

Fiscal Impacts of COVID-19 Update

Board of Directors
October 27, 2020

Recap of Projected Fiscal Impacts – April 2020



- Projected fiscal impacts
 - Service area economy
 - Lower water demand
 - Increased delinquencies
 - Decreased development
 - Deferral/partial suspension of capital projects
- Too early to measure impacts with accuracy
- Projected impacts likely greater in FY21 than FY20
- Provide the Board ongoing updates on financial and budgetary impacts

Observations Since April 2020



- Impacts to date
 - Water demand and development remain steady
 - Unemployment in the service area slow to recover
 - As of September 2020, delinquencies have grown by approximately \$5 million or ~\$2,500 per FTE
 - Customer Assistance Program participation has increased 17% since January
- District long-term financial planning actions have lessened the severity of fiscal impacts from the COVID-19 pandemic
- While the FY20 financial results are positive
 - Still uncertainty relative to the pandemic
 - Impacts may be greater in FY21

Fiscal Impacts to the Economy



- As of September, the number of unemployed is shrinking, but more people are becoming permanently unemployed (NY Times, October 12th)
- California job market appears to be at least two years away from returning to pre-pandemic levels (UCLA Anderson Forecast, Sept. 30th)
- In San Francisco, over 2,000 businesses have indicated that they are permanently closed; office vacancy has increased from ~5% to ~14%; sales tax revenue has declined by 43% (SF Economic Recovery Task Force Report, October 2020)

Impacts to the Financial Markets



- Interest costs increased temporarily at start of COVID-19 pandemic
 - Commercial paper and variable rate debt rates spiked in March
 - Rates returned to ‘normal’ and have remained so
- Interest income is declining
 - Fed Funds Rate lowered to near-zero
 - As higher-yielding securities mature and lower-yielding securities are purchased, portfolio yield declines

Expectations for FY21



- Range of impacts due to COVID-19 pandemic not fully known
- Expectation for an extended period of time before conditions return to pre-pandemic levels
- Survey of other state and local agencies finds varying actions to manage projected deficits

Projected or Actual Impacts to Other Agencies



- BART
 - Project reduced revenue of \$975 million over 3 years
 - Increased expenses of \$44 million in FY21
 - Reduced level of service
- City of Oakland
 - Project \$105 million budget deficit for FY21 resulting in a hiring freeze
 - Use of entire rainy day reserves, reduced police budget, deficit remains, etc.
- City of Concord
 - Faces a \$14.6 million deficit
 - Layoffs, service cuts and other reductions being discussed
- City of Hayward
 - FY21 budget includes use of reserves
 - Employee furloughs

Projected or Actual Impacts to Other Agencies



- State of California
 - Under most labor agreements, pay has been cut by 9.23% equivalent to two days of work each month
- Metropolitan Water District of Southern California
 - Implemented spending reductions
 - Cost cutting plan including a moratorium on non-emergency and unbudgeted spending
- Many local agencies have deferred planned rate increases (e.g., MMWD, Alameda Municipal Power, Castro Valley San)
- Water utilities across the U.S. are anticipated to experience COVID-19 fiscal impacts of ~17% due to revenue decreases and cost increases (AWWA/Raftelis

Current District Actions



- Carefully monitoring revenues such as water sales and customer payments
- Providing targeted and expanded customer assistance
- Continuing needed investments in our system
- Projecting to continue decreased borrowing for the capital program creating future borrowing capacity in the event of expensive projects and other emergencies including earthquakes

Quý vị khó khăn khi thanh toán hóa đơn tiền nước?
Quý vị có thể đủ điều kiện để được hỗ trợ!

EBMUD có thể giúp!

EBMUD cung cấp Chương Trình Hỗ Trợ để giúp các khách hàng cư trú tại nhà có thu nhập thấp thanh toán hóa đơn tiền nước.
Nếu quý vị đủ điều kiện, EBMUD sẽ giúp:

- 50% dịch vụ nước tiêu chuẩn
- 50% nước sử dụng tại nhà lên đến 1,050 gallon mỗi người, mỗi tháng
- 35% lệ phí dịch vụ nước thải và 35% lệ phí nước

Nếu quý vị cần thêm thời gian để thanh toán hóa đơn, hãy liên lạc với chúng tôi để thảo luận hoặc yêu cầu gia hạn.

Lên mạng ebmud.com/CAP hoặc gọi (866) 403-2683.

Having trouble paying your water bill?
You may qualify for assistance!

EBMUD can help!

EBMUD offers a Customer Assistance Program to help low income residential customers with their water bill. If you qualify, EBMUD will cover:

- 50% of the standard bimonthly water service charge
- 50% of home water use up to 1,050 gallons per person, per month
- 35% of the wastewater service charge and 35% of the flow charge

If you need more time to pay, contact us to discuss a payment plan or request an extension.

Visit ebmud.com/CAP or call (866) 403-2683.

