Steckelberg, Larry (TREASURY)

From: Jody Lundquist <jlundquist@cityofflint.com>
Sent: Thursday, January 21, 2016 11:49 AM
To: Steckelberg, Larry (TREASURY)
Cc: Natasha Henderson; Workman, Wayne (TREASURY); Byrne, Randall (Treasury); Cline, Richard (Treasury)
Subject: Fwd: Water rates and shut off notices

Per Ms. Henderson, I am forwarding this correspondence for additional context and information relating to the City's current position on water rates and shut off notices.

Please let me know if you have any additional questions.

Best regards,

Jody N. Lundquist
Chief Financial Officer
City of Flint
1101 S. Saginaw Street, 2nd Floor
Flint, MI 48502
jlundquist@cityofflint com
(810) 237-2441

---------- Forwarded message ----------
From: **Jody Lundquist** <jlundquist@cityofflint.com>
Date: Sun, Jan 17, 2016 at 7:48 PM
Subject: Water rates and shut off notices
To: Natasha Henderson <nhenderson@cityofflint.com>
Cc: Anthony Chubb <achubb@cityofflint.com>, Karen Weaver <kweaver@cityofflint.com>

Good evening, Ms. Henderson.

I sent you an email this afternoon regarding the media coverage on the City's intent to begin issuing shut off notices effectively immediately. At this point in time, I have not given such an instruction to Treasury staff nor provided them with a rate schedule to restore water and sewer rates to their pre-injunction amounts. However, there are a number of matters for which I must make you aware.

Water Rates
On August 17, 2015, Honorable Judge Archie Hayman issued a preliminary injunction order requiring the City to reduce its water and sewer rates. Billing was postponed for a number of weeks while the City awaited an opinion from the Court of Appeals. Having not received a stay, the City moved forward with implementing the reduced rate structure and regular monthly billing resumed on September 1, 2015.

On Monday, January 11, 2016, the Judge signed an amended preliminary injunction order restoring the City's water and sewer rates to those set by the master fee schedule as adopted by emergency manager order. City Council and RTAB approved a first quarter budget amendment recognizing the reduced revenue resulting from the rates currently in effect as ordered by the original preliminary injunction order. The court-ordered rates result in rates being insufficient to meet the operations, maintenance, and bond obligations necessary to fulfill the requirements as set forth in the Revenue Bond Act, however the budget amendment authorized the use of unrestricted fund balance to offset the gap between rates and revenue requirements.

If the City were not to restore rates pursuant to the master fee schedule, the budget has already been updated accordingly. However, I request that the legal department provide an opinion as to the City's obligation to restore the EM adopted rates as failure to do so may be a violation of PA436. Not doing so, would require further action to set a new master fee schedule.

I would also note that with the current financial position of the City, this method of subsidizing insufficient rates cannot be maintained past the end of this fiscal year.

Shut off Notices

The preliminary injunction order prohibited the City from performing shut off notices on delinquent balances prior to the implementation of the reduced rates. Upon receiving the verbal order on August 7, 2015 the City immediately ceased disconnection of service for non payment. When the reduced rates became delinquent in October, the City worked through some administrative hurdles to "set aside" the balances outstanding prior to September 1 when regular billing resumed. In November the City held a press conference announcing that shut off notices were going to resume. (At the time, lead was not as widely present in the media coverage.) The last cycle to be sent shut off notices were mailed on or around 12/9 with a due date of 12/29/2015. Processing of additional notices was then postponed in consideration of the holidays.

No disconnection for nonpayment of an active account has occurred since August.

The City has seen a dramatic decline in its collection rate since August. As with any utility, the City performs shut offs to enforce timely payment. The Finance and Treasury Departments have been reviewing the financial impact of the reduced billed revenue and decrease in collections on a regular basis. In August the City's collection rate was 99%. With the issuance of shut off notices, the City received in payments each month approximately the same amount that it billed although payments were often trailing. For instance, many customers were constantly in a state of delinquency, but they were at least coming in each month and making a payment.

Without the issuance of shut off notices, the City's collection rate fell to 70% in October before increasing (through issuance of shut off notices) to 89% in December. Average collection rate for the period August to December has now fallen to 84%.

As I noted in my previous email, there is an incredible amount of media attention and public outcry regarding the City's policy on shutting off service for nonpayment of "poisonous" water. This does NOT absolve the City from state law or its responsibility to maintain a functional water and sewer system. Rates and enforcement of payment are necessary in order to ensure we have the resources to maintain the system unless financial support is going to be provided from an external entity.

While we may have some time as we request financial assistance from the State and Federal government and review both our policy and legal positions, we must be considerate of our obligations to the system and long term financial stability of the City. Per our conversation, Treasury has been instructed not to take any action at this time and will wait until further notice to update the rate schedule and issue shut off notices.

Thank you for your time and consideration of these matters. Please let me know if you have any questions or would like any additional information.

Best regards,