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 * Clawson * Huntington Woods * Lathrup Village * Pleasant Ridge
 * Royal Oak * Southfield * Southfield Township

QUARTERLY REPORT January 2017

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J. A. McKeen	General Manager
R. Jackovich	Operations Manager

January 2017

Board of Trustees
Southeastern Oakland County Water Authority

Subject: Quarterly Report - January 2017

Board Members:

Attached is a copy of the Southeastern Oakland County Water Authority's Quarterly Report covering the first six months operation of the fiscal year 2016/17. The report contains a financial statement of the Authority's operation and an outline of projects in progress or completed during the second quarter. The report also contains statistical information and other information of general interest to the members of this Authority.

FINANCIAL STATEMENT

The total net operating income before depreciation for the first 6 months of 2016/17 was \$2,500,157, which was \$1,499,794 higher than budgeted. This was a substantial improvement from the net income of \$1,191,025 for the first six months of 2015/16.

	Actual	Compared to Budget
Revenue	\$15,235,953	+ \$1,570,596
Expenses	\$12,735,795	+ \$70,801
Net Income (before depreciation)	\$ 2,500,157	+ \$1,499,794

The increase in net income increased our working capital to 22.7% as of December 31, 2016. This is higher than the 8.3% working capital goal approved by the Board and it is an increase from the 14.5% working capital as of December 31, 2015.

The increase in revenue was primarily due to higher than planned water sales to both the member communities (+\$553,910) and to Bloomfield Hills and Bloomfield Twp. (+\$1,039,456). Revenue from rentals (-\$19,000) and interest (-\$2,000) were below budget. Water sales volumes for the six month period were 10.4% above budget and 7.8% greater than the actual water sales for the same period in 2015/16.

The increase in expenses was due largely to increased cost for water purchased (+\$227,000) which was partially offset by decreased costs for labor (-\$41,000), utilities (-\$21,000), maintenance (-\$12,000), supplies (-\$11,000) and lower than planned expenses for non-labor Administrative & General (-\$84,000).

Capital expenditures for the first six months of the fiscal year totaled \$166,116 and were for new roofs at Shafter Station (\$68,000), Oliver Station (\$28,000), replacement of the control SCADA system (\$46,000), the remodeling of the Control Room at Webster Station (\$13,000), the purchase of a valve exerciser (\$8,000) and the remodeling of our offices at Webster Station (\$4,000).

Additional financial detail is attached.

The following is the Authority's record of revenues and expenditures based on the average cost per 1,000 cu. ft. of water.

	2014/15	2015/16	2016/17	Over or Under 2015/16
Total Sales (MCF)	672,438	709,766	763,173	+53,407
Water Sales	\$16.95	\$19.42	\$19.90	+0.48
Other Income	<u>.06</u>	<u>0.11</u>	<u>0.07</u>	<u>-0.04</u>
Total Income	\$17.01	\$19.53	\$19.97	+\$0.44
Water Purchased for Resale	15.20	16.46	15.45	-1.01
Operating Expenses	1.45	1.39	1.24	-0.15
Fixed Charges	<u>0.02</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Operating Expenses	\$16.67	\$17.85	\$16.69	-\$1.16
Available for Debt Service and Improvements	\$0.34	\$1.68	\$3.28	+\$1.34

COMPARATIVE STATEMENT

The following is a comparison of the first six months operation of the current fiscal year with the same period of the previous fiscal year.

Revenues From the Sale of Water	+ \$1,401,880	
Revenues From Other Sources	- <u>27,775</u>	
TOTAL REVENUES		+ <u>\$1,374,105</u>
<u>Operating Expenses</u>		
Water Purchased for Resale	+ \$103,379	
Other Operating Expenses	- 38,406	
TOTAL EXPENDITURES		+ <u>\$64,973</u>
NET INCOME BEFORE DEPRECIATION		+ \$1,309,132

The following is the record of water sales to member municipalities for the period July 1 through December 31. The six month record shows an increase in water sales of 7.8% during the current fiscal year compared with the same period of the previous fiscal year. For the six month period, our sales were 10.4% higher than budgeted.

