



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



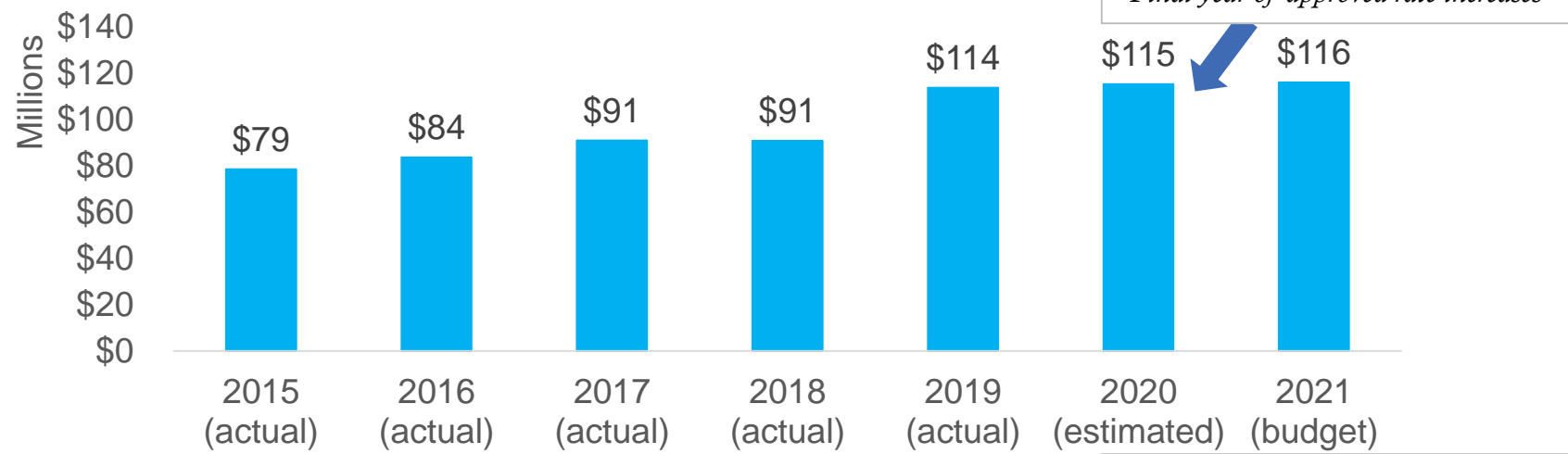
2021 Budget Cycle

- ◆ 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.

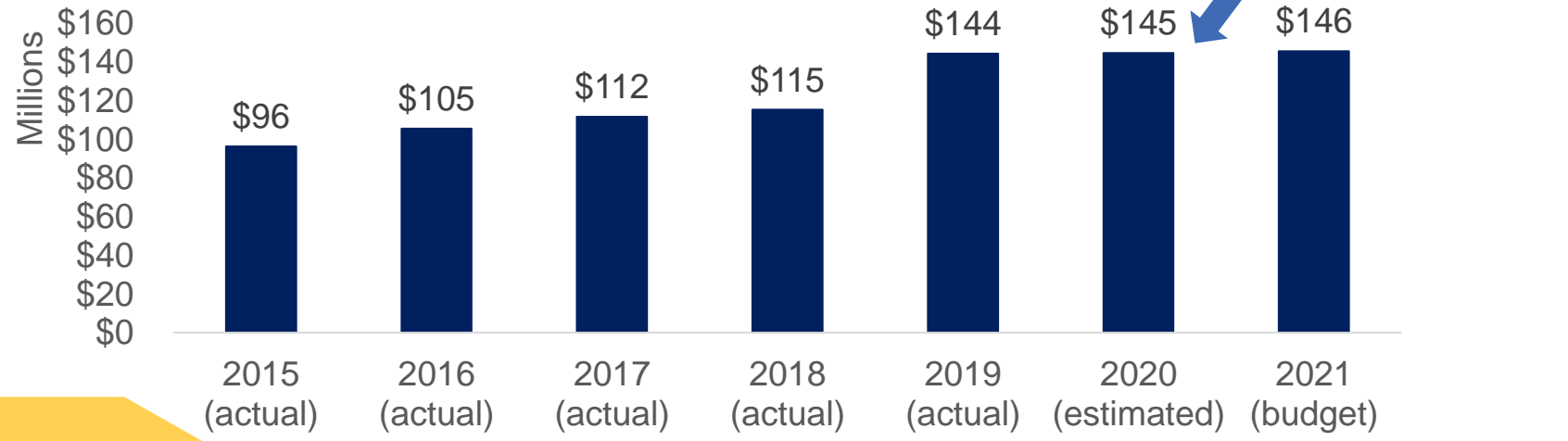


2021 Budget Revenue Compared to Prior Years

Water Sales and Other Operating Revenue



Sewerage Sales and Other Operating Revenue



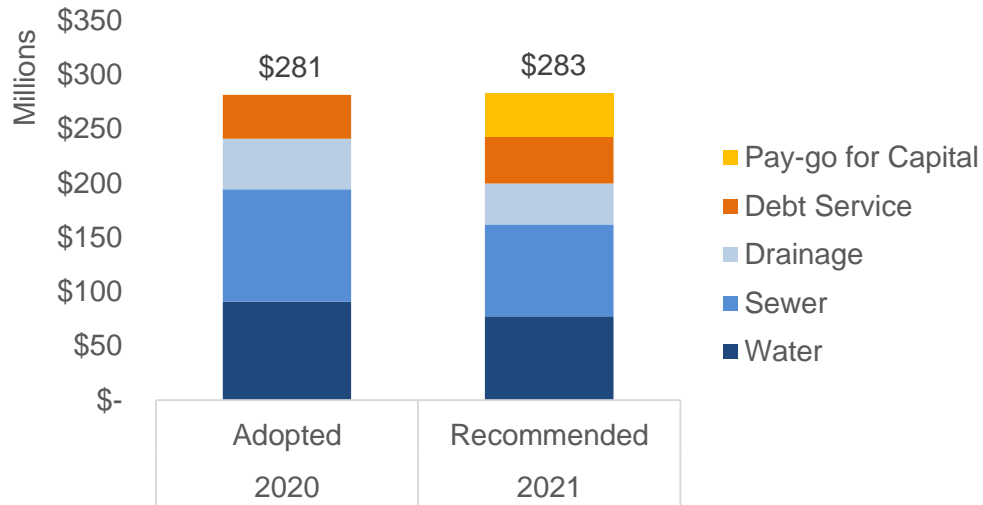


2021 Budget Cycle

- 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 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

	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 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 Demolition 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	