



Budget & Charges Briefing

GLWA Audit Committee
December 15, 2023

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THE FOSTER GROUP

Today's Topics

- 💧 Budget & Charges Season – Calendar & Timing

- 💧 Today's Focus: Charges

 - 💧 Water: Proposed Methodology Update

 - 💧 Both Water & Sewer: Individual Member Partner Considerations

- 💧 Highlights: FY Budget 2025 & FY 2026 Biennial Budget & Five-Year Plan (FY 2025 through FY 2029)

 - 💧 No new news - consistent with:

 - 💧 Ten Year Forecast in November 2023 bond transaction (which closed last week)

 - 💧 September 2023 Board Workshop briefing

 - 💧 Detailed review in January 2023

Overall Budget & Charges Timing

- Friday, September 8, 2023 – Internal Deadline for Cost Center Budget Request
- Tuesday, September 12, 2023 – Capital Planning Committee – Preliminary CIP Spend Update and Presentation – Actual, Forecasted, and Proposed
- Wednesday, September 13, 2023 – Board of Directors Meeting
 - Economic Outlook Task Force Report – Quarterly Update
 - Budget and Charges Briefing
- Thursday, October 19, 2023 - Charges Rollout #1 – CIP Version 1.0
- Tuesday, November 14, 2023 - Charges Rollout #2 - Units of Service
- Thursday, November 30, 2023 – Pencils Down to Compile Proposed Materials
- ➔ • Friday, December 15, 2023 – Audit Committee - Proposed Budget and Related Charges Strategy

Overall Budget & Charges Timing

- Thursday, January 11, 2024 – Charges Rollout #3 – Proposed Charges and Introduction of Proposed Budget
- Friday, January 12, 2024 through Wednesday, January 17, 2024 – Member Partner One-on-One Meetings
- Thursday, January 18, 2024 – Charges Rollout #4 – Feedback on Charges and Further Review of Proposed Budget
- Wednesday, February 28, 2024 (Tentative) – Board Meeting
 - Public Hearing FY 2025 & FY 2026 Biennial Budget
 - Public Hearing FY 2025 Schedule of Revenues and Charges
 - Proposed Adoption of FY 2025 & FY 2026 Biennial Budget (subject to public comment)
 - Proposed Approval of the FY 2025 & FY 2026 Biennial Budget (subject to public comment)
 - Proposed Approval of FY 2025–2029 Capital Improvement Plan
- Monday, July 1, 2024 – Effective date of budget, charges, and capital plan



FY 2025 Charges



Proposed FY 2025 Water and Sewer Charges

Proposed System Charge Adjustments

- Proposed increase on overall Budgeted Revenue Requirements is 4.0% for both the Water and Sewer Systems
 - Last year of the “4% Promise”
- Increased budgeted investment earnings help offset ~ a portion of the Budget Increase
- Lower forecasted Water Sales require ~ .8% increase in Water Charges
- Proposed System Charge Adjustments:
 - 3.25% for Water
 - 3.0% for Sewer

| | Water System | | Sewer System | |
|------------------------------------|-------------------|----------------------|-------------------|----------------------|
| | <u>Adjustment</u> | <u>Charge Impact</u> | <u>Adjustment</u> | <u>Charge Impact</u> |
| Revenue Requirement Increase | \$14.81 | 4.1% | \$20.03 | 4.1% |
| Increased Investment Earnings | (6.0) | -1.7% | (5.6) | -1.1% |
| Decreased Sales Revenue | <u>3.0</u> | <u>0.8%</u> | <u>0.4</u> | <u>0.1%</u> |
| Wholesale Charge Adjustment | \$11.80 | 3.25% | \$14.79 | 3.00% |

FY 2025 Water Charges Summary

- 3 Member Partners have modified Contract Demands since original Units of Service were presented in November
 - Grosse Pointe Shores - interim reopener
 - Highland Park – recognition of Term Sheet
 - Romeo – corrected Contract Demands
- These 3 Member Partners are being treated as “MOD” customers and their proposed charges reflect specific cost of service study results
- The other 85 Member Partners are being treated as “No MOD” customers and their proposed charges reflect a uniform application of the class average charge adjustment

