



# Budget & Charges Briefing

GLWA Board of Directors  
November 17, 2022

# Overall Budget & Charges Timing

- Wednesday, February 22, 2023 – Public Hearing
- Thursday, January 19, 2023 – Charges Rollout #4
- Thursday, January 12, 2023 – Charges Rollout #3
- Friday, 12/16/2022 – Audit Committee receives proposed budget and related charges strategy
- Thursday, 12/8/2022 – Pencils down on materials for 12/16/2022
- Tuesday, 11/21/2022 – Final internal revisions
- ➔ • Thursday, 11/17/2022 – Board of Directors Meeting
  - Phase I - Economic Outlook Task Force Report
  - Budget and Charges Briefing
- Wednesday, 11/16/2022 = Charges Rollout #2: Units of Service – Water Member Partners see impact of CAP results on individual charges

# Strategic Matters

## 1) Budget

- Short-term Challenges
  - Unprecedented budget constraints that increase the “base cost” over the long-term
  - Two more years of the 4% Promise for which GLWA has over-delivered
- Long-term Course
  - Correct over-delivery of 4% Promise to achieve improved sustainability
  - Forecasted return to long-term plan objectives by year 10
  - Mindful of external forces (economy, GRS Pension liability)

## 2) Charges

- Water Contract Alignment Process (CAP) impacts FY 2024 Charges
- Sewer SHARES impacts FY 2025 Charges

# Near-term Issues to Address

- Budget Balancing and Forecast Impacts:
  - 4% Promise
  - Overall Operations & Maintenance Budget
  - Capital Spend Rate Assumption – presently at 100%
  - Intersection of State Revolving Loan and Deferral of Capital Improvement Plan projects
  - Targeted Fund Balances
  - Debt Service Coverage / Long-term Financial Goals
- Entering an era of “belt tightening” controls while expanding financial agility to meet significant external forces impacting our organization
- Highland Park Bad Debt Expense
- CAP Results Implementation – open Member Partner contracts and timing

# Part 1 – Balancing the Budget

# “Balancing” the Overall Budget

In alphabetical order:

## ***Some Discretion***

- Capital Spending Ratio
- Improvement & Extension
- Operations & Maintenance
- Revenue from Charges

## ***No Discretion***

- Debt Service
- Lease
- Legacy Pension
- WRAP

# Reminder: 4% Promise = *Fixed Total Budget Ceiling*

- The 4% Promise in our founding documents relates to the “Revenue Requirement” which is the “total budget” (e.g. expenses and funding commitments such as legacy pension and lease)
  - **This is locked in thru FY 2025**
- When we refer to a “top line adjustment of 4%” - this is to the “total Revenue Requirement Budget” – *not charges*
- The total budgetary expenses and funding commitments, minus other income, is the revenue required from charges
  - On a “system-wide” basis the charges adjustment will inherently be less than 4% *IF the sum of other revenues is increasing* (e.g. investment income) and/or if a positive variance in sales volume occurs – and vice versa
- NOTE: Feasibility business case forecast for forming regional authority was DSC of 1.5 for water and 1.6 for sewer achieved by FY 2020

