



Financial Services Audit Committee Communication

Date: September 23, 2022

To: Great Lakes Water Authority Audit Committee

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

Re: CFO Update

As we approach the end of the first quarter for FY 2023, we are well into the planning for FY 2024 & FY 2025 Biennial Budget and related five-year financial plan through FY 2028 and ten year forecast through FY 2033. There are some unique considerations that we will be addressing with you over the next few months.

1. Water System Contract Alignment Process (“CAP”) is underway. It is too early to provide an overall summary of the value updates that are being discussed with the GLWA CAP team and Member Partners. The initial goal was implementation of these values in FY 2024 charges.
2. Water Charges Methodology Review is also underway. Attached is the working subgroup’s project charter. Also, attached are presentation materials that were presented yesterday as part of report out from the subgroup to the over water system Member Partners. The initial goal was implementation of these values in FY 2025 charges.
3. Evaluating options for the combined impact of the CAP alongside the methodology review and maintaining charge stability over the course of the next years.
4. Incorporating the Economic Outlook Task Force findings and related planning scenarios into the financial plan as well as enhanced management of the capital improvement plan. A report will be presented in October.
5. Ongoing efforts with the Sewer SHARES workgroup and efforts to bring closure to topics under study.
6. The calendar for charges rollout meetings will be announced soon.

Proposed Action: Receive and file report.

Background and Overview

GLWA's current water charge methodology uses 6 measures to represent each member's use of the system and therefore to allocate costs:

1. Water purchased
2. Max day
3. Peak hour
4. Distance
5. Elevation
6. Wholesale meters

Distance and elevation are based on measurements from each member's points of commerce to GLWA's 5 water treatment plants. GLWA plans to decommission the Northeast Water Treatment plant in the coming years. How to measure distance and elevation once that happens is the impetus of the review of the water charge methodology.

At the same time, in recent years members have also voiced a desire to discuss other questions, such as whether the current methodology applies the right weighting to each of the 6 measures. This review seeks to consider the refinements of greatest importance to members to determine what changes – if any – members seek to the methodology.

Subgroup Charge

The Water Charge Methodology Review Subgroup is charged with developing recommended changes (or not!) to the current methodology, for consideration by all water Member Partners and – ultimately – for the GLWA Board of Directors, with the goal of implementing any changes as part of GLWA's fiscal year 2025. While it is desirable that these recommendations be made with unanimous consensus among members of the subgroup, unanimous consensus is not necessary.

Guiding Principles for the Review

The following guiding principles were initially developed based on feedback members provided at the May 26, 2022 Charges Work Group and then further refined by the subgroup on June 30, 2022. They will serve as filters for decision-making as the subgroup prioritizes which methodology changes to consider and ultimately which to recommend:

1. *Stable* - the variation in a member's charges year over year will remain as stable or more stable than it currently is, assuming no change in the member's water use
2. *Simple* - the methodology will be no more complicated than the current methodology
3. *Impartial* - the amount that a member pays will be a reasonable representation of their use of the system

4. *Sustainable* - the methodology will guide investment and growth in the regional system in alignment with the regional One Water philosophy, and will encourage environmental and economic prosperity for the region

Rules of Collaboration

As per the One Water Partnering Agreement, subgroup members will abide by and actively support the following rules of collaboration:

1. Show mutual respect for each Members' point of view.
2. Balance the needs of your individual community or entity with the interests of the system as a whole.
3. Work toward consensus on each issue. "Consensus" means an opinion held by all or most of the subgroup, which is supported by a show of hands.
4. Enter each meeting with a willingness to acknowledge your own personal bias to encourage and maintain a collaborative working environment.
5. Respect individual concerns and needs as each member is unique.
6. Be proactive and take initiative in raising issues and providing recommendations prior to, during, and after meetings.

Meeting Norms

- Attend consistently, participate actively, and be fully present – for virtual meetings, turn off or ignore email, texts, and calls.
- Seek first to understand. When in doubt, ask!
- Share airtime – be mindful of helping us include as many voices as possible.

