



THE FOSTER GROUP

P.O. BOX 26282
LEAWOOD, KS 66225
TEL: (913) 345-1410
FAX: (913) 345-1640

THE FOSTER GROUP, LLC
BART FOSTER, PRESIDENT
CELL: (913) 530-6240
BFOSTER@FOSTERGROUPLLC.COM

MEMORANDUM

Proposed FY 2020 Budget/Charges
Potential Modifications

February 25, 2019

To: Nicolette Bateson

From: Bart Foster

You have asked for observations regarding potential final modifications to the FY 2020 Budget request, and the possible impact on Customer charges. The accompanying exhibit illustrates the initial results of our analysis. Herewith a brief introduction.

For purposes of this analysis we have assumed that the overall GLWA operating expense budget would be reduced by \$5 million, and that the overall FY 2020 revenue requirement would be reduced by a like amount. We have further assumed that the \$5 million reduction would be applied “proportionally” to the Water and Sewer Systems, which results in a \$2 million reduction for the Water System and a \$3 million reduction for the Sewer System. Finally, we have assumed that the specific budget reductions would occur in the Water Operations and Wastewater Operations Groups, so as to mitigate impacts on customer specific cost pools by adjusting those budgeted costs that most closely align with “common to all” cost pools, etc.

We’ve also evaluated the potential impact of reversing the originally proposed treatment of certain GLWA Sewer Facilities with respect to their status as either DWSD retail water customers (current) or internal GLWA water customers.

The exhibit illustrates the following executive summary messages:

Water

- Scenario 1 represents the originally proposed budgeted revenue requirements and charges.
- Scenario 2 reflects a \$2 million reduction in the Water O&M Budget, which represents ~ 0.6% reduction in revenues required from Charges.
- This adjustment could either be made:
 - “across the board” as a uniform 0.6% reduction to all Customer Charges; or
 - via specific Customer Charge adjustments resulting from an updated cost of service analysis.

- If the latter, the impact on Suburban Wholesale Customers ranges from a 0.16% reduction to a 0.74% reduction. *(See Lines 8-10. Note this excludes some outlier data for very small Customers.)*
 - The wholesale reduction for the Detroit Customer class (Line 11) is slightly larger than average reduction for the Suburban Wholesale class because more of Detroit's revenue requirement is related to treatment, which is where the targeted budget reduction is applied in this analysis.
- Scenario 3 reflects reversing the currently proposed approach to GLWA Sewer facilities (as internal GLWA water customer). This change would not impact the suburban class at large (by design) but would have minor impacts on individual Customers if cost of service allocations were recalculated.
- The combined average and minimum / maximum range is shown in Columns 8 and 9.
- We've also added the additional impact on Detroit revenues for Scenario 3, as shown on Lines 12 and 13.

Sewer

- Same basic approach and illustration as Water.
- Scenario 2 reflects a \$3 million reduction in the Sewer O&M Budget, which represents ~ 0.6% reduction in revenues required from Charges.
- This adjustment could either be made:
 - "across the board" as a uniform 0.6% reduction to all Customer Charges; or
 - via specific Customer Charge adjustments resulting from an updated cost of service analysis.
- If the latter, the impact on Suburban Wholesale Customers ranges from a 0.50% reduction to a 0.62% reduction. *(See Lines 21-23.)*
- Scenario 3 - Reversing current approach to GLWA Sewer facilities (as internal GLWA water customer) would initially offset \$2.2 million of the \$3.0 million budget reduction. Would have slightly differential impacts.

Please note that this initial analysis is intended to be responsive to the "what if" question as we understand it, and as set forth by the assumptions above. Alternative assumptions could lead to slightly different results. We are prepared to discuss this matter at your convenience.

