

**Great Lakes Water Authority**

**Resolution 2018-790**

**Resolution Adopting the Biennial FY 2019 & FY 2020 Budget**

By Board Member: Abe Munfakh

- WHEREAS** The Great Lakes Water Authority (“GLWA” or the “Authority”) assumed the operation of the regional water and sewer systems on January 1, 2016 (the “Effective Date”) pursuant to Water System and Sewer System Lease Agreements between the GLWA and the City of Detroit dated June 12, 2015; and
- WHEREAS** In accordance with the by-laws of the GLWA, the Board shall adopt a two-year (Biennial) operating budget for the Regional Water and Sewer Systems; and
- WHEREAS** The Authority, through the terms of the Leases, committed to an annual increase in revenue requirement budget of no more than 4% though the fiscal year ending June 30, 2025; and
- WHEREAS** The GLWA Board is now adopting its third fiscal year budget demonstrating its ability to achieve and excel in meeting that commitment with a Regional Water System annual revenue requirement budget increase limited to 1.0% which equates to an average 0.7% increase in revenues from Water Service Charges and a Regional Sewer System annual revenue requirements budget increase of 1.0% which equates to an average 0.6% increase in revenues from Sewer Service Charges (prior to recognition of a contractual adjustment related to a Wholesale Bad Debt True Up analyses) and an average 0.4% increase in revenues from Sewer Service Charges, after consideration of the contractual Wholesale Bad Debt True Up adjustment; and
- WHEREAS** The budgeted expenses for each such Fiscal Year shall equal the sum of the Projected expenses and revenue requirements for the Regional Water System and the Regional Sewer System for each such Fiscal Year; and
- WHEREAS** The budgeted annual revenue requirements for the Regional Water System for FY 2019 is \$331,400,500 and for FY 2020 is \$344,656,500 as shown on “Schedule 1A – Water System Revenue Requirements” of the budget document; and
- WHEREAS** The budgeted annual revenue requirements for the Regional Sewer System (prior to recognition of a contractual adjustment related to a Wholesale Bad Debt True Up analyses) for FY 2019 is \$470,156,000 and for FY 2020 is \$488,962,200, and the adjusted (after consideration of the contractual Wholesale Bad Debt True Up) budgeted annual revenue requirements for the Regional Sewer System for FY 2019 is \$472,027,300 and for FY 2020 is \$490,833,500 as shown on “Schedule 1B – Sewer System Revenue Requirements” of the budget document; and

- WHEREAS** The operations and maintenance budget for the Regional Water System for FY 2019 is \$121,562,600 and for FY 2020 is \$123,993,900 as shown on “Schedule 1A – Water System Revenue Requirements” of the budget document; and
- WHEREAS** The operations and maintenance budget for the Regional Sewer System for FY 2019 is \$191,079,400 and for FY 2020 is \$194,901,000 as shown on Schedule 1B – Sewer System Revenue Requirements” of the budget document; and
- WHEREAS** The amounts necessary to pay the principal of and interest on all Regional Water System bonds and to restore any reserves therefore established in the Master Bond ordinance is \$170,961,800 for FY 2019 and \$180,606,200 for FY 2020 as shown on “Schedule 4 - Debt Service Coverage Calculations Consistent with the Master Bond Ordinance” of the budget document; and
- WHEREAS** The amounts necessary to pay the principal of and interest on all Regional Sewer System bonds and to restore any reserves therefore established in the Master Bond Ordinance is \$242,466,000 for FY 2019 and \$251,956,500 for FY 2020 as shown on “Schedule 4 - Debt Service Coverage Calculations Consistent with the Master Bond Ordinance” of the budget document; and
- WHEREAS** The amounts necessary to fund the annual water system capital expenditures of \$66,038,000 in FY 2019 and \$137,583,000 in FY 2020 for the capital improvement plan in accordance with the Schedule 5C - Water Construction Bond Fund budget; and
- WHEREAS** The amounts necessary to fund the annual sewer system capital expenditures of \$105,183,000 in FY 2019 and \$111,155,000 in FY 2020 for the capital improvement plan in accordance with Schedule 5D - Sewer Construction Bond Fund budget; and
- WHEREAS** The amounts necessary to fund the annual water system capital expenditures of \$22,133,400 in FY 2019 and \$18,763,000 in FY 2020 for capital outlay in accordance with the 5A - Water Improvement and Extension Fund budget; and
- WHEREAS** The amounts necessary to fund the annual sewer system capital expenditures of \$5,957,000 in FY 2019 and \$4,810,900 in FY 2020 for the capital outlay in accordance with the 5B - Sewer Improvement and Extension Fund budget; and
- WHEREAS** The GLWA Audit Committee began review of the budget and five-year financial plan document developed for FY 2019 through FY 2023 at its meeting on January 5, 2018, with monthly updates at its regularly scheduled meetings through June 15, 2018; and
- WHEREAS** Updates to the Audit Committee were summarized for the full Board given that this budget brings to close many long-term outstanding items related to: a) negotiation and subsequent implementation of a Memorandum of Understanding Term Sheet with the Detroit Water & Sewerage Department related to financial

