



2021 Operating and Capital Budgets

Prepared for: Sewerage & Water Board of New Orleans
Board of Directors

December 2020

Presented By: **S&WBNO Budget Team**



Operating & Maintenance and Capital Budgets

- ◆ Budget approval process has several steps:
 - Internal Departmental Request Collation – late summer
 - Executive Director Recommendations – internal budget hearings held in autumn
 - Presentation and Review by the Finance & Administration Committee – early December
 - Approval by the Board of Directors by December 31st of each year



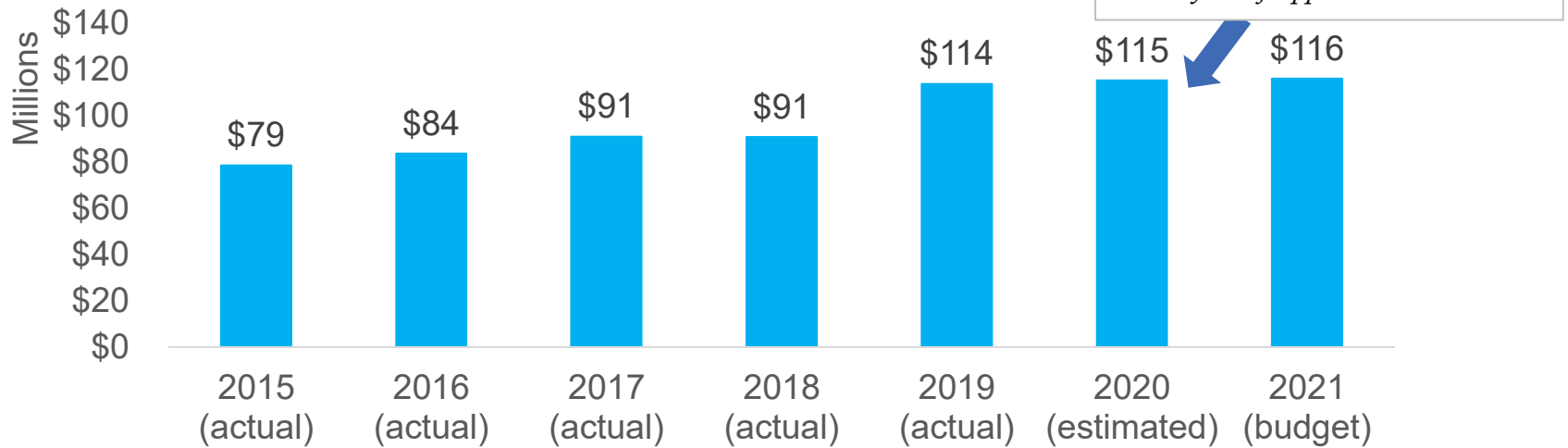
2021 Budget Cycle

- ◆ Despite the COVID-19 pandemic and associated fiscal impacts to both revenues and expenditures, the S&WBNO is proud to present a legal, balanced budget that meets our obligations.
- ◆ Although a 10 percent rate increase went into effect on January 1, 2020, revenue collections in 2020 are nearly flat to 2019 levels.
 - The organization’s leadership has taken active steps to manage costs given lower-than-expected revenue collections during this calendar year.
- ◆ While revenues are budgeted on a “billing basis,” it is essential to consider the collection rate to understand the net resources available to the organization. After considering an adjustment for “uncollectable accounts,” the net revenues for 2021 are projected to be essentially flat to 2020 levels.
 - As noted above, 2020 net revenues are nearly flat to 2019 levels, so the organization is projecting nearly flat revenue collections for two years running (2019-2020 and 2020-2021).
- ◆ Therefore, in this budget cycle, the prior year’s budget (which was approved in December of last year, before the impacts of the pandemic were known) was not the appropriate baseline for the 2021 budget. Rather, the organization used actual 2019 expenditures as a guide for how to manage budgeted costs in an environment where net revenues in 2021 are expected to mirror those of 2019.

