



# Proposed FY 2021 Water Service Charges

*Board of Directors  
Meeting*

*January 22, 2020*



**GLWA**

*Great Lakes Water Authority*

**TFG**

**THE FOSTER GROUP**

# Key Takeaways

- The final review of the FY 2021 BUDGET and Charges has produced minor changes
  - ✓ *FY 2021 Sewer BUDGET represents a ~~3.0%~~ 2.5% increase compared to the FY 2020 BUDGET*
- FY 2021 Service Charges reflect a simplified “across the board” adjustment strategy
  - ✓ *Wholesale Service Charges to ALL Member Partners proposed to increase 3.5%*
  - ✓ *Certain modifications required to reflect specific contract requirements*

# Presentation Topics

1. Introduction and Key Terms
2. UPDATE: FY 2021 BUDGET and Revenue Requirements for Charges
3. UPDATE: FY 2021 – FY 2030 Financial Plan Forecast
4. Proposed FY 2021 Service Charges

# *Introduction and Key Terms*



# “BUDGET” = Comprehensive Annual Revenue Requirement:

- Budgeted O&M Expense
- Master Bond Ordinance Commitments
  - ✓ *Projected Debt Service*
  - ✓ *“Fixed” Non-Operating Expenses*
    - Pension Reimbursement Obligations;
    - WRAP Deposit;
    - Lease Payment (part of revenue financed capital below);
    - Other Reserve Requirements, etc.
- Deposit to the Improvement and Extension (I&E) Funds
  - ✓ *Revenue Financed Capital Improvements*

# “Financial Plan” Consists of

- Capital Improvement Program
- Operation and Maintenance Expense Budget
- Capital Financing elements of the BUDGET
  - ✓ *Debt Service, Revenue Financed Capital, etc.*
- Charges for Service
- ***Each of these are subject to individual action by the Board***

# “The Agreements” Include:

- The Lease(s) establishing GLWA;
- The Water and Sewer Services Agreement between GLWA and the City of Detroit;
- The Master Bond Ordinance(s), authorizing issuance of debt by GLWA;
- The Trust Agreement(s) supporting the Master Bond Ordinances;
- The 2018 GLWA / DWSD Memorandum of Understanding
  - ✓ *Implementation Plan for “The Agreements”*
- Related supporting documentation

# “4% Increase Limitation” as defined by The Agreements

*“As provided in the MOU, through the Fiscal Year ending June 30, 2025, the Water (Sewer) System is assumed to experience annual increases in the Authority Revenue Requirement of not more than 4%; provided however, this limitation shall not be applicable if the Authority Revenue Requirement must increase beyond the 4% assumption in order to satisfy the Rate Covenant or to pay the cost of improvements to the Leased Water (Sewer) Facilities that are required to be made by Applicable Laws.”*

# “System Charge Adjustment” vs. “Wholesale Charge Adjustment”

- System Charge Adjustment
  - ✓ *The amount by which revenues from existing charges must be adjusted to meet budgeted revenue requirements*
- Wholesale Charge Adjustment
  - ✓ *Recognizes that certain GLWA revenue requirements are fixed by contract*
    - Detroit’s Water and Sewer “ownership benefit”
    - Flint’s Water KWA debt service credit
    - OMID specific Sewer revenue requirements
  - ✓ *Will be slightly different than Wholesale Charge Adj*

*FY 2021 BUDGET and Revenue  
Requirements for Charges  
UPDATE*



# FY 2021 BUDGET and “System Charge” Adjustments – *What’s New?*

- Restructuring of how possible refinancing savings are reflected
  - ✓ *Original budget schedules reflected anticipated debt service savings, and an increase in bottom line deposit to I&E Fund (reserves)*
  - ✓ *Prudent to prepare BUDGET without showing debt service savings until they are achieved*
  - ✓ *Business plan is still to achieve savings and accommodate via budget amendment without changing “top line” revenues and charges*

# FY 2021 WATER BUDGET and “System Charge” Adjustments – *What’s New?*

- No change in overall BUDGET
- System BUDGET Increase = 1.1%
- System Charge Increase = 3.8%
  - ✓ *Designed to address negative budget variances in Sales and investment income*

# FY 2021 SEWER BUDGET and “System Charge” Adjustments – *What’s New?*

- Moderate reduction in overall BUDGET recognizing updated potential refinancing savings
- Reduces System BUDGET increase from ~~3.0%~~ to **2.5%**
- Reduces System CHARGE increase from ~~3.7%~~ to **3.2%**

# FY 2021 BUDGET and “System Charge” Adjustments

- Average “System Charge Adjustment” is 3.8% for Water and ~~3.7%~~ 3.2% for Sewer
- ✓ *Charge design will strategically implement*

