

Economic Outlook Task Force Updates

Presented to: GLWA Board of Directors Audit Committee

Monday, July 25, 2022

Public Sector Consultants

Rising Cost Pressures Call for Analysis & Action

Executive Summary

- **Current Situation:**
 - **Supply constraints + sharp increases in demand** = unprecedented cost increases for most organizations across the country
 - Steel is up 97% since July 2020; chlorine is up 53% (and continuing to climb)
 - **GLWA's Capital and O&M costs increasing**
- **Difficult choices:**
 - Find efficiencies
 - Delay projects / reduce scope
 - Increase rates

To Assess the Impact of Rising Costs, GLWA Formed the Economic Outlook Task Force

- **Three Goals:**
 - A. Understand the current situation for GLWA's Capital and O&M spending
 - B. Predict likely scenarios in the short run (12 months) and the medium term (3 to 5 years)
 - C. Recommend approaches to mitigate costs/supply pressures
- **Desired Outcomes:**
 - Review research and interview summaries to provide commentary and guidance on potential approaches to most likely base, high and low scenarios.

Data, Benchmarking and Forecasting to Guide GLWA's Decision Making

- **Approach:**
 - Review economic data and forecasting models for the specific Materials and Labor used by GLWA
 - Add formal benchmarking with other organizations
 - Water Utilities, Industry Associations, and other large organizations in Southeast Michigan

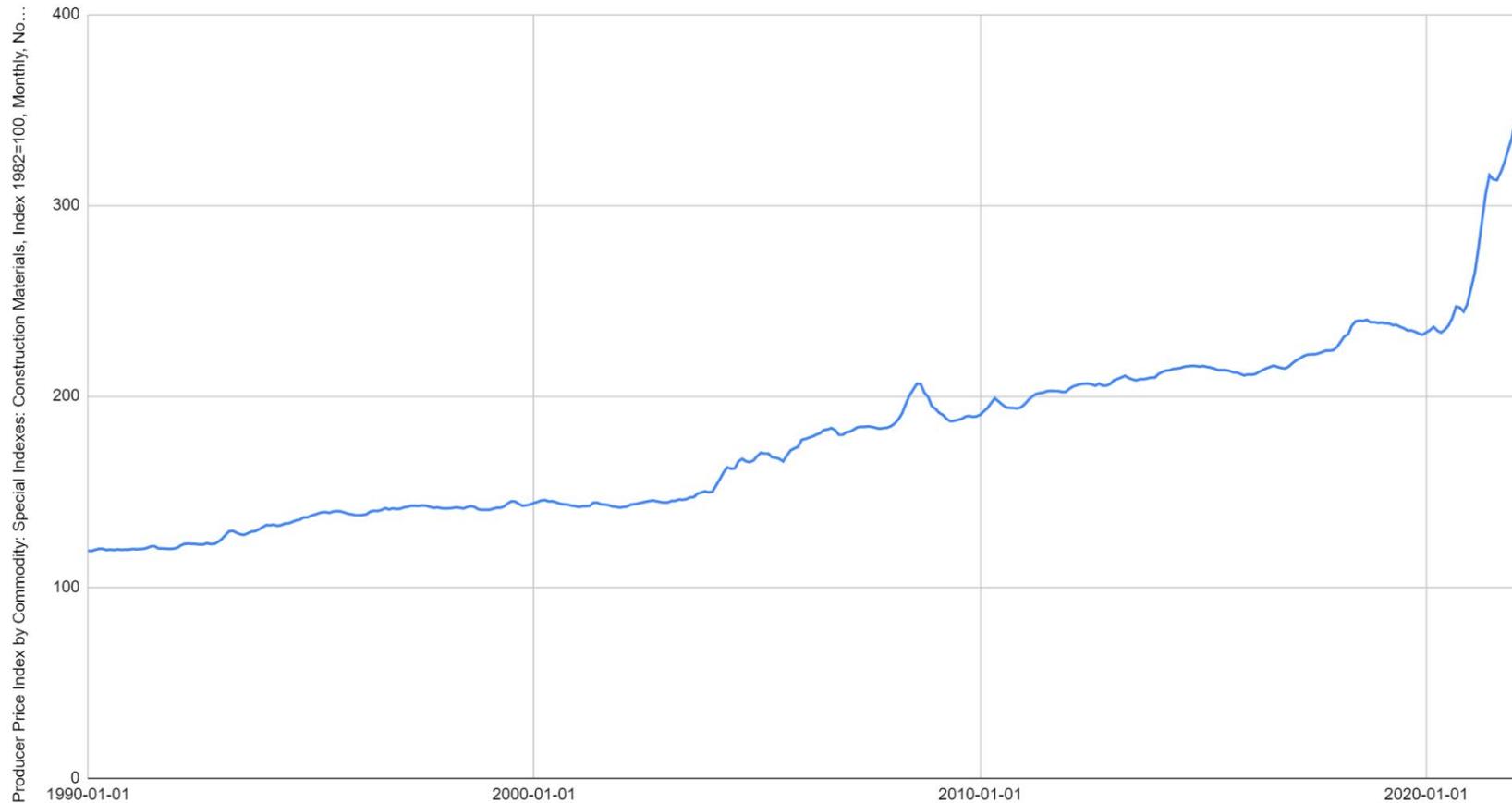
As we bring these tasks together over the coming months, the information can be incorporated into GLWA's spending plans

