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TO: HONORABLE BOARD OF DIRECTORS
FROM: Randal M. Brown, General Counsel
CC: Sue McCormick, CEO; Nicolette Bateson, CFO, Bill Wolfson, CCAO; Cheryl Porter, COO; Suzanne Coffey, CPO/COO; Michelle Zdrodowski, CPAO
RE: *Communication Related to Budget Approval Policy*
DATE: October 22, 2018

At the July 25, 2018 GLWA Board of Directors Meeting, a GLWA member-partner representative requested that the GLWA Board approve GLWA's budget for upcoming fiscal years earlier in a calendar year. According to the member-partner representative, an earlier approval date will allow GLWA's member-partners to set their rates for the customers of their local systems in alignment with many of their budget and rate setting cycles.

The GLWA Board then asked GLWA's Administration to provide recommendations to the Board regarding the approval of GLWA's Budget for future fiscal years on or before March 31st.

Relevant Foundational Documents and State Laws

Before reviewing this year's budget process and the Administration's recommendations for future fiscal years, it is important to highlight a few points from the foundational documents, which established GLWA, and State of Michigan laws. The documents and laws impact GLWA's budgetary process:

- 5 affirmative votes are required to establish and adopt GLWA's budget.¹
 - GLWA's Budget shall be a two-year operating budget.²
- GLWA's Budget must be prepared prior to the beginning of each fiscal year³
- GLWA's Budget shall be adopted in accordance with the Uniform Budget and Accounting Act (UBAA).⁴
 - Under Section 14 of the UBAA, a public hearing is required and must comply with Budget Hearings of Local Governments Act.⁵

¹ See Articles of Incorporation, Article 9, Section C.

² See Articles of Incorporation, Article 9, Section I and the Leases, Section 5.6.

³ See Articles of Incorporation, Article 9, Section H.

⁴ MCL 141.421, et. seq. By definition, GLWA, as an enterprise activity, is exempt from the UBAA. The presumed intent of the reference to the UBAA in the Articles of Incorporation is to establish guidance otherwise provided by the UBAA for local units of government in Michigan.

⁵ MCL 141.434(5)

- Notice of a public hearing needs to be published in a newspaper at least 6 days before the public hearing.⁶
- GLWA must conduct 1 public hearing 120 days prior to a proposed charge increase is scheduled to take effect.⁷
- On or before January 1st of each year, the City of Detroit’s preliminary 2-year budget forecast for the Detroit Local System must be provided to GLWA.⁸
- The City of Detroit’s Budget for the Detroit Local System must be adopted no later than March 23rd.⁹

FYs 2020 and 2021 Budget Approval Timeline

For FYs 2020-2021, GLWA’s CFO, Nicolette Bateson has outlined the following budget timeline.

Date	Activity
Friday, September 14, 2018	Internal – Deadline for Cost Center Budget Request
Thursday, October 25, 2018	Customer Rollout Meeting #1 – Water & Sewer Capital Improvement Plan Update
Thursday, November 29, 2018	Customer Rollout Meeting #2 – Units of Service Update
Saturday, December 1, 2018	GLWA and DWSD - Exchange shared services to be provided and related costs ¹⁰
Friday, December 21, 2018	GLWA Audit Committee Meeting – Revenue Requirement Development Draft
Tuesday, January 1, 2019	DWSD – Preliminary two-year budget forecast Including key assumptions and impact statement due to GLWA ¹¹
Friday, January 4, 2019	Special GLWA Audit Committee Meeting – Review of Proposed FY 2020 & FY 2021 Biennial Budget (Revenue Requirement) and Five-Year Financial Plan

⁶ MCL 141.412

⁷ See DWSD/GLWA’s Model Contract citing to the Home Rule City Act, Section 117.5e. Although, GLWA is not subject to the Act, GLWA honors this contractual provision which defines charge setting timelines.

⁸ See Water and Sewer Services Agreement, Section 5.3.

⁹ See Water and Sewer Services Agreement, Section 5.3.

¹⁰ Shared Services Agreement, Section 5.4.

¹¹ See Water and Sewer Services Agreement, Section 5.3.