matters associated with the Lease for the Regional Water and Sewer Systems, b) implementation matters related to the 2017 Units of Services ; c) negotiation and approval of model contracts with two customers that had not been served by a model contract; and

**WHEREAS** GLWA’s focus to achieve charges stability is ongoing and encompasses a Combined Sewer Overflow Cost Center allocation program and acknowledges that the GLWA Administration is working with stakeholders to develop the program in FY 2019 which may reach back to costs incurred beginning July 1, 2018; and

**WHEREAS** The GLWA Board conducted public hearing on the proposed budget in accordance with the provisions of Public Act No. 43 of the Acts of the State Legislature of 1963 (“Budget Hearings of Local Governments”); and

**WHEREAS** A notice for the public hearing on the proposed budget scheduled for February 28, 2018 at 2:00 pm at the Water Board Building, 735 Randolph, Detroit, Michigan was published in The Detroit Legal News announcing a public hearing on the budget in addition to posting the notice and proposed budget on [glwater.org](http://glwater.org); and

**WHEREAS** The public hearing continued June 20, 2018, at 12:30 p.m.; and

**WHEREAS** An affirmative vote of 5 Board Members is necessary for the adoption of this Resolution,

**NOW THEREFORE BE IT:**

**RESOLVED** That the GLWA Board conducted a public hearing on February 28, 2018, and continued that hearing on June 20, 2018, to receive public comment regarding the proposed budget for the Fiscal Years 2019 and 2020; and be it further

**RESOLVED** That the GLWA Board approves the budget for Fiscal Years 2019 and 2020; and be it finally

**RESOLVED** That the Chief Executive Officer, and the Chief Financial Officer/Treasurer are authorized to take such other action as may be necessary to accomplish the intent of this resolution.

### Schedule 1A - Water System Revenue Requirements Budget

	Current Year	Biennial Budget					
Water System Revenue Requirements	FY 2018 Adopted	FY 2019 Requested	FY 2019 \$ Change	FY 2019 % Change	FY 2020 Requested	FY 2020 \$ Change	FY 2020 % Change
<b>Revenues</b>							
11 Revenues from Charges	\$ 325,150,400	\$ 327,563,900	\$ 2,413,500	0.7%	\$ 340,917,300	\$ 13,353,400	4.1%
10.1 Non-Operating Revenue	2,968,900	3,836,600	867,700	29.2%	3,739,200	(97,400)	-2.5%
<b>Total Revenues</b>	<b>328,119,300</b>	<b>331,400,500</b>	<b>3,281,200</b>	<b>1.0%</b>	<b>344,656,500</b>	<b>13,256,000</b>	<b>4.0%</b>
<b>Revenue Requirements</b>							
1 Operations & Maintenance (O&M) Expense	\$121,562,600	\$121,562,600	\$0	0.0%	\$123,993,900	\$2,431,300	2.0%
2 O&M Legacy Pension Allocation	6,048,000	6,048,000	-	0.0%	6,048,000	-	0.0%
3 Debt Service Allocation	135,464,400	134,214,600	(1,249,800)	-0.9%	143,810,900	9,596,300	7.1%
4 Accelerated Legacy Pension Allocation	6,268,300	6,268,300	-	0.0%	6,268,300	-	0.0%
5 Water Residential Assistance Program	1,678,600	1,673,400	(5,200)	-0.3%	1,723,300	49,900	3.0%
6 Lease Payment to Local System	22,500,000	22,500,000	-	0.0%	22,500,000	-	0.0%
7 Improvement & Extension Fund Allocation	32,821,200	39,133,600	6,312,400	19.2%	39,501,700	368,100	0.9%
8 Operating Reserve Deposit	323,700	-	(323,700)	-100.0%	810,400	810,400	NA
9 Extraordinary Repair & Replacement Deposit	1,452,500	-	(1,452,500)	-100.0%	-	-	NA
<b>Annual Budgeted Revenue Requirements</b>	<b>\$ 328,119,300</b>	<b>\$ 331,400,500</b>	<b>\$ 3,281,200</b>	<b>1.0%</b>	<b>\$ 344,656,500</b>	<b>\$ 13,256,000</b>	<b>4.0%</b>

