



**Proposed FY 2020  
Water and Sewer  
Service Charges**

*Audit Committee  
Briefing  
January 18, 2019*

 **GLWA**  
Great Lakes Water Authority  
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## Key Takeaways

- The final review of the FY 2020 BUDGET and charges has produced changes
- The FY 2020 BUDGETs represent a **3.5%** (*see below*) increase compared to FY 2019 for both Water and Sewer
  - ✓ Water = **3.1%**
  - ✓ Sewer = **2.7%**
- Projected improved investment earnings offset need to increase Water and Sewer Service Charges
- Overall **average** FY 2020 “System Charge” Adjustments for existing Customers:
  - ✓ Water = **1.6%** **0.8%**
  - ✓ Sewer = **2.1%** **1.3%**

## Key Takeaways (*continued*)

- FY 2020 Service Charge impacts on individual Customers vary, and reflect:
  - ✓ Detailed cost pool analyses of the FY 2020 Budget and capital asset elements;
  - ✓ Phase 2 of the Units of Service (UoS) Study for Non Master Metered Customers – **Water only**;
  - ✓ Results of the Contract Alignment (CAP) process for Customer demands – **Water only**;
  - ✓ Recognition of the proposed amendment to the service agreement with OMID – **Sewer only**;
  - ✓ Other refinements

*FY 2020 BUDGET and Revenue  
Requirements for Charges*

*UPDATE*



**FY 2020 WATER BUDGET and “System Charge” Adjustments – *What’s New?***

- Slight (~ \$100,000) increase in O&M
  - ✓ *Water quality shared services arrangement*
- \$1.4 million decrease in budgeted debt service
  - ✓ *Defer initial DWRF interest to FY 2021*
- Maintain prior budgeted I&E amount
- Reduces BUDGET increase from 3.5% to 3.1%
- Reduces CHARGE increase from 1.6% to 1.2%
  - ✓ *New “internal” GLWA Customer results in average Charge increase for existing Customers of 0.8%*



## FY 2020 SEWER BUDGET and “System Charge” Adjustments – *What’s New?*

- \$2.2 million reduction in O&M
  - ✓ Purchased water costs for GLWA sewer facilities
    - Facilities become internal GLWA Water Customer
- \$1.5 million reduction in O&M
  - ✓ Recognize pace of certain CSO programs
- Slight (~ \$100,000) reduction in O&M
  - ✓ Proposed **direct** NESPS savings re: OMID Service Agreement
- Maintain prior budgeted I&E amount
- Reduces BUDGET increase from 3.5% to 2.7%
- Reduces CHARGE increase from 2.1% to 1.3%



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## FY 2020 BUDGET and “System Charge” Adjustments

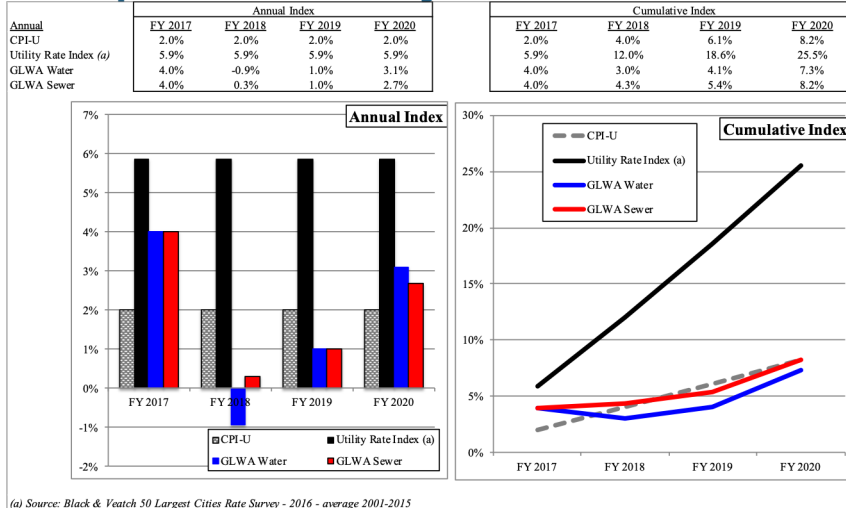
- Average “System Charge Adjustment” for existing Customers is 0.8% for Water and 1.3% for Sewer