# 4% Promise – Overdelivered on Expectations

**Starting with FY 2017, Budget Increase:**

**Water:** 11.8% (1.9% annually)

**Wastewater:** 7.9% for Wastewater (1.3% annually)

**Benchmark:** 4% Promise Ceiling: 31.6%

**Starting with FY 2017, Average Annual Charges Increase:**

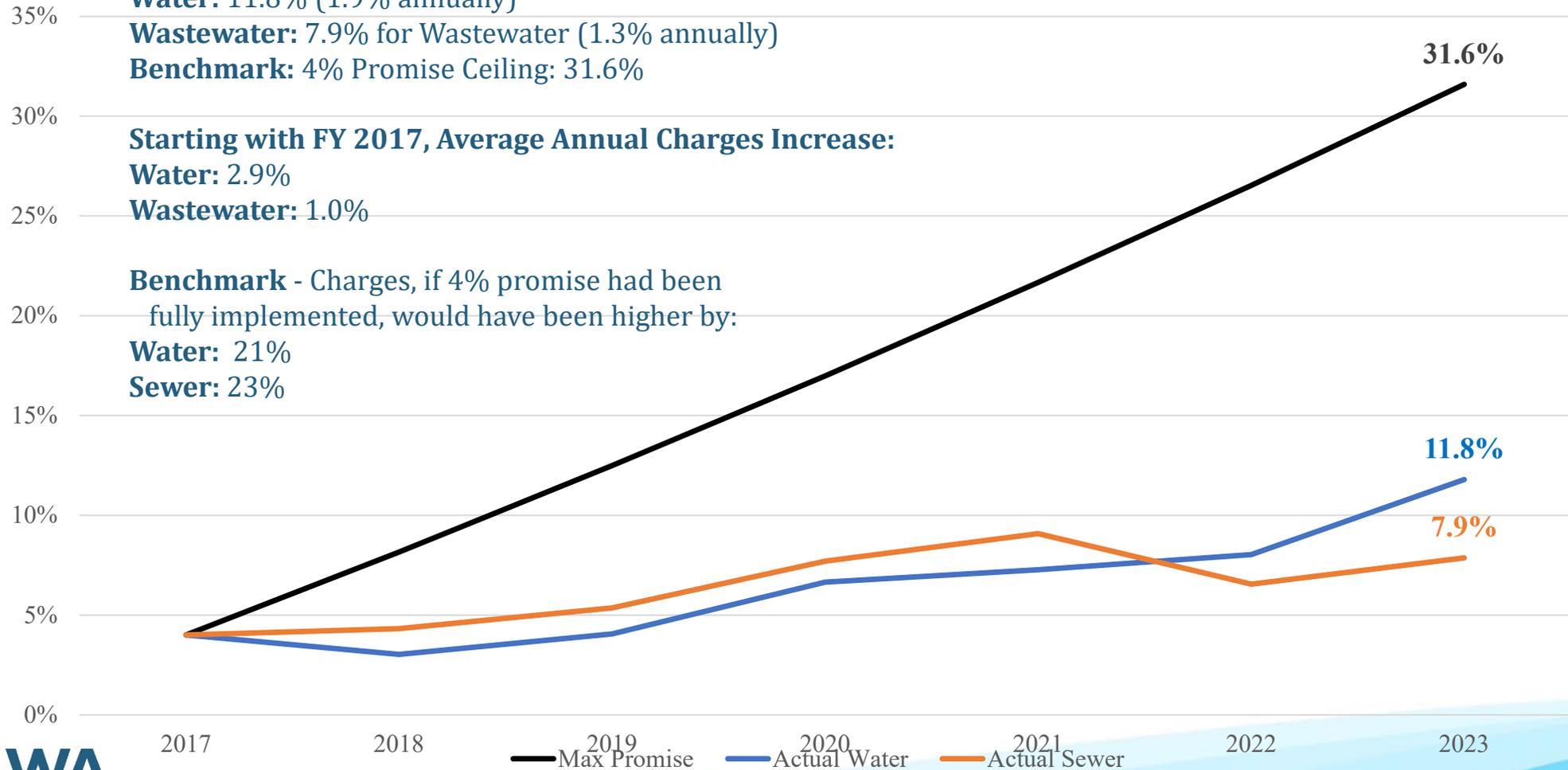
**Water:** 2.9%

**Wastewater:** 1.0%

**Benchmark - Charges, if 4% promise had been fully implemented, would have been higher by:**

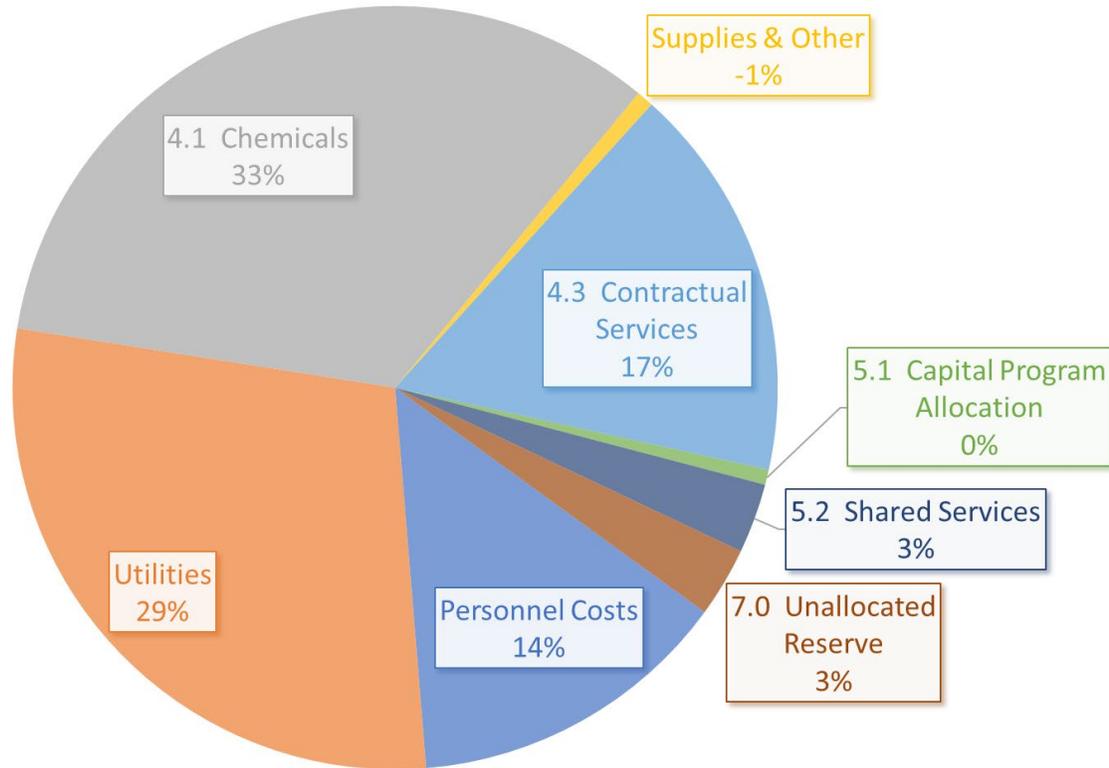
**Water:** 21%

**Sewer:** 23%



# Initial O&M Request, October 24, 2022

BUDGET REQUEST INCREASE BY CATEGORY



## Great Lakes Water Authority Budget Trend - Analysis as of 10.24.2022

Fund #

	10.24.2022 Variances	
	Sum of FY 24 to 23 Budget Dollars	Sum of FY 24 Over PY Budget
"BUDGET O&M Expense		
+ Personnel Costs	5,897,900	4.8%
+ Utilities	12,387,800	24.3%
+ 4.1 Chemicals	14,411,200	89.4%
+ Supplies & Other	(308,000)	-0.9%
+ 4.3 Contractual Services	7,212,100	6.9%
+ 5.1 Capital Program Allocation	275,400	-6.3%
+ 5.2 Shared Services	1,269,200	-43.4%
+ 7.0 Unallocated Reserve	1,273,100	17.1%
<b>Grand Total</b>	<b>42,418,700</b>	<b>12.9%</b>

# Steps Taken to Address Cost Increases

## A. O&M Budget Reduction

- Consideration of range on a) Chemicals, b) Utilities, c) Other
  - High, Medium, Low usage and related drivers
  - Helps us to evaluate risk level if we scale back
  - More in-depth commodity analysis / pricing forecasts

## B. Financial Plan Re-Alignment

- Re-evaluate Capital Spend Ratio
- If this is a “new normal” on chemicals and utilities, any CIP or other potential initiatives to reduce O&M impact that meets a new cost/benefit view?

