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Key Takeaways

- The FY 2020 BUDGETs represent a 3.5% increase compared to FY 2019 for both Water and Sewer
- Projected improved investment earnings offset need to increase Water and Sewer Service Charges
- Overall average FY 2019 “System Charge” Adjustments:
 - ✓ *Water* = 1.6%
 - ✓ *Sewer* = 2.1%

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Introduction and Key Terms



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“BUDGET” = Comprehensive Annual Revenue Requirement:

- Budgeted O&M Expense
- Master Bond Ordinance Commitments
 - ✓ *Projected Debt Service*
 - ✓ *“Fixed” Non-Operating Expenses*
 - Pension Reimbursement Obligations;
 - WRAP Deposit;
 - Lease Payment (part of revenue financed capital below);
 - Other Reserve Requirements, etc.
- Deposit to the Improvement and Extension (I&E) Funds
 - ✓ *Revenue Financed Capital Improvements*



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“Financial Plan” Consists of

- Capital Improvement Program
- Operation and Maintenance Expense Budget
- Capital Financing elements of the BUDGET
✓ *Debt Service, Revenue Financed Capital, etc.*
- Charges for Service
- ***Each of these are subject to individual action by the Board***



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“The Agreements” Include:

- The Lease(s) establishing GLWA;
- The Water and Sewer Services Agreement between GLWA and the City of Detroit;
- The Master Bond Ordinance(s), authorizing issuance of debt by GLWA;
- The Trust Agreement(s) supporting the Master Bond Ordinances;
- The 2018 GLWA / DWSD Memorandum of Understanding
✓ *Implementation Plan for “The Agreements”*
- Related supporting documentation



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“4% Increase Limitation” as defined by The Agreements

“As provided in the MOU, through the Fiscal Year ending June 30, 2025, the Water (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 Water (Sewer) Facilities that are required to be made by Applicable Laws.”



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FY 2020 BUDGET and “System Charge” Adjustments

- Average “System Charge Adjustment” is 1.6% for Water and 2.1% for Sewer

	Water System				Sewer System				Total GLWA			
	FY 2019	FY 2020	Change	% Change	FY 2019	FY 2020	Change	% Change	FY 2019	FY 2020	Change	% Change
Annual BUDGET												
1 Operation and Maintenance Expense	121.6	133.4	11.8	9.7%	191.1	191.8	0.7	0.4%	312.6	325.2	12.5	4.0%
2 Master Bond Ordinance Commitments	170.7	175.5	4.8	2.8%	266.9	268.1	1.2	0.5%	437.6	443.7	6.1	1.4%
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 TOTAL BUDGET	331.4	343.0	11.6	3.5%	470.2	486.6	16.5	3.5%	801.6	829.6	28.1	3.5%
Charge Adjustment Illustration												
Proforma Revenue - Existing Charges												
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	5.3	-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)				3.5%				3.5%				3.5%
11 Average Charge Adjustment				1.6%				2.1%				1.9%



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FY 2020 Sewer “System Charge” Adjustments: Impact of Highland Park Collection Assumptions

- The preliminary FY 2020 Sewer Cost of Service and Charges Study assumes a 60% collection rate for Highland Park, compared with 50% in FY 2019
- The FY 2018 Bad Debt Expense for Highland Park is lower than that included in prospective FY 2018 charges
- These developments lower the amount in Suburban Wholesale Sewer Charges associated with Highland Park Bad Debt



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FY 2020 Sewer “System Charge” Adjustments: Impact of Highland Park Collection Assumptions (\$ millions)

- The amount being carried in Suburban Wholesale Sewer Charges for Highland Park bad debt is reduced from 1.7% to 0.8%

	<u>Existing Charges</u>	<u>Proposed Charges</u>	<u>Variance</u>	<u>% Variance</u>
Expected Bad Debt Expense	2.8	2.3	(0.5)	-18.0%
Bad Debt True-Up	1.9	0.0	(1.9)	-100.0%
Total	4.7	2.3	(2.4)	-51.0%
Relative % of Suburban Wholesale Revenue	1.7%	0.8%	-0.9%	-52.0%



