

CWW Presentation -- March 13, 2015



James G. Fausone, Chair
Board of Water Commissioners

The 5 Takeaways

1. No Budget Increase – Costs have been contained
2. Recommended FY 2015-16 BUDGET same as Tender Forecast (*August 2014*)
3. Lower usage = Revenue Shortfall
 - Unit Costs must be adjusted (increased) to eliminate Revenue Shortfall
4. Impact of water rate proposals varies by community:
 - Changes in contract demands
 - Actual sales vs. contract volumes
5. DWSD's Budget only reflects ***wholesale*** costs

Wholesale Customers

- Local communities are wholesale customers of DWSD
- 30 year contracts.
- Transferrable to Great Lakes Water Authority.
- Wholesale customer sets Retail Rates.
- DWSD sets Wholesale Customers Revenue to be paid.
- Wholesale Revenue Amount increase % / year.
- Local community may pass along, increase or decrease that %.

Revenue Requirement Versus Rates

- DWSD sets a Revenue Requirement (budgeted operating revenues) :
- **Revenue requirements** (e.g. budgeted operating revenues)
- = **Units Sold** (consumption of water volume used)
- **X Rates** (prices paid for the service / set by local community)
- **Water revenue requirements** are based on a combination of a fixed charge (40% in FY-2015 and 60% in FY-2016) and consumption (usage). However, 90% of water costs are fixed.
- **Sewer revenue requirements** (effective July 1, 2014) are based almost exclusively on fixed charges to communities based on the relative usage of the system by community over the past several years (to be adjusted periodically).

Average Revenue Increase for Customers

*Comparison of Changes in System Unit Costs to Meet FY
2015-16 BUDGET*

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Suburban Wholesale	11.3%	1.1%	6.4%

What About the 4% Promise?

- GLWA Memorandum of Understanding states:

“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 the Authority management. The **RATES** and percentage increases for different customers **MAY VARY** in order to meet their specific revenue requirements.” (Emphasis added).

- Revenue requirement refers to the DWSD’s *budgeted operating revenues, not rates* used to calculate the operating revenues.

So 4% Applies To Revenue Requirement Not Rates

- Revenue requirements
- = Units Sold
- X Rates

If Units Sold drops, Rates will go up !

Main Two Causes For Water Average Unit Cost Increases This Year

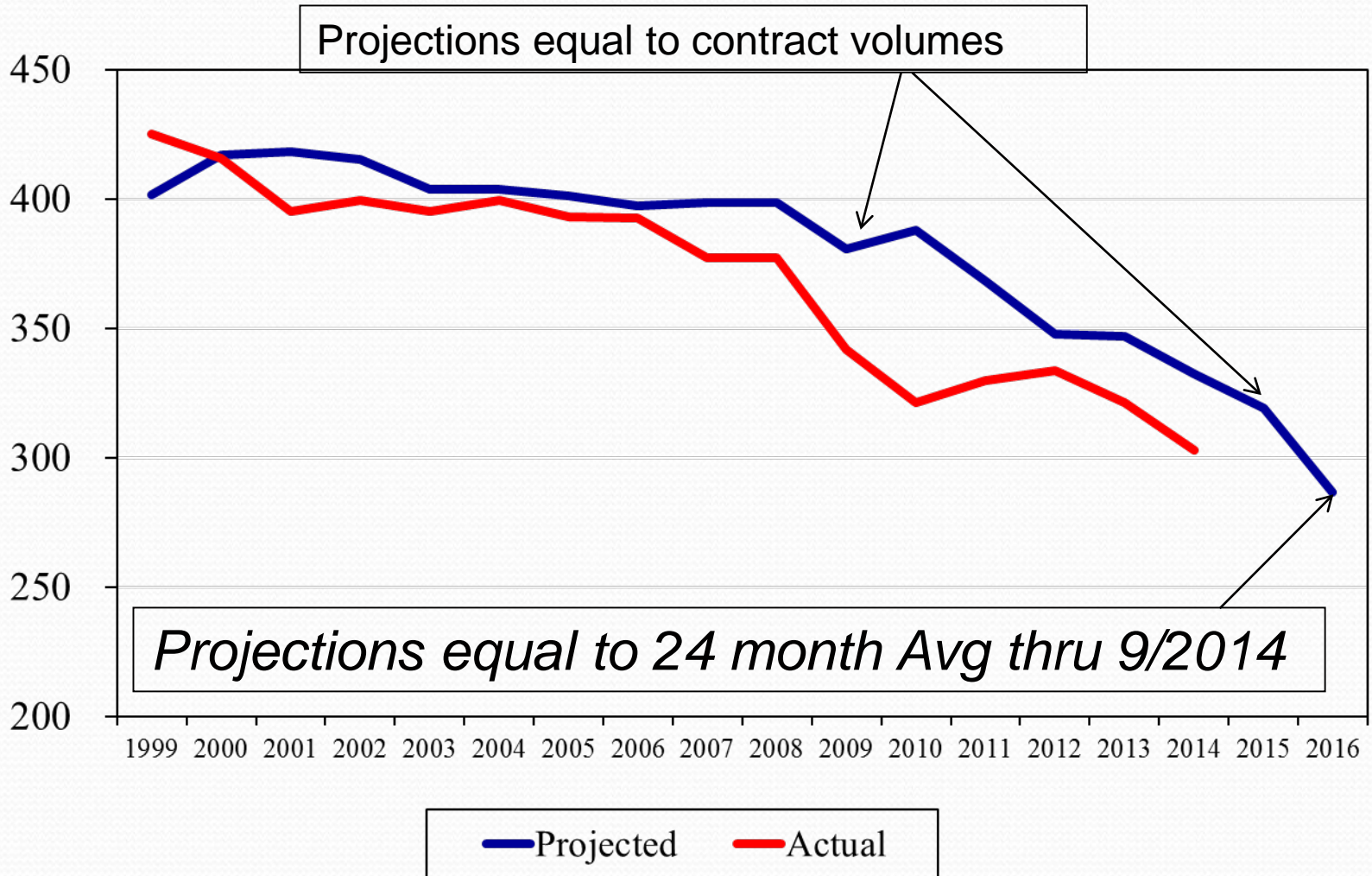
#1 **Water volume (consumption used) declines** for:

- Contract volumes by wholesale customers exceeded actual purchases in the past.
- So to correct for this process changed by:
 - (i) basing the volumes used through a 24-month average of *actual* usage; and
 - (ii) increasing the fixed cost component from 40% to 60%.

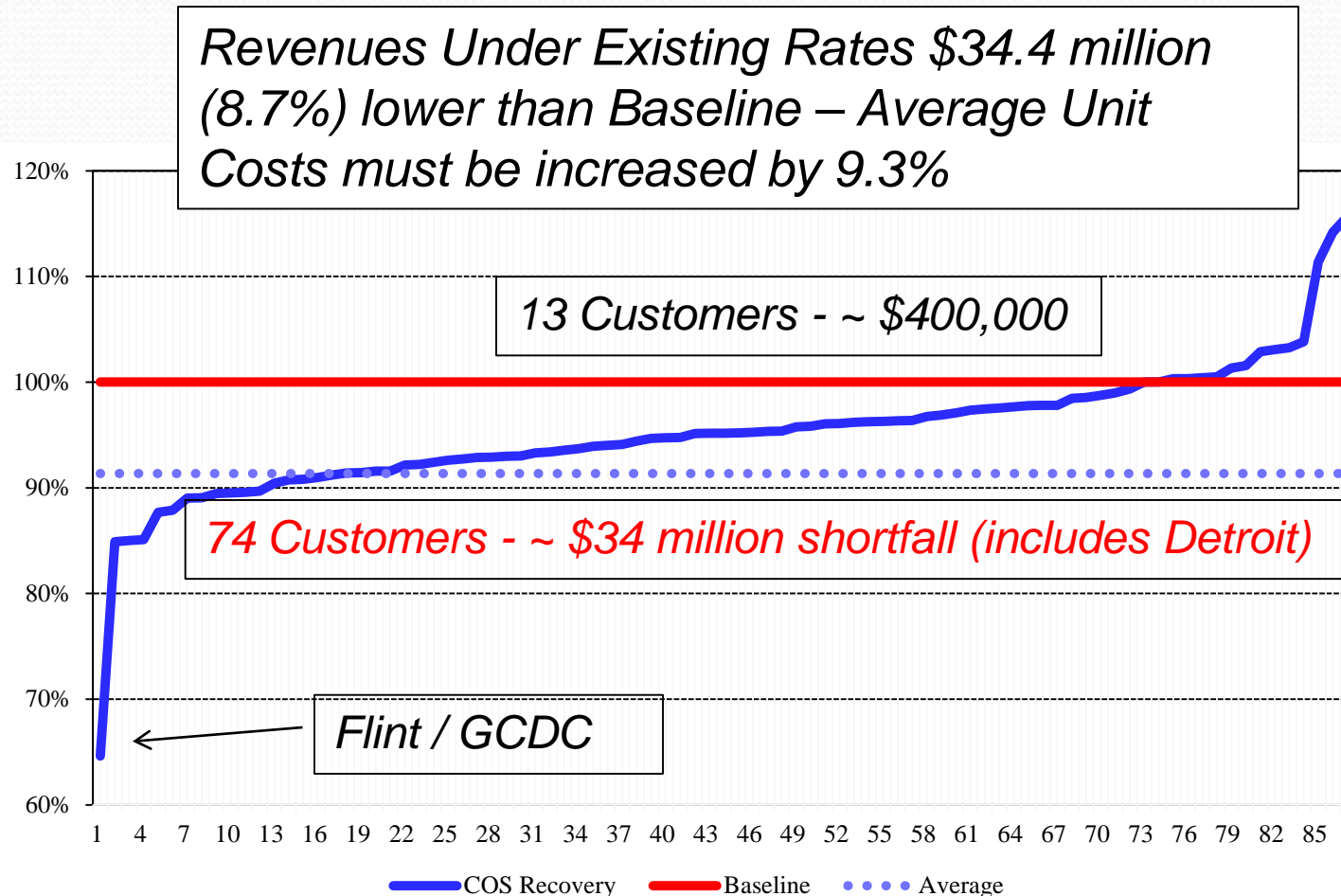
#2 **Flint leaves** the water system April 2014 (FY-2014 and FY-2015 suburban rates were not adjusted; adjusted for FY-2016). 2-3% loss.