How the Task Force Intends to Assess Rising Cost Impacts on GLWA

- **Objective:** Analyze trends and forecasts in key labor and material categories
- **Approach:**
 - 1. Trend Analysis**
 - ✓ Identification and initial review of macro and building-specific indices
 - ✓ Identification and initial review of cost pressures and prices for several key material and labor categories
 - ❑ Confirm the full list of material and labor types for analysis
 - ❑ Conduct trend and cost pressure analysis
 - 2. Scenario Development**
 - ❑ Analyze cost pressure data to identify relevant cost pressure historical trends
 - ❑ Review and highlight projections and forecasts from industry experts
 - ❑ Develop scenarios for how cost pressures could behave over the short- (1-year) and medium-term (3-5)

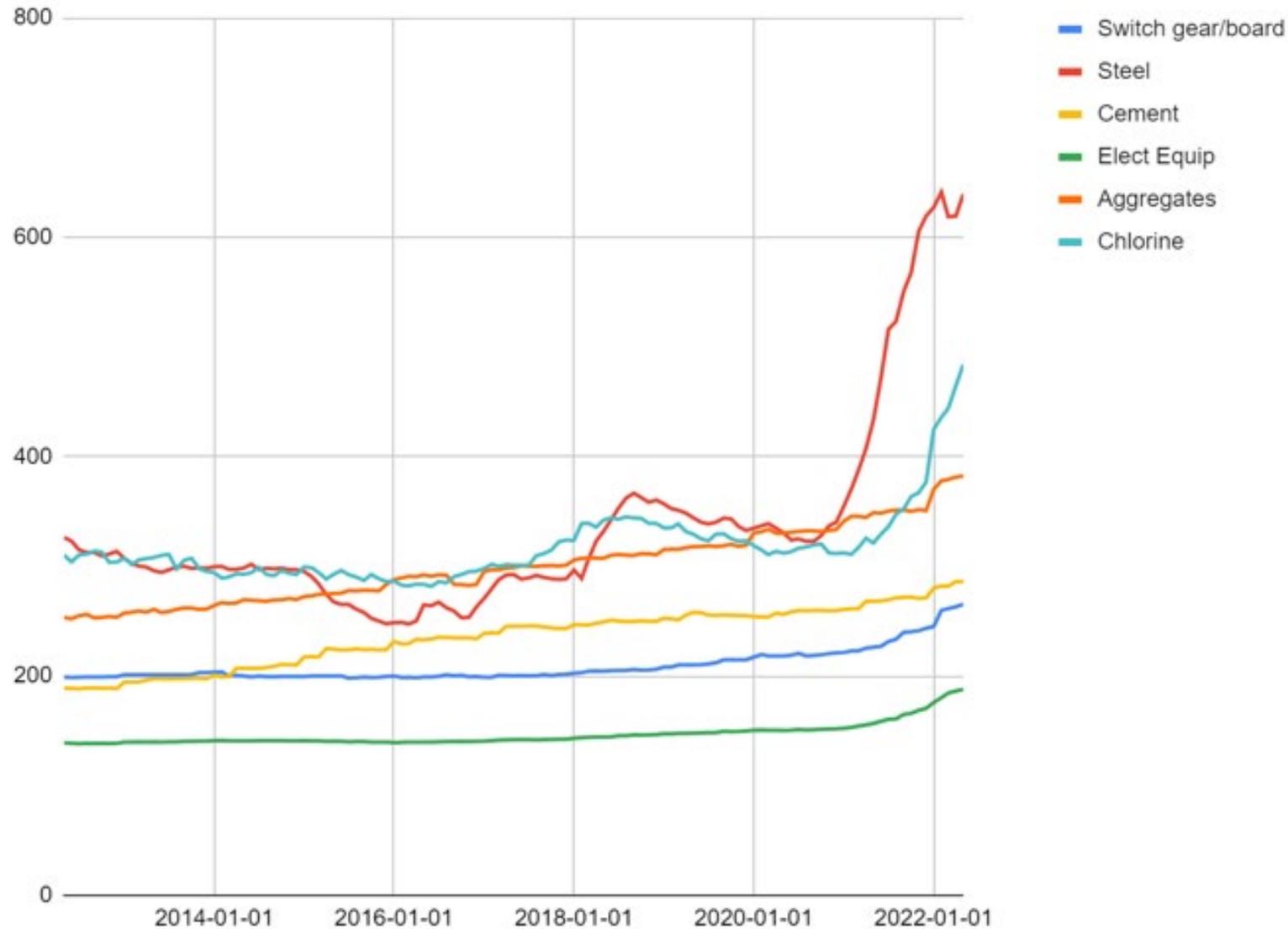
Materials: Construction Materials Producer Price Index (PPI) Increased by ~50% since January 2020

