

**GREAT LAKES WATER AUTHORITY
NOTICE OF PUBLIC HEARING
BIENNIAL BUDGET**
For the Two Year Period ended June 30, 2018
(FY 2017 and 2018)

Notice is hereby given that the Great Lakes Water Authority will hold a Public Hearing on the FY 2017 and 2018 Biennial budget.

DATE: Wednesday, March 2, 2016
TIME: 12:00 p.m.
PLACE: 5th Floor Board Room
735 Randolph
Detroit, Michigan 48226

The budget is available for public inspection at the office of the Authority, Water Board Building, 735 Randolph, Detroit, Michigan 48226. A copy of the budget may also be found online at <http://glwater.org/finance/>.



Great Lakes Water Authority

Proposed FY 2017 and FY 2018 BUDGET Summary

February 24, 2016

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FY 2017 Service Charge Recommendations – Key Messages

- Preliminary requested FY 2017 and FY 2018 BUDGETs deliver on 4% commitment
- Impact of proposed charges varies for individual customers, as also premised in the Lease
- Proposed service charges reflect “bottom line” FY 2017 BUDGET
- Proposed Detroit class revenue requirements are preliminary pending additional DWSD-R Budget development

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"4% Increase Limitation" as defined by the MOU

"Each System, as a whole, is assumed to experience revenue requirement increases of not more than 4% for each of the first ten years under Authority management. The rates and percentage increases for different customers may vary in order to meet their specific revenue requirements."

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"4% Increase Limitation" as defined by the Lease(s)

"As provided in the MOU, through the Fiscal Year ending June 30, 2025, the Water (Sewer) System is assumed to experience annual increases in the Authority Revenue Requirement of not more than 4%; provided however, this limitation shall not be applicable if the Authority Revenue Requirement must increase beyond the 4% assumption in order to satisfy the Rate Covenant or to pay the cost of improvements to the Leased Water (Sewer) Facilities that are required to be made by Applicable Laws."

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"BUDGET" = Comprehensive Annual Revenue Requirements:

- Budgeted O&M Expense
- Projected Debt Service
- "Fixed" Non-Operating Expenses
 - ✓ *Pension Reimbursement Obligations;*
 - ✓ *WRAP Deposit;*
 - ✓ *Lease Payment (part of revenue financed capital below);*
 - ✓ *Other Reserve Requirements, etc.*
- Revenue Financed Capital
 - ✓ *Deposit to I&E Fund(s)*

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"Financial Plan" Consists of:

- Capital Improvement Program
- Operation and Maintenance Expense Budget
- Capital Financing elements of the BUDGET
 - ✓ *Debt Service, Revenue Financed Capital, etc.*
- Charges for Service
- ***Each of these are subject to individual action by the Board***

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Preliminary FY 2017 and FY 2018 BUDGET Projections – GLWA Water and Sewer Systems Combined (\$ millions)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	FY 2016	FY 2017	FY 2018	FY 2017 vs. FY 2016		FY 2018 vs. FY 2017	
	Original Budget	Preliminary	Preliminary	Variance (2) - (1)	% Variance (4)/(1)	Variance (3) - (2)	% Variance (6)/(2)
GLWA Wholesale Items							
1 Wholesale Expense O&M (GLWA) (a)	276.7	287.7	299.2	11.1	4.0%	11.5	4.0%
2 GLWA Pension Reimbursement (Operating) (b)	16.9	16.9	16.9	0.0	0.0%	0.0	0.0%
3 Debt Service (Wholesale Facilities)	368.7	382.4	380.3	13.6	3.7%	(2.1)	-0.5%
4 Non-Op Legacy Benefit Pmts (Wholesale Portion) (b)	17.1	17.1	17.1	0.0	0.0%	0.0	0.0%
5 WRAP Deposit (Wholesale Portion) (a)	4.6	3.9	4.1	(0.6)	-14.1%	0.2	4.0%
6 Lease Payment Deposit to Retail I&E Account	50.0	50.0	50.0	0.0	0.0%	0.0	0.0%
7 Revenue Transfer to Wholesale I&E Account (d)	30.7	37.2	59.5	6.5	21.3%	22.2	59.7%
8 Total Wholesale Revenue Requirements (a)	764.7	795.3	827.1	30.6	4.0%	31.8	4.0%
9 less: Non-operating Revenue	(5.1)	(6.2)	(6.9)	(1.1)	21.7%	(0.7)	11.2%
## Subtotal Revenue Requirement from Charges	759.6	789.1	820.2	29.5	3.9%	31.1	3.9%

Reflects "bottom line" 4% increase

Budget is "balanced" via RFC deposit to I&E Fund

This is the element to which the MOU/Lease commitment applies

- (a) Assumed to increase 4.0% annually
 (b) FY 2017 and FY 2018 allocation to Wholesale and Retail elements assumed @ FY 2016 levels
 (c) FY 2017 and FY 2018 Retail Debt Service reflects preliminary initial amortization schedule for "Obligation Payable"
 (d) Default calculation to result in overall 4.0% annual revenue requirement increase



