

# Proposed FY 2022+ Financial Plan - Top Ten Highlights

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*GLWA Audit Committee Meeting  
December 18, 2020*



# **What is GLWA's "Financial Plan"?**

## **What is GLWA's financial plan?**

The financial plan is a set of documents that transparently charts the financial course on a path of long-term sustainability.

## **Why focus on a long-term plan?**

Decisions decades ago impact today; decisions we make today impact future generations. This is the basis for achieving affordability.

## **What goes into a financial plan?**

Extensive input, analysis, and collaboration by subject matter experts that span finance, engineering, legal, and operations, both internal and external to GLWA.

## What are the Financial Plan documents?

- ✓ FY 2022 & FY 2023 Biennial Budget and Five Year Plan (FY 2022 – FY 2026)
- ✓ Ten Year Financial Plan through FY 2031
- ✓ FY 2022 – FY 2026 Five Year Capital Improvement Plan
- ✓ Cost of Service Study – FY 2022

# Top Ten Highlights



# Proposed FY 2022+ Financial Plan - Top Ten Highlights

1. Earliest & Best Available Information – *Ever!*
2. FY 2022 & FY 2023 Biennial Budget Overall: Goals Set -> Goals Met
3. Operations & Maintenance Budget – Dynamic Increases & Decreases
4. FY 2022 Charges Predictor – Water
5. FY 2022 Charges Predictor – Sewer
6. Ten Year Plan – Water System – Persistent Capital and O&M Pressures
7. Ten Year Plan – Sewer System – Achieving the long-term sustainability objective is within sight
8. Key Assumptions – Beyond Our Control
9. Key Assumptions - Things We Can Control
10. Yes, Our Sector has Challenges; We are Prepared to Address

# #1 – Earliest, Best Available Information – *Ever!*

- ✓ Most complete budget information for decision making at this point in the fiscal year
- ✓ Matured organization with strong working relationship between Financial Planning & Analysis with operations and administration
- ✓ Four full fiscal years of audited financial history
- ✓ Stability of overall charge methodology at this point in the financial planning cycle

## #2 - FY 2022 & FY 2023 Biennial Budget Overall: Goals Set -> Goals Met

- ✓ **The Promise:** Able to deliver an overall financial plan for FY 2022 and FY 2023 that holds revenue requirement increases below the 4% promise
- ✓ **Charges:** Resulting FY 2022 proposed charge adjustments reflect constraints within the goal to maintain stability for Member Partners
- ✓ **Sustainability & Affordability:** Facilitates progress towards long-term sustainability and affordability objectives
- ✓ **Quality:** Provides for progress on key initiatives that ensures the quality and reliability of our services and the impact on the environment

# #3 Operations & Maintenance Budget – Dynamic Increases & Decreases

**Overall FY 2022 GLWA operating budget meets objective of 2% annual increase compared to originally approved FY 2021 Budget**

- ✓ Water increase is ~ 6%, Sewer decrease ~ 1%
- ✓ Water Operations budget pressure, particularly Chemical expense and Contractual Services
- ✓ Wastewater Operations budget savings in Contractual Services and Utilities
- ✓ Adjustments to Water / Sewer Unallocated Reserves to reflect recent performance
- ✓ Moderate focus shift of Systems Planning efforts from Sewer to Water

**FY 2023 operating budget increase is also 2%**

- ✓ Less variation in Water / Sewer impacts
- ✓ Water increase 2.8%, Sewer increase 1.4%



## #4 - FY 2022 Charges Predictor – Water

**Preliminary proposed FY 2022 Water System Charge Adjustment is a 2.0% increase**

- ✓ System Charge Adjustment = the amount by which revenues from existing charges must be adjusted to meet budgeted revenue requirements
- ✓ Charge Adjustments for individual Member Partners will vary
- ✓ This is projected to produce a \$6.75 million revenue increase and becomes the foundational assumption for the rest of the budgeted revenue requirements
- ✓ Resulting plan reflects:
  - ✓ A negative investment earnings budget variance of \$3.6 million
  - ✓ A positive sales (volume) revenue budget variance of \$0.8 million
  - ✓ An overall budgeted revenue requirement increase of \$3.9 million
  - ✓ Budgeted contributions to I&E are less than the amended FY 2021 Budget by \$370K

## #5 FY 2022 Charges Predictor – Sewer

### **Preliminary proposed FY 2022 Sewer *System Charge Adjustment* is a 0.2% decrease**

- ✓ This is the result of a commitment to hold overall charge revenue recovered via SHARES at the same level as the existing charges
  - ✓ Charge Adjustments for individual Member Partners will vary based on new SHARES
- ✓ Resulting plan reflects:
  - ✓ A negative budgeted revenue variance of \$5.96 million related to the end of the recognition of the OMID contribution to meet revenue requirements
  - ✓ The preliminary decision to not include any bad bad Highland Park debt expense in the FY 2022 charges to suburban wholesale Member Partners
  - ✓ A negative investment earnings budget variance of \$4.2 million
  - ✓ An overall budgeted revenue requirement **decrease** of \$9.5 million
  - ✓ Budgeted contributions to I&E are lower than the amended FY 2021 Budget by \$6.3 million

## #6 - Ten Year Plan – Water System – Continuing Capital and O&M Pressures

### **Over-delivers on The Promise with heavy caution on debt service**

- ✓ Assuming future annual revenue requirement increases of 3% (less than the 4% Promise)
- ✓ Results in annual forecasted Water CIP requirements (at a 75% Spend Rate Assumption) that become more reliant on debt rather than I&E funding (i.e. Paygo)
- ✓ This, coupled with the increasing relative GLWA operating expense results in a fairly static forecast for Water
- ✓ Debt service coverage ratios (from the Regional System revenues) and related metrics are projected to decline under these assumptions
- ✓ Increasing performance on capital improvement program delivery could result in needing a revenue adjustment assumption higher than 3% and additional debt service

## #7 - Ten Year Plan – Sewer System – Achieving the long-term sustainability objective is within sight

### **Demonstrates achievement of desired, comprehensive planning objectives**

- ✓ Assuming future annual revenue requirement increases of 3% (less than the 4% Promise)
- ✓ The average annual forecasted Sewer CIP requirements (at a 75% Spend Rate Assumption) become less reliant on debt and more on I&E funding (i.e. Paygo)
- ✓ This, coupled with the moderate operating expense adjustments results in a forecast for the Sewer System in alignment with the desired strategy
- ✓ Debt service coverage ratios (from the Regional System revenues) and related metrics are projected to increase under these assumptions

## #8 Key Assumptions – Beyond Our Control

- ✓ Pension Funding Needs for legacy closed General Retirement System pension plan
- ✓ Economic Impact on Investment Portfolio
- ✓ Construction Cost Increases
- ✓ Cash collections at the local system level
  - ✓ Turning “booked” revenues into “cash” receipts
- ✓ New regulatory requirements
- ✓ Labor Market

## #9 – Key Assumptions - Things We Can Control

- ✓ Manage the pace of capital spending
- ✓ Manage the pace of change
- ✓ Smooth out charge and budget adjustments
- ✓ Strategic focus on operational and financial flexibility to navigate those things that are beyond our control

## #10 - Yes, Our Sector has Challenges; We are Prepared to Address

- ✓ Maintenance intensive industry requiring continual reinvestment of capital
- ✓ Declining use of potable water and the associated reduced demand
- ✓ Regulatory concerns for both the Water and the Wastewater Systems
- ✓ Affordability



**GLWA**

*Great Lakes Water Authority*