



# Budget & Charges Briefing

GLWA Board of Directors  
September 13, 2023

# Overall Budget & Charges Timing

- Friday, September 8, 2023 – Internal Deadline for Cost Center Budget Request
- Tuesday, September 12, 2023 – Capital Planning Committee – Preliminary CIP Spend Update and Presentation – Actual, Forecasted, and Proposed
- ➔ • Wednesday, September 13, 2023 – Board of Directors Meeting
  - Economic Outlook Task Force Report – Quarterly Update
  - Budget and Charges Briefing
- Thursday, October 19, 2023 - Charges Rollout #1 – CIP Version 1.0
- Tuesday, November 14, 2023 - Charges Rollout #2 - Units of Service
- Thursday, November 30, 2023 – Pencils Down to Compile Proposed Materials
- Friday, December 15, 2023 – Audit Committee - Proposed Budget and Related Charges Strategy

# Overall Budget & Charges Timing

- Thursday, January 11, 2024 – Charges Rollout #3 – Proposed Charges and Introduction of Proposed Budget
- Friday, January 12, 2024 through Wednesday, January 17, 2024 – Member Partner One-on-One Meetings
- Thursday, January 18, 2024 – Charges Rollout #4 – Feedback on Charges and Further Review of Proposed Budget
- Wednesday, February 28, 2024 (Tentative) – Board Meeting
  - Public Hearing FY 2025 & FY 2026 Biennial Budget
  - Public Hearing FY 2025 Schedule of Revenues and Charges
  - Proposed Adoption of FY 2025 & FY 2026 Biennial Budget (subject to public comment)
  - Proposed Approval of the FY 2025 & FY 2026 Biennial Budget (subject to public comment)
  - Proposed Approval of FY 2025–2029 Capital Improvement Plan
- Monday, July 1, 2024 – Effective date of budget, charges, and capital plan

# Strategic Matters

## 1) Budget

- Short-term Challenges
  - Unprecedented budget constraints that increase the “base cost” over the long-term
  - One more year of the 4% Promise for which GLWA has over-delivered (FY 2025)
- Long-term Course
  - Correct over-delivery of 4% Promise to achieve improved sustainability
  - Forecasted return to long-term plan objectives by year 10
  - Mindful of external forces (economy, cost of replacing/maintaining aging infrastructure, financial resiliency as well as operational resiliency, increased competition for low-cost state revolving fund (SRF) loans and other sources)

## 2) Charges

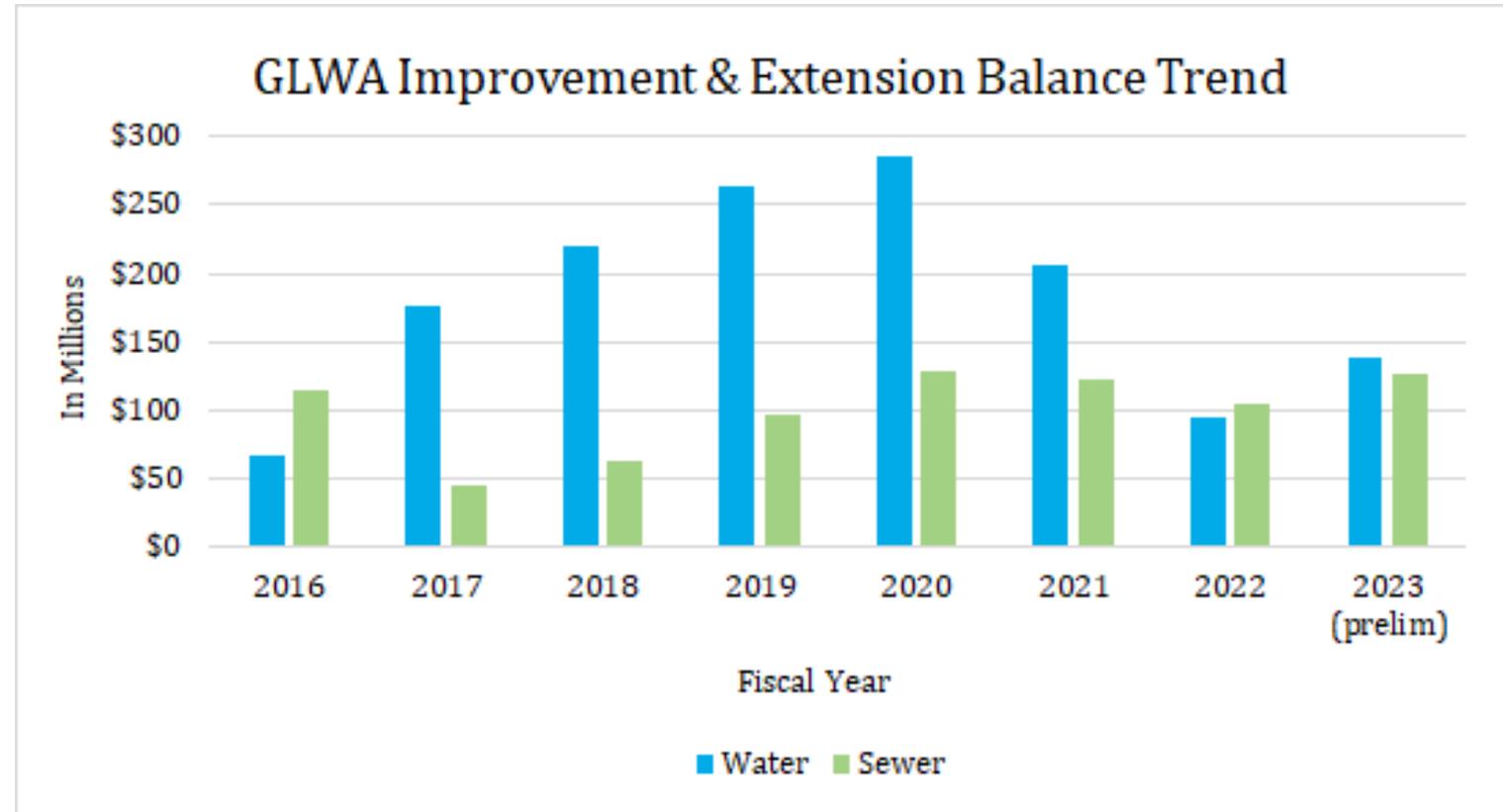
- Sewer SHARES impact FY 2025 Charges
- Potential Methodology impacts on FY 2025 Water Charges?

# Near-term Issues to Address

- Budget Balancing and Forecast Impacts:
  - 4% Promise
  - Overall Operations & Maintenance Budget
  - Capital Spend Rate Assumption – presently at 100%
  - Targeted Fund Balances
  - Debt Service Coverage / Long-term Financial Goals
- Extended era of “belt tightening” controls while expanding financial agility to meet significant external forces impacting our organization
- Highland Park Bad Debt Expense
- Sewer SHARES Update – Specific Member Partner Matters

# Improvement & Extension Funds are in Planned Era of Rebuilding for the Future

- I&E Balances for both the Water & Sewer funds were intentionally spent in accordance with the long-term plan to lessen burden on debt
- Previous minimum balance was \$90M per system; new, higher levels being developed to ensure financial resiliency



Source: Great Lakes Water Authority Annual Financial Reports

# SRF Request and Results (in millions)

CIP Project #	Description	Application Amount	Draft IUP Loan Amount	Draft IUP Loan Components		
				Grant Amount	Principal Forgiveness Amount	SRF Loan Repayment Amount
<b>GLWA - DWSRF</b>						
170905	Detroit, Dearborn and Highland Park Transmission Main Water Metering	\$31.35	\$0	\$0	\$0	\$0
122004	7532-03 96-Inch Water Transmission Main Relocation - Phase 3	\$88.10	\$0	\$0	\$0	\$0
<b>DWSRF Total</b>		<b>\$119.45</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>GLWA - CWSRF</b>						
212008	5838-01 WRRF Aeration Improvements 1 and 2 <b>4.2023 Bid in at \$196M</b>	\$90	\$90	\$0	\$20	\$70
222001	5840-01 Oakwood District Intercommunity Relief Sewer Modification of Oakwood Diversion	\$75	\$75	\$20	\$0	\$55
232002	5708-01 Freud Pumping Station <b>9.2023 Revised Estimate \$125M</b>	\$86.80	\$86.80	\$0	\$0	\$86.80
211007	5837-01 Pumpstation #2 Bar Rack Replacements and Grit Collection System Improvements	\$98	\$0	\$0	\$0	\$0
211005	Pump Station # 2 VFD Replacement (variable frequency drive) <b>9.2023 Estimate \$110M</b>	\$12	\$0	\$0	\$0	\$0
<b>CWSRF Total</b>		<b>\$361.80</b>	<b>\$252</b>	<b>\$20</b>	<b>\$20</b>	<b>\$211.80</b>
<b>DWSRF &amp; CWSRF Total</b>		<b>\$481.25</b>	<b>\$252</b>	<b>\$20</b>	<b>\$20</b>	<b>\$211.80</b>

Amounts are from the draft Intended Use Plan (IUP) for FY 2024.  
The final IUP is expected around October 1, 2023

# Part 1 – Balancing the Budget

# “Balancing” the Overall Budget

In alphabetical order:

## ***Some Discretion***

- Capital Spending Levels
- Improvement & Extension
- Operations & Maintenance
- Revenue from Charges

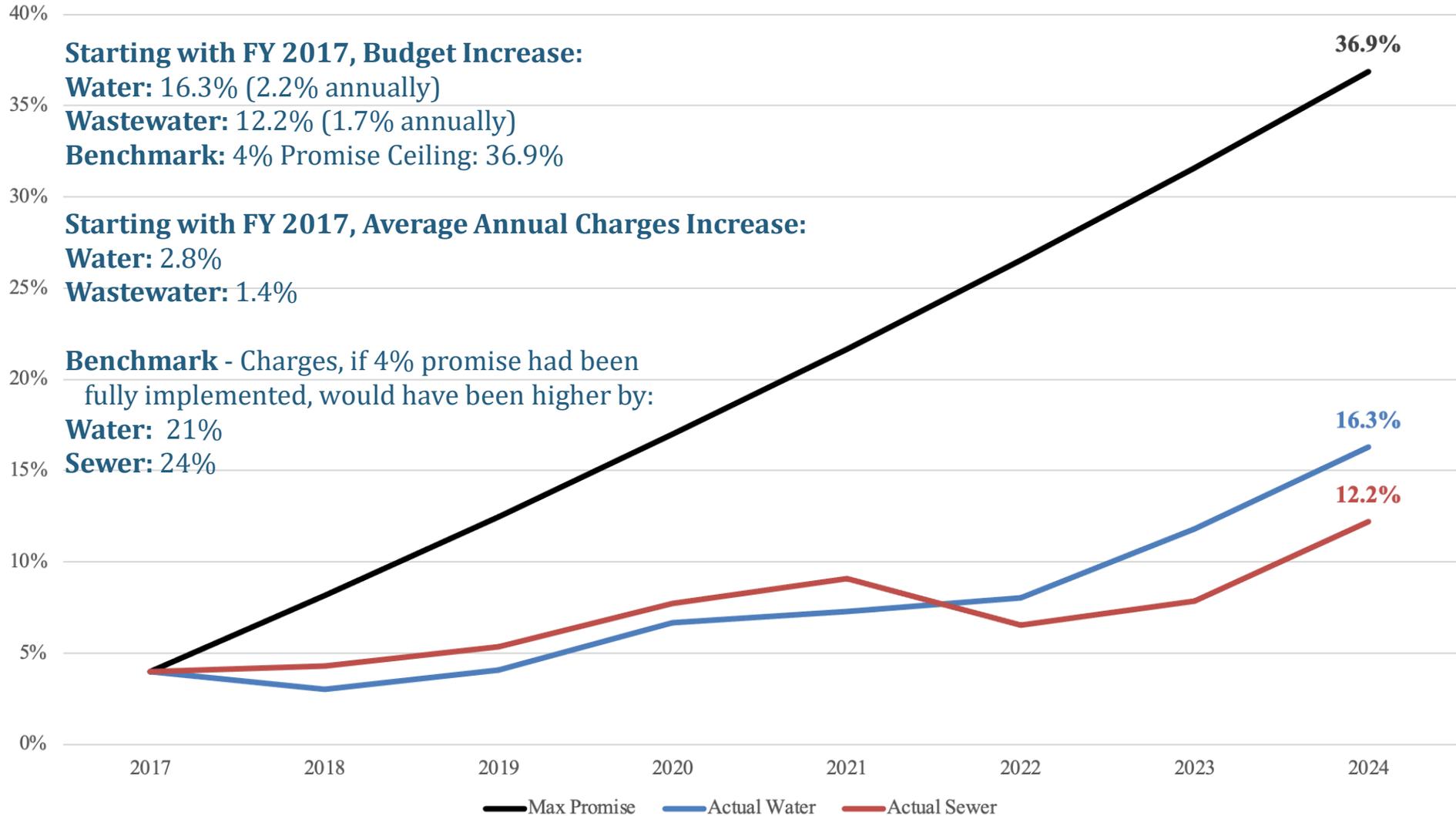
## ***No Discretion***

- Debt Service
- Lease
- Legacy Pension
- WRAP

# Reminder: 4% Promise = *Fixed Total Budget Ceiling*

- The 4% Promise in our founding documents relates to the “Revenue Requirement” which is the “total budget” (e.g. expenses and funding commitments such as legacy pension and lease)
  - **This is locked in thru FY 2025**
- When we refer to a “top line adjustment of 4%” - this is to the “total Revenue Requirement Budget” – *not charges*
- The total budgetary expenses and funding commitments, minus other income, is the revenue required from charges
  - On a “system-wide” basis the charges adjustment will inherently be less than 4% *IF the sum of other revenues is increasing* (e.g. investment income) and/or if a positive variance in sales volume occurs – and vice versa
- NOTE: Feasibility business case forecast for forming regional authority was debt service coverage (DSC) for the regional system of 1.7 for water and 1.7 for sewer achieved by FY 2020

# 4% Promise – Overdelivered on Expectations



# 4% Promise – Overdelivered on Expectations

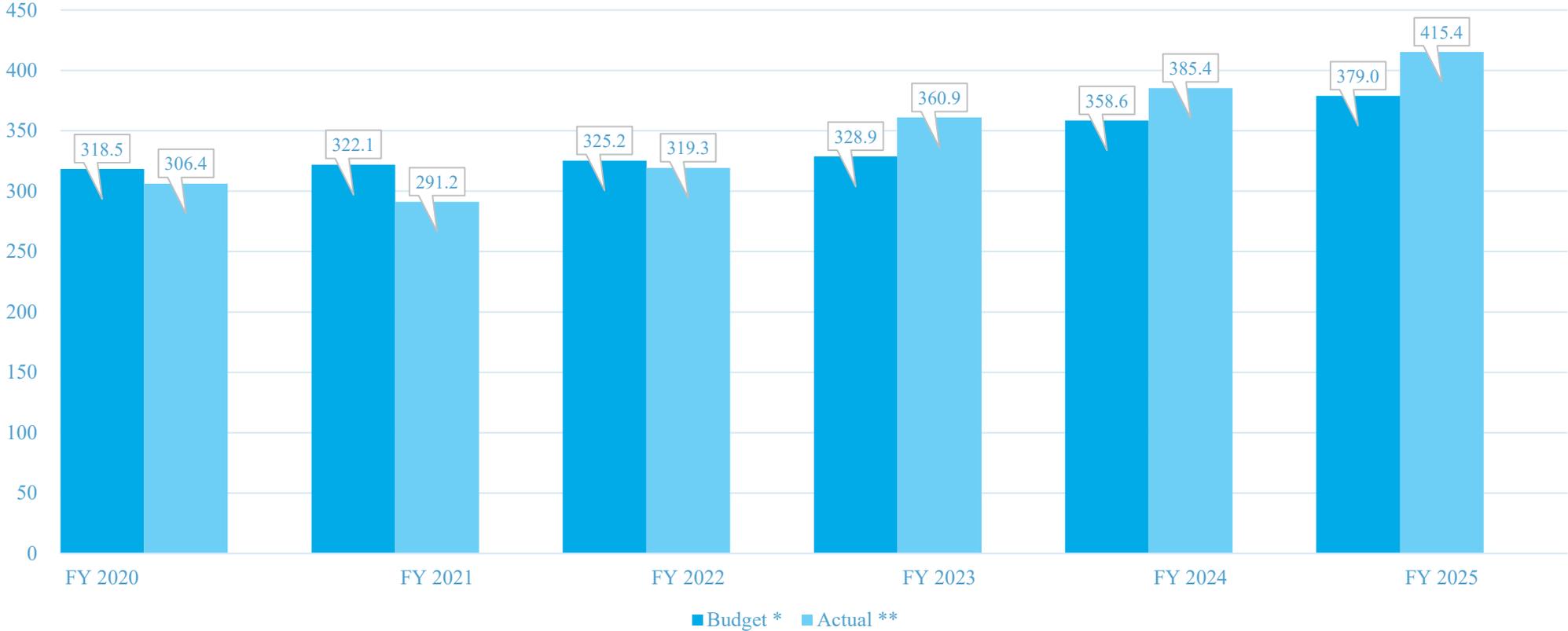
Starting with FY 2018,  
Average Annual Charges  
Increase:  
Water: 2.2%  
Wastewater: 0.9%

## Average System Charge Adjustments

Year	Water	Sewer
2018	1.8%	-0.7%
2019	1.8%	0.1%
2020	0.6%	0.8%
2021	3.2%	2.0%
2022	1.5%	-0.6%
2023	3.7%	2.4%
2024	2.75%	2.75%
7-Year Average	2.2%	0.9%

