



- Board of Directors  
*Finance and Insurance Committee*

11/10/2020 Board Meeting

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9-2

## Subject

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Review of the proposed COVID-19 Member Agency Payment Deferment Program and proposed amendment to the Administrative Code to add Section 4519 delegating authority to the General Manager to administer the Program

## Executive Summary

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In September 2020, the Board approved staff's proposal to develop a payment deferral program that also exempts penalties or interest for those agencies that record and report significant delinquencies and likewise grant deferrals or suspension of payments to their customers. Accordingly, this letter presents an overview of staff's proposal for a COVID-19 Member Agency Payment Deferment Program, as provided for in the proposed new Administrative Code Section 4519.

## Details

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### Background

In April 2020, the Board approved a biennial budget for fiscal year (FY) 2020/21 and FY 2021/22 and supporting overall rate increases of 3 percent in calendar year (CY) 2021 and 4 percent in CY 2022. The Board's action also directed staff to: (1) present a review of the budget and rates to consider impacts resulting from the COVID-19 crisis, and (2) revisit and consider six specific issues for the biennial budget cycle of FYs 2020/21 and 2021/22 by August 31, 2020. In September 2020, staff presented a review of the budgets and rates and cost-containment measures. Additionally, staff presented the results of a survey conducted to determine the operations and financial impacts of COVID-19 on member agencies.

Results of the survey reflect the recorded and projected financial impacts on the responding member agencies during the months of March through June 2020. Due to the short time span covered, there may not have been sufficient information to provide a complete picture of the ultimate extent of the impact of the crisis. The survey showed that most wholesale member agencies have not encountered an increase in the rate of payment delinquencies, but several of the retail agencies they serve report some increase in delinquency rates. In addition, some of those retail agencies have delayed adoption or implementation of rate increases. Most of the 12 member agencies that did not respond have stated that they have not experienced significant impacts attributable to COVID-19.

Most agencies also report a slight impact caused by additional COVID-19 related expenditures, but these expenditures were generally minor and were often offset by other cost cuts. Expenses for purchases of Personal Protective Equipment, enhanced cleaning, and costs to achieve social distancing were generally offset by reductions in travel and other expenses.

None of the member agencies reported a marked decline in water sales that could be attributed to COVID-19. Regionally, water sales have been low since the drought of 2014-2017 and generally remain low. Overall, regional retail water sales in 2020 have actually increased slightly over 2019 sales despite the obvious impacts of COVID-19 on commercial, retail, and entertainment-related businesses. It is reasonable to assume COVID-19 has had some impact on overall demand and water sales, but overall the impacts on water usage do not appear to be significant.

Staff presented the results of this survey to the Board in September, along with cost-containment measures, and other proposals to address COVID-19 financial impacts, including a proposal to develop a payment deferment program for member agencies. Staff has now developed the terms of the program.

### **Proposed COVID-19 Payment Deferment Program for Member Agencies**

The most direct and significant COVID-19 financial impact to certain water agencies is related to payment delinquencies. Delinquencies have increased for some agencies, and some retail agencies are deferring customer bills, but there is no reported program for forgiveness of bills.

Staff proposes Metropolitan provide up to six-month deferral of a portion of the member agencies' Metropolitan bills equal to the percentage of their own customers' delinquency rate. Additionally, under the plan, late payments, penalties, and interest would be waived to the deferred amount over a period of up to 12 months. The program would be available to all member agencies that meet the Board-approved eligibility criteria and would apply to invoices for all water transactions subject to Administrative Code Section 4501 occurring only from January 1, 2021, to June 30, 2021.

Implementation of this program would require addition of the following section to the Metropolitan Administrative Code:

#### **§ 4519 COVID-19 Member Agency Payment Deferment Program**

- (a) The Treasurer of the District shall defer payment obligations of any amount due to Metropolitan on invoices subject to Section 4501 for water transactions occurring from January 1, 2021 to June 30, 2021, as approved by the General Manager pursuant to the criteria specified in this Section. Payment obligations and additional charges under Sections 4507 and 4508 shall not apply to any payment obligation deferred pursuant to this Section.
- (b) The General Manager shall approve an application for deferment of amounts due to Metropolitan by a member agency, in accordance with Subsection (c), so long as the member agency has met the following criteria:
  - i. The member agency has experienced an increased rate of delinquency in the payments from its customers to that agency, as a result of the COVID-19 pandemic;
  - ii. The member agency has suspended or deferred payment obligations of its customers to that agency, whether the obligations suspended or deferred consist of the total amount due or a partial amount due;
  - iii. The member agency does not have sufficient financial reserves that can be used to buffer the financial impacts of the increased delinquencies, suspension, or deferments in (i) and (ii);
  - iv. The member agency has not received any federal or state financial assistance to absorb the financial impacts described in (i) and (ii); and
  - v. The member agency has submitted a letter to the General Manager certifying it meets the criteria in (i) through (iv) and permitting Metropolitan to audit the submission.
- (c) The following terms shall apply to amounts deferred pursuant to an application approved by the General Manager under this Section:
  - i. The Treasurer of the District shall defer a percentage of the member agency's payment obligation equal to the member agency's delinquency rate for up to six Metropolitan invoices, but not to exceed ten percent of each monthly invoice;

- ii. The member agency shall pay all amounts deferred under this Section no later than December 29, 2021; and
  - iii. Any deferred amount not paid by December 29, 2021, is subject to Section 4508 as of December 30, 2021.
- (d) This Section does not apply to transactions governed by agreements containing payment terms and obligations separate from Sections 4501, 4507, and 4508.
- (e) This Section shall be repealed effective January 1, 2022, unless extended by the Board of Directors.

## Policy

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Metropolitan Water District Administrative Code Section 4501: Obligation to Pay for Water Delivered

Metropolitan Water District Administrative Code Section 4507: Billing and Payment for Water Deliveries

Metropolitan Water District Administrative Code Section 4508: Additional Payment and Reporting in the Event of Delinquency in Payment for Water

By Minute Item 52116, dated September 15, 2020, the Board approved the cost-containment measures proposed by staff, to monitor financial conditions in preparation for the mid-cycle budget review in June 2021 when more information is available, and among other things, develop a payment deferral program that exempts penalties or interest for those agencies that record and report significant delinquencies and likewise grant deferrals to their customers.

## Fiscal Impact

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The COVID-19 Member Agency Payment Deferment Program would shift some revenue collections from FY 2020/21 to FY 2021/22. The extent of this shift would depend on the level of participation but is not expected to exceed \$18 million.

  
 \_\_\_\_\_ 10/28/2020  
 Katano Kasaine Date  
 Assistant General Manager/  
 Chief Financial Officer

  
 \_\_\_\_\_ 10/28/2020  
 Jeffrey Rightlinger Date  
 General Manager