



Financial Services Audit Committee Communication

Date: February 13, 2019

To: Great Lakes Water Authority Audit Committee

From: Alicia Haskin, Management Professional – Intergovernmental Relations

RE: Reconciliation Committee Update

Update: The Great Lakes Water Authority (GLWA) and Detroit Water and Sewerage Department (DWSD) Reconciliation Committee met on Monday, February 11, 2019.

Attached for your reference are the draft Meeting Notes from the Reconciliation Committee as well as the DWSD FY2020 Preliminary Budget. This preliminary budget was presented by DWSD Chief Financial Officer at the Board of Water Commissioners Finance Committee on February 6, 2019. It should be noted that the DWSD Preliminary Budget includes a modification to the GLWA FY 2020 charges proposal.

Under the Water and Sewer Services Agreement DWSD is required to provide the following reports as it relates to the annual budgeting cycle.

- Preliminary two-year budget forecast including key assumptions and impact statement (Section 5.3) (*status: attached*)
- Current capital improvement plan (Section 5.3(d)(i)) (*status: in process*)
- Local system adopted biennial budget (Section 5.3(B)) (*status: in process*)
- Local system provides direction to GLWA on how to apply lease payment (Section 4.3) (*status: in process*)

Proposed Action: Receive and file report.



**DWSD & GLWA
Reconciliation Committee
February 11, 2019 at 9 a.m.**

Water Board Building
735 Randolph, Ste. 1606, Detroit, MI 48226



Meeting Notes

Note: The following represents meeting notes (not minutes) to assist both entities with follow-up/action items and to document status of efforts underway. Page number references to the meeting binder are for Reconciliation Committee members.

1. **Review of Prior Meeting Notes from October 19, 2018** (page 1)
2. **Status Report: Cash Held for the Benefit of DWSD** (page 11)
 - A. Terms of the Note for the Budget Shortfall will be drafted in writing by the two Chief Financial Officer's, Tom Naughton and Nickie Bateson.
 - B. Detroit Water and Sewerage Department (DWSD) made a payment of approximately \$5,200,000 on Friday, February 8, 2019.
 - C. \$6,500,000 credit due to DWSD for the pervious years lookback will be shown on future reports as an MOU Adjustment, line 8 of the DWSD Trust Receipts and Disbursements Report prepared by Great Lakes Water Authority (GLWA) Audit Committee.
3. **Status Report: Watermain Arbitration/Transmission Main**
 - A. Follow up meeting regarding this issue with DWSD and GLWA will take place on Tuesday, February 12, 2019.
 - B. There have been discussions regarding lines that could be decommissioned immediately.
 - C. GLWA has filed for arbitration on this topic.
4. **Status Report: DWSD Retail Account Billings for GLWA Facilities** (page 16)
 - A. Discussion regarding the three categories of charges that need further analysis.
 - a) Billing Accounts with Disputes
 - b) Drainage Accounts
 - c) Accounts with no Disputes
 - B. This issue may go to arbitration.
5. **Status Report: Information Technology Shared Services Update** (page 21)
 - A. GLWA emphasized the operational importance of DWSD notifying GLWA in a timely manner regarding any termination or extension of termination needed to ensure adequate resource allocation.
 - B. GLWA has identified projects and priorities where the Shared Service resources are being reassigned.
6. **Status Report: Shared Services True-up** (page 25)
 - A. The FY2017 True-Up is being reviewed by staff and an update will be prepared for the GLWA Audit Committee on Friday, February 15, 2019.
 - B. The update will include the billings and payments by each entity, DWSD and GLWA.
7. **Status Report: FY 2020 Preliminary DWSD Budget** (page 28)
 - A. DWSD presented a Preliminary Budget for FY2020 as presented to the DWSD Board of Water Commissioners - Finance Committee on February 6, 2019.
 - B. DWSD is working on their five-year plan and biennial budget.