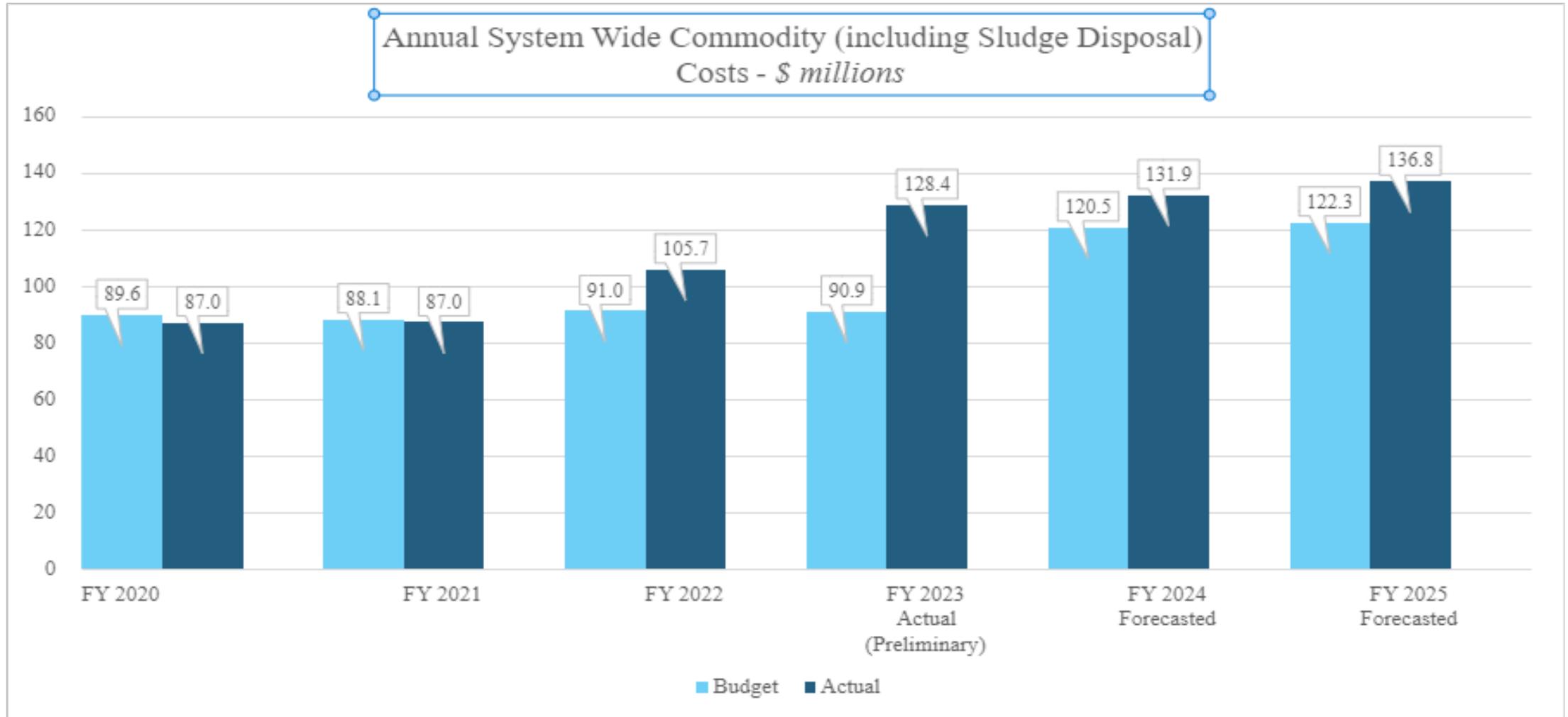
# Recent Trends in Operating Expense

Annual System Wide Operation and Maintenance Expenses - \$ millions



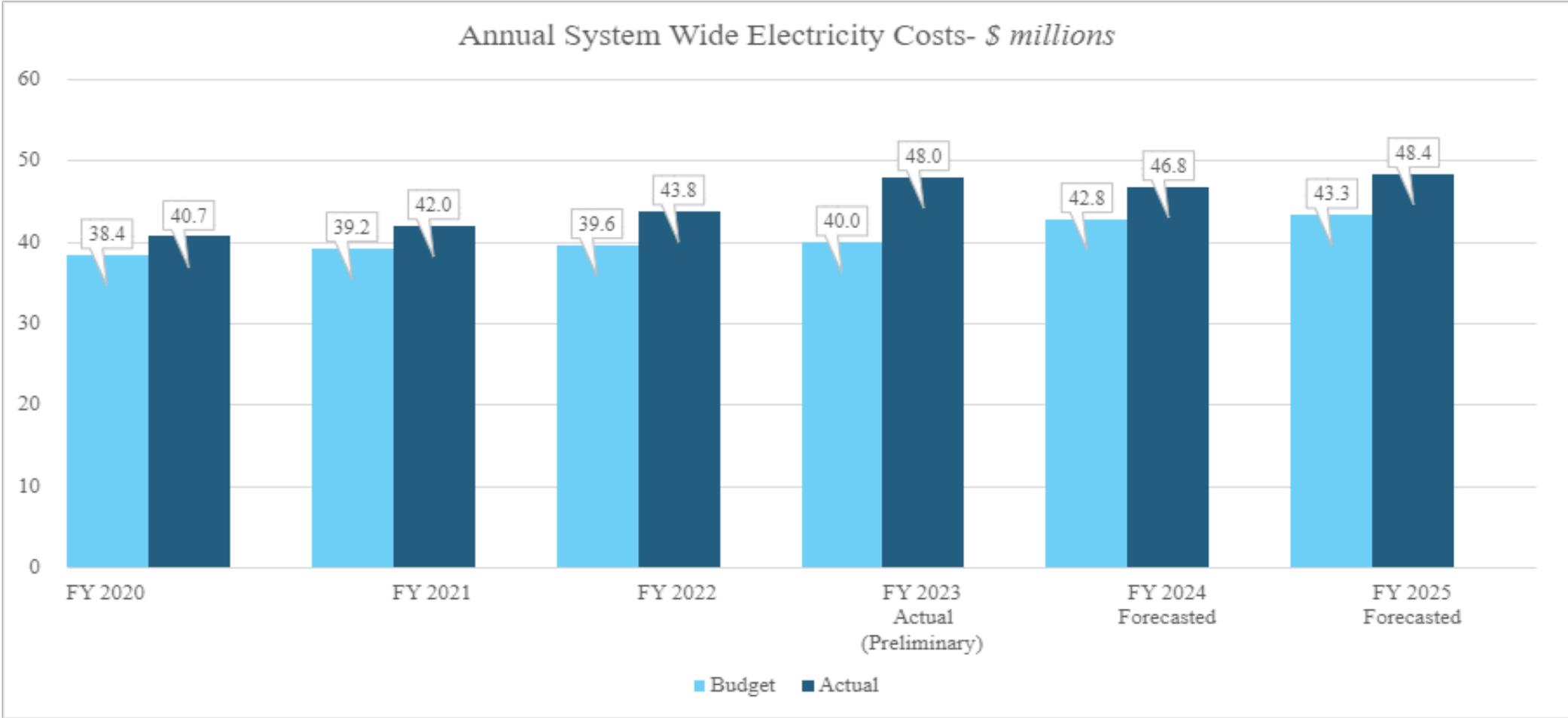
\* Budget figures reflect original Budget as adopted by the Board  
 \*\* Actuals for FY's 2023 - 2025 represent:  
 Amended FY 2023 Budget for FY 2023  
 Initial estimates of Amended FY 2024 Budget for FY 2024  
 Initial estimates of FY 2025 Budget for FY 2025

# Recent Trends in Operating Expense – Commodity Costs



\* Budget figures reflect original Budget as adopted by the Board  
 \*\* Actuals for FY's 2023 - 2025 represent:  
 Amended FY 2023 Budget for FY 2023  
 Initial estimates of Amended FY 2024 Budget for FY 2024  
 Initial estimates of FY 2025 Budget for FY 2025

# Recent Trends in Operating Expense – Electricity Costs



\* Budget figures reflect original Budget as adopted by the Board

\*\* Actuals for FY's 2023 - 2025 represent:

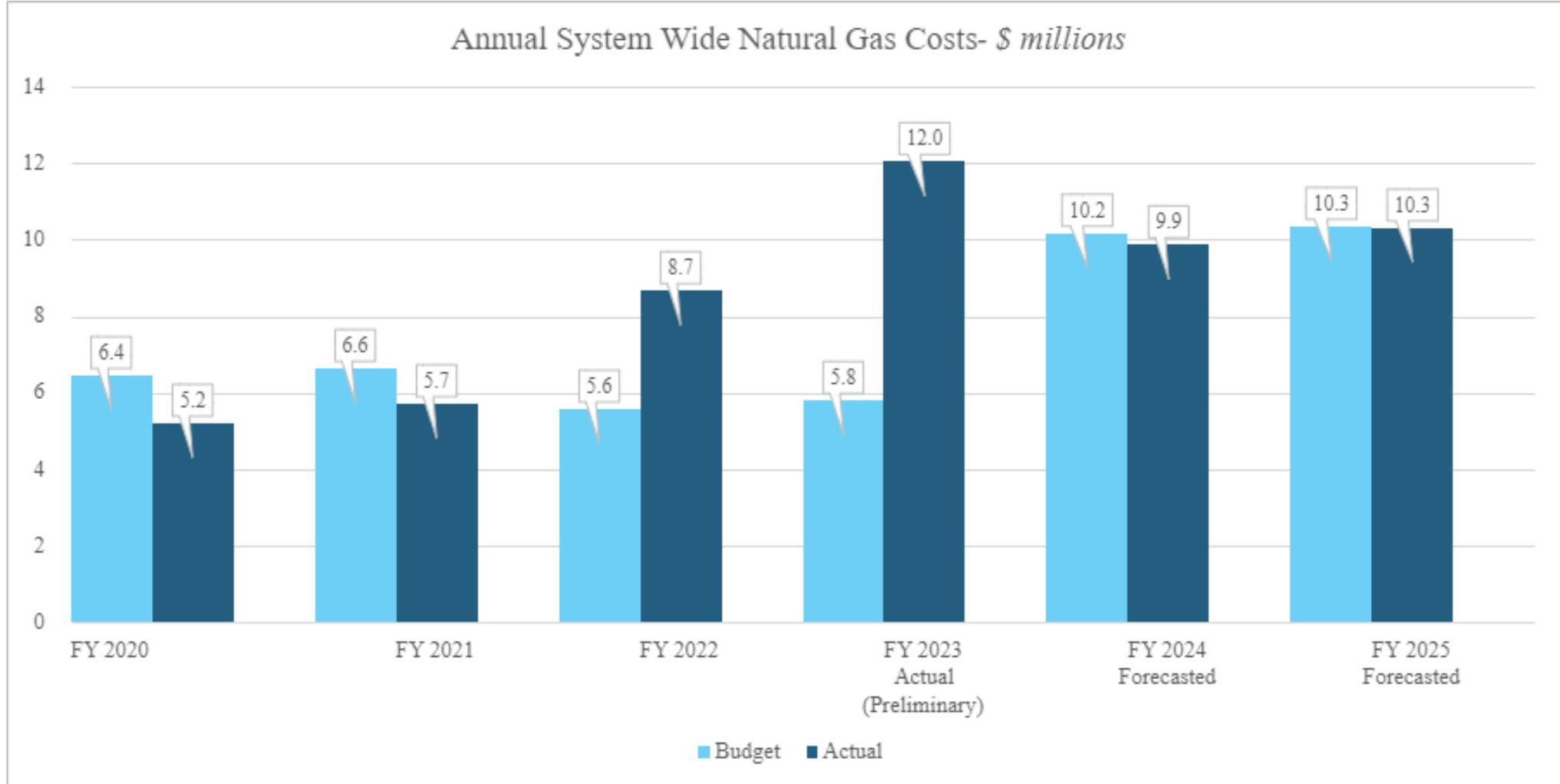
Amended FY 2023 Budget for FY 2023

Initial estimates of Amended FY 2024 Budget for FY 2024

Initial estimates of FY 2025 Budget for FY 2025



# Recent Trends in Operating Expense – Natural Gas Costs



\* Budget figures reflect original Budget as adopted by the Board

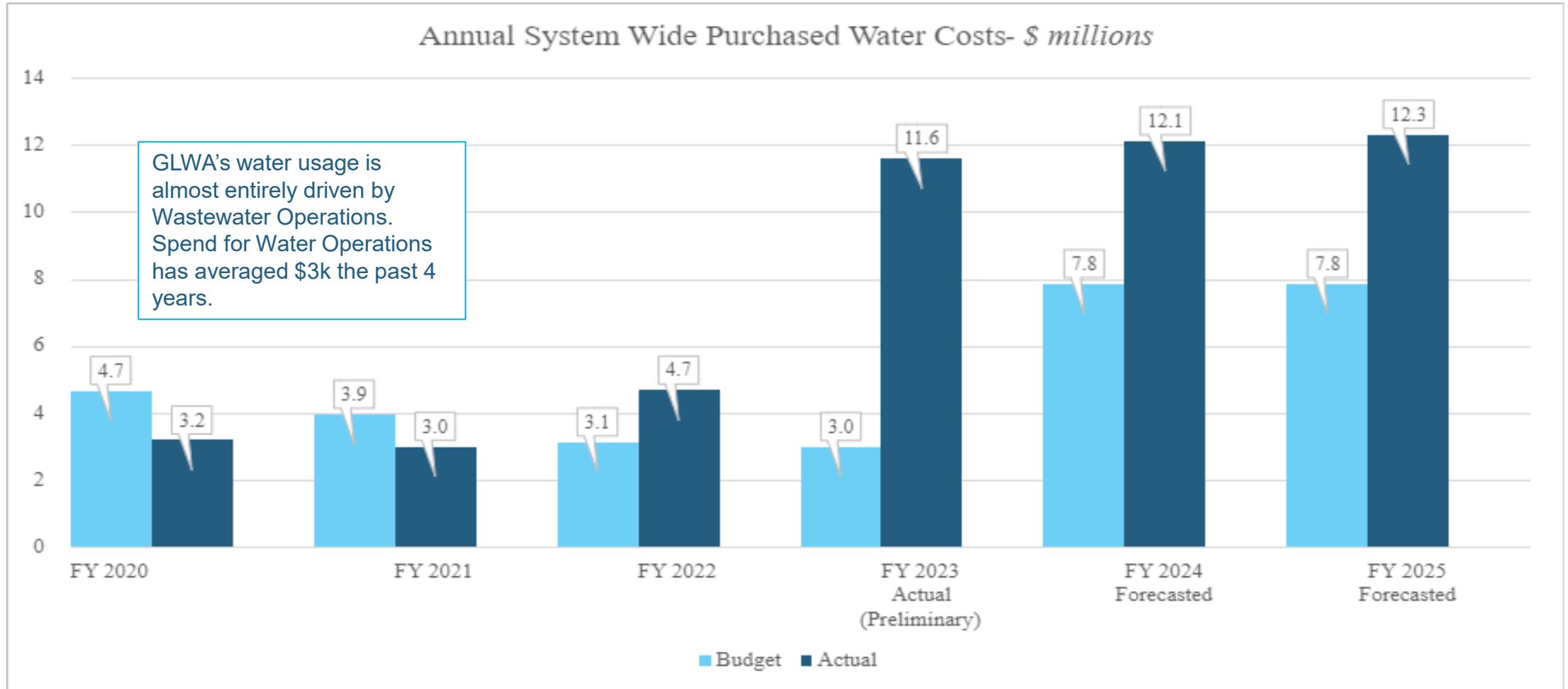
\*\* Actuals for FY's 2023 - 2025 represent:

Amended FY 2023 Budget for FY 2023

Initial estimates of Amended FY 2024 Budget for FY 2024

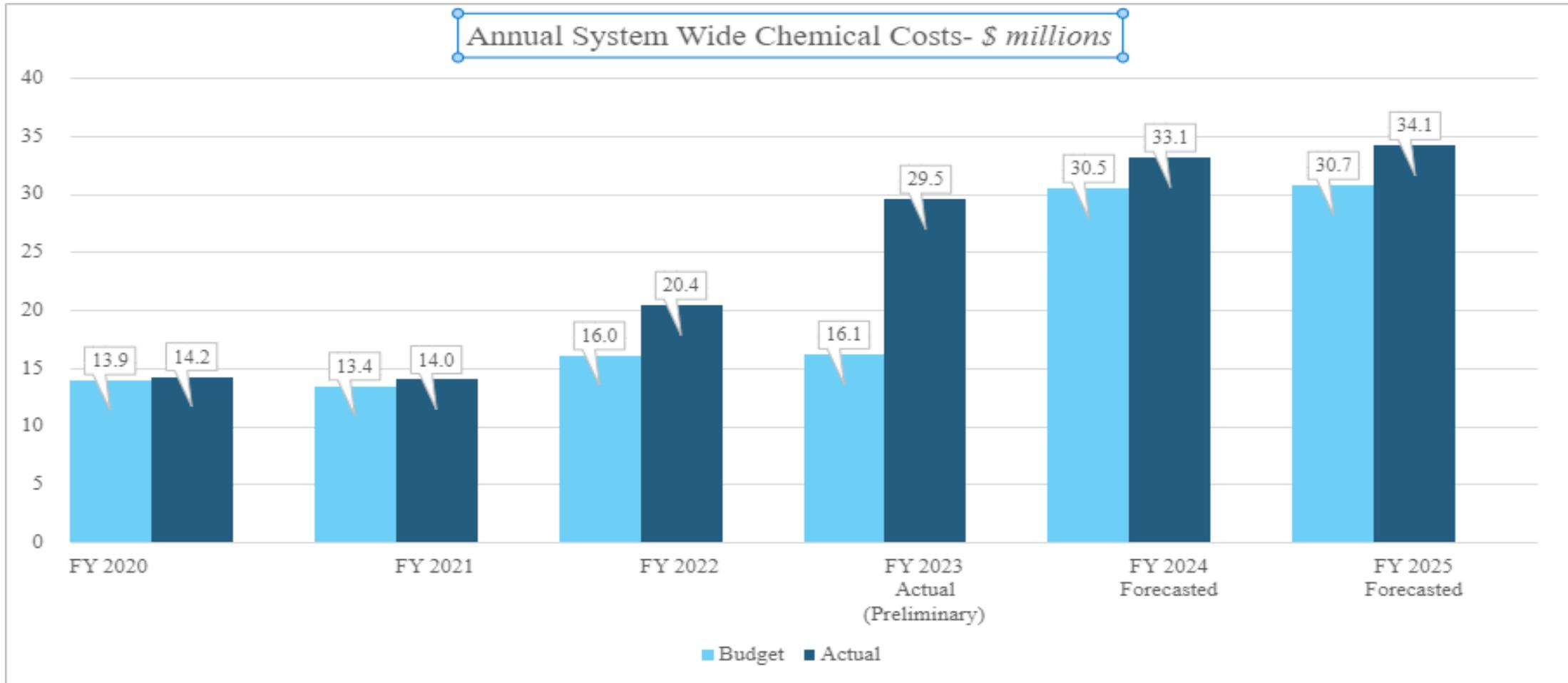
Initial estimates of FY 2025 Budget for FY 2025

