

Great Lakes Water Authority

*Budget & Financial Plan Alignment
FY 2022 thru FY 2026
& Long-term Forecast thru FY 2031*



Key Takeaways – Annual Budget Alignment

- *Annual* budget discussion are intended to align with long-term forecasts presented to stakeholders
- Initiatives, directives and policies have budget impacts
- Affordability and sustainability objectives are achieved, or derailed, through short-term actions
- Requests to decrease the FY 2022 O&M budget derail the above objectives as demonstrated by the long-term financial forecast included in this presentation
- The goal of this presentation is to provide context to the FY 2022 and FY 2023 biennial budget discussions in light of financial risks

Financial Plan: Stakeholders & Expectations

- Public -> Water Quality, Environmental Stewardship, Affordability
- Member Partners -> Stability in charges
- Bondholders -> Official statements, debt burden, and financial performance
- Regulatory -> Sufficiency of resources to address unforeseen needs, asset management commitment, permit requirements
- Vendors -> Contracted projects executed according to agreed-upon schedule
- Team Members -> Funding availability to reward performance
- Potential Team Members -> Competitive compensation to recruit and retain talent

Not Forgetting Where We Have Been

- Game changing era – 2011 to 2012
- Forecasted increases of 8% to 9% in 2012
- Decades of federal court oversight ending in 2013
- City's Chapter 9 Impacts
- Uncertainty of the ability to obtain financing for needed capital improvements
- System needs delays
- Start-up Entity
- Now, projects and initiatives that were part of regional discussion to form an authority now taking flight

Quick Facts – FY 2022 Proposed Charges

- The overall, originally proposed *Water System* Charge Adjustment is 2.0%
 - For the average Suburban Wholesale Water class as a whole, the proposed charge adjustment is an *increase* of approximately 2.4%
 - For DWSD the charge adjustment, after the ownership benefit, is a *reduction* of 3.2%
- The *effective revenue increase from water system charges could be reduced down to 1.7%* should pending model contract negotiations with Grosse Pointe Park and Dearborn get finalized
- The budget reduction being suggested* would lower the overall Water System Charge Adjustment to 0.5%

* \$5.5 million in total O&M of which \$4 million is allocable to the water system

Fact Check – What is the history of DWSD / GLWA Water Charge Adjustments

- The average annual increase in water charges to Suburban Wholesale Member Partners was:
 - DWSD era: 7.1% from FY 2004 through FY 2016 (Budget 4.1%)*
 - GLWA era: 1.7% from FY 2017 through FY 2022 (proposed) (Budget 1.2%)*
 - Since 2004: 5.3% from FY 2004 through FY 2022 (proposed) (Budget 3.1%)*
- This metric reflects a combination of changes in a) materially declining sales volume and b) revenue requirements

