



## Financial Services Audit Committee Communication

**Date:** November 20, 2020

**To:** Great Lakes Water Authority Audit Committee

**From:** Jon Wheatley, Public Finance Manager

**Re:** Follow-up from October 23, 2020 Audit Committee

**Background:** At the October 23, 2020 Great Lakes Water Authority (GLWA) Audit Committee meeting there were three questions raised by committee members that required follow up from GLWA team members. Below are the responses to the questions.

**Question #1: As noted on page 30 of the July 2020 monthly financial report, the amount of monthly transfers for WRAP varied from year to year. Why is that?**

Answer: The manner by which the Water Residential Assistance Program (WRAP) contribution has been calculated since its inception has been subtly modified from time to time, creating some minor variations. For starters, we should acknowledge that the calculation of the WRAP amount as “0.5% of based budgeted operating Revenues” by its nature creates a circular reference - since the WRAP amount becomes part of the base Revenue amount, and thus creates an additional allocation of 0.5%. Efforts to avoid this circular reference have changed from year to year.

See Exhibit A, which summarizes the calculation of the WRAP deposits since inception. As noted by footnote (a) the revenue figures utilized to determine the WRAP contributions may not directly tie to the final budgeted revenues, due to changes made during stakeholder and Board of Directors review of proposed budgets and charges. For instance, the FY 2018 WRAP budget figures were computed by applying the initial planning level 4% revenue requirement increase to the FY 2017 WRAP budget figures. Subsequently, the charge calculation, review and approval process resulted in an overall FY 2018 revenue requirement **decrease** of 0.9% for Water and an increase of 0.3% for Sewer. The changes resulting from the budget / charge review resulted in modified contributions to the I&E “bottom line”. No changes were made to the original WRAP amounts, even though the budgeted revenues changed.

Starting with FY 2019, the budget review process was more refined with respect to WRAP and change in budgeted WRAP amounts more closely aligned with the overall change in

budgeted revenue requirements, although there were minor variances based on how changes from the budget review process were implemented.

Starting with FY 2020, an adjustment to the Local System WRAP calculation was made. The DWSD Customer Class is allocated responsibility for the Regional WRAP based on the gross, “pre ownership adjustment” revenue requirement. That class is then also assigned the entirety of the Local WRAP amount, based on 0.5% of Local Revenues. But prior to FY 2020 the DWSD budget process calculated the Local System WRAP amount assuming the DWSD Customer Class was only being assigned Regional System WRAP based on the net allocated Regional Revenue requirement, after recognition of the ownership adjustment. This calculation was modified starting with FY 2020.

Finally, the Local System WRAP contribution was changed from 0.5% to 1.0% of “base budgeted operating Revenues” starting with FY 2021.

**Question #2: Is Dearborn paying their bill in full? If not, how much is delinquent?**

Answer: As of Friday, October 23 and shown in the table below the City of Dearborn has disputed \$1.3 million in water charges for FY 2021 to date of which \$430 thousand is currently delinquent.

**City of Dearborn**  
**Disputed Water Charges Tracking**

Invoice Date	Amount Billed	Amount Disputed	Paid Amount or Anticipated Payment Amount	Payment Date
8/25/2020	931,022.58	(430,462.15)	500,560.43	9/11/2020
9/25/2020	735,369.79	(430,462.15)	304,907.64	
10/23/2020	1,208,635.84	(430,462.15)	778,173.69	
<b>Total</b>	<b>2,875,028.21</b>	<b>(1,291,386.45)</b>	<b>1,583,641.76</b>	

**Question #3: What is the nature of the difference between the debt service in the Circa December 2019 version of the FY 2021 budget, the adopted budget, and the amended budget ?**

Answer: See attached Exhibit B, which summarizes the evolution of the debt service figures throughout the FY 2021 budget process. For purposes of this answer, we’ll focus on the debt service allocable to the GLWA Regional System, which is the portion shown in the

proposed budget amendment. The Exhibit also illustrates the subtle changes in the total debt service and the debt service allocable to the DWSD Local System.

The original, preliminary budget projections shown in Column 1 anticipated realization of the potential savings (as estimated by PFM in September, 2019) available to the Water and Sewer systems. These amounts totaled \$4.8 million and \$7.0 million, respectively. Those original estimates included the intelligence GLWA has as of September 2019 regarding debt service on SRF Loans, including estimated draw schedules on existing loans, and potential debt service on approved, but not yet issued loans.

As GLWA prepared to enter the market for the refinancing activities, it was determined to be more prudent to prepare a budget that did not reflect the potential savings until they were actually achieved. GLWA prepared budget documents that did not include the potential savings, while signaling that if they were achieved the intent was to allow the savings to accrue to the bottom line via a larger deposit to I&E than reflected in the budget. This adjustment is shown in Column 2, and results in the debt service figures in Column 3, which are consistent with the budget approved by the GLWA Board in March 2020. Note that the other adjustment reflected in the approved budget was to update estimated SRF Loan debt service to reflect information as of December 2019.

The Series 2020 Water Bonds were issued in May 2020 and the Series 2020 Sewer Bonds were issued in June 2020. These transactions resulted in greater savings than originally estimated. The savings realized for FY 2021 the savings were \$5.23 million for Water and \$8.08 million for Sewer. These savings are being reflected in the proposed budget amendment, as shown in Column 5 of the Exhibit. Other minor adjustments reflected in the proposed amendment include updating the estimated SRF Loan debt service to reflect information as of September 2020, as shown in Column 6, and recognizing a change in assumptions regarding the variable interest rate on the Series 2006D Sewer Bonds, as shown in Column 4.