Proposed FY 2020 GLWA Charges - Potential Final Adjustment Scenario Analysis

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Scenario 1	Scenario 2 - Reduce O&M Budget			Scenario 3 - Reverse GLWA Facility Change			Combined Impact		
Originally Proposed	Budget	Adjusted	Scenario	Budget	Adjusted	Scenario	Budget	Scenario	
\$	\$	\$	% Change	\$	\$	% Change	\$	% Change	
WATER									
Revenue Requirements									
1 Operating Expense	133,490,500	(2,000,000)	131,490,500	-1.50%	0	131,490,500	0.00%	(2,000,000)	-1.50%
2 MBO Requirements	178,093,900	0	178,093,900	0.00%	0	178,093,900	0.00%	0	0.00%
3 I&E Contribution	30,098,600	0	30,098,600	0.00%	0	30,098,600	0.00%	0	0.00%
4 Gross Revenue Requirements	341,683,000	(2,000,000)	339,683,000	-0.59%	0	339,683,000	0.00%	(2,000,000)	-0.59%
5 less: Internal Revenue	(1,438,000)	0	(1,438,000)	0.00%	1,438,000	0	-100.00%	1,438,000	-100.00%
6 less: Non-Operating Income	(9,083,300)	0	(9,083,300)	0.00%	0	(9,083,300)	0.00%	0	0.00%
7 Net Revenue Requirements	331,161,700	(2,000,000)	329,161,700	-0.60%	1,438,000	330,599,700	0.44%	(562,000)	-0.17%
Impact on Suburban Wholesale									
8 Average	312,228,600	(1,695,500)	310,533,100	-0.54%	14,100	310,547,200	0.00%	(1,681,400)	-0.54%
9 Minimum (excl small Customer anomalies)				-0.74%			-0.17%		-0.83%
10 Maximum (excl small Customer anomalies)				-0.16%			0.33%		-0.03%
Impact on Detroit									
11 Gross Wholesale Revenue Req't	40,817,100	(312,900)	40,504,200	-0.77%	1,423,600	41,927,800	3.51%	1,110,700	2.72%
12 less: Additional Retail Revenue					(3,507,800)			(3,507,800)	
13 Net Impact on Detroit - \$		(312,900)			(2,084,200)			(2,397,100)	
SEWER									
Revenue Requirements									
14 Operating Expense	187,968,700	(3,000,000)	184,968,700	-1.60%	2,188,500	187,157,200	1.18%	(811,500)	-0.43%
15 MBO Requirements	268,147,900	0	268,147,900	0.00%	0	268,147,900	0.00%	0	0.00%
16 I&E Contribution	26,706,400	0	26,706,400	0.00%	0	26,706,400	0.00%	0	0.00%
17 Gross Revenue Requirements	482,823,000	(3,000,000)	479,823,000	-0.62%	2,188,500	482,011,500	0.46%	(811,500)	-0.17%
18 less: Internal Revenue	0	0	0	0.00%	0	0	0.00%	0	0.00%
19 less: Non-Operating Income	(8,730,600)	0	(8,730,600)	0.00%	0	(8,730,600)	0.00%	0	0.00%
20 Net Revenue Requirements	474,092,400	(3,000,000)	471,092,400	-0.63%	2,188,500	473,280,900	0.46%	(811,500)	-0.17%
Impact on Suburban Wholesale									
21 Average	268,673,400	(1,462,200)	267,211,200	-0.54%	1,370,800	268,582,000	0.51%	(91,400)	-0.03%
22 Minimum				-0.62%			0.39%		-0.21%
23 Maximum				-0.50%			0.54%		-0.01%
Impact on Detroit									
24 Gross Wholesale Revenue Req't	191,634,800	(1,158,800)	190,476,000	-0.60%	790,600	191,266,600	0.42%	(368,200)	-0.19%
25 less: Additional Retail Revenue					0			0	
26 Net Impact on Detroit - \$		(1,158,800)			790,600			(368,200)	
27 Impact on Industrial Specific	13,784,000	(378,400)	13,405,600	-2.75%	27,100	13,432,700	0.20%	(351,300)	-2.55%

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