FY22 & FY23 Budget Priorities



- Budget Priorities
 - Continued investments in and maintenance of aging infrastructure
 - Plan for long-term financial stability
- Budget Themes
 - Cautious
 - Realistic
 - Flexible

Prior FY22 & FY23 Rate Forecast



- In every biennial budget cycle a five-year rate forecast is projected
- In the FY20 & FY21 budget, the projected rate increases for FY22 & FY23 were:
 - Water 5% each fiscal year
 - Wastewater 4% each fiscal year
- Impact of the pandemic may change rate target

Impact of Lower Rate Increase



- To achieve a lower rate increase than projected, the budget must be decreased
- Significant increases in staffing are not financially feasible

Next Steps



- Continue development of a budget to provide high quality water and wastewater services
- Considerations
 - Board guidance
 - Economic indicators in and outside service area
 - Actions of peer agencies
 - Studies and recommendations from organizations such as the American Water Works Association and Association of Metropolitan Water Agencies

Key Budget Dates



Date	Meeting
January 26, 2021	1 st Board Budget Workshop on Long-Term Financial Stability
March 23, 2021	2 nd Board Budget Workshop
April 13, 2021	3 rd Board Budget Workshop (if needed)
June 8, 2021	Public Hearing, Board considers adoption of budget

Questions



Collection Strategy for Delinquent Single-Family Residential Accounts

Board of Directors

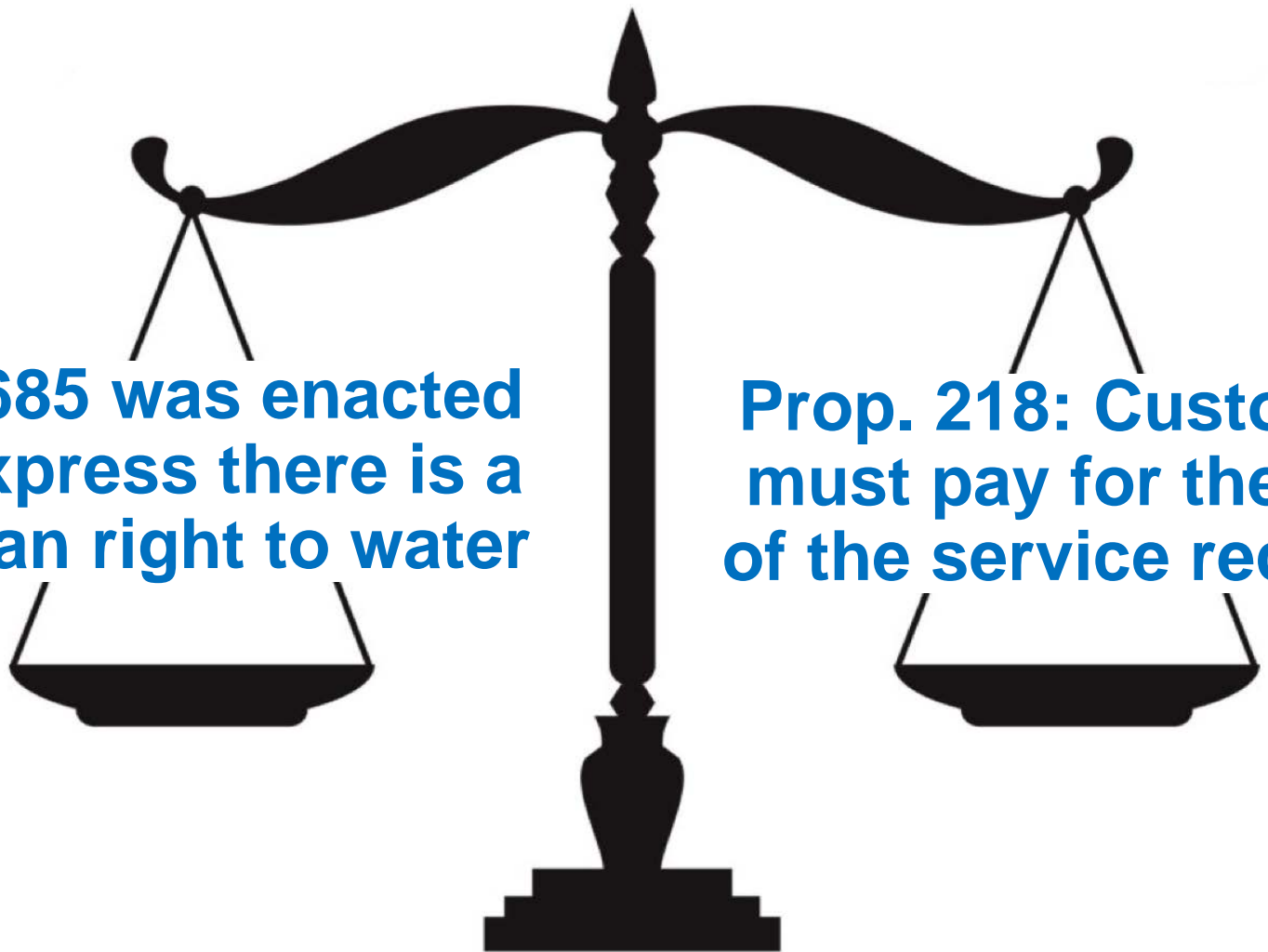
October 27, 2020

Agenda

- Delinquency trends
- Existing process for managing delinquencies
- Post emergency executive order considerations
- Alternative to address delinquencies
- Next steps



Competing Objectives

A black silhouette of a balance scale, representing the weighing of competing objectives. The scale is perfectly balanced, with both pans at the same level.