FY 2025 Water Charges Summary

- The FY 2025 Cost of Service Study embraces the Simplified Water Charge Methodology
 - 10/50/40 Commodity/Max Day/Peak Hour Cost Pools
 - Delivery Factor replaces Distance and Elevation
- The new methodology received a consensus approval at the December 5 One Water Partnership meeting
- This only directly impacts the 3 “MOD” Member Partner charges whose peak demands are changing outside the normal 4-year CAP reset cycle, since the others receive a class average charge adjustment
 - Next scheduled CAP reopener will impact FY 2028 Water Charges

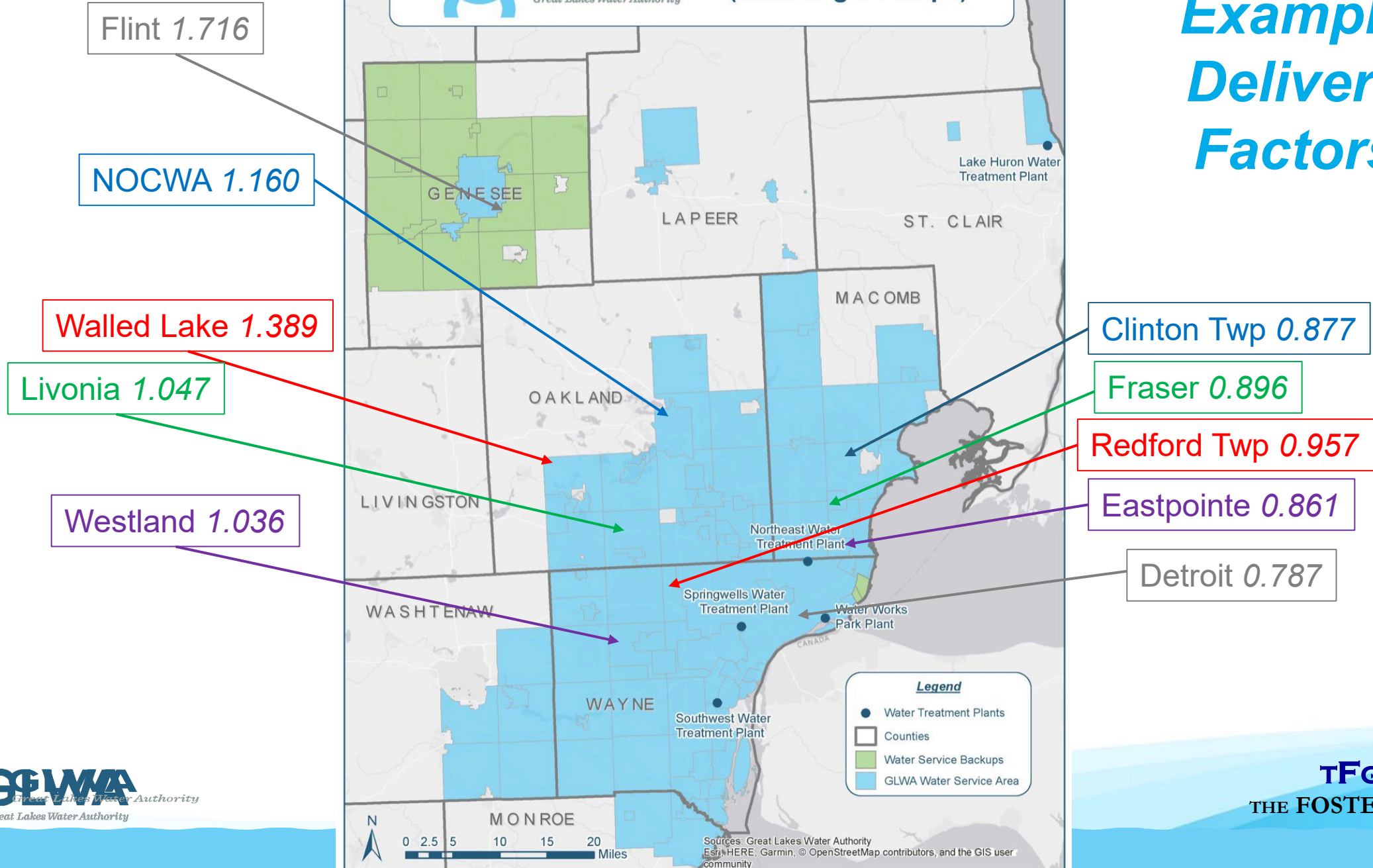
Water Charge Simplification

- 💧 Collapse nine hybrid cost pools into only the 3 that measure Member Partner Use of the System
 - 💧 Commodity = 10%
 - 💧 Max Day = 50%
 - 💧 Peak Hour = 40%
- 💧 Set Cost Pool weights at historical averages noted above
- 💧 Replace Distance and Elevation measures with a “Delivery Factor” that represents current differential costs associated with distance and elevation

FAQ: Why "Lock In" the Delivery Factor

- A community's geographic location doesn't change, so it makes sense that the measure that accounts for its distance and elevation should remain static

Example Delivery Factors



How Would This Methodology Change Impact MY Charges?

