



**Audit Committee  
Special Meeting**

**Friday, January 5, 2018 at 8:00 a.m.**

5th Floor Board Room, Water Board Building  
735 Randolph Street, Detroit, Michigan 48226  
*GLWater.org*

**AGENDA**

1. CALL TO ORDER
2. ROLL CALL
3. APPROVAL OF AGENDA
4. APPROVAL OF MINUTES
  - A. December 15, 2017 (Page 1)
5. PUBLIC PARTICIPATION
6. OLD BUSINESS
  - A. Update: Charges Rollout – Preliminary FY 2019 & FY 2020 Budget & Five Year Financial Plan (Page 5)
  - B. Update – Charges Rollout – Customer Contract Status (Page 9)
  - C. Update: Charges Rollout - The Foster Group Charges Development Update
7. NEW BUSINESS
  - A. None
8. REPORTS
  - A. CFO Updates (verbal)
    - Audit extension request to February 28, 2018 granted by State Treasurer
9. LOOK AHEAD
  - Next Audit Committee Meeting – January 19, 2018 at 8 am (Regular Meeting)
10. INFORMATION
11. OTHER MATTERS
12. ADJOURNMENT

Please note: Item 6A is accompanied by a separate 11x17 handout:  
*Audit Committee Binder 1.5.2018 Supporting 11 x 17 Worksheets*



# Great Lakes Water Authority

735 Randolph Street  
 Detroit, Michigan 48226  
 glwater.legistar.com

## Meeting Minutes

### Audit Committee

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Friday, December 15, 2017

8:00 AM

Water Board Building 5th Floor

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#### 1. Call To Order

Chairman Baker called the meeting to order at 8:15 a.m.

#### 2. Quorum Call

**Present:** 3 - Chairman Brian Baker, Director Robert Daddow, and Director Abe Munfakh

#### 3. Approval of Agenda

Chairman Baker requested a Motion to approve the Agenda.

**Motion By:** Robert Daddow, **Support By:** Abe Munfakh

**Action:** Approved

The motion carried by a unanimous vote.

#### 4. Approval of Minutes

##### A. [2017-501](#) Approval of Minutes of November 17, 2017

**Indexes:** Finance

**Attachments:** [November 17, 2017 Audit Committee Meeting Minutes.Draft](#)

Chairman Baker requested a Motion to approve the November 17, 2017 Audit Committee Meeting Minutes.

**Motion By:** Abe Munfakh, **Support By:** Robert Daddow

**Action:** Approved

The motion carried by a unanimous vote.

#### 5. Public Comment

There were no public comments.

#### 6. Old Business

##### A. [2017-502](#) Request for Extension to File FY 2017 Annual Audit

**Indexes:** Finance

**Attachments:** [Request for Audit Extension FY 2017](#)

The request to extend the FY 2017 Annual Audit filing date was amended from

January 31, 2018 to February 28, 2018.

**Motion By: Abe Munfakh, Support By: Robert Daddow**

**Action: Received and Filed as Amended**

The motion carried by a unanimous vote.

- B. [2017-503](#) Update: FY 2017 Audit by GLWA Auditor Rehmann Robson

**Indexes:** Finance

**Attachments:** [Audit Planning Schedule](#)

**Motion By: Abe Munfakh, Support By: Robert Daddow**

**Action: Received and Filed**

The motion carried by a unanimous vote.

- C. [2017-504](#) Update: Wholesale Water Contract Reopeners

**Indexes:** Finance

**Attachments:** [Contract Reopener Status 12.15.2017](#)

**Motion By: Robert Daddow, Support By: Abe Munfakh**

**Action: Received and Filed**

The motion carried by a unanimous vote.

- D. [2017-505](#) Update: Charges Rollout (The Foster Group)

**Indexes:** Finance

**Attachments:** [Charge Development 12.13.2017](#)  
[Water Units of Service Executive Summary](#)

**Motion By: Robert Daddow, Support By: Abe Munfakh**

**Action: Received and Filed**

The motion carried by a unanimous vote.

