



* Berkley * Beverly Hills * Bingham Farms * Birmingham
 * Clawson * Huntington Woods * Lathrup Village * Pleasant Ridge
 * Royal Oak * Southfield * Southfield Township

QUARTERLY REPORT October 2016

BOARD OF TRUSTEES	
Representative	Municipality
D. Schueller	City of Berkley
C. Wilson	Village of Beverly Hills
D. Warren	Village of Bingham Farms
P. T. O'Meara	City of Birmingham
H. Drinkwine	City of Clawson
C. Galed	City of Huntington Woods
Ken Marten	City of Lathrup Village
S. Pietrzak	City of Pleasant Ridge
G. Rassel	City of Royal Oak
L. Schultz	City of Southfield
R. Walsh	Township of Southfield

OFFICERS	
Chairman:	H. Drinkwine
Vice Chairman:	G. Rassel
Secretary:	C. Wilson
Advisory Committee:	Drinkwine (Chair), Pietrzak, Rassel, Wilson

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

Board of Trustees
Southeastern Oakland County Water Authority

Subject: Quarterly Report - October 2016

Board Members:

Attached is a copy of the Southeastern Oakland County Water Authority's Quarterly Report covering the first three month's 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 quarter. The report also contains statistical information and other information of general interest to the members of this Authority.

BOARD OF TRUSTEES

The governing body of the Authority is a Board of Trustees, consisting of one representative from each constituent municipality. The Board held its Organization Meeting on July 13, 2016, and members were elected to serve as Officers for the fiscal year beginning July 2016. The current Officers are:

Chairman: H. Drinkwine
Vice Chairman: G. Rassel
Secretary: C. Wilson

Representatives on the Board are entitled to one vote for each 250 million gallons, or major fraction thereof, of water purchased during the preceding fiscal year. The number of votes of each constituent member for the fiscal year, beginning July 2016, is as follows:

Municipality	Votes
Berkley	2
Beverly Hills	1
Bingham Farms	1
Birmingham	4
Clawson	1
Huntington Woods	1
Lathrup Village	1
Pleasant Ridge	1
Royal Oak	7
Southfield	13
Southfield Township	<u>1</u>
Total:	33

The Board meets in regular session on the second Wednesday of each month for the purpose of conducting all business coming before the Board.

The Authority has entered into contracts with the individual members for an indefinite period of time, but at least to July 1, 2038. These contracts obligate the Authority to supply and sell water to the member municipalities, charging for this service a rate sufficient to pay the operating costs, capital improvements, and the obligations to the bondholders.

FINANCIAL STATEMENT

The total net income before depreciation for the first 3 months of 2016/17 was \$2,717,419. This is a significant increase from the net income of \$1,630,493 for the first 3 months of 2015/16.

	Actual	Compared to Budget
Revenue	\$9,827,711	+ \$1,585,333
Expenses	\$7,110,292	+ \$ 350,774
Net Income (before depreciation)	\$2,717,419	+ \$1,234,559

Net income at this time of year is planned to be high in order to accommodate the fixed/variable rates we are charged by the GLWA. GLWA is now collecting 60% of their revenue through a fixed monthly charge. This results in a high fixed monthly charge but a low cost per thousand cubic feet purchased. In the first quarter of the year, our GLWA water bills were significantly less than they would have been under GLWA’s previous rate design. Our GLWA water bills will be higher than historical levels in the colder months. We will be using some of the net income for the first quarter to pay these higher water bills later in the fiscal year.

The increase in revenue was primarily due to significantly higher than planned water sales (+\$1,586,710). Expenses were higher than planned due to larger than planned water purchases (+\$520,000), and decreases in non-labor Administrative & General expense (-\$88,000), labor (-\$24,000), utilities (-\$19,000) and maintenance (-\$15,000).

Water sales for the first 3 months of the fiscal year were 18.0% above budget and were 13.7% higher than the previous year. This is the highest level of summer water sales that we have experienced since 2012. Water sales for the first 3 months are summarized in the table below. Additional financial detail is attached.

