



# Proposed FY 2020 & FY 2021 Biennial Budget Request / FY 2020 Charges

*Public Hearing*

*February 27, 2019*



**TFG**  
THE FOSTER GROUP

# Summary of Budget / Charges Development Process

- This Public Hearing provides formal management recommendations regarding the proposed FY 2020 and FY 2021 Biennial Budget Request and the FY 2020 Schedule of Revenues and Charges.
- It marks the culmination of a formal schedule of activities.
- The Budget proposals were formally presented to the Board on January 9, 2019 and to Member Partners on January 10, 2019.
- The Charge proposals were formally presented to the Board on January 23, 2019 and to Member Partners on January 24, 2019.

# Summary of Budget / Charges Development Process

- The proposed budget presented today reflects two modifications subsequent to the budget presented last month.
- The proposed Charges for Suburban Wholesale Member Partners presented today are identical to those presented last month.
- The proposed annual wholesale revenue requirements to DWSD are slightly different.

# Final Proposed Budget Modifications: Operating Expense Review

- On February 15, 2019, the Audit Committee requested an analysis of the potential impact of a \$5 million reduction in budgeted operating expenses.
- The outcome of that scenario analysis leads to:
  - ✓ *Applying more conservative assumptions regarding utility and chemical expenses;*
  - ✓ *A proportional application of those assumptions results in a potential impact of:*
    - \$2 million Water
    - \$3 million Sewer

# Final Proposed Budget Modifications: Operating Expense Review

- The revised GLWA Administration budget proposal embraces the \$5 million as noted by the scenario analysis.
- However, to preserve the commitment to long term financial sustainability, it is recommended that The \$5 million be reclassified from operating expense to additional I&E deposits, applied proportionally:
  - ✓ *\$2 million Water*
  - ✓ *\$3 million Sewer*
- Designed to address:
  - ✓ *Recently validated GLWA/DWSD Legacy Pension “tail liability” of \$7 to \$9 million annually **for 30 years**;*
  - ✓ *Increased financial resource demand of capital program management contract*

# Final Proposed Budget Modifications: GLWA Facilities Arrangement

- Final Budget proposal reverses the original proposal to convert these facilities from DWSD retail water customers to internal GLWA wholesale water customers.
- Matter has been referred to arbitration and proposal is to resolve via that forum outside the FY 2020 Budget and Charges process.

# Final Proposed Budget Modifications: GLWA Facilities Arrangement

- Units of service associated with these facilities were “added back” to the Detroit Customer Class.
- Results in:
  - ✓ *Increased wholesale revenue requirements allocated to Detroit;*
  - ✓ *Maintained retail revenues for DWSD from those facilities;*
  - ✓ *An alignment of GLWA and DWSD budgets*
- Proposed no impact on Suburban Wholesale Charges



# Final Proposed Budget Modifications: Impact on Budget and Charges

- FY 2020 BUDGET increase from FY 2019:
  - ✓ *Water - initially: 3.1%; revised: 3.1% (~ no change)*
  - ✓ *Sewer - initially: 2.7%; revised: 2.9%*
- Suburban Wholesale Charge Adjustment:
  - ✓ *Water - initially: 0.9%; revised: 0.9% (no change)*
  - ✓ *Sewer - initially: 0.5%; revised: 0.5% (no change)*
- Allocated DWSD Wholesale Revenue Requirement Adj:
  - ✓ *Water - initially: -0.2%; revised: 3.3% \**
  - ✓ *Sewer - initially: 2.7%; revised: 3.2% \**

\* DWSD Retail Water Charges to certain GLWA Sewer Facilities estimate:

✓ *Initially \$0; revised \$3.5 million*



# Final Proposed Budget Modifications: Impact on Budget and Charges

Regional System Revenue Requirements	Water Supply System				
	FY 2020 As Requested	Budget Reclassification	GLWA Facilities Adjustment	Modified Budget?	Relative % Change
<b>Revenues</b>					
Revenues From Wholesale Customer Charges	\$311,043,600	\$ -	\$ -	\$311,043,600	0.0%
Wholesale Revenues From Retail Services Agreement	20,117,100	-	1,419,600	21,536,700	7.1%
11 Total Revenues from Charges	\$331,160,700	\$ -	\$ 1,419,600	\$332,580,300	0.4%
11.1 Revenues from Internal Charges	1,438,000		(1,438,000)	-	-100.0%
10.1 Non-Operating Revenue	9,084,200		-	9,084,200	0.0%
<b>Total Revenues</b>	<b>\$341,682,900</b>	<b>\$ -</b>	<b>\$ (18,400)</b>	<b>\$341,664,500</b>	<b>0.0%</b>
<b>Revenue Requirements</b>					
1 Operations & Maintenance (O&M) Expense	\$133,490,500	\$ (2,000,000)	\$0	\$131,490,500	0.0%
2 O&M Legacy Pension Allocation	6,048,000		-	6,048,000	0.0%
3 Debt Service Allocation	137,557,600		-	137,557,600	0.0%
4 Accelerated Legacy Pension Allocation	6,268,300		-	6,268,300	0.0%
5 Water Residential Assistance Program	1,743,900		7,100	1,751,000	0.4%
6 Lease Payment to Local System I&E Account	22,500,000		-	22,500,000	0.0%
7 Improvement & Extension Fund Allocation	30,098,600	2,000,000	(25,500)	32,073,100	-0.1%
8 Operating Reserve Deposit	3,976,000		-	3,976,000	0.0%
9 Extraordinary Repair & Replacement Deposit	-		-	-	NA
<b>Annual Revenue Requirements</b>	<b>\$341,682,900</b>	<b>\$ -</b>	<b>\$ (18,400)</b>	<b>\$341,664,500</b>	<b>0.0%</b>
<u>Impact on Detroit Customer Class</u>					
DWSD Local System Revenues - Detroit Customers	\$ 96,300,200		\$ 3,507,800	\$ 99,808,000	3.6%
less: Allocated Wholesale Revenue Requirement	(20,117,100)	-	(1,419,600)	(21,536,700)	7.1%
Balance Available for Local System Requirements	<b>\$ 76,183,100</b>	<b>\$ -</b>	<b>\$ 2,088,200</b>	<b>\$ 78,271,300</b>	<b>2.7%</b>
Variance as a % of Total Revenues					<b>2.2%</b>

# Final Proposed Budget Modifications: Impact on Budget and Charges

Regional System Revenue Requirements	Sewage Disposal System				
	FY 2020 As Requested	Budget Reclassification	GLWA Facilities Adjustment	Modified Budget?	Relative % Change
<b>Revenues</b>					
Revenues From Wholesale Customer Charges	\$287,973,400	\$ -	\$ -	\$287,973,400	0.0%
Wholesale Revenues From Retail Services Agreement	186,118,800	-	782,300	186,901,100	0.4%
11 Total Revenues from Charges	\$474,092,200	\$ -	\$ 782,300	\$474,874,500	0.2%
11.1 Revenues from Internal Charges			-	-	NA
10.1 Non-Operating Revenue	8,730,800		-	8,730,800	0.0%
<b>Total Revenues</b>	<b>482,823,000</b>	<b>\$ -</b>	<b>782,300</b>	<b>483,605,300</b>	<b>0.2%</b>
<b>Revenue Requirements</b>					
1 Operations & Maintenance (O&M) Expense	\$187,968,700	\$ (3,000,000)	\$ 2,088,200	\$187,056,900	1.1%
2 O&M Legacy Pension Allocation	10,824,000		-	10,824,000	0.0%
3 Debt Service Allocation	215,738,800		-	215,738,800	0.0%
4 Accelerated Legacy Pension Allocation	11,620,700		-	11,620,700	0.0%
5 Water Residential Assistance Program	2,464,400		3,900	2,468,300	0.2%
6 Lease Payment to Local System I&E Account	27,500,000		-	27,500,000	0.0%
7 Improvement & Extension Fund Allocation	26,706,400	3,000,000	(1,309,800)	28,396,600	-4.9%
8 Operating Reserve Deposit	-		-	-	NA
9 Extraordinary Repair & Replacement Deposit	-		-	-	NA
<b>Annual Revenue Requirements</b>	<b>\$482,823,000</b>	<b>\$ -</b>	<b>\$ 782,300</b>	<b>\$483,605,300</b>	<b>0.2%</b>
<u>Impact on Detroit Customer Class</u>					
DWSD Local System Revenues - Detroit Customers	\$292,640,000		\$0	\$292,640,000	0.0%
less: Allocated Wholesale Revenue Requirement	(186,118,800)	-	(782,300)	(186,901,100)	0.4%
Balance Available for Local System Requirements	<b>\$106,521,200</b>	<b>\$ -</b>	<b>\$ (782,300)</b>	<b>\$105,738,900</b>	<b>-0.7%</b>
Variance as a % of Total Revenues					-0.3%