WATER CONSUMPTION – DAILY AVERAGE (MGD) JULY 1 THROUGH DECEMBER 31						
Month	2012	2013	2014	2015	2016	Over or Under 2015
July	52.33	35.92	36.61	34.59	45.77	+11.18
August	43.25	38.34	32.91	37.06	41.54	+4.48
September	38.20	32.31	28.27	33.86	32.96	-0.90
October	25.70	24.58	23.09	25.69	23.82	-1.87
November	22.03	21.63	21.76	21.19	20.80	-0.39
December	21.60	21.89	21.24	20.66	21.42	+0.76
Average	33.89	29.13	27.34	28.86	31.10	+2.24
Variance		-14.0%	-6.2%	+5.6%	+7.8%	

The following is the precipitation record, as recorded at the Webster Station:

PRECIPITATION – INCHES					
Month	2012	2013	2014	2015	2016
July	3.80	3.00	2.70	1.30	2.85
August	4.30	3.30	7.20	2.10	2.80
September	2.00	2.00	2.20	1.30	4.49
October	1.70	3.10	1.70	1.80	1.80
November	0.72	2.40	2.40	1.30	1.35
December	<u>2.10</u>	<u>3.60</u>	<u>1.20</u>	<u>1.50</u>	<u>1.70</u>
Total:	14.62	17.40	17.40	9.30	14.99

MAJOR PROJECTS

GLWA WATER RATES

GLWA will be announcing the rates for 2017/18 in late January. GLWA (and SOCWA) is continuing to experience reductions in sales volumes. In addition, Genesee County plans to leave the GLWA water system during 2017/18 which will result in another decrease in GLWA sales volume. GLWA has made several cost control efforts which will help to reduce the rate impact of the loss of Genesee County as a water customer.

DWSD/GLWA ISSUES

The Great Lakes Water Authority (GLWA) became operational on January 1, 2016 and has completed their initial year of operation.

GLWA Board of Directors

The GLWA Director representing Wayne County resigned in December of 2016. A replacement Wayne County Director has yet to be named.

Bond Refinancing

In October, GLWA successfully refinanced \$1.09 billion in water and sewer bonds at lower interest rates and sold \$252 million of new water bonds. The refinancing of the water bonds produced a total cash flow savings of \$185 million and a present value savings of \$121 million. A large portion of these savings were front loaded into the current fiscal year (\$10.7 million), 2017/18 (\$16.0 million) and 2018/19 (\$20.1 million). The savings in 2017/18 are particularly important because they can be used to mitigate the loss of Genesee County as a GLWA customer, which is planned to take place during 2017/18. This transaction also served to reduce the maximum annual debt payment for the water system which resulted in the release of \$25 million in bond reserve funds which will help to fund GLWA's capital program. The all-in interest rate for the water refinancing was 3.81%. The new bonds were also sold with a provision that allows GLWA to eliminate bond reserve funds when GLWA is rated AA or higher by two ratings agencies. In the long run, this should also allow GLWA to use existing reserves to help fund their capital program.

Highland Park

Highland Park continues to owe GLWA approximately \$4 million in unpaid water bills and \$29 million in unpaid sewer bills. GLWA is continuing to pursue collection of the unpaid amounts.

City of Flint

GLWA began resupplying water to Flint on October 16, 2015. This was done in order to resolve a series of fiascos that began when Flint began to use their water treatment plant to provide water from the Flint River to the City of Flint in April of 2014. Flint had previously been a customer of DWSD. GLWA and Flint have agreed to a contract that requires that Flint pay the estimated cost of their water purchases to GLWA before the water is delivered to Flint. This contract has been extended through June of 2017 and Flint continues to pay GLWA in advance. Flint will probably become a customer of a new water authority that is constructing a water supply line from Lake Huron to Flint. However, discussions between GLWA and Flint are continuing. The lead testing results in Flint have continued to decline as a result of the corrosion inhibitors in the GLWA water supply.

GLWA Customer Outreach

I have been serving as one of four elected customer co-chairs of the Technical Advisory Committee that guides GLWA's Customer Outreach process. Significant progress has been made in improving the level of communication and understanding between the GLWA and its customers through this process, which will be a continuing effort. SOCWA continues to be a strong proponent of GLWA's customer partnering process.

A number of customers, including me, have been meeting with GLWA staff to discuss the forthcoming retirement of Project Innovations personnel that have served as the third party facilitators which are a critical component of the Customer Outreach process. We are discussing the transition of some Project Innovations responsibilities to GLWA while conducting an RFP process to select a new third party facilitator for GLWA. A draft transition plan has been developed to accomplish these tasks, including an extension of the Project Innovations contract through May of 2018. Our customer group will be closely monitoring this project due to its importance to the relationship between GLWA and its customers.

GLWA Website

The GLWA website, www.glwater.org, is a great source of information regarding GLWA. The agendas and minutes for all Board and Board Committee meetings are posted along with procurement information about all projects being performed by GLWA.