# FY 2024 Budget Adjustments to Balance

GLWA TOTAL	FY 2023 Revenue Req'ts			FY 2024 Revenue Requirements						
	FY 2023	FY 2023	FY 2023	<i>Bond Sale</i>	10/26/22	11/15/22	Impact of Budget Revisions		FY 2024 vs. FY 2023	
	<u>Adopted</u>	<u>Amendments</u>	<u>Amended</u>	<u>Forecast</u>	<u>Version</u>	<u>Version</u>	\$	%	\$	%
<i>Indexed Adjustment -&gt;</i>				4.0%	4.0%	4.0%	(5) - (4)	(6) / (4)	(5) - (1)	(8) / (1)
<b>Revenue Requirements</b>										
1 Operations & Maintenance Expense	328,900,300	10,769,900	339,670,200	349,860,300	371,319,000	358,550,100	(12,768,900)	-3.4%	29,649,800	9.0%
2 GRS Legacy Pension	16,872,000	0	16,872,000	0	0	0	0	0.0%	(16,872,000)	-100.0%
3 Debt Service	355,975,200	6,207,300	362,182,500	385,232,600	384,343,600	384,343,600	0	0.0%	28,368,400	8.0%
4 GRS Accelerated Pension	17,889,000	0	17,889,000	9,874,800	9,874,800	9,874,800	0	0.0%	(8,014,200)	-44.8%
5 WRAP Contribution	4,164,700	0	4,164,700	4,406,100	4,426,600	4,426,600	0	0.0%	261,900	6.3%
6 Regional System Lease	50,000,000	0	50,000,000	50,000,000	50,000,000	50,000,000	0	0.0%	0	0.0%
7 Subtotal	773,801,200	16,977,200	790,778,400	799,373,800	819,964,000	807,195,100	(12,768,900)	-1.6%	33,393,900	4.3%
8 I&E Deposit	63,642,500	(7,094,000)	56,548,500	71,567,700	50,977,500	63,746,400	12,768,900	25.0%	103,900	0.2%
9 Total	837,443,700	9,883,200	847,326,900	870,941,500	870,941,500	870,941,500	0	0.0%	33,497,800	4.0%
10 less: Non-Operating Revenue	(2,679,300)	(13,536,800)	(16,216,100)	(19,838,900)	(20,104,100)	(20,104,100)	0	0.0%	(17,424,800)	650.3%
11 Revenue Req'd from Charges	834,764,400	(3,653,600)	831,110,800	851,102,600	850,837,400	850,837,400	0	0.0%	16,073,000	1.9%
12 Revenue via Existing Charges				831,110,800	836,620,300	836,620,300	0	0.0%	836,620,300	0.0%
13 Charge Adjustment Required				19,991,800	14,217,100	14,217,100	0	0.0%	14,217,100	0.0%
14 Charge Adjustment Required %				2.4%	1.7%	1.7%	0.0%	0.0%	1.7%	0.0%
15 Regional Debt Service Coverage	1.38	(0.03)	1.36	1.35	1.30	1.33	0.03		(0.05)	

# Part 2 – Long-term Financial Plan

# Short Term Challenges – Long-term Recovery

- The long-term forecast is being updated to support the FY 2024 budget and charges
  - Adheres to the full 4% promise in FYs 2024 and 2025
  - Alternative Scenarios being considered to recover financial metrics
- Key Assumptions:
  - 100% Capital Spend Rate Assumption
  - 3% annual increases in O&M Expense
  - Bond Interest Rate = 5.0%, SRF Interest Rate = 2.75%
  - Continued active support from EGLE for SRF prioritization

# Short Term Challenges – Long-term Recovery

DSC: Debt Service Coverage – key required measure for bond compliance and key indicator of financial health and sustainability; presented here for regional system only

Scenarios	Sewer	Water
Scenario 1 Objective – Continue 4% Promise past FY 2025 requirement	Year 5 DSC is 1.40 Bond OS Year 5 was 1.48	Not feasible – DSC goes below 1.25 by FY 2027 Bond OS was >1.3 throughout
Scenario 2 Objective – Desired minimum DSC of 1.5 by FY 2028; 1.8 by FY 2033	Requires 5% increase in FY 2026 thru 2028; 3% thereafter	Requires 8% increase in FY 2026 thru FY 2028; 4.5% thereafter
Scenario 3 Objective for Water only – Moderated annual budget increase	n/a – Scenario 2 achieves balance of reasonable annual budget increase and DSC goal	Requires 6% increase for entire forecast period; Reaches 1.75 by FY 2033

# Ten-year Financial Plan Scenario #1 – Continuation of 4% Promise Throughout

# Scenario #1 - Sewer Forecast Update (\$ millions)

<b>Sewer System</b>														
	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>Total</u>		
<u>Final Series 2022 Bond Sale Forecast</u>														
Budget Adjustment (4% Promise)		4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	48.0%		
Charge Adjustment		2.6%	4.2%	4.3%	4.1%	4.2%	4.1%	4.1%	4.0%	3.9%	4.0%	46.4%		
Projected Revenue	486.6	500.6	520.7	541.5	563.1	585.7	609.1	633.5	658.8	685.1	712.5			
Projected Expenses	194.8	200.7	206.7	212.9	219.3	223.7	228.1	232.7	237.3	242.1	246.9			
Net Revenues	291.8	300.0	314.0	328.6	343.9	362.0	381.0	400.8	421.4	443.0	465.6			
Contribution to I&E	28.1	38.0	54.8	66.9	71.4	79.5	98.9	124.6	148.7	170.8	192.9	1,074.7		
Projected Cash Balance	262.5	262.3	262.1	262.1	262.6	263.0	263.6	266.5	291.7	379.7	400.0			
Capital Improvements *	144.4	144.4	173.9	192.6	166.4	141.6	181.1	161.0	121.7	123.5	125.0	1,675.5		
New Bond Sales **	210.5	0.0	100.0	0.0	175.0	0.0	0.0	0.0	0.0	0.0	0.0	485.5		
SRF Loan Proceeds **	50.0	32.4	34.6	33.6	40.4	0.0	0.0	0.0	0.0	0.0	0.0	191.0		
Debt Service Coverage **	1.33	1.33	1.42	1.47	1.47	1.48	1.56	1.68	1.80	1.89	1.99		Key Variance	Key Variance
<u>Scenario 1 FY 2024 Budget Projections</u>														
Budget Adjustment (4% Promise)		4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	48.0%	0.0%	0.0%
Charge Adjustment		2.0%	4.1%	4.1%	4.1%	4.1%	4.4%	4.0%	4.1%	4.2%	4.1%	45.8%	-0.6%	-1.4%
Projected Revenue	488.7	500.6	520.7	541.5	563.1	585.7	609.1	633.5	658.8	685.1	712.5	FY 28 ->	0.0	0.0%
Projected Expenses	194.8	205.6	216.2	221.3	225.0	229.6	234.2	238.9	243.7	248.5	253.5	FY 28 ->	6.0	2.7%
Net Revenues	293.9	295.0	304.4	320.2	338.2	356.0	374.9	394.6	415.1	436.6	459.0	FY 28 ->	(6.0)	-1.6%
Contribution to I&E	30.9	33.0	41.3	50.3	57.4	63.6	82.9	108.4	132.4	154.4	176.8	931.4	(143.3)	-13.3%
Projected Cash Balance	265.2	265.1	265.1	265.2	264.8	265.1	265.4	306.8	268.4	258.2	264.8			
Capital Improvements *	162.9	198.1	195.5	173.8	145.0	123.1	150.7	161.1	170.8	164.6	170.2	1,815.9	140.4	8.4%
New Bond Sales **	210.5	0.0	225.0	0.0	215.0	0.0	0.0	0.0	0.0	0.0	0.0	650.5	165.0	34.0%
SRF Loan Proceeds **	38.7	38.5	40.2	27.0	23.0	18.0	0.0	0.0	0.0	0.0	0.0	185.5	(5.5)	-2.9%
Debt Service Coverage **	1.34	1.31	1.35	1.38	1.39	1.40	1.48	1.59	1.70	1.79	1.88	FY 28 ->	(0.08)	-5.5%



