



Proposed FY 2024 & FY 2025 Biennial Budget, Proposed FY 2024 Charges, & Long-term Plan Update

February 13, 2023 | Audit Committee

Financial Plan Schedule – Key Dates

Charges Rollout Meetings with Member Partners - Complete

- **10/19/2022** - Capital Improvement Programs
- **11/16/2022** - Preliminary Units of Service
- **1/12/2023** – Preliminary Proposed FY 2024 & 2025 Biennial Budget & Ten-Year Financial Plan and Preliminary FY 2024 Charges
- **1/19/2023** – Comprehensive Follow Up Review Session

Board & Audit Committee Review

- **11/17/2022** – Board Meeting – Briefing on Budget & Charges
- **12/16/2022** – Audit Committee – Proposed Budget & Charges
- **1/25/2023** – Board Meeting – Review of Proposed Budget & Charges

- • **2/13/2023** – Audit Committee – Continued Review

Next Steps

- **2/22/2023** – GLWA Public Hearing
- **7/1/2023** – Effective Date for Budget & Charges

Executive Summary of FY 2024 & FY 2025 Budget and FY 2024 Charge Proposals



Four Key Takeaways

- 1. Budget:** Overriding theme is trade-offs due to unprecedented economic times in all areas of spending – chemicals, utilities, labor, and capital projects – while advancing resiliency.
- 2. Charges:** The System-Wide Charges Revenue increase is 2.75 percent for both Water and Sewer – well below the rate of inflation of 6.5%*.
- 3. Bad Debt Recovery:** Highland Park Bad Debt Expense is NOT included in the FY 2024 Charges.
- 4. CAP:** For Water System Member Partners, the FY 2024 Charges reflect the every-four-year “reset” in shares based on Contract Alignment Process (CAP) outcomes while promoting long-term stability.

*As of December 13, 2022 Bureau of Labor Statistics, released January 13, 2023

Charge Revenue Well Below Inflation

The System-Wide Charges Revenue Increase is 2.75% for both Water and Sewer – Well Below the Rate of Inflation of 6.5%.

- a) Memorandum of Understanding (MOU) which established GLWA included a fundamental requirement to limit annual budget increases to no more than four percent (the 4% Promise) for each of the first 10 years of the Authority's operation.
- b) As challenging as that commitment has been to maintain, particularly this year with historic operational cost increases and inflationary pressures on capital programming, we remain steadfast in the 4% Promise.
- c) Fortunately, increased investment earnings reduce the pressure on FY 2024 charges to keep the system-wide charges increase to 2.75%, despite the need for a 4% revenue requirement budget increase.

Highland Park Bad Debt Expense is NOT Included in the FY 2024 Charges.

Highland Park Bad Debt Expense is NOT Included in the FY 2024 Charges.

- a) The city of Highland Park has been making partial payments on their sewer system charges.
- b) Though the matters have not been settled and we are still in confidential mediation, we believe that the progress being made warrants an optimistic pause as we move closer to a permanent resolution for both the water and sewer systems.

Water System Contract Alignment Process (CAP) “Reset” Year; Sewer System Stable

Water System

- a) In 2022, for the first time, **over 80** Water System Member Partners renegotiated contract demands.
- b) CAP is a four-year cycle for resetting (aligning) Member Partner water demands, including annual volumes and during peak periods, based on a consistent period of data and relevant factors across all Member Partners.
- c) Realignment causes shifts among Water System Member Partners every four years, as cost of service allocations are “reset”.
- d) The benefit of stability for three years offsets the variability in one year – stability in past three years has been beneficial for Member Partners’ budgeting and rate setting.

Sewer System

- a) Sewer SHARES in place for another year – simple, uniform adjustment across all Member Partners.

**What's New Since
December 16, 2022
Audit Committee Meeting**



Dynamic & Economically Challenging Times Continue: Updates to the Financial Plan Since December 16, 2022

(Note: no impact the proposed charges for FY 2024)

1. Debt Service
 - a) Debt service for the sewer system *increased* due to assumed interest rate on variable rate bonds moving from 2.6% to 4.0%, creating a \$3.35 million increase compared to the original budget. This also impacts FY 2025 as well as upcoming FY 2023 budget amendments.
 - b) Debt service decreased for both systems to reflect new information regarding activity on SRF loans.
 - c) In total, net changes from debt service for FY 2024 – water system decrease of \$340,900 and sewer system increase of \$3.3 million.
 - d) Revisions to debt service were offset by adjusting Improvement & Extension (I&E) Fund contribution.
2. The Draft 2 Capital Improvement Plan for FY 2024 thru FY 2028 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.
 - a) After intensive review of the CIP and the financial and economic outlook, the long-term financial plan was updated and is presented today which aligns both financial and capital plans.
 - b) 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.
 - c) 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.