	Water System				Sewer System				Total GLWA			
	FY 2020	FY 2021	Variance	% Variance	FY 2020	FY 2021	Variance	% Variance	FY 2020	FY 2021	Variance	% Variance
<b>Annual BUDGET</b>												
1 Operation and Maintenance Expense	131.5	137.1	5.6	4.3%	187.1	184.9	(2.1)	-1.1%	318.5	322.1	3.5	1.1%
2 Debt Service	137.6	143.6	6.0	4.4%	215.7	209.7	(6.0)	-2.8%	353.3	353.3	0.0	0.0%
3 Master Bond Ordinance ("MBO") Commitments	36.5	36.5	(0.0)	-0.1%	52.3	52.4	0.0	0.1%	88.9	88.9	0.0	0.0%
4 Deposit to I&E (and other reserve) Funds	34.1	26.2	(7.9)	-23.1%	25.5	45.5	20.1	78.9%	59.6	71.8	12.2	20.5%
5 Total BUDGET	339.7	343.4	3.7	1.1%	480.6	492.6	12.0	2.5%	820.3	836.0	15.8	1.9%
<b>Charge Adjustment Illustration</b>												
<u>Proforma Revenue - Existing Charges</u>												
6 Revenue from Charges	330.6	326.2	(4.4)	1.3%	471.9	471.9	0.0	0.0%	802.5	798.1	(4.4)	0.5%
7 Investment (and other miscellaneous) Income	9.1	4.8	(4.2)	1.3%	8.7	5.6	(3.1)	0.7%	17.8	10.4	(7.4)	0.9%
8 Net Proforma Revenue Comparison	339.7	331.0	(8.6)		480.6	477.5	(3.1)		820.3	808.5	(11.8)	
9 Adjustment to Address Revenue Variance				2.6%				0.7%				1.5%
10 Adjustment to Address BUDGET Variance (Line 5)				1.1%				2.5%				1.9%
11 Average Charge Adjustment				3.7%				3.2%				3.4%

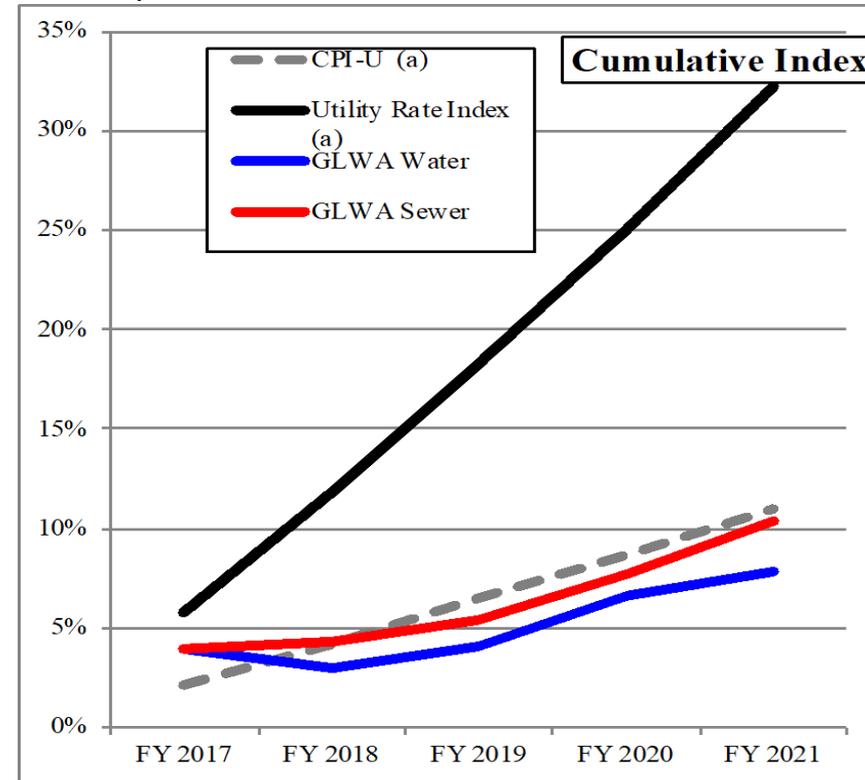
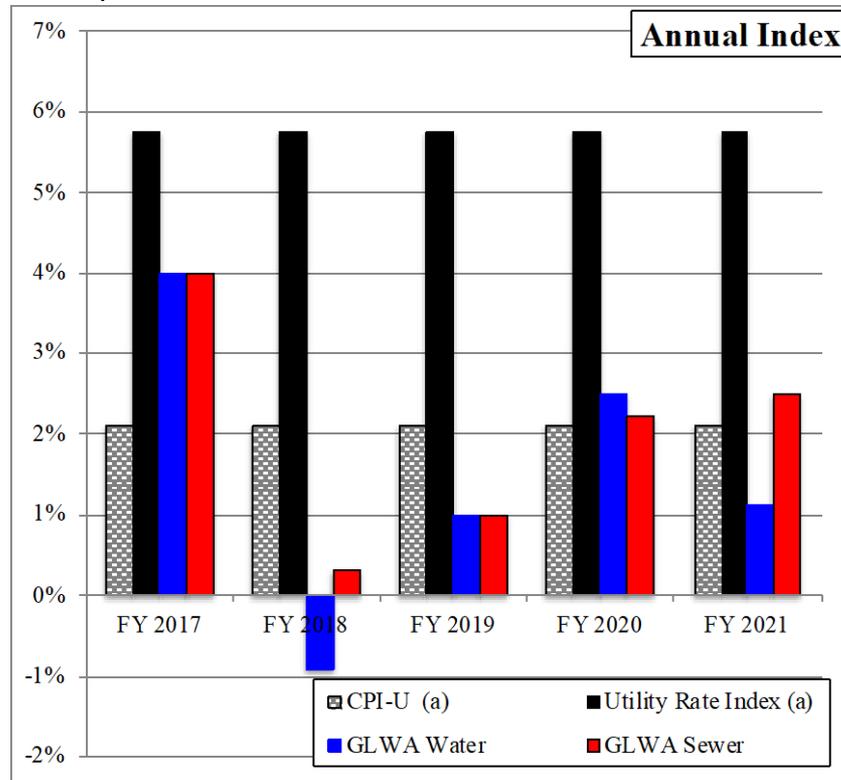
# FY 2021 Budget Indices Compared to Prior GLWA Budgets