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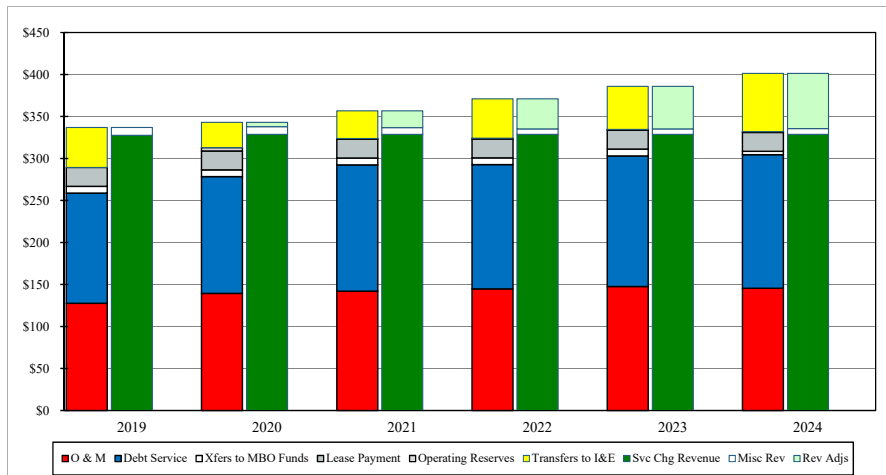
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FY 2020 – FY 2024 Financial Plan Forecast



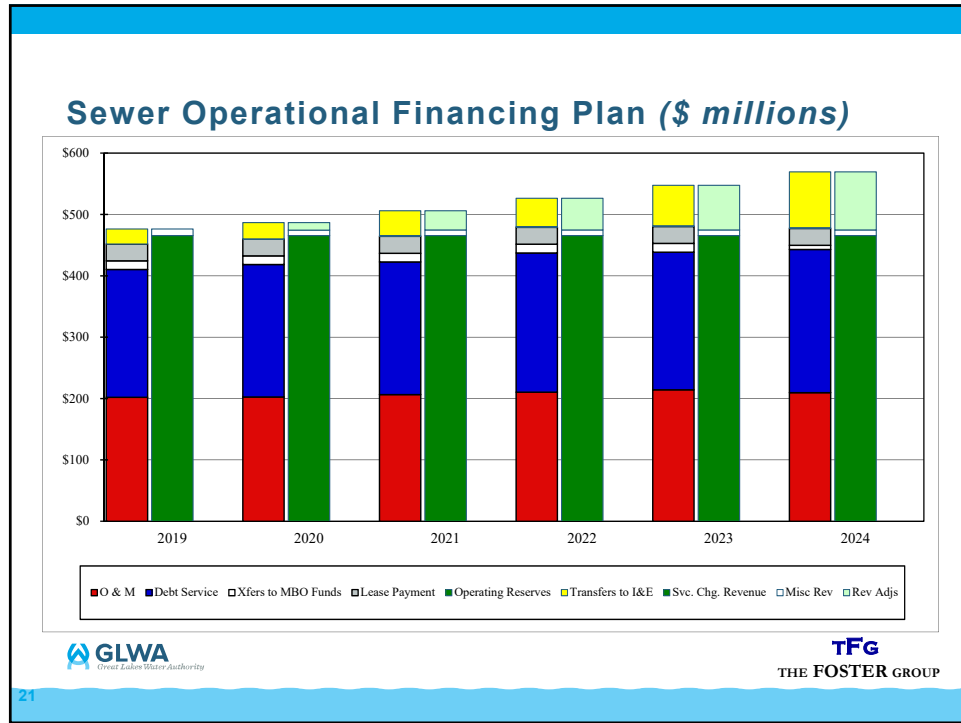
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Water Operational Financing Plan (\$ millions)

