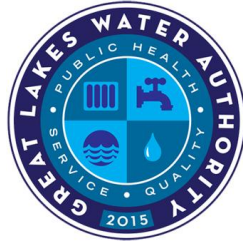




**Great Lakes Water Authority
Initial Partial Year Budget
January 1, 2016 (effective date of operations)
through June 30, 2016**

**Great Lakes Water Authority
735 Randolph
Detroit, MI 48226**

glwater.org



GREAT LAKES WATER AUTHORITY
NOTICE OF PUBLIC HEARING
BUDGET

For the Six Month Period ended June 30, 2016

Notice is hereby given that the Great Lakes Water Authority will hold a Public Hearing on Wednesday, December 9, 2015 at 1:00 p.m. at the Water Board Building, 735 Randolph, Detroit, Michigan.

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/>.



Creation of the Great Lakes Water Authority

The Mayor of the City of Detroit, the Chief Executives of Wayne, Oakland and Macomb Counties, and the Governor of the State of Michigan entered into a Memorandum of Understanding (MOU) on September 9, 2014 to form the regional Great Lakes Water Authority (GLWA or “regional authority”). The outcome of that action established the foundation for a restructured City of Detroit Water & Sewerage Department (DWSD or “Detroit local system”) focused on serving the customers and needs of the local City of Detroit water and sewer system. That MOU led to a lease agreement executed on June 12, 2015 between the City of Detroit and the GLWA which provided for an operational effective date of January 1, 2016.

Budget Background and Analysis

The operational effective date of the restructured Detroit local water and sewer system and the new regional authority occurs mid-way through the current fiscal year for both organizations. The essence of the transaction is that the “existing DWSD” is bifurcated into two new operating entities: the Detroit local system and the regional authority system. For that reason, a budget is being presented to the Great Lakes Water Authority to establish a baseline FY 2016 Operational Budget from January 1, 2016 through June 30, 2016. The proposed “bifurcated budget” analysis was reviewed by the Great Lakes Water Authority Audit Committee on October 16, 2015 and November 6, 2015 in addition to the GLWA Board on November 19, 2015 (all meeting documents are available online at <http://GLWater.org>).

The bifurcated budget is based upon months of analysis as all parties work toward the stand-up of two new operating entities. It is also the product of input and consensus by numerous stakeholder representatives. The attached budget analysis has been condensed from prior bifurcation analysis to emphasize the scope of the GLWA’s budgetary responsibility from January 1, 2016 through June 30, 2016. Schedules include the following.

Schedule 1 - Sources of Revenues and Uses of Revenue Requirements - Flow of Funds Basis Pursuant to Master Bond Ordinance

Schedule 2 - Operating Expenses by Appropriation (Division) and Object (Cost Type)

Schedule 3 - Debt Service Coverage Calculations Pursuant to Master Bond Ordinance

Schedule 4 - Lease Payment Reconciliation

FY 2016 Budget Cycle: The timeline for approval and execution of the GLWA operating budget for January 1, 2016 through June 30, 2016 is outlined below.

- ✓ December 9, 2015 at 1 pm: Public Hearing of the FY 2016 Initial Budget
- ✓ December 9, 2015 at 1 pm: Pending Public Comment, Review and Possible Approval of FY 2016 Initial Budget
- ✓ January 1, 2016: Presumed Operational Effective Date
- ✓ February 2016: Scheduled Budget to Actual Review
- ✓ May 2016: Scheduled Budget to Actual Review

Great Lakes Water Authority
Initial Partial Year Budget
Schedule 1 - Sources of Revenues and Use of Revenue Requirements Pursuant to Master Bond Ordinance
January 1, 2016 (effective date of operations) through June 30, 2016