Table of Contents – Budget Draft #2 – Yellow Highlights Indicate Updated or New Pages

Transmittal – Proposed FY 2024 & FY 2025 Biennial Budget and Five-Year Plan

Dollar Bill Graphics (updated)

Section 1 - Overview

- One Pager Series – FY 2024 Biennial Budget Analysis (updated)
- One Pager Series – FY 2024 Water & Sewer Service Charges (updated)
- Budget and Financial Plan Calendar (updated)
- Notice of Public Hearing for the Proposed FY 2024 and FY 2025 Biennial Budget (new)
- Notice of Public Hearing for the Proposed FY 2024 Water & Sewerage Service Charges (new)

Section 2 – Core Financial Plan Schedules (updated)

Section 3 – Capital Program and Debt

- Capital Program Overview (new)
- Capital Outlay (new)

Section 5 – Operating Financial Plans

- Operating Financial Plans by Service Area
- Departmental Introduction

- Section 5A – Water System Operations
 - Water Operations
 - Water Pump Stations

Section 5B – Wastewater (Sewer) System Operations

- Wastewater Operations Group
- Wastewater Pump Stations

Section 5C – Centralized Services

- Planning Services
- Systems Control
- Facility Operations
- Fleet Operations
- Field Service Operations
- Energy, Research & Innovation
- Transformation
- Information Technology
- Security & Integrity

Section 5D – Administrative Services

- Board of Directors
- Chief Executive Officer
- Chief Administrative & Compliance Officer
- General Counsel
- Public Affairs
- Organizational Development
- Financial Services

Section 6 – Supplemental Analysis

- Overview of Supplemental Schedules (new)
- Trend Analysis (new)
- Personnel Costs
- Utilities
- Chemicals
- Shared Services (new)
- Centralized & Administrative Services Allocation (new)

Note:
Comprehensive
Draft 2 will be
posted 2.13.2023

Water Biennial BUDGET Highlights: Comprehensive Revenue Requirements – Updated for CIP Draft 2 and Debt Service

	FY 2023 Adopted Budget	FY 2023 Estimated Budget	FY 2024 Department Requested	FY 2024 Dollar Variance	FY 2024 Percent Variance	FY 2025 Department Requested	FY 2025 Dollar Variance	FY 2025 Percent Variance
Water System Revenue Requirements								
Revenues								
Revenues from Charges	\$354,947,900	\$353,690,600	\$366,077,800	\$ 11,129,900	3.1%	\$377,752,600	\$ 11,674,800	3.2%
Other Revenues	175,000	175,000	175,000	-	0.0%	175,000	-	0.0%
Investment Earnings	948,700	7,901,200	4,061,700	3,113,000	328.1%	7,199,500	3,137,800	77.3%
Total Revenues	356,071,600	361,766,800	\$370,314,500	\$ 14,242,900	4.0%	\$385,127,100	\$ 14,812,600	4.0%
Revenue Requirements								
Operations & Maintenance (O&M) Expense	\$144,847,700	\$144,847,700	\$152,906,400	\$ 8,058,700	5.6%	\$162,810,600	\$ 9,904,200	6.5%
General Retirement System Legacy Pension	6,048,000	6,048,000	-	(6,048,000)	-100.0%	-	-	0.0%
Debt Service	150,337,100	150,171,200	159,482,800	9,145,700	6.1%	175,154,900	15,672,100	9.8%
General Retirement System Accelerated Pension	6,268,300	6,268,300	3,395,500	(2,872,800)	-45.8%	4,173,300	777,800	22.9%
Water Residential Assistance Program Contribution	1,770,500	1,770,500	1,851,600	81,100	4.6%	1,925,600	74,000	4.0%
Regional System Lease	22,500,000	22,500,000	22,500,000	-	0.0%	22,500,000	-	0.0%
Receiving Fund Working Capital Requirement	-	-	-	-	0.0%	7,900,000	7,900,000	0.0%
Improvement & Extension Fund Transfer Pending	24,300,000	30,161,100	30,178,200	5,878,200	24.2%	10,662,700	(19,515,500)	-64.7%
Annual Water System Revenue Requirements	\$356,071,600	\$361,766,800	\$370,314,500	\$ 14,242,900	4.0%	\$385,127,100	\$ 14,812,600	4.0%
<i>Change in Annual Revenue Requirement</i>				14,242,900	4.00%		14,812,600	4.0%
<i>Change Attributable to Non-Charge Revenue (FY 2024 increase in investment earnings)</i>				(3,113,000)	-0.87%		(3,137,800)	-0.9%
<i>Change Attributable to Sales Revenue (FY 2024 attributable to increased projected Water Sales)</i>				(1,312,600)	-0.37%		-	0.0%
Charge Adjustment (Based on Revenue Requirement Increase of 4.0%) (rounded)				9,817,300	2.75%		11,674,800	3.2%

