



Financial Services Audit Committee Communication

Date: February 13, 2023

To: Great Lakes Water Authority Audit Committee

From: Lisa L. Mancini, Financial Planning & Analysis Manager

Re: Recommendation to Approve the FY 2024 & FY 2025 Biennial Budget Resolution and the Resolution for the Proposed FY 2024 Schedule of Charges

Background: In accordance with service agreements with the Great Lakes Water Authority (GLWA) member partners, the budget and charges for the next fiscal year are annually presented in January each year. To accommodate that schedule, the upcoming year's budget is presented to the Audit Committee within the context of the biennial budget and five-year financial plan as well as a ten-year forecaster in December. Subsequently, the Audit Committee conducts a review of the budget and related analysis typically in January (this year the meeting was rescheduled to February).

At the December 16, 2022 Audit Committee meeting, a discussion draft of the FY 2024 & FY 2025 Biennial Budget and Five-Year Plan was presented. This draft focused on a) overall strategy of key budget elements including system-wide service charges and b) proposed operating group budgets.

On January 25, 2023 the Board of Directors received a presentation related to the FY 2024 & FY 2025 Biennial Budget and Five-Year Plan and FY 2024 Charges. The proposed Budget for FY 2023 & FY 2024 was presented at the Charges Rollout meetings with Member Partners on January 12, 2023 (Charges Rollout Meeting #3), as it relates to the proposed Schedule of Charges, and reviewed further on January 19, 2023 (Charges Rollout Meeting #4).

Analysis: As we have previously discussed since last year, the FY 2024 & FY 2025 Biennial Budget is being prepared during a very dynamic and economically challenging time. For this reason, some budget data points previously presented to you have changed. The nature of those changes are outlined below. Note that none of these changes in the financial plan impact the proposed charges for FY 2024.

1. Debt Service

- a. Debt service for the sewer system *increased* to reflect new information on the sole variable rate outstanding debt instrument. The assumed interest rate on these variable rate bonds has increased from 2.6% to 4.0%, creating a \$3.35 million increase compared to the original budget. The changes in the variable

- rate also impact FY 2025 and will have an impact on FY 2023 as budget amendments are considered.
- b. Debt service was also decreased for both systems to reflect new information regarding activity on SRF loans.
 - c. In total, net changes to FY 2024 debt service result in a decrease in the water system of \$340,900 and an increase in the sewer system of \$3.3 million.
2. The Draft 2 Capital Improvement Plan for FY 2024 thru FY 2028 placed increased spending pressure on FY 2024 and FY 2025 of the proposed budget due to the increased pace of delivery and cost of the capital program. After intensive review of the CIP and the financial and economic outlook, the long-term financial plan was updated and is attached to achieve alignment between both the financial and capital plans. The Draft 2 CIP was presented to the Board Capital Planning Committee on January 18, 2023 and is recommended by the Committee for approval by the Board of Directors. These changes do not impact the overall FY 2024 revenue requirement but do modify the forecast starting in FY 2025.
 3. Contribution to the sewer Improvement & Extension (I&E) Fund decreased a corresponding amount to address the variable rate increase in debt service.
 4. Additional inputs from the Detroit Water & Sewerage Department (DWSD) were obtained that are critical to calculating debt service coverage and updating the consolidated budget schedules.

Additional analysis prepared and provided includes the following.

1. Updated and New Pages for the Proposed FY 2024 & FY 2025 Biennial Budget & Five-Year Financial Plan FY 2024 through FY 2028 - Sections either updated or added to the [Draft 1 - Biennial Budget](#) dated December 16, 2022 and presented to the Audit Committee meeting on that same date.
2. Proposed Resolutions related to the adoption of the FY 2024 & FY 2025 Biennial Budget and the approval of the FY 2024 Schedule of Service Charges.
3. Long-term Financial Forecast Updated dated February 2, 2023
4. Charges Rollout Meeting Presentations

The materials for the proposed FY 2024 & FY 2025 Biennial Budget and proposed FY 2024 Schedule of Charges are now complete. Attached are drafts of the proposed Board Letters and Resolutions for the following.

1. Adoption of the FY 2024 & FY 2025 Biennial Budget (*see page 63*)
2. Approval of the FY 2024 Schedule of Service Charges (*see page 75*)



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The information included in these draft documents have been updated to reflect the revisions made for Draft 2 of the budget released for the Audit Committee meeting on February 13, 2023. Note Draft 2 preserves the overall budget increase of 4.0% and system wide charge increase of approximately 2.75% consistent with Draft 1 of the budget.

Proposed Action: Audit Committee recommends that the Board of Directors adopts the resolution related to the FY 2024 and FY 2025 Biennial Budget and related FY 2024 Schedule of Charges as reflected in this report subject to public comment at the public hearing to be held on February 22, 2023.