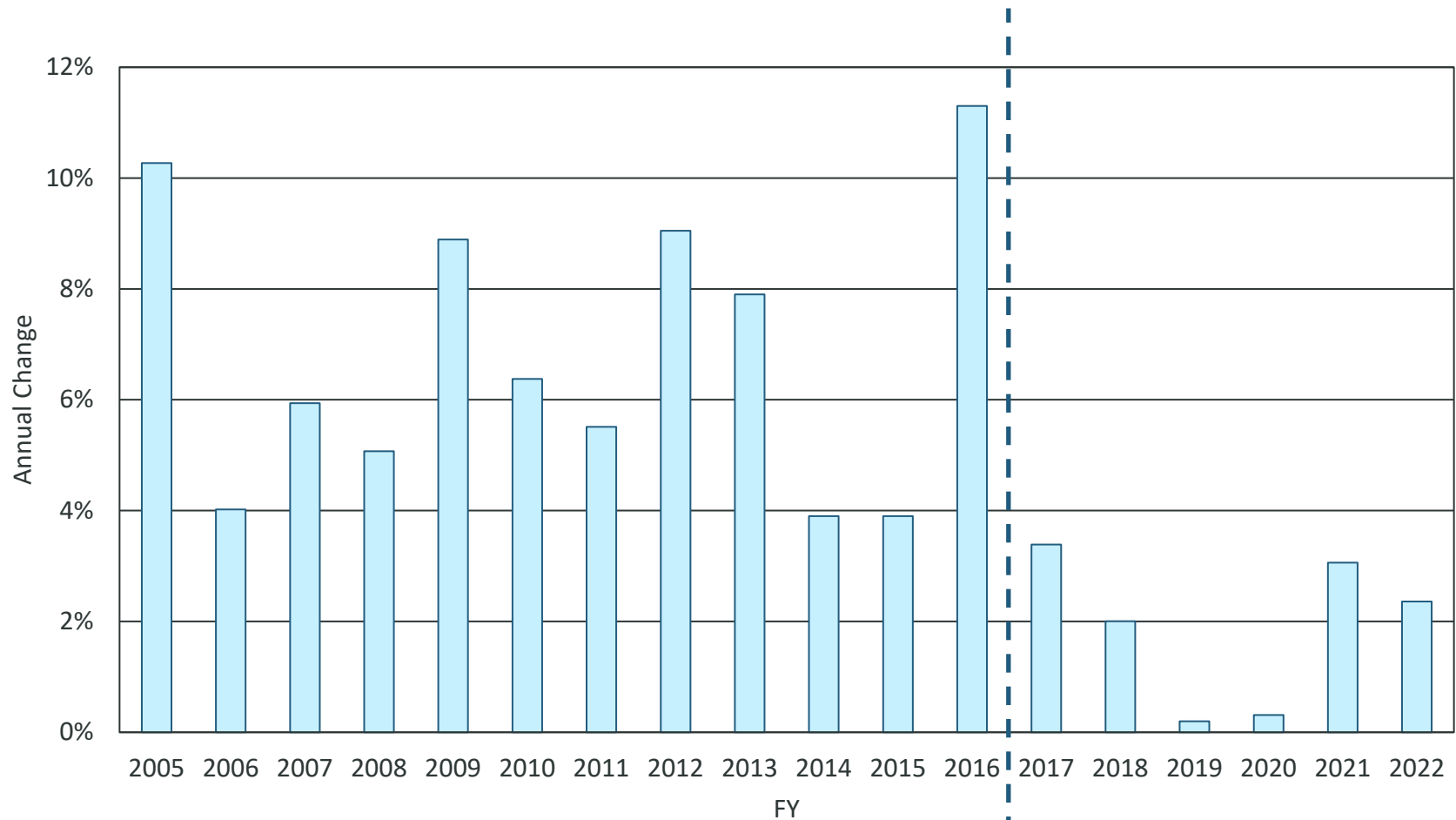
Relative Changes in Water Charge Fundamentals

	FY 2004 - FY 2016 (12 yrs)		FY 2016 - FY 2022 (6 yrs)		FY 2004 - FY 2022 (18 yrs)		
	<u>Cumulative</u>	<u>Avg Annual</u>	<u>Cumulative</u>	<u>Avg Annual</u>	<u>Cumulative</u>	<u>Avg Annual</u>	
Change in Revenue Requirement	62.2%	4.1%	7.3%	1.2%	74.0%	3.1%	<- Numerator
Change in Wholesale Sales Volume	-28.9%	-2.8%	-3.0%	-0.5%	-31.0%	-2.0%	<- Denominator
Change in Unit Cost	128.1%	7.1%	10.6%	1.7%	152.3%	5.3% **	<- "Charge Increase"