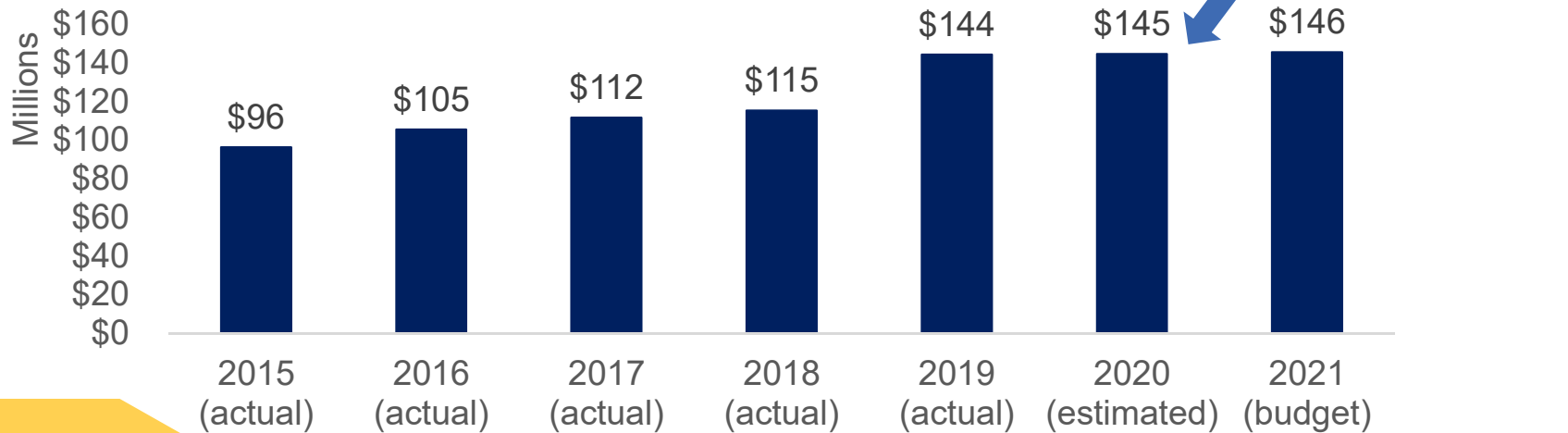


2021 Budget Revenue Compared to Prior Years

Water Sales and Other Operating Revenue



Sewerage Sales and Other Operating Revenue





2021 Budget Cycle

- ◆ In order to reach a legal, balanced budget, the organization had to make some difficult decisions.
- ◆ Senior departmental leadership worked closely with executive leadership and the budget team to identify reductions in the 2021 Budget as compared to the 2020 Budget.
 - Operating budget reductions of approximately \$41 million, or 17 percent, were identified for the 2021 Budget.
 - These reductions are consistent with the City of New Orleans' directive to City departments to identify 20 percent savings in their budget submissions.
- ◆ Historically, the organization has carried a large number of “funded vacancies,” or open positions, in the Budget. In order to meet budget targets, nearly all funded vacancies were eliminated in the 2021 Budget.
 - Available resources will be closely monitored throughout calendar year 2021. Management retains the flexibility to hire critical positions on an as-needed basis to provide essential services to the City's residents.