WATER SALES – DAILY AVERAGE (MGD)

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	41.11	+ 4.05
September	38.20	32.31	28.27	33.86	32.90	- 0.96
Million Gals./Day	44.67	35.56	32.68	35.18	40.00	+ 4.82
Variance	-20.4%	-8.2%	+7.6%	+13.7%		

We incurred capital expenditures of \$34,431 in the first quarter of the year for the Control SCADA project (\$25,000), the purchase of a valve exerciser (\$8,000) and for the Webster Control Room remodeling (\$1,000).

The table below is the precipitation record, as recorded at the Webster Station. Total rainfall for the period was much lower than last year but we continued to experience frequent rain events in July, which substantially reduced the need for our residents to sprinkle their lawns.

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
Total:	10.10	8.30	12.10	4.70	10.14

MAJOR PROJECTS

GLWA RATE INCREASE

GLWA’s rate to SOCWA decreased by 1.8% as of July 1, 2016 as a result of the renegotiated contract between SOCWA and GLWA. The new contract reduced our peak water demands on the GLWA system. SOCWA implemented 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 used 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.

SUMMER 2016 OPERATIONS

The summer of 2016 was the hottest and driest summer that we have experienced since 2012. Water sales were 21.3% higher for the months of June, July and August of 2016 compared to the same months of 2015. However sales for those three months of 2016 were 9.1% lower than the sales for the same three months of 2012. This indicates that our overall level of sales is continuing to slowly decline. Our new contract with the GLWA required SOCWA to run our water storage system more intensively during the summer of 2016. SOCWA staff was able to successfully operate our system with the lower volumes from GLWA throughout the summer. We worked with several member communities to address water pressure spikes caused as a result of our water storage operations. These issues were mostly resolved by the end of the summer.

GREAT LAKES WATER AUTHORITY (GLWA) ISSUES

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.

Board of Directors

Craig Hupy, Public Services Area Administrator for the City of Ann Arbor, has been named to the GLWA Board as the replacement for Ed Hood as the Board member representing the customer communities outside of Wayne, Oakland and Macomb Counties. Mr. Hupy is a resident of Ypsilanti, a professional engineer and has extensive experience with Ann Arbor's water and sewer systems. Mr. Hupy should bring a different perspective to the GLWA Board.

2017/18 Water Rates

The process that will result in the rates from GLWA for 2017/18 has begun. A series of meetings are being held this fall to communicate rate information. Our proposed 2017/18 rates will be delivered by GLWA in late January 2017. GLWA is continuing to provide a high level of communication with their customers by posting data on their website prior to each meeting and then reviewing the data at each meeting. SOCWA staff will be attending each of these meetings and we will report the results at the following Board meeting. We plan to have a rate projection for the SOCWA communities for review at the February, 2017 Board meeting.

GLWA Bond Ratings

The ratings on GLWA's outstanding bonds were increased by both Moody's and Fitch during the first quarter. Standard & Poor's has increased their outlook for GLWA from stable to positive. This is important third party recognition of the progress that GLWA is making and will help to reduce GLWA's borrowing costs in the future.

GLWA Debt Refinancing

GLWA is planning to refinance over \$1 billion of existing water and sewer bonds in October of 2016. This should result in substantial interest costs savings which should help to moderate future rate increases from GLWA.

Suburban Wholesale Customer Debt

GLWA continues to have significant overdue water and sewer bills for Highland Park. GLWA has received a court judgment against Highland Park for the full amount owed but the Judge that issued the judgment has stayed the collection of this judgment. SOCWA and a number of other GLWA customer communities have submitted letters to Governor Snyder requesting help from the State of Michigan regarding Highland Park. Governor Snyder has named a person at the MDEQ to work with the parties on Highland Park's unpaid bills. Highland Park has begun to pay some of their past due amounts but these payments are being applied to Highland Park's oldest debt, which are the sewer charges. Highland Park, GLWA and the State of Michigan will resume settlement discussions in October of 2016.

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. DWSD and Flint developed a 9 month contract which required Flint to pay the estimated cost of their water purchases to DWSD before water began flowing. This contract has been extended through June of 2017 and Flint continues to pay GLWA in advance. Flint will ultimately become a customer of a new water authority that is constructing a water supply line from Lake Huron to Flint.