# Final Proposed Budget Modifications: Impact on Budget and Charges

Regional System Revenue Requirements	Combined Water & Sewer				
	FY 2020 As Requested	Budget Reclassification	GLWA Facilities Adjustment	Modified Budget?	Relative % Change
<b>Revenues</b>					
Revenues From Wholesale Customer Charges	\$599,017,000	\$ -	\$ -	\$599,017,000	0.0%
Wholesale Revenues From Retail Services Agreement	206,235,900	-	2,201,900	208,437,800	1.1%
11 Total Revenues from Charges	\$805,252,900	\$ -	\$ 2,201,900	\$807,454,800	0.3%
11.1 Revenues from Internal Charges	1,438,000	-	(1,438,000)	-	-100.0%
10.1 Non-Operating Revenue	17,815,000	-	-	17,815,000	0.0%
<b>Total Revenues</b>	<b>824,505,900</b>	<b>-</b>	<b>763,900</b>	<b>825,269,800</b>	<b>0.1%</b>
<b>Revenue Requirements</b>					
1 Operations & Maintenance (O&M) Expense	\$321,459,200	(\$5,000,000)	\$2,088,200	\$318,547,400	0.6%
2 O&M Legacy Pension Allocation	16,872,000	-	-	16,872,000	0.0%
3 Debt Service Allocation	353,296,400	-	-	353,296,400	0.0%
4 Accelerated Legacy Pension Allocation	17,889,000	-	-	17,889,000	0.0%
5 Water Residential Assistance Program	4,208,300	-	11,000	4,219,300	0.3%
6 Lease Payment to Local System I&E Account	50,000,000	-	-	50,000,000	0.0%
7 Improvement & Extension Fund Allocation	56,805,000	5,000,000	(1,335,300)	60,469,700	-2.4%
8 Operating Reserve Deposit	3,976,000	-	-	3,976,000	0.0%
9 Extraordinary Repair & Replacement Deposit	-	-	-	-	NA
<b>Annual Revenue Requirements</b>	<b>\$824,505,900</b>	<b>\$ -</b>	<b>\$ 763,900</b>	<b>\$825,269,800</b>	<b>0.1%</b>
<b><u>Impact on Detroit Customer Class</u></b>					
DWSD Local System Revenues - Detroit Customers	\$388,940,200	\$ -	\$ 3,507,800	\$392,448,000	0.9%
less: Allocated Wholesale Revenue Requirement	(206,235,900)	-	(2,201,900)	(208,437,800)	1.1%
Balance Available for Local System Requirements	<b>\$182,704,300</b>	<b>\$ -</b>	<b>\$ 1,305,900</b>	<b>\$184,010,200</b>	<b>0.7%</b>
Variance as a % of Total Revenues					0.3%



**GLWA**

*Great Lakes Water Authority*