- Upon implementation? **No change.**
- Future increases to Max Day or Peak Hour would generally result in *smaller increases* than under the current methodology.
- Future decreases to Max Day or Peak Hour would generally result in *smaller decreases* than under the current methodology.

FY 2025 Water Charges Summary

- The DWSD Ownership Adjustment and the Flint KWA Debt Service Adjustment are fixed and not subject to budget changes
- This results in a slightly lower charge adjustment for all other Member Partners than the “Wholesale” Charge Adjustment

| | Wholesale Charge <u>Adjustment</u> | <i>Final</i> Charge <u>Adjustment *</u> |
|------------------|--|---|
| MOD Customers | -10.84% | -11.07% |
| No MOD Customers | 3.33% | 3.06% |
| System Total | 3.25% | 2.97% |

* Excludes Flint and Detroit, since the fixed Contract Adjustments impact their relative charge adjustments

FY 2025 Sewer Charges Summary:

Customer Class Definitions

- **“M” Customer Class** = those communities whose wastewater contributions are fully metered by what was formerly referred to as “billing meters”
 - Major County Districts and certain other communities
 - Grosse Pointe now included in this class as 5 years of metered data is available
- **“D+” Customer Class** = Detroit plus certain other inner ring communities whose wastewater is not fully metered
 - Primarily Detroit, Highland Park, Hamtramck
 - Small portion of Dearborn is unmetered but flows are reallocated to the M class

FY 2025 Sewer Charges Summary

- Sewer SHAREs are being updated for the FY 2025 Sewer Charges
 - First update since FY 2022
- SHARE update reflects two separate analysis:
 - Updated Units of Service from Flow Balance – new 10-year data period from FY 2014 through FY 2023 (Drop off FY 2013)
 - FY 2025 Cost of Service Study
- Units of Service were presented in November
 - Introduced a new approach for allocating amongst the **D+** customer class
 - One change being proposed for Grosse Pointe – discussed on subsequent slide
- Cost of Service Study will be published in coming days

FY 2025 Sewer Cost of Service Study Summary

- Operating Budget increases in utilities and commodities shift allocation towards WRRF Cost Pool and Sanitary Volume allocation
- But recognition of new analysis of asset data shifts capital cost recovery towards CSO 83/17 Cost Pool
- Overall combined result is to shift allocation from Conveyance to CSO 83/17

| | <u>FY 2022</u> | <u>FY 2025</u> | <u>Change</u> |
|--|----------------|----------------|---------------|
| <u>TOTAL Revenue Req'ts</u> | | | |
| WRRF <i>(50% San / 50% Total Volume)</i> | 65.8% | 64.7% | -1.1% |
| Conveyance <i>(100% Total Volume)</i> | 20.9% | 19.2% | -1.6% |
| CSO 83/17 | 13.4% | 16.1% | 2.7% |
| Sanitary Volume | 32.5% | 32.5% | 0.0% |
| Total Volume | 54.0% | 51.5% | -2.5% |
| CSO 83/17 | 13.5% | 16.0% | 2.5% |