GLWA Customer Outreach Program

The GLWA has adopted the same Customer Outreach Program that DWSD has used for many years. SOCWA staff is continuing to participate in the GLWA Customer Outreach Process. I have been serving as one of four elected customer co-chairs of the Technical Advisory Committee that guides this

process. Significant progress has been made in improving the level of communication and understanding between 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 staff is also working with GLWA on a number of issues including employee selection and evaluation of several engineering consulting contracts. SOCWA staff will also be working with other suburban water customers to make sure that the existing Customer Outreach Program is continued and enhanced under the GLWA.

CONSTRUCTION PROJECTS

The remodeling of the Webster offices including the Control Room and the Lab has been 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 by the end of 2016. The SOCWA Board approved the replacement of the roofs at the Shafter and Oliver pumping stations. Both roofs should be completed this fall. The SOCWA Board also approved an engineering consulting contract to conduct an inspection of all of our electrical equipment. This inspection should be completed early in 2017.

SALARIED STAFF CHANGES

Karen Mallender, who had been the Accountant/Treasurer for both SOCWA and SOCRRA for over 28 years, retired as of September 1, 2016. We wish Karen well in her retirement. After conducting a very thorough search and interview process, we hired Terri Mazure as our Manager of Finance and Accounting. Terri started with us on September 12, 2016. We are using this transition as an opportunity to reexamine and update all of our accounting procedures and systems.

ANNUAL AUDIT

Representatives of Plante & Moran were in the SOCWA office for about a week during September performing their audit of our accounting records. The final audit is being reviewed with the SOCWA Audit Committee during October, 2016 and will be reviewed by the SOCWA Board at their November, 2016 meeting.

Respectfully submitted,

Jeffrey A. McKeen, P.E.
General Manager

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY
 BUDGET ANALYSIS
 JULY 1, 2016 THROUGH SEPTEMBER 30, 2016

<u>REVENUES</u>	<u>ESTIMATED REVENUES</u>	<u>ACTUAL REVENUES</u>	<u>VARIANCES OVER OR UNDER</u>
<u>OPERATION</u>			
SALE OF WATER	\$5,062,218.00	\$5,602,191.99	\$539,973.99
SALE OF WATER OTHERS	3,154,768.00	4,201,504.49	1,046,736.49
	<u>\$8,216,986.00</u>	<u>\$9,803,696.48</u>	<u>\$1,586,710.48</u>
<u>OTHER INCOME</u>			
RENTALS	\$15,392.40	\$18,127.88	\$2,735.48
WATER ANALYSIS-LAB & MISC.	2,500.00	1,710.88	(789.12)
GRANT REVENUE	0.00	0.00	0.00
INTEREST ON INVESTMENTS	7,500.00	4,175.94	(3,324.06)
	<u>\$25,392.40</u>	<u>\$24,014.70</u>	<u>(\$1,377.70)</u>
<u>TOTAL REVENUES</u>	<u>\$8,242,378.40</u>	<u>\$9,827,711.18</u>	<u>\$1,585,332.78</u>
<u>EXPENSES</u>			
WATER PURCHASED FOR RESALE	\$0.00	\$0.00	\$0.00
WATER PURCHASE IN TRANSIT	6,140,000.00	6,660,215.00	520,215.00
POWER, PUMPING & GROUNDS WEBSTER	152,353.00	122,603.93	(29,749.07)
POWER, PUMPING & GROUNDS	67,840.00	45,157.86	(22,682.14)
COMPUTER OPERATIONS	18,125.00	14,078.04	(4,046.96)
PURIFICATION	17,200.00	20,578.98	3,378.98
METERS & MAINS	36,250.00	27,617.76	(8,632.24)
ADMINISTRATIVE & GENERAL	<u>327,750.00</u>	<u>220,040.44</u>	<u>(107,709.56)</u>
	<u>\$6,759,518.00</u>	<u>\$7,110,292.01</u>	<u>\$350,774.01</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>\$6,759,518.00</u>	<u>\$7,110,292.01</u>	<u>\$350,774.01</u>
NET INCOME BEFORE DEPRECIATION	<u>\$1,482,860.40</u>	<u>\$2,717,419.17</u>	<u>\$1,234,558.77</u>