## 7. New Business

- A. [2017-506](#) Review of the FY 2017 GASB 67 and 68 Reports for the City of Detroit General Retirement System

**Indexes:** Finance

**Attachments:** [Review of GRS Reports FY 2017](#)  
[GRS GASB 67 Comp II 06.30.17](#)  
[GRS GASB 68 Comp II 06.30.16](#)

**Motion By: Robert Daddow, Support By: Abe Munfakh**

**Action: Received and Filed**

The motion carried by a unanimous vote.

- B. [2017-507](#) Procurement Policy Review Update

**Indexes:** Finance

**Attachments:** [Procurement Policy Review Update](#)

**Motion By: Robert Daddow, Support By: Abe Munfakh**

**Action: Received and Filed**

**The motion carried by a unanimous vote.**

**C. [2017-508](#) Centralized & Administrative Cost Allocation Project Update**

**Indexes:** Finance

**Attachments:** [Audit Committee Report Internal Allocations 12.15.2017](#)

[Administrative and Centralized Services 12.15.2017 V2](#)

**Motion By: Robert Daddow, Support By: Abe Munfakh**

**Action: Received and Filed**

**The motion carried by a unanimous vote.**

**D. [2017-509](#) GLWA and DWSD Shared Services True-Up Status**

**Indexes:** Finance

**Attachments:** [Audit Committee - SSA FY16-FY17 Update 12.15.2017](#)

**Motion By: Abe Munfakh, Support By: Robert Daddow**

**Action: Received and Filed**

**The motion carried by a unanimous vote.**

## **8. Reports**

**A. [2017-510](#) Monthly Revenue & Collections Report for November 2017**

**Indexes:** Finance

**Attachments:** [Monthly Revenue and Collections Report 12.15.2017 for November 2017](#)

[AR Aging W S IWC PS 11.30.17](#)

**Motion By: Abe Munfakh, Support By: Robert Daddow**

**Action: Received and Filed**

**The motion carried by a unanimous vote.**

**B. [2017-511](#) Treasury Report: Cash Transfers through December 1, 2017**

**Indexes:** Finance

**Attachments:** [GLWA Audit Committee Memo DWSD & GLWA Cash Transfers December 2017](#)

[Audit Committee - Monthly Transfers to GLWA December 2017](#)

[Audit Committee - Monthly Transfers to DWSD December 2017](#)

**Motion By: Robert Daddow, Support By: Abe Munfakh**

**Action: Received and Filed**

**The motion carried by a unanimous vote.**

## 9. Look Ahead

A Special Meeting of the Audit Committee is scheduled for Friday, January 5, 2018 at 8:00 a.m., and the regular Audit Committee Meeting is scheduled for Friday, January 19, 2018 at 8:00 a.m.

## 10. Information

### A. [2017-512](#) Proposed 2018 Audit Committee Meeting Dates

Indexes: Finance

Attachments: [Audit Committee 2018 Meeting Schedule Notice as of 11.17.2017](#)

## 11. Other Matters

There were no other matters.

## 12. Adjournment

Chairman Baker requested a Motion to Adjourn.

Motion By: Abe Munfakh, Support: Robert Daddow

Action: Approved

The motion carried unanimously.

There being no further business, the meeting was adjourned at 10:00 a.m.



## Financial Services Audit Committee Communication

**Date:** January 5, 2018

**To:** Great Lakes Water Authority Audit Committee

**From:** Nicolette N. Bateson, CPA, Chief Financial Officer/Treasurer

**Re:** Discussion Draft: FY 2019 & FY 2020 Biennial Budget  
and Five-Year Plan (FY 2019 thru FY 2022)

**Background:** The annual financial planning cycle has three key workstreams that are highly interdependent: 1) preparing a budget and financial plan, 2) preparing a capital improvement plan, and 3) developing customer charges. Contractual commitments to customers to provide a notification of proposed charges defines a key target date that falls in late January. This year that date is January 25, 2018.

The status of each key workstream is below.