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Water Supply System Customer Cost Allocation Summary

- Of the 84 wholesale customer communities:
 - ✓ **74** are under the "model" contract;
 - ✓ **8** remain under the "old" contract;
 - ✓ **2** are being served without a formal contract
 - Genesee County Drain Commission
 - Highland Park
 - ✓ Flint not included in these assumptions for FY 2017
- Detroit is being served under a "Water and Sewer Services Agreement" as of the January 1, 2016 Effective Date of GLWA



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Water Supply System Customer Cost Allocation Summary

- 7 customers have negotiated new volumes and/or demands via the “reopener” process:

Community	(1) Original			(4) Renegotiated			(7) Variance			(10) % Variance		
	Volume	Max Day	Peak Hour	Volume	Max Day	Peak Hour	Volume	Max Day	Peak Hour	Volume	Max Day	Peak Hour
	Mcf	mgd	mgd	Mcf	mgd	mgd	Mcf	mgd	mgd	Mcf	mgd	mgd
1 Chesterfield Township	189,000	9.00	12.50	165,000	8.75	12.00	(24,000)	(0.25)	(0.50)	-12.7%	-2.8%	-4.0%
2 Lincoln Park	155,000	6.00	8.50	146,000	5.50	8.00	(9,000)	(0.50)	(0.50)	-5.8%	-8.3%	-5.9%
3 N O C W A	1,020,000	50.60	56.00	1,020,000	50.60	52.50	-	-	(3.50)	0.0%	0.0%	-6.3%
4 Novi	312,000	17.90	28.60	265,000	19.00	19.00	(47,000)	1.10	(9.60)	-15.1%	6.1%	-33.6%
5 S O C W A	1,450,000	68.70	68.70	1,286,000	62.30	62.30	(164,000)	(6.40)	(6.40)	-11.3%	-9.3%	-9.3%
6 Warren	785,000	31.90	41.90	725,000	31.00	35.00	(60,000)	(0.90)	(6.90)	-7.6%	-2.8%	-16.5%
7 Lapeer	59,600	1.86	2.92	59,600	1.86	2.23	-	-	(0.69)	0.0%	0.0%	-23.6%
Subtotal	3,970,600	185.96	219.12	3,666,600	179.01	191.03	(304,000)	(6.95)	(28.09)	-7.7%	-3.7%	-12.8%

- Units of Service for customers without master meters (Detroit and Dearborn) continue to reflect a “status quo” approach

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Impact of Contract Reopener Results for FY 2017 Water Service Charges

- The lower contract demands for these customers lower their collective SHARES of Max Day and Peak Hour Cost Pools for FY 2017
 - ✓ 0.6% Max Day and 3.7% Peak Hour
- All other customers (including Detroit) will be allocated proportionally larger SHARES in FY 2017 than they were in FY 2016

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Impact of Contract Reopener Results for FY 2017 Water Service Charges

- The 7 customers with lower contract demands are allocated ~ \$6.5 million less than they would have been absent the contract adjustments
- This amount is reallocated to other customers

	<u>Without Changes</u>	<u>With Changes</u>	<u>Variance</u>	<u>% Variance</u>
<u>Wholesale Revenue Requirement</u>				
7 Customers with Changed Demands	68,409,300	61,863,000	(6,546,300)	-9.6%
All Other Customers	260,726,300	267,272,600	6,546,300	2.5%
Total	329,135,600	329,135,600	0	0.0%

Even without any BUDGET increase, all other customers would experience a 2.5% increase in allocated Costs of Service

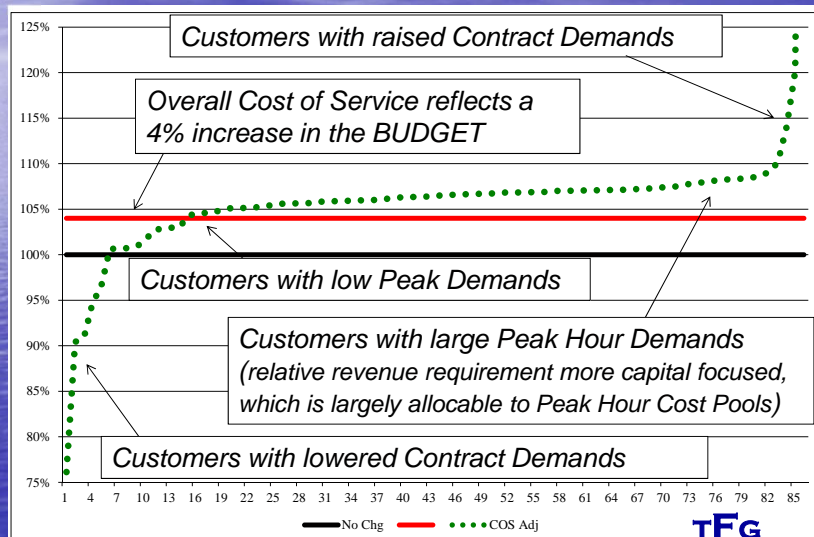
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Comparison of Allocated FY 2017 Water Cost of Service to Allocated FY 2016 Cost of Service



