Cline, Richard (Treasury)

From: Headen, Frederick (Treasury)
Sent: Friday, December 18, 2015 11:48 AM
To: Natasha Henderson; Cline, Richard (Treasury)
Cc: Karen Weaver
Subject: RE: RTAB Questions from RTAB Meeting
Attachments: Fwd: RTAB Questions from Earlier today

Categories: Yellow Category

Natasha:

See the attached questions from Beverly Walker-Griffea.

Sincerely,

Frederick Headen
Legal Advisor to the State Treasurer

From: Natasha Henderson [mailto:nhenderson@cityofflint.com]
Sent: Wednesday, December 16, 2015 5:56 PM
To: Cline, Richard (Treasury) <cliner1@michigan.gov>; Headen, Frederick (Treasury) <HeadenF@michigan.gov>
Cc: Karen Weaver <kweaver@cityofflint.com>
Subject: RTAB Questions from RTAB Meeting

On August 7, 2015 Genesee County District Court Judge Archie Hayman issued a Preliminary Injunction Order (the "Order") against the City. As a result of the Order, the City anticipated an immediate and devastating impact on the financial stability of the Water and Sewer Funds if a stay was not quickly granted by the Michigan Supreme Court Appellate Court. Indeed, the City's request was denied and the financial impact of the Court order has been reviewed through the fiscal year ending June 30, 2016.

Upon issuance of the Order, the City was immediately enjoined from charging and collecting water and sewer rates that include the September 16, 2011 35% rate increases and disconnecting water service for its delinquent water and sewer customers wherein the delinquency arose between September 16, 2011 and the date of the Order. This immediately resulted in a decrease in cash collections on outstanding and current water bills and a decrease in total billed revenue.

The following budget amendments reflect a decrease in revenue projections as a result of monthly billing activity for the period September 2015-June 2016. September billing reflected the reduced rates as ordered by the Preliminary Injunction and confirmed preliminary estimates with $670,000 less in billed usage from the same period in 2014. The City has assumed and average decrease of $616,148 in monthly billed revenue, or $6,777,624 by fiscal year end (for 11 months of billing).

The City had total accounts receivable due of $13,738,190 for all active and inactive accounts at August 7, 2015. It is highly probable that a large percentage of that balance will have to be written off as uncollectible without the ability to enforce payment. The proposed amendments reflect an estimated uncollectible balance at this time of $8,340,823.

The City is working diligently to review the FY2016 operating budgets for additional sources of savings. Upon issuance of the Order, a spending and hiring freeze for all non-critical items was immediately implemented. The City has worked diligently to redevelop its capital improvement plan and has now canceled or postponed many planned projects and purchases until financial stability can be regained.

Changes to appropriations reflect the carry forward of projects in progress but not completed at June 30, 2015 for the Sewer and Water Funds of $41,796 and $1,456,922, respectively. This carry forward is largely offset by decreases to the City's capital improvement plan.

The City's emphasis at this time continues to be on providing safe, clean water to the City's residents and moving forward with preparations for the KWA pipeline to come online. As a result of this re-prioritization, the budget amendments reflect a reduction to budget capital improvements of $5,564,804.

Sewer Fund

The Sewer Fund budget (590) reflects a decrease in projected revenue of $6,741,475 and increase in Use of Fund balance of $2,883,373. The Sewer Fund was paid in full by the 101 fund at the end of FY2015, therefore the budgeted payment of $800,000 from the Public Improvement Fund must be removed. As noted previously, the decrease in Charges for Services of $5,941,475 is a result of the combined impact of inability to enforce collections on balance prior to August 7 and decrease in billed revenue per Court ordered rate reductions.

The roll forward of incomplete FY2015 projects of $41,796 is reflected by a corresponding decrease in cancelled and postponed capital improvement projects of $3,899,898.

Water Fund