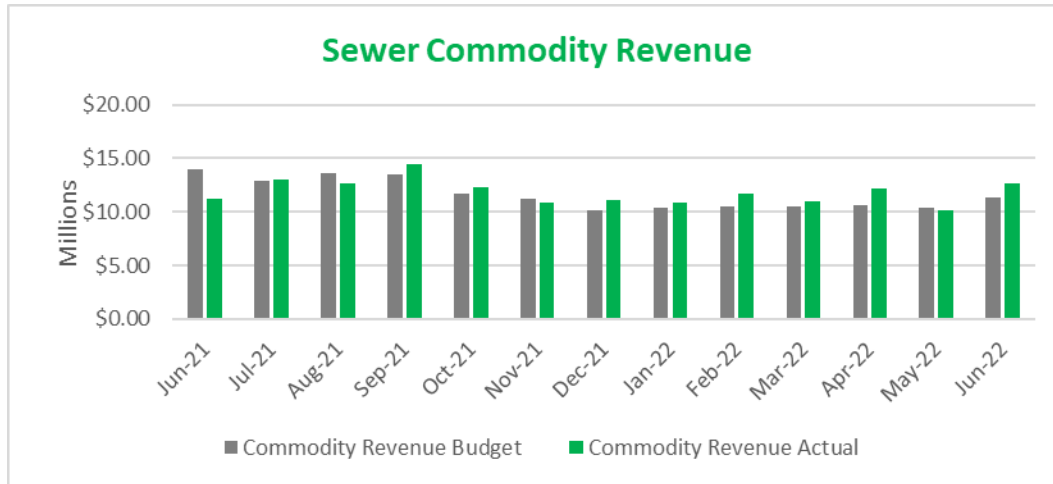
- Reported FY 2022 *Water Commodity Revenues* reflect normal seasonal volume trends.
- Total year-to-date *Commodity Revenues* trended above budgeted amounts by 10.8% in 2022.
- *Water Service Charge Revenue* is also trended above budget by 3.7% for the fiscal year.

Sewer Revenue Metrics



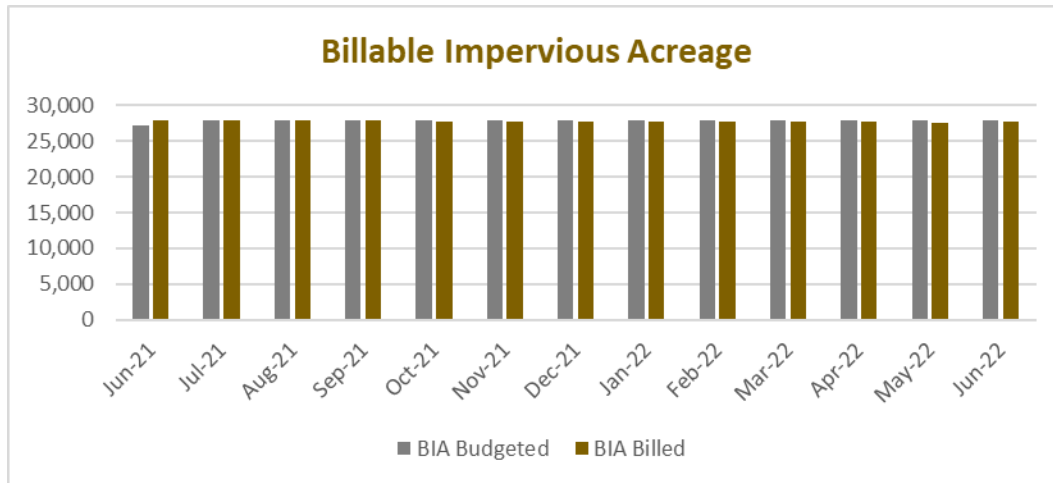
- Sewer Volumes generally increase during the summer months due to higher demand.
- In FY 2022, reported Sewer Volumes ended up 4.0% over estimated budget levels.
- Actual Sewer Meter Counts have been reporting positive variances to budget since the beginning of FY 2022.
- For the year, Meter Counts exceeded budget by 1.8%.