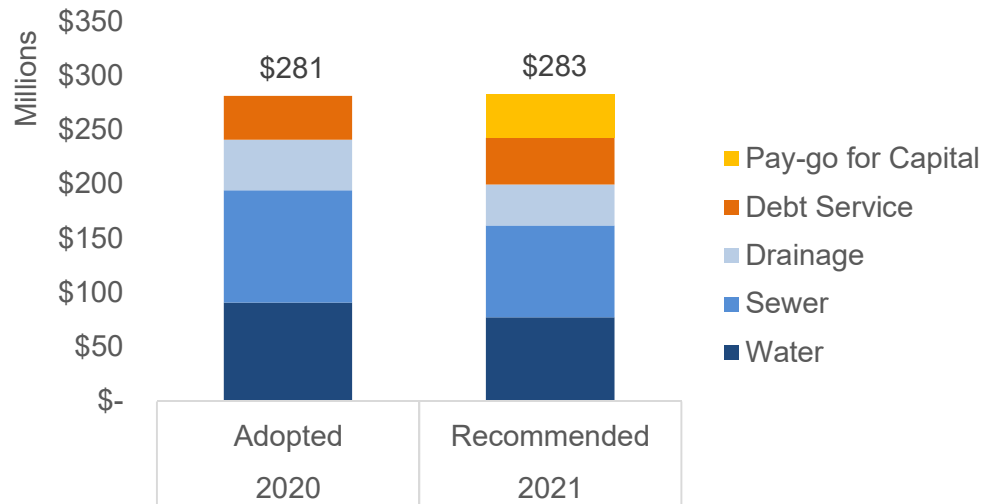


2021 Operating Budget by System

	A	B	C	D	
	Water	Sewerage	Drainage	Total	
Operating Revenues:					
1	Revenues from Charges	\$ 115,626,250	\$ 144,889,010	\$ -	\$ 260,515,260
2	Other Operating Revenues	\$ 567,704	\$ 631,570	\$ -	\$ 1,199,274
3	Total Operating Revenues	\$ 116,193,954	\$ 145,520,580	\$ -	\$ 261,714,534
Operating Expenses:					
4	Operating & Maintenance Expenses	\$ 77,237,313	\$ 84,835,502	\$ 37,779,361	\$ 199,852,176
5	Depreciation & Allowances Expenses (non-cash)	\$ 45,990,879	\$ 46,530,199	\$ 14,524,159	\$ 107,045,237
6	OPEB Liability (non-cash)	\$ 3,666,667	\$ 3,666,667	\$ 3,666,667	\$ 11,000,000
7	Total Operating Expense	\$ 126,894,858	\$ 135,032,368	\$ 55,970,187	\$ 317,897,412
8	Net Operating Income	\$ (10,700,904)	\$ 10,488,212	\$ (55,970,187)	\$ (56,182,878)
Non-Operating Revenues (Expenses)					
9	Tax Revenues	\$ -	\$ -	\$ 59,278,056	\$ 59,278,056
10	Interest Income	\$ 1,076,700	\$ 1,298,000	\$ 172,014	\$ 2,546,714
11	Other Non-Operating Revenues	\$ 1,725,600	\$ 703,400	\$ 2,683,085	\$ 5,112,085
12	FEMA Expense Reimbursement	\$ -	\$ -	\$ 366,345	\$ 366,345
13	Total Non-Operating Revenues	\$ 2,802,300	\$ 2,001,400	\$ 62,499,500	\$ 67,303,200
Non-Operating Expenses:					
14	Interest Expense - Series 2011 Bonds	\$ -	\$ 53,210	\$ -	\$ 53,210
15	Interest Expense - Series 2014 Bonds	\$ 4,613,500	\$ 4,056,325	\$ 84,100	\$ 8,753,925
16	Interest Expense - Series 2015 Bonds	\$ 4,852,750	\$ 4,950,000	\$ -	\$ 9,802,750
17	Interest Expense - Series 2019 Bonds	\$ -	\$ 43,899	\$ -	\$ 43,899
18	Interest Expense - Series 2020A Bonds	\$ -	\$ 153,750	\$ -	\$ 153,750
19	Interest Expense - Series 2020B Bonds	\$ -	\$ 2,892,541	\$ -	\$ 2,892,541
20	LADEQ Loan	\$ -	\$ -	\$ -	\$ -
21	Go Zone Interest Expense	\$ -	\$ 867,542	\$ -	\$ 867,542
22	Capitalized Interest	\$ (9,466,250)	\$ (13,017,267)	\$ (84,100)	\$ (22,567,617)
23	Total Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -
24	Net Income	\$ (7,898,604)	\$ 12,489,612	\$ 6,529,313	\$ 11,120,321