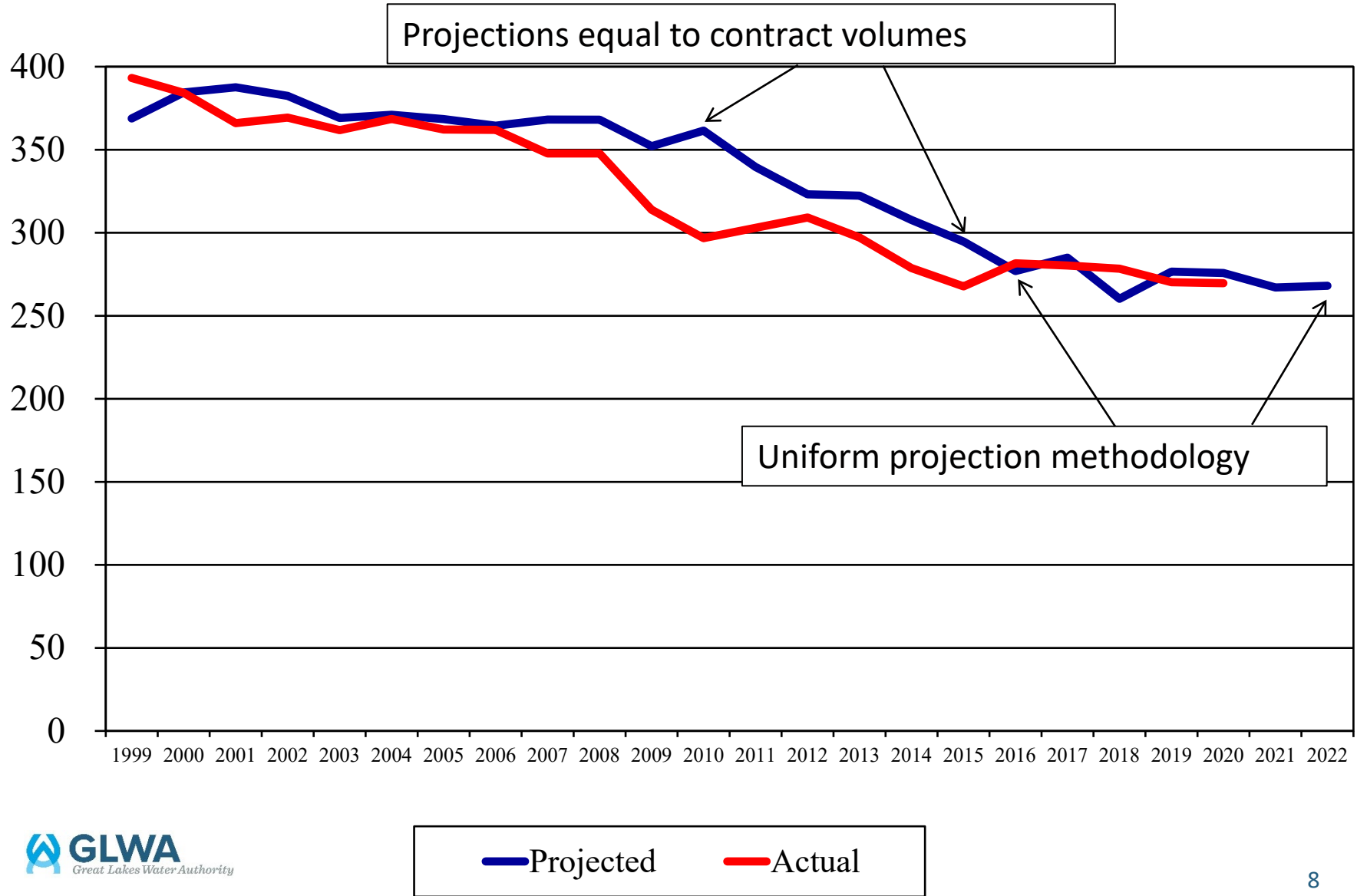
* Suburban Wholesale Only - Excludes Detroit