### Schedule 1B - Sewer System Revenue Requirements Budget

	Current Year	Biennial Budget					
	FY 2018 Adopted	FY 2019 Requested	FY 2019 \$ Change	FY 2019 % Change	FY 2020 Requested	FY 2020 \$ Change	FY 2020 % Change
<b>Sewer System Revenue Requirements</b>							
<b>Revenues</b>							
11 Revenues from Charges (prior to adjustment)	\$ 462,749,100	\$ 465,585,100	\$ 2,836,000	0.6%	\$ 484,830,800	\$ 19,245,700	4.1%
Regional Bad Debt True-Up Adjustment	2,810,600	1,871,300	(939,300)	-33.4%	1,871,300	-	0.0%
<b>Subtotal Revenues from Charges</b>	<b>465,559,700</b>	<b>467,456,400</b>	<b>1,896,700</b>	<b>0.4%</b>	<b>486,702,100</b>	<b>19,245,700</b>	<b>4.1%</b>
10.1 Non-Operating Revenue	2,751,000	4,570,900	1,819,900	66.2%	4,131,400	(439,500)	-9.6%
<b>Total Revenues</b>	<b>468,310,700</b>	<b>472,027,300</b>	<b>3,716,600</b>	<b>0.8%</b>	<b>490,833,500</b>	<b>18,806,200</b>	<b>4.0%</b>
<b>Revenue Requirements</b>							
1 Operations & Maintenance (O&M) Expense	\$191,079,400	\$191,079,400	\$ -	0.0%	\$194,901,000	\$3,821,600	2.0%
2 O&M Legacy Pension Allocation	10,824,000	10,824,000	-	0.0%	10,824,000	-	0.0%
3 Debt Service Allocation	207,615,500	214,600,700	6,985,200	3.4%	221,215,100	6,614,400	3.1%
4 Accelerated Legacy Pension Allocation	11,620,700	11,620,700	-	0.0%	11,620,700	-	0.0%
5 Water Residential Assistance Program	2,313,700	2,374,100	60,400	2.6%	2,444,800	70,700	3.0%
6 Lease Payment to Local System	27,500,000	27,500,000	-	0.0%	27,500,000	-	0.0%
7 Improvement & Extension Fund Allocation	11,922,100	12,157,100	235,000	2.0%	19,182,700	7,025,600	57.8%
8 Operating Reserve Deposit	341,600	-	(341,600)	-100.0%	1,273,900	1,273,900	NA
9 Extraordinary Repair & Replacement Deposit	2,283,100	-	(2,283,100)	-100.0%	-	-	NA
<b>Annual Budgeted Revenue Requirements</b>	<b>465,500,100</b>	<b>470,156,000</b>	<b>4,655,900</b>	<b>1.0%</b>	<b>488,962,200</b>	<b>18,806,200</b>	<b>4.0%</b>
I&E Fund Allocation - Regional Bad Debt True-Up Adj.	2,810,600	1,871,300	(939,300)	-33.4%	1,871,300	-	0.0%
<b>Adjusted Annual Revenue Requirements</b>	<b>\$ 468,310,700</b>	<b>\$ 472,027,300</b>	<b>\$ 3,716,600</b>	<b>0.8%</b>	<b>\$ 490,833,500</b>	<b>\$ 18,806,200</b>	<b>4.0%</b>