2021 Total O&M Budget



	2020 Adopted	2021 Recommended	\$ Change	% Change
Water	\$ 90,801,009	\$ 77,237,313	\$ (13,563,696)	(14.9%)
Sewer	\$ 103,653,966	\$ 84,835,502	\$ (18,818,464)	(18.1%)
Drainage	\$ 46,512,609	\$ 37,779,361	\$ (8,733,248)	(18.8%)
Total	\$ 240,967,584	\$ 199,852,176	\$ (41,115,408)	(17.1%)
Debt Service	\$ 40,386,025	\$ 42,794,414	\$ 2,408,389	6.0%
Pay-go for Capital	\$ -	\$ 40,000,000	\$ 40,000,000	
Total including Debt Service & Pay-go	\$ 281,353,609	\$ 282,646,590	\$ 1,292,980	0.5%



2021 Operating Budget by System and Department

Department	Water	Sewerage	Drainage	Total
Executive Director	\$ 486,027	\$ 667,512	\$ 288,385	\$ 1,441,924
Special Counsel	\$ 737,734	\$ 1,196,224	\$ 483,489	\$ 2,417,447
Chief Administrative Officer	\$ 16,113,617	\$ 18,652,376	\$ 9,326,188	\$ 44,092,181
Communications	\$ 159,116	\$ 159,116	\$ 79,558	\$ 397,791
General Supt./Operations	\$ 55,568,130	\$ 61,376,190	\$ 29,153,392	\$ 146,097,712
Chief Financial Officer	\$ 3,623,664	\$ 4,560,902	\$ 2,046,141	\$ 10,230,707
Chief Customer Service	\$ 6,271,032	\$ 6,271,032	\$ 137,324	\$ 12,679,388
Overhead	\$ (5,722,008)	\$ (8,047,850)	\$ (3,735,116)	\$ (17,504,974)
Total Operating & Maintenance	\$ 77,237,313	\$ 84,835,502	\$ 37,779,361	\$ 199,852,176
Debt Service	\$ 13,471,250	\$ 27,284,064	\$ 2,039,100	\$ 42,794,414
Depreciation & Allowance Expenses (non-cash)	\$ 45,990,879	\$ 46,530,199	\$ 14,524,159	\$ 107,045,237
OPEB Liability (non-cash)	\$ 3,666,667	\$ 3,666,667	\$ 3,666,667	\$ 11,000,000
Total Expense	\$ 140,366,108	\$ 162,316,431	\$ 58,009,287	\$ 360,691,826



2021 Operating Budget Compared to 2020 Adopted Budget

- 2021 Recommended Operating Expenses are budgeted \$41 million, or 17 percent, lower than 2020 Adopted Operating Expenses.
- This reduction brings 2021 Operating Expenses in line with total 2019 Audited Operating Expenses of \$198.6 million.

		2020 Adopted Budget	2021 Recommended Budget	\$ Change	% Change
1	Personnel Services	\$ 111,433,179	\$ 93,049,408	\$ (18,383,771)	(16.5%)
2	Services and Utilities	\$ 71,671,512	\$ 61,305,860	\$ (10,365,652)	(14.5%)
3	Materials and Supplies	\$ 50,244,763	\$ 40,631,131	\$ (9,613,632)	(19.1%)
4	Special Current Charges	\$ 6,162,727	\$ 3,992,796	\$ (2,169,931)	(35.2%)
5	Furniture and Equipment	\$ 1,455,403	\$ 872,981	\$ (582,422)	(40.0%)
6	Total Operating Expenses	\$ 240,967,584	\$ 199,852,176	\$ (41,115,408)	(17.1%)
7	Depreciation	\$ 59,632,000	\$ 67,364,042	\$ 7,732,042	13.0%
8	OPEB Liability (non-cash)	\$ 11,000,000	\$ 11,000,000	\$ -	0.0%
9	Interest	\$ 6,375,000	\$ 6,375,000	\$ -	0.0%
11	Doubtful Accounts*	\$ 3,000,000	\$ 33,306,195	\$ 30,306,195	1010.2%
12	Debt Service	\$ 40,386,025	\$ 42,794,414	\$ 2,408,389	6.0%
13	Pay-go	\$ -	\$ 40,000,000	\$ 40,000,000	-
14	Total Operating Budget	\$ 361,360,609	\$ 400,691,826	\$ 39,331,217	10.9%

*Allowance for Doubtful Accounts is now fully reflected as an expense for the 2021 Budget in order to better align with how the allowance is reflected in the annual audit.