Subgroup Membership

The following individuals have volunteered to serve on the subgroup:

1. Ali Dib, Dearborn Heights
2. Carrie Cox, Oakland County Water Resources Commissioner's Office
3. Carrie Smalley, Inkster
4. Chuck Bellmore, Clinton Township
5. Corey Jarocki, Dearborn
6. Danielle Allen, Shelby Township
7. Dave Miller, Shelby Township
8. Derek Thiel, Grosse Ile Township
9. Jason Esper, Washington Township
10. Jeff Herczeg, Novi
11. Jeff McKeen, Southeastern Oakland County Water Authority
12. Karen Mondora, Farmington Hills
13. Kevin Johnson, Macomb Township
14. Luther Blackburn, Ypsilanti Community Utilities Authority

15. Mark Gaworecki, Dearborn
16. Mary Bednar, Clinton Township
17. Matt Lane, GLWA
18. Michael Moore, Sterling Heights
19. Michael Way, Grosse Pointe Shores
20. Mike Buiten, Wayne
21. Nicole Golich, Dearborn
22. Raphael Chirolla, Oakland County Water Resources Commissioner's Office
23. Rich Amormino, Washington Township
24. Robert Rice, Detroit Water and Sewerage Department
25. Sam Smalley, Detroit Water and Sewerage Department
26. Susan Knepper, OHM Advisors on behalf of North Oakland County Water Authority
27. Tim Minor, ASI on behalf of Oakland County Water Resources Commissioner's Office
28. Warren Rothe, Grosse Pointe Park

Subgroup Support

The following individuals will serve as advisors and support to the subgroup:

- Sherri Gee, GLWA
- Jody Caldwell, GLWA*
- Matt Lane, GLWA
- Tim Kuhns, GLWA*
- Todd King, GLWA*
- Eric Griffin, GLWA*
- Bart Foster, The Foster Group
- Brittany Galisdorfer, Bridgeport Consulting
- Lori Byron, Bridgeport Consulting*

Those with an asterisk (*) will attend subgroup meetings as is helpful to advance the work; they may not attend every meeting.

Timeline

The schedule is designed to accommodate a consensus recommendation tendered to the GLWA Board of Directors by Fall 2023. It is possible that the work may move more quickly than described below. Once the review gets underway, the schedule and approach will be refined as is appropriate and in collaboration with those involved.

Phase 1: Launch and Design

May 2022 – July 2022

- Establish methodology review process
- Confirm guiding principles for the water charge methodology review
- Build understanding of current water charge methodology

Phase 2: Discovery and Data Gathering July 2022 – January 2023

- Get all ideas for possible refinements on the table
- Narrow the list based on the guiding principles
- Conduct and review initial analyses

Phase 3: Testing and Validation January 2023 – June 2023

- Develop recommended refinements (1-3 options)
- Vet options with full membership
- Refine and iterate as needed

Phase 4: Finalize and Communicate June 2023 – November 2023

- Achieve member consensus on a recommended methodology
- Transmit recommendation to the Board for approval
- Success ensues!

To achieve this timeline, the subgroup will meet approximately every other week, starting in July 2022 and primarily in person, to work through the details. Approximately every other month, virtual meetings will be scheduled for any parties interested in the status of the work to be brought up to speed.

**Charges Work Group: Water Charge Methodology
Review Update
Meeting Agenda
September 22, 2022, 10:00 a.m.– 12:00 p.m.
Via Zoom**



10:00 a.m. – 10:05 a.m.	<p>Welcome and Agenda Review – Brittany Galisdorfer, Bridgeport</p> <ul style="list-style-type: none"> • Meeting objectives: To build a shared understanding of the status of the water charge methodology review and path ahead
10:05 a.m. – 10:15 a.m.	<p>Opening Remarks – Suzanne Coffey, GLWA</p>
10:15 a.m. – 10:25 a.m.	<p>Recap of Highland Park Bad Debt Status – Randal Brown, GLWA</p>
10:25 a.m. – 11:00 a.m.	<p>Subgroup Progress to Date – Corey Jarocki, Dearborn & Kevin Johnson, Macomb Township</p> <ul style="list-style-type: none"> ▪ Methodology review timeline ▪ Potential changes proposed for consideration to date and early findings ▪ Breakout discussions to surface questions/reactions ▪ Popcorn-style report-out
11:00 a.m. – 11:05 a.m.	<p>BREAK</p>
11:05 a.m. – 11:40 a.m.	<p>Subgroup Next Steps – Jeff Herczeg, Novi</p> <ul style="list-style-type: none"> ▪ Overview of potential changes yet to be analyzed/discussed ▪ Breakout discussions to surface questions/reactions and to welcome suggestions for additional changes to consider ▪ Popcorn-style report-out
11:40 a.m. – 11:55 a.m.	<p>Water Charge Methodology Review: Third Party Charges Consultant – Matt Lane, GLWA</p>
11:55 a.m. – 12:00 p.m.	<p>Closing Remarks – Suzanne Coffey, GLWA</p>