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Sewage Disposal System Customer Cost Allocation Summary

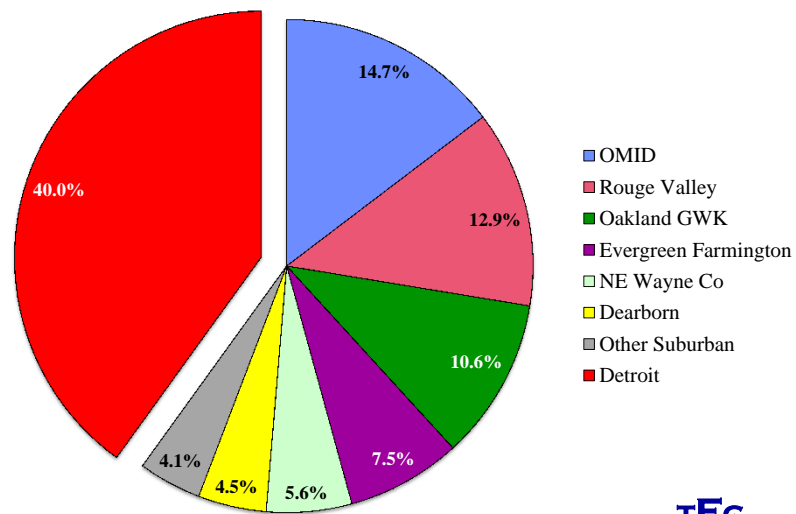
- No Changes in SHAREs are proposed for FY 2017
 - ✓ Overall revenue requirement increase is fairly uniform on all customers
- But elimination of 5-year Look-Back Adjustments, and implementation of bad debt true-up, results in variable impacts

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FY 2017 Sewer SHAREs (no modifications)



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FY 2017 GLWA Wholesale Sewer Service Charges Consist of Three Elements

- Allocable SHARE of FY 2017 GLWA Wholesale Services BUDGET
- Allocable SHARE of Projected Bad Debt Expense for Suburban Wholesale Class
- Allocable SHARE of Bad Debt Expense “True-Up” for Suburban Wholesale Class

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The “Look-Back” is Dead, But . . .

- The commitment to “true-up” bad debt expense remains
- Originally established as part of the 1995 Sewer Rate Settlement Agreement
- Incorporated into “Surviving Terms” in the model contract, the Rate Simplification Initiative, and related documents
- Incorporated into services agreements, including that with Detroit

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Bad Debt Expense Treatment in Sewage Disposal Charges

"The Authority shall review the differences between the projected bad debt expense assigned to specific customer classes (noted below) in a rate year and the actual bad debt expense incurred for that rate year. Any negative variance between the projected bad debt expense and the actual bad debt expense incurred for that year shall be incorporated into the revenue requirement for the next-commencing rate year to insure that revenue shortfalls due to nonpayment of sewer charges are recovered."

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Sewer Bad Debt Expense "True-Up" Requirement

- From FY 2013 through FY 2015, the Suburban Wholesale Class accumulated ~ \$17.3 million of bad debt expense
 - ✓ All associated with Highland Park
 - ✓ None of which has been "trued-up"
 - Parties agreed to defer until after 5-Year LBA was fully implemented
- The Detroit Customer Class also has a bad debt variance to "true-up"
- We are recommending that the accumulated true-up be implemented over a 4-year period from FY 2017 through FY 2020

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Sewer Bad Debt Expense "True-Up" Requirement Recommendation: Phased Implementation

- Allows for 3 years of accumulated variances to be recovered over multiple years
- Recognizes potential for improved collections and inclusion (starting in FY 16) of prospective amounts in Suburban revenue requirements
 - ✓ *Immediate implementation over 1 year could create material charge volatility*
- We believe this approach is consistent with the intent of the requirement

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Consolidated Impact of Sewage Cost of Service Allocations on Suburban Wholesale Customers

- On average, results in an increase in "total revenue requirements of 5.2%"
 - ✓ *3.7% FY 2017 BUDGET*
 - 4.0% BUDGET increase, offset by slightly higher non-operating revenue
 - ✓ *1.5% to implement bad debt expense*
- Impact on individual customers is largely dependent on the magnitude of their 5-year LBA, which was variable and is being replaced by a uniform bad debt expense true-up

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Next Steps and Review Process

- Public Hearing March 2
- Final BUDGET figures may be modified after development of proposed charges
 - ✓ *To reflect modified non-operating expenses, shared service elements, etc.*