



## Financial Services Audit Committee Communication

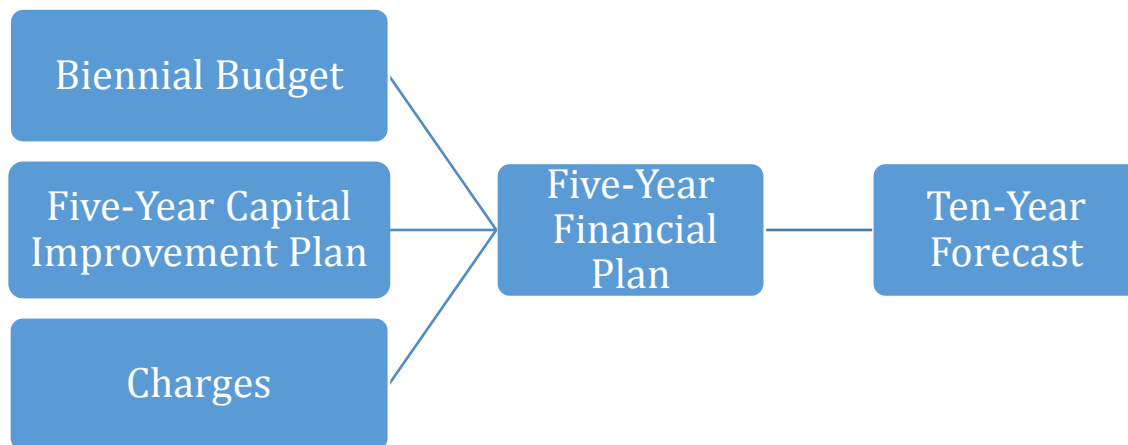
**Date:** October 26, 2018

**To:** Great Lakes Water Authority Audit Committee

**From:** Nicolette Bateson, CPA  
Chief Financial Officer/Treasurer

**Re:** Capital Improvement Plan Relative to Financial Plan

**Background:** The annual update to the Great Lakes Water Authority's five-year capital improvement plan and financial plan are underway. In preparing those plans, certain assumptions are required to effectively proceed with a comprehensive long-term financial plan.



**Analysis:** A key decision point in establishing a financial plan for the capital improvement plan (CIP) is establishing a realistic factor for the actual spending pace.

- ✓ Unforeseen schedule delays
- ✓ Timing interdependencies with partners
- ✓ Mix of phases of projects in CIP (what percent are concept vs. design vs. construction; earlier phases = increased likelihood of timing revisions)

- ✓ Historical performance vs. future performance
- ✓ FY 2030 financial plan consideration (under development) to address affordability and sustainability (new 10-year CIP is a key input)
- ✓ Where we are in GLWA's history (new entity, new staff, capital program management deployment in CY 2019)
- ✓ Magnitude and complexity of GLWA's CIP as a regional water authority

To better understand this topic, we drew upon two sources of input: 1) GLWA's engineering team members and 2) The Foster Group who has prepared and monitored the financing plan, debt issuance, and capital plan for GLWA and its predecessor regional operations for many years.

### **Engineering Team Member Feedback**

1. **Obtaining buy-in and acceptance of project alternatives within a study or preliminary design phase of a project.**  
Example: the final route for the Water Works Park to Northeast water transmission main (\$130 million) is on hold pending acceptance from the City of Detroit. GLWA has identified a route that carries the least disruption to residents, however the route has not yet been endorsed. Result is that GLWA is on hold for the design of the pipeline.
2. **Obtaining maintenance agreements, permanent easements and property acquisitions.** These are common for new pipeline projects and require in-depth conversations and workshops with numerous property and utility owners. We build time into our planned schedules for these activities; however, there are times when circumstances are out of our control and delays occur.  
Example: Achieving agreement with a county parks department for a new water transmission main which is designed to be placed in county park property.
3. **Opportunities driven by other regional stakeholders which alter priorities, timelines, and spending.** To optimize regional infrastructure investments, GLWA's goal is to engage in opportunity projects with other regional stakeholders such as Michigan Department of Transportation, county road commissions, DTE, ITC, AT&T, cities, and townships.
4. **Rebids and revisions.** There are times when projects have to be re-bid due to proposal irregularities. This causes a delay in a project's start. If it is engineering services, then the associated construction contract is delayed which impacts projected spend rates.

5. **Vendor performance.** There are times that vendors do not meet project deadlines even though GLWA issues a notice, writes notices to cure, and in the case of construction contracts assesses liquidated damages.
6. **Operational needs.** Designs include specified work limitations and periods and durations when the construction contractor will be able to take certain systems out of service to facilitate construction. These limitations are planned in collaboration with operations management during the design process. However, operational circumstances are dynamic and change which sometimes prevents system shutdowns that are required to execute and complete construction.
7. **Post-start changes.** Approval of construction change directives and change orders can consume weeks and sometimes months of time when negotiating change amounts with the contractors and internal GLWA stakeholders. This may delay a vendor's progress of work and related CIP spend.

**The Foster Group Report** (see attached)

**Recommendation:** Given the above, it is not reasonable to expect that 100% of the five-year capital improvement plan will turn into spent dollars. Nor is it appropriate to compile a financing plan (including the issuance of bonds) that reflects 100% spend rate. For this reason, a simple financial policy statement is proposed.

**Capital Program Spend Rate Assumption:** Annually, a projected spend rate assumption for the financial plan related to the upcoming capital improvement plan will be established based upon pertinent factors and data available at that time. Such factors and data will include the mix of projects and phases in the proposed CIP, interdependency risk, and other measures provided by the GLWA team members that develop and manage the CIP projects. That spend rate assumption will be presented to the Audit Committee no later than December each year after the GLWA Board and member partners have had the opportunity to review the draft capital improvement plan.

**Proposed Action:** Approve the Capital Program Spend Rate Assumption as proposed or amended.