Subgroup Progress

September 22, 2022

Corey Jarocki, Dearborn

Charges Methodology Review Timeline



Charges Methodology Review Timeline

PHASE 1 Launch & Design May 2022 – Jul 2022

- Establish methodology review process
- Build understanding of current water charge methodology
- Confirm guiding principles for the water charge methodology review

Guiding Principles Refined

Charges Work Group Meeting
May 26, 2022

- Stability
- Long-Term
- Simplicity
- Regional
- Fairness
- Growth-Friendly
- Respect



Methodology Review Goals

Stable
We know what to expect, year over year

Simple
We can explain it to our stakeholders

Impartial
We pay based on data that reasonably aligns with our system use

Sustainable
We grow the system to benefit members and the region broadly

Charges Methodology Review Timeline

PHASE 2 Discovery & Data Gathering

Jul 2022 – Jan 2023

- Get all ideas for possible refinements on the table
- Narrow the list based on the guiding principles
- Conduct and review initial analyses

Charges Methodology Review Timeline

PHASE 3 Testing & Validation

Jan 2023 – Jun 2023

- Develop recommended refinements (1-3 options)
- Vet options with full membership
- Refine and iterate as needed

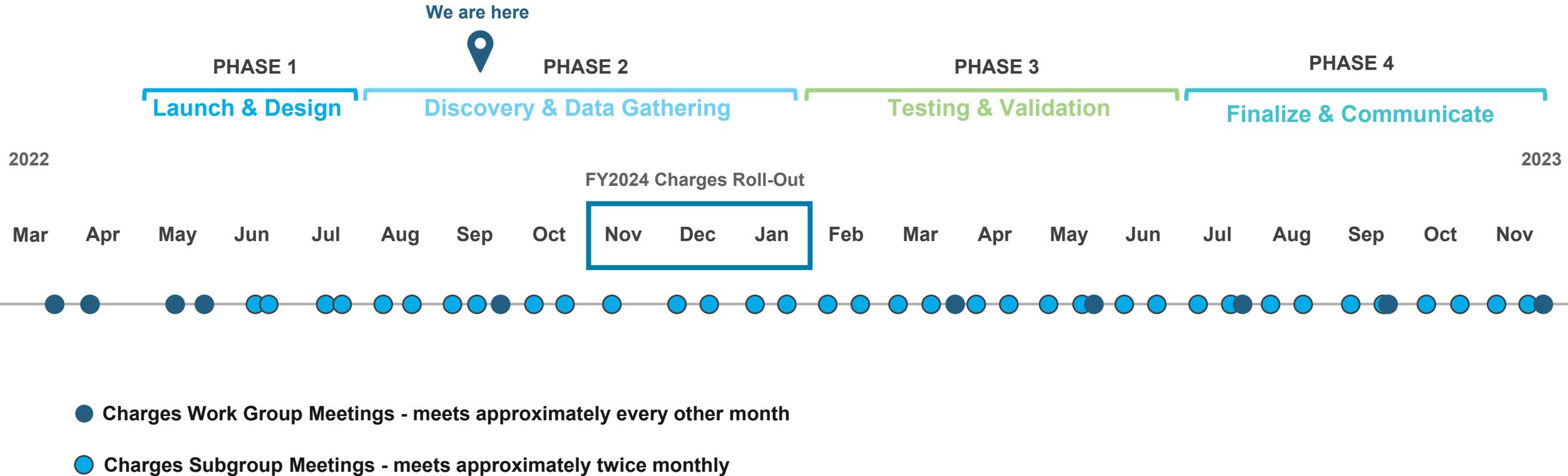
Charges Methodology Review Timeline

PHASE 4 Finalize & Communicate

Jun 2023 – Nov 2023

- Achieve member consensus on a recommended methodology
- Transmit recommendation to the Board for approval
- Success ensues!

Charges Methodology Review Timeline



Charges Work Group | September 22, 2022

Water Charges Methodology Workgroup Update

Group's Phased Approach

- Phase 1: Launch and Design May – July 2022
- **Phase 2: Discovery and Data Gathering** **July – January 2023**
- Phase 3: Testing and Validation January – June 2023
- Phase 4: Finalize and Communicate June - November 2023

Current Methodology Cost Pools

- Currently use Commodity-Demand Method
- Cost Pools technically referred to as Functional Service Components
- Cost allocated to one or more cost pools based on members' use of system