Construction PPI by Month 1990-2022



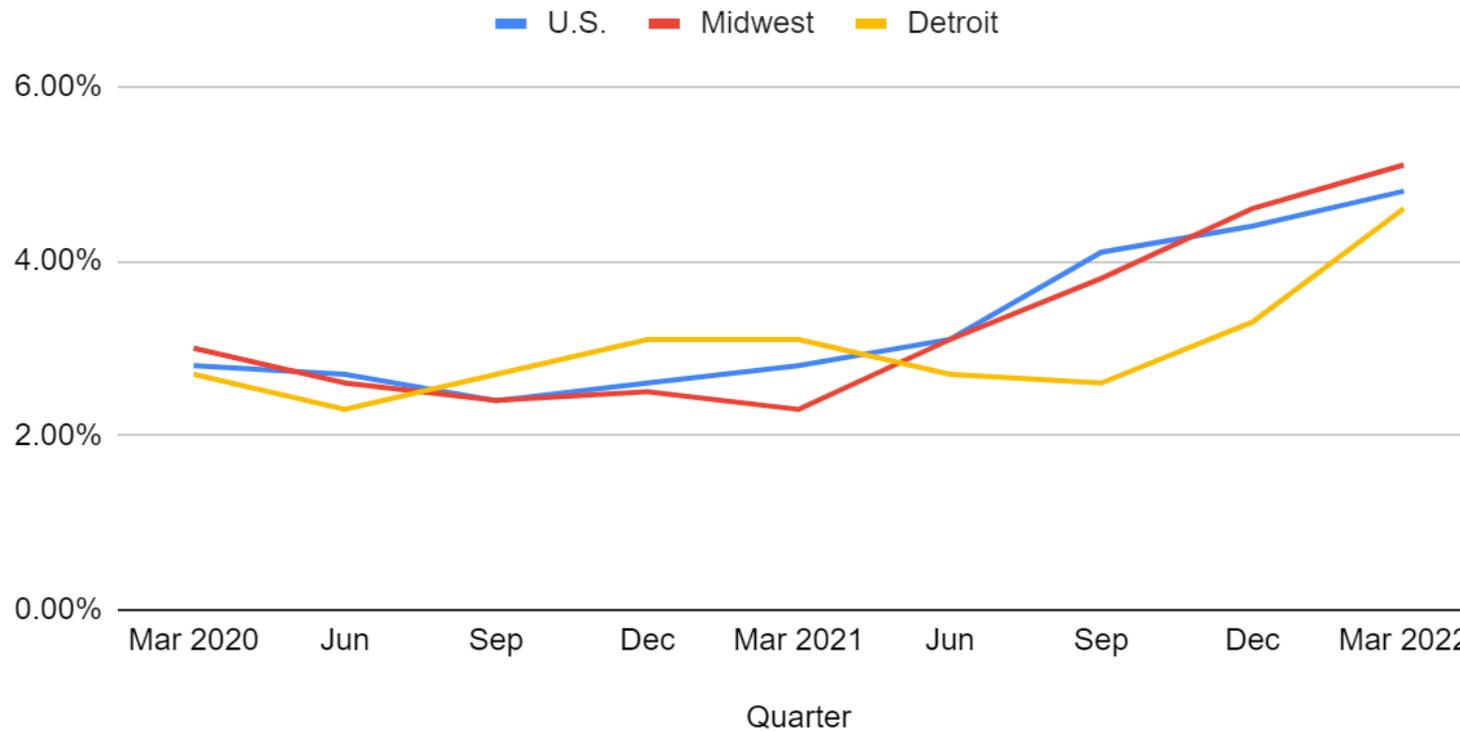
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Materials: Individual Commodities PPI; Sharp Increases in Steel, Chlorine