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY
 COMPARATIVE STATEMENT OF INCOME
 JULY 1, 2016 THROUGH SEPTEMBER 30, 2016

	2016/17 AVERAGE PER 1,000 CUBIC FEET	2016/15 AVERAGE PER 1,000 CUBIC FEET
AMOUNT	CUBIC FEET	CUBIC FEET
<u>REVENUES</u>		
<u>OPERATION</u>		
SALE OF WATER	\$5,602,191.99	\$16.3682
SALE OF WATER OTHERS	4,201,504.49	28.0638
	\$9,803,696.48	\$19.9273
<u>OTHER INCOME</u>		
RENTALS	\$18,127.88	\$0.0368
LAB & MISCELLANEOUS	1,710.88	0.0035
INTEREST ON INVESTMENTS	4,175.94	0.0085
	\$24,014.70	\$0.0488
TOTAL REVENUES:	\$9,827,711.18	\$19.9761
<u>EXPENSES</u>		
WATER PURCHASED FOR RESALE	\$0.00	\$0.0000
WATER PURCHASE IN TRANSIT	6,660,215.00	13.5377
POWER, PUMPING & GROUNDS WEBSTER	122,603.93	0.2492
POWER, PUMPING & GROUNDS	45,157.86	0.0918
COMPUTER OPERATIONS	14,078.04	0.0286
PURIFICATION	20,578.98	0.0418
METERS & MAINS	27,617.76	0.0561
ADMINISTRATIVE & GENERAL	220,040.44	0.4473
BOND INTEREST	0.00	0.0000
	\$7,110,292.01	\$14.4526
INC. BEFORE DEPRECIATION	\$2,717,419.17	\$5.5235
DEPRECIATION	\$124,855.50	\$0.2538
NET INCOME	\$2,592,563.67	\$5.2697

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY
STATEMENT OF REVENUES & EXPENDITURES
COMPARED WITH TOTAL BUDGET
JULY 1, 2016 THROUGH SEPTEMBER 30, 2016

	TOTAL BUDGET 2016/17	ACTUAL 3 MONTHS	BALANCE	PER CENT REC'D OR EXPENDED
<u>REVENUES</u>				
<u>OPERATION</u>				
SALE OF WATER	\$16,951,300.00	\$5,602,191.99	\$11,349,108.01	33.05%
SALE OF WATER OTHERS	\$8,346,700.00	4,201,504.49	4,145,195.51	50.34%
	\$25,298,000.00	\$9,803,696.48	\$15,494,303.52	38.75%
<u>OTHER INCOME</u>				
RENTALS	\$114,800.00	\$18,127.88	\$96,672.12	15.79%
LAB & MISCELLANEOUS	\$10,000.00	1,710.88	8,289.12	17.11%
GRANT REVENUE	\$0.00	0.00	0.00	0.00%
INTEREST ON INVESTMENTS	\$25,000.00	4,175.94	20,824.06	16.70%
	\$149,800.00	\$24,014.70	\$125,785.30	16.03%
TOTAL REVENUES:	\$25,447,800.00	\$9,827,711.18	\$15,620,088.82	38.62%
<u>EXPENSES</u>				
WATER PURCHASED FOR RESALE	\$21,984,000.00	\$0.00	\$21,984,000.00	0.00%
WATER PURCHASE IN TRANSIT	\$0.00	6,660,215.00	(6,660,215.00)	0.00%
POWER, PUMPING & GROUNDS WEBSTER	\$568,000.00	122,603.93	445,396.07	21.59%
POWER, PUMPING & GROUNDS	\$271,450.00	45,157.86	226,292.14	16.64%
COMPUTER OPERATIONS	\$72,500.00	14,078.04	58,421.96	19.42%
PURIFICATION	\$88,800.00	20,578.98	68,221.02	23.17%
METERS & MAINS	\$150,000.00	27,617.76	122,382.24	18.41%
ADMINISTRATIVE & GENERAL	\$884,700.00	220,040.44	664,659.56	24.87%
BOND INTEREST	\$0.00	0.00	0.00	0.00%
TOTAL EXPENDITURES	\$24,019,450.00	\$7,110,292.01	\$16,909,157.99	29.60%
NET INCOME BEFORE DEPRECIATION	\$1,428,350.00	\$2,717,419.17	-\$1,289,069.17	190.25%
DEPRECIATION	\$499,422.00	\$124,855.50	\$374,566.50	25.00%