PENSION FUNDING

The Board took continued additional steps to address the underfunded status of SOCWA's pension plans by contributing additional funding to both the Salaried and Union pension plans. SOCWA has been contributing the actuarially required amounts to the plans for many years, however they remains significantly underfunded. The Board approved a five year plan to make additional funding to the SOCWA salaried employee pension plan above the actuarially required amount. The last of the five planned annual contributions was made before the end of 2016. However, MERS made a number of changes to their actuarial assumptions, all of which served to reduce the level of funding in the MERS pension plans. Therefore, SOCWA will have to make additional contributions in future years in order to fully fund the pension plans.

CONSTRUCTION PROJECTS

The remodeling of the Webster offices including the Control Room and the Lab has been largely completed. Our offices, which were built in the early 1970s, are significantly improved. The control SCADA project, which links our Webster Control Room with our water storage, pumping facilities and metering facilities is proceeding on schedule and will be completed early in 2017. The roofs were replaced at Shafter and Oliver pumping stations. The SOCWA Board also approved an engineering consulting contract to conduct an inspection of all of our electrical equipment. This inspection should be completed in 2017.

SALARIED STAFF CHANGES

Karen Bever, SOCRRA's Executive Assistant/Recycling Coordinator and the Board Secretary for both SOCWA and SOCRRA for many years, retired as of January 1, 2017. We wish Karen well in her retirement. SOCRRA staff is in the process of determining how to replace Karen.

ANNUAL AUDIT

The audit report for the 2015/16 fiscal year was completed by our auditors, Plante & Moran and was reviewed at the November SOCWA Board meeting. This was the first audit performed by Plante & Moran under our new five year agreement. For the 2015/16 audit, the financial statements contained in the audit were prepared by the SOCWA staff and reviewed by the auditors. The audit found the Authority to be in complete conformity with generally accepted accounting practices. The auditors concluded that the Authority's level of working capital increased by \$983,000 during the fiscal year and that working capital continues to be maintained above the goal level established by the Board. The net position of SOCWA increased by \$872,000 during the year which was almost identical to the reduction in net position recorded for 2014/15.

Respectfully submitted,

Jeffrey A. McKeen, P.E.
General Manager

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY
 BUDGET ANALYSIS
 JULY 1, 2016 THROUGH DECEMBER 31, 2016

<u>REVENUES</u>	<u>ESTIMATED REVENUES</u>	<u>ACTUAL REVENUES</u>	<u>VARIANCES OVER OR UNDER</u>
<u>OPERATION</u>			
SALE OF WATER	\$8,848,536.00	\$9,402,445.78	\$553,909.78
SALE OF WATER OTHERS	4,741,536.00	5,780,991.77	1,039,455.77
	<u>\$13,590,072.00</u>	<u>\$15,183,437.55</u>	<u>\$1,593,365.55</u>
<u>OTHER INCOME</u>			
RENTALS	\$55,784.80	\$36,720.28	(\$19,064.52)
WATER ANALYSIS-LAB & MISC.	4,500.00	2,865.88	(1,634.12)
GRANT REVENUE	0.00	0.00	0.00
INTEREST ON INVESTMENTS	15,000.00	12,928.89	(2,071.11)
	<u>\$75,284.80</u>	<u>\$52,515.05</u>	<u>(\$22,769.75)</u>
<u>TOTAL REVENUES</u>	<u>\$13,665,356.80</u>	<u>\$15,235,952.60</u>	<u>\$1,570,595.80</u>
<u>EXPENSES</u>			
WATER PURCHASED FOR RESALE	\$6,140,000.00	\$6,671,561.72	\$531,561.72
WATER PURCHASE IN TRANSIT	5,422,978.40	5,118,109.95	(304,868.45)
POWER, PUMPING & GROUNDS WEBSTER	292,573.00	231,212.91	(61,360.09)
POWER, PUMPING & GROUNDS	132,642.52	99,938.84	(32,703.68)
COMPUTER OPERATIONS	36,250.00	22,930.16	(13,319.84)
PURIFICATION	34,400.00	42,024.65	7,624.65
METERS & MAINS	72,500.00	98,900.43	26,400.43
ADMINISTRATIVE & GENERAL	533,650.00	451,116.69	(82,533.31)
	<u>\$12,664,993.92</u>	<u>\$12,735,795.35</u>	<u>\$70,801.43</u>
<u>FIXED CHARGES</u>			
INTEREST ON BONDS	\$0.00	\$0.00	\$0.00
BOND MATURITIES	0.00	0.00	0.00
	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
<u>TOTAL EXPENSES</u>	<u>\$12,664,993.92</u>	<u>\$12,735,795.35</u>	<u>\$70,801.43</u>
<u>NET INCOME BEFORE DEPRECIATION</u>	<u>\$1,000,362.88</u>	<u>\$2,500,157.25</u>	<u>\$1,499,794.37</u>

