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

QUARTERLY REPORT April 2016

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April 2016

Board of Trustees
Southeastern Oakland County Water Authority

Subject: Quarterly Report – April 2016

Board Members:

Attached is a copy of the Southeastern Oakland County Water Authority's Quarterly Report covering the first nine months operation of the fiscal year 2015/16. The report contains a financial statement of the Authority's operation and an outline of projects in progress or completed during the 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 9 months of 2015/16 was \$665,372 which compares positively with a net operating loss of \$265,276 for the first 9 months of 2014/15. The net operating income was \$177,846 less than planned net income and \$930,648 greater than the net income for the first 9 months of 2014/15.

	Actual	Compared to Budget
Revenue	\$ 18,936,804	- \$ 858,696
Expenses	\$ 18,271,431	- \$ 680,750
Net Income (before depreciation)	\$ 665,372	- \$ 177,946

The decrease in revenue was primarily due to lower than planned water sales (-\$879,000) and interest on investments (-\$12,000), which were partially offset by increases in miscellaneous revenue (+\$19,000) and rentals (+16,000). We do not have any grant funding for the Healthy Lawn and Garden program this year. The reduction in grant revenue is offset by a corresponding reduction in grant expenses. The decrease in expenses was primarily due to lower than planned water purchases (-\$398,000) and lower than budgeted expenses for non-labor Administrative & General (-\$154,000), labor (-\$34,000), utilities (-\$42,000), maintenance (-\$37,000) and supplies (-\$23,000).

Water sales for the first 9 months of the current fiscal year are summarized in the table below. The total water sales for the fiscal year to date are 4.9% below budget and are 2.3% higher than the sales for the same period in 2015/16. Lower water sales are the primary reason for the lower than planned net income for the first 9 months of the fiscal year.

Capital expenditures for the first nine months of the fiscal year totaled \$136,555 and were for the remodeling of the Webster Office (\$106,000), the initial expenses for the replacement of the control SCADA system (\$16,000), the initial work on remodeling the Webster Control Room (\$4,000) and the Webster Lab (\$2,000), the replacement of one water meter (\$6,000) and the initial expenses associated with the lining of a 16" main in Coolidge from 13 Mile to 14 Mile (\$2,000).

As of March 31, 2016, our working capital was 12.1% based on unrestricted assets. This is higher than the working capital policy level of 8.3% which was established by the Board and about the same as the 12.5% working capital as of March 31, 2015.

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

	2013/14	2014/15	2015/16	Over or Under 2014/15
Water Purchased for Resale	\$14.60	\$15.68	17.45	+ 1.77
Operating Expenses	1.42	1.46	1.42	- 0.04
Fixed Charges	<u>0.03</u>	<u>0.02</u>	<u>0.00</u>	<u>- 0.02</u>
	\$16.05	\$17.16	\$18.87	+ 1.71

Additional financial detail is attached.

COMPARATIVE STATEMENT

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

Revenues From the Sale of Water	+\$2,901,335
Revenues From Other Sources	+ <u>62,520</u>
TOTAL REVENUES	+\$2,963,855
<u>Operating Expenses</u>	
Water Purchased for Resale	+\$2,063,936
Other Operating Expenses	- 15,855
Fixed Charges	<u>-14,875</u>
TOTAL EXPENDITURES	+\$<u>2,033,207</u>
NET INCOME BEFORE DEPRECIATION	+\$930,648

The decrease in revenue for the sale of water was due to the significantly lower water sales to both SOCWA members, Bloomfield Hills and Bloomfield Twp. The decrease in expenses is the result of decreased water purchases and reduced operating costs in all areas.

The following is the record of SOCWA water sales for the period July 1, 2015 to March 31, 2016. The nine month record shows an increase in water sales of 2.3 % during the current fiscal year compared with the same period of the previous fiscal year. We are continuing to experience significant decreases in water sales during the winter months compared with prior years. It appears that our base level of water sales, which is independent of weather, is continuing to decline.