Annual Suburban Wholesale Water Sales

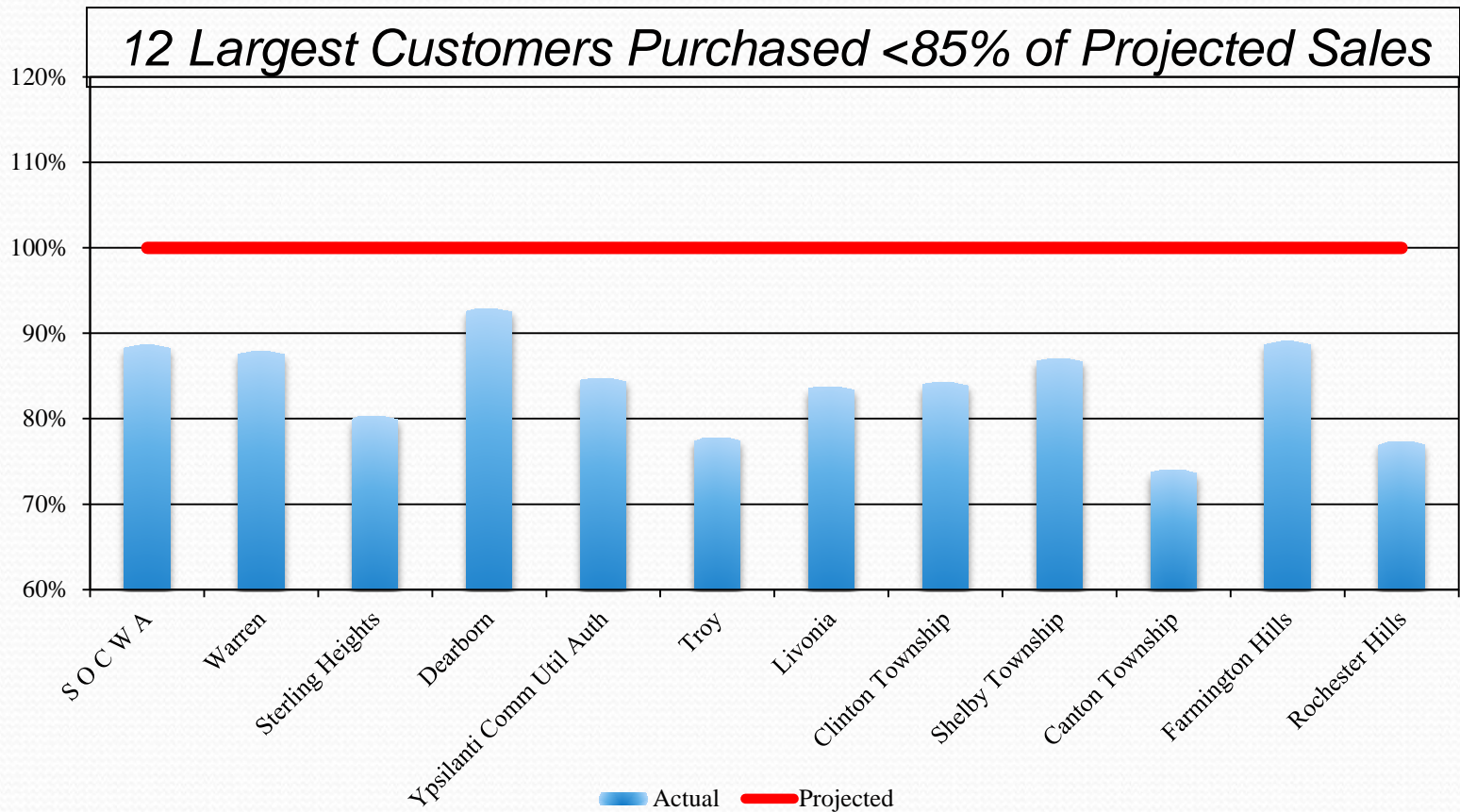
(Fiscal Year Basis - mgd)



Water - Comparison of Projected FY 2015-16 Revenues to Allocated FY 2014-15 Cost of Service



Largest Suburban Wholesale Water Customers – 24 Mo Avg Sales vs FY 2012 Proj



GLWA Status Report

- Due diligence through a transition team is underway.
- Approximately 150 customer, vendor and other volunteers from around Southeastern Michigan, as well as State representatives and outside paid consultants.
- State provided grant of \$3.8 million for transition costs.
- Transition Date - July 1, 2015

GLWA Efforts

- Complex transaction with numerous legal, accounting, labor, organization, operating and bonding projects underway.
- Lease Agreement (Assets) & Services Agreement.
- During this time, DWSD management continues to run water and sewer operations, including the setting of rates.

Questions ?

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Thank You.