# Scenario #1 - Water Forecast Update (\$ millions)

## Water System

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Total		
<b>Final Series 2022 Bond Sale Forecast</b>														
Budget Adjustment (4% Promise)		4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	48.0%		
Charge Adjustment		2.2%	4.1%	4.3%	4.1%	4.2%	4.0%	4.1%	4.1%	4.1%	4.0%	46.1%		
Projected Revenue	360.7	370.3	385.1	400.5	416.6	433.2	450.5	468.6	487.3	506.8	527.1			
Projected Expenses	144.8	149.2	153.7	158.3	163.0	166.3	169.6	173.0	176.5	180.0	183.6			
Projected Net Revenues	215.9	221.1	231.5	242.3	253.5	266.9	280.9	295.6	310.8	326.8	343.5			
Contribution to I&E	28.5	33.6	34.5	35.7	31.8	36.8	37.4	40.7	44.7	54.7	57.4	435.7		
Projected Cash Balance	224.3	224.2	224.3	224.5	224.3	224.2	224.6	224.3	224.3	224.3	224.3			
Capital Improvements *	209.8	238.8	232.0	184.3	158.5	228.4	228.5	179.3	176.4	153.5	150.0	2,139.6		
New Bond Sales **	207.2	0.0	200.0	0.0	330.0	0.0	340.0	0.0	240.0	0.0	125.0	1,442.2		
SRF Loan Proceeds **	126.8	107.9	51.2	48.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	334.7		
Debt Service Coverage **	1.39	1.38	1.38	1.36	1.31	1.32	1.31	1.31	1.31	1.34	1.35		Key Variance	Key Variance
<b>Scenario 1 FY 2024 Budget Projections</b>														
Budget Adjustment (4% Promise)		4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	48.0%	0.0%	0.0%
Charge Adjustment		1.3%	4.0%	4.0%	4.1%	4.1%	4.5%	4.0%	4.1%	4.1%	4.0%	45.4%	-0.7%	-1.6%
Projected Revenue	362.5	370.3	385.1	400.5	416.6	433.2	450.5	468.6	487.3	506.8	527.1	FY 28 ->	0.0	0.0%
Projected Expenses	144.8	152.9	162.8	165.3	169.3	172.6	176.0	179.5	183.1	186.8	190.5	FY 28 ->	6.3	3.8%
Projected Net Revenues	217.7	217.4	222.3	235.2	247.2	260.7	274.5	289.0	304.2	320.0	336.5	FY 28 ->	(6.3)	-2.4%
Contribution to I&E	30.4	28.9	20.8	18.0	20.0	18.9	24.9	24.0	30.4	32.4	40.1	288.8	(147.0)	-33.7%
Projected Cash Balance	230.6	230.5	230.7	230.6	230.7	230.5	230.8	230.8	230.6	230.5	240.7			
Capital Improvements *	262.8	266.4	222.9	189.1	188.8	170.8	181.6	170.2	201.7	220.3	206.7	2,281.3	141.8	6.6%
New Bond Sales **	207.2	0.0	310.0	0.0	300.0	0.0	315.0	0.0	345.0	0.0	350.0	1,827.2	385.0	26.7%
SRF Loan Proceeds **	58.2	178.2	55.2	40.0	27.5	0.0	0.0	0.0	0.0	0.0	0.0	359.1	24.4	7.3%
Debt Service Coverage **	1.40	1.35	1.29	1.25	1.24	1.22	1.24	1.22	1.24	1.24	1.26	FY 28 ->	(0.10)	-7.7%

# Ten-year Financial Plan Scenario #2 – Desired Debt Service Coverage Metrics

# Scenario #2 Sewer Forecast Update (\$ millions)

## Sewer System

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Total		
<b>Final Series 2022 Bond Sale Forecast</b>														
Budget Adjustment (4% Promise)		4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	48.0%		
Charge Adjustment		2.6%	4.2%	4.3%	4.1%	4.2%	4.1%	4.1%	4.0%	3.9%	4.0%	46.4%		
Projected Revenue	486.6	500.6	520.7	541.5	563.1	585.7	609.1	633.5	658.8	685.1	712.5			
Projected Expenses	194.8	200.7	206.7	212.9	219.3	223.7	228.1	232.7	237.3	242.1	246.9			
Net Revenues	291.8	300.0	314.0	328.6	343.9	362.0	381.0	400.8	421.4	443.0	465.6			
Contribution to I&E	28.1	38.0	54.8	66.9	71.4	79.5	98.9	124.6	148.7	170.8	192.9	1,074.7		
Projected Cash Balance	262.5	262.3	262.1	262.1	262.6	263.0	263.6	266.5	291.7	379.7	400.0			
Capital Improvements *	144.4	144.4	173.9	192.6	166.4	141.6	181.1	161.0	121.7	123.5	125.0	1,675.5		
New Bond Sales **	210.5	0.0	100.0	0.0	175.0	0.0	0.0	0.0	0.0	0.0	0.0	485.5		
SRF Loan Proceeds **	50.0	32.4	34.6	33.6	40.4	0.0	0.0	0.0	0.0	0.0	0.0	191.0		
Debt Service Coverage **	1.33	1.33	1.42	1.47	1.47	1.48	1.56	1.68	1.80	1.89	1.99		Key Variance	Key Variance