FY 2025 Sewer Cost of Service Study Notes

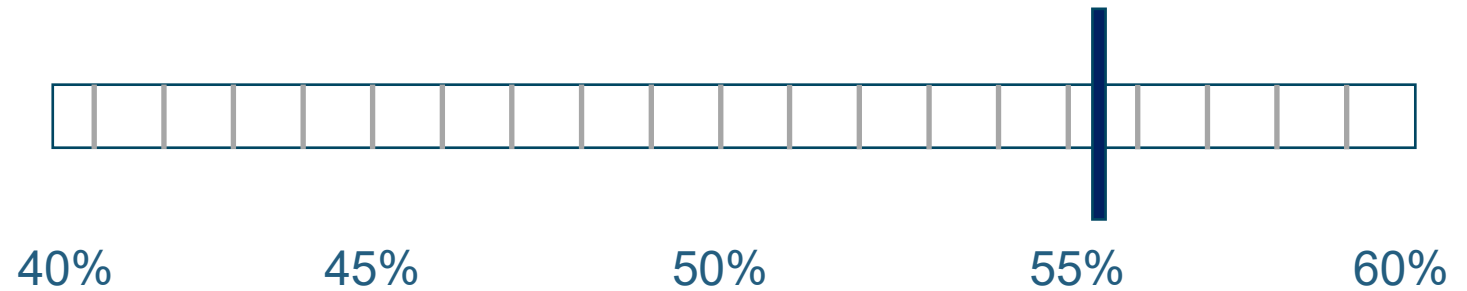
- Analysis of Asset Data for capital cost allocation:
 - Assigns 80% of the FY 2015 Oakwood CSO / Lift Station asset to the CSO 83/17 Cost Pool
 - Direction on how to treat this project is listed as “TBD” in foundational documents
 - Treats 5 construction work in progress (CWIP) projects that Member Partner representatives questioned re: “Conveyance” Cost Pool projects as TBD
 - As such they have no impact on the FY 2025 Charges
- Grosse Pointe flow balance data represents an average of their effective existing data and the new 5-year average provided by their sewer meter pending additional data review by the parties
 - Assumes annual interim reopeners during the next 3-year SHARE period, with potential for true up adjustments
 - Reduces Grosse Pointe’s SHARE increase from 58% to 29%

FY 2025 Sewer Cost of Service Study Notes

- DWSD Ownership Adjustment remains fixed
 - Slightly lower charge adjustment for all other Member Partners than the “Wholesale” Charge Adjustment
- A new final adjustment is necessary to reflect budgeted Green Infrastructure costs
 - Operating expense payment to DWSD reflecting 17% of their \$2 million annual expenditure on Green Infrastructure initiatives (\$347,000 in FY 2025 Budget)
 - Initially assigned as a CSO 83/17 Cost Pool revenue requirement
 - Final adjustment deducts the \$288,000 originally allocated to Detroit and reallocates it to the other Member Partners based on their relative 17% share