Sewer Biennial BUDGET Highlights: Comprehensive Revenue Requirements – Updated for CIP Draft 2 and Debt Service

	FY 2023 Adopted Budget	FY 2023 Estimated Budget	FY 2024 Department Requested	FY 2024 Dollar Variance	FY 2024 Percent Variance	FY 2025 Department Requested	FY 2025 Dollar Variance	FY 2025 Percent Variance
Sewer System Revenue Requirements								
Revenues								
Revenues from Charges	\$479,816,500	\$477,420,200	\$493,169,700	\$ 13,353,200	2.8%	\$510,633,800	\$ 17,464,100	3.5%
Other Revenues	400,000	400,000	400,000	-	0.0%	400,000	-	0.0%
Investment Earnings	1,155,600	10,915,000	7,057,300	5,901,700	510.7%	9,618,300	2,561,000	36.3%
Total Revenues	\$481,372,100	\$488,735,200	\$500,627,000	\$ 19,254,900	4.0%	\$520,652,100	\$ 20,025,100	4.0%
Revenue Requirements								
Operations & Maintenance (O&M) Expense	\$184,052,600	\$194,822,500	\$205,643,700	\$ 21,591,100	11.7%	\$216,220,400	\$ 10,576,700	5.1%
General Retirement System Legacy Pension	10,824,000	10,824,000	-	(10,824,000)	-100.0%	-	-	0.0%
Debt Service	205,638,100	210,621,400	228,328,300	22,690,200	11.0%	230,354,100	2,025,800	0.9%
General Retirement System Accelerated Pension	11,620,700	11,620,700	6,479,300	(5,141,400)	-44.2%	8,228,800	1,749,500	27.0%
Water Residential Assistance Program Contribution	2,394,200	2,394,200	2,503,100	108,900	4.5%	2,603,300	100,200	4.0%
Regional System Lease	27,500,000	27,500,000	27,500,000	-	0.0%	27,500,000	-	0.0%
Receiving Fund Working Capital Requirement	-	-	-	-	0.0%	-	-	0.0%
Improvement & Extension Fund Transfer Pending	39,342,500	30,952,400	30,172,600	(9,169,900)	-23.3%	35,745,500	5,572,900	18.5%
Annual Sewer System Revenue Requirements	\$481,372,100	\$488,735,200	\$500,627,000	\$ 19,254,900	4.0%	\$520,652,100	\$ 20,025,100	4.0%
<i>Change in Annual Revenue Requirement</i>				19,254,900	4.01%		20,025,100	4.1%
<i>Change Attributable to Non-Charge Revenue (FY 2024 increase in investment earnings)</i>				(5,901,700)	-1.23%		(2,561,000)	-0.5%
<i>Change Attributable to Sales Revenue (FY 2024 attributable to increased projected industrial charges)</i>				(160,200)	-0.03%		-	0.0%
Charge Adjustment (Based on Revenue Requirement Increase of 4.0%)				13,193,000	2.75%		17,464,100	3.5%

