

Great Lakes Water Authority
Fiscal Year 2018 Pre-Close
Operations & Maintenance Budget to Actual Report
Through March 31, 2018

While the month of March 2018 has not been closed, the Financial Planning & Analysis (FP&A) team wanted to get a head start to see where the budget stands with budget amendments, both recorded through the end of the third quarter and pending for the fourth quarter of Fiscal Year 2018. The purpose of this report is to show the Audit Committee where the Operations & Maintenance (O&M) budget is at as of March 31, 2018 and the impact of the estimated pending fourth quarter budget amendments and reallocations before the Board is asked to approve the FY 2019 & FY 2020 Biennial Budget and Five-Year Financial Plan.

The following are categories of the estimated pending fourth quarter budget amendments and reallocations and references the table immediately following this narrative.

- ✓ Personnel – A comparison of the actual Salaries & Wages as well as the Employee Benefits to the amounts budgeted is showing that an increase to the budget of these areas will be needed. This increase is due to the following.
 - Increases in the Salaries & Wages of existing GLWA staff during FY 2018 for various reasons (market adjustment, merit raises, promotions, etc.).
 - Increase in Employee Benefits due to the increase in premiums charged for Calendar Year 2018. The amount of this increase was not known at the time the FY 2018 budget was prepared.
 - The timing of the filling of vacant staffing positions has varied from that which was originally budgeted.
- ✓ Chemicals – The FY 2018 budget was prepared using history which consisted of certain years containing high chemical usage. Now that we have FY 2017 behind us, nine months of data for FY 2018, and new processes in place, we are able to get a better look at what our chemical costs will be for FY 2018 and beyond.
- ✓ Contractual Services – Certain contracts were not known about at the time the FY 2018 budget was prepared. This has resulted in several budget amendments, both recorded and pending, to the category of Contractual Services. In addition, it is important to note that there are several contracts that are being initiated during the fourth quarter which will result in a higher spend rate than during the previous three quarters. Having noted that, Contractual Services is an area that is being closely reviewed for potential reallocation opportunities.
- ✓ Capital Program Allocation – This is a category that is under review. The FY 2018 budget was prepared based a prior methodology for recording time allocated to capital projects. A more conservative approach is now being taken to focus on those individuals who are working directly on the capital projects rather than those who are

working indirectly. In addition, there are processes being implemented to improve the tracking and reporting of the GLWA staff members' direct hours. Both scenarios have resulted in a decrease to the budget for the Capital Program Allocation contra accounts.

- ✓ Shared Services – The shared services budget was prepared based on the agreements as they were interpreted, before actual invoices were issued and the true-ups (actual costs incurred as compared to the estimates billed) analyzed. The FP&A and Shared Services teams are working together to review the billing trends for FY 2016 & FY 2017 to get a better projection for FY 2018 and beyond (a copy of the working Shared Services document follows the Budget to Actual table).
- ✓ Unallocated Reserves –
 - There is a correction that needs to be recorded to a previously posted budget amendment which will reclass \$7,201,100 from the O&M Unallocated Reserves to the Improvement & Extension fund. This reclass will bring the O&M budget back in line with the Original Board Adopted Budget of \$329,512,800.
 - **The posting of the pending budget amendments will result in a shortfall in the O&M Unallocated Reserves of approximately \$23,800,000 (shown as \$23,827,800 in the table on the following page) of which \$15,943,900 is primarily due to the capital program adjustment, \$4,517,800 for shared services, and \$3,276,600 for personnel adjustments. For purposes of this report, the entire shortfall is being reallocated to the Contractual Services category. The FP&A team is working with the GLWA Budget Managers to identify the correct categories for the reallocation of this shortfall.**

Despite the need for the additional budget amendments and the reallocation of the O&M Unallocated Reserves' shortfall, GLWA continues to operate within the Operations & Maintenance FY 2018 Board Adopted Budget. A word of caution: the fourth quarter expenses may be higher in certain categories such as chemicals, utilities, and personnel. The variances we are seeing in the various categories, however, causes us to re-visit the Five-Year Financial Plan as vacancies are being filled, new staffing needs arise, and new initiatives are being undertaken. Given that GLWA is now at the beginning of its third year of operations, we anticipated that there would be these types of budget revisions as the historical information was limited.