# Recent Trends in Operating Expense – Water Costs



\* Budget figures reflect original Budget as adopted by the Board  
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 Amended FY 2023 Budget for FY 2023  
 Initial estimates of Amended FY 2024 Budget for FY 2024  
 Initial estimates of FY 2025 Budget for FY 2025

# Recent Trends in Operating Expense – Chemical Costs



\* Budget figures reflect original Budget as adopted by the Board  
 \*\* Actuals for FY's 2023 - 2025 represent:  
 Amended FY 2023 Budget for FY 2023  
 Initial estimates of Amended FY 2024 Budget for FY 2024  
 Initial estimates of FY 2025 Budget for FY 2025

# FY 2024 Q1 Water Revenue Underperforms

## GLWA WATER WHOLESALE MEMBER PARTNERS FY 2024 FORECAST VS ACTUAL USAGE AND REVENUE BASED ON WAMR DATA AS OF AUGUST 31, 2023

Month	FY 2024 - Charges		FY 2024 - Actuals/Forecasted			FY 2024 - Variance				
	Volume <i>Mcf</i>	Revenue <i>\$</i>	Volume <i>Mcf</i>	Revenue <i>\$</i>		Volume <i>Mcf</i>	Volume <i>%</i>	Revenue <i>\$</i>	Revenue <i>%</i>	
July	1,607,433	34,283,300	1,396,012	31,992,768	(2)	(211,421)	-13.2%	(2,290,532)	-6.7%	(2)
August	1,469,739	32,797,900	1,276,338	30,741,423	(2)	(193,401)	-13.2%	(2,056,477)	-6.3%	(2)
September	1,284,305	30,543,500	1,284,305	30,543,500	(3)	-	0.0%	-	0.0%	(3)
October	1,037,450	27,749,500	1,037,450	27,749,500	(3)	-	0.0%	-	0.0%	(3)

\$4.4M Shortfall in July and August 2023

# Trends in Capital Spending

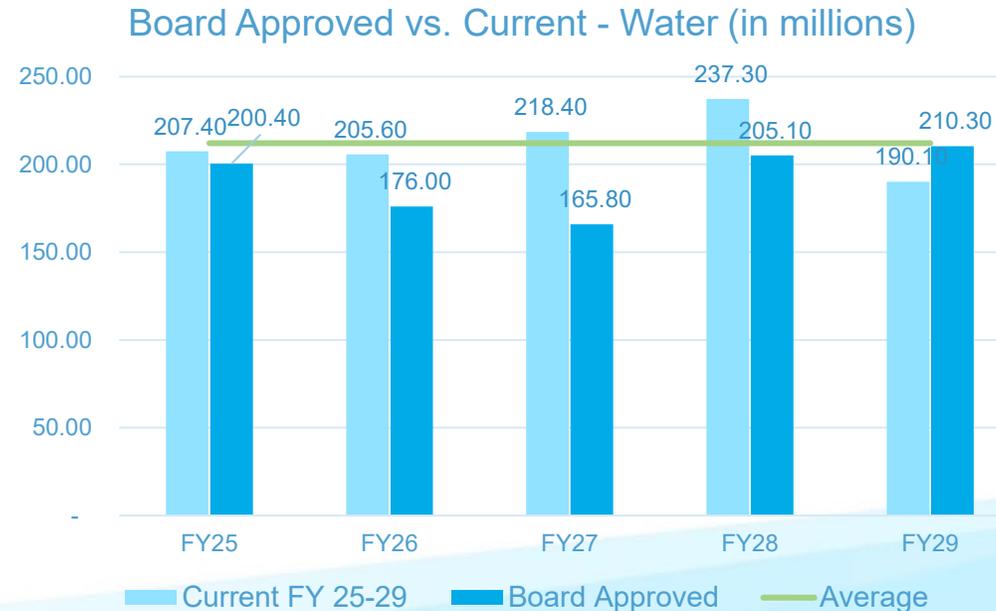
- 💧 Capital Planning Committee met on September 12, 2023
- 💧 The following two slides summarize the five-year CIP approved today with a proposed CIP aligned

# CIP Alignment Progress - Water

## 💧 FY 25-29 CIP – Alignment with Financial Plan

FY 25-29	Water					Total	Average
	FY 25	FY 26	FY 27	FY 28	FY 29	FY 25-29	FY 25-29
<b>Board Approved</b>	\$200.4 M	\$176 M	\$165.8 M	\$205.1 M	\$210.3 M	\$957.6 M	\$192 M
<b>Current Planning Scenario*</b>	\$207.4 M	\$205.6 M	\$218.4 M	\$237.3 M	\$190.1 M	\$1,058.8 M	\$212 M

\* As of July actuals and August 30, 2023, PMs cost and schedule update



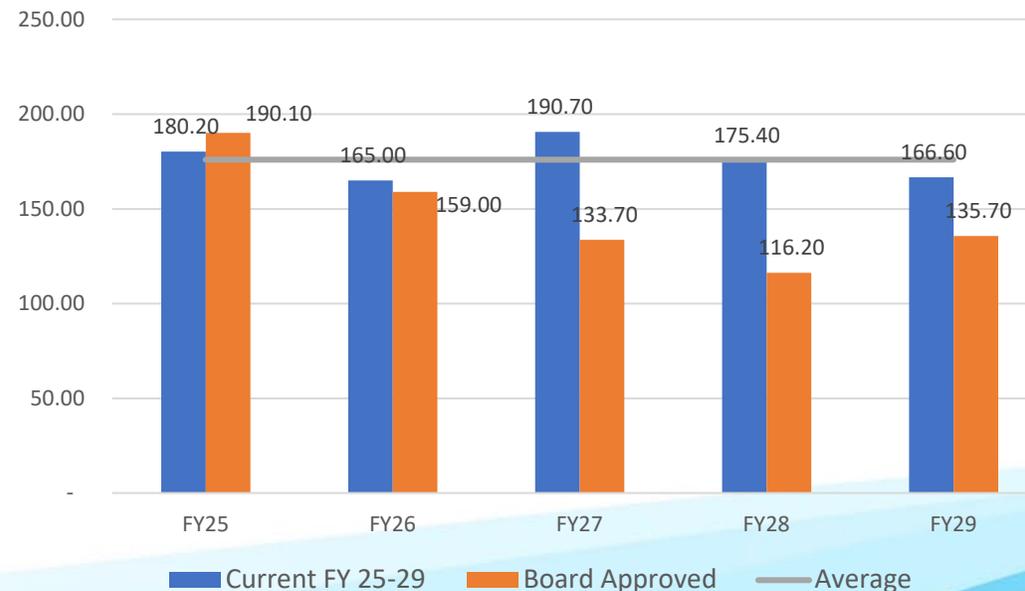
# CIP Alignment Progress - Wastewater

## 💧 FY 25-29 CIP- Alignment with Financial Plan

FY 25-29	Wastewater					Total	Average
	FY 25	FY 26	FY 27	FY 28	FY 29	FY 25-29	FY 25-29
<b>Board Approved</b>	\$190.1 M	\$159 M	\$133.7 M	\$116.2 M	\$135.7 M	\$734.7 M	\$147 M
<b>Current Planning Scenario*</b>	\$180.2 M	\$165 M	\$190.7 M	\$175.4 M	\$166.6 M	\$877.9 M	\$176M

\* As of July actuals and August 30, 2023, PMs cost and schedule update

Board Approved vs. Current - Wastewater (in millions)



# Steps Taken to Address Cost Increases

## A. O&M Budget Reduction

- Consideration of range on a) Chemicals, b) Utilities, c) Other
  - High, Medium, Low usage and related drivers
    - Evaluate financial risk level if we scale back budget
  - More in-depth commodity analysis / pricing forecasts
  - Strategies to reduce costs