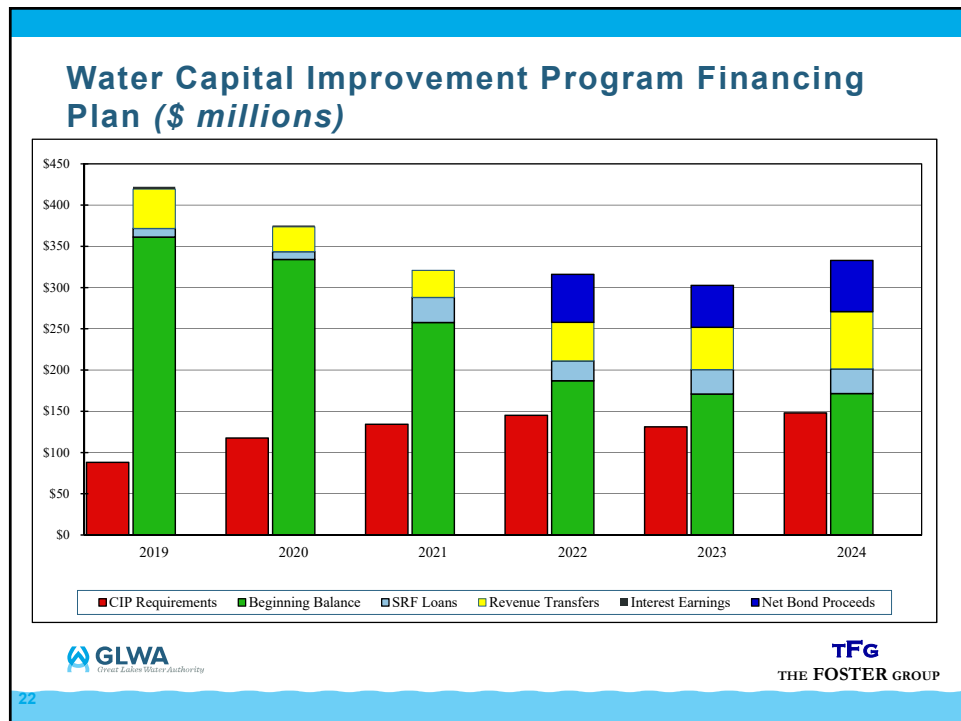


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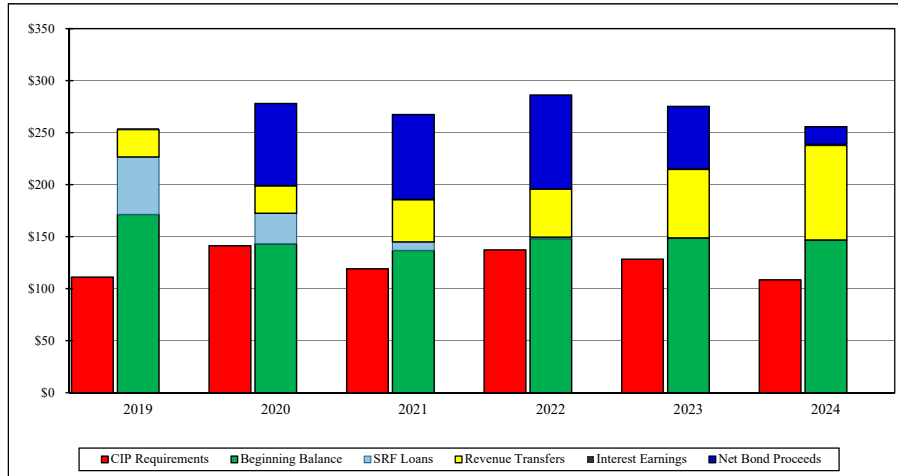


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Sewer Capital Improvement Program Financing Plan (\$ millions)



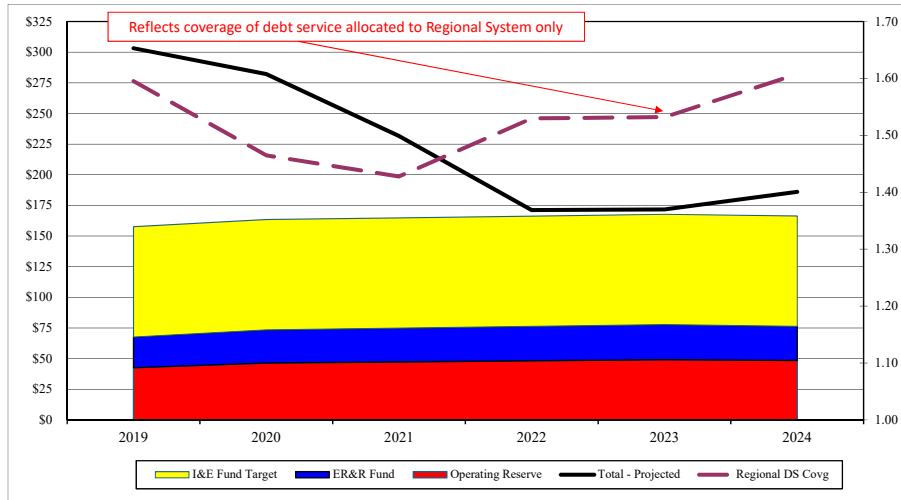
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Water Fund Balance (Net Position) Summary – Revenue Generated MBO Funds* (\$ millions)