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY
 COMPARATIVE STATEMENT OF INCOME
 JULY 1, 2016 THROUGH DECEMBER 31, 2016

	AMOUNT	2016/17 AVERAGE PER 1,000 CUBIC FEET	2016/15 AVERAGE PER 1,000 CUBIC FEET
<u>REVENUES</u>			
<u>OPERATION</u>			
SALE OF WATER	\$9,402,445.78	\$16.7366	\$16.4293
SALE OF WATER OTHERS	5,780,991.77	28.7064	\$28.7426
	<u>\$15,183,437.55</u>	<u>\$19.8951</u>	<u>\$19.4170</u>
<u>OTHER INCOME</u>			
RENTALS	\$36,720.28	\$0.0481	\$0.0608
LAB & MISCELLANEOUS	2,865.88	0.0038	0.0348
INTEREST ON INVESTMENTS	12,928.89	0.0169	0.0175
	<u>\$52,515.05</u>	<u>\$0.0688</u>	<u>\$0.1131</u>
TOTAL REVENUES:	<u>\$15,235,952.60</u>	<u>\$19.9639</u>	<u>\$19.5302</u>
<u>EXPENSES</u>			
WATER PURCHASED FOR RESALE	\$6,671,561.72	\$8.7419	\$8.9761
WATER PURCHASE IN TRANSIT	5,118,109.95	6.7064	7.4889
POWER, PUMPING & GROUNDS WEBSTER	231,212.91	0.3030	0.3872
POWER, PUMPING & GROUNDS	99,938.84	0.1310	0.1153
COMPUTER OPERATIONS	22,930.16	0.0300	0.0528
PURIFICATION	42,024.65	0.0551	0.0556
METERS & MAINS	98,900.43	0.1296	0.1060
ADMINISTRATIVE & GENERAL	451,116.69	0.5911	0.6703
BOND INTEREST	0.00	0.0000	0.0000
	<u>\$12,735,795.35</u>	<u>\$16.6879</u>	<u>\$17.8521</u>
INC. BEFORE DEPRECIATION	\$2,500,157.25	\$3.2760	\$1.6781
DEPRECIATION	\$249,711.00	\$0.3272	\$0.3518
NET INCOME	<u>\$2,250,446.25</u>	<u>\$2.9488</u>	<u>\$1.3262</u>

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY
STATEMENT OF REVENUES & EXPENDITURES
COMPARED WITH TOTAL BUDGET
JULY 1, 2016 THROUGH DECEMBER 31, 2016

	TOTAL BUDGET 2016/17	ACTUAL 6 MONTHS	BALANCE	PER CENT REC'D OR EXPENDED
<u>REVENUES</u>				
<u>OPERATION</u>				
SALE OF WATER	\$16,951,300.00	\$9,402,445.78	\$7,548,854.22	55.47%
SALE OF WATER OTHERS	\$8,346,700.00	5,780,991.77	2,565,708.23	69.26%
	<u>\$25,298,000.00</u>	<u>\$15,183,437.55</u>	<u>\$10,114,562.45</u>	60.02%
<u>OTHER INCOME</u>				
RENTALS	\$114,800.00	\$36,720.28	\$78,079.72	31.99%
LAB & MISCELLANEOUS	\$10,000.00	2,865.88	7,134.12	28.66%
GRANT REVENUE	\$0.00	0.00	0.00	0.00%
INTEREST ON INVESTMENTS	\$25,000.00	12,928.89	12,071.11	51.72%
	<u>\$149,800.00</u>	<u>\$52,515.05</u>	<u>\$97,284.95</u>	35.06%
TOTAL REVENUES:	<u>\$25,447,800.00</u>	<u>\$15,235,952.60</u>	<u>\$10,211,847.40</u>	59.87%
<u>EXPENSES</u>				
WATER PURCHASED FOR RESALE	\$21,984,000.00	\$6,671,561.72	\$15,312,438.28	30.35%
WATER PURCHASE IN TRANSIT	\$0.00	5,118,109.95	(5,118,109.95)	0.00%
POWER, PUMPING & GROUNDS WEBSTER	\$568,000.00	231,212.91	336,787.09	40.71%
POWER, PUMPING & GROUNDS	\$271,450.00	99,938.84	171,511.16	36.82%
COMPUTER OPERATIONS	\$72,500.00	22,930.16	49,569.84	31.63%
PURIFICATION	\$88,800.00	42,024.65	46,775.35	47.33%
METERS & MAINS	\$150,000.00	98,900.43	51,099.57	65.93%
ADMINISTRATIVE & GENERAL	\$884,700.00	451,116.69	433,583.31	50.99%
BOND INTEREST	\$0.00	0.00	0.00	0.00%
TOTAL EXPENDITURES	<u>\$24,019,450.00</u>	<u>\$12,735,795.35</u>	<u>\$11,283,654.65</u>	53.02%
NET INCOME BEFORE DEPRECIATION	\$1,428,350.00	\$2,500,157.25	-\$1,071,807.25	175.04%
DEPRECIATION	\$499,422.00	\$249,711.00	\$249,711.00	50.00%

