



Proposed FY 2020 & FY 2021 Biennial Budget Request / FY 2020 Charges

Public Hearing

February 27, 2019



TFG
THE FOSTER GROUP

Summary of Budget / Charges Development Process

- This Public Hearing provides formal management recommendations regarding the proposed FY 2020 and FY 2021 Biennial Budget Request and the FY 2020 Schedule of Revenues and Charges.
- It marks the culmination of a formal schedule of activities.
- The Budget proposals were formally presented to the Board on January 9, 2019 and to Member Partners on January 10, 2019.
- The Charge proposals were formally presented to the Board on January 23, 2019 and to Member Partners on January 24, 2019.

Summary of Budget / Charges Development Process

- The proposed budget presented today reflects two modifications subsequent to the budget presented last month.
- The proposed Charges for Suburban Wholesale Member Partners presented today are identical to those presented last month.
- The proposed annual wholesale revenue requirements to DWSD are slightly different.

Final Proposed Budget Modifications: Operating Expense Review

- On February 15, 2019, the Audit Committee requested an analysis of the potential impact of a \$5 million reduction in budgeted operating expenses.
- The outcome of that scenario analysis leads to:
 - ✓ *Applying more conservative assumptions regarding utility and chemical expenses;*
 - ✓ *A proportional application of those assumptions results in a potential impact of:*
 - \$2 million Water
 - \$3 million Sewer

Final Proposed Budget Modifications: Operating Expense Review

- The revised GLWA Administration budget proposal embraces the \$5 million as noted by the scenario analysis.
- However, to preserve the commitment to long term financial sustainability, it is recommended that The \$5 million be reclassified from operating expense to additional I&E deposits, applied proportionally:
 - ✓ *\$2 million Water*
 - ✓ *\$3 million Sewer*
- Designed to address:
 - ✓ *Recently validated GLWA/DWSD Legacy Pension “tail liability” of \$7 to \$9 million annually **for 30 years**;*
 - ✓ *Increased financial resource demand of capital program management contract*

Final Proposed Budget Modifications: GLWA Facilities Arrangement

- Final Budget proposal reverses the original proposal to convert these facilities from DWSD retail water customers to internal GLWA wholesale water customers.
- Matter has been referred to arbitration and proposal is to resolve via that forum outside the FY 2020 Budget and Charges process.

Final Proposed Budget Modifications: GLWA Facilities Arrangement

- Units of service associated with these facilities were “added back” to the Detroit Customer Class.
- Results in:
 - ✓ *Increased wholesale revenue requirements allocated to Detroit;*
 - ✓ *Maintained retail revenues for DWSD from those facilities;*
 - ✓ *An alignment of GLWA and DWSD budgets*
- Proposed no impact on Suburban Wholesale Charges

Final Proposed Budget Modifications: Impact on Budget and Charges

- FY 2020 BUDGET increase from FY 2019:
 - ✓ *Water - initially: 3.1%; revised: 3.1% (~ no change)*
 - ✓ *Sewer - initially: 2.7%; revised: 2.9%*
- Suburban Wholesale Charge Adjustment:
 - ✓ *Water - initially: 0.9%; revised: 0.9% (no change)*
 - ✓ *Sewer - initially: 0.5%; revised: 0.5% (no change)*
- Allocated DWSD Wholesale Revenue Requirement Adj:
 - ✓ *Water - initially: -0.2%; revised: 3.3% **
 - ✓ *Sewer - initially: 2.7%; revised: 3.2% **

* DWSD Retail Water Charges to certain GLWA Sewer Facilities estimate:

✓ *Initially \$0; revised \$3.5 million*

Final Proposed Budget Modifications: Impact on Budget and Charges

| Regional System Revenue Requirements | Water Supply System | | | | |
|---|----------------------|-------------------------|----------------------------|----------------------|-------------------|
| | FY 2020 As Requested | Budget Reclassification | GLWA Facilities Adjustment | Modified Budget? | Relative % Change |
| Revenues | | | | | |
| Revenues From Wholesale Customer Charges | \$311,043,600 | \$ - | \$ - | \$311,043,600 | 0.0% |
| Wholesale Revenues From Retail Services Agreement | 20,117,100 | - | 1,419,600 | 21,536,700 | 7.1% |
| 11 Total Revenues from Charges | \$331,160,700 | \$ - | \$ 1,419,600 | \$332,580,300 | 0.4% |
| 11.1 Revenues from Internal Charges | 1,438,000 | | (1,438,000) | - | -100.0% |
| 10.1 Non-Operating Revenue | 9,084,200 | | - | 9,084,200 | 0.0% |
| Total Revenues | \$341,682,900 | \$ - | \$ (18,400) | \$341,664,500 | 0.0% |
| Revenue Requirements | | | | | |
| 1 Operations & Maintenance (O&M) Expense | \$133,490,500 | \$ (2,000,000) | \$0 | \$131,490,500 | 0.0% |
| 2 O&M Legacy Pension Allocation | 6,048,000 | | - | 6,048,000 | 0.0% |
| 3 Debt Service Allocation | 137,557,600 | | - | 137,557,600 | 0.0% |
| 4 Accelerated Legacy Pension Allocation | 6,268,300 | | - | 6,268,300 | 0.0% |
| 5 Water Residential Assistance Program | 1,743,900 | | 7,100 | 1,751,000 | 0.4% |
| 6 Lease Payment to Local System I&E Account | 22,500,000 | | - | 22,500,000 | 0.0% |
| 7 Improvement & Extension Fund Allocation | 30,098,600 | 2,000,000 | (25,500) | 32,073,100 | -0.1% |
| 8 Operating Reserve Deposit | 3,976,000 | | - | 3,976,000 | 0.0% |
| 9 Extraordinary Repair & Replacement Deposit | - | | - | - | NA |
| Annual Revenue Requirements | \$341,682,900 | \$ - | \$ (18,400) | \$341,664,500 | 0.0% |
| <u>Impact on Detroit Customer Class</u> | | | | | |
| DWSD Local System Revenues - Detroit Customers | \$ 96,300,200 | | \$ 3,507,800 | \$ 99,808,000 | 3.6% |
| less: Allocated Wholesale Revenue Requirement | (20,117,100) | - | (1,419,600) | (21,536,700) | 7.1% |
| Balance Available for Local System Requirements | \$ 76,183,100 | \$ - | \$ 2,088,200 | \$ 78,271,300 | 2.7% |
| Variance as a % of Total Revenues | | | | | 2.2% |

Final Proposed Budget Modifications: Impact on Budget and Charges

| Regional System Revenue Requirements | Sewage Disposal System | | | | |
|---|------------------------|-------------------------|----------------------------|----------------------|-------------------|
| | FY 2020 As Requested | Budget Reclassification | GLWA Facilities Adjustment | Modified Budget? | Relative % Change |
| Revenues | | | | | |
| Revenues From Wholesale Customer Charges | \$287,973,400 | \$ - | \$ - | \$287,973,400 | 0.0% |
| Wholesale Revenues From Retail Services Agreement | 186,118,800 | - | 782,300 | 186,901,100 | 0.4% |
| 11 Total Revenues from Charges | \$474,092,200 | \$ - | \$ 782,300 | \$474,874,500 | 0.2% |
| 11.1 Revenues from Internal Charges | | | - | - | NA |
| 10.1 Non-Operating Revenue | 8,730,800 | | - | 8,730,800 | 0.0% |
| Total Revenues | 482,823,000 | \$ - | 782,300 | 483,605,300 | 0.2% |
| Revenue Requirements | | | | | |
| 1 Operations & Maintenance (O&M) Expense | \$187,968,700 | \$ (3,000,000) | \$ 2,088,200 | \$187,056,900 | 1.1% |
| 2 O&M Legacy Pension Allocation | 10,824,000 | | - | 10,824,000 | 0.0% |
| 3 Debt Service Allocation | 215,738,800 | | - | 215,738,800 | 0.0% |
| 4 Accelerated Legacy Pension Allocation | 11,620,700 | | - | 11,620,700 | 0.0% |
| 5 Water Residential Assistance Program | 2,464,400 | | 3,900 | 2,468,300 | 0.2% |
| 6 Lease Payment to Local System I&E Account | 27,500,000 | | - | 27,500,000 | 0.0% |
| 7 Improvement & Extension Fund Allocation | 26,706,400 | 3,000,000 | (1,309,800) | 28,396,600 | -4.9% |
| 8 Operating Reserve Deposit | - | | - | - | NA |
| 9 Extraordinary Repair & Replacement Deposit | - | | - | - | NA |
| Annual Revenue Requirements | \$482,823,000 | \$ - | \$ 782,300 | \$483,605,300 | 0.2% |
| Impact on Detroit Customer Class | | | | | |
| DWSD Local System Revenues - Detroit Customers | \$292,640,000 | | \$0 | \$292,640,000 | 0.0% |
| less: Allocated Wholesale Revenue Requirement | (186,118,800) | - | (782,300) | (186,901,100) | 0.4% |
| Balance Available for Local System Requirements | \$106,521,200 | \$ - | \$ (782,300) | \$105,738,900 | -0.7% |
| Variance as a % of Total Revenues | | | | | -0.3% |