Sewer Revenue Trends

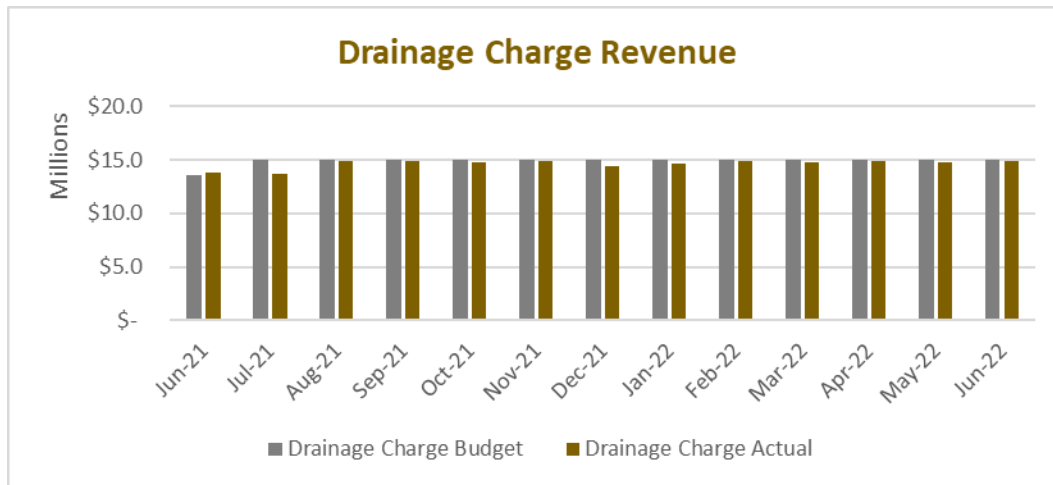


- Sewer **Commodity Revenue** reflects normal seasonal volumetric increases for summer months and reductions through the winter.
- For the year ended June 30, Sewer **Commodity Revenues** exceeded budgeted revenues by 4.7%.
- FY 2022 Sewer **Service Charge Revenue** exceed budget by 4.3%.

Drainage Metrics and Revenues



- In July 2021, total budgeted **Billable Impervious Acreage** increased based on updated flyover data.
- Year-to Date **Billed Impervious Acreage** was below budget by 0.3% for Fiscal 2022.



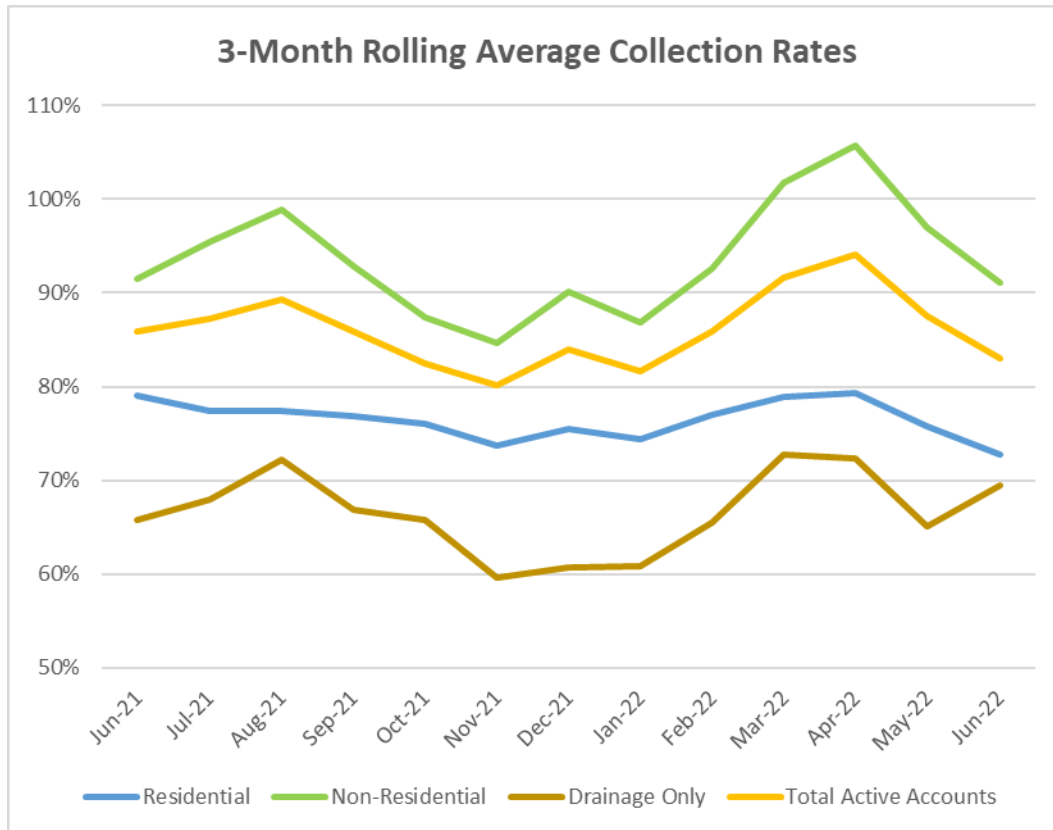
- Retroactive Drainage adjustments of \$1.5 million contributed to a total **Drainage Charge Revenue** budget shortfall of \$1.1 million (0.6%).