The ABCD's of the Operations & Maintenance Budget

Schedule 2C - Operations & Maintenance Biennial Budget by Service Area

Operating Area	FY 2023 Adopted Budget	FY 2023 Estimated Budget	FY 2024 Department Requested	FY 2024 Dollar Variance	FY 2024 Percent Variance	FY 2025 Department Requested	FY 2025 Dollar Variance	FY 2025 Percent Variance
A Water System Operations	\$ 76,518,200	\$ 76,518,200	\$ 82,732,800	\$ 6,214,600	8.1%	\$ 84,452,000	\$ 1,719,200	2.1%
B Sewer System Operations	113,197,500	123,967,400	132,934,300	19,736,800	17.4%	138,990,100	6,055,800	4.6%
C Centralized Services	104,502,900	104,502,900	106,900,500	2,397,600	2.3%	117,183,500	10,283,000	9.6%
D Administrative Services	34,681,700	34,681,700	35,982,500	1,300,800	3.8%	38,405,400	2,422,900	6.7%
Grand Total	\$328,900,300	\$339,670,200	\$358,550,100	\$ 29,649,800	9.0%	\$379,031,000	\$ 20,480,900	5.7%

Schedule 2E - Operations & Maintenance Expense by Fund with Centralized & Administrative Services Allocated - Biennial Budget

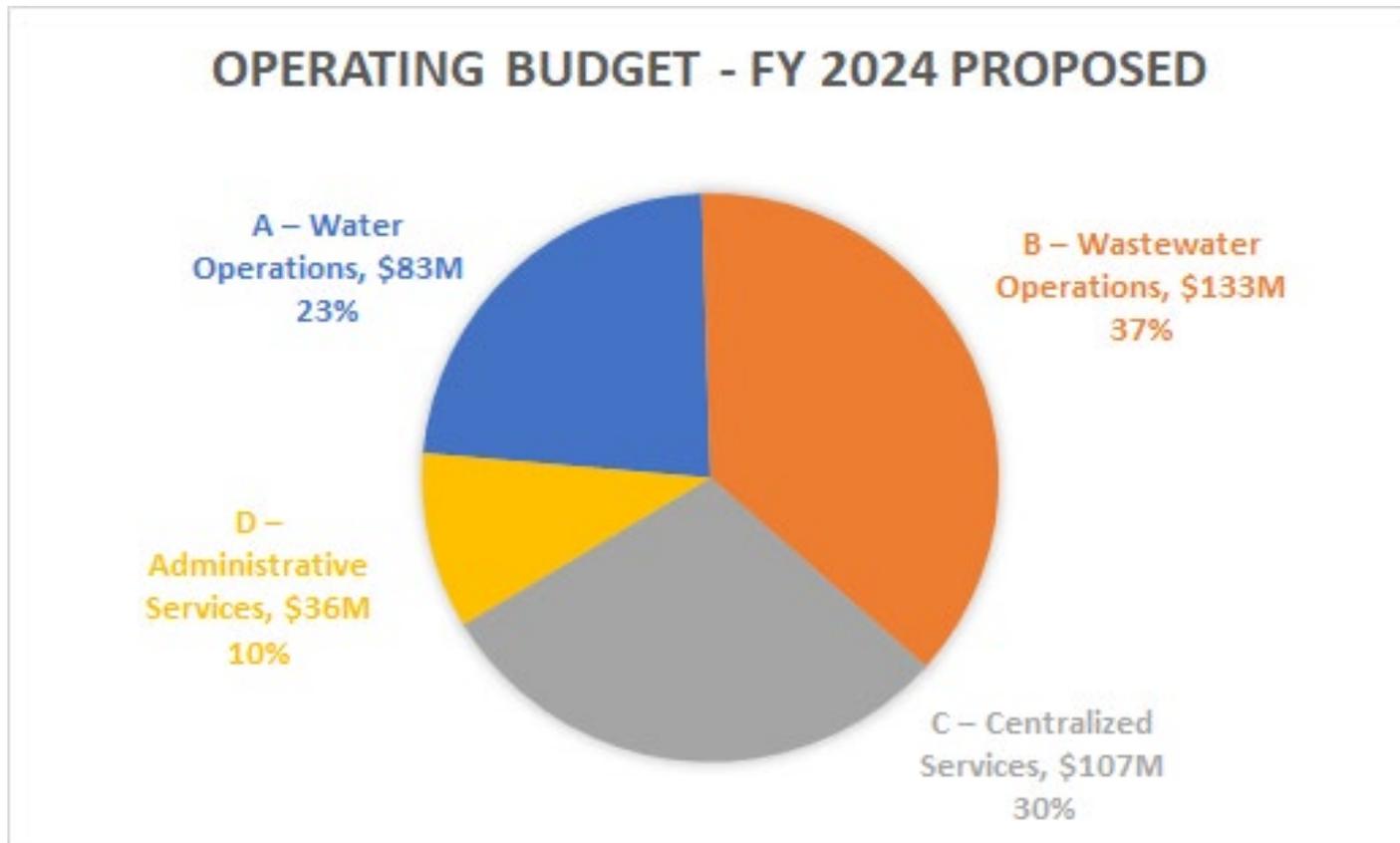
System	FY 2023 Adopted Budget	FY 2023 Estimated Budget	FY 2024 Department Requested	FY 2024 Dollar Variance	FY 2024 Percent Variance	FY 2025 Department Requested	FY 2025 Dollar Variance	FY 2025 Percent Variance
Water	\$144,847,700	\$144,847,700	\$152,906,400	\$ 8,058,700	5.6%	\$162,810,600	\$ 9,904,200	6.5%
Wastewater	184,052,600	194,822,500	205,643,700	21,591,100	11.7%	216,220,400	10,576,700	5.1%
Grand Total	\$328,900,300	\$339,670,200	\$358,550,100	\$ 29,649,800	9.0%	\$379,031,000	\$ 20,480,900	5.7%