Capital Cost Pools	O&M Cost Pools
Source of Supply	Source of Supply – Power Source of Supply – Other
Low Lift Pumping	Low Lift Pumping – Power Low Lift Pumping – Other
Purification	Purification – Chemicals Purification – Other
High Lift Pumping	High Lift Pumping – Power High Lift Pumping – Other
Reservoirs	Reservoirs
Water Booster Stations	Water Booster Stations
Transmission Mains	Transmission Mains
Wholesale Master Meters	Wholesale Master Meters

Phase 2: Discovery and Data Gathering

- 4 Key Ideas Analyzed So Far
 - Eliminating Smallest Cost Pools
 - Alignment with AWWA Methodologies
 - Distribution Costs under Base-Extra vs. Commodity Demand Approach
 - Allocation of Power Costs



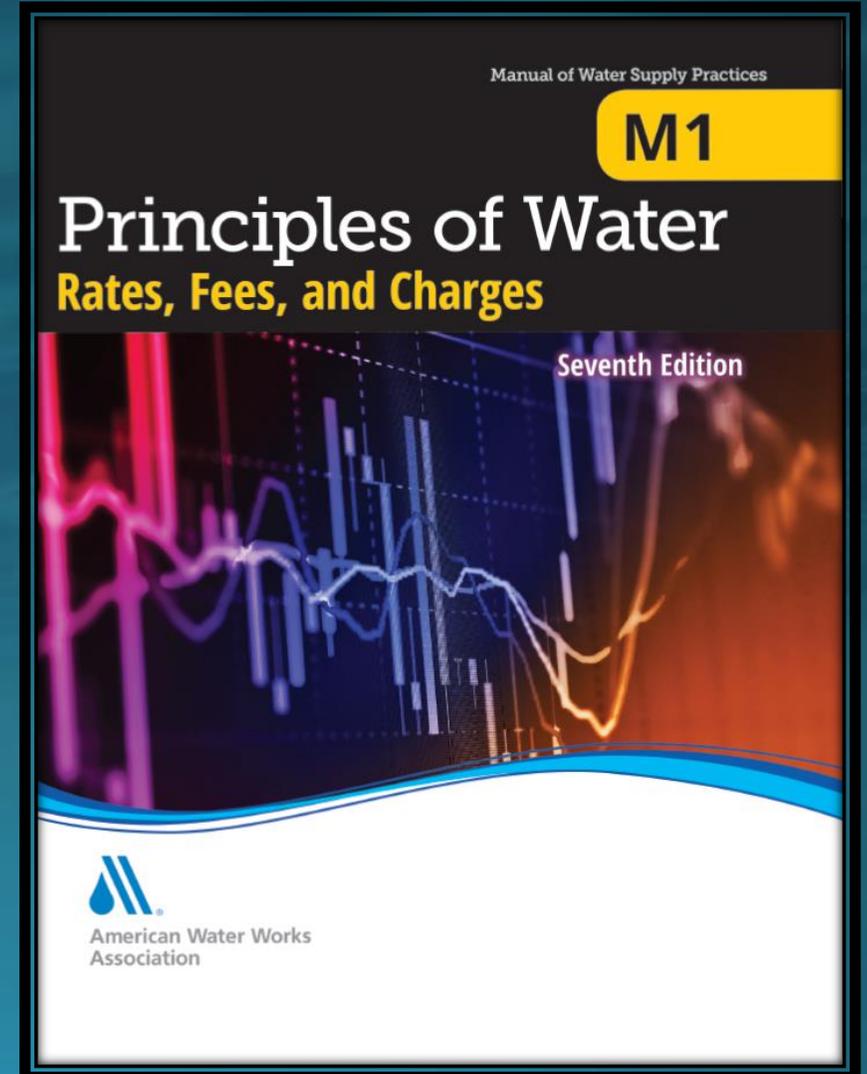
4 Key Ideas Analyzed

- 1: Look Into Eliminating Smallest Cost Pools
 - Looking to Simplify Charges to Make them Less Complicated

Cost Pools
Commodity
Max Day
Peak Hour Increment
Peak Hour Distance
Commodity Distance-Elevation
Max Day Distance-Elevation
Peak Hour Distance-Elevation
Peak Hour Increment Distance-Elevation
Wholesale Master Meters

4 Key Ideas Analyzed

- 2: Alignment with AWWA Manual
 - Industry Standard
- 3: Base-Extra vs. Commodity-Demand
 - Difference in methods is negligible
 - ~13 years ago, DWSD switched from base-extra to commodity-demand



4 Key Ideas Analyzed

- 4: Allocation of Power Costs
 - Does GLWA's Max Day/Peak Hour align with DTE?
 - How does power correlate with system usage?