Final Proposed Budget Modifications: Impact on Budget and Charges

| Regional System Revenue Requirements | Combined Water & Sewer | | | | |
|---|------------------------|-------------------------|----------------------------|----------------------|-------------------|
| | FY 2020 As Requested | Budget Reclassification | GLWA Facilities Adjustment | Modified Budget? | Relative % Change |
| Revenues | | | | | |
| Revenues From Wholesale Customer Charges | \$599,017,000 | \$ - | \$ - | \$599,017,000 | 0.0% |
| Wholesale Revenues From Retail Services Agreement | 206,235,900 | - | 2,201,900 | 208,437,800 | 1.1% |
| 11 Total Revenues from Charges | \$805,252,900 | \$ - | \$ 2,201,900 | \$807,454,800 | 0.3% |
| 11.1 Revenues from Internal Charges | 1,438,000 | - | (1,438,000) | - | -100.0% |
| 10.1 Non-Operating Revenue | 17,815,000 | - | - | 17,815,000 | 0.0% |
| Total Revenues | 824,505,900 | - | 763,900 | 825,269,800 | 0.1% |
| Revenue Requirements | | | | | |
| 1 Operations & Maintenance (O&M) Expense | \$321,459,200 | (\$5,000,000) | \$2,088,200 | \$318,547,400 | 0.6% |
| 2 O&M Legacy Pension Allocation | 16,872,000 | - | - | 16,872,000 | 0.0% |
| 3 Debt Service Allocation | 353,296,400 | - | - | 353,296,400 | 0.0% |
| 4 Accelerated Legacy Pension Allocation | 17,889,000 | - | - | 17,889,000 | 0.0% |
| 5 Water Residential Assistance Program | 4,208,300 | - | 11,000 | 4,219,300 | 0.3% |
| 6 Lease Payment to Local System I&E Account | 50,000,000 | - | - | 50,000,000 | 0.0% |
| 7 Improvement & Extension Fund Allocation | 56,805,000 | 5,000,000 | (1,335,300) | 60,469,700 | -2.4% |
| 8 Operating Reserve Deposit | 3,976,000 | - | - | 3,976,000 | 0.0% |
| 9 Extraordinary Repair & Replacement Deposit | - | - | - | - | NA |
| Annual Revenue Requirements | \$824,505,900 | \$ - | \$ 763,900 | \$825,269,800 | 0.1% |
| Impact on Detroit Customer Class | | | | | |
| DWSD Local System Revenues - Detroit Customers | \$388,940,200 | \$ - | \$ 3,507,800 | \$392,448,000 | 0.9% |
| less: Allocated Wholesale Revenue Requirement | (206,235,900) | - | (2,201,900) | (208,437,800) | 1.1% |
| Balance Available for Local System Requirements | \$182,704,300 | \$ - | \$ 1,305,900 | \$184,010,200 | 0.7% |
| Variance as a % of Total Revenues | | | | | 0.3% |



GLWA

Great Lakes Water Authority