2021 Operating Budget: Net Income Calculation

Net Income Calculation	2021 Total Recommended Budget
Total Operating Revenues	\$ 261,714,534
Total Non-Operating Revenues	\$ 67,303,200
Total Revenues	\$ 329,017,734
Operating & Maintenance Expenses	\$ 199,852,176
Depreciation & Allowances Expenses (non-cash)	\$ 107,045,237
OPEB Liability (non-cash)	\$ 11,000,000
Total Operating Expense	\$ 317,897,412
Total Revenues	\$ 329,017,734
Total Operating & Maintenance Expense	\$ 317,897,412
Net Operating Income	\$ 11,120,321



2021 Operating Budget Position Adjustments

- Staffing for the 2021 Operating Budget contemplates a total of 1,320 budgeted positions.
- 35 of the overall positions are funded by FEMA to support a portion of the capital program.
- The small number of remaining vacant positions in the budget are funded at a portion of the full annual amount depending on anticipated hiring.

	2020 Authorized Positions	2021 Recommended Positions	# Variance	% Variance
Chief Administrative Officer	86	60	(26)	(30.2%)
Chief Financial Officer	100	71	(29)	(29.0%)
Chief Customer Service Officer	288	257	(31)	(10.8%)
Communications	4	3	(1)	(25.0%)
Executive Director	20	9	(11)	(55.0%)
Special Counsel/Legal	19	10	(9)	(47.4%)
General Supt./Operations	1206	910	(296)	(24.5%)
Total	1723	1320	(403)	(23.4%)



Debt Service Coverage Requirements Met

- Section 7.01(a)(ii) of the S&WBNO Bond Covenants provides that Net Revenues shall be at least equal to 125% of the Annual Debt Service.

Debt Service Coverage Calculation	Water	Sewer
Revenues for Debt Service Coverage:		
Total Operating Revenues	\$ 116,193,954	\$ 145,520,580
Total Non-Operating Revenues	\$ 2,802,300	\$ 2,001,400
Total Revenues for Debt Service Coverage	\$ 118,996,254	\$ 147,521,980
Expenses for Debt Service Coverage:		
Operating & Maintenance Expenses	\$ 77,237,313	\$ 84,835,502
Allowance for Doubtful Accounts	\$ 15,171,065	\$ 18,036,645
Total Expenses for Debt Service Coverage	\$ 92,408,378	\$ 102,872,147
Net Revenues Available for Debt Service	\$ 26,587,876	\$ 44,649,833
Debt Service	\$ 13,471,250	\$ 23,642,725
Debt Service Coverage (1.25x Required)	1.97	1.89



2021 Budget Cycle: Capital Program

- ◆ The staffing levels and other expenditures proposed in the 2021 Budget do not represent where the organization needs to be in the future; rather, the proposed budget represents a difficult balance of operating and capital needs and a commitment to provide necessary public services given the reality of a resource-constrained environment.
 - In 2021, the organization will be engaged in more robust monitoring and reporting of its cash and fiscal position on a real-time basis so as to best manage available resources.
- ◆ The community understands that the organization has significant outstanding needs to rebuild and revitalize our infrastructure. Due to successful low-interest loan applications, bond sales, and intergovernmental negotiations, the utility will have access to a number of new funding sources in 2021 that will allow for a more robust capital program as compared to the past several years.
- ◆ However, our external funding sources are not perfectly aligned with our planned uses by system. The organization must use system funds to pursue critical project work that falls outside the eligibility criteria of our external funding sources.
 - The Management Team is actively working to secure additional Water funding (primarily through accelerated reimbursements from FEMA) in order to fund all critical projects. The Water Fund does not have sufficient net revenues to support additional significant debt-financed capital spending.