WATER CONSUMPTION – DAILY AVERAGE (MGD)						
JULY 1 THROUGH MARCH 31						
Month	11/12	12/13	13/14	14/15	15/16	Over or Under 14/15
July	53.25	52.33	35.92	36.61	34.59	- 2.02
August	40.61	43.25	38.34	32.91	37.06	+ 4.15
September	32.13	38.20	32.31	28.27	33.86	+ 5.59
October	24.90	25.70	24.58	23.09	25.69	+ 2.60
November	22.36	22.03	21.63	21.76	21.19	- 0.57
December	22.39	21.60	21.89	21.24	20.66	- 0.58
January	22.30	22.49	23.81	22.37	21.57	- 0.80
February	21.96	21.87	24.19	22.92	21.33	- 1.59
March	22.00	21.76	23.51	23.04	20.90	- 2.14
Million Gals./Day	29.16	29.89	27.39	25.74	26.34	+ 0.60
Variance	+19.9%	+2.5%	-8.4%	-6.0%	+2.3%	

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

PRECIPITATION – INCHES					
Month	11/12	12/13	13/14	14/15	15/16
July	3.40	3.80	3.00	2.70	1.30
August	3.30	4.30	3.30	7.20	2.10
September	7.80	2.00	2.00	2.20	1.30
October	3.20	1.70	3.10	1.70	1.80
November	5.60	0.72	2.40	2.40	1.30
December	3.10	0.00	3.60	1.20	1.50
January	2.60	1.90	1.30	2.60	0.90
February	0.40	2.10	0.70	1.20	0.70
March	<u>2.10</u>	<u>1.00</u>	<u>0.80</u>	<u>0.40</u>	<u>2.50</u>
Total:	31.50	17.52	20.20	21.60	13.40

MAJOR PROJECTS

GREAT LAKES WATER AUTHORITY (GLWA)

The GLWA became operational on January 1, 2016. The transition from DWSD to GLWA was seamless with no transition issues noted. All of the systems that we use in our routine operations were successfully migrated from DWSD websites to GLWA websites. The GLWA is continuing to add staff, especially in their newly established planning function. The GLWA website, www.glwater.org, is a great source of information regarding the GLWA. The agendas and minutes for all Board and Board Committee meetings are posted along with procurement information about all projects being performed by the GLWA.

GLWA Water Rates

A rate decrease to SOCWA of 1.8% has been proposed by the GLWA that will become effective on July 1, 2016. This decrease is the result of our successful renegotiation of our water purchase with DWSD in December of 2015. We were able to reduce the amount of water we take from GLWA on the hottest days of the summer. This will require SOCWA to change the operation of our water storage system in order to meet the demands of our member communities and customers while taking less water from the GLWA. The rates for 2016/17 have not been approved by the GLWA Board but should be approved by the end of April.

SOCWA will be proposing a 2.0% increase in water rates as of July 1, 2016. This is the result of the significant reduction in water sales that we have experienced over the past several years. The budget for 2016/17 will use the average level of water sales for the 2014 and 2015 calendar years, which is 4.5% lower than the level of water sales used for the budget for 2015/16. We are continuing to experience significant declines in water sales during the winter months. This indicates that our sales projections may still be too high and may have to be further reduced in future years.

The GLWA has published a 2 year budget for 2016/17 and 2017/18 which lives within the 4% increase in expenses commitment in the GLWA lease documents. This budget results in significantly improved financial performance from the GLWA.

GLWA Water Residential Assistance Program (WRAP)

The GLWA has begun implementing the WRAP program, which provides payment assistance to low income customers in the GLWA service area. This program is funded by the GLWA with 0.5% of their revenue. The SOCWA communities are eligible to enroll in this program. We are working with the communities, the GLWA and the vendor that they have selected for the WRAP program to get all of the SOCWA communities enrolled.

Highland Park

Highland Park continues to owe the GLWA approximately \$3 million in unpaid water bills. The GLWA and Highland Park are continuing discussions as part of a confidential court ordered facilitation process. The GLWA Board has sent a letter to Governor Snyder requesting assistance from the State in resolving this issue. The SOCWA Board will be considering whether to issue a supporting letter at their May Board meeting.

GLWA Customer Outreach

The GLWA Board has indicated that they plan to continue the Customer Outreach process that was used by DWSD. SOCWA staff is continuing to participate in the GLWA Customer Outreach Process. I have been re-elected as one of four customer co-chairs of the Technical Advisory Committee that guides this process. The City of Detroit is being represented in this process by a new co-chair representing Detroit. 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.

SOCWA REMODELING PROJECTS

The SOCWA offices, which were built in the early 1970's have been remodeled to a significantly more open, modern design. SOCWA uses a SCADA (Supervisory Control and Data Acquisition) system to operate the SOCWA water storage and distribution system. The computer software used by this system is obsolete and is no longer supported by the manufacturer. As a result, we are deploying a new SCADA system, which includes new computer hardware, software and radio systems, at all of our locations. The first location has been completed, tested and is operational. We will be migrating one location at a time to the new system. We will be operating on both systems during the summer of 2016 and we should have the new system completely deployed before the end of 2016. The Control Room at Webster is also being remodeled to accommodate the new SCADA equipment.