Operations & Maintenance Expenses by Type

Schedule 2A - Operations & Maintenance Expense by Expense Type (Water and Sewer Combined) - Biennial Budget

Operations & Maintenance Expense	FY 2023 Adopted Budget	FY 2023 Estimated Budget	FY 2024 Department Requested	FY 2024 Dollar Variance	FY 2024 Percent Variance	FY 2025 Department Requested	FY 2025 Dollar Variance	FY 2025 Percent Variance
2.1 Salaries & Wages	\$ 75,768,800	\$ 72,925,200	\$ 74,765,400	\$ (1,003,400)	-1.3%	\$ 82,681,200	\$ 7,915,800	1.2%
2.2 Workforce Development	1,801,900	1,801,900	1,391,500	(410,400)	-22.8%	1,508,800	117,300	0.0%
2.3 Overtime	6,882,600	6,983,700	7,383,000	500,400	7.3%	7,738,600	355,600	0.2%
2.4 Employee Benefits	30,087,300	28,947,000	28,218,500	(1,868,800)	-6.2%	31,521,500	3,303,000	3.0%
2.5 Transition Services	7,603,700	11,119,300	9,128,700	1,525,000	20.1%	9,128,700	-	2.9%
Total Personnel Costs	122,144,300	121,777,100	120,887,100	(1,257,200)	-1.0%	132,578,800	11,691,700	9.7%
3.1 Electric	39,966,000	42,114,000	42,820,200	2,854,200	7.1%	43,343,300	523,100	0.7%
3.2 Gas	5,791,300	8,553,400	10,168,000	4,376,700	75.6%	10,346,500	178,500	1.6%
3.3 Sewage Service	2,268,400	2,268,400	2,563,100	294,700	13.0%	2,563,700	600	1.2%
3.4 Water Service	2,981,700	2,981,700	7,843,900	4,862,200	163.1%	7,845,900	2,000	1.9%
Total Utilities Costs	51,007,400	55,917,500	63,395,200	12,387,800	24.3%	64,099,400	704,200	1.1%
4.1 Chemicals	16,118,600	23,781,600	30,451,800	14,333,200	88.9%	30,714,100	262,300	1.0%
4.2 Supplies & Other	32,097,300	32,097,300	31,371,200	(726,100)	-2.3%	32,733,100	1,361,900	-2.5%
4.3 Contractual Services	104,579,200	105,992,500	106,889,200	2,310,000	2.2%	113,185,100	6,295,900	5.9%
5.1 Capital Program Allocation	(4,376,200)	(4,376,200)	(4,232,700)	143,500	-3.3%	(4,651,400)	(418,700)	0.4%
5.2 Shared Services	(2,925,000)	(1,500,900)	(1,655,800)	1,269,200	-43.4%	(1,680,000)	(24,200)	-47.9%
6.0 Capital Outlay	2,814,500	2,814,500	2,648,300	(166,200)	-5.9%	2,691,000	42,700	1.6%
7.0 Unallocated Reserve	7,440,200	3,166,800	8,795,800	1,355,600	18.2%	9,360,900	565,100	30.7%
Total Other Categories	155,748,600	161,975,600	174,267,800	18,519,200	11.9%	182,352,800	8,085,000	4.6%
Grand Total	\$328,900,300	\$339,670,200	\$358,550,100	\$ 29,649,800	9.0%	\$379,031,000	\$ 20,480,900	5.7%