### Schedule 1C - Combined Water and Sewer System Revenue Requirements Budget

	Current Year	Biennial Budget					
Sewer System Revenue Requirements	FY 2018 Adopted	FY 2019 Requested	FY 2019 \$ Change	FY 2019 % Change	FY 2020 Requested	FY 2020 \$ Change	FY 2020 % Change
<b>Revenues</b>							
11 Revenues from Charges (prior to adjustment)	\$ 787,899,500	\$ 793,149,000	\$ 5,249,500	0.7%	\$ 825,748,100	\$ 32,599,100	4.1%
Regional Bad Debt True-Up Adjustment	2,810,600	1,871,300	(939,300)	-33.4%	1,871,300	-	0.0%
<b>Subtotal Revenues from Charges</b>	<b>790,710,100</b>	<b>795,020,300</b>	<b>4,310,200</b>	<b>0.5%</b>	<b>827,619,400</b>	<b>32,599,100</b>	<b>4.1%</b>
10.1 Non-Operating Revenue	5,719,900	8,407,500	2,687,600	47.0%	7,870,600	(536,900)	-6.4%
<b>Total Revenues</b>	<b>796,430,000</b>	<b>803,427,800</b>	<b>6,997,800</b>	<b>0.9%</b>	<b>835,490,000</b>	<b>32,062,200</b>	<b>4.0%</b>
<b>Revenue Requirements</b>							
1 Operations & Maintenance (O&M) Expense	\$312,642,000	\$312,642,000	\$ -	0.0%	\$318,894,900	\$6,252,900	2.0%
2 O&M Legacy Pension Allocation	16,872,000	16,872,000	-	0.0%	16,872,000	-	0.0%
3 Debt Service Allocation	343,079,900	348,815,300	5,735,400	1.7%	365,026,000	16,210,700	4.6%
4 Accelerated Legacy Pension Allocation	17,889,000	17,889,000	-	0.0%	17,889,000	-	0.0%
5 Water Residential Assistance Program	3,992,300	4,047,500	55,200	1.4%	4,168,100	120,600	3.0%
6 Lease Payment to Local System	50,000,000	50,000,000	-	0.0%	50,000,000	-	0.0%
7 Improvement & Extension Fund Allocation	44,743,300	51,290,700	6,547,400	14.6%	58,684,400	7,393,700	14.4%
8 Operating Reserve Deposit	665,300	-	(665,300)	-100.0%	2,084,300	2,084,300	NA
9 Extraordinary Repair & Replacement Deposit	3,735,600	-	(3,735,600)	-100.0%	-	-	NA
<b>Annual Budgeted Revenue Requirements</b>	<b>793,619,400</b>	<b>801,556,500</b>	<b>7,937,100</b>	<b>1.0%</b>	<b>833,618,700</b>	<b>32,062,200</b>	<b>4.0%</b>
I&E Fund Allocation - Regional Bad Debt True-Up Adj.	2,810,600	1,871,300	(939,300)	-33.4%	1,871,300	-	0.0%
<b>Adjusted Annual Revenue Requirements</b>	<b>\$ 796,430,000</b>	<b>\$ 803,427,800</b>	<b>\$ 6,997,800</b>	<b>0.9%</b>	<b>\$ 835,490,000</b>	<b>\$ 32,062,200</b>	<b>4.0%</b>

There is no Schedule 3 for purposes of the MOU.