** The 50 Largest Cities "Utility Rate Index" published by Black & Veatch is 5.8% during this period

History of Average Suburban Wholesale Water Charge Adjustments

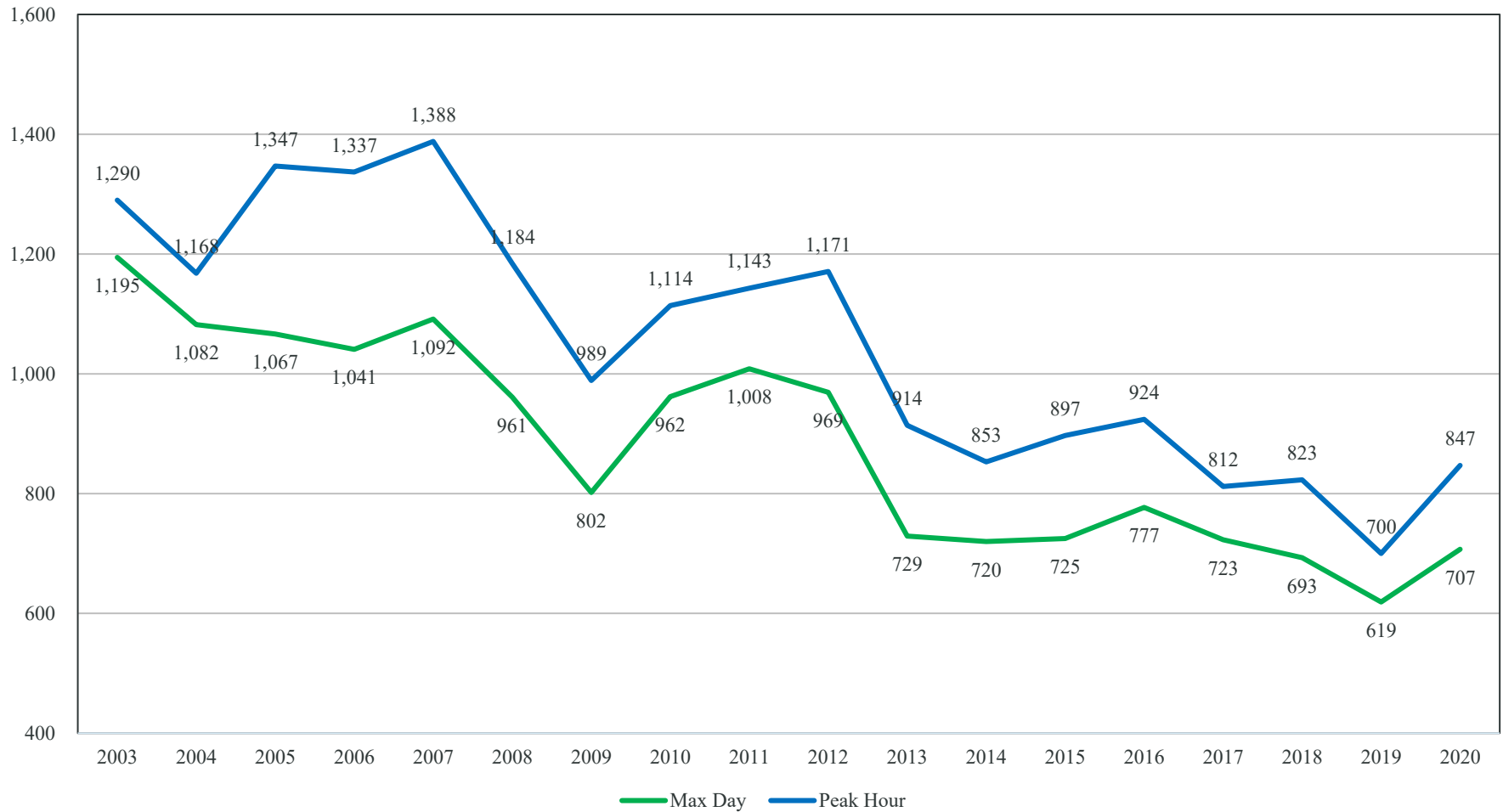


Annual Suburban Wholesale Water Sales * (mgd)



Reported Water Production Observations

Millions of gallons per day (mgd)