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
<b><u>Water</u></b>					
Annual Change in Budgeted Revenue Req't (a)	4.0%	-0.9%	1.0%	2.5%	1.1%
<b><u>Annual Average Charge Increase</u></b>					
Total Regional System, Including Detroit Customer Class	4.5%	1.9%	1.6%	0.6%	3.8%
<b><u>(a) Revenue Requirement Budget Indices</u></b>					
O&M Budget Adjustment (b)	4.0%	8.7%	0.0%	8.2%	4.3%
Budgeted Deposit to I&E Fund - \$ millions	23.8	32.8	39.1	30.1	30.1
Budgeted Deposit to All Reserve Funds - \$ millions	23.8	34.6	39.1	34.1	31.0
Regional System Debt Service Coverage	1.34	1.48	1.52	1.47	1.44
<b><u>Sewer</u></b>					
Annual Change in Budgeted Revenue Req't (a)	4.0%	0.3%	1.0%	2.2%	2.5%
<b><u>Annual Average Charge Increase</u></b>					
Total Regional System, Including Detroit Customer Class	8.3%	-0.7%	0.1%	0.8%	3.2%
<b><u>(a) Revenue Requirement Budget Indices</u></b>					
O&M Budget Adjustment (b)	4.0%	8.7%	0.0%	-2.1%	-1.1%
Budgeted Deposit to I&E Fund - \$ millions	14.1	11.9	12.2	25.5	45.5
Budgeted Deposit to All Reserve Funds - \$ millions	14.1	14.5	12.2	25.5	45.5
Regional System Debt Service Coverage	1.25	1.27	1.25	1.31	1.42
<b><u>Combined Water and Sewer</u></b>					
Annual Change in Budgeted Revenue Req't (a)	4.0%	-0.2%	1.0%	2.3%	1.9%
<b><u>Annual Average Charge Increase</u></b>					
Total Regional System, Including Detroit Customer Class	6.7%	0.3%	0.7%	0.7%	3.5%
<b><u>(a) Revenue Requirement Budget Indices</u></b>					
O&M Budget Adjustment (b)	4.0%	8.7%	0.0%	1.9%	1.1%
Budgeted Deposit to I&E Fund - \$ millions	37.9	44.7	51.3	55.6	75.6
Budgeted Deposit to All Reserve Funds - \$ millions	37.9	49.1	51.3	59.6	76.5
Regional System Debt Service Coverage	1.29	1.35	1.35	1.37	1.43

# GLWA BUDGET Adjustments Compared to Utility Indices

Annual	Annual Index				
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
CPI-U (a)	2.1%	2.1%	2.1%	2.1%	2.1%
Utility Rate Index (a)	5.8%	5.8%	5.8%	5.8%	5.8%
GLWA Water	4.0%	-0.9%	1.0%	2.5%	1.1%
GLWA Sewer	4.0%	0.3%	1.0%	2.2%	2.5%

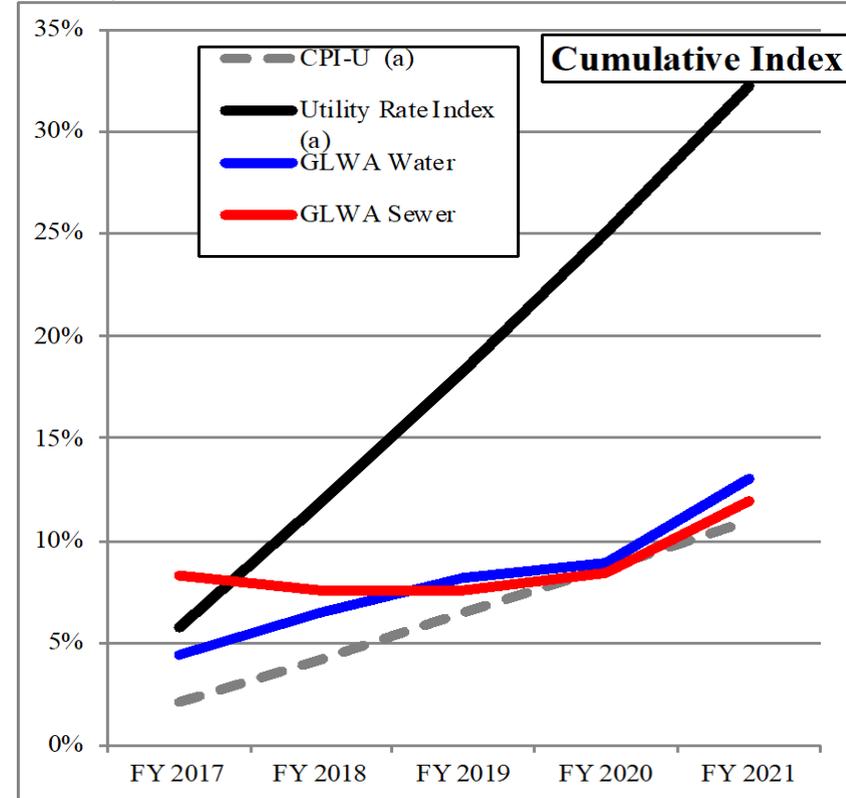
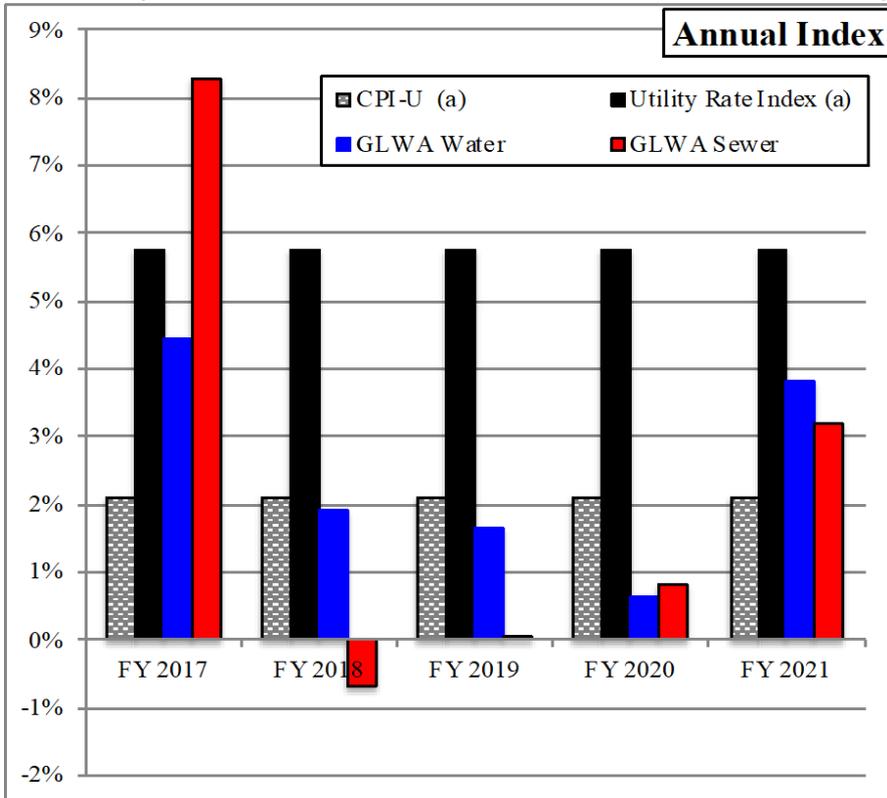
Annual	Cumulative Index				
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
CPI-U (a)	2.1%	4.2%	6.4%	8.7%	11.0%
Utility Rate Index (a)	5.8%	11.8%	18.3%	25.1%	32.3%
GLWA Water	4.0%	3.0%	4.1%	6.7%	7.8%
GLWA Sewer	4.0%	4.3%	5.4%	7.7%	10.4%