**AB-685 was enacted
to express there is a
human right to water**

**Prop. 218: Customers
must pay for the cost
of the service received**

Delinquency Trend (All Accounts)

Delinquency Trend (60 days after statement)	
Year	No. of Accounts (Monthly Average)
2017	21,540
2018	21,362
2019	21,361
2020	21,084

- Number of delinquencies during COVID-19 have not increased
- 98% of customers are paying their water bill or making arrangements
- 90% of payments are remitted on time

Delinquency Trend (Single-Family Residential)



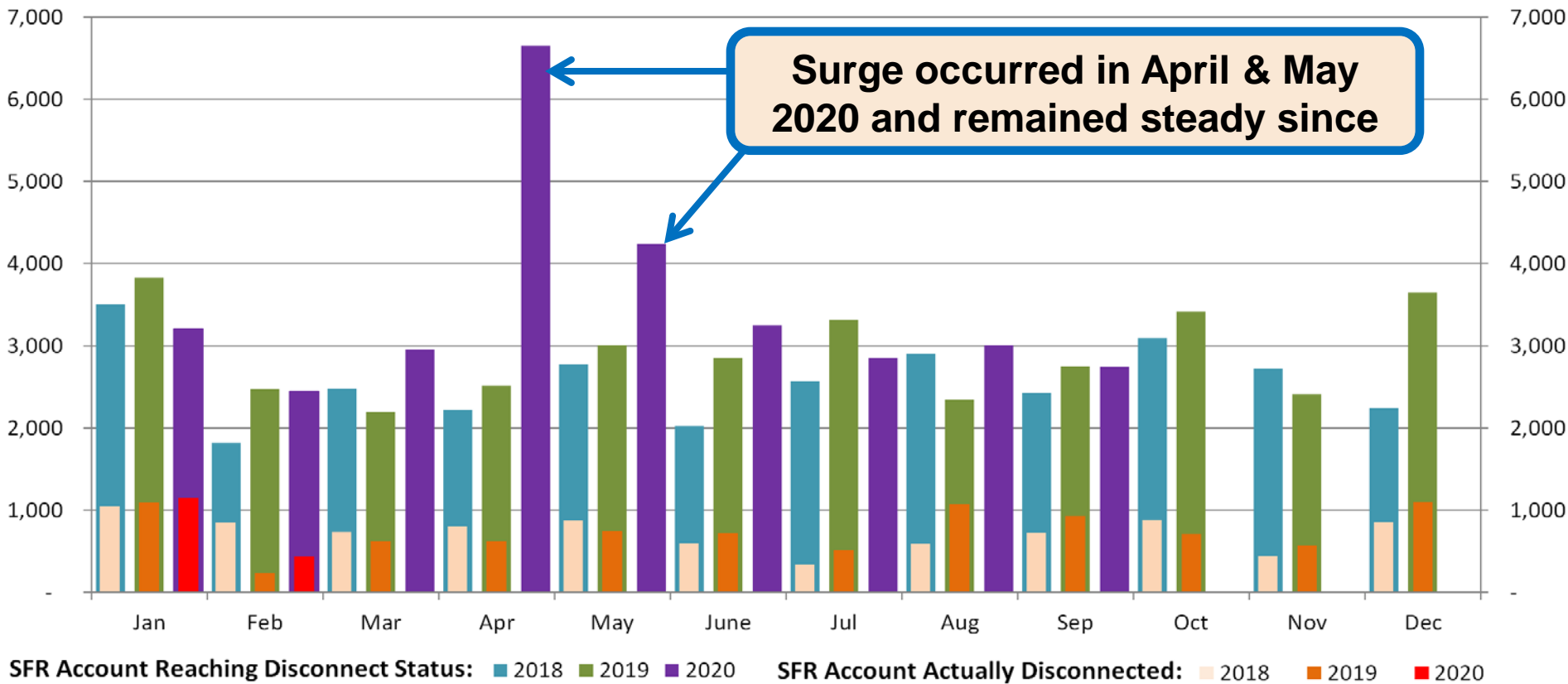
Delinquency Trend (60 days after statement)	
Year	No. of Accounts (Monthly Average)
2017	19,131
2018	19,001
2019	18,927
2020	18,740

- Delinquency trend for single-family residential (SFR) accounts remains consistent
- 94% of payments are remitted on time

