



Financial Services Audit Committee Communication

Date: March 15, 2021

To: Great Lakes Water Authority Audit Committee

From: Nicolette Bateson, CPA
Chief Financial Officer & Treasurer

Re: Proposed FY 2022 & FY 2023 Biennial Budget and FY 2022 Charges

Background: In accordance with service agreements with the Great Lakes Water Authority (GLWA) member partners, the budget and charges for the next fiscal year are presented in January each year. To accommodate that schedule, the upcoming year's budget is presented to the Audit Committee within the context of the biennial budget and five-year financial plan as well as a ten-year forecast in December. Subsequently, the Audit Committee conducts a review of the budget and related analysis in January.

At the December 18, 2020 Audit Committee meeting, a discussion draft of the FY 2022 & FY 2023 Biennial Budget and Five-Year Plan was presented. This draft focused on a) overall strategy of key budget elements including system-wide service charges and b) proposed operating group budgets.

On January 15, 2021, staff provided additional analysis and a summary budget document to close open issues given that the budget is prepared in the second quarter of the fiscal year. The updates were made within line items of the discussion draft budget (which did not change the total proposed operations and maintenance (O&M) portion of the budget). A continuation of that budget review was scheduled for a special meeting of the Audit Committee on January 22, 2021. On January 27, 2021, the Board of Directors received a presentation related to the FY 2022 & FY 2023 Biennial Budget and Five-Year Plan and FY 2022 Charges.

On February 24, 2021, public hearings were held by the Board of Directors related to the proposed budget and related charges. After the public hearings were completed, the Board was asked to consider adoption of the proposed budget and charges. The Board voted to refer the budget and charges back to the Audit Committee to review a Board Member's request asking for the GLWA Administration to reconsider the proposed water system O&M budget and opportunities for reduction of that budget (and related charges).

On March 8, 2021, the Audit Committee met to review the GLWA Administration's response to a Board member request to reduce the water system budget and related charges. The Administration presented a proposal to reduce the FY 2022 budget with a) \$2.2 million decrease to the FY 2022 water system O&M expenses and a corresponding impact on charges, b) \$1 million in sewer system O&M budget decrease with an offsetting increase to

the Improvement & Extension Fund contribution, and c) with the details of this action to be executed by the Chief Executive Officer or her designee. It should also be noted that outstanding Member Partner water contract matters are likely to reduce the FY 2022 revenues by \$1 million. Combined with the \$3.2 million reduction in the water O&M budget proposed, this equates to a \$4.2 million reduction for the water system. The feedback from the Audit Committee was that they would like to see further reduction in the water system O&M budget of \$5.5 million and a further reduction of the 2% systemwide water charge from the new proposal of 1.3% to something less. In addition, the Audit Committee would like to see any spillover of O&M reductions to the sewer system budget as a result of cuts to the administrative and centralized budgets to move the proposed 0% sewer system adjustment to a rollback of sewer charges. Finally, the GLWA Administration was asked to review the staffing plan.

Analysis: The GLWA Administration has carefully considered the Audit Committee's further requests. While anything is possible, it does not come without costs. The GLWA Administration has been and continues to be focused on quality and cost controls. In some instances, we do need to spend money to save money. In a heavy infrastructure service sector, evaluating system integrity and reliability is a high priority. In other instances, the GLWA Administration is asked to initiate or improve programs. All of these have long-term implications. For that reason, the attached presentation has been prepared to better understand the FY 2022 budget and charge discussions as it relates to the long-term financial plan.

After compiling and reviewing the attached presentation, the GLWA Administration would like to revise its prior proposal given the benefit of time to consider the long-term implications of the prior recommendations.

Proposed Action: Audit Committee recommends that the Board of Directors adopts the FY 2022 and FY 2023 Biennial Budget and related proposed FY 2023 Schedule of Charges with a revision as follows: a) \$2.2 million decrease to the FY 2022 water system O&M expenses and a corresponding increase to the Water Improvement & Extension Fund contribution, b) \$1 million in sewer system O&M budget decrease with an offsetting increase to the Sewer Improvement & Extension fund contribution, and c) with the details of this action to be executed by the Chief Executive Officer or her designee.