# GLWA System CHARGE Adjustments Compared to Utility Indices

Annual	Annual Index				
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
CPI-U (a)	2.1%	2.1%	2.1%	2.1%	2.1%
Utility Rate Index (a)	5.8%	5.8%	5.8%	5.8%	5.8%
GLWA Water	4.5%	1.9%	1.6%	0.6%	3.8%
GLWA Sewer	8.3%	-0.7%	0.1%	0.8%	3.2%

	Cumulative Index				
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
CPI-U (a)	2.1%	4.2%	6.4%	8.7%	11.0%
Utility Rate Index (a)	5.8%	11.8%	18.3%	25.1%	32.3%
GLWA Water	4.5%	6.4%	8.2%	8.9%	13.0%
GLWA Sewer	8.3%	7.5%	7.6%	8.5%	12.0%



*FY 2021 – FY 2030 Financial  
Plan Forecast  
UPDATE*



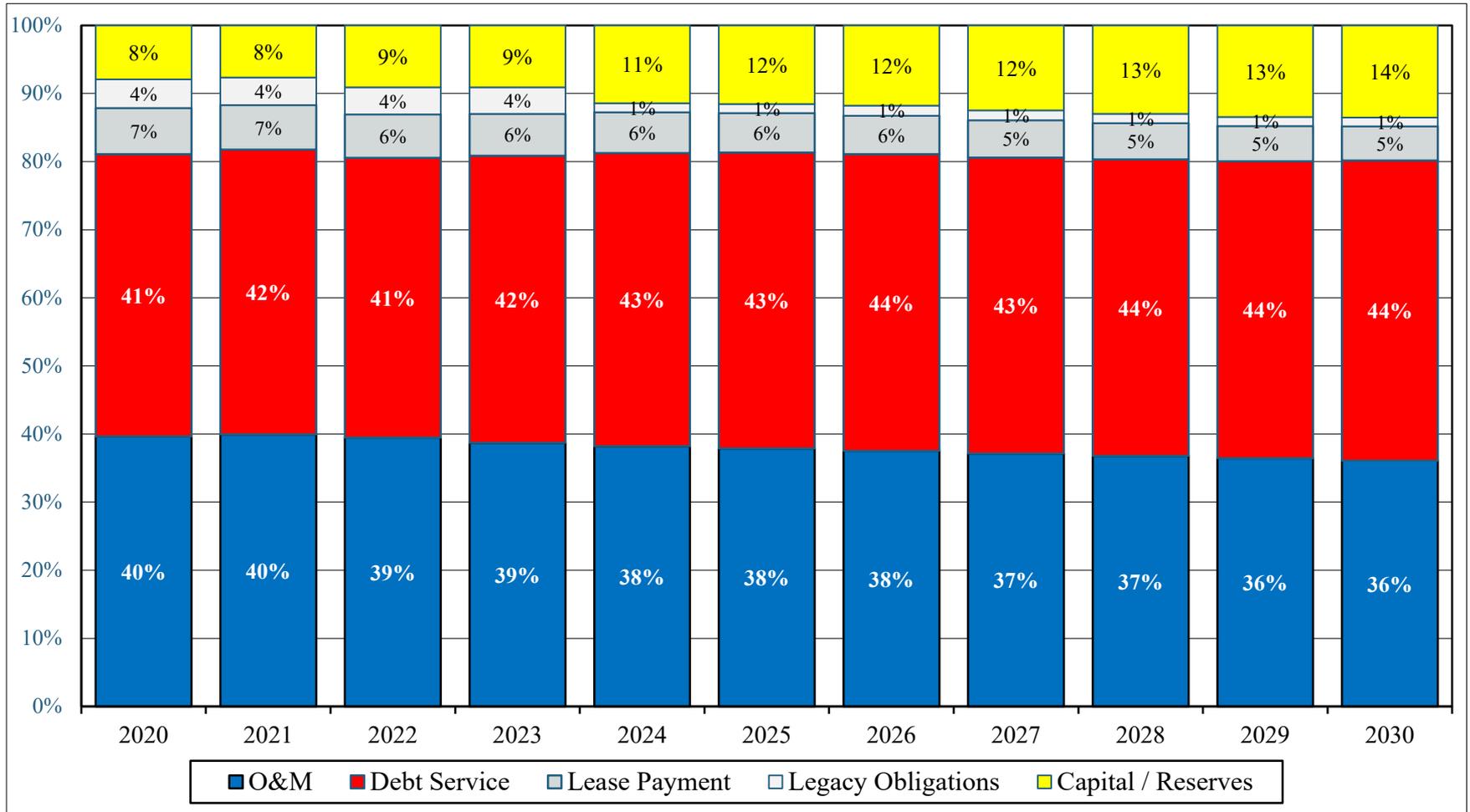
# FY 2021 – FY 2030 Financial Plan Forecast: *What's New?*