1. **Budget & Financial Plan:** Discussion draft presented today for Audit Committee review. Similar (but condensed) material will be presented to the entire GLWA Board at a regular meeting next Wednesday, January 10, 2017 and to the customer community next week at an annual “Charges Rollout #3 - Budget” meeting on Thursday, January 11, 2017. Staff considers the substance of the budget to be largely complete as a “proposed” budget, pending any material requests from stakeholders and the impact of the other two workstreams.
2. **Capital Improvement Plan (CIP):** This is in process. Last month, a sewer system CIP presentation was given to the Board CIP Committee and to customers at an annual “Charges Rollout #2 – CIP” meeting. The focus in January is on the water system CIP. For purposes of the budget and financial plan, estimates have been utilized which we believe to be appropriate proxies for the final CIP based on what we know to date.
3. **Charges:** This week the GLWA proposed budget and financial plan was “handed off” to The Foster Group (TFG) to begin analysis that will result in proposed charges by the end

of the month. TFG is presenting a status report on charge development considerations at today's meeting.

**Analysis:** Headline news for our organization: for the first time as a new entity, we now have twelve months of actual from our first full year of operations which ended June 30, 2017. This data provides a springboard for better understanding and benchmarking the budget for the current and future years. Due to the expanded need to present FY 2017 through FY 2018, we have utilized 11 x 17 worksheets which are in an accompanying file. The more extensive five-year plan document will be compiled over the next few weeks.

Noteworthy items and topics for discussion as we proceed with the review of the materials today include the following.

1. **Proposed Overall Budget Adjustment:** Keeping within the 4% commitment, a 2% increase is proposed for FY 2019. Subsequent years are proposed at 4% driven by capital needs, investment in technology, and targeted maintenance projects.

Achieving 2% was not easy. The operating units were initially asked to review their expenses (and revenue opportunities) with a goal of a 0% increase. Two areas that are newer, System Planning and Information Technology, also had the highest level of increase in budgetary requests as they have been asked to establish new programs and initiatives. Both areas, in addition to many other GLWA areas, scaled back staffing and other requests to achieve the more realistic 2%. More information on the affected areas is attached. Please note that the enclosed personnel worksheet is being updated because of the budget reductions (the cells are highlighted in gray). A new worksheet will be presented at the Audit Committee meeting

2. **Likely Deferral of Borrowing until FY 2020:** Based on cumulative optimization savings, timing of capital project phases, and current cash balances, it appears that GLWA will be able to not need to issue new bonds (other maximizing than State or Drinking Water Revolving Fund Loans) for two entire fiscal years. That is a historic departure from prior financial trends. It should be noted however, that we continue to monitor refunding opportunities as well as the borrowing needs for DWSD. Those circumstances could cause a shift in the plan but likely a lower level of borrowing.
3. **Continuous Improvement in Cost Allocation:** In December 2017, the Audit Committee received a presentation that indicates that the nature of centralized and administrative services would result in an increase to water operations. We suggest that it is premature to shift the entire six to seven percent in one year as the data set is limited to one year. Instead we have a proposed a budget with a three-year phasing of that

amount with the cost allocation being updated and revisited on an annual basis. This approach also aligns with the Charges Stability Initiatives presented to stakeholders earlier this year.

4. **Policy Considerations:** With the maturing of our financial operations, we can now focus on financial policies that are supportable by data and analysis. One key area is defining a target for net position (largely cash less payables) in the a) Improvement & Extension Funds (I&E) and b) Construction Bond Funds. A demonstration of the following policies is presented in the budget worksheet.

***Policy proposal for Improvement & Extension Funds: Net Position sufficient to fund the five-year capital plan commitments with a minimum ending balance equal to 1.75 times subsequent year needs but no less than \$50 million.***

The intent of the 1.75 is to ensure that the entity does not count on utilizing funds from current year charges which may not be realizable or align with cash flow needs (reduces risk) while maintaining a minimal balance. A minimum of \$50 million may be low based on the five-year plan, however we do not have a history (due to our short existence) of actual to support a higher minimum. It is also recommended that any policy that we establish should be revisited bi-annually to evaluate its effectiveness. As we review the five-year plan, the significance of applying this policy and the use of I&E to lower borrowing will be highlighted.