## Schedule 4 - Debt Service Coverage Calculations Consistent with the Master Bond Ordinance

Flow of Funds Basis		FY 2019 Water Fund	FY 2019 Sewer Fund	FY 19 Combined (Informational Only)	FY 2020 Water Fund	FY 2020 Sewer Fund	FY 20 Combined (Informational Only)
<b>Revenues</b>							
1	Regional System Wholesale Revenues	\$ 327,563,900	\$ 467,456,400	\$ 795,020,300	\$ 340,917,300	\$ 486,702,100	\$ 827,619,400
2	Local System Revenues	70,912,900	93,917,000	164,829,900	68,833,900	103,858,900	172,692,800
3	Miscellaneous Revenue (Local System)	6,600,300	5,464,600	12,064,900	6,600,300	5,464,600	12,064,900
4	Non-Operating Revenue (Regional System)	3,836,600	4,570,900	8,407,500	3,739,200	4,131,400	7,870,600
5	<b>Total Revenues</b>	<b>\$ 408,913,700</b>	<b>\$ 571,408,900</b>	<b>\$ 980,322,600</b>	<b>\$ 420,090,700</b>	<b>\$ 600,157,000</b>	<b>\$ 1,020,247,700</b>
<b>Revenue Requirements</b>							
<b>Operations &amp; Maintenance Expense</b>							
6	Regional System Wholesale Expenses (a)	\$ 121,562,600	\$ 191,079,400	\$ 312,642,000	\$ 123,993,900	\$ 194,901,000	\$ 318,894,900
7	Local System Expenses	35,484,300	68,121,500	103,605,800	36,126,600	69,577,200	105,703,800
8	GRS Pension allocable to Regional System	6,048,000	10,824,000	16,872,000	6,048,000	10,824,000	16,872,000
9	GRS Pension allocable to Local System	4,272,000	2,856,000	7,128,000	4,272,000	2,856,000	7,128,000
10	Total Operations & Maintenance Expense	167,366,900	272,880,900	440,247,800	170,440,500	278,158,200	448,598,700
11	<b>Net Revenues after Operations &amp; Maintenance Expense</b>	<b>\$ 241,546,800</b>	<b>\$ 298,528,000</b>	<b>\$ 540,074,800</b>	<b>\$ 249,650,200</b>	<b>\$ 321,998,800</b>	<b>\$ 571,649,000</b>
<b>Debt Service by Lien</b>							
12	Senior Lien Bonds	119,230,800	148,606,900	267,837,700	127,196,300	152,764,300	279,960,600
13	Second Lien Bonds	49,020,400	43,922,600	92,943,000	50,660,600	45,878,800	96,539,400
14	SRF Junior Lien Bonds	2,710,600	49,936,500	52,647,100	2,749,300	53,313,400	56,062,700
15	<b>Total Debt Service</b>	<b>\$ 170,961,800</b>	<b>\$ 242,466,000</b>	<b>\$ 413,427,800</b>	<b>\$ 180,606,200</b>	<b>\$ 251,956,500</b>	<b>\$ 432,562,700</b>
<b>Debt Service Coverage (a)</b>							
15	Senior Lien Bonds (11)/(12)	2.03	2.01		1.96	2.11	
16	Second Lien Bonds (11) / [(12)+(13)]	1.44	1.55		1.40	1.62	
17	SRF Junior Lien Bonds (11) / (15)	1.41	1.23		1.38	1.28	



### Schedule 5A - Water Improvement & Extension Fund

	Current Year	Biennial Budget		Forecast		
Inflows & Outflows	Projected	FY 2019 Requested	FY 2020 Requested	FY 2021 Forecast	FY 2022 Forecast	FY 2023 Forecast
<b>Water Improvement &amp; Extension Fund</b>						
Water System Revenue Transfers	\$32,556,000	\$39,133,600	\$39,501,700	\$40,681,800	\$53,032,700	\$52,161,700
Grant Revenues	-	-	-	-	-	-
Earnings on Investments, Net	-	-	-	-	-	-
Capital Outlay	(15,829,300)	(22,133,400)	(18,763,000)	(18,705,300)	(9,363,300)	(7,400,800)
Revenue Financed Capital - Specific	(14,936,000)	(13,172,000)	(11,209,000)	(12,565,000)	(11,280,000)	(12,007,000)
Revenue Financed Capital - Strategic	-	-	-	(80,000,000)	(20,000,000)	-
Increase (Decrease) in I&E Reserves	\$1,790,700	\$3,828,200	\$9,529,700	(\$70,588,500)	\$12,389,400	\$32,753,900
Beginning Year Balance	184,000,000	185,790,700	189,618,900	199,148,600	128,560,100	140,949,500
<b>Projected Ending Balance</b>	<b>\$185,790,700</b>	<b>\$189,618,900</b>	<b>\$199,148,600</b>	<b>\$128,560,100</b>	<b>\$140,949,500</b>	<b>\$173,703,400</b>