Labor: Employment Cost Index (Private Industry Workers)

Total Compensation Percent Change: United States, Midwest and Detroit

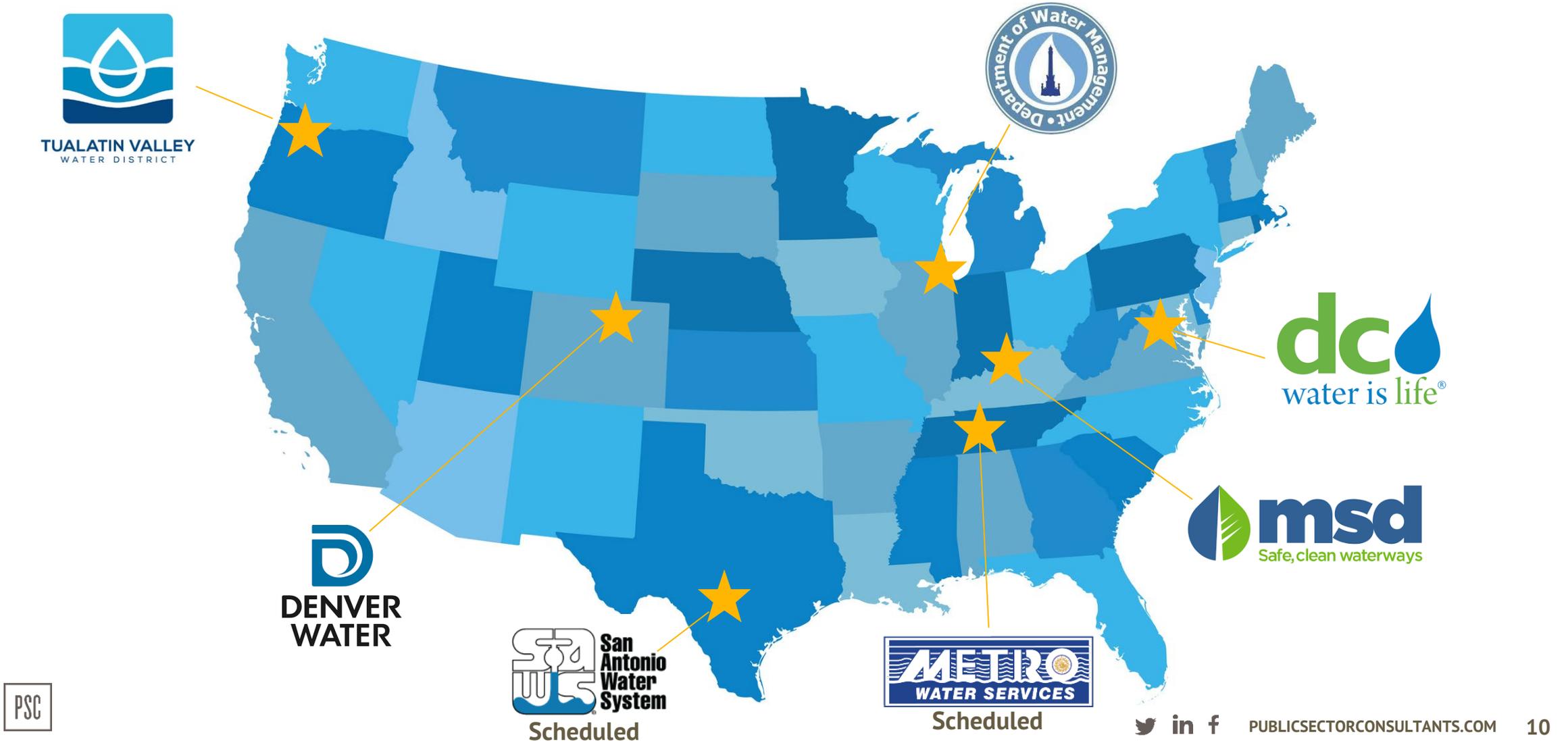


Understanding What Other Organizations are Seeing & How They are Responding to Cost Pressures

Benchmarking: Key Informant Interviews

- **Objective:**
 - To obtain peer industry and regional information on cost pressures and mitigation strategies
- **Organizations:**
 - Peer Water & Wastewater utilities across the US
 - Michigan public utilities
 - Capital-intensive organizations in SE Michigan
 - Industry Associations

Interviews with Peer Water & Wastewater Utilities



Convening Roundtable Discussion with Regional Finance, Procurement and Capital Leaders