## B. Financial Plan Re-Alignment

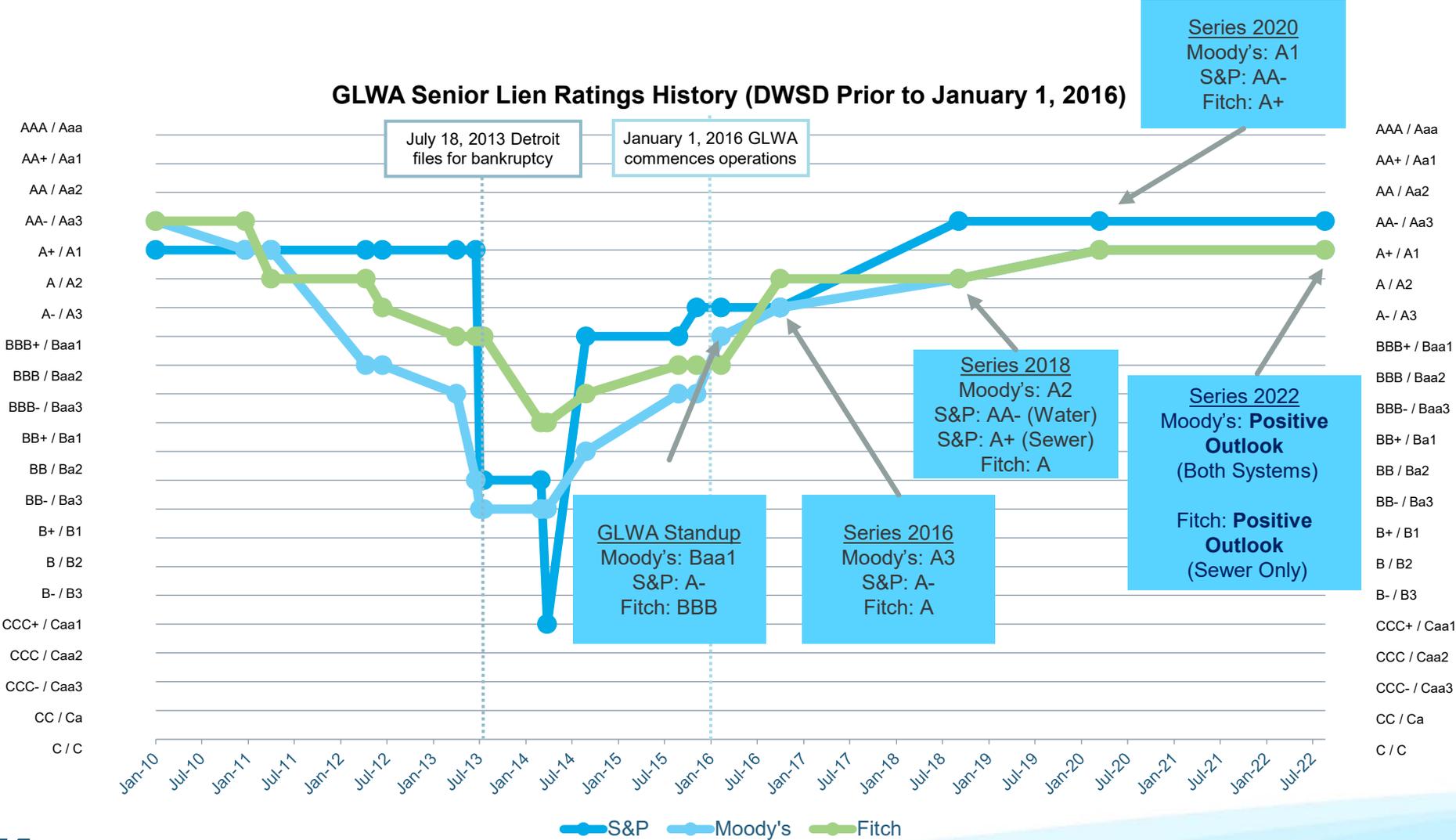
- Financial Plan provides an allowance for CIP spending - serves as a ceiling for CIP to provide for dynamic, but not material, variances
- O&M needs impact CIP spending and strategies

# Part 2 – Long-term Financial Plan

# Ten Year Financial Plan as a Roadmap

- The long-term plan is being updated to support the FY 2025 budget and charges
  - Adheres to the full 4% promise in FY 2025
  - Assumes larger increases in subsequent years to recover financial metrics
- Key Assumptions:
  - 100% Capital Spend Rate Assumption
  - Recognize anticipated O&M Expense increases for FY 2024 Amendments and FY 2025 Budget Request
  - 2.3% annual increases in O&M Expense (*ties to Economic Outlook Task Force estimate as of June report - will be updated to 2.4% in next draft of forecast*)
  - Bond Interest Rate = 5.0%, SRF Interest Rate (non-disadvantaged community) = 2.25% (*will be updated to 2.5% in next draft of forecast*)
  - Current forecast does not include any support from EGLE for SRF prioritization

# History of Senior Lien Water and Sewer Ratings



Note: in cases where a rating agency rates Water Senior and Sewer Senior Lien differently, chart displays highest of the two ratings

# Ten-year Financial Plan Update

# Ten-Year Forecast Executive Summary

Scenarios	Water	Sewer
Lease Feasibility Forecast – Assumes Maintenance of Projected DSC ratios of >1.70	Assumed achievement of 1.72 by FY 2020, inherently establishes minimum future expectation	Assumed achievement of 1.77 by FY 2020, inherently establishes minimum future expectation
February 2023 Forecast – Desired minimum DSC of 1.5 by FY 2028; 1.8 by FY 2033	Requires <u>6%</u> Budget increase in FY 2026 thru FY 2033;	Requires <u>5.0%</u> Budget increase in FY 2026 thru FY 2028; <u>3.0%</u> thereafter
August 2023 Forecast Update – Desired minimum DSC of 1.5 by FY 2028; 1.8 by FY 2033	Requires <u>7.5%</u> Budget increase in FY 2026 thru FY 2029; <u>6.0%</u> thereafter	Requires <u>5.5%</u> Budget increase in FY 2026 thru FY 2029; <u>3.5%</u> thereafter

**Debt Service Coverage (DSC)** is an overall measure of financial health that captures annual performance and funding reserves for financial resiliency. It is a key metric for bondholders and rating agencies with stated minimum levels in the Master Bond Ordinance.

**Note:** The annual % Budget increases indicated above refer to changes in annual budgeted revenue requirements, which is the index for which the 4% Promise applies. Actual changes in average charges will vary depending on changes in sales volumes and investment income.

# Water Ten Year Forecast Update

## PRELIMINARY EXECUTIVE SUMMARY FORECAST UPDATE - WATER

### Core Assumptions

#### BUDGET Adjustments

FY 2026 - FY 2029

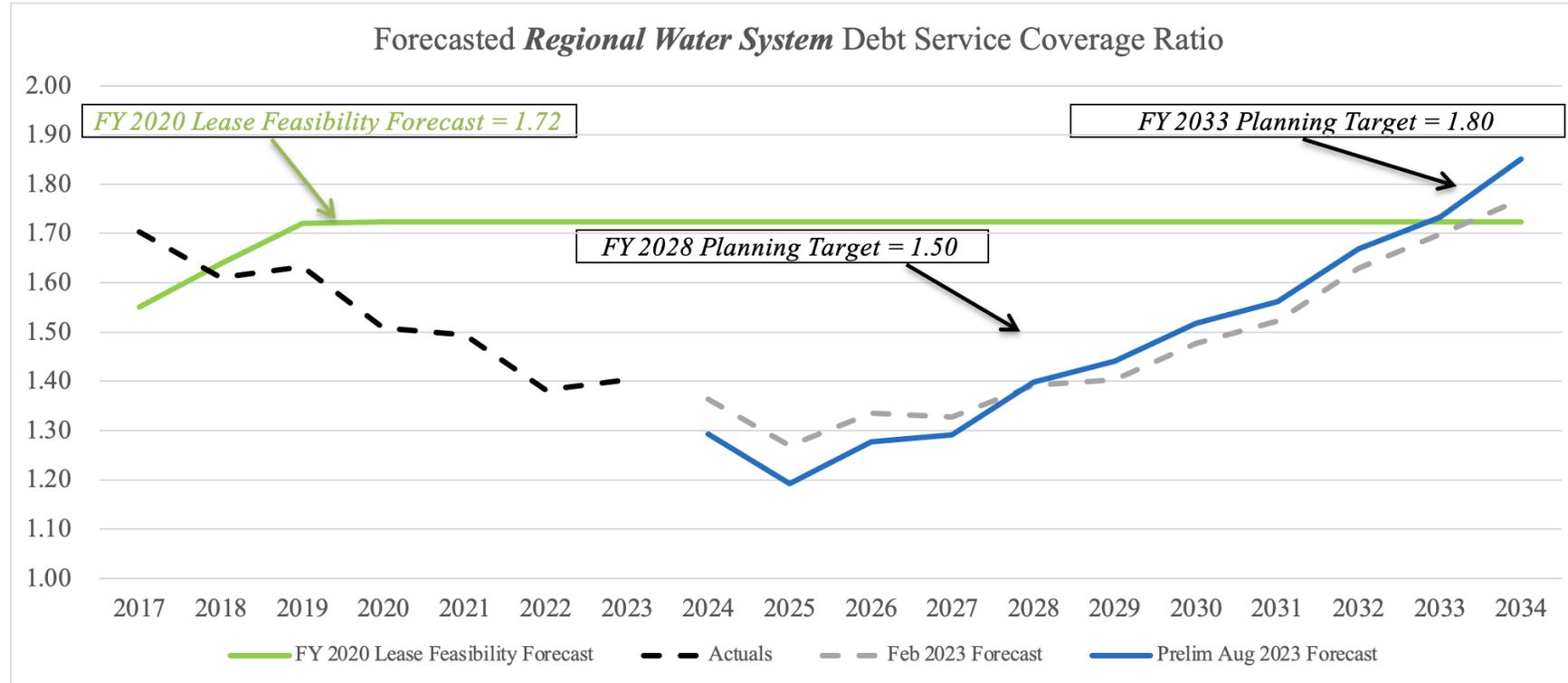
	February 2023 Budget	August 2023 Update
FY 2026 - FY 2029	6.00%	7.50%
FY 2030 - FY 2034	6.00%	6.00%
10 Yr Avg FY 2025 - 2034	5.8%	6.4%
Cum Avg Annual GLWA Launch -> (FY 2017 through FY 2034)	4.0%	4.4%

FY 2030 - FY 2034

10 Yr Avg FY 2025 - 2034

Cum Avg Annual GLWA Launch ->  
(FY 2017 through FY 2034)

Note - this chart illustrates forecasted **Regional System** Debt Service Coverage. "All in" Total Debt Service Coverage will likely be ~0.10 lower once debt service assigned to the **Local System**, and **Local System** Net Revenues are included.