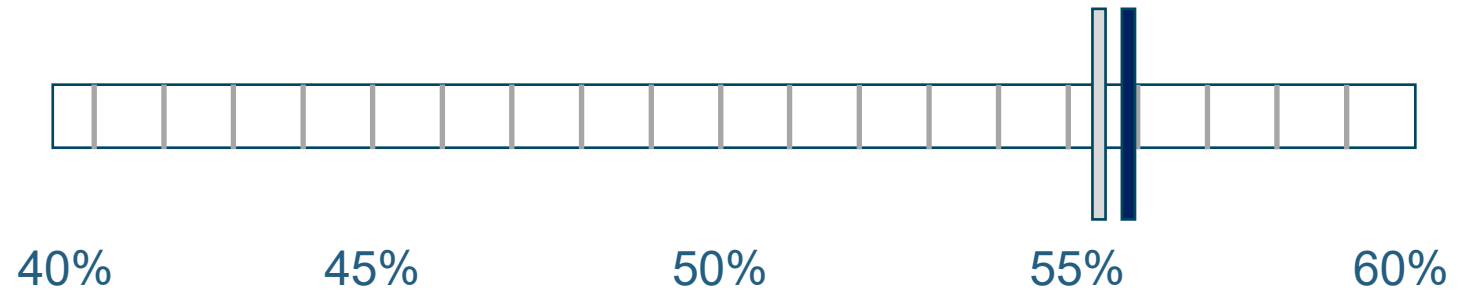
Sewer SHARE Movements

- Current SHARES = 55.55% of Revenue Requirements to M Class



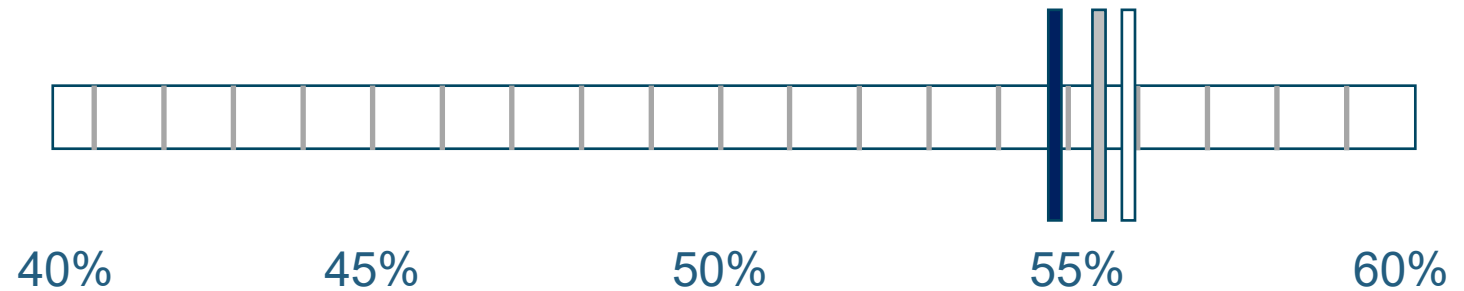
Sewer SHARE Movements

- Current SHARES = 55.55% of Revenue Requirements to M Class
- Updated Flow Balance Data shifts ~ 0.4% SHARE towards M Class (~0.8% charge adj)



Sewer SHARE Movements

- Current SHARES = 55.55% of Revenue Requirements to M Class
- Updated Flow Balance Data shifts ~ 0.4% SHARE towards M Class (~0.8% charge adj)
- Cost of Service Study Results shift ~ 1.1% of costs back towards D+ (~2.2% charge adj)
- Combined Impact = 0.7% move to D+ (~1.5 charge adj)



FY 2025 SHARE Calculation Summary

| | <u>M Class</u> | <u>D+ Class</u> |
|---------------------------------|----------------|-----------------|
| Impact of Flow Balance Update | 0.7% | -0.9% |
| Impact of Cost of Service Study | -2.0% | 2.5% |
| Combined Impact | -1.3% | 1.6% |

FY 2025 Sewer Charges Summary

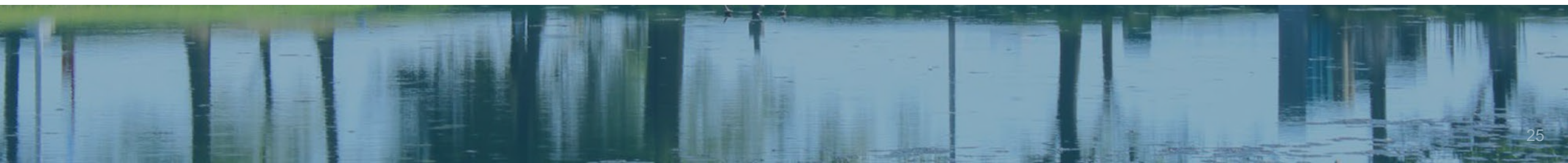
- As in Water, the fixed nature of the DWSD Ownership Adjustment, and the other final adjustment, results in a slightly lower charge adjustment for all other Member Partners than the “Wholesale” Charge Adjustment
 - The difference is much less due to the smaller size of the Sewer DWSD Ownership Adjustment

| | Wholesale Charge <u>Adjustment</u> | <i>Final</i> Charge <u>Adjustment</u> |
|-------------------------|--|---|
| Grosse Pointe | 32.7% | 33.2% |
| Other M Class Customers | 1.5% | 1.6% |
| M Class Total | 1.6% | 1.7% |
| Detroit | 5.0% | 5.0% |
| Other D+ Customers | -2.6% | -2.0% |
| D+ Class Total | 4.6% | 4.6% |
| System Total | 3.0% | 3.0% |

Discussion



Budget & Financial Plan



Key Takeaways

- 💧 Proposed budget increase of 4% for both systems – consistent with the 4% Promise
- 💧 Proposed average system-wide charge adjustments of 3.25% for water and 3.0% for sewer
- 💧 The Proposed FY 2025 & FY 2026 Biennial Budget and Five-Year Plan aligns with the ten-year forecast which spans ten years that supported a successful bond transaction in November 2023