### Schedule 5B - Sewer Improvement & Extension Fund

	Current Year	Biennial Budget		Forecast		
Inflows & Outflows	Projected	FY 2019 Requested	FY 2020 Requested	FY 2021 Forecast	FY 2022 Forecast	FY 2023 Forecast
<b>Sewer Improvement &amp; Extension Fund</b>						
Sewer System Revenue Transfers	\$32,556,000	\$39,133,600	\$39,501,700	\$40,681,800	\$53,032,700	\$52,161,700
Grant Revenues	-	-	-	-	-	-
Earnings on Investments, Net	-	-	-	-	-	-
Capital Outlay	(8,646,100)	(5,957,000)	(4,810,900)	(4,431,800)	(15,047,000)	(4,271,200)
Revenue Financed Capital - Specific	(3,758,000)	(8,312,000)	(10,882,000)	(13,659,000)	(10,852,000)	(12,280,000)
Revenue Financed Capital - Strategic	-	-	(5,000,000)	-	-	(5,000,000)
Increase (Decrease) in I&E Reserves	\$20,151,900	\$24,864,600	\$18,808,800	\$22,591,000	\$27,133,700	\$30,610,500
Beginning Year Balance	115,000,000	135,151,900	160,016,500	178,825,300	201,416,300	228,550,000
<b>Projected Ending Balance</b>	<b>\$135,151,900</b>	<b>\$160,016,500</b>	<b>\$178,825,300</b>	<b>\$201,416,300</b>	<b>\$228,550,000</b>	<b>\$259,160,500</b>

### Schedule 5C - Water Construction Bond Fund

	Current Year	Biennial Budget		Forecast		
Inflows & Outflows	Projected	FY 2019 Requested	FY 2020 Requested	FY 2021 Forecast	FY 2022 Forecast	FY 2023 Forecast
<b>Water Construction Bond Fund</b>						
Bond Proceeds, Net	\$ -	\$ -	\$145,000,000	\$ -	\$140,000,000	\$145,000,000
Earnings on Investments, Net	435,000	743,000	462,000	408,000	252,000	500,000
Transfer from Improvement & Extension Fund - Specific	14,936,000	13,172,000	11,209,000	12,565,000	11,280,000	12,007,000
Transfer from Improvement & Extension Fund - Strategic	-	-	-	80,000,000	20,000,000	-
Grant Revenues	-	-	-	-	-	-
Project Expenditures	(40,043,000)	(66,038,000)	(137,583,000)	(155,734,000)	(178,300,000)	(175,174,000)
Increase (Decrease) in Construction Funds	(24,672,000)	(52,123,000)	19,088,000	(62,761,000)	(6,768,000)	(17,667,000)
Beginning Year Balance	173,000,000	148,328,000	96,205,000	115,293,000	52,532,000	45,764,000
<b>Projected Ending Balance</b>	<b>\$148,328,000</b>	<b>\$96,205,000</b>	<b>\$115,293,000</b>	<b>\$52,532,000</b>	<b>\$45,764,000</b>	<b>\$28,097,000</b>

### Schedule 5D - Sewer Construction Bond Fund

	Current Year	Biennial Budget		Forecast		
Inflows & Outflows	Projected	FY 2019 Requested	FY 2020 Requested	FY 2021 Forecast	FY 2022 Forecast	FY 2023 Forecast
<b>Sewer Construction Bond Fund</b>						
Bond Proceeds, Net	\$ -	\$ -	\$75,000,000	\$ 135,000,000	\$42,770,000	\$140,000,000
Earnings on Investments, Net	1,025,600	676,800	144,800	229,100	597,000	-
Transfer from Improvement & Extension Fund - Specific	3,758,000	8,312,000	10,882,000	13,659,000	10,852,000	12,280,000
Transfer from Improvement & Extension Fund - Strategic	-	-	5,000,000	-	-	5,000,000
Grant Revenues	45,965,000	42,197,000	30,061,000	13,493,000	10,187,000	1,603,000
Project Expenditures	(70,632,000)	(105,183,000)	(111,155,000)	(111,952,000)	(136,411,000)	(168,458,000)
Increase (Decrease) in Construction Funds	(19,883,400)	(53,997,200)	9,932,800	50,429,100	(72,005,000)	(9,575,000)
Beginning Year Balance	136,000,000	116,116,600	62,119,400	72,052,200	122,481,300	50,476,300
<b>Projected Ending Balance</b>	<b>\$116,116,600</b>	<b>\$62,119,400</b>	<b>\$72,052,200</b>	<b>\$122,481,300</b>	<b>\$50,476,300</b>	<b>\$40,901,300</b>