|  | Water System |        |        |             | Sewer System |        |        |             | Total GLWA |        |        |             |
|--|--------------|--------|--------|-------------|--------------|--------|--------|-------------|------------|--------|--------|-------------|
|  | FY2019       | FY2020 | Change | %Change     | FY2019       | FY2020 | Change | %Change     | FY2019     | FY2020 | Change | %Change     |
| <b>Annual BUDGET</b>                               |              |        |        |             |              |        |        |             |            |        |        |             |
| 1 Operation and Maintenance Expense                | 121.6        | 133.5  | 11.9   | 9.8%        | 191.1        | 188.0  | (3.1)  | -1.6%       | 312.6      | 321.5  | 8.8    | 2.8%        |
| 2 Master Bond Ordinance Commitments                | 170.7        | 174.1  | 3.4    | 2.0%        | 266.9        | 268.1  | 1.2    | 0.5%        | 437.6      | 442.3  | 4.6    | 1.1%        |
| 3 Deposit to I&E (and other reserve) Funds         | 39.1         | 34.1   | (5.1)  | -12.9%      | 12.2         | 26.7   | 14.5   | 119.7%      | 51.3       | 60.8   | 9.5    | 18.5%       |
| 4 <b>TOTAL BUDGET</b>                              | 331.4        | 341.7  | 10.3   | <b>3.1%</b> | 470.2        | 482.8  | 12.7   | <b>2.7%</b> | 801.6      | 824.5  | 22.9   | <b>2.9%</b> |
| <b>Charge Adjustment Illustration</b>              |              |        |        |             |              |        |        |             |            |        |        |             |
| <b>Proforma Revenue - Existing Charges</b>         |              |        |        |             |              |        |        |             |            |        |        |             |
| 5 Revenue from Charges                             | 328.9        | 329.7  | 0.8    | -0.2%       | 470.0        | 470.2  | 0.3    | -0.1%       | 799.2      | 799.9  | 0.8    | -0.1%       |
| 6 Investment Earnings & Miscellaneous              | 3.8          | 9.1    | 5.2    | -1.6%       | 4.6          | 8.7    | 4.2    | -0.9%       | 8.4        | 17.8   | 9.4    | -1.2%       |
| 7 Expected Bad Debt Expense                        | (1.4)        | (1.2)  | 0.2    | -0.1%       | (4.7)        | (2.3)  | 2.4    | -0.5%       | (6.0)      | (3.5)  | 2.6    | -0.3%       |
| 8 Net Proforma Revenue Comparison                  | 331.4        | 337.6  | 6.2    |             | 469.9        | 476.7  | 6.8    |             | 801.6      | 814.3  | 12.7   |             |
| 9 Adjustment to Address Revenue Variance           |              |        |        | -1.9%       |              |        |        | -1.4%       |            |        |        | -1.6%       |
| 10 Adjustment to Address BUDGET Variance (Line 4)  |              |        |        | 3.1%        |              |        |        | 2.7%        |            |        |        | 2.9%        |
| 11 <b>Average Charge Adjustment</b>                |              |        | *      | 1.2%        |              |        |        | 1.3%        |            |        | *      | 1.3%        |
| * Average Charge Adjustment for Existing Customers |              |        |        | 0.8%        |              |        |        | 1.3%        |            |        |        | 1.1%        |



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## GLWA BUDGET Adjustments Compared to Utility Indices

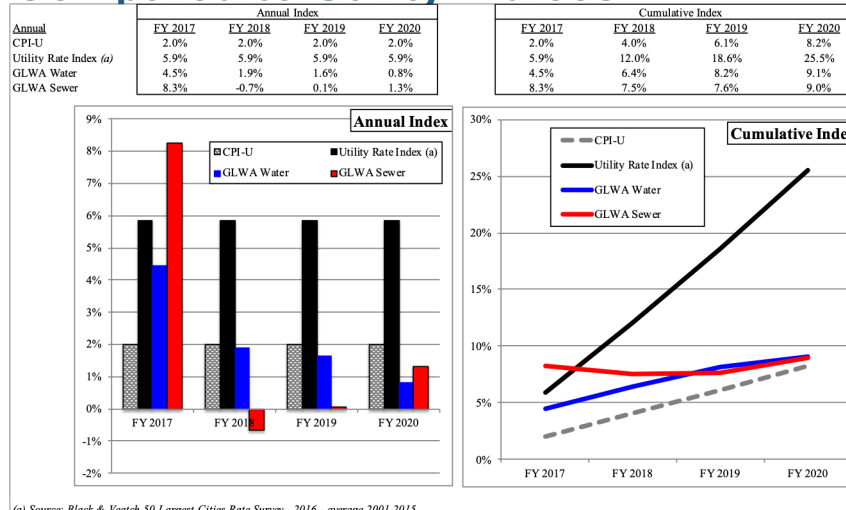


(a) Source: Black & Veatch 50 Largest Cities Rate Survey - 2016 - average 2001-2015