## Scenario 2 FY 2024 Budget Projections

Budget Adjustment (4% Promise)		4.0%	4.0%	5.0%	5.0%	5.0%	3.0%	3.0%	3.0%	3.0%	3.0%	45.2%	-2.9%	-6.0%
Charge Adjustment		2.0%	4.1%	5.1%	5.1%	5.1%	3.4%	3.0%	3.0%	3.2%	3.1%	43.0%	-3.5%	-7.5%
Projected Revenue	488.7	500.6	520.7	546.7	574.0	602.7	620.8	639.4	658.6	678.4	698.7	FY 28 ->	17.1	2.9%
Projected Expenses	194.8	205.6	216.2	221.3	225.0	229.6	234.2	238.9	243.7	248.5	253.5	FY 28 ->	6.0	2.7%
Net Revenues	293.9	295.0	304.4	325.4	349.1	373.1	386.6	400.5	414.9	429.8	445.2	FY 28 ->	11.1	3.1%
Contribution to I&E	30.9	33.0	41.4	55.8	69.7	83.8	97.8	117.6	135.5	150.9	166.3	982.7	(92.0)	-8.6%
Projected Cash Balance	265.2	265.1	265.2	265.3	265.2	264.7	264.9	320.5	285.2	271.5	267.6			
Capital Improvements *	162.9	198.1	195.5	173.8	145.0	123.1	150.7	161.1	170.8	164.6	170.2	1,815.9	140.4	8.4%
New Bond Sales **	210.5	0.0	220.0	0.0	170.0	0.0	0.0	0.0	0.0	0.0	0.0	600.5	115.0	23.7%
SRF Loan Proceeds **	38.7	38.5	40.2	27.0	23.0	18.0	0.0	0.0	0.0	0.0	0.0	185.5	(5.5)	-2.9%
Debt Service Coverage **	1.34	1.31	1.35	1.41	1.45	1.48	1.54	1.64	1.72	1.78	1.85	FY 28 ->	0.00	0.3%

# Scenario #2 Water Forecast Update (\$ millions)

## Water System

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Total
<b>Final Series 2022 Bond Sale Forecast</b>												
Budget Adjustment (4% Promise)		4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	48.0%
Charge Adjustment		2.2%	4.1%	4.3%	4.1%	4.2%	4.0%	4.1%	4.1%	4.1%	4.0%	46.1%
Projected Revenue	360.7	370.3	385.1	400.5	416.6	433.2	450.5	468.6	487.3	506.8	527.1	
Projected Expenses	144.8	149.2	153.7	158.3	163.0	166.3	169.6	173.0	176.5	180.0	183.6	
Projected Net Revenues	215.9	221.1	231.5	242.3	253.5	266.9	280.9	295.6	310.8	326.8	343.5	
Contribution to I&E	28.5	33.6	34.5	35.7	31.8	36.8	37.4	40.7	44.7	54.7	57.4	435.7
Projected Cash Balance	224.3	224.2	224.3	224.5	224.3	224.2	224.6	224.3	224.3	224.3	224.3	
Capital Improvements *	209.8	238.8	232.0	184.3	158.5	228.4	228.5	179.3	176.4	153.5	150.0	2,139.6
New Bond Sales **	207.2	0.0	200.0	0.0	330.0	0.0	340.0	0.0	240.0	0.0	125.0	1,442.2
SRF Loan Proceeds **	126.8	107.9	51.2	48.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	334.7
Debt Service Coverage **	1.39	1.38	1.38	1.36	1.31	1.32	1.31	1.31	1.31	1.34	1.35	

Key  
Variance    Key  
Variance

## Scenario 2 FY 2024 Budget Projections

Budget Adjustment (4% Promise)		4.0%	4.0%	8.0%	8.0%	8.0%	4.5%	4.5%	4.5%	4.5%	4.5%	69.8%	21.8%	45.3%
Charge Adjustment		1.3%	4.0%	8.2%	8.2%	8.2%	4.9%	4.6%	4.6%	4.6%	4.6%	66.8%	20.7%	44.8%
Projected Revenue	362.5	370.3	385.1	415.9	449.2	485.1	507.0	529.8	553.6	578.5	604.6	FY 28 ->	51.9	12.0%
Projected Expenses	144.8	152.9	162.8	165.3	169.3	172.6	176.0	179.5	183.1	186.8	190.5	FY 28 ->	6.3	3.8%
Projected Net Revenues	217.7	217.4	222.3	250.6	279.9	312.6	331.0	350.3	370.5	391.8	414.1	FY 28 ->	45.7	17.1%
Contribution to I&E	30.4	28.9	21.3	34.6	56.2	78.0	92.4	102.5	118.2	132.4	151.6	846.5	410.8	94.3%
Projected Cash Balance	230.6	230.5	230.7	230.8	230.5	230.5	230.8	230.7	230.9	230.8	230.5			
Capital Improvements *	262.8	266.4	222.9	189.1	188.8	170.8	181.6	170.2	201.7	220.3	206.7	2,281.3	141.8	6.6%
New Bond Sales **	207.2	0.0	290.0	0.0	205.0	0.0	160.0	0.0	175.0	0.0	120.0	1,157.2	(285.0)	-19.8%
SRF Loan Proceeds **	58.2	178.2	55.2	40.0	27.5	0.0	0.0	0.0	0.0	0.0	0.0	359.1	24.4	7.3%
Debt Service Coverage **	1.40	1.35	1.29	1.34	1.44	1.52	1.58	1.60	1.66	1.70	1.77	FY 28 ->	0.20	14.7%