***Policy proposal for Construction Bond Funds: A Net Position no lower than six months of subsequent twelve months projected spend calculated on a rolling monthly basis.***

The intent of the policy is to introduce discipline to proactively manage GLWA's borrowing needs. With regular cash flow forecasting for capital projects (a new model is being rolled out this month), the need for capital will be evident in advance of six months. Six months was selected for the policy, however, to ensure that parties consider the time to prepare for a transaction as well as to be prepared to execute a transaction at the right time. Further, this will prevent over-borrowing (reduce debt service) and optimize the planned use of I&E Funds.

5. **Assumptions and Estimates:** The preparation of this plan is dependent on our best knowledge at the time and our ability to control the outcome of those items (the less control we have, the more conservative the estimate). Assumptions and estimates include the following.

- a. Status quo in shared services with DWSD with one potential exception (increase in analytical lab testing provided by GLWA).
  - b. DWSD budget and CIP development are underway. There are no known impacts to GLWA.
  - c. No change in the budget related to ongoing implementation matters (including water sales to GLWA by DWSD, operational and capital responsibility for certain 24-inch mains in the City of Detroit, finalization of debt allocation, treatment of partial lease payment advanced, and any other related matters).
  - d. No change in operating or capital investment responsibility for the Northeast Pump Station although an alternative operating agreement is being explored.
6. **Operations & Maintenance Budget by Area and Group Analysis:** The Financial Planning & Analysis Team has drafted an 11 +/- page analytical review of the “Operations & Maintenance Budget by Area and Groups” worksheet. That document is presently being reviewed internally and will be distributed on Monday, January 8, 2018 with materials for the Board meeting next week. It is anticipated that the Audit Committee meeting on Friday, January 19, 2018 will serve as a venue to address budget and financial plan questions and requests.

**Proposed Action:** Receive and file report.



## Financial Services Audit Committee Communication

**Date:** January 5, 2018

**To:** Great Lakes Water Authority Audit Committee

**From:** Jon Wheatley, Public Finance Manager

**Re:** Status Update- 2017 Wholesale Water Contract Reopeners

**Background:** The Great Lakes Water Authority (GLWA) model water contract provides for designated reopener dates in year 2, year 5 and every 5 years afterwards, until the end of the 30 year term of the contract. As part of the reopener process, each customer has the opportunity to discuss its maximum day and peak hour demands, which are included in Exhibit B of the contract, and negotiate those values based on historical performance and projected changes in its usage. The maximum day and peak hour demands in the model contract are used in the determination of customer charges and represent about ninety percent (90%) of the annual revenue requirement for each customer.

The GLWA water contract negotiation team is in the midst of reopener negotiations with 31 of its 78 model contract customers. The list of wholesale water customers scheduled for contract reopeners is set forth in the table below.

**Analysis:** Between October 9 and December 13, 2017, the team met with 29 of the 30 scheduled reopeners plus one out-of-sequence reopener (Commerce Township). As of January 2, 2018, 30 contract amendments have been drafted and sent to the customer for its local approval, of which 22 have been approved by the customer's legislative body and 8 are on agendas for approval before the deadline of January 12, 2018. Once the contract amendments are approved by the customer and returned to GLWA, the contract will come before the GLWA Board of Directors for approval.