- Updated to exclude forecasted refinancing savings
- Updated to reflect lower Sewer BUDGET increase for FY 2021
  - ✓ *From 3.0% to 2.5%*

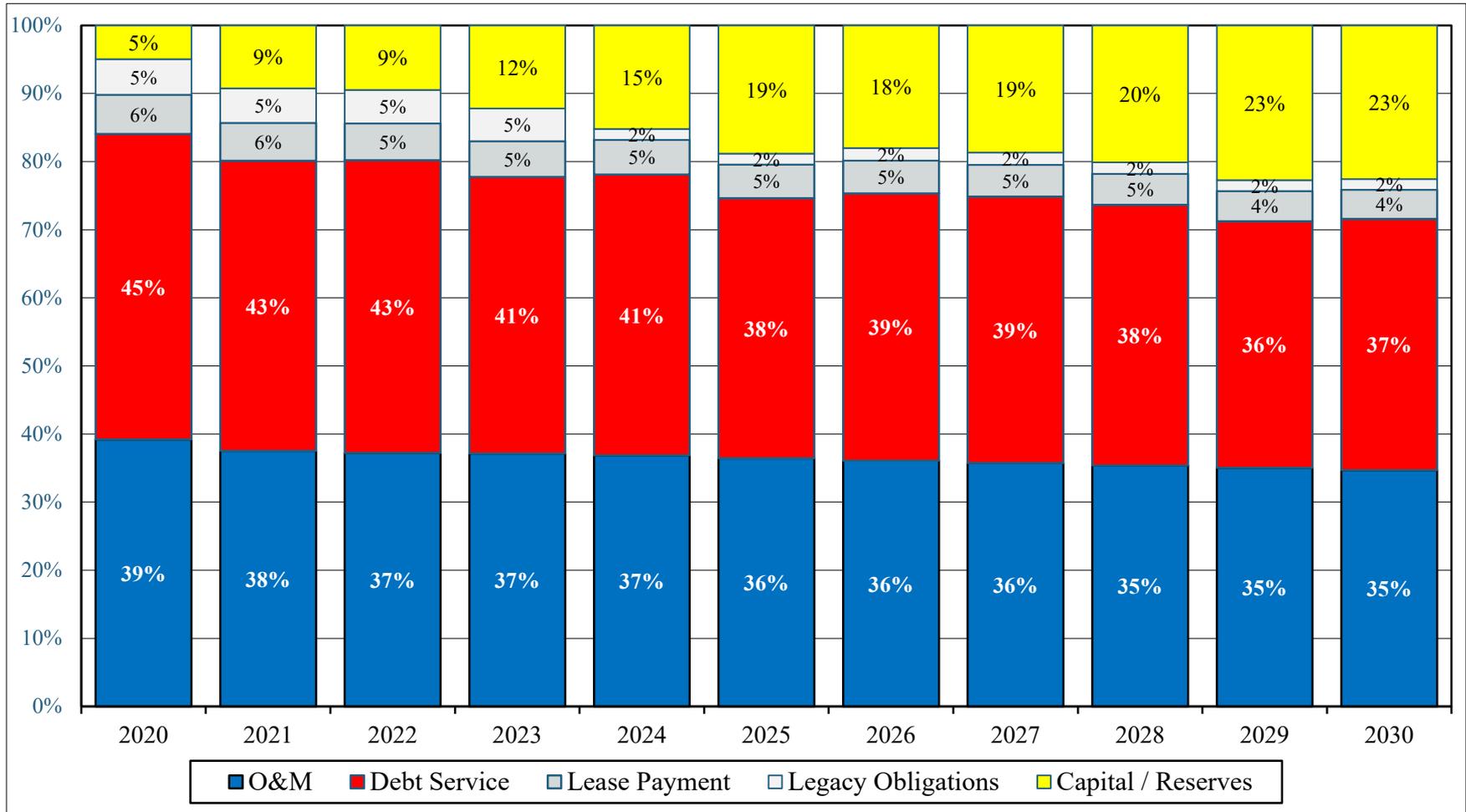
# FY 2021 – FY 2030 Financial Plan Forecast: *What's New?*