8. **Reference Item – 2018 MOU** (page 53)
9. **Scheduled Meetings:**
 - April 5, 2019 10:30 am – 12 pm
 - July 19, 2019 10:30 am – 12 pm
 - October 18, 2019 10:30 am – 12 pm

Reconciliation Committee

Linda D. Forte, Board of Water Commissioners

Robert J. Daddow, Great Lakes Water Authority Board of Directors

Reconciliation Committee Participants

Gary Brown, Director, Detroit Water & Sewerage Department

Sue McCormick, Chief Executive Officer, Great Lakes Water Authority

Tom Naughton, Chief Financial Officer, Detroit Water & Sewerage Department

Nickie Bateson, Chief Financial Officer & Treasurer, Great Lakes Water Authority

Debra Pospiech, Chief Administrative Officer and General Counsel

Randal Brown, General Counsel, Great Lakes Water Authority

Prepared by Alicia Haskin, Intergovernmental Relations Management Professional, Great Lakes Water Authority



DWSD PRELIMINARY BUDGET REVIEW

FISCAL YEAR 2020

February 6, 2019

Agenda

- Current Budget Environment
- FY 2020 Revenue Forecasts and Preliminary Budget Recommendations
- Operations and Maintenance Preliminary Budgets
 - Direct (Departmental) Budgets
 - Indirect (Non-Departmental) Budget
- Five-Year Capital Plan will be presented at CIP Committee
- Next Steps

FY 2020 Budget Environment

- Experiencing positive volume (Mcf) variances and increases in numbers of accounts and meters in FY 2019. Trends are expected to continue into FY 2020.
- MOU has eliminated significant uncertainties with respect to debt obligations and other funding requirements.
- Restructuring of the department is accelerating. Several opportunities exist to in-source certain functions currently contracted out.
- Technology has an aggressive agenda planned. DWSD is becoming less dependent on GLWA for network and systems.
- All operating units are developing and formalizing processes and procedures. Opportunities to improve compliance and create efficiencies have been identified.
- An aggressive capital program has been launched.
- Exposure to certain financial risks will continue (Lead service lines, GLWA transmission lines, GLWA direct water service, etc...)



WATER REVENUE

FISCAL YEAR 2020

Water Revenue Summary



	Budget	Forecast	Budget	% Change
	FY 2019	FY 2019	FY 2020	v. Budget
<u>Operating Revenues</u>				
Commodity Sales	\$ 69,393,000	\$ 70,715,000	\$ 73,176,000	5.5%
Service Charges	24,766,000	24,968,000	25,964,000	4.8%
Firelines	3,031,000	3,057,000	3,057,000	0.9%
Other Fees	2,890,000	1,866,000	1,593,000	-44.9%
Penalties	1,510,000	1,098,000	1,165,000	-22.8%
Total Retail Revenue	101,590,000	101,704,000	104,955,000	3.3%
Less: Bad Debt Expense	(6,095,000)	(7,119,000)	(7,347,000)	20.5%
Net Retail Revenue	95,495,000	94,585,000	97,608,000	2.2%
Other Revenue	2,200,000	2,200,000	2,200,000	0.0%
Total Revenue	\$ 97,695,000	\$ 96,785,000	\$ 99,808,000	2.2%

- Assumed rate increases of 4% (excluding Firelines)
- Effective Retail Revenue Increase of 3.3%
- Expected Collection Rate of 93% (down from 94%)



Water Retail Revenue Assumptions

	Total Usage (MCFs)						
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019 Estimated	FY 2020 Estimated
Water MCF	3,379,911	3,149,433	3,051,044	2,951,798	2,883,971	2,861,799	2,847,490
<i>% Change v. Prior Year</i>	-7.47%	-6.82%	-3.12%	-3.25%	-2.30%	-0.77%	-0.50%

- Mcf charge increasing from \$24.71 to \$25.70
- FY 2020 budget assumes a decrease of 0.5% in water usage from FY 2019 forecast; 1.4% increase from FY 2019 budget
- Increase in meters from 175,300 to 176,800 (0.8%)
- Fireline charges to remain the same