FLINT WATER CRISIS

The City of Flint discontinued the purchase of DWSD water in April of 2014 and they ran their own water treatment plant using the Flint River as source water from then until October of 2015, when DWSD water supply to Flint was resumed. Flint had a number of significant water quality issues, including violations of the Safe Water Drinking Act, while they were running their water treatment plant. In addition, Flint was not using a corrosion control additive during the treatment process. As a result, Flint has experienced severe corrosion problems which have resulted in extremely high lead levels in many Flint residences. The high lead levels are a result of corrosion of customer owned lead service lines and interior plumbing and fixtures containing lead. It appears as if GLWA water supply to Flint will continue at least until the end of 2016. Flint has paid in advance for their estimated water usage through June of 2016.

DWSD had conducted extensive contract negotiations with Flint prior to Flint's decision to discontinue DWSD water supply. DWSD's final contract offer to Flint was an extremely attractive offer that is significantly better than SOCWA's current contract with DWSD. DWSD's offer would have significantly reduced Flint's water costs and eliminated the many problems that Flint has had with their water supply system. Genesee County is continuing to purchase DWSD water while they are constructing a new water supply system for Flint and Genesee County using Lake Huron water.

The water being supplied by the GLWA remains extremely high in quality and completely safe. The GLWA water treatment system, and DWSD water treatment system before the GLWA came into existence, have been using the proper corrosion inhibitors since the 1990's. Lead and copper testing in the SOCWA communities have consistently resulted in levels significantly lower than the EPA guidelines. The details regarding the water treatment process and monitoring performed by the GLWA are contained in the Consumer Confidence Reports for each SOCWA member community. The report for each member community is available on the community's website.

The Michigan Department of Environmental Quality is contemplating significant changes to the rules regarding lead and copper in drinking water. SOCWA staff is working as part of a GLWA/customer work group to develop a regional response to the changes that will be coming from the MDEQ. SOCWA staff will also be working with the member communities on these issues.

Respectfully submitted,

Jeffrey A. McKeen, P.E.
General Manager

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY
 BUDGET ANALYSIS
 JULY 1, 2015 THROUGH MARCH 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	\$12,947,000.00	\$12,407,826.41	(\$539,173.59)
SALE OF WATER OTHERS	6,729,000.00	6,388,879.60	(340,120.40)
	<u>\$19,676,000.00</u>	<u>\$18,796,706.01</u>	<u>(\$879,293.99)</u>
<u>OTHER INCOME</u>			
RENTALS	\$79,100.00	\$95,541.10	\$16,441.10
WATER ANALYSIS-LAB & MISC.	7,000.00	25,691.19	18,691.19
GRANT REVENUE	3,000.00	0.00	(3,000.00)
INTEREST ON INVESTMENTS	30,400.00	18,865.41	(11,534.59)
	<u>\$119,500.00</u>	<u>\$140,097.70</u>	<u>\$20,597.70</u>
<u>TOTAL REVENUES</u>	<u>\$19,795,500.00</u>	<u>\$18,936,803.71</u>	<u>(\$858,696.29)</u>
<u>EXPENSES</u>			
WATER PURCHASED FOR RESALE	\$12,002,000.00	\$11,686,290.32	(\$315,709.68)
WATER PURCHASE IN TRANSIT	5,298,000.00	5,215,725.40	(82,274.60)
POWER, PUMPING & GROUNDS WEBSTER	433,423.00	392,012.92	(41,410.08)
POWER, PUMPING & GROUNDS	205,725.00	123,787.06	(81,937.94)
COMPUTER OPERATIONS	53,983.33	50,946.13	(3,037.20)
PURIFICATION	57,000.00	56,597.21	(402.79)
METERS & MAINS	102,750.00	98,635.69	(4,114.31)
ADMINISTRATIVE & GENERAL	799,300.00	647,436.76	(151,863.24)
	<u>\$18,952,181.33</u>	<u>\$18,271,431.49</u>	<u>(\$680,749.84)</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>
TOTAL EXPENSES	<u>\$18,952,181.33</u>	<u>\$18,271,431.49</u>	<u>(\$680,749.84)</u>
NET INCOME BEFORE DEPRECIATION	<u>\$843,318.67</u>	<u>\$665,372.22</u>	<u>(\$177,946.45)</u>