- **Forecasts still preliminary as of 1/20/2020**
  - ✓ *Updates and revisions will continue in support of the Final FY 2021 Budget and Charges and the upcoming refinancing transactions*
- **Further review may result in additional changes**
  - ✓ *Not material to the core forecasts*
- **Formal updates will reflect results of upcoming refinancing transactions**

# FY 2021 – FY 2030 Financial Plan Forecast: *Relative Water Revenue Requirement Distribution*



# FY 2021 – FY 2030 Financial Plan Forecast: Relative Sewer Revenue Requirement Distribution



*Preliminary Proposed FY 2021  
Water and Sewer Service  
Charges*



# Background Dynamics Impacting Proposed FY 2021 Service Charges

- What we've heard from Member Partners:
  - ✓ *Embrace core principles of **simplicity** and **stability***
- Current (FY 2020) Service Charges reflect detailed Cost of Service Study
- Overall FY 2021 BUDGET reflects minor changes in total and amongst GLWA business areas
  - ✓ *Not likely that cost pool allocations would vary materially if finalized for FY 2021*

# Background Dynamics Impacting Proposed FY 2021 Service Charges *(continued)*

- FY 2021 Units of Service are virtually unchanged from those used for current charges
  - ✓ *Due to Water Contract Alignment Process (“CAP”) only one Member Partner (Bruce Township) has a revised Exhibit B Demand*
  - ✓ *Estimates of non-revenue water and peak demand use for NMM Member Partners are unchanged from Phase 2 of UoS Study*
  - ✓ *Sewer SHAREs unchanged from FY 2020 Charges*

# Background Dynamics Impacting Proposed FY 2021 Service Charges *(continued)*

- Producing Water and Sewer Service Charges that precisely align with a Cost of Service Study for FY 2021 would not produce results that vary materially from an “average” charge adjustment for any Member Partner
  - ✓ *All charge adjustments would be clustered around the average*

# Background Dynamics Impacting Proposed FY 2021 Service Charges *(continued)*

- This extraordinary stability opportunity for FY 2021 is not likely to be long lasting
  - ✓ *Sewer SHAREs are anticipated to be adjusted for FY 2022 via adjustments to the “Sewer Charge Methodology Review” project and related discussions*
  - ✓ *GLWA is embarking on a “Water Charge Methodology Review” which may introduce material changes as soon as FY 2022*
    - At the very least, distance factors will need to be updated to remove Northeast Water Treatment Plant from calculations

# Strategy for Proposed FY 2021 Service Charges

- **Given these unique circumstances, a simplified approach for FY 2021 Service Charges is in order**
- **Proposed Service Charges increase ALL Wholesale Service Charges “across the board” by 3.5%**
  - ✓ *This amount required to produce revenues that meet revenue requirements of the FY 2021 BUDGET*
  - ✓ *Certain additional adjustments necessary to reflect specific contract requirements*

# Strategy for Proposed FY 2021 Service Charges *(continued)*

- Precedent for this approach
  - ✓ *FY 2014 Suburban Wholesale Sewer Service Charges were increased "across the board" by 3.7%*
  - ✓ *FY 2014 and FY 2015 Suburban Wholesale Water Service Charges*
    - "Mod" Member Partners with changing contract demands were adjusted in accordance with cost of service results on their individual demands
    - All other "No Mod" Member Partners received an average charge adjustment for the class at large

