



# **Presentation to BOWC Finance Committee PROPOSED FY 2024 OPERATING BUDGET**

**March 1, 2023**

# Budget Considerations

The DWSD Executive Team considered these factors in developing the Budget:

- ✓ **Affordability** – keep rate increases below 4% and support water conservation initiatives.
- ✓ Compassionate and responsive **Customer Service**.
- ✓ Operations that **support and preserve Public Health**; **meet or exceed** all federal, state and local **Regulations**.
- ✓ Employee and asset **Safety**.
- ✓ Water and sewer **Upgrades** (including Lead Service Line replacement).
- ✓ **Employee Focus** – training, retention and recruitment.

# Current Budget Environment

- The Proposed FY 2024 Budget was developed in an inflationary environment with inflation rate at 6.4% for the 12 months ended January 2023 according to U.S. Labor Department data.
- Even in this environment, the goal was to keep rate affordable and at the same time not compromise on service level initiatives. The Budget incorporates expenditures required to operate DWSD's (Water and Sewer) System for FY 24.
- These expenditures become the basis for determining the revenues that are required to fund those expenditures and are termed as "Revenue Requirement".
- This Budget proposes a 3.2% increase in rate revenue and an overall Revenue Requirement decrease of 2% for the System as a whole.
- Overall Revenue Requirement decrease is primarily due to savings of \$35.4 million in pension costs due to the expiration of the Pension Agreement with the City of Detroit effective FY 24.
- Direct departmental expenses are projected to increase at 6.7% primarily due to increase in personnel costs for adding 58 new positions to the Budget necessary to support DWSD's strategic initiatives.
- DWSD will begin Average Winter Consumption (AWC) methodology to cap Sewer usage for its residential customers effective FY 24.

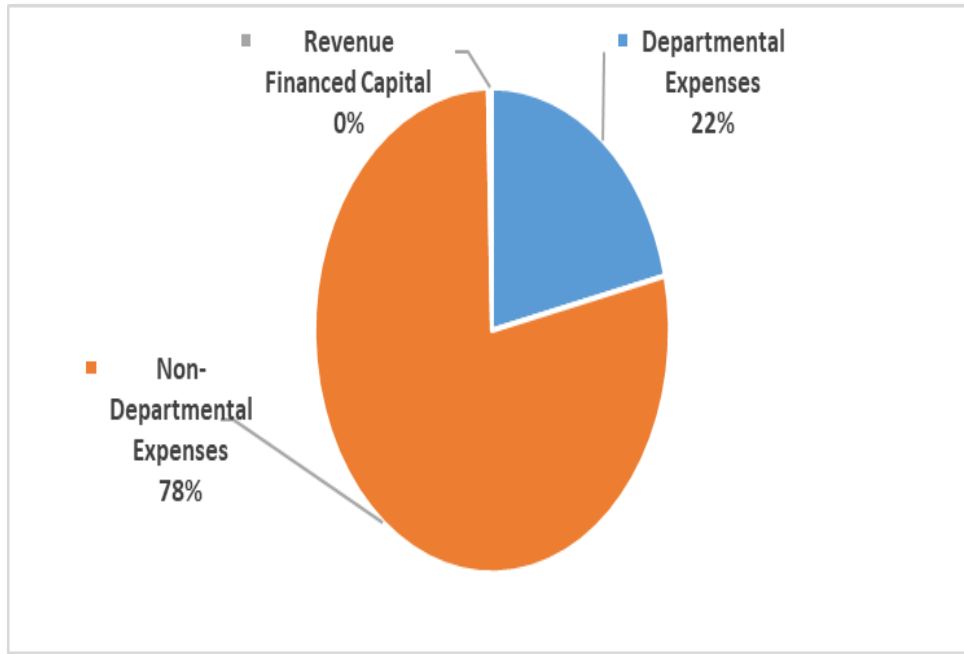


## Revenue Requirement (RR) - Systemwide

Water & Sewer Funds Combined	Approved Budget FY 2023	Proposed Budget FY 2024	Change	% Change
Revenue Requirement	(millions)	(millions)	(millions)	
Departmental Expenses	\$ 96.48	\$ 102.98	\$ 6.50	6.7%
Non-Departmental Expenses	386.91	376.68	(10.23)	-2.6%
Revenue Financed Capital	7.75	1.82	(5.93)	-76.5%
<b>Total Revenue Requirement</b>	<b>\$ 491.14</b>	<b>\$ 481.49</b>	<b>\$ (9.65)</b>	<b>-2.0%</b>
Revenue Requirement by Fund				
Water Fund Total Revenue Requirement	\$ 140.73	\$ 136.67	\$ (4.06)	-2.9%
Sewer Fund Total Revenue Requirement	350.41	344.82	(5.59)	-1.6%
<b>Total Revenue Requirement</b>	<b>\$ 491.14</b>	<b>\$ 481.49</b>	<b>\$ (9.65)</b>	<b>-2.0%</b>

- Three components make the Revenue Requirement at DWSD.
- It reflects projected annual expenses required to operate the System as a whole.
- Water Fund RR decreased by 2.9% and Sewer Fund RR decreased by 1.6 % with an overall Systemwide decrease of 2% over FY 2023.
- Non-Departmental expenses decreased by 2.6% and RFC decreased by 76.5%.
- Department expenses increased by 6.7%.
- The next couple of slides explain the reasons for these variances.

# Revenue Requirement (RR) - Systemwide



- This slide summarizes the projected share of each of the three components of Revenue Requirement.
- Departmental expenses (generally controllable by DWSD) of \$103 million represents only 22% of the total Revenue Requirement.
- Non-Departmental expenses (expenses over which DWSD has very little control) of \$377 million make up 78% of the total Revenue Requirement.

