

..TITLE

Resolution Regarding Approval of FY 2021 Schedule of Service Charges

..BODY

Agenda of: February 26, 2020
Item No.: **2020-__**
Amount: N/A

TO: The Honorable
Board of Directors
Great Lakes Water Authority

FROM: Sue F. McCormick
Chief Executive Officer
Great Lakes Water Authority

DATE: February 26, 2020

RE: Resolution Regarding Approval of FY 2021 Schedule of Service Charges

MOTION

Upon recommendation of Nicolette Bateson, Chief Financial Officer/Treasurer, the Board of Directors (Board) of the Great Lakes Water Authority, **approves the following actions, which require a supermajority affirmative vote of at least five (5) members of the Board, and the attached Resolution 2020-__** with an effective date of July 1, 2020:

- 1) FY 2021 wholesale water service schedule of charges;
- 2) FY 2021 wholesale sewer service schedule of charges;
- 3) FY 2021 City of Detroit allocated wholesale water revenue requirement of \$22,765,300, which is the net of \$43,465,300 gross revenue requirement less the Ownership Equity Credit of \$20,700,000 pursuant to the terms of the Water and Sewer Services Agreement (WSSA);
- 4) FY 2021 City of Detroit allocated wholesale sewer revenue requirement of \$192,503,600 which is the net of \$198,019,600 gross revenue requirement less the Ownership Equity Credit of \$5,516,000 in accordance with the WSSA;
- 5) FY 2021 City of Detroit allocated indirect water revenue requirement of \$47,031,500, in accordance with the Regional Water Supply System Lease;

- 6) FY 2021 City of Detroit allocated indirect sewer revenue requirement of \$35,566,600, in accordance with the Regional Sewage Disposal System Lease; and
- 7) authorizes the Chief Executive Officer to take such other action as may be necessary to accomplish the intent of this vote.

BACKGROUND

Pursuant to the water system and sewer system leases signed between the Great Lakes Water Authority (GLWA/Authority) and the City of Detroit, the GLWA began operations of the regional water supply and sewage disposal system on January 1, 2016. Consistent with the terms of those leases, the Authority shall, for each fiscal year fix and approve rates and charges to its customers in an amount that is expected to produce revenues sufficient to satisfy the Authority revenue requirement. The attached, proposed schedule of charges meets that requirement.

Leading up to this charge recommendation, staff presented the proposed FY 2021 and 2022 Biennial Budget and five-year financial plan for FY 2021 to 2025 to the Board at its meeting on January 8, 2020 and an analysis of proposed water and sewer system charges at its January 22, 2020 meeting. A Public Hearing was opened for the FY 2021 Water Service Charges and Sewer Service Charges on February 26, 2019 and will be held open until the FY 2021 charges are approved.

JUSTIFICATION

Great Lakes Water Authority (“GLWA”) management and its consultant, The Foster Group, developed a Schedule of Water Service Charges and Sewer Service Charges for FY 2021 including the City of Detroit Revenue Requirement for the water and sewer systems. These charges support the proposed FY 2021 water system revenue requirements budget and the proposed FY 2021 sewer system revenue requirements, respectively. The FY 2021 water and sewer revenue requirements reflect GLWA’s commitment to not only work within, but perform beyond, the four percent revenue requirement budget limitation outlined in the September 9, 2014 Memorandum of Understanding that resulted in the establishment of the Great Lakes Water Authority. The proposed wholesale customer charges and revenue requirements for the City of Detroit are the result of significant customer engagement in the charge setting process to evaluate the appropriate allocation of revenue requirements.

BUDGET IMPACT

The recommended FY 2021 Schedule of Water Service Charges and Sewer Service Charges as presented produces the necessary revenues to fund the FY 2021 Water System and Sewer System Budget.

COMMITTEE REVIEW

The Audit Committee has reviewed the FY 2021 financial plan, including charge setting matters, at its meetings on December 19, 2019, January 17, 2020 and February 21, 2020.

Proposed FY 2021 Water Charges

The proposed FY 2021 water service charges reflect the proposed Water BUDGET increase of 1.1 percent from FY 2020. As a result of the Contract Alignment Process (CAP) that was undertaken in 2019, the FY 2021 Units of Service were virtually unchanged from FY 2020. For FY 2021 GLWA is anticipating reduced investment earnings and a reduction in estimated sales volumes as compared to FY 2020, **therefore the average water system charges increase is proposed to be 3.8 percent.**

Proposed FY 2021 Sewer Charges

The proposed FY 2021 sewer service charges reflect the proposed Sewer BUDGET increase of 2.5 percent from FY 2020. For FY 2021 GLWA is anticipating reduced investment earnings as compared to FY 2020, **therefore the average sewer system charges increase is proposed to be 3.2 percent.**

Coordination with DWSD's Budget

Under the terms of the lease agreements and related financial commitments, key inputs are required from DWSD. An analysis of the DWSD budget inputs and related reconciliation based upon some of the changes above is also attached.

SHARED SERVICES IMPACT

This item does not impact the Shared Services Agreement between the GLWA and the City of Detroit.

Great Lakes Water Authority

Resolution 2020-

RE: Approval of FY 2021 Schedule of Water Service Charges

By Board Member: _____

Whereas The Great Lakes Water Authority (“GLWA”) management and its consultant, The Foster Group, have developed the attached Schedule of Water Service Charges and Sewer Service Charges for FY 2021, including the direct and indirect City of Detroit Revenue Requirements for the water and sewer systems, to support the FY 2021 water system and sewer system revenue requirements budget with an effective date of July 1, 2020; and

Whereas The FY 2021 water and sewer revenue requirements reflect GLWA’s commitment to work within the four percent limitation outlined in the Memorandum of Understanding; and

Whereas A Public Hearing was held for the Water Service Charges and Sewer Service Charges proposed by the GLWA for FY 2021 on February 26, 2020 at 2:00 p.m.; and

NOW THEREFORE BE IT:

RESOLVED The Great Lakes Water Authority Board approves the proposed:

- 1) FY 2021 wholesale water service schedule of charges;
- 2) FY 2021 wholesale sewer service schedule of charges;
- 3) FY 2021 City of Detroit allocated wholesale water revenue requirement of \$22,765,300, which is the net of \$43,465,300 gross revenue requirement less the Ownership Equity Credit of \$20,700,000 pursuant to the terms of the Water and Sewer Services Agreement (WSSA);
- 4) FY 2021 City of Detroit allocated wholesale sewer revenue requirement of \$192,503,600 which is the net of \$198,019,600 gross revenue requirement less the Ownership Equity Credit of \$5,516,000 in accordance with the WSSA;
- 5) FY 2021 City of Detroit allocated indirect water revenue requirement of \$47,031,500, in accordance with the Regional Water Supply System Lease;

6) FY 2021 City of Detroit allocated indirect sewer revenue requirement of \$35,566,600, in accordance with the Regional Sewage Disposal System Lease; and

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 vote.