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## GLWA CHARGE Adjustments Compared to Utility Indices



(a) Source: Black & Veatch 50 Largest Cities Rate Survey - 2016 - average 2001-2015



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*FY 2020 – FY 2024 Financial  
Plan Forecast  
UPDATE*



**FY 2020 – FY 2024 Financial Plan Forecast:  
What's New?**

- Modifications to the FY 2020 Budget moderately impact future year forecast amounts
- The modifications are not material
- The updated plans will be included in formal proposals

*Preliminary Proposed FY 2020  
Charges*



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## Issues Impacting Proposed FY 2020 WATER Service Charges

- UoS Study for Non Master Metered (“NMM”) Customers
- Contract Alignment Process (“CAP”)
- Redefined water service to certain GLWA Sewer facilities
- Detailed cost pool analyses

## Issues Impacting Proposed FY 2020 WATER Service Charges – UoS Study

- UoS Phase 1 resulted in significant increases for this class
  - ✓ *1<sup>st</sup> half of increases were implemented in FY 2019*
  - ✓ *2<sup>nd</sup> half intended for FY 2020 implementation*
- UoS Phase 2 indicate materially lower units of service (and charges) for the NMM class
  - ✓ *Originally forecasted “Phase 1” benefit to other Customers effectively eliminated by Phase 2 findings*



## Issues Impacting Proposed FY 2020 WATER Service Charges – CAP

- Reduced max day and peak hour demands for 49 Customers  
✓ *(Not all via CAP – some new Customer contracts)*
- Lowers revenue requirement allocation to these Customers by ~ \$3.7 million
- Other 39 Customers are proportionally allocated this \$3.7 million

## Issues Impacting Proposed FY 2020 WATER Service Charges – GLWA Facilities

- Facilities will no longer be DWSD Retail Customer  
✓ *Appropriate to remove from DWSD UoS*  
✓ *Lowers allocated wholesale revenue requirement to Detroit*
  - But Detroit also suffers revenue loss from sales to those facilities
- GLWA Sewer becomes internal Water Customer  
✓ *Price established to not impact Suburban Wholesale Water Customers*

## Issues Impacting Proposed FY 2020 WATER Service Charges – Cost Pools

- FY 2020 Cost Allocation review increases portion of revenue requirements related to Transmission Mains
- Costs related to Transmission Mains are allocated to Customers based on their peak hour demand and distance factor
- Customers with relatively high peak hour demands and/or distance factors experience a higher than average charge adjustment than Customers with relatively low peak hour demands and/or distance factors, all else being equal