# Ten-year Financial Plan Scenario #3 (Water Only) – Moderated Timeline to Debt Service Coverage Metrics

# Scenario #3 - Water Forecast Update (\$ millions)

## Water System

	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>Total</u>		
<b>Final Series 2022 Bond Sale Forecast</b>														
Budget Adjustment (4% Promise)		4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	48.0%		
Charge Adjustment		2.2%	4.1%	4.3%	4.1%	4.2%	4.0%	4.1%	4.1%	4.1%	4.0%	46.1%		
Projected Revenue	360.7	370.3	385.1	400.5	416.6	433.2	450.5	468.6	487.3	506.8	527.1			
Projected Expenses	144.8	149.2	153.7	158.3	163.0	166.3	169.6	173.0	176.5	180.0	183.6			
Projected Net Revenues	215.9	221.1	231.5	242.3	253.5	266.9	280.9	295.6	310.8	326.8	343.5			
Contribution to I&E	28.5	33.6	34.5	35.7	31.8	36.8	37.4	40.7	44.7	54.7	57.4	435.7		
Projected Cash Balance	224.3	224.2	224.3	224.5	224.3	224.2	224.6	224.3	224.3	224.3	224.3			
Capital Improvements *	209.8	238.8	232.0	184.3	158.5	228.4	228.5	179.3	176.4	153.5	150.0	2,139.6		
New Bond Sales **	207.2	0.0	200.0	0.0	330.0	0.0	340.0	0.0	240.0	0.0	125.0	1,442.2		
SRF Loan Proceeds **	126.8	107.9	51.2	48.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	334.7		
Debt Service Coverage **	1.39	1.38	1.38	1.36	1.31	1.32	1.31	1.31	1.31	1.34	1.35		Key Variance	Key Variance
<b>Scenario 2 FY 2024 Budget Projections</b>														
Budget Adjustment (4% Promise)		4.0%	4.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	72.4%	24.4%	50.7%
Charge Adjustment		1.3%	4.0%	6.1%	6.2%	6.1%	6.5%	6.1%	6.1%	6.1%	6.1%	69.3%	23.2%	50.3%
Projected Revenue	362.5	370.3	385.1	408.2	432.7	458.7	486.2	515.4	546.3	579.1	613.8	FY 28 ->	25.5	5.9%
Projected Expenses	144.8	152.9	162.8	165.3	169.3	172.6	176.0	179.5	183.1	186.8	190.5	FY 28 ->	6.3	3.8%
Projected Net Revenues	217.7	217.4	222.3	242.9	263.4	286.1	310.2	335.9	363.2	392.3	423.3	FY 28 ->	19.2	7.2%
Contribution to I&E	30.4	28.9	21.0	26.3	37.9	47.8	66.6	81.0	103.2	124.1	151.9	719.1	283.4	65.0%
Projected Cash Balance	230.6	230.5	230.5	230.7	230.6	230.9	230.9	230.8	230.9	230.5	232.6			
Capital Improvements *	262.8	266.4	222.9	189.1	188.8	170.8	181.6	170.2	201.7	220.3	206.7	2,281.3	141.8	6.6%
New Bond Sales **	207.2	0.0	300.0	0.0	255.0	0.0	210.0	0.0	200.0	0.0	125.0	1,297.2	(145.0)	-10.1%
SRF Loan Proceeds **	58.2	178.2	55.2	40.0	27.5	0.0	0.0	0.0	0.0	0.0	0.0	359.1	24.4	7.3%
Debt Service Coverage **	1.40	1.35	1.29	1.29	1.34	1.36	1.44	1.49	1.57	1.64	1.75	FY 28 ->	0.04	3.1%

# Part 3 – Charges

# Recap: Charges Rollout #2 Meeting

- Impact of changes in Water / Wastewater Units of Service were introduced to Member Partners
- Water Cost of Service Study will embrace the “SHAREs” concept to align with Wastewater
  - Water units reflect updated CAP Demands - will be effective with **FY 2024** Charges and units (and SHAREs) planned to be constant thru FY 2027
  - Wastewater units will be effective with **FY 2025** Charges and units (and SHAREs) planned to be constant thru FY 2027
- Budget development and analysis continues and will further impact FY 2024 Charges
  - Formally presented to the Board in December and to Member Partners at the January 12, 2023 Rollout #3 Meeting

# Executive Summary of Charges Rollout #2 Meeting

- Prior to budget / cost pool analysis, units of service updates result in variable impacts amongst communities
- Water impacts will be effective in FY 2024, Wastewater not until FY 2025

	<i>\$ Change in Revenue Requirements</i>			<i>% Change in Revenue Requirements</i>		
	<u>Water (a)</u> <i>FY 2024</i>	<u>Sewer (b)</u> <i>FY 2025</i>	<u>Net Total</u>	<u>Water (a)</u> <i>FY 2024</i>	<u>Sewer (b)</u> <i>FY 2025</i>	<u>Net Total</u>
Macomb Co. Communities	(3,823,300)	1,015,800	(2,807,500)	-4.4%	1.5%	-1.8%
Oakland Co. Communities	3,103,300	896,900	4,000,200	2.8%	0.8%	1.8%
Wayne Co. Communities	(1,202,800)	(376,200)	(1,579,000)	-1.1%	-0.4%	-0.8%
Other Communities	323,100	0	323,100	1.4%	0.0%	1.4%
Detroit *	1,599,600	(1,536,500)	63,100	7.0%	-0.8%	0.0%
System Total	(100)	0	(100)	0.0%	0.0%	0.0%
				3.7%	-0.8%	0.0%

- \* *Detroit Gross Wholesale Adjustment prior to Ownership Benefit Adjustment.*
- (a) Includes results of CAP renegotiations to be implemented in **FY 2024** - but does not reflect updated cost of service analysis. Also does **not** reflect any potential methodology changes.
- (b) Includes updated SHARES and preliminary cost of service analysis to be implemented in **FY 2025**.