Delinquencies Reaching Shutoff Status has More Than Doubled



SRF Accounts in Disconnect Status

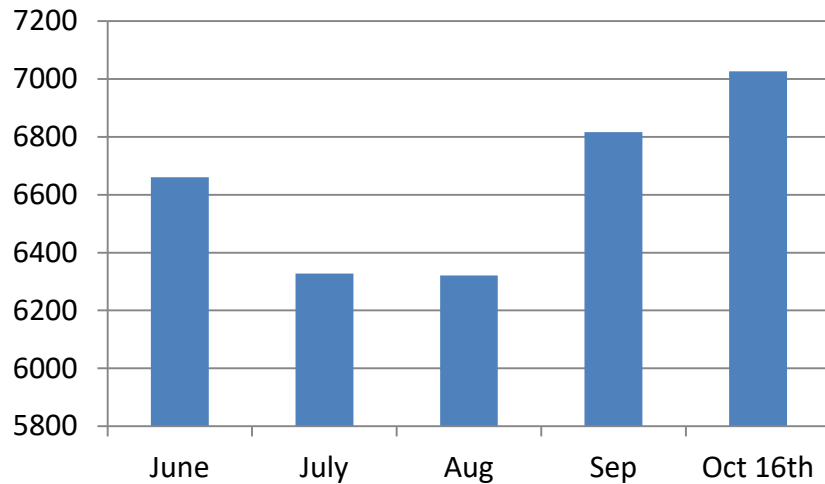


- Prior to suspension of shutoffs, less than 30% of accounts that reached shutoff status were disconnected

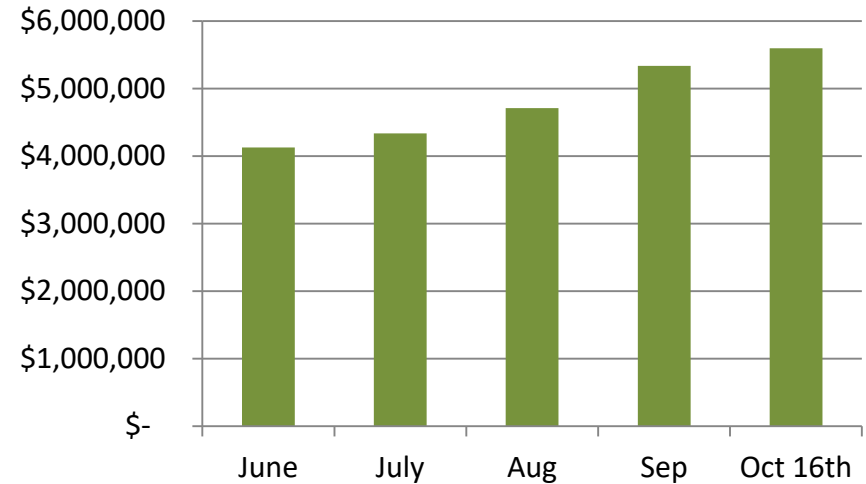
Trend in the Dollar Amount of Non-Payment