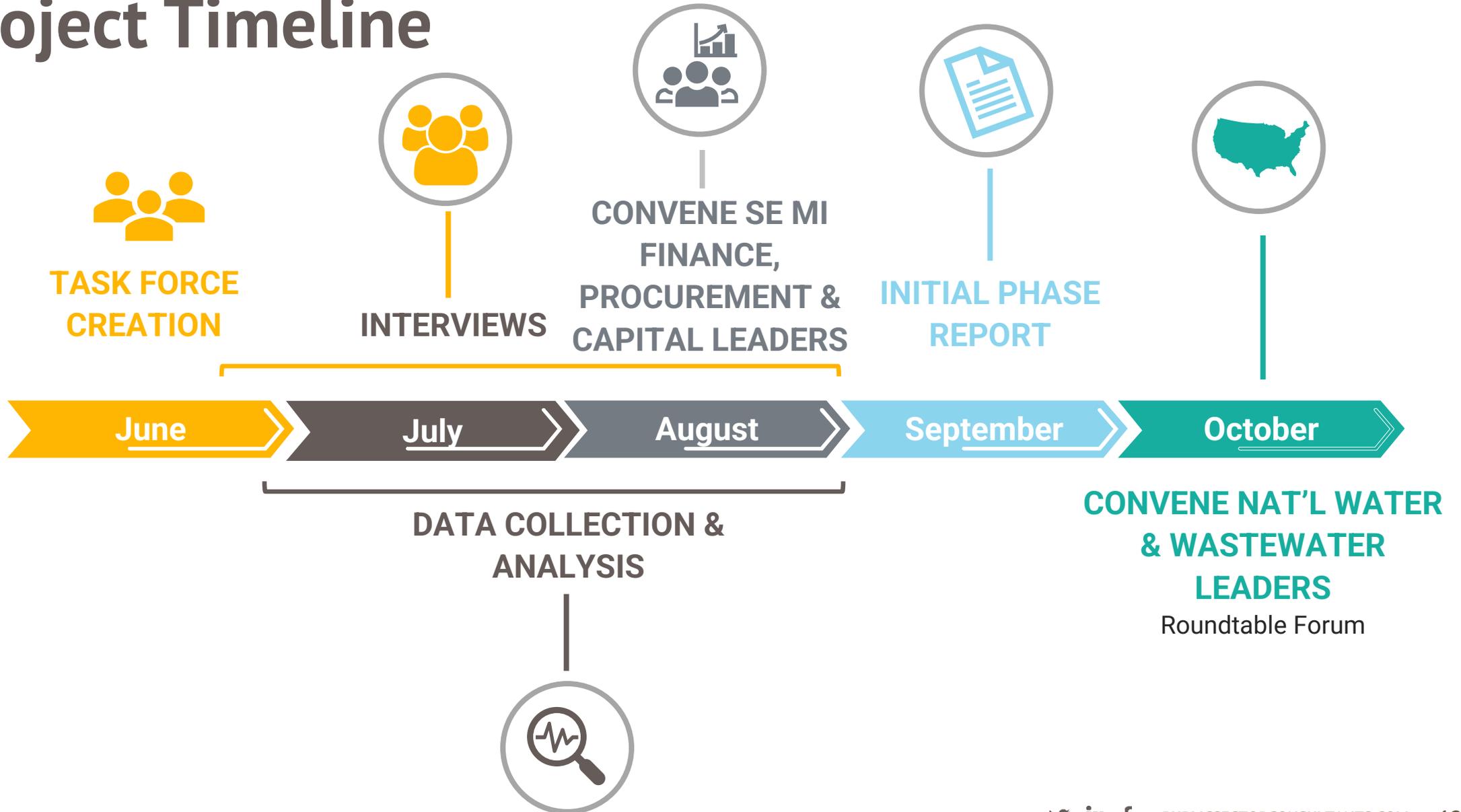
- **Invitees from:**
 - City of Detroit
 - DWSD
 - Macomb County
 - Wayne County
 - Oakland County

Interview Approach & Desired Outcomes

Focus:

- What are they seeing?
- What are they doing about it now?
- What longer-term strategies are they considering?
- Identify common issues and trends
- Develop benchmark data
- Discuss findings with participants and peers

Project Timeline



Economic Outlook Task Force

- **Project Team:**

- GLWA
- Public Sector Consultants
- PMA Consultants
- PFM Financial Advisors LLC
- The Foster Group
- Bridgeport Consulting



Economic Outlook Task Force Next Steps

- Complete interviews and data analysis
- Convene roundtable of Finance, Procurement & Capital leaders from Southeast Michigan
- Deliver initial phase report
- Convene roundtable of Water & Wastewater leaders from peer utilities

Seeking the Committee's Feedback

- Reactions
- Questions
- Advice for the Task Force