



Financial Services Audit Committee Communication

Date: May 22, 2018

To: Great Lakes Water Authority Audit Committee

From: Nicolette Bateson, CPA, Chief Financial Officer/Treasurer

Re: Financial Sustainability Model – Forecast Modeling

Background: Last month, initial discussion began at the Audit Committee related to long-term financial planning and parameters to establish a Financial Sustainability model that encompasses the following.

1. **Risk Management:** Ensuring that there is sufficient liquidity to seek opportunities as well as address unforeseen and/or uncontrollable events.
2. **Affordability:** Appropriate level of fixed long-term commitments, controlled variable annual costs, and balancing the two to achieve intergenerational equity.
3. **Stability:** Anticipating annual budget variances and ensuring that charges are stable and predictable (i.e. prevents “rate shock”).

Analysis: Translating these objectives into measurable planning parameters is based on the next step which is modeling various scenarios (referred to as the Revenue Requirement Policy matrix in last month’s material and attached). The Foster Group has developed a long-term forecasting model that can be used to test the proposed policy matrix under various scenarios. Accordingly, see the attached memo and side-by-side forecasting scenarios. Mr. Foster will be in attendance at the Audit Committee to demonstrate the impact of a varying assumptions as well as discuss additional policy considerations.

Proposed Action: Receive and file report.

Proposed GLWA Revenue Requirement Policy Matrix

		Category	Near-term Planning Parameters (Current Five-Year Plan)	Long-term Planning Parameters (FY 2024+)
		Revenue Requirement		O&M
	Debt Service and Debt Service Coverage Target		Debt Service no more than ___% of total revenue requirement Senior Lien: 2.00x Second Lien: 1.40x SRF Junior Lien and Pension Junior Lien: 1.0x All-in: 1.30x	Debt Service no more than ___% of total revenue requirement Senior Lien: 2.0x Second Lien: 1.75x SRF Junior Lien and Pension Junior Lien: 1.60x All-in: 1.60x Debt per Capita at a Moderate Level
Debt Service Coverage	MBO Commitments		MBO items are fixed amounts/formulas	MBO commitments decrease (i.e. GRS pension)
	I&E Contribution		Minimum I&E at ___% of rolling five-year capital program	Minimum I&E at ___% of rolling five-year capital program
	Total		No more than prior year plus 4% per through FY 2025 ¹	No more than prior year plus 4% per policy

¹ Note: This limitation shall not be applicable if the revenue requirement must increase beyond the 4% assumption to satisfy the rate covenant or to pay the cost of improvements that are required to be made by applicable laws.