# Highland Park & Bad Debt Expense

- In mediation; nature of a successful mediation is that outcomes are a negotiated resolution touching many financial and operating matters
- Highland Park is presently making partial payments for sewer services
- We are currently considering the bad debt expense recovery matter as it relates to FY 2024 charges

# Discussion

# Appendix – Additional Information

# Recap on FY 2024 – 10.12.2022 vs.10.24.2022

Great Lakes Water Authority				
	Sum of FY 2022 Activity thru 06.30.2022	Sum of FY 2023 Amended Budget	Sum of FY 2024 Department Requested @ 10.12.2022	Sum of FY 2024 Department Requested @ 10.24.2022
"BUDGET O&M Expense				
⊕ Personnel Costs	107,053,300	121,777,100	128,042,200	120,951,200
⊕ Utilities	59,656,000	55,917,500	63,395,200	63,395,200
⊕ 4.1 Chemicals	20,382,300	23,781,600	30,529,800	30,451,800
⊕ Supplies & Other	29,711,200	34,911,800	34,603,800	34,052,900
⊕ 4.3 Contractual Services	107,526,700	105,992,500	111,791,300	106,874,200
⊕ 5.1 Capital Program Allocation	(2,631,900)	(4,376,200)	(4,100,800)	(4,232,700)
⊕ 5.2 Shared Services	(2,397,900)	(1,500,900)	(1,655,800)	(1,655,800)
⊕ 7.0 Unallocated Reserve		3,166,800	8,713,300	8,713,300
<b>Grand Total</b>	<b>319,299,700</b>	<b>339,670,200</b>	<b>371,319,000</b>	<b>358,550,100</b>
				12,768,900

# Recap on FY 2022 – As of 10.24.2022

*FY 2022 Outcome - 98% of Actual to Adopted*

Great Lakes Water Authority  
Budget Trend - Analysis as of 10.24.2022

Fund #	(Multiple Items)	FY 2022 Outcome	FY 2022 Starting	FY 2022 Amended	FY 2022 Final	Year in Progress (FY 2023)			10.24.2022
		Adopted Budget vs Actual NB 10.24.2022 Postive/ (Negative)	Sum of FY 2022 Board Adopted Budget	Sum of FY 2022 Amended Budget	Sum of FY 2022 Activity thru 06.30.2022	Sum of FY 2023 Department Requested	Sum of FY 2023 Amended Budget	Sum of FY 2023 Activity thru 08.31.2022	Sum of FY 2024 Department Requested
"BUDGET O&M Expense									
⊕ Personnel Costs		8,384,100	115,437,400	111,868,700	107,053,300	122,144,300	121,777,100	18,364,400	128,042,200
⊕ Utilities		(9,258,000)	50,398,000	59,383,200	59,656,000	51,007,400	55,917,500	11,952,500	63,395,200
⊕ 4.1 Chemicals		(4,338,000)	16,044,300	19,842,300	20,382,300	16,118,600	23,781,600	4,274,600	30,529,800
⊕ Supplies & Other		8,848,500	38,559,700	35,034,100	29,711,200	34,911,800	34,911,800	4,057,700	34,603,800
⊕ 4.3 Contractual Services		(4,151,000)	103,375,700	111,198,400	107,526,700	104,579,200	105,992,500	14,918,800	111,791,300
⊕ 5.1 Capital Program Allocation		(839,100)	(3,471,000)	(2,684,300)	(2,631,900)	(4,376,200)	(4,376,200)	(235,500)	(4,100,800)
⊕ 5.2 Shared Services		505,400	(1,892,500)	(3,202,200)	(2,397,900)	(2,925,000)	(1,500,900)	(321,300)	(1,655,800)
⊕ 7.0 Unallocated Reserve		6,782,000	6,782,000	4,402,400		7,440,200	3,166,800	-	8,713,300
<b>Grand Total</b>		<b>5,933,900</b>	<b>325,233,600</b>	<b>335,842,600</b>	<b>319,299,700</b>	<b>328,900,300</b>	<b>339,670,200</b>	<b>53,011,200</b>	<b>371,319,000</b>
								16% On Target	
<b>The O&amp;M measure points for the 4% Promise</b>			<b>325,233,600</b>			<b>328,900,300</b>			<b>371,319,000</b>
						<b>3,666,700</b>			<b>42,418,700</b>
						<b>1.1%</b>			<b>12.9%</b>



# FY 2024+ - 10.24.2022 Status Report

Great Lakes Water Authority									
Budget Trend - Analysis as of 10.24.2022									
Fund #	FY 2022 Starting	FY 2022 Amended	FY 2022 Final	Year in Progress (FY 2023)			10.24.2022	10.24.2022 Variances	
	Sum of FY 2022 Board Adopted Budget	Sum of FY 2022 Amended Budget	Sum of FY 2022 Activity thru 06.30.2022	Sum of FY 2023 Department Requested	Sum of FY 2023 Amended Budget	Sum of FY 2023 Activity thru 08.31.2022	Sum of FY 2024 Department Requested	Sum of FY 24 to 23 Budget Dollars	Sum of FY 24 Over PY Budget
"BUDGET O&M Expense									
⊕ Personnel Costs	115,437,400	111,868,700	107,053,300	122,144,300	121,777,100	18,364,400	128,042,700	5,897,900	4.8%
⊕ Utilities	50,398,000	59,383,200	59,656,000	51,007,400	55,917,500	11,952,500	63,395,700	12,387,800	24.3%
⊕ 4.1 Chemicals	16,044,300	19,842,300	20,382,300	16,118,600	23,781,600	4,274,600	30,529,800	14,411,200	89.4%
⊕ Supplies & Other	38,559,700	35,034,100	29,711,200	34,911,800	34,911,800	4,057,700	34,603,800	(308,000)	-0.9%
⊕ 4.3 Contractual Services	103,375,700	111,198,400	107,526,700	104,579,200	105,992,500	14,918,800	111,791,300	7,212,100	6.9%
⊕ 5.1 Capital Program Allocation	(3,471,000)	(2,684,300)	(2,631,900)	(4,376,200)	(4,376,200)	(235,500)	(4,100,800)	275,400	-6.3%
⊕ 5.2 Shared Services	(1,892,500)	(3,202,200)	(2,397,900)	(2,925,000)	(1,500,900)	(321,300)	(1,655,800)	1,269,200	-43.4%
⊕ 7.0 Unallocated Reserve	6,782,000	4,402,400		7,440,200	3,166,800	-	8,713,300	1,273,100	17.1%
Grand Total	325,233,600	335,842,600	319,299,700	328,900,300	339,670,200	53,011,200	371,319,000	42,418,700	12.9%
						16%			
						On Target			
The O&M measure points for the 4% P	325,233,600			328,900,300			371,319,000		
				3,666,700			42,418,700		
				1.1%			12.9%		