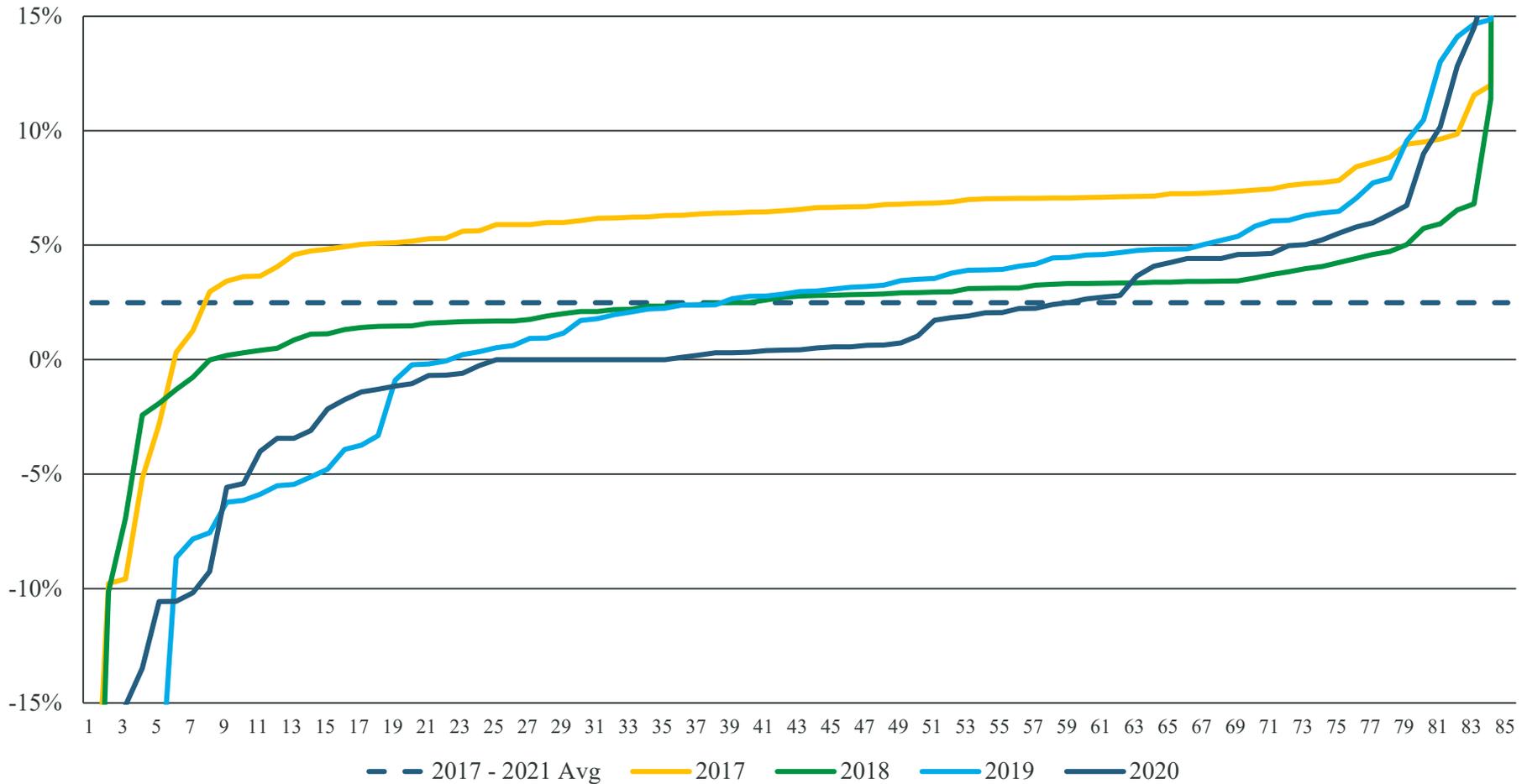
# Strategy for Proposed FY 2021 Service Charges – Special Considerations

- One Water Member Partner has modified contract demands and should be allocated revenue requirements accordingly
- The “across the board” adjustment needs to be applied to the “wholesale proxy” for Member Partners with specific contract requirements
  - ✓ *Detroit ownership benefit adjustments for both Water and Sewer*
  - ✓ *Flint KWA Water debt service credit*
  - ✓ *OMID specific Sewer cost pool*

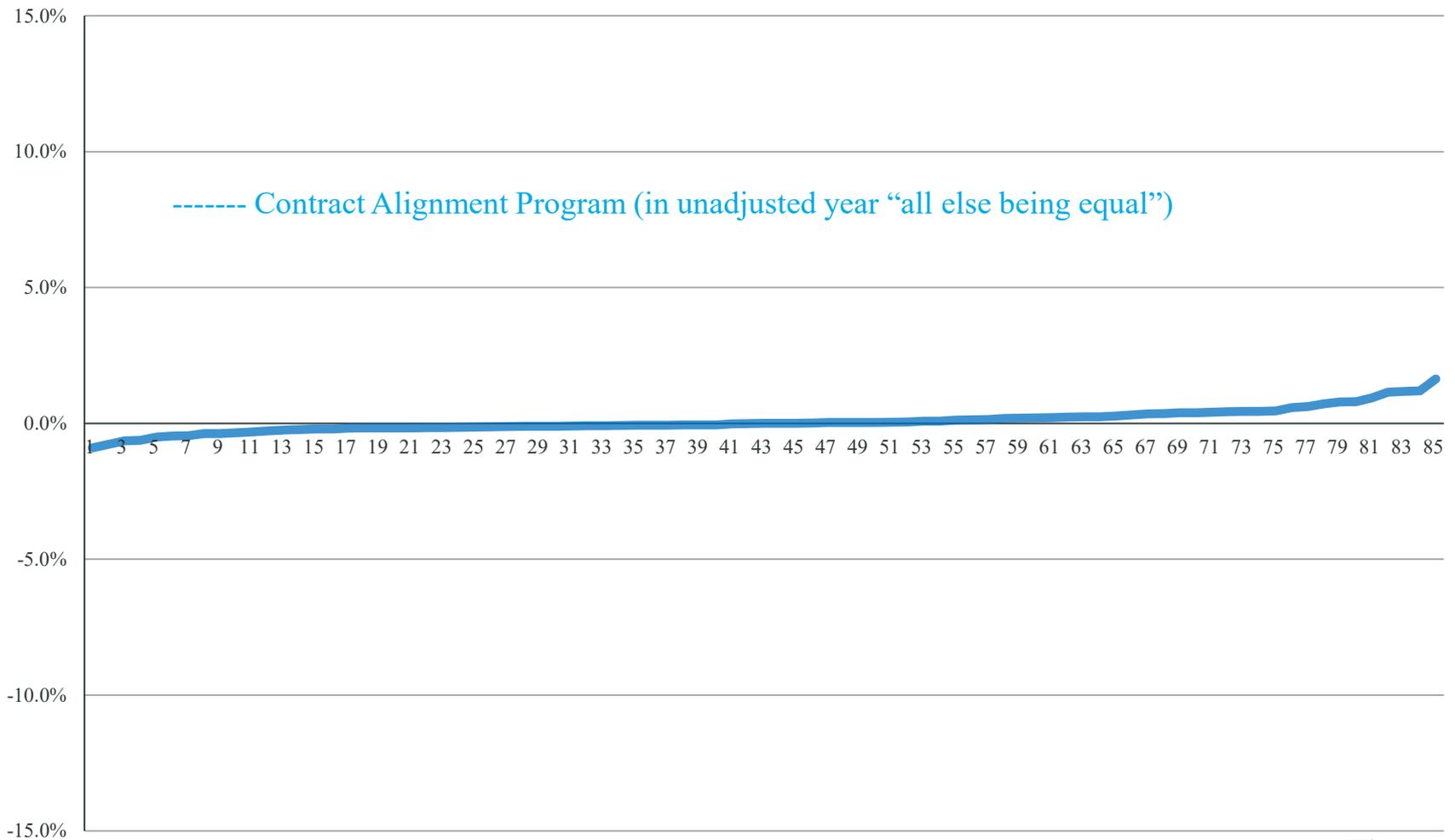
# Strategy for Proposed FY 2021 Service Charges – Special Considerations *(continued)*