### Cumulative Avg Annual Budget Increase

If 4% Promise Was Fully Implemented ->

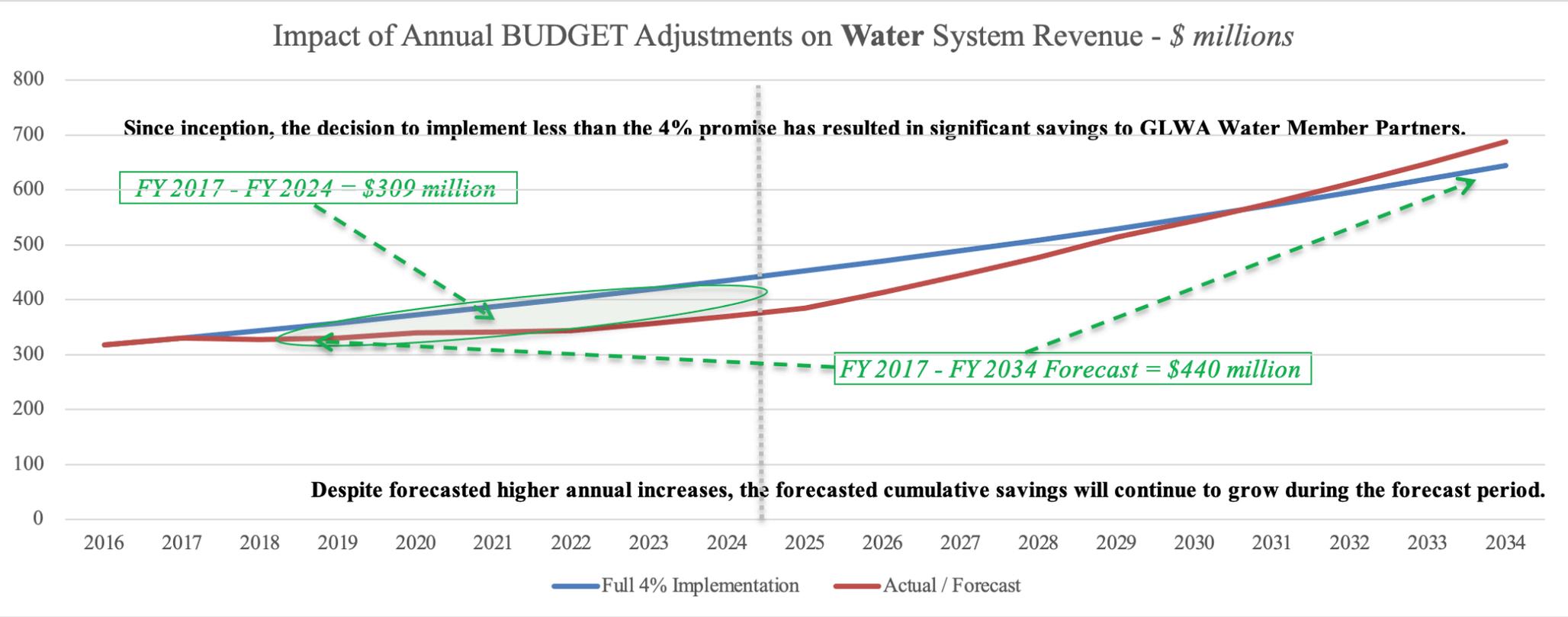
Actual & Preliminary Updated Forecast ->

Actual Budget Adjustments ->

Forecasted Budget Adjustments ->

4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
4.0%	1.5%	1.3%	1.6%	1.4%	1.3%	1.6%	1.9%	2.1%	2.7%	3.1%	3.5%	3.8%	3.9%	4.1%	4.2%	4.3%	4.4%	4.4%
4.0%	-0.9%	1.0%	2.5%	0.6%	0.7%	3.5%	4.0%											
								4.0%	7.5%	7.5%	7.5%	7.5%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%

# Water Forecast Update



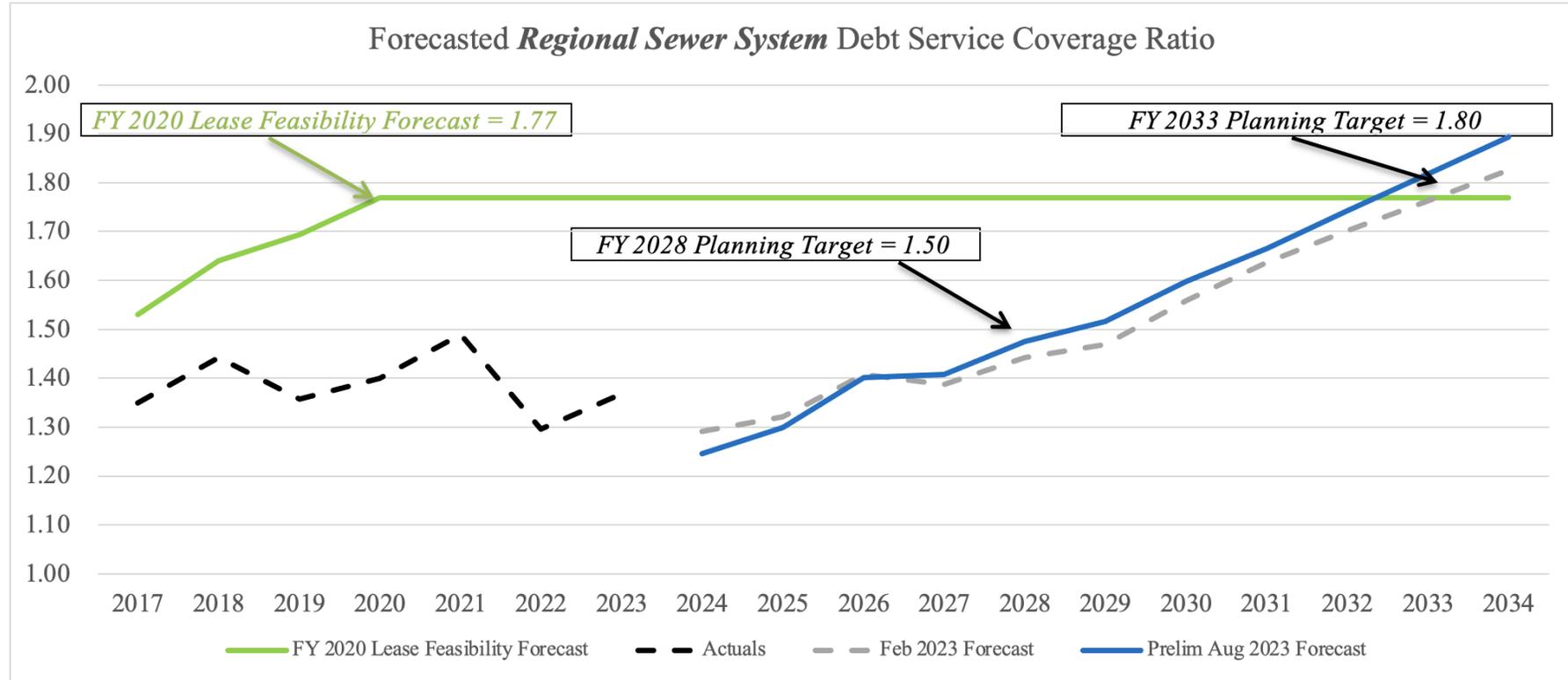
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Full 4% Implementation	318	331	344	358	372	387	402	418	435	453	471	490	509	529	551	573	596	619	644
Actual / Forecast	318	331	328	331	339	341	344	356	370	385	413	444	478	514	544	577	612	648	687
Revenue Variance	0	0	16	27	33	46	59	63	65	68	57	45	31	16	6	(4)	(16)	(29)	(43)
Cum Rev Variance	0	0	16	43	76	122	180	243	309	377	434	479	511	526	533	528	512	483	440



# Sewer Ten Year Forecast Update

## PRELIMINARY EXECUTIVE SUMMARY FORECAST UPDATE - SEWER

Core Assumptions	February 2023 Budget	August 2023 Update
<b>BUDGET Adjustments</b>		
FY 2026 - FY 2029	<b>5.00%</b>	<b>5.50%</b>
FY 2030 - FY 2034	<b>3.00%</b>	<b>3.50%</b>
10 Yr Avg FY 2025 - 2034	3.7%	4.3%
Cum Avg Annual GLWA Launch -> (FY 2017 through FY 2034)	2.7%	3.0%