**Discontinuation Status
(Monthly Rolling Avg.)**

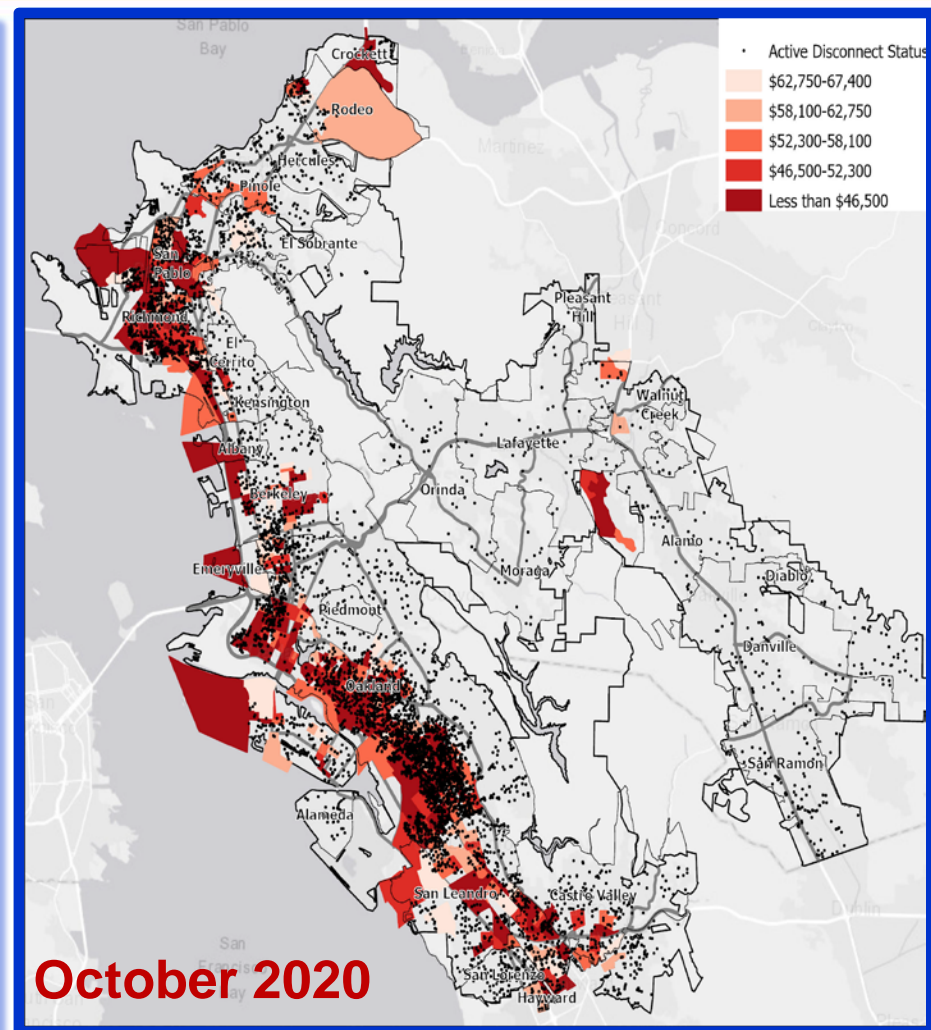
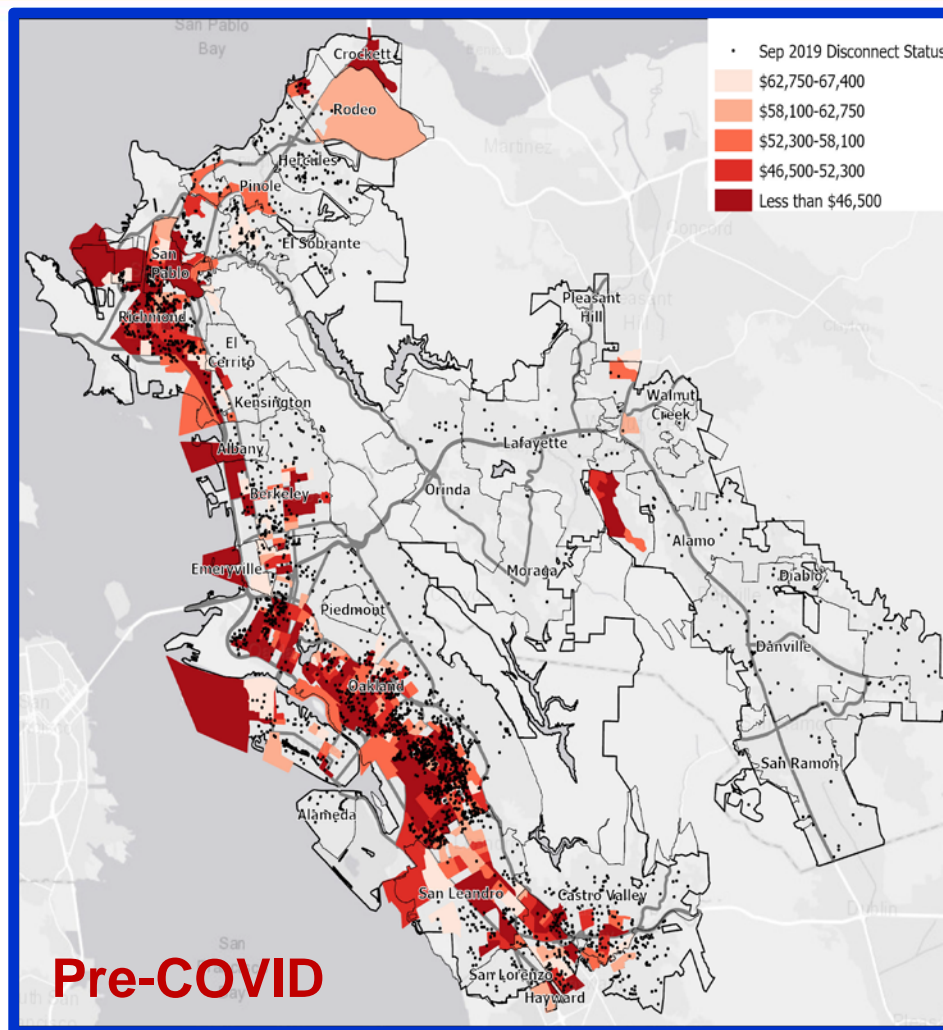