Forecast Sensitivity Analysis

- We've prepared an executive summary forecast analysis to evaluate the sensitivity on key financial and sustainability metrics of various assumptions and approaches towards budget and charge decisions
- As shown on the following slide, the metrics are not favorable under the latest Water plan being considered
- We can illustrate alternative scenarios as needed
- Addressing an improved, but fragile financial outlook if investment in utility does not proceed in alignment with the financial plan's steady and controlled pace

Budget Cut Request – Long-term Impact

- GLWA's long-term forecast objectives are designed to achieve affordability and sustainability through decreased debt and managed operating risks.
- GLWA's Management consistently provides forecasts to achieve those objectives with lean assumption metrics: revenue increase at 3%, operations and maintenance (O&M) expense increase at 2%, and lower borrowings to reduce heavy debt burden.
- Reducing the FY 2022 O&M expense and the charge revenues by \$5.5 million is not a one-time reduction. The simple cumulative effect is \$55 million over the next ten years – which creates a material gap in achieving charge stability as well as the objectives stated above. For this reason, we cannot view FY 2022 by itself – decisions we make today impact future generations.
- The financial management principle that has been consistently communicated to stakeholders has been that the O&M budget will not be exceeded – and any positive financial results will increase Improvement and Extension Fund (I&E).
- The current budget discussion is contra to the established approach which has been in effect since 2012 - and a contributor to the 4% promise that pre-dated GLWA – and the improved credit ratings that GLWA has earned.

Water Forecast Sensitivity Analysis

Exec. Sum. Forecast Sensitivity Analysis		FY 2022 O&M Budg Reduction		4.0	Apply Savings to Charges (1) or I&E (2)		1	Bond Interest Rate			4.25%	Key Assumptions				
Water Supply System - \$ millions		Future O&M Index		2.0%	Avg Annual CIP + Cap Outlay (less: SRF)		160.0	Bond Term			30					
		Future Revenue Req't Index		3.0%	Minimum Capital Funds Balance		90.0	Bond Issue Costs as % of Proceeds			6.0%					
Metric Calculations		Metric Target		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	
		Min A	Min AA	Min AAA												
Operating Margin																
23	Depreciation Expense				130.7	126.0	128.9	133.3	133.2	95.1	96.0	96.3	94.8	96.4	97.5	92.6
24	Total Operating Expenses				263.3	260.2	270.3	277.5	280.2	245.1	249.0	252.4	254.0	258.8	263.1	261.5
25	Operating Margin				71.0	75.1	69.0	72.0	79.8	125.7	132.9	141.0	151.2	158.5	166.7	181.2
26	Operating Margin %	25%	40%	50%	21.2%	22.4%	20.3%	20.6%	22.2%	33.9%	34.8%	35.8%	37.3%	38.0%	38.8%	40.9%
Regional Revenue Allocation																
27	O&M				39.8%	41.6%	43.3%	42.8%	40.7%	40.3%	39.8%	39.3%	38.9%	38.6%	38.2%	37.8%
28	Debt Service	40%	33%	25%	38.2%	40.8%	39.8%	40.5%	42.4%	43.2%	43.9%	44.1%	44.5%	44.8%	45.7%	45.8%
29	Non-Operating Expense				9.0%	9.0%	8.9%	8.7%	7.7%	7.7%	7.4%	7.2%	6.9%	6.8%	6.6%	6.4%
30	Capital Financing				13.0%	8.5%	8.0%	7.9%	9.3%	8.9%	8.8%	9.4%	9.6%	9.9%	9.6%	10.0%
31	Total				100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Debt Service Coverage																
32	Net Revenue - Local System (a)				42.0	42.0	42.4	43.4	45.5	45.6	45.6	45.6	45.6	45.6	45.5	45.6
33	Total Net Revenues				251.5	238.5	235.5	243.9	260.0	268.2	276.9	286.5	295.2	304.2	313.6	323.1
34	Debt Service Coverage	1.25	1.70	2.00	1.49	1.33	1.32	1.31	1.31	1.30	1.29	1.30	1.30	1.30	1.29	1.29
35	Sr. Lien Debt Service Coverage	1.50	2.00	2.25	2.06	1.93	1.89	1.90	1.92	1.87	1.83	1.80	1.78	1.76	1.75	1.74
Debt to Operating Revenue																
36	Outstanding Debt Balance				2,492.8	2,422.1	2,349.1	2,266.8	2,173.9	2,077.1	1,976.0	1,871.5	1,762.9	1,649.4	1,527.9	1,400.6
37	Additional Principal					0.0	0.0	108.5	240.6	371.0	497.8	618.6	734.5	845.5	953.9	1,056.0
38	Estimated Premium/Discount				0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
39	Outstanding Indebtedness				2,492.8	2,422.1	2,349.1	2,375.2	2,414.5	2,448.1	2,473.9	2,490.1	2,497.5	2,495.0	2,481.7	2,456.7
40	Debt to Operating Revenue	7.0	4.0	2.0	5.84	5.83	5.59	5.48	5.41	5.33	5.24	5.13	5.02	4.88	4.73	4.56
41	Free Cash as a % of Depreciation	65%	105%	145%	52.7%	50.5%	48.5%	47.4%	44.9%	62.8%	62.6%	64.5%	67.6%	68.7%	67.8%	74.8%
42	Net Position	-	250	500	(96.4)	(109.3)	(122.6)	(136.5)	(145.2)	(110.3)	(70.1)	(22.4)	33.7	96.0	165.1	247.8
43	Debt / Asset Ratio	1.00	0.90	0.75	1.05	0.99	0.96	0.96	0.98	0.97	0.97	0.96	0.94	0.93	0.91	0.89

