



Financial Services Audit Committee Communication

Date: June 19, 2020

To: Great Lakes Water Authority Audit Committee

From: Lisa L Mancini, Financial Planning & Analysis Manager

Re: Proposed FY 2021 budget reductions

Background: On March 11, 2020, the Board adopted [Resolution 2020-083, “Resolution Regarding Approval of FY 2021 Schedule of Service Charges”](#) (the Charges). Since the Board took this action, the COVID-19 pandemic has afflicted the United States. In response, the recommendation to defer the effective date for the implementation of the FY 2021 Schedule of Service Charges from July 1, 2020 to October 1, 2020 was presented to the Board of Directors (Board) of the Great Lakes Water Authority (GLWA) at the GLWA board meeting on April 22, 2020. In approving this change, it was the Board’s expectation that the Board would receive a plan for operational and budget reduction to the Board by its first meeting in June, 2020 and any necessary amendments to the Budget for Fiscal Year 2020-21 to the Board for its review and approval on or before November 30, 2020.

Analysis: Pending review and recommendation from the Audit Committee, the GLWA Board of Directors will be asked to approve the proposed FY 2021 budget reductions at the June 24, 2020 Board meeting. These budget reductions are based on the deferral of the effective date for the FY 2021 Schedule of Service Charges from July 1, 2020 to October 1, 2020, or by one quarter of the fiscal year which will reduce the revenue available for water operations by approximately three million dollars (\$3,000,000) and for sewer operations by two million, six hundred and fifty thousand dollars (\$2,650,000).

Table 1 on the following page presents the proposed FY 2021 budget reductions by category. The breakout between Water and Sewer presented in this table includes the allocation of centralized and administrative services. A list of the key items that are included in these categories immediately follows Table 1. The total amount of reductions identified fully accounts for the revenue reduction noted above.

Table 2, which follows the commentary, shows the FY 2021 budget reductions by Service Area (Water Operating Services, Wastewater Operating Services, Centralized Services, and Administrative & Other Services) and by Expense Category.

Table 1: GLWA FY 2021 Operations & Maintenance Budget Reductions

Great Lakes Water Authority				
FY 2021 Operations & Maintenance Budget Reductions				
As of June 19, 2020				
Line #	Category	Water	Sewer	Total
1	Salary and Fringes related to vacancies and other variances	\$ 747,000	\$ 780,100	\$ 1,527,100
2	Salary and Fringes - elimination of FY 2021 wage adjustment	930,300	1,220,500	2,150,800
3	Contractual Services reductions to contracts and other variances	1,034,700	337,500	1,372,200
4	Supplies & Other reductions to contracts and other variances	288,000	312,000	600,000
FY 2021 Budget Reductions - Expenses		\$ 3,000,000	\$ 2,650,100	\$ 5,650,100

Line #1 –Salary and Fringes related to vacancies and other variances

- A review of the FY 2021 staffing plan showed that there is a total of 21 positions that will either not be filled in FY 2021 or will be filled later in the year than what was originally included in the plan largely due to COVID-19 alternate operating scenario in many areas . This will result in a reduction to the Personnel Costs (Salaries & Wages, Fringe Benefits, and Contractual Transition Services) of \$1,527,100.

Line #2 – Salary and Fringes – elimination of FY 2021 wage adjustment

- Wage and benefit adjustments related to merit increases are included within the Operations & Maintenance contingency accounts (Unallocated Reserve) of the financial plan. Holding the Salaries & Wages at the current FY 2020 rates will result in a reduction of \$2,150,800 to the FY 2021 financial plan.

Line #3 – Contractual Services reductions to contracts and other variances

- Contractual Operating Services (Springwells Water Plant – cost center 882141 and Northeast Water Plant – cost center 882151; Water System Operations): A review of the history and plans for usage in FY 2021 of the various contracts in this section has resulted in a reduction to the FY 2021 financial plan. Contracts included in this section are Mobile Dredging, “As Needed” Specialty contracts, and Testing and Inspection services. (\$709,700)
- Water Transmission System Pipe Integrity Program (Asset Management – cost center 886201; Centralized Service): The start date of this program was delayed due to COVID-19. It is scheduled to begin later in FY 2021 than what was included in the financial plan. (\$312,500)
- Environmental Health & Safety Compliance Services (Enterprise Risk Management and Safety – cost center 883401; Administrative Services): This contract is utilized

on an as needed basis. The need for these services will be reduced due to the number of GLWA team members working from home in response to COVID-19. (\$250,000)

- Legal fees (General Counsel – cost center 883101; Administrative Services): The FY 2021 budget for this account has been reduced based on a review of its history. (\$100,000)

Line #4 – Supplies & Other reductions to contracts and other variances

- Microsoft Desktop Operating Licenses (Information Technology Service Delivery – cost center 883321; Centralized Service): These licenses, previously purchased separately, are now incorporated into the Microsoft Enterprise License Agreement. The result will be a reduction to this budget line item for FY 2021. (\$250,000)
- SQL Server Licenses (Information Technology Infrastructure – cost center 883331; Centralized Service): These licenses, previously purchased separately, are now incorporated into the Microsoft Enterprise License Agreement. The result will be a reduction to this budget line item for FY 2021. (\$250,000)
- Red Hat Licensing (Information Technology Infrastructure – cost center 883331; Centralized Services): Decommissioned servers have resulted in a reduced number of required licenses from what was included in the FY 2021 budget. (\$100,000)

Table 2: GLWA FY 2021 Operations & Maintenance Budget Reductions by Service Area and Expense Category

Service Area and Expense Category	FY 2021 Budget Reductions
A Water System Operations	\$ (1,146,600)
Contractual Services	(709,700)
Unallocated Reserve	(436,900)
B Wastewater System Operations	(701,300)
Unallocated Reserve	(701,300)
C Centralized Services	(2,382,900)
Contractual Services	(312,500)
Personnel Costs	(827,500)
Supplies & Other	(600,000)
Unallocated Reserve	(642,900)
D Administrative & Other Services	(1,419,200)
Contractual Services	(350,000)
Personnel Costs	(699,500)
Unallocated Reserve	(369,700)
Total Operations & Maintenance Reduction	\$ (5,650,000)

Proposed Action: The GLWA Audit Committee recommends the approval of the proposed FY 2021 budget reductions as presented.