**Amounts in Arrear
(Monthly Rolling Avg.)**



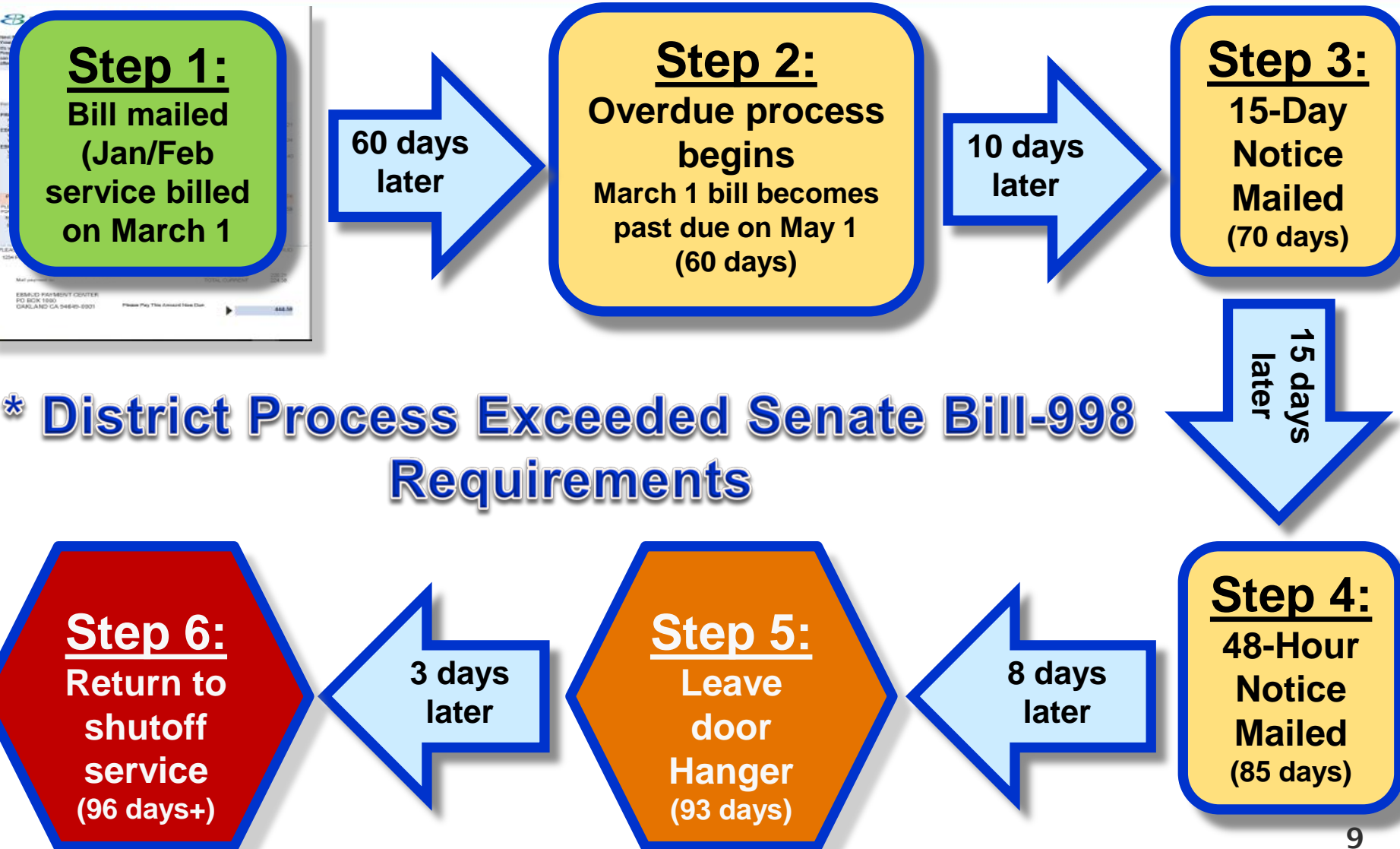
- Over 7,000 SFR accounts in shutoff status (October)
 - Nearly 3,700 SFR in shutoff status for the first time
 - Nearly 2,400 accounts have not paid since March 12, 2020
 - 154 went into shutoff status 10 or more times
 - Multiple payment reminders, CAP material, and information of other District programs sent

Location of Delinquent Accounts




- More than 55% of delinquent accounts are located in disadvantaged communities

Existing Process Managing Delinquencies



Executive Order (EO) Temporarily Suspended Shutoffs



Having trouble paying your water bill?


You may qualify for assistance!

EBMUD's Customer Assistance Program helps residential customers who are low-income or experiencing financial hardship with their water bill.


EBMUD can help!

EBMUD offers payment plans and if you qualify, can help you reduce your water bill by up to 50%.

Visit ebmud.com/CAP
or call **(866) 403-2683.**



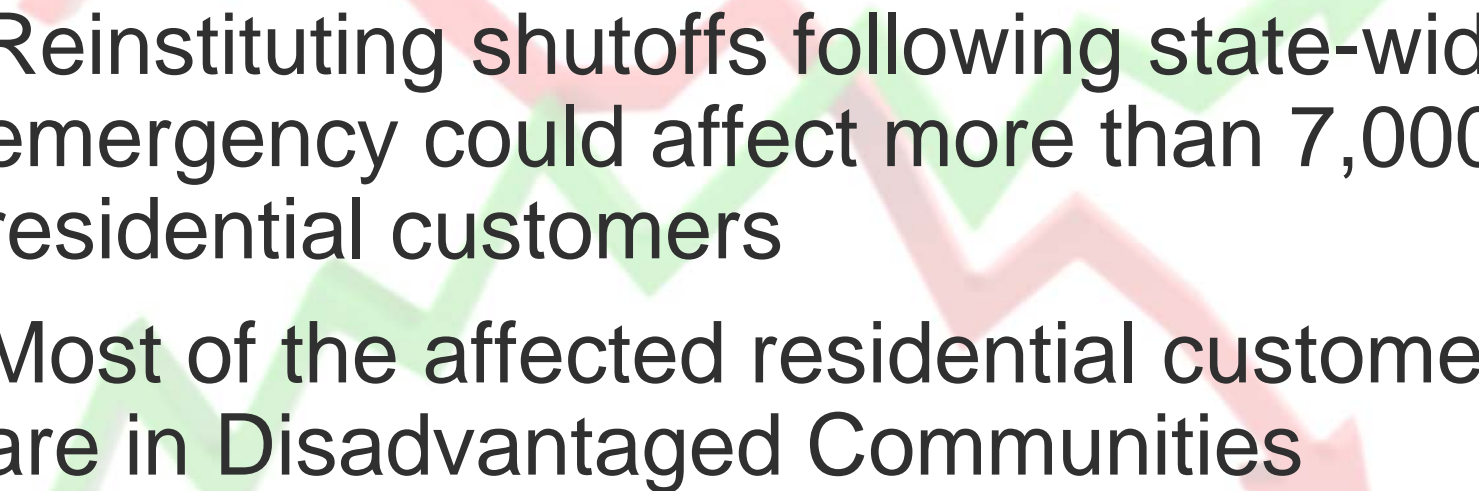
Scan QR code with a smartphone camera to learn more:



- Preceding the EO, District suspended water service shutoff on March 12
- Restored water service to all customer with active accounts
- Focused on assisting impacted customers through CAP and other District programs
- EO could be rescinded and strategy is needed to address delinquencies and shutoffs

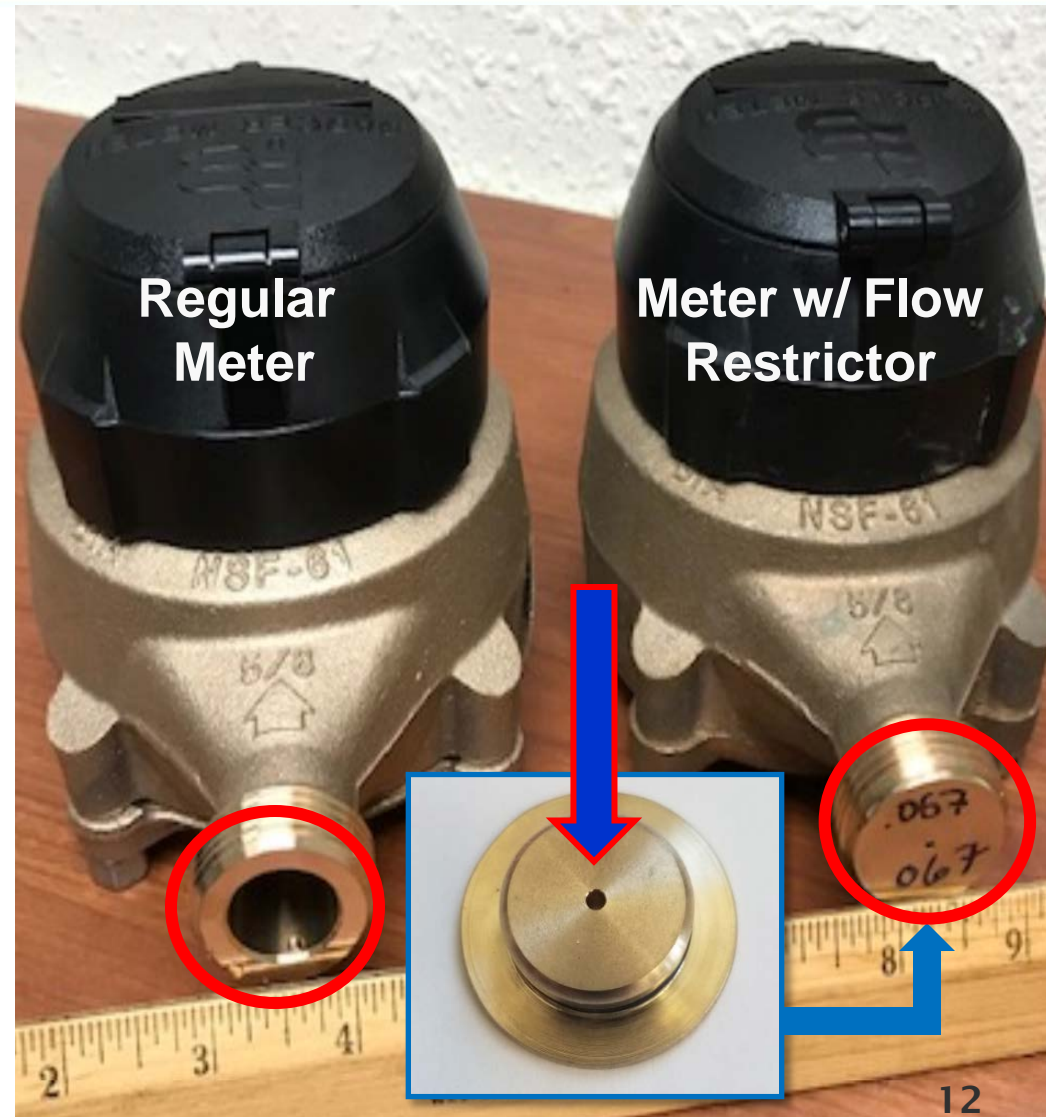
Strategy to Address Delinquencies and Shutoffs Needed