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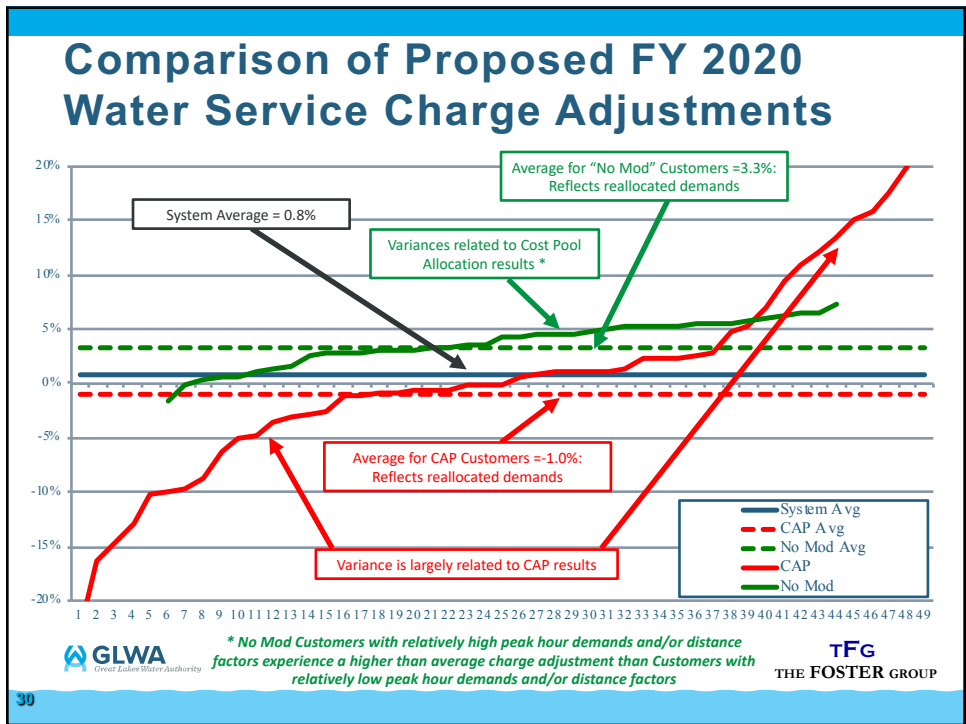
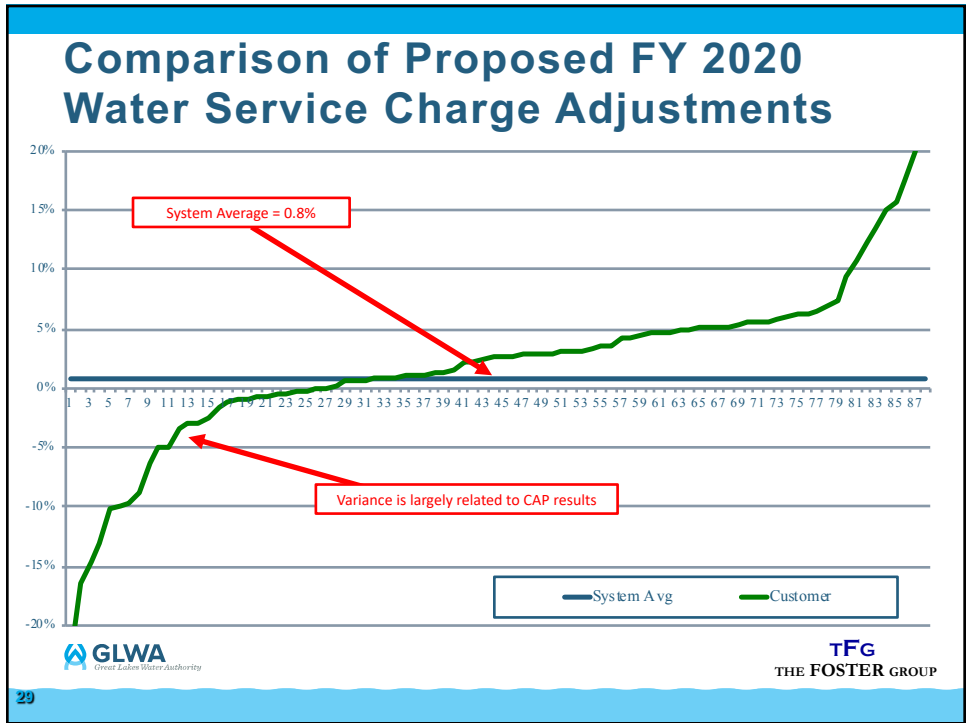
## Executive Summary FY 2020 Water Charge Adjustments (\$ millions)

- Proposed charge adjustments vary moderately by major Customer Class

|   | Customers | Revenue Existing Charges | Allocated Revenue Req't | Charge Increase Variance | Charge Increase % Variance |
|---|-----------|--------------------------|-------------------------|--------------------------|----------------------------|
| CAP Suburban Wholesale                      | 49        | 178.55                   | 176.73                  | (1.82)                   | -1.0%                      |
| "No Mods" Master Metered Suburban Wholesale | 36        | 119.66                   | 123.62                  | 3.96                     | 3.3%                       |
| Non Master Metered Customers                | 3         | 31.49                    | 32.05                   | 0.56                     | 1.8%                       |
| Internal GLWA (Sewer Facilities)            | 1         |                          | 1.44                    | 1.44                     | NA                         |
| Total System                                | 89        | 329.70                   | 333.84                  | 4.13                     | 1.3%                       |
| <b>Total less Internal Customer</b>         | <b>88</b> | <b>329.70</b>            | <b>332.40</b>           | <b>2.69</b>              | <b>0.8%</b>                |