SEWER REVENUE

FISCAL YEAR 2020

Sewer Revenue Summary



	Budget	Forecast	Budget	% Change
	FY 2019	FY 2019	FY 2020	v. Budget
<u>Operating Revenues</u>				
Commodity Sales	\$ 136,714,000	\$ 149,930,000	\$ 155,538,000	13.8%
Service Charges	13,184,000	13,292,000	13,824,000	4.9%
Drainage Fees	152,874,000	142,233,000	154,465,000	1.0%
Penalties	4,965,000	4,276,000	4,420,000	-11.0%
Total Retail Revenue	307,737,000	309,731,000	328,247,000	6.7%
Less: Bad Debt Expense	(27,696,000)	(34,070,000)	(36,107,000)	30.4%
Net Retail Revenue	280,041,000	275,661,000	292,140,000	4.3%
Other Revenue	500,000	500,000	500,000	0.0%
Total Revenue	\$ 280,541,000	\$ 276,161,000	\$ 292,640,000	4.3%

- Effective Retail Revenue Increase of 6.7% largely due to strong FY 2019 volumes
- Significant decrease in billable Impervious acreage
- FY 2020 collection rate reduced from 91% to 89%
- Expected Collection Rate for Drainage fees is 87%



Sewer Retail Revenue Assumptions

	Total Usage (MCFs)						FY 2019	FY 2020
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	Estimated	Estimated	
Sewer MCF	3,104,167	2,842,014	2,728,344	2,595,579	2,612,352	2,733,960	2,727,125	
% Change v. Prior Year	-5.08%	-8.45%	-4.00%	-4.87%	0.65%	4.66%	-0.25%	

- Sewer MCF charge increased from \$54.84 to \$57.03
- Sewer service charge increased from \$6.28 to \$6.53
- FY 2020 budget assumes a decrease of 0.25% in sewer usage from FY 2019 forecast; (9.4% over FY 2019 Budget)
- Increase of meters from 175,000 to 176,400 (0.8%)
- Drainage Rates will transition based on pre-determined rate structure



Billable Impervious Acres

<u>Customer Class</u>	Budget FY 2019	Forecast FY 2019	Forecast FY 2020	Change (+/-) v. Budget
Industrial	3,800	3,800	3,800	-
Commercial	5,900	6,000	6,000	100
Residential	12,200	11,500	11,500	(700)
City of Detroit	1,400	1,300	1,300	(100)
Wayne State	100	100	100	-
Tax Exempt	1,800	1,600	1,600	(200)
Faith Based	500	600	600	100
Highway Drainage	2,800	2,800	2,800	-
Grand Total	28,500	27,700	27,700	(800)

- Reduction of 800 billable impervious acres results in revenue loss of \$6 Million



OPERATIONS & MAINTENANCE BUDGET

FISCAL YEAR 2020



Operation and Maintenance – Direct Expenses

	Budget 2019	Budget 2020	Increase (Decrease)	Percent Change
Summary by Fund				
Water Fund	\$ 37,161,200	\$ 39,934,600	\$ 2,773,400	7.5%
Sewer Fund	70,637,700	74,244,300	3,606,600	5.1%
Total O&M Appropriations	<u>\$ 107,798,900</u>	<u>\$ 114,178,900</u>	<u>\$ 6,380,000</u>	<u>5.9%</u>
Summary by Appropriation Unit				
BOWC and Administration	\$ 11,435,300	\$ 9,832,400	\$ (1,602,900)	-14.0%
Operations	45,628,700	56,431,000	10,802,300	23.7%
Compliance	23,036,800	19,431,800	(3,605,000)	-15.6%
Finance	16,147,200	17,667,100	1,519,900	9.4%
Customer Service	8,131,500	7,097,900	(1,033,600)	-12.7%
Stormwater Management Group	3,419,400	3,718,700	299,300	8.8%
Total O&M Appropriations	<u>\$ 107,798,900</u>	<u>\$ 114,178,900</u>	<u>\$ 6,380,000</u>	<u>5.9%</u>