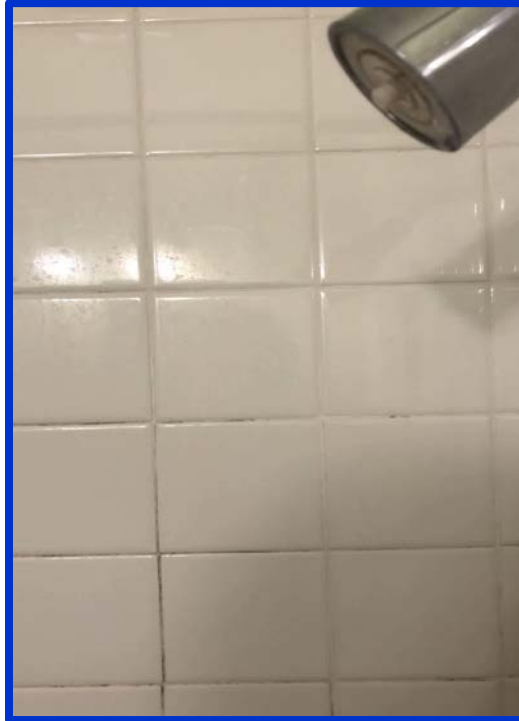
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- A decorative background graphic consisting of two overlapping, jagged lines. One line is a light red color and the other is a light green color. Both lines start at the top left, trend generally downwards with several peaks and valleys, and end at the bottom right. The lines are semi-transparent, allowing the text to be seen through them.
- Reinstating shutoffs following state-wide emergency could affect more than 7,000 residential customers
 - Most of the affected residential customers are in Disadvantaged Communities

What is a Flow Restrictor?

- Device that restricts the amount of water entering the premises
- Used to prevent wasteful use of water during droughts
- District regulation provides authority for use of flow restrictors
- Flow restrictors have been used to address delinquencies in other countries



General Observations



- Restricts service level at 0.4 gallons per minute
- Delivers enough water for cooking, cleaning, hand washing, and source of drinking water
- Provides signal to customers in delinquent status

Key Considerations



- Proper messaging needed to help customers understand the purpose of flow restrictors
 - Proper notification needed prior to installation
 - Continue to focus on assisting impacted customers through CAP and District programs
- Flow will vary depending on location of premises
- Cost to install the flow restrictor will be charged to the delinquent account (\$127 - \$273)
- Changes to regulations, policies, administrative procedures, workflow, and resource needs

Key Considerations



- Flow restrictor is an additional step in the collection process and NOT debt forgiveness
- Meeting the objective of Proposition 218, where all customers are responsible to pay for service
- Shutoffs will continue in some circumstances
 - Device tampering to restore normal water flow
 - Water theft activities
 - Conditions that impose threat to public health

Potential Financial Exposure



SFR Delinquency

Average

Fiscal Impact

End of Executive Order?

?

7,000 DS
(Thru October)

Oct. 2020

\$5.6M

Added
Exposure

3,000 DS
(Monthly Average)

Pre-COVID

\$3M

Less than 30% of
accounts in DS
resulted in shutoffs

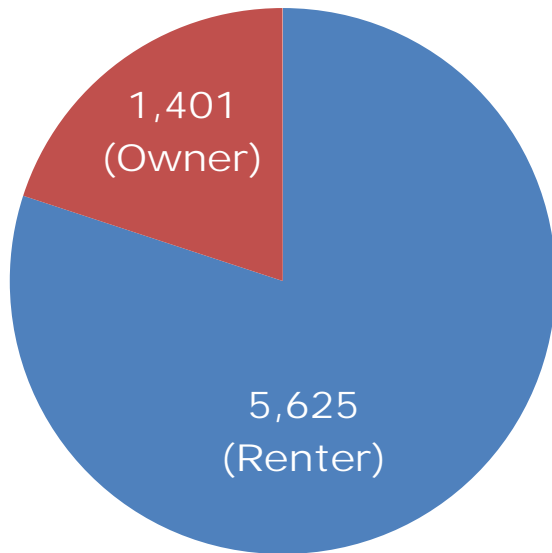
Legend:
DS = Discontinuation
Status

- Future level of financial exposure is uncertain
- Current financial exposure approximately \$5.6M for SFRs based on October data
- Pre-COVID exposure for SFRs between \$2M-\$3M
- Added exposure is estimated at \$2.6M
- Added exposure could be reduced

Steps to Minimize District's Financial Exposure



Delinquency in Shutoff Status (Owner vs. Renter Occupied)



Owner = \$1.2M Renter = \$4.4M

- Flow restrictor and proper notifications/reminders
- Utilizing lien authority to collect from owner occupied properties (property tax)
 - 85% to 90% recovery rate
- Use vendor to collect from renters when accounts become inactive
 - Approx. 20% recovery rate

Resolution Principles and Actions

- Recognize that “every human being has the right to safe, clean, affordable, and accessible water,” and that the human right to water extends to all Californians, including disadvantaged individuals and groups and communities;
- Highlight how COVID-19 has underscored the importance of water;
- Ensure compliance with Proposition 218;
- Develop more progressive alternatives to address delinquencies among residential customers rather than shutoffs; and
- Continue to offer a suite of financial assistance, water conversation, and water quality programs to assist customers.

Next Steps

- Prepare a resolution for Board consideration at the November 10, 2020 Board meeting
- Present plan to the Board during the 2021 CAP Workshop



Questions & Discussion