Standards

Red: Below minimum A-rated criteria (GLWA is AA- with 1 rating agency; the others are A category)

Yellow: Between A and AA rated criteria

Green: AA to AAA

Reminder: \$0 Revenue Bonds Available

- For both the water and sewer system, all capital programs are funded 100% by I&E except for SRF projects
- 44% of GLWA's investment balance is I&E Funds which will be materially reduced over the next two to three years as outlined in the long-term financial plan
- The majority of the remaining funds available are designated or restricted in some way

Account Purpose		Value Market	Allocation %	Cost Yield at	Market Yield at	Duration
Improvement & Extension	\$	417,891,130	43.5%	1.19%	0.13%	1.102 Years
Debt Service	\$	169,829,238	17.7%	0.18%	0.10%	0.159 Years
Receiving Funds (includes lockbox account)	\$	163,936,351	17.0%	0.02%	0.02%	0.003 Years
Extraordinary Repair & Replacement Funds	\$	72,135,164	7.5%	1.21%	0.12%	0.829 Years
Operating & Maintenance	\$	49,903,027	5.2%	0.05%	0.05%	0.003 Years
Pension Obligation Funds	\$	21,510,992	2.2%	0.05%	0.05%	0.012 Years
Retainage	\$	19,362,400	2.0%	0.03%	0.03%	0.003 Years
Debt Reserves	\$	19,020,101	2.0%	1.51%	0.14%	1.186 Years
WRAP Funds	\$	11,496,823	1.2%	0.05%	0.04%	0.011 Years
Budget Stabilization Funds	\$	7,589,851	0.8%	1.33%	0.14%	0.767 Years
Construction	\$	5,247,033	0.5%	0.10%	0.10%	0.003 Years
Flint Security Deposit Account	\$	3,813,910	0.4%	0.10%	0.10%	0.003 Years
Total	\$	961,736,022	100.0%	0.69%	0.10%	0.600 Years

Where do we go from here?

1. Long-term Financial Plan
 - A. A failure to plan is a plan to fail
 - Now have multiple years of history to support
 - B. Achieving alignment
2. Current Budget and Charges Proposal
 - A. Administration's revised proposal given the time to consider the impact on the long-term financial plan