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY
 COMPARATIVE STATEMENT OF INCOME
 JULY 1, 2015 THROUGH MARCH 31, 2016

	AMOUNT	2015/16 AVERAGE PER 1,000 CUBIC FEET	2014/15 AVERAGE PER 1,000 CUBIC FEET
<u>REVENUES</u>			
<u>OPERATION</u>			
SALE OF WATER	\$12,407,826.41	\$16.5500	\$14.4600
SALE OF WATER OTHERS	6,388,879.60	29.2124	25.4800
	<u>\$18,796,706.01</u>	<u>\$19.4096</u>	<u>\$16.7951</u>
<u>OTHER INCOME</u>			
RENTALS	\$95,541.10	\$0.0987	\$0.0572
LAB & MISCELLANEOUS	25,691.19	0.0265	0.0014
INTEREST ON INVESTMENTS	18,865.41	0.0195	0.0234
	<u>\$140,097.70</u>	<u>\$0.1447</u>	<u>\$0.0820</u>
TOTAL REVENUES:	<u>\$18,936,803.71</u>	<u>\$19.5543</u>	<u>\$16.8771</u>
<u>EXPENSES</u>			
WATER PURCHASED FOR RESALE	\$11,686,290.32	\$12.0674	\$10.8058
WATER PURCHASE IN TRANSIT	5,215,725.40	5.3858	4.8721
POWER, PUMPING & GROUNDS WEBSTER	392,012.92	0.4048	0.3969
POWER, PUMPING & GROUNDS	123,787.06	0.1278	0.1341
COMPUTER OPERATIONS	50,946.13	0.0526	0.0509
PURIFICATION	56,597.21	0.0584	0.0663
METERS & MAINS	98,635.69	0.1019	0.0980
ADMINISTRATIVE & GENERAL	647,436.76	0.6685	0.7175
BOND INTEREST	0.00	0.0000	0.0157
	<u>\$18,271,431.49</u>	<u>\$18.8672</u>	<u>\$17.1573</u>
INC. BEFORE DEPRECIATION	\$665,372.22	\$0.6871	(\$0.2803)
DEPRECIATION	\$374,566.86	\$0.3868	\$0.3945
NET INCOME	<u>\$290,805.36</u>	<u>\$0.3003</u>	<u>(\$0.6747)</u>

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY
STATEMENT OF REVENUES & EXPENDITURES
COMPARED WITH TOTAL BUDGET
JULY 1, 2015 THROUGH MARCH 31, 2016

	TOTAL BUDGET 2015/16	ACTUAL 9 MONTHS	BALANCE	PER CENT REC'D OR EXPENDED
<u>REVENUES</u>				
<u>OPERATION</u>				
SALE OF WATER	\$17,193,600.00	\$12,407,826.41	\$4,785,773.59	72.17%
SALE OF WATER OTHERS	8,930,000.00	6,388,879.60	2,541,120.40	71.54%
	<u>\$26,123,600.00</u>	<u>\$18,796,706.01</u>	<u>\$7,326,893.99</u>	71.95%
<u>OTHER INCOME</u>				
RENTALS	\$108,000.00	\$95,541.10	\$12,458.90	88.46%
LAB & MISCELLANEOUS	10,000.00	25,691.19	(15,691.19)	256.91%
GRANT REVENUE	5,000.00	0.00	5,000.00	0.00%
INTEREST ON INVESTMENTS	40,000.00	18,865.41	21,134.59	47.16%
	<u>\$163,000.00</u>	<u>\$140,097.70</u>	<u>\$22,902.30</u>	85.95%
TOTAL REVENUES:	<u>\$26,286,600.00</u>	<u>\$18,936,803.71</u>	<u>\$7,349,796.29</u>	72.04%
<u>EXPENSES</u>				
WATER PURCHASED FOR RESALE	\$23,087,000.00	\$11,686,290.32	\$11,400,709.68	50.62%
WATER PURCHASE IN TRANSIT	0.00	5,215,725.40	(5,215,725.40)	0.00%
POWER, PUMPING & GROUNDS WEBSTER	585,500.00	392,012.92	193,487.08	66.95%
POWER, PUMPING & GROUNDS	276,450.00	123,787.06	152,662.94	44.78%
COMPUTER OPERATIONS	71,000.00	50,946.13	20,053.87	71.76%
PURIFICATION	76,000.00	56,597.21	19,402.79	74.47%
METERS & MAINS	137,000.00	98,635.69	38,364.31	72.00%
ADMINISTRATIVE & GENERAL	941,700.00	647,436.76	294,263.24	68.75%
BOND INTEREST	0.00	0.00	0.00	0.00%
TOTAL EXPENDITURES	<u>\$25,174,650.00</u>	<u>\$18,271,431.49</u>	<u>\$6,903,218.51</u>	72.58%
NET INCOME BEFORE DEPRECIATION	\$1,111,950.00	\$665,372.22	\$446,577.78	59.84%
DEPRECIATION	\$499,422.40	\$374,566.86	\$124,855.54	75.00%