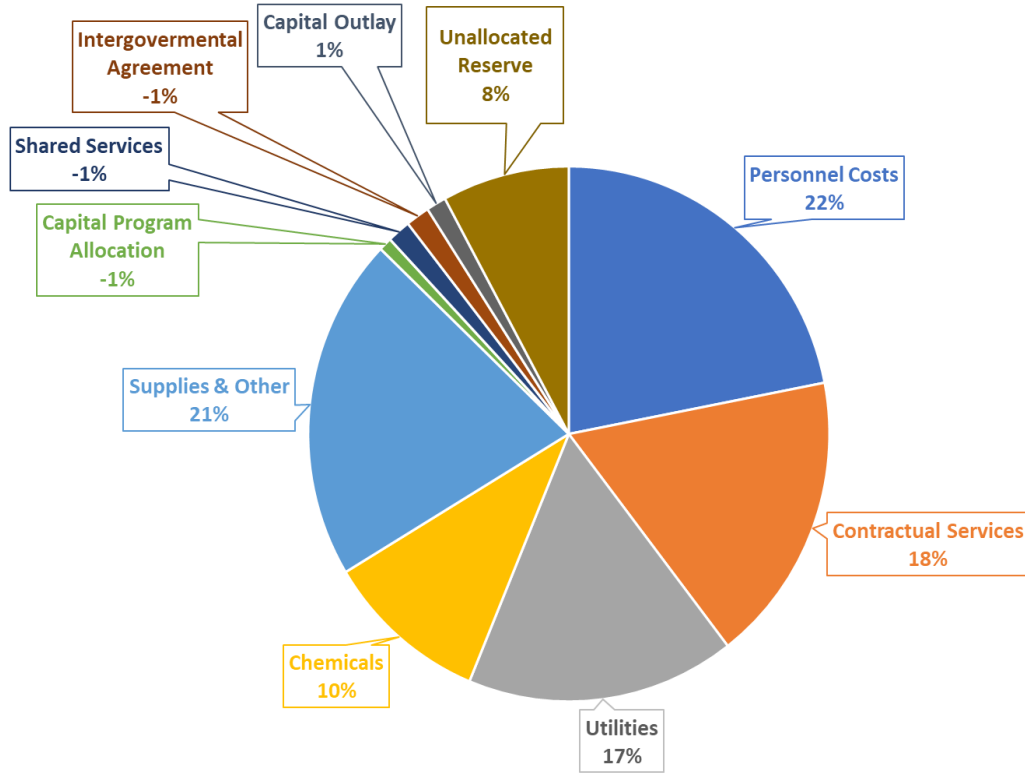
Total Operations & Maintenance Expense Variance Drivers FY2025 Proposed Budget v FY2024 Adopted Budget

- ❖ **Water Operations** - Utilities expense is the largest increase at \$4.8 million due to supplier cost increases, followed by Chemicals at \$1.3 million due to market cost increases, and Personnel at \$2.4 million due to increased hiring and market adjustments.
- ❖ **Sewer Operations** – Contractual services expense is the largest increase at \$3.3 million due to a facilities maintenance contract and for residual solids disposal, followed by Chemicals at \$3.1 million due to market cost increases, and Personnel at \$2.7 million due to increased hiring and market adjustments.
- ❖ **Centralized Services** - Supplies & Small Capital is the largest increase at \$6.0 million and Contractual Services increased \$1.5 million. Both increases are mainly due to the new ERP system implementation.
- ❖ **Administrative Services** – Contractual Services is the largest increase at \$2.0 million mainly due to increased insurance premiums. Personnel increased at \$1.5 million due to increased hiring and market adjustments.

Operations & Maintenance Expense: FY2025 Proposed Budget v FY2024 Adopted Budget

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FY2025 Budget Request Increase by Category



| Expense Category | FY 2025 Proposed Budget v FY2024 Adopted Budget Increase / (Decrease) | FY 2025 Proposed Budget v FY2024 Adopted Budget Variance % |
|-----------------------------|---|--|
| Personnel Costs | 9,481,200 | 7.8% |
| Contractual Services | 7,619,500 | 7.1% |
| Utilities | 7,207,300 | 11.4% |
| Chemicals | 4,383,100 | 14.4% |
| Supplies & Other | 8,986,000 | 28.6% |
| Capital Program Allocation | (349,100) | 8.2% |
| Shared Services | (623,700) | 37.7% |
| Intergovernmental Agreement | (638,200) | 100.0% |
| Capital Outlay | 533,200 | 20.1% |
| Unallocated Reserve | 3,409,600 | 38.8% |
| Grand Total | 40,008,900 | 11.2% |

1 - Please reference Schedule 2A in Core Financial Plan Schedules on page 30 for more detail