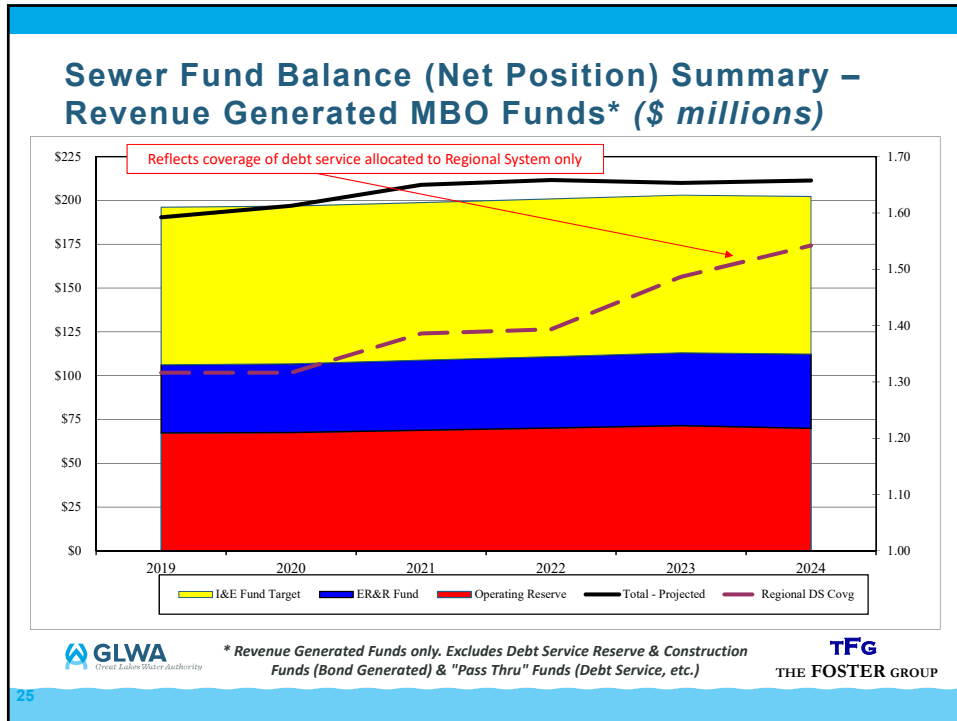
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* Revenue Generated Funds only. Excludes Debt Service Reserve & Construction Funds (Bond Generated) & "Pass Thru" Funds (Debt Service, etc.)

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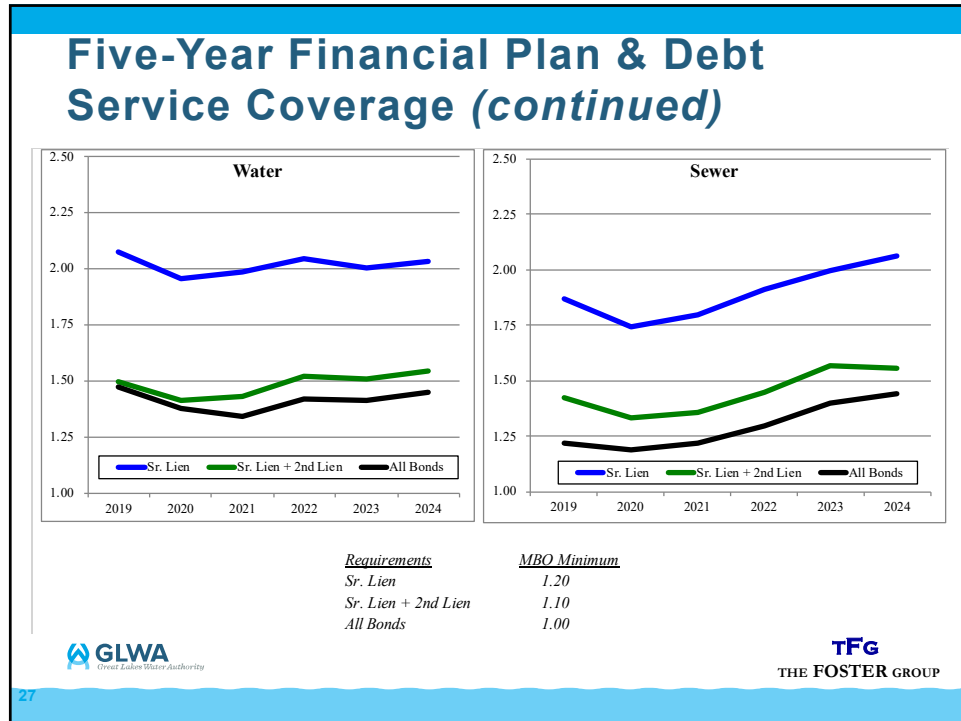
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Five-Year Financial Plan & Debt Service Coverage

- The preliminary five year financial plans produce stable and rising debt service coverage ratios
 - ✓ *These preliminary projections are impacted by the level of capital investment required by both the Regional GLWA and Local DWSD System. Final CIP plans for both entities remain under development.*

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