2021 Capital Budget and Sources by System

System	Sources by System	2021 Capital Budget	Difference
Water*	\$87,045,733	218,489,930	(\$131,444,196)
Sewer	\$342,371,336	188,632,679	\$153,738,656
Drainage	\$68,558,333	58,367,652	\$10,190,682
TOTAL	\$497,975,402	\$465,490,260	\$32,485,142

*While the 2021 Capital Budget has total projected sources that exceed total projected uses, the sources and uses are not aligned by system. As noted earlier, the Management Team is actively working to secure additional Water funding (primarily through accelerated reimbursements from FEMA) in order to fund all critical projects.



Despite Challenges, We're Still Moving Ahead with Major Projects

◆ Power

- C7/C8 Basin Demolition at Carrollton Water Plant and Entergy Substation Site Prep
- Turbine 7
- Frequency Changers
- Bringing T5 back online

◆ Water

- Sycamore Filter Gallery rehab
- AMI

◆ Communications

- Hiring HDR Engineering Inc. as PR firm

◆ Customer Service

- Hiring Chief Customer Service Officer

◆ Planning for the Future

- Master Plan



2021 Capital Budget: Pay-go Budget Sources

- In 2021, the organization is budgeting \$40 million for pay-as-you-go (or “pay-go”) capital spending from system funds.
 - In prior years, a comparable amount was spent on capital needs from surplus system funds, but the amount was not budgeted. Given the uncertainty of the 2021 budget cycle, and the lack of surplus cash reserves, it is important to formally recognize this cost in the Budget in order to ensure these funds are available to improve and maintain our infrastructure.

Pay-go Budget Sources		
Net Revenues Available for Debt Service	\$	71,237,709
Debt Service	\$	37,113,975
Net Revenues Available for Pay-Go	\$	34,123,375
Surplus Non-Operating Revenue	\$	5,876,265
Total	\$	40,000,000



Estimated 2021 Capital Sources

Estimated 2021 Capital Sources		
	Amount	System(s)
FEMA Reimbursements	\$179,281,000	Water/Sewer
Remaining 2020A Bond Proceeds	\$6,000,000	Sewer
Fair Share Funding	\$4,000,000	Water/Drainage
New Bond Proceeds	\$76,605,402	Sewer
WIFIA	\$118,864,000	Sewer
DEQ	\$20,000,000	Sewer
Pay-Go	\$40,000,000	All
Power Program	\$37,700,000	Drainage
State	\$15,525,000	Drainage
TOTAL	\$497,975,402	



SEWERAGE AND WATER BOARD

Inter-Office Memorandum

Date: December 01, 2020

To: E. Grey Lewis, Chief Financial Officer *EG*

From: Rosita P. Thomas, Finance Administrator *RPT*

Re: 2021 OPERATING BUDGET AND 2021 CAPITAL BUDGET
BLANKET APPROPRIATIONS RESOLUTION

Attn: Christy Harowski, Board Relations

Please find attached Resolution # R-147-2020 for the 2021 Operation Budget and 2021 Capital Budget Blanket Appropriations dated December 21, 2020 for the Finance Committee, and the Full Board approval. Place this resolution on the Finance Committee agenda as an action item.

This resolution is prepared annually and forwarded to the Board of Liquidation in accordance with the Board's policy and the Louisiana State Statues.

Please contact me at 585-2364, if further discussion is necessary.

cc: Ghassan Korban
Dexter Joseph

Attachment

**2021 Operating Budget and 2021 Capital Budget Blanket Appropriations
December 21, 2020**

WHEREAS, as authorized by Louisiana R.S. 33:4083 that all funds received by the Board from water rates, and from the city by appropriation from its treasury, shall be deposited to the credit of the Board as collected, with fiscal agent of the city, and shall be paid out except upon duly adopted resolution of appropriation, and;

WHEREAS, Louisiana R.S. 33: 4094 specifically outlines the procedure for disbursement of Board funds on deposit with the Board of Liquidation, City Debt,

NOW, THEREFORE, BE IT RESOLVED, by the Sewerage and Water Board of New Orleans, that this resolution of appropriation is adopted to authorize and empower the disbursement of funds as identified in its 2021 Operation Budget and 2021 Capital Budget, by those designated parties, both within the Board as specified by its by-laws and by and through warrants drawn on the Board of Liquidation, City Debt.

