



Legislation Details (With Text)

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File created: 2/25/2019 **In control:** Board of Directors Workshop Meeting

On agenda: 3/13/2019 **Final action:** 3/13/2019

Title: Resolution Adopting the FY 2020 & FY 2021 Biennial Budget as approved 3.13.2019

Sponsors: Nicolette Bateson

Indexes: Finance

Code sections:

Attachments: 1. Possible Budget Mods TFG 022519.pdf, 2. Budget Resolution with Two Alternatives 2.27.2019.pdf, 3. 1B Budget Resolution 022719 as Proposed (004), 4. Budget Resolution as approved 3.13.2019.pdf

Date	Ver.	Action By	Action	Result
3/13/2019	1	Board of Directors Workshop Meeting	Adopted	Pass
3/7/2019	1	Board of Directors Workshop Meeting	No Action Taken	
2/27/2019	1	Board of Directors	Postponed	Pass

Resolution Adopting the FY 2020 & FY 2021 Biennial Budget as approved 3.13.2019

Agenda of: March 13, 2019

Item No.: **2019-084**

Amount: N/A

TO: The Honorable
Board of Directors
Great Lakes Water Authority

FROM: Sue F. McCormick
Chief Executive Officer
Great Lakes Water Authority

DATE: March 13, 2019

RE: Resolution Adopting the FY 2020 & FY 2021 Biennial Budget as approved 3.13.2019

MOTION

Upon recommendation of Nicolette Bateson, Chief Financial Officer/Treasurer, the Board of Directors (Board) of the Great Lakes Water Authority (GLWA); **concludes the Public Hearing related to the FY 2020 and FY 2021 Biennial**

Budget held on February 27, 2019, and held open through March 13, 2019, pending public comment,

- 1) Adopts the attached resolution, 2019-084 adopting the FY 2020 and 2021 Biennial Budget for the GLWA as presented which reflects the following revisions from the original proposed budget presented on January 23, 2019:
 - a) reduce the Operations & Maintenance Expense by \$5 million (\$2 million Water and \$3 Million Sewer) with a corresponding reduction in the total revenue requirement; and
 - b) reverse the impact of the proposed alternative GLWA facilities arrangement to allow for the arbitration course to take place which is anticipated to be completed within the next 60 days;

- 2) **Notes that the GLWA By-Laws Article X, Section 5, requires a super-majority affirmative vote of at least five (5) members of the Board is necessary for the approval of the operating budget; and**

- 3) Authorizes the Chief Executive Officer to take such other action as may be necessary to accomplish the intent of this vote. and authorizes the CEO to take such other action as may be necessary to accomplish the intent of this vote.

BACKGROUND

The Great Lakes Water Authority (“GLWA” or the “Authority”) assumed the operation of the Regional Water and Sewer systems on January 1, 2016 (the “Effective Date”) pursuant to the Lease Agreements between the GLWA and the City of Detroit dated June 12, 2015. Section 5.6 of the Lease Agreements require the Authority to adopt a two-year budget for the Regional Water and Sewer Systems that sets forth budgeted revenues and expenses for each such Fiscal Year.

JUSTIFICATION

The Board has received a proposed Budget for FY 2020 and FY 2021 which was reviewed at Audit Committee meetings on December 1, 2018, January 4, 2019, January 18, and February 15, 2019; Board meetings of January 9, 2019, January 23, 2019, February 27, 2019; and March 7, 2019, and Member Partner meetings on January 10, 2019, January 24, 2019, and February 21, 2019 as it relates to the proposed Schedule of Charges.

BUDGET IMPACT

This action establishes a budget for FY 2020 and 2021.

COMMITTEE REVIEW

The GLWA Audit Committee reviewed the proposed budget resolution at its most recent meeting February 15, 2018. In wrapping up that discussion, the Committee requested that the administration prepare an analysis of a \$5 million Operations & Maintenance category reduction with the specifics on where that amount will be credited, both water and sewer and the line items, and what the impact of that would be and present that analysis prior to the next Board meeting.

The administration has considered several scenarios analyzing different ways to approach the topic. The result is that, if a recommendation were made to reduce the Operations & Maintenance budget by \$5 million, the allocation would be \$2 million from the Water Fund and \$3 million from the Sewer Fund to reflect a proportional reduction in each budget. Based upon what is now observable as a trend in many expense categories, a reduction in a) utilities (of which the majority is electricity), b) chemicals, and c) unallocated reserve would be the preferred areas of reduction. As we are working through analysis related to the December 2018 month-end close, those three categories present a year-to-date positive variance and an annualized year-end positive variance (presuming no circumstances change which would alter the expense pattern).

The next topic that the administration anticipates from the Board is the impact of \$5 million budget reduction in relation to charges. With the allocation between water and sewer noted above, an across-the-board impact would be 0.6% (six-tenths of one percent).

If the Board considers a revision to the proposed budget, the administration requests reallocating any reduction in the O&M expense to the I&E Fund. Rationale includes the following.

- 1) Launch of Capital Program Management - An item for the Board's consideration on the February 27, 2019 agenda if the approval Contract No. GLWA-CS-272, Capital Improvement Program Delivery. The soft costs for consulting related to this high priority project for FY 2020 are \$6.2 million where the O&M budget is set at \$1.3 million resulting in a shortfall of \$4.9 million. It is proposed in that Board letter that I&E Funds be used. Redirecting and O&M reduction in FY 2020 to I&E would replenish those funds used.

- 2) Recent validation of materially increased General Retirement System costs - As part of the City of Detroit's Bankruptcy Plan of Adjustment, it was represented that the DWSD cost pool (which is funded by DWSD and GLWA) would have a small "tail liability", if any, after ten years. Last week, actuaries engaged by GLWA confirmed that the most recent GRS actuarial identifies a payment of \$7.1 million to \$9.1 million per year - for 30 years. The payoff of that

liability after ten years, was a key part of the financial forecast for resources to fund capital investment for both systems.

Finally, it should also be noted that the attached resolution incorporates a proposed amendment to the original budget as suggested that reverses a proposal to address the water billing at the WRRF to GLWA by DWSD. The matter has been moved to arbitration as the preferred route to resolve this matter. This amendment was discussed with the Audit Committee which included the topic of whether to hold payments in escrow until the third-party decision is made.