Administration



	FY 2019	FY 2020
Administration	Budget	Request
Salaries/Wages	\$ 3,005,000	\$ 3,307,000
Employee Benefits (Fringes)	1,307,000	1,351,000
Professional & Contractual Services	3,300,000	3,166,000
Shared Services Expense	425,000	575,000
Supplies & Other	3,398,000	1,433,000
Utilities	-	-
Total Appropriation	\$ 11,435,000	\$ 9,832,000

- Includes: CEO, Public Affairs, Security and BOWC
- Transferred 1 FTE from Customer Service (PAA)
- Moved City Indirect Cost Allocation to CFO cost Center (\$2.1M)

Operations

	FY 2019	FY 2020
Operations	Budget	Request
Salaries/Wages	\$ 17,357,000	\$21,358,000
Employee Benefits (Fringes)	7,437,000	8,642,000
Professional & Contractual Services	8,600,000	12,291,000
Shared Services Expense	1,000,000	800,000
Supplies & Other	8,204,000	8,720,000
Utilities	3,031,000	4,619,000
Total Appropriation	\$ 45,629,000	\$56,430,000

- Includes: Field Engineering, Field Services, Fleet, Facilities, Meter Operations and Storm Water Management
- Increase of 45 FTEs
- Decrease in Shared Service for Systems Control Center: Detroit Only Pump Stations

Operations – Field Services

	FY 2019 Budget	FY 2020 Request
Field Service Operations		
Salaries/Wages	\$ 9,855,000	\$11,632,000
Employee Benefits (Fringes)	4,221,000	4,672,000
Professional & Contractual Service	650,000	1,465,000
Shared Services Expense	-	-
Supplies & Other	4,594,000	4,686,000
Utilities	-	-
Total Cost Center	\$ 19,320,000	\$22,455,000

- Increase of 15 FTEs
- Expand water and sewer preventative maintenance program
- Implement a Sewer Cleaning Program
 - 5-8 year cleaning cycle
 - Clean 450 miles of sewer lines per year
- Assuming MISS DIG functions
- Create Lead Line Replacement Program

Operations – Meter Operations

	FY 2019 Budget	FY 2020 Request
Meter Operations		
Salaries/Wages	\$ 2,054,000	\$ 3,140,000
Employee Benefits (Fringes)	846,000	1,286,000
Professional & Contractual Service	1,460,000	3,503,000
Shared Services Expense	-	-
Supplies & Other	472,000	481,000
Utilities	-	-
Total Cost Center	\$ 4,832,000	\$ 8,410,000

- Increase of 14 FTEs
- Transfer service interruption contract to Meter Operations
- Expansion of service availability to Saturday and Sundays
- Support implementation of AMR Migrations Project(ITRON)
- Implement a Meter Data Management Program
- Reduce Non-Revenue Water

Operations - Fleet

	FY 2019 Budget	FY 2020 Request
Fleet Operations		
Salaries/Wages	\$ 1,394,000	\$ 1,733,000
Employee Benefits (Fringes)	608,000	708,000
Professional & Contractual Services	2,083,000	2,717,000
Shared Services Expense	-	-
Supplies & Other	1,693,000	1,819,000
Utilities	-	-
Total Cost Center	\$ 5,778,000	\$ 6,977,000

- Maintains vehicles for both DWSD and GLWA (approximately 700)
- Maintains over 1,000 pieces of equipment
- Increase of 5 FTEs based on national benchmarks
- Establish an afternoon shift to increase availability and productivity

Compliance



Compliance	FY 2019 Budget	FY 2020 Request
Salaries/Wages	\$ 2,582,000	\$ 3,481,000
Employee Benefits (Fringes)	1,141,000	1,439,000
Professional & Contractual Services	3,476,000	3,593,000
Shared Services Expense	7,380,000	2,970,000
Supplies & Other	3,458,000	6,949,000
Claims and Judgements	5,000,000	1,000,000
Utilities	-	-
Total Appropriation	\$ 23,037,000	\$ 19,432,000

- Includes: General Counsel, Organizational Development, Information Technology
- Increase of 7 FTEs
 - General Counsel (-1 FTE)
 - Safety Office (2 FTE)
 - Technology (6 FTE)
- Reduced contingency for damage and other claims (\$4 M)
- Reduction in IT Shared Services and increase in FTEs and supplies as IT transitions the services in-house (\$3.3M)