Budget & Financial Plan



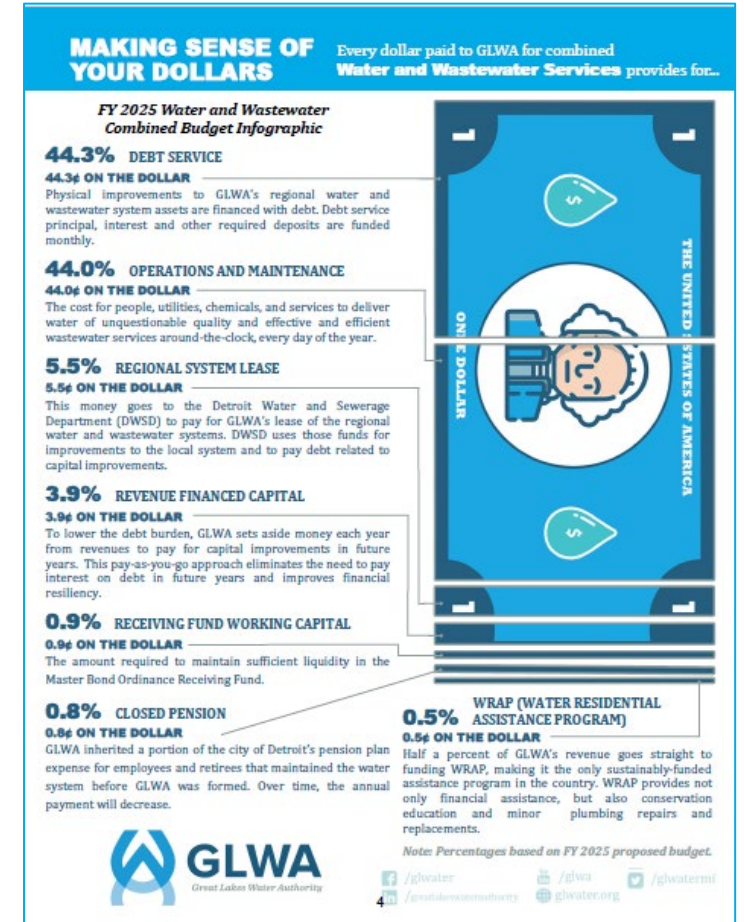
Draft #1
Proposed FY 2025 – FY 2026
Biennial Budget &
Five Year Financial Plan
FY 2025 through FY 2029

Presented to the
Audit Committee
December 15, 2023

*Draft 1 – Discussion Draft -
Will be posted on website as a
standalone next week*


*Draft 2 – Supplementary
Information - In process – open
items noted in table of contents
– will be completed much earlier
than prior years*

*Draft 3 – Hopefully Final –
will be posted after Board action
with approved resolutions*



One Pager Series

Coming soon: One Pager Series
– Revenue Requirement



GLWA
Great Lakes Water Authority


The GLWA operations and maintenance budget accounts for 44% of the total revenue requirement budget for establishing the annual charges for services. Given the magnitude of this charge component, additional information may be of interest to stakeholders.

The remaining 56% of the FY 2025 budget of \$906 million represents financing and legal commitments: debt payments (44%), lease payments (5%), Water Residential Assistance Program (WRAP) (0.5%), legacy pension liabilities (1%) and capital program funding (5%).

Wastewater Services
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FY 2025 Operations & Maintenance Budget Analysis
As Proposed December 15, 2023

One Pager Series



GLWA
Great Lakes Water Authority

FY 2025 Service Charges Highlights
Preliminary proposed Water and Service Charges for FY 2025 have been presented to the GLWA Audit Committee. This is the first step in a review process that will include a Public Hearing before the GLWA Board of Directors on February 28, 2024.

Charges are Based on Four Key Elements.
1) Budget: The daily costs to provide service (such as the people, utilities, chemicals, contractors, and materials to operate plants and maintain the pipes), the lease payment for

Proposed FY 2025 Water System Charges
The average system charge adjustment for water is a 3.25 percent increase. This is the result of a proposed Water budget increase of 4.0 percent offset by 0.75 percent reflecting the net effect of a) increased investment earnings and b) reductions in estimated sales volumes. As a result of the 2022 Contract Alignment Process (CAP), the FY 2025 Units of Service only changed for three Member Partners (MOD). Proposed charges for these three Member Partners have been calculated using the new simplified Water Charge Methodology.

FY 2025 Water & Sewer Service Charges
As Proposed December 15, 2023

One Pager Series



Thank you!