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY
 COMPARATIVE STATEMENT JULY 1, 2016 THROUGH SEPTEMBER 30, 2016

	<u>2016/2017</u>	<u>2015/2016</u>	<u>OVER OR (UNDER)</u>
<u>REVENUES</u>			
<u>OPERATION</u>			
SALE OF WATER	\$5,602,191.99	\$5,087,688.05	\$514,503.94
SALE OF WATER OTHERS	4,201,504.49	3,325,661.44	875,843.05
	<u>\$9,803,696.48</u>	<u>\$8,413,349.49</u>	<u>\$1,390,346.99</u>
<u>OTHER INCOME</u>			
RENTALS	\$18,127.88	\$13,586.00	\$4,541.88
LAB & MISCELLANEOUS	1,710.88	23,969.19	(22,258.31)
GRANT REVENUE	0.00	0.00	0.00
INT. ON INVESTMENTS	4,175.94	7,355.98	(3,180.04)
	<u>\$24,014.70</u>	<u>\$44,911.17</u>	<u>(\$20,896.47)</u>
TOTAL REVENUES	<u>\$9,827,711.18</u>	<u>\$8,458,260.66</u>	<u>\$1,369,450.52</u>
<u>EXPENSES</u>			
WATER PURCHASED FOR RESALE	\$0.00	\$0.00	\$0.00
WATER PURCHASE IN TRANSIT	6,660,215.00	6,371,014.80	289,200.20
OPERATING EXPENSES	450,077.01	456,806.54	(6,729.53)
FIXED CHARGES	0.00	0.00	0.00
TOTAL EXPENSES	<u>\$7,110,292.01</u>	<u>\$6,827,821.34</u>	<u>\$282,470.67</u>
NET INCOME	\$2,717,419.17	\$1,630,439.32	\$1,086,979.85

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY
TOTAL CHARGES JULY 1, 2016 THROUGH SEPTEMBER 30, 2016

<u>MUNICIPALITY</u>	<u>WATER CONSUMPTION CUBIC FEET</u>	<u>TOTAL WATER CHARGES</u>
BERKLEY	15,001.300	\$246,973.68
BEVERLY HILLS	16,155.000	\$261,024.15
BINGHAM FARMS	5,465.700	\$86,983.04
BIRMINGHAM	47,157.200	\$760,975.44
CLAWSON	10,868.700	\$180,118.44
HUNTINGTON WOODS	8,553.900	\$139,002.51
LATHRUP VILLAGE	4,793.600	\$79,421.17
PLEASANT RIDGE	4,065.300	\$66,088.99
ROYAL OAK	75,412.500	\$1,246,348.13
SOUTHFIELD	148,185.200	\$2,428,885.08
DETROIT ZOO & RACKHAM	6,602.800	\$106,371.36
	<hr/>	<hr/>
MEMBERS	342,261.200	\$5,602,191.98
NON-MEMBERS		
BLOOMFIELD HILLS	29,941.856	838,326.31
BOOMFIELD TOWNSHIP	<u>119,770.795</u>	<u>3,363,178.11</u>
	<u>149,712.651</u>	<u>4,201,504.42</u>
	<hr/>	<hr/>
TOTAL:	491,973.851	\$9,803,696.40

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY IMPROVEMENT FUND
JULY 1, 2016 THROUGH SEPTEMBER 30, 2016

FIXED ASSET EXPENDITURES

Control SCADA	\$	25,354.49
Valve exerciser	\$	7,950.00
Control Room Remodeling	\$	1,094.00
Webster Office Remodeling	\$	32.29

TOTALS: \$ 34,430.78