**Budget Impact:** None.

**Proposed Action:** Receive and File Report.

**2017 MODEL CONTRACT REOPENER STATUS  
AS OF JANUARY 2, 2018**

	Meeting Scheduled	Meeting with Customer	Contract Amendment Sent to Customer	Contract Amendment Approved by Customer	Contract Amendment Approved by GLWA Board
Allen Park	X	X	X	X	
Belleville	X	X	X	X	
Bruce Twp.	X	X	X		
Canton Twp.	X	X	X	X	
Center Line	X	X	X		
Dearborn Heights	X	X	X	X	
Eastpointe	X	X	X	X	
Ferndale	X	X	X	X	
Fraser	X	X	X		
Imlay City	X	X	X	X	
Lapeer	X	X	X	X	
Mayfield Twp.	X	X	X		
Northville	X	X	X	X	
Northville Twp.	X	X	X	X	
Plymouth		X	X		
Redford Twp.	X	X	X	X	
Riverview	X	X	X	X	
Roseville	X	X	X		
St Clair Shores	X	X	X		
Sterling Heights	X	X	X	X	
Taylor	X	X	X	X	
Troy	X	X	X	X	
Utica	X	X	X	X	
Van Buren Twp.	X	X	X		
Washington Twp.	X	X	X	X	
Wayne					
West Bloomfield Twp.	X	X	X	X	
Wixom	X	X	X	X	
Woodhaven	X	X	X	X	
YCUA	X	X	X	X	
Commerce Twp.	X	X	X	X	



**Audit Committee**

**Friday, January 5, 2018 at 8:00 a.m.**

5th Floor Board Room, Water Board Building  
735 Randolph Street, Detroit, Michigan 48226  
[GLWater.org](http://GLWater.org)

**MEETING BINDER ADDENDUM**

- ✓ *Agenda Item # 6A - Update: Charges Rollout – Preliminary FY 2019 & FY 2020 Budget & Five Year Financial Plan*
  - *Staffing Plan and Personnel Budget Summary Updated 1.4.2018*
- ✓ *Agenda Item # 6C - Update: Charges Rollout - The Foster Group Charges Development Update*

Great Lakes Water Authority

Staffing Plan

DISCUSSION DRAFT - FY 2019 & FY 2022 Biennial Budget and Five Year Plan (FY 2019 thru FY 2023)

Benchmark  
= 33%

Row Labels	Sum of FY 2017 Original Budget	Sum of FY 2017 Amended Budget	Sum of FY 2017 Activity	Sum of FY 2017 Actual as a % of Amended Budget	Sum of FY 2018 Original Budget	Sum of FY 2018 Amended Budget	Sum of FY 2018 Activity thru 10.31.2017	Sum of FY 2018 Year-to-Date %	Sum of FY 2019 Request	Sum of FY 2019 % Increase/ (Decrease)	Sum of FY 2020 Request	Sum of FY 2020 % Increase/ (Decrease)	Sum of FY 2021 Request	Sum of FY 2022 Request	Sum of FY 2023 Request
Salaries & Wages	54,575,400	54,673,800	46,042,700	84.2%	60,370,500	60,370,500	16,250,400	26.9%	63,901,900	5.8%	66,215,400	3.6%	66,216,900	66,218,500	66,220,400
Salaries & Wages - Workforce Development	-	-	-	N/A	764,800	764,800	-	0.0%	740,200	-3.2%	740,200	0.0%	740,200	740,200	740,200
Employee Benefits	20,684,400	20,579,900	19,654,800	95.5%	22,523,600	22,523,600	7,365,100	32.7%	22,243,700	-1.2%	23,347,200	5.0%	23,796,500	24,243,100	24,694,300
<b>Grand Total</b>	<b>75,259,800</b>	<b>75,253,700</b>	<b>65,697,500</b>	<b>87.3%</b>	<b>83,658,900</b>	<b>83,658,900</b>	<b>23,615,500</b>	<b>28.2%</b>	<b>86,885,800</b>	<b>3.9%</b>	<b>90,302,800</b>	<b>3.9%</b>	<b>90,753,600</b>	<b>91,201,800</b>	<b>91,654,900</b>

Budget Staffing Plan

Corresponding Staffing Plan (FTEs)	1,148				1,177				1,194		1,215		1,215	1,215	1,215
Transition Service Contracts (TSCs) in FTE count above	110				102				92		92		92	92	92
Average per FTE (excludes TSCs)	\$ 72,505				\$ 77,822				\$ 78,844		\$ 80,412		\$ 80,814	\$ 81,213	\$ 81,616

Actual Staffing Levels

FTEs	6/30/2017	10/31/2017
	882	909

Source: 06.28.2017 Dayforce Report

Source: 10.25.2017 Dayforce Report

NOTE: This count does not include separated, retired or inactive status.