Operating Budget - Overall



Proposed Operating Area Budgets Presented at Audit Committee on 12/16/2022 Available [Online](#)

Operating Area – Section 5A – Water Operations

Two Major Budget Categories

1. Water Operations
2. Water Pump Stations

Understanding the Water System Budget – Item of Interest:
Significant Contracts on Page 62 of Draft 2

Water Operations – net increase of \$6.2 million

Increase of \$7.5M

- Chemical costs (\$4.7 million) related to supply chain constraints and increased demand
- Electrical costs for Treatment Plant and Pump Stations (\$0.8 million)
- Contractual Services due to Mobile Dredging activities (\$0.9 million)
- Gas expense increase (\$0.2 million) due to commodity price increases; and
- other general categories (\$0.9 million).

Decrease of \$1.3M

- Personnel (net \$1.3 million) with a reduction of FTE counts (32.5 FTEs) offset by nine additional positions including seven positions focused on insourcing capital program engineering.

Operating Area – Section 5B – Wastewater Operations

Two Major Budget Categories

1. Wastewater Operations Group
2. Wastewater Pump Stations

Understanding the Wastewater System Budget –

Item of Interest:

Significant Contracts

on Page 91-92 and Page 94 note re biosolids dryer activity of Draft 2

Wastewater Operations – net increase of \$19.7M

Increase of \$20.8M

- Utility costs (\$11.2 million)
- Chemicals (\$9.6 million)

Decrease of \$1.1M

- Supplies & other (\$0.8 million) for maintenance activities.
- Personnel costs (\$0.3 million net) includes two new positions to insource capital program engineering services offset by a budget reduction for hard to fill positions (32.2 FTEs)

Operating Area – Section 5C – Centralized Services

Nine Major Budget Categories

1. Planning Services
2. Systems Control
3. Facility Operations
4. Fleet Operations
5. Field Service Operations
6. Energy, Research & Innovation
7. Transformation
8. Information Technology
9. Security & Integrity

Items of Interest on Budget Draft 2 for Centralized Services on pages 125 (Planning), 184 (Data Center Migration), 198 (Security & Integrity Initiatives), 171 (Innovation)

Centralized Services – increase \$2.4 million

Increases (\$3M)

- Personnel (\$0.4 million) for overtime and costs for increased skill levels
- contract services to support the Capital Improvement Planning group while staff for that team is ramping up (\$1.1 million)
- Loss of some reimbursements from DWSD Information Technology Shared Services revenue (\$1.4 million) due to reduced needs
- Other general categories (\$0.1 million).

Decreases (\$0.6M)

- Reduction in IT software subscriptions (\$0.6 million).

Operating Area – Section 5D – Administrative Services

Seven Major Budget Categories

1. Board of Directors
2. Chief Executive Officer
3. Chief Administrative & Compliance Officer
4. General Counsel
5. Public Affairs
6. Organizational Development
7. Financial Services

Items of Interest on Budget Draft 2 for Administrative Services is investing in attracting and retaining talent (PDF Page 245)

Administrative Services – increase \$1.3 million

Increases

- Covers several areas
- Organizational Development adding five positions (1.75 FTEs) to support onboarding and training (\$0.3 million)
- Logistics & Materials seeing utilities and facilities cost increases (\$0.2 million) for the Rialto warehouse
- Enterprise Risk Management Fund experiencing increased insurance premiums (\$0.1 million)
- Contractual services within Organizational Development (\$0.1 million), CFO Services (\$0.1 million), and others general categories (\$0.5 million) for a total of \$0.7 million.

GLWA is all about *One Water*...

the movement of water from the environment, to our member partners, and back to the environment. We ensure our member partner communities get the highest quality water using treatment standards that are stricter than state or federal regulatory requirements. Once the water has been used, we run it through our treatment process again before returning it to the environment – often times cleaner than when we received it. Working hand-in-hand with our member partners, GLWA provides water of unquestionable quality and efficient and effective wastewater services. Together, we are **One Water**.