Accounts Receivable Aging as of June 30, 2022

Sales Class	# of Accounts	Avg. Balance	Current	> 30 Days	> 60 Days	> 180 Days	A/R Balance
Residential	349,676	\$ 465.19	\$ 14,662,607	\$ 8,296,080	\$ 27,825,485	\$ 111,882,637	\$ 162,666,809
Commercial	26,819	1,137.10	8,408,741	1,947,815	6,572,840	13,566,454	30,495,851
Industrial	3,677	4,046.63	4,724,426	897,714	1,899,488	7,357,844	14,879,472
Tax Exempt	3,570	887.02	570,183	179,811	495,809	1,920,859	3,166,661
Government	21,411	1,017.56	2,649,521	1,010,640	2,465,680	15,661,139	21,786,979
Drainage	20,037	1,611.79	2,683,143	1,402,908	4,578,327	23,631,099	32,295,477
Subtotal - Active Accounts	425,190	623.94	33,698,621	13,734,969	43,837,628	174,020,033	265,291,250
Inactive	90,798	386.08	58,253	77,951	692,353	34,226,440	35,054,997
Total	648,251	\$ 463.32	\$ 33,756,874	\$ 13,812,920	\$ 44,529,980	\$ 208,246,473	\$ 300,346,247
% of Total A/R			11.2%	4.6%	14.8%	69.3%	100.0%

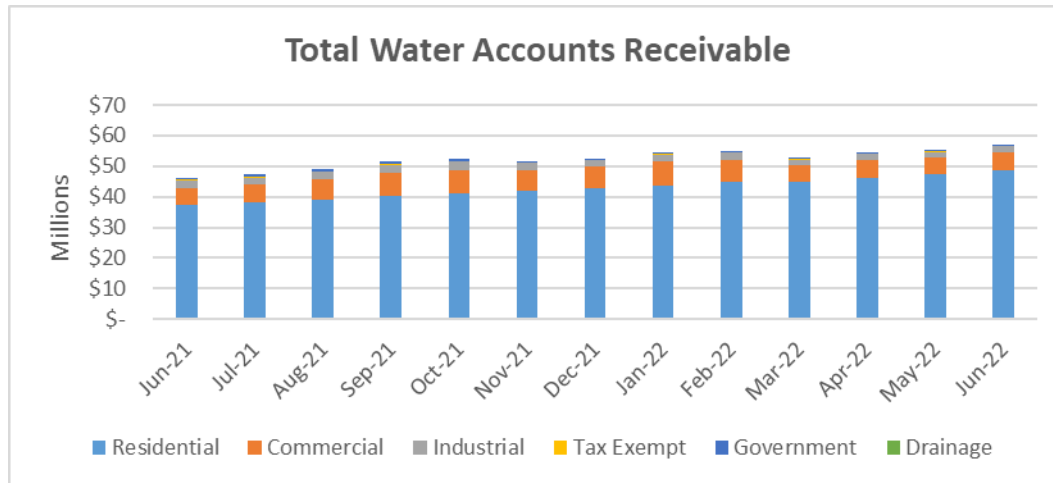
- Uncollected accounts receivable are generally carried for five years until the statutory lien expires.
- Almost 70% of total receivables are over 180 days past due. More than half of those are residential accounts.
- The valuation of total receivables is offset on the balance sheet by an allowance for doubtful accounts of \$257 million. The net carrying value of receivables was \$42.8 million as of June 30th.