Date	Activity
Wednesday, January 9, 2019	GLWA Board Workshop – Review of Proposed FY 2020 and 2021 Biennial Budget (Revenue Requirement) and Five-Year Financial Plan
Thursday, January 10, 2019	Customer Rollout Meeting #3 – Proposed FY 2020 Revenue Requirement
Friday, January 18, 2019	GLWA Audit Committee Meeting – Regular Meeting
Wednesday, January 23, 2019	GLWA Board Meeting – Status Report FY 2020 Service Charges, FY 2020 and 2021 Biennial Budget (Revenue Requirement) and Five-Year Financial Plan
Thursday, January 24, 2019	Customer Rollout Meeting #4 – Proposed FY 2020 Service Charges
Friday, January 25, 2019	Publish notice of the hearing by publication in a newspaper of general circulation
Friday, January 25, 2019	Mail Notice to Customers of Public Hearing to be held on February 27, 2019 (minimum 30 days prior to Act 279 Public Hearing)
Friday, February 1, 2019	DWSD – Current capital improvement plan due to GLWA ¹²
Wednesday, February 27, 2019	GLWA Board Meeting – Public Hearing FY 2020 & FY 2021 Biennial Budget (as defined in customer contracts)
Wednesday, February 27, 2019	GLWA Board Meeting – Public Hearing FY 2020 Schedule of Revenues and Charges (Act 279, minimum 120 days before effective date as defined in customer contracts)
Wednesday, February 27, 2019	GLWA Board Meeting – Proposed Approval of the FY 2020 & FY 2021 Biennial Budget
Wednesday, February 27, 2019	GLWA Board Meeting – Proposed Approval of FY 2020–2024 Capital Improvement Plan
Wednesday, February 27, 2019	GLWA Board Meeting – Public Hearing & Proposed Approval of FY 2020 Schedule of Revenues and Charges (Act 279, minimum 120 days before effective date as defined in customer contracts)

¹² See Water and Sewer Services Agreement, Section 5.3.

Date	Activity
Thursday, February 28, 2019	Mail Notice to Customers of Approved Charges
Saturday, March 23, 2019	<i>DWSD</i> – Local system adopted biennial budget due to GLWA ¹³
Wednesday, May 1, 2019	<i>DWSD</i> – Local system provides direction to GLWA on how to apply lease payment ¹⁴
Monday, July 1, 2019	GLWA – Effective date of FY 2020 and 2021 Biennial Budget, FY 2020 Schedule of Charges, and FY 2020-2024 Capital Improvement Plan

Recommended Process

GLWA’s Administration believes that establishing and adopting GLWA’s Budget before March 31 of every year is an achievable goal. The timeline above satisfies this objective.

To approve GLWA’s budget before March 31st requires the receipt of timely preliminary budgetary information from the City of Detroit on the Local System. As noted above, *DWSD*’s preliminary budget is presented to GLWA’s Administration on or before January 1st of each year. *DWSD*’s preliminary budget should provide some guidance on how *DWSD* intends to use the Lease Payment, however, *DWSD*’s final decision on its use of the payment is not required until May 1st.¹⁵ GLWA believes that *DWSD*’s CFO will provide timely preliminary budgets, as required by the Water and Sewer Services Agreement.

If GLWA’s proposed budget is presented to the Board in January 2019, GLWA’s Administration recommends that the Board take its first vote on the Budget during the first week of March to align with the public hearing process as defined in the model customer contract requirements. If the vote does not result in 5 affirmative votes, then the Board should schedule weekly Board Workshops until the Board achieves 5 affirmative votes establishing and adopting GLWA’s Budget. GLWA’s Administration will be available to answer questions and outline different budget scenarios for the Board at the weekly Workshops. Alternatively, the Board could consider a parallel process in January and February to establish consensus on the proposed budget presented with final decision pending the public hearing in late February.

¹³ See Water and Sewer Services Agreement, 5.3.

¹⁴ Water and Sewer Services Agreement 4.3.

¹⁵ *DWSD*’s use of the Lease Payment may impact debt service coverage and may require an adjustment to GLWA’s Budget.