I, Ghassan Korban, Executive Director,
Sewerage and Water Board of New Orleans
do hereby certify that the above and foregoing
is a true and correct copy of a Resolution said
Board, duly called and held, according to the
law on December 21, 2020

**GHASSAN KORBAN
EXECUTIVE DIRECTOR
SEWERAGE AND WATER BOARD OF NEW ORLEANS**

2021 OPERATING BUDGET

WHEREAS, the Sewerage and Water Board has reviewed the Recommended 2021 Operating Budget of which **\$77,237,313** is from the Water Department, **\$84,835,502** is from the Sewerage Department, and **\$37,779,361** is for the Drainage Department for a Total Operation and Maintenance (O&M) Expense Budget of **\$199,852,176**; and

WHEREAS, it is the intent of the Board that the Executive Director maintain budgetary controls; and

WHEREAS, the authorized expenditure categories for 2021 are:

<u>EXPENDITURE CATEGORIES</u>	<u>2021 BUDGET</u>
Personnel Services	\$93,049,408
Services and Utilities	61,305,860
Material and Supplies	40,631,131
Special Current Charges	3,992,796
Furniture and Equipment	<u>872,981</u>
TOTAL Operation and Maintenance Expense	\$199,852,176
Debt Service	\$ 42,794,414
Pay-Go	<u>\$ 40,000,000</u>
O&M with Debt Service and Pay-Go	\$282,646,590

NOW THEREFORE BE IT RESOLVED that the Sewerage and Water Board of New Orleans does hereby approve the 2021 O&M Expense Budget with Debt Service and Pay-Go in the amount of **\$282,646,590**.

I, Ghassan Korban, Executive Director,
Sewerage and Water Board of New Orleans,
do hereby certify that the above and foregoing
is a true and correct copy of a resolution adopted
at the Regular Meeting of the said Board,
duly called and held, according to law, on
December 21, 2020.

Ghassan Korban
EXECUTIVE DIRECTOR
SEWERAGE AND WATER BOARD OF NEW ORLEANS

ADOPTION OF 2021 CAPITAL BUDGET

WHEREAS, the recommended 2021 Capital Budget for the water, sewerage, and drainage systems is **\$465,490,260**; and

WHEREAS, identified funding is projected to be available through system revenues, taxes, reserves, bond proceeds, grant funds, and participation by others to finance the Capital Budget are **\$497,975,402**;

WHEREAS, the portion of the recommended 2021 Capital Budget requiring funding for the drainage system during 2021 is **\$58,367,652** of which funds have been identified of **\$68,558,333**, resulting in a surplus of funding totaling **\$10,190,682**; and

WHEREAS, the portion of the recommended 2021 Capital Budget requiring funding for the water system during 2021 is **\$218,489,930** of which funds have been identified of **\$87,045,733** resulting in a deferral of projects totaling **\$131,444,196**, unless other sources of funding are identified; and

WHEREAS, the portion of the recommended 2021 Capital Budget requiring funding for the sewerage system during 2021 is **\$188,632,679** of which funds have been identified of **\$342,371,336**, resulting in a surplus of funding totaling **\$153,738,656**; and

WHEREAS, the recommended 2021-2030 Capital Improvement Program is **\$2,040,772,094**;

NOW THEREFORE BE IT RESOLVED that the Sewerage and Water Board of New Orleans does hereby adopt the 2021 Total Capital Budget of **\$465,490,260** with funding totaling **\$497,975,402**; and

BE IT FURTHER RESOLVED that the Sewerage and Water Board does hereby accept the 2021-2030 Capital Improvement Program.

I, Ghassan Korban, Executive Director,
Sewerage and Water Board of New Orleans,
do hereby certify that the above and foregoing
is a true and correct copy of a resolution adopted
at the Regular Meeting of the said Board,
duly called and held, according to law, on
December 21, 2020.

Ghassan Korban
EXECUTIVE DIRECTOR
SEWERAGE AND WATER BOARD OF NEW ORLEANS