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY
 COMPARATIVE STATEMENT JULY 1, 2015 THROUGH MARCH 31, 2016

	<u>2015/16</u>	<u>2014/15</u>	<u>OVER OR (UNDER)</u>
<u>REVENUES</u>			
<u>OPERATION</u>			
SALE OF WATER	\$12,407,826.41	\$10,785,540.55	\$1,622,285.86
SALE OF WATER OTHERS	6,388,879.60	5,109,830.44	1,279,049.16
	<u>\$18,796,706.01</u>	<u>\$15,895,370.99</u>	<u>\$2,901,335.02</u>
 <u>OTHER INCOME</u>			
RENTALS	\$95,541.10	\$54,113.22	\$41,427.88
LAB & MISCELLANEOUS	25,691.19	1,337.41	24,353.78
GRANT REVENUE	0.00	0.00	0.00
INT. ON INVESTMENTS	18,865.41	22,127.26	(3,261.85)
	<u>\$140,097.70</u>	<u>\$77,577.89</u>	<u>\$62,519.81</u>
 TOTAL REVENUES	 <u>\$18,936,803.71</u>	 <u>\$15,972,948.88</u>	 <u>\$2,963,854.83</u>
 <u>EXPENSES</u>			
WATER PURCHASED FOR RESALE	\$11,686,290.32	\$10,226,954.91	\$1,459,335.41
WATER PURCHASE IN TRANSIT	5,215,725.40	4,611,124.43	604,600.97
OPERATING EXPENSES	1,369,415.77	1,385,270.47	(15,854.70)
FIXED CHARGES	0.00	14,875.00	(14,875.00)
TOTAL EXPENSES	<u>\$18,271,431.49</u>	<u>\$16,238,224.81</u>	<u>\$2,033,206.68</u>
 NET INCOME	 \$665,372.22	 (\$265,275.93)	 \$930,648.15

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY
TOTAL CHARGES JULY 1, 2015 THROUGH DECEMBER 31, 2015

<u>MUNICIPALITY</u>	<u>WATER CONSUMPTION CUBIC FEET</u>	<u>TOTAL WATER CHARGES</u>
BERKLEY	37,938.200	\$622,572.54
BEVERLY HILLS	30,099.900	\$499,652.54
BINGHAM FARMS	7,992.400	\$132,243.29
BIRMINGHAM	85,518.500	\$1,415,326.38
CLAWSON	27,654.900	\$457,336.18
HUNTINGTON WOODS	16,979.300	\$281,467.03
LATHRUP VILLAGE	13,816.800	\$226,665.15
PLEASANT RIDGE	8,401.300	\$138,559.28
ROYAL OAK	181,914.600	\$3,011,614.58
SOUTHFIELD	327,619.900	\$5,428,150.18
DETROIT ZOO & RACKHAM	11,780.800	\$194,239.27
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MEMBERS	749,716.600	\$12,407,826.41
NON-MEMBERS		
BLOOMFIELD HILLS	41,176.376	1,208,360.23
BOOMFIELD TOWNSHIP	<u>177,528.274</u>	<u>5,180,519.37</u>
	218,704.650	6,388,879.60
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TOTAL:	968,421.250	\$18,796,706.01

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY IMPROVEMENT FUND
JULY 1, 2015 THROUGH MARCH 31, 2016

FIXED ASSET EXPENDITURES

Coolidge HWY Water Main	\$2,356.69
Berkshire/Greenfield Meter	6,016.22
SCADA Server	16,404.14
Lab Remodel	1,700.00
Control Room Remodel	4,315.06
Webster Office Remodel	105,763.20
	<u>105,763.20</u>
TOTALS:	\$136,555.31