Collection Rates

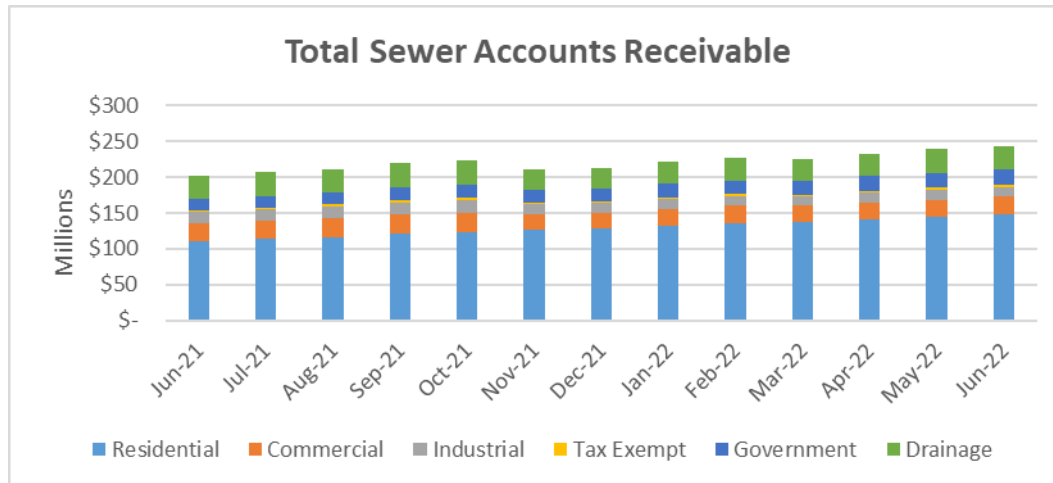


- Nonresidential collections improved over the winter months in response to DWSD’s placement of delinquent accounts on the City’s tax roll in December.
- Customers must pay delinquencies to the City treasurer before April or risk losing the property through tax foreclosure.
- Residential collection rates dropped from 79.0% in June 2021 to 72.8% in June 2022. The reduction reflects the suspension of collection efforts following the outbreak of COVID-19.
- The average collection rate for all active accounts was 83.1% for June 2022. The comparable rate was 85.9% for June 2021.
- Management expects that collection rates will improve once service interruptions resume for residential customers.

Accounts Receivable Trends

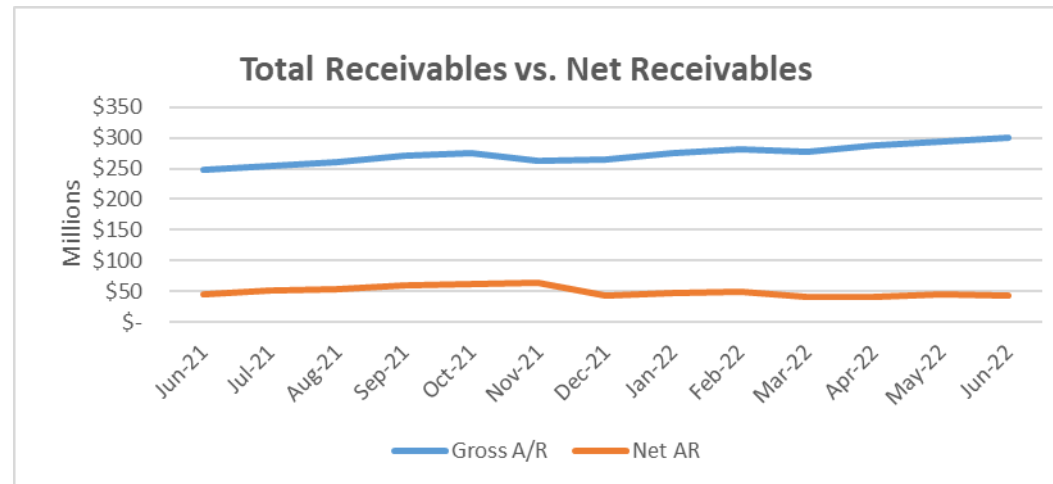
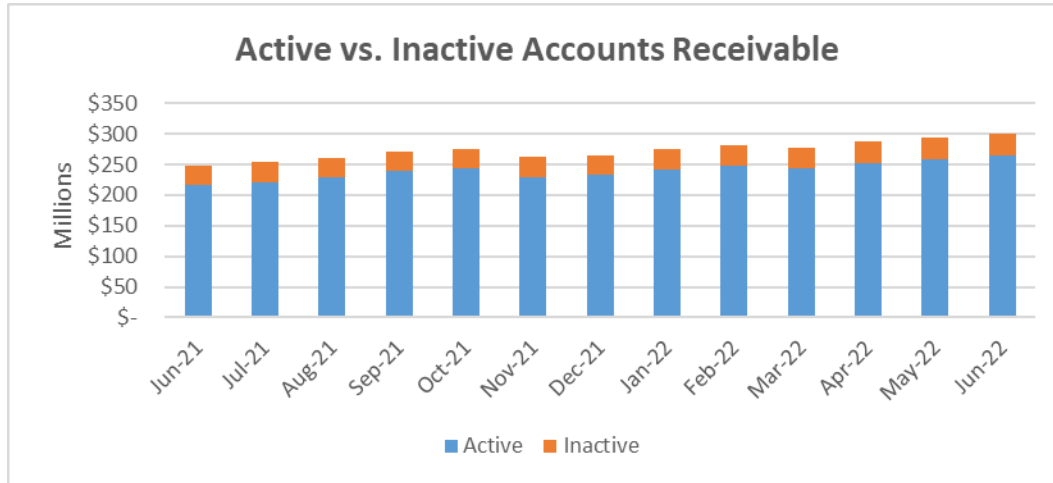


- Total *Water Accounts Receivable* have increased \$10.8 million (19.1%) over the past 12 months.
- *Residential Water Accounts Receivable* increased \$11.4 million (23.5%) over the past 12 months.
- *Nonresidential* account balances **decreased** \$591,000 over the same period.



- Total *Sewer Accounts Receivable* have increased \$41.5 million (17.0%) over the past 12 months.
- *Residential Sewer Accounts Receivable* increased \$37.3 million (25.2%) over the past 12 months. *Governmental* account balances increased \$5.6 million over the same period.

Accounts Receivable Trends



- **Inactive Accounts Receivable** have increased \$2.7 million (7.7%) over the past 12-month period. All of the increase can be attributed to the increase in Residential Accounts.
- **Non-Residential Accounts** transferred to the Tax Roll were written off in December 2021.
- *Accounts Receivable net of the Allowance for Doubtful Accounts* have declined as DWSD continues to increase Bad Debt Expense assumptions due to increases in the average age of **Residential** accounts.
- The total **Allowance for Doubtful Accounts** amounted to \$257.6 million on June 30th representing 85.7% of total receivables.

Historical Accounts Receivable

- The average age of **Active Residential** receivables has increased by 104 days (59%) since June 2020.
- The **Allowance for Doubtful Accounts** has increased \$114.7 million (80%) since June 2020 in response to a 40% increase in total accounts receivable and an increased risk to collection due to deteriorated ageing.
- The average age of most **Non-Residential** sales classes have shown general improvement due to stepped-up collection efforts.

Sales Class	June 30, 2020			June 30, 2021			June 30, 2022		
	Sales	Receivables	Days in AR	Sales	Receivables	Days in AR	Sales	Receivables	Days in AR
Residential	\$ 15,433,298	\$ 90,963,941	177	\$ 16,228,584	\$ 118,059,548	218	\$ 17,389,839	\$ 162,666,809	281
Commercial	7,613,552	33,547,848	132	8,168,258	30,456,422	112	9,107,898	30,495,851	100
Industrial	3,493,954	12,613,274	108	4,860,341	16,951,221	105	5,198,283	14,879,472	86
Tax Exempt	491,259	2,914,384	178	571,304	3,258,181	171	669,630	3,166,661	142
Government	2,975,998	17,860,445	180	2,611,085	15,121,194	174	2,628,550	21,786,979	249
Drainage Only	3,052,765	28,034,656	276	3,895,026	31,851,540	245	4,027,746	32,295,477	241
Total Active Accounts	\$ 33,060,825	185,934,549	169	\$ 36,334,597	215,698,107	178	\$ 39,021,947	265,291,250	204
Inactive Accounts Receivable		27,911,704			32,356,774			35,054,997	
Total Accounts Receivable		213,846,253			248,054,881			300,346,247	
Allowance for Doubtful Accounts		(142,881,820)			(202,171,655)			(257,568,187)	
Net Accounts Receivable		\$ 70,964,433			\$ 45,883,226			\$ 42,778,060	

THANK YOU!

Detroit Water & Sewerage Department

For more information visit: www.detroitmi.gov/dwsd



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