

SWBNO – COVID-19 CASHFLOW STRESS SCENARIOS

SWBNO Management have modeled several scenarios designed to stress each system's liquidity position in consequence of reduced revenue. Along with a basecase scenario, two scenarios have been created to illustrate possible COVID-19 outlooks before any adjustments are made to operating expenses: an "Optimistic" Stress Scenario and a Full "Stress" Scenario. The revenue and capital expense assumptions are noted below. More importantly, the final column titled "Managed Scenario" reflects the potential actions of management to reduce the negative impact of the pandemic: a 5% OPEX reduction and a deferment of \$5M of sewer system capital projects.

REVENUE ASSUMPTIONS:

Baseline Scenario

- Forecasted revenue trends mirror the pattern seen in the first quarter of the year. As expected, revenues were trending higher than 2019 since a 10% rate increase was implemented in January 2020.

"Optimistic" Stress Scenario

- Residential Revenue:
 - Delinquencies increase from their normal run rate of 10% to 45% of total billings by the end of May.
 - Delinquency rate begins to recover starting in mid-July, falling to a 15% rate by end of September, that lasts till the end of 2020
 - Given the stay at home order, on average, residential usage will increase by 10% and remain elevated until returning to "normal" levels in late fall/early winter.
- Commercial Revenue:
 - Revenue from large commercial customers (a high percentage of which are hotels and hospitality) decreases by 65% on average by the end of May due to lack of usage.
 - Revenue from large commercial customers, will begin to recover in the early summer as the city and country begin to open back up, returning to 100% pre-pandemic expected levels by the end of August.
 - Revenue from small commercial customers (a high percentage of which are restaurants) decreases by 45% on average by the end of May due to lack of usage.
 - The decrease is not as steep as large commercial revenue as some businesses were able to maintain partial operations during the pandemic
 - Revenue from small commercial customers will begin to recover in the early summer as the city and country begin to open back up but at a slower pace than larger businesses, and will return to only 90% pre-pandemic expected levels by the end of August as some businesses will likely remain permanently shuttered.

Full “Stress” Scenario

Same as “Optimistic” stress scenario, with the following exceptions:

- Residential Revenue:
 - Delinquency rate stays at the elevated May levels for the remainder of 2020 due to economic impact from the pandemic on the customer base.
 - Despite the stay-at-home order issued for New Orleans, no increase in usage rate is added to potentially offset some of the higher delinquency rate.
- Commercial Revenue:
 - Revenue from large commercial customers, will begin to recover at a slower pace, returning to 100% pre-pandemic expected levels by the end of September/early October.
 - Revenue from small commercial customers decreases by 60% on average by the end of May due to lack of usage.
 - Small business customers will return to only 80% pre-pandemic expected levels by the end of August as some businesses will likely remain permanently shuttered.

OPERATING EXPENSE ASSUMPTIONS:

Baseline: The 2020 Budget provides an expectation that the operating expenses will increase by 3.97% (SWBNO Adopted 2020 Budget, pg 21). Accordingly, 2020 Baseline operating expenses are forecasted to be 3.97% greater than 2019 operating expenses. However, the 2020 baseline operating expenditures are greater than the 2019 expenditures by more than 3.97% because January 2020 expenses reflected payments for 2019 obligations.

Optimistic and Stress Scenarios hold the Operating Expenses constant to Base Scenario

CAPITAL EXPENSE ASSUMPTIONS:

Base Scenario

Capital Expenses for each system reflect the total “Targeted” capital budget items for that system, plus 1/3 of the capital budget items for items categorized as “combo”.

For Water: All targeted capital budget and 1/3 of targeted combo projects were included, except that the budget was reduced by one-half of the JIRR water line projects of \$15M, which is expected to be deferred into 2021. (less \$15M funded)

“Optimistic” Scenario

Only the Capital Expenses categorized as “Urgent” and “Critical” are funded. Items noted as “Necessary”, “Desirable” would not be funded.

For Water: one additional exception was made relative to the Base Scenario: only half of the cost of the \$11 million project related to the construction of a new chemical storage facility paid in 2020. (less, \$20.5M funded)

“Stress” Scenario

For Sewerage and Drainage: only the Capital Expenses categorized as “Urgent”. Items noted as “Critical”, “Necessary”, “Desirable” would not be funded.

For Water: one additional exception was made relative to the Optimistic Scenario: none of the \$11 million project related to the construction of a new chemical storage facility paid in 2020. (less \$26M funded)

MANAGEMENT ACTION SCENARIO:

Management continues to identify opportunities to reduce expenditures in order to mitigate the negative affect of revenue depression due to COVID-19.

- The management of operating expenses becomes one of the most useful tools to manage towards covenant compliance. Considering the stress scenarios, SWBNO will look to reduce Operating Expenses to satisfy covenants. The forecasts consider a 5% operating expense adjustment which could easily be achieved with some level of a hiring freeze. (For context, a hiring freeze effective May 1 through the end of the year would save the SWB \$30.2M, or 13% of the operating budget)
- Management also has the discretion to delay certain capital projects that are not related to the federal consent decree. For the sewer system, the managed scenario reflects that \$5m of the capital projects will be delayed until after 2020.