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## Issues Impacting Proposed FY 2020 SEWER Service Charges

- Proposed amendment to OMID Service Agreement
- Detailed cost pool analyses
- Lower overall BUDGET requirements
- No “units of service” impact
  - ✓ *No change in SHARES for FY 2020*

## Issues Impacting Proposed FY 2020 SEWER Service Charges – OMID Agreement

- Proposed amendment would limit GLWA services to NESPS to operating activities
  - ✓ *All capital financing and maintenance activities directly provided by OMID*
- Initial recognition of this new operating scenario will result in:
  - ✓ *Fewer costs allocated directly to OMID, and . . .*
  - ✓ *More costs allocated to other cost pools, including the “common to all SHARES” cost pool*
- For purposes of FY 2020 Charges:
  - ✓ *½ of \$11.92 million capital contribution treated as FY 2020 revenues and applicable to FY 2020 revenue req'ts*
  - ✓ *Remainder applicable to FY 2021*

## Issues Impacting Proposed FY 2020 SEWER Service Charges – Cost Pools

- FY 2020 Cost Allocation review critical to establish the revised OMID only cost pool assignments
- Detailed review also had the effect of:
  - ✓ *Decreasing the overall Sewer budget, and*
  - ✓ *Slightly increasing allocation to the Combined Sewer Overflow (“CSO”) cost pool*

## Issues Impacting Proposed FY 2020 SEWER Service Charges – BUDGET

- Lower purchased water costs related to GLWA sewer facilities
  - ✓ *Savings are reflected as “common to all” based on existing SHARES*
- GLWA Sewer becomes internal Water Customer
  - ✓ *Price established to not impact Suburban Wholesale Water Customers*

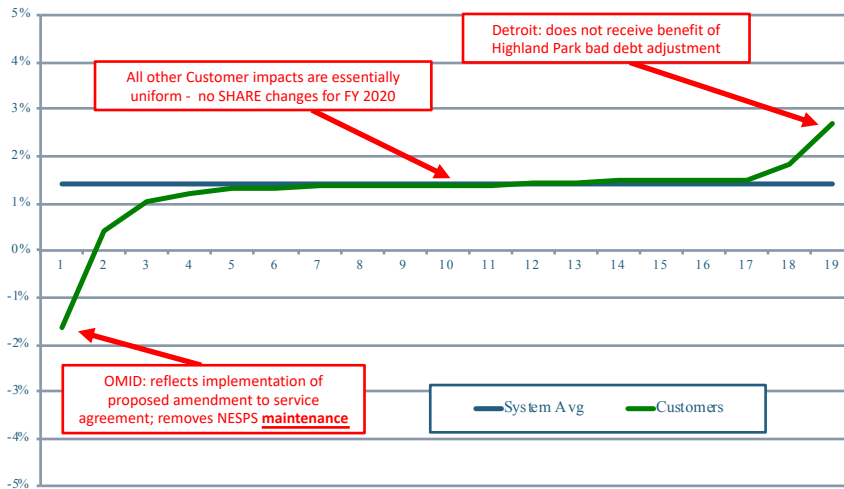
## Executive Summary FY 2020 Sewer Charge Adjustments (\$ millions)

- Proposed charge adjustments vary moderately by major Customer Class

|                               | Revenue Existing Charges | Allocated Revenue Req't | Charge Increase Variance | Charge Increase % Variance |
|-------------------------------|--------------------------|-------------------------|--------------------------|----------------------------|
| OMID                          | 77.53                    | 76.26                   | (1.27)                   | -1.6%                      |
| All Other Suburban Wholesale  | 197.42                   | 200.25                  | 2.83                     | 1.4%                       |
| Detroit                       | 181.16                   | 186.05                  | 4.89                     | 2.7%                       |
| Industrial Specific Customers | 14.10                    | 13.79                   | (0.31)                   | -2.2%                      |
| <b>Total System</b>           | <b>470.21</b>            | <b>476.35</b>           | <b>6.14</b>              | <b>1.3%</b>                |



## Comparison of Proposed FY 2020 Sewer Service Charge Adjustments





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