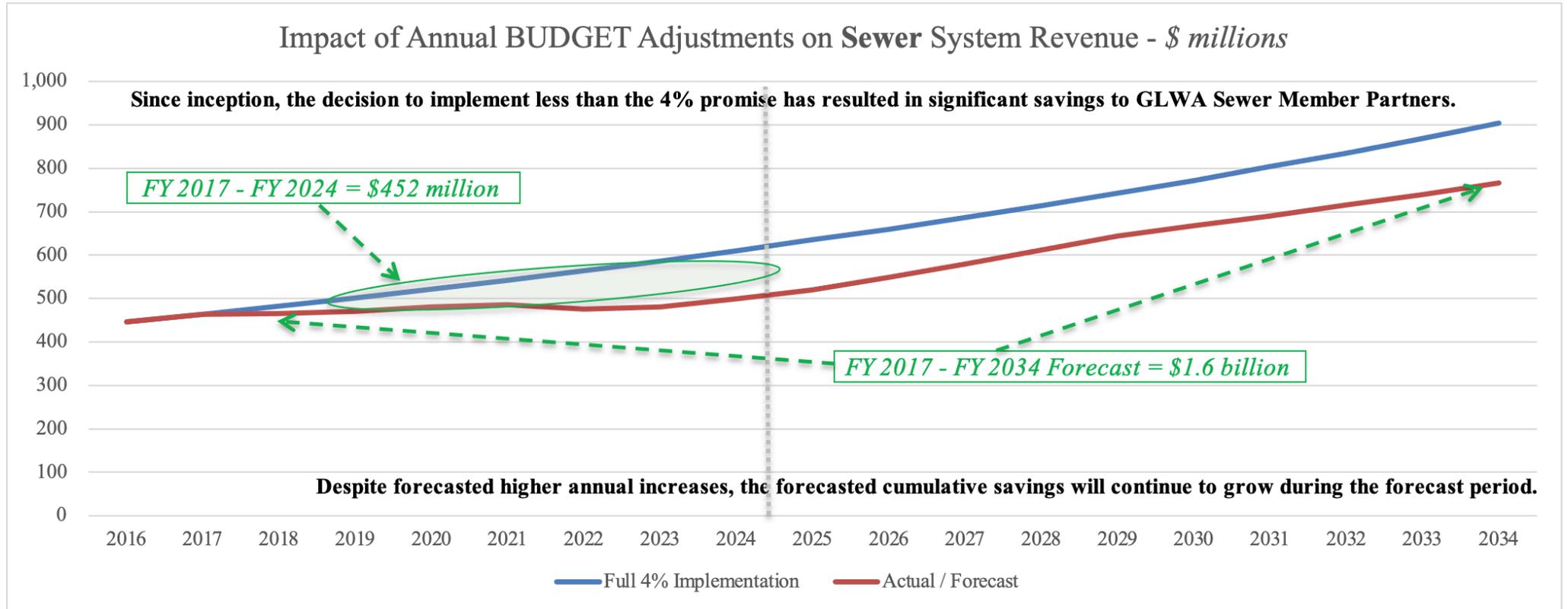


Note - this chart illustrates forecasted **Regional System** Debt Service Coverage. "All in" Total Debt Service Coverage will likely be ~0.10 lower once debt service assigned to the **Local System**, and **Local System** Net Revenues are included.

### Cumulative Avg Annual Budget Increase

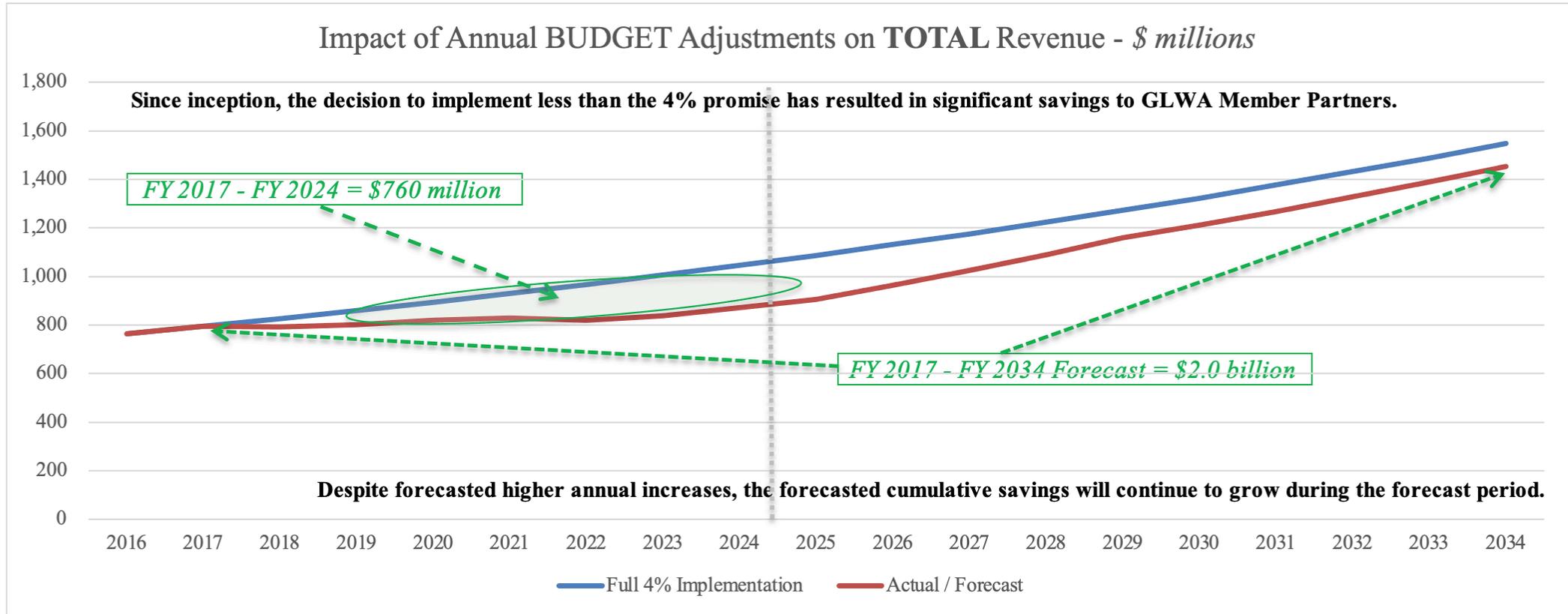
If 4% Promise Was Fully Implemented ->	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Actual & Preliminary Updated Forecast ->	4.0%	2.1%	1.8%	1.9%	1.8%	1.1%	1.1%	1.4%	1.7%	2.1%	2.4%	2.7%	2.9%	2.9%	3.0%	3.0%	3.0%	3.0%	3.0%
Actual Budget Adjustments ->	4.0%	0.3%	1.0%	2.2%	1.3%	-2.3%	1.3%	4.0%											
Forecasted Budget Adjustments ->									4.0%	5.5%	5.5%	5.5%	5.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

# Sewer Forecast Update



	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Full 4% Implementation	446	464	482	502	522	543	564	587	610	635	660	687	714	743	772	803	835	869	904
Actual / Forecast	446	464	465	470	480	486	475	481	500	520	549	579	611	645	667	691	715	740	766
Revenue Variance	0	0	17	32	41	56	89	106	110	114	111	107	103	98	105	113	121	129	138
Cum Rev Variance	0	0	17	49	90	147	236	342	452	566	677	785	888	986	1,091	1,204	1,324	1,453	1,591

# Total GLWA Forecast Update



	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Full 4% Implementation	764	795	826	859	894	930	967	1,005	1,046	1,087	1,131	1,176	1,223	1,272	1,323	1,376	1,431	1,488	1,548
Actual / Forecast	764	795	793	801	820	828	819	837	870	905	962	1,024	1,089	1,158	1,212	1,268	1,326	1,388	1,453
Revenue Variance	0	0	33	59	74	102	148	169	175	182	169	153	134	114	111	108	105	100	95
Cum Rev Variance	0	0	33	92	166	268	416	585	760	943	1,111	1,264	1,398	1,512	1,624	1,732	1,837	1,937	2,031

# Part 3 – Charges

# What's New for Upcoming Charges Season

- FY 2025 **Sewer** SHARES and Charges are scheduled to be updated
  - Existing Charges are based on FY 2022 SHARES
  - FY 2025 is regularly scheduled “reset” update – will embrace new information on Member Partner flow contributions and GLWA Cost of Service Study
  - May result in differential impacts on individual Member Partner Charges
- FY 2025 **Water** SHARES and Charges are not scheduled to reflect updated information
  - Existing Charges are based on FY 2024 SHARES, which reflected the first full “reset” since FY 2020 update – next scheduled “reset” is FY 2028 Charges
  - Charges may need to reflect potential contract demand exceedances
  - Not expecting recommended methodology changes for FY 2025 to emerge from Methodology Review
  - Likely uniform adjustment to individual Member Partner Charges

# Discussion