<u>Revenues</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Combined</u> <small>(Informational Only)</small>
1 Regional System Wholesale Revenues	\$ 152,166,900	\$ 133,758,400	\$ 285,925,300
2 Detroit Local System Revenues	47,328,200	120,122,600	167,450,800
3 Miscellaneous Revenue	2,375,000	2,500,000	4,875,000
4 Non-Operating Revenue	1,439,200	1,141,700	2,580,900
5 Total Revenues	<u>\$ 203,309,300</u>	<u>\$ 257,522,700</u>	<u>\$ 460,832,000</u>
<u>Revenue Requirements</u>			
Operations & Maintenance Expense			
6 Regional Authority Operations & Maintenance Expense (a)	\$ 55,828,200	\$ 87,132,700	\$ 142,960,900
7 Transfer of Revenues Collected to Detroit Local System for Operations & Maintenance Expense	22,444,700	16,949,500	39,394,200
8 General Retirement System Pension Expense Portion Allocable to Authority System Revenues (a)	3,018,600	5,419,200	8,437,800
9 Portion Allocable to Detroit Local System Revenues	2,131,500	1,430,800	3,562,300
10 Total Operations & Maintenance Expense	<u>83,423,000</u>	<u>110,932,200</u>	<u>194,355,200</u>
11 Net Revenues after Operations & Maintenance Expense	119,886,300	146,590,500	266,476,800
Nonoperating Activities			
Debt Service			
12 Portion Allocable to Regional Authority System Net Revenues	77,664,600	108,131,600	185,796,200
13 Portion Allocable to Detroit Local System Net Revenues	14,062,000	12,499,500	26,561,500
General Retirement System Pension Accelerated Contribution			
14 Portion Allocable to Regional Authority System Net Revenues	3,017,700	5,548,200	8,565,900
15 Portion Allocable to Detroit Local System Net Revenues	2,130,900	1,464,900	3,595,800
Lease Requirements			
16 Lease Payment (b) Water Retail Assistance Program Contributions	(b)	(b)	(b)
17 Portion Allocable to Regional Authority System Net Revenues	784,300	1,088,000	1,872,300
18 Portion Allocable to Detroit Local System Net Revenues	207,300	170,600	377,900
19 Reserve of Detroit Local System Net Revenues Collected and Allocated to Detroit Local System Budget Stabilization Fund	1,163,500	2,795,800	3,959,300
20 Net Nonoperating Activities	<u>99,030,300</u>	<u>131,698,600</u>	<u>230,728,900</u>
21 Net Revenues Available for Revenue Financed Capital	20,856,000	14,891,900	35,747,900
Reserve for Revenue Financed Capital from Net Revenues			
22 Lease Payment to DWSD-R I&E Fund for Revenue Financed Capital (b)	10,086,500	3,754,200	13,840,700
23 Portion Allocable to DWSD-R System Net Revenues	1,893,400	1,480,600	3,374,000
24 Portion Allocable to Authority System Net Revenues	8,876,100	9,657,100	18,533,200
25 Total Increase in Reserve for Revenue Financed Capital	<u>20,856,000</u>	<u>14,891,900</u>	<u>35,747,900</u>
26 Total Revenue Requirements	<u>\$ 203,309,300</u>	<u>\$ 257,522,700</u>	<u>\$ 460,832,000</u>

(a) See Schedule 2 for detail by Appropriation (Division) and Object (Cost Type)

(b) See Schedule 4 for Lease Payment Reconciliation

Great Lakes Water Authority
Initial Partial Year Budget
Schedule 2 - Operating Expenses by Appropriation and Object
January 1, 2016 (effective date of operations) through June 30, 2016

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Combined (Informational Only)</u>	<u>Combined (Informational Only)</u>
<u>Appropriation (Divisional) Summary</u>				
1 Administration Division	\$ 4,446,300	\$ 8,888,400	\$ 13,334,700	8.8%
2 Operations Division	46,079,500	67,533,900	113,613,400	75.0%
3 Compliance Division	3,479,600	7,520,800	11,000,400	7.3%
4 Finance Division	1,322,500	2,687,300	4,009,800	2.6%
5 Customer Service Division	500,300	502,300	1,002,600	0.7%
6 Subtotal Operations & Maintenance Expense	55,828,200	87,132,700	142,960,900	94.4%
7 General Retirement System Pension Expense	3,018,600	5,419,200	8,437,800	5.6%
8 Total Operations & Maintenance Expense	\$ 58,846,800	\$ 92,551,900	\$ 151,398,700	100%
<u>Object (Cost Type) Summary</u>				
9 Salaries/Wages	\$ 7,471,100	\$ 14,196,000	\$ 21,667,100	14.3%
10 Overtime	1,513,800	3,324,700	4,838,500	3.2%
11 Pension & Fringes	2,898,900	5,872,700	8,771,600	5.8%
12 Subtotal Personnel	11,883,800	23,393,400	35,277,200	23.3%
13 Contractual/Purchased Services	17,210,600	28,489,400	45,700,000	30.2%
Utilities				
14 Electric	17,178,800	8,208,000	25,386,800	16.8%
15 Gas	726,000	4,936,700	5,662,700	3.7%
16 Other	378,200	1,868,200	2,246,400	1.5%
17 Subtotal Utilities	18,283,000	15,012,900	33,295,900	22.0%
18 Chemicals	4,086,800	11,141,900	15,228,700	10.1%
19 Supplies & Other	4,364,000	9,095,100	13,459,100	8.9%
20 Subtotal Operations & Maintenance Expense	55,828,200	87,132,700	142,960,900	94.4%
21 General Retirement System Pension Expense	3,018,600	5,419,200	8,437,800	5.6%
22 Total Operations & Maintenance Expense	\$ 58,846,800	\$ 92,551,900	\$ 151,398,700	100.0%