# Utilities by Type

BUDGET O&M Expense	FY 2022 Starting	FY 2022 Amended	FY 2022 Final	Year in Progress (FY 2023)			10.24.2022	10.24.2022 Variances	
	FY 2022 Starting Board Adopted Budget	FY 2022 Amended Budget	FY 2022 Activity thru 06.30.2022	FY 2023 Board Adopted Budget	FY 2023 Amended Budget	FY 2023 Activity thru 08.31.2022	FY 2024 Department Requested	FY 2024 to FY 2023 Budget Dollars	FY 2024 Over Prior Year Budget
Utilities-Electricity	39,633,300	43,950,300	43,755,000	39,966,000	42,114,000	8,546,500	42,820,200	2,854,200	7.1
Utilities-Gas	5,565,600	7,081,400	8,664,700	5,791,300	8,553,400	2,207,200	10,168,000	4,376,700	75.6
Utilities-Sewage	2,079,100	2,510,400	2,567,700	2,268,400	2,268,400	375,800	2,563,100	294,700	13.0
Utilities-Water	3,120,000	5,841,100	4,668,600	2,981,700	2,981,700	823,000	7,843,900	4,862,200	163.1
<b>Grand Total</b>	<b>50,398,000</b>	<b>59,383,200</b>	<b>59,656,000</b>	<b>51,007,400</b>	<b>55,917,500</b>	<b>11,952,500</b>	<b>63,395,200</b>	<b>12,387,800</b>	<b>24.3</b>

# Increase by Category

Category	Sum of FY 2022 Board Adopted Budget	Sum of FY 2022 Amended Budget	Sum of FY 2023 Adopted	Sum of FY 2023 Amended Budget	Sum of FY 2024 Department Requested	FY 2024 vs FY 2023 Adopted	Percentage	2% Would Have Been
Water	74,813,000	76,421,800	76,518,200	76,518,200	82,938,300	6,420,100	8.4%	1,530,364
Wastewater	111,971,400	120,971,400	113,197,500	123,967,400	136,411,000	23,213,500	18.7%	2,263,950
Centralized	103,845,900	103,846,000	104,502,900	104,502,900	113,363,800	8,860,900	8.5%	2,090,058
Administrative	34,603,300	34,603,400	34,681,700	34,681,700	38,605,900	3,924,200	11.3%	693,634
<b>Total</b>	<b>325,233,600</b>	<b>335,842,600</b>	<b>328,900,300</b>	<b>339,670,200</b>	<b>371,319,000</b>	<b>42,418,700</b>	<b>12.5%</b>	<b>6,578,006</b>

# Too Close to Minimum on Coverage if we do not change course

FY 2028 look ahead based on 10.24.2022 preliminary budget submittal

## Key Metric Comparison - \$ millions

	Water				Sewer			
	<u>Bond Forecast</u>	<u>Budget Forecast</u>	<u>Variance</u>	<u>% Var</u>	<u>Bond Forecast</u>	<u>Budget Forecast</u>	<u>Variance</u>	<u>% Var</u>
10-Yr CIP	2,140	2,276	137	6.4%	1,675	1,816	140	8.4%
10-Yr Bond Sales	1,442	1,620	178	12.3%	485	500	15	3.0%
10-Yr SRF	335	335	0	0.0%	191	198	7	3.4%
10-Yr I&E Contributions	436	269	(167)	-38.2%	1,075	882	(193)	-18.0%
FY 2028 Regional DS Covg	1.32	1.20	(0.12)	-9.0%	1.48	1.36	(0.12)	-8.3%

Current Budget Forecast reflects 100% Capital Spend Rate Assumption and "uncut" O&M Budget Request

# Leases - The 4% Promise Wording

(c) As provided in the MOU, through the Fiscal Year ending June 30, 2025, the Sewer System is assumed to experience annual increases in the Authority Revenue Requirement of not more than 4%; provided however, this limitation shall not be applicable if the Authority Revenue Requirement must increase beyond the 4% assumption in order to satisfy the Rate Covenant or to pay the cost of improvements to the Leased Sewer Facilities that are required to be made by Applicable Laws.

(b) “Applicable Laws” means all laws, rules, regulations, ordinances, permit and license requirements, and orders of courts, governmental officials and agencies of competent jurisdiction with respect to the Leased Sewer Facilities or which generally relate to the Leased Sewer Facilities.

# 4% Promise: What have we done historically?

- Starting with FY 2017 the cumulative increase in total budgeted revenue requirements has been 11.8% for Water and 7.9% for Wastewater
  - That equates to approximately 1.9% annually for Water and 1.3% annually for Wastewater
- During the same period, the average annual charge adjustments have been approximately 2.9% for Water and 1.0% for Wastewater
- Had the 4% promise been fully implemented each of these years, current charges would be 21% higher for Water and 23% for Wastewater

# Short Term Challenges – Long-term Recovery

- Scenario 1
  - Adheres to the full 4% promise for entirety of the 10-Year Forecast period
  - Demonstrates impacts of inflationary pressures on projected financial metrics
  - **Sewer** DS Coverage growth is slow, **Water** DS Coverage Ratios decline (**<1.3x** throughout)
- Scenario 2 Forecast Objectives
  - Adheres to the full 4% promise in FYs 2024 and 2025
  - Higher budget / charge adjustments starting in FY 2026 to recover financial metrics
  - Objective: Achieve Regional Debt Service Coverage Ratios of **1.50** by FY 2028 and **1.80** by FY 2033
  - Concern: Pushes **Water** budget increase to **8%** for 2026 – 2028, **4.5%** thereafter
  - Results in slightly accelerated **Sewer** budget increase of **5%** for 2026 – 2028, **3%** thereafter
- Scenario 3 Moderated Forecast Objectives – **Water** Only
  - Moderated timeline: Assumes annual **6%** increases starting in FY 2026 throughout
  - Outcome: Slower growth in Regional Debt Service Coverage Ratios, which reach **1.75** by FY 2033