- FY 2020 Charges to Suburban Wholesale Sewer Member Partners carry \$2.26 million for prospective FY 2020 bad debt expense related to Highland Park
- Proposed FY 2021 Charges
  - ✓ *Reduce the prospective amount to \$1.31 million*
  - ✓ *Recognize a potential “bad debt true-up” credit of \$1.31 million for FYs 2019 and 2020*
- Net result is no Highland Park bad debt adjustment in FY 2021 Sewer Charges
  - ✓ *Reduces 3.5% “across the board” increase to 2.6%*

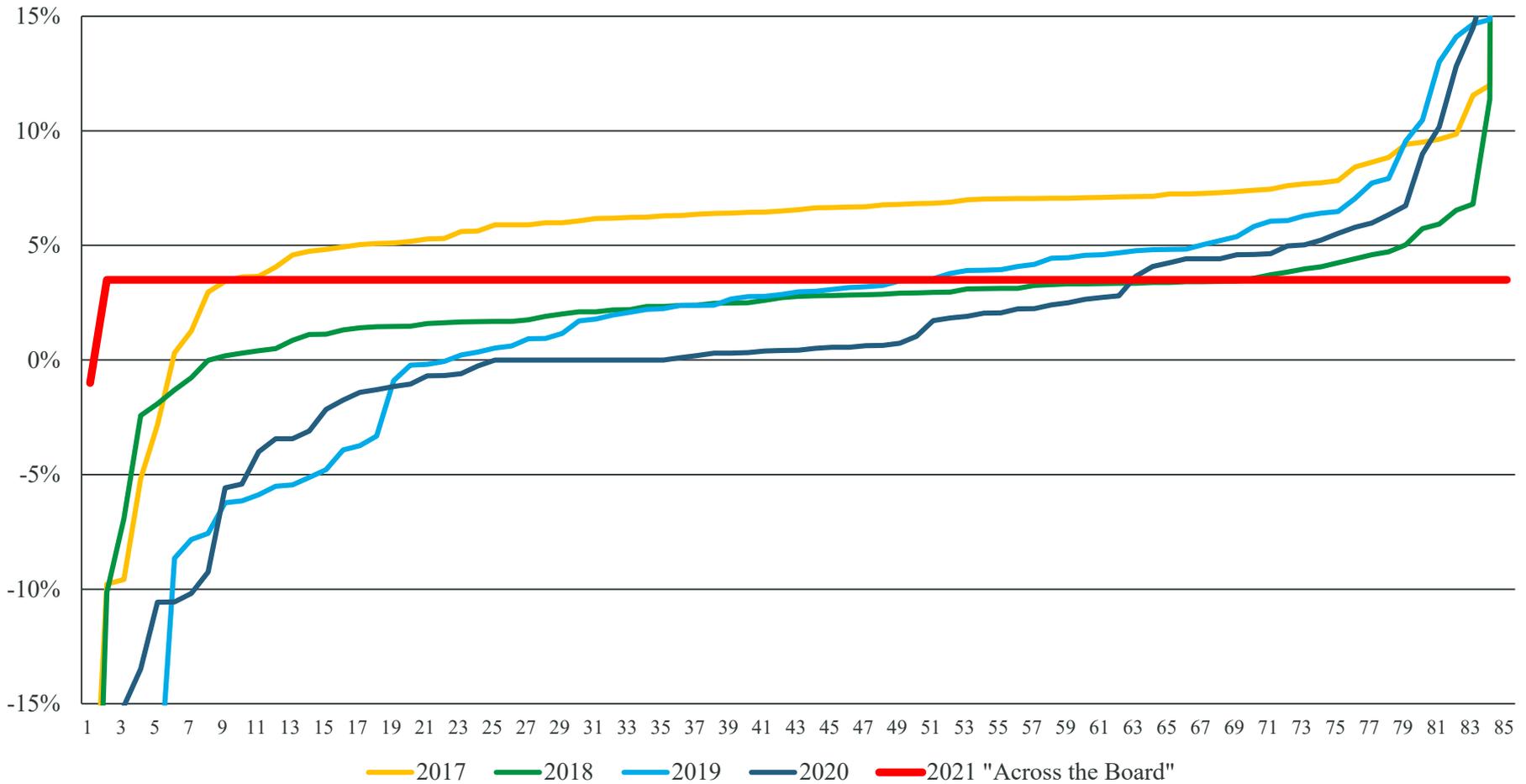
# Wholesale Water Charge Adjustments Specific Customers Compared to Average



# SAMPLE Wholesale Water Charge Adjustments Specific Customers Compared to Average



# Wholesale Water Charge Adjustments Specific Customers Compared to Average





**GLWA**

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