NOTE: This count does not include separated, retired or inactive status.

Proposed Biennial Budget Analysis:

- The following factors are driving the 5.8% increase in FY18 vs FY19 analysis:
  - The FY 2018 budget does not reflect a pending budget amendment for FY 2018 approved merit increases, wage adjustments & staff promotions. Since the FY 2019 budgeted salaries are based on the actual current salary, adjustments in salaries will show as increases with year over year analysis.
    - \*Merit increase, assuming an 3% average increase. IMPACT: ~\$1.8M INCREASE
    - \*Other merit increases and promotions in FY18. IMPACT: \$193K INCREASE
  - Addition of new positions for FY 2019
    - \*4 positions in Risk & Safety Management. IMPACT: \$270k INCREASE
    - \*7 positions in Water Systems Operations cost centers. IMPACT: \$956k INCREASE
    - \*13 positions in the Administrative and Other Services cost centers. IMPACT: ~\$192k INCREASE
  - Budgeting for a position in FY19 that was unbudgeted in FY18
    - \*6 positions in the IT cost centers. IMPACT: \$446k INCREASE
    - \*General Counsel position not budgeted in FY2018. IMPACT: \$150k INCREASE
- The following factors are driving the 3.6% increase in FY19 vs FY20 analysis:
  - Addition of new positions
    - \*18 positions have been added to the IT cost centers. IMPACT: \$1.8M INCREASE
    - \*3 positions adding Org Dev cost center. IMPACT: \$238k INCREASE
  - Positions with partial year budgets in FY19 and full year budgets in FY20
    - \*There are 22 positions that meet this criteria. IMPACT: ~\$359k INCREASE
- These positions reflect most of the cuts. There are still an estimated \$618K in salary & wages cuts to be entered into BS&A by once the data entry freeze has been lifted.



## THE FOSTER GROUP

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### MEMORANDUM

FY 2019 Charges Development

January 4, 2018

To: Nicolette Bateson

From: Bart Foster

You have asked for a brief update on the development of recommended FY 2019 water and sewer charges. With receipt of the preliminary proposed budget this week, we have all of the data necessary to complete our analyses and recommendations over the next few weeks. We are confident that we will be able to present proposed charges the Board of Directors on January 24, and to Customers on January 25, as anticipated by the published schedule.

Our analyses in the coming weeks will include specific focus on the following topics:

- Evaluation of the preliminary five year financial plans in the preliminary budget, including the overall revenue requirement increases, the proposed policy considerations, and the adequacy to responsibly address capital and operating program requirements;
- Detailed review of the operating expense budget, and establishment of appropriate allocation of operating costs to cost pools, including:
  - Recognition of the administrative and centralized services cost allocation plan;
  - Review of costs assignable to specific cost pools, such as CSO and OMID only.
- Incorporation of information from the new fixed asset inventory and valuation analysis into capital revenue requirement cost of service allocations;
- Incorporation of the updated Water units of service into cost of service allocations, including:
  - Results of the Units of Service (“UoS”) study for non-master metered customers and GLWA Administration implementation plan of same;
  - Updated customer demands from the contract re-opener negotiations;
  - Results of the master meter inventory update, into cost of service allocations.
- Direct recognition of Flint and Highland Park in the water charges calculations, and elimination of GCDC from the charge calculations;
- Development of phase 2 of the implementation plan for the FY 2018 Sewer SHARES;
- Evaluation of customer collection performance and its impact on water and sewer charge strategies;
- Review and incorporation of DWSD Local System revenue requirements.

We look forward to rolling out updates on the results of our analyses to the Audit Committee on January 5 and 19, to the full Board on January 10 and 24, and to Customers at formal roll out meetings on January 11 and 25.