Great Lakes Water Authority
Initial Partial Year Budget
Schedule 3 - Debt Service Coverage Calculations Pursuant to Master Bond Ordinance
January 1, 2016 (effective date of operations) through June 30, 2016

<u>Revenues</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Combined</u> <small>(Informational Only)</small>
1 Regional System Wholesale Revenues	\$ 152,166,900	\$ 133,758,400	\$ 285,925,300
2 Detroit Local System Revenues Allocable to Regional Authority	47,328,200	120,122,600	167,450,800
3 Miscellaneous Revenue	2,375,000	2,500,000	4,875,000
4 Non-Operating Revenue	1,439,200	1,141,700	2,580,900
5 Total Revenues	<u>\$ 203,309,300</u>	<u>\$ 257,522,700</u>	<u>\$ 460,832,000</u>
<u>Revenue Requirements</u>			
Operations & Maintenance Expense			
6 Regional Authority Operations & Maintenance Expense	\$ 55,828,200	\$ 87,132,700	\$ 142,960,900
7 Transfer of Revenues Collected to Detroit Local System for Operations & Maintenance Expense	22,444,700	16,949,500	39,394,200
8 General Retirement System Pension Expense Portion allocable to Authority System Revenues	3,018,600	5,419,200	8,437,800
9 Portion Allocable to DWSD-R System Revenues	2,131,500	1,430,800	3,562,300
Total Operations & Maintenance Expense	<u>83,423,000</u>	<u>110,932,200</u>	<u>194,355,200</u>
10 Net Revenues after Operations & Maintenance Expense	<u>\$ 119,886,300</u>	<u>\$ 146,590,500</u>	<u>\$ 266,476,800</u>
Debt Service by Lien			
11 Senior Lien Bonds	\$ 69,551,300	\$ 73,953,600	\$ 143,504,900
12 Second Lien Bonds	21,092,600	24,918,700	46,011,300
13 SRF Junior Lien Bonds	1,082,700	21,758,800	22,841,500
14 Total Debt Service	<u>\$ 91,726,600</u>	<u>\$ 120,631,100</u>	<u>\$ 212,357,700</u>
Debt Service Coverage (a)			
15 Senior Lien Bonds (10)/(11)	1.72	1.98	1.86
16 Senior and Second Lien Bonds (10)/[(11) + (12)]	1.32	1.48	1.41
17 All Bonds, including SRF Junior Lien Bonds (10)/(14)	1.31	1.22	1.25

(a) Debt Service Coverage is technically an annual requirement and may not be directly applicable to the stub-year budget.
Debt Service Coverage is not applicable to the "Combined" GLWA Water and Sewer presentation.

Great Lakes Water Authority
Initial Partial Year Budget
Schedule 4 - Lease Payment Reconciliation
January 1, 2016 (effective date of operations) through June 30, 2016

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Combined</u> <u>(Informational Only)</u>
FY 2015 Partial Year Lease Payment (six months)			
1 Total Lease Payment	\$ 11,250,000	\$ 13,750,000	\$ 25,000,000
2 Less: Amount Directed to Debt Service by City	1,163,500	9,995,800	11,159,300
3 Deposit to Local System Improvement & Extension Fund for Capital Improvements	<u>\$ 10,086,500</u>	<u>\$ 3,754,200</u>	<u>\$ 13,840,700</u>
FY 2016 Annual Lease Payment Allocation (twelve months)			
4 Total Lease Payment	\$ 22,500,000	\$ 27,500,000	\$ 50,000,000
5 Less: Amount Directed to Debt Service by City	2,327,000	19,991,500	22,318,500
6 Deposit to Local System Improvement & Extension Fund for Capital Improvements	<u>\$ 20,173,000</u>	<u>\$ 7,508,500</u>	<u>\$ 27,681,500</u>

Lease Payment: As stated in the Lease agreement between the City of Detroit and the Great Lakes Water Authority, the Authority shall pay an annual amount of \$22,500,000 for the regional water system and \$27,500,000 for the sewer system based on an initial allocation in the Memorandum of Understanding . Such allocation shall be subject to review and adjustment by the Authority every three to five years consistent with the method of allocation of other common-to-all charges between the Regional Water System and the Regional Sewer System.

The City is authorized to direct the application of the lease payments only for the following purposes: 1) to pay the principal of and interest on Bonds issued to finance the cost of improvements to the Detroit Local Sewer Facilities; 2) to pay the City's share of the principal of and interest on bonds issued to finance the cost of common-to-all improvements to the Leased Sewer Facilities; and, 3) to pay the cost of improvements to the Detroit Local Sewer Facilities.