Finance



	FY 2019	FY 2020
Finance	Budget	Request
Salaries/Wages	\$ 4,335,000	\$ 4,988,000
Employee Benefits (Fringes)	1,887,000	2,066,000
Professional & Contractual Services	9,051,000	7,533,000
Shared Services Expense	-	40,000
Supplies & Other	875,000	3,041,000
Utilities	-	-
Total Appropriation	<u>\$ 16,148,000</u>	<u>\$ 17,668,000</u>

- Increase of 5 FTEs
- Moved City Indirect Cost Allocation from CEO (\$2.1M)
- Transferred service interruption contract to Meter Operations (\$2.3M)
- Increased mailing system contract (\$400K)
- Transferred utility rate consulting contract from CEO (\$250K)



Customer Service

	FY 2019	FY 2020
	Budget	Request
Customer Service		
Salaries/Wages	\$ 4,739,000	\$ 4,424,000
Employee Benefits (Fringes)	2,062,000	1,813,000
Professional & Contractual Services	1,075,000	601,000
Shared Services Expense	-	-
Supplies & Other	255,000	260,000
Utilities	-	-
Total Appropriation	\$ 8,131,000	\$ 7,098,000

- Decrease of 21 FTEs
 - 3 transferred to Meter Operations
 - 1 transferred to Stormwater Management
 - 1 transferred to CEO
 - 16 vacant positions eliminated
- Reduce consulting contracts based on current spend



Stormwater Management Group

	FY 2019	FY 2020
Stormwater Drainage	Budget	Request
Salaries/Wages	\$ 841,000	\$ 1,084,000
Employee Benefits (Fringes)	366,000	446,000
Professional & Contractual Services	1,730,000	1,697,000
Supplies & Other	82,000	84,000
Utilities	400,000	408,000
Total Appropriation	\$ 3,419,000	\$ 3,719,000

- Responsibilities include NPDES permit compliance, green infrastructure project management and customer care for drainage related requests
- Increase of 4 FTEs
 - Customer Service Specialists (2 FTE)
 - Green Infrastructure Engineers (2 FTE)



INDIRECT EXPENSES BUDGET

FISCAL YEAR 2020



Indirect Expenses Budget

	Budget 2019	Budget 2020	Increase (Decrease)	Percent Change
Water Fund				
Wholesale Charges	\$ 20,324,800	\$ 21,536,700	\$ 1,211,900	6.0%
Obligation to GLWA	33,438,800	33,438,800	-	0.0%
Operating Pension	4,272,000	4,272,000	-	0.0%
Non-Operating Pension	3,809,200	3,809,200	-	0.0%
Series B & C Notes	618,200	618,200	-	0.0%
WRAP Contribution	480,300	535,800	55,500	11.6%
Total Water Fund	<u>\$ 62,943,300</u>	<u>\$ 64,210,700</u>	<u>\$ 1,267,400</u>	<u>2.0%</u>
Sewer Fund				
Wholesale Charges	\$ 183,009,100	\$186,901,100	\$ 3,892,000	2.1%
Obligation to GLWA	26,271,500	26,271,500	-	0.0%
Operating Pension	2,856,000	2,856,000	-	0.0%
Non-Operating Pension	2,546,200	2,546,200	-	0.0%
Series B & C Notes	520,200	520,200	-	0.0%
Budget Stabilization	(6,527,200)	-	6,527,200	-100.0%
WRAP Contribution	1,154,300	1,643,700	489,400	42.4%
Total Sewer Fund	<u>\$ 209,830,100</u>	<u>\$220,738,700</u>	<u>\$10,908,600</u>	<u>5.2%</u>

- Wholesale charges are based on GLWA preliminary worksheets.
- Budget Stabilization reduction is non-recurring (MOU adjustment).

Next Steps

- Final reviews with Executive Management
- Water and Sewer allocation assessments
- GLWA wholesale charge adjustments
- Public Hearing scheduled for February 20th
- Budget adoption planned for March 2019

Thank You



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