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY
 COMPARATIVE STATEMENT JULY 1, 2016 THROUGH DECEMBER 31, 2016

	<u>2016/2017</u>	<u>2015/2016</u>	<u>OVER OR (UNDER)</u>
<u>REVENUES</u>			
<u>OPERATION</u>			
SALE OF WATER	\$9,402,445.78	\$8,831,480.00	\$570,965.78
SALE OF WATER OTHERS	5,780,991.77	4,950,077.24	830,914.53
	<u>\$15,183,437.55</u>	<u>\$13,781,557.24</u>	<u>\$1,401,880.31</u>
<u>OTHER INCOME</u>			
RENTALS	\$36,720.28	\$43,172.00	(\$6,451.72)
LAB & MISCELLANEOUS	2,865.88	24,690.19	(21,824.31)
GRANT REVENUE	0.00	0.00	0.00
INT. ON INVESTMENTS	12,928.89	12,428.37	500.52
	<u>\$52,515.05</u>	<u>\$80,290.56</u>	<u>(\$27,775.51)</u>
TOTAL REVENUES	<u>\$15,235,952.60</u>	<u>\$13,861,847.80</u>	<u>\$1,374,104.80</u>
<u>EXPENSES</u>			
WATER PURCHASED FOR RESALE	\$6,671,561.72	\$6,370,924.34	\$300,637.38
WATER PURCHASE IN TRANSIT	5,118,109.95	5,315,368.35	(197,258.40)
OPERATING EXPENSES	946,123.68	984,530.13	(38,406.45)
FIXED CHARGES	0.00	0.00	0.00
TOTAL EXPENSES	<u>\$12,735,795.35</u>	<u>\$12,670,822.82</u>	<u>\$64,972.53</u>
NET INCOME	\$2,500,157.25	\$1,191,024.98	\$1,309,132.27

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY
TOTAL CHARGES JULY 1, 2016 THROUGH DECEMBER 31, 2016

<u>MUNICIPALITY</u>	<u>WATER CONSUMPTION CUBIC FEET</u>	<u>TOTAL WATER CHARGES</u>
BERKLEY	26,824.100	\$445,856.64
BEVERLY HILLS	24,582.900	\$405,137.28
BINGHAM FARMS	7,476.600	\$121,694.96
BIRMINGHAM	71,327.500	\$1,174,159.08
CLAWSON	18,929.300	\$317,750.32
HUNTINGTON WOODS	13,390.400	\$221,760.75
LATHRUP VILLAGE	8,120.900	\$136,657.22
PLEASANT RIDGE	6,315.400	\$104,714.00
ROYAL OAK	130,248.300	\$2,181,370.78
SOUTHFIELD	244,696.500	\$4,075,944.05
DETROIT ZOO & RACKHAM	9,878.300	\$162,400.68
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MEMBERS	561,790.200	\$9,347,445.75
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BLOOMFIELD HILLS	39,298.400	1,127,642.34
BOOMFIELD TOWNSHIP	<u>162,084.887</u>	<u>4,660,585.95</u>
NON-MEMBERS	<u>201,383.287</u>	<u>5,788,228.28</u>
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TOTAL:	763,173.487	\$15,135,674.03

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY IMPROVEMENT FUND
JULY 1, 2016 THROUGH DECEMBER 31, 2016

FIXED ASSET EXPENDITURES

Webster Office Remodel	3,851.96
Control Room Remodel	12,764.60
Shafter Station New Roof	67,919.00
Oliver Station New Roof	27,940.00
Control SCADA	45,690.15
Valve exerciser	<u>7,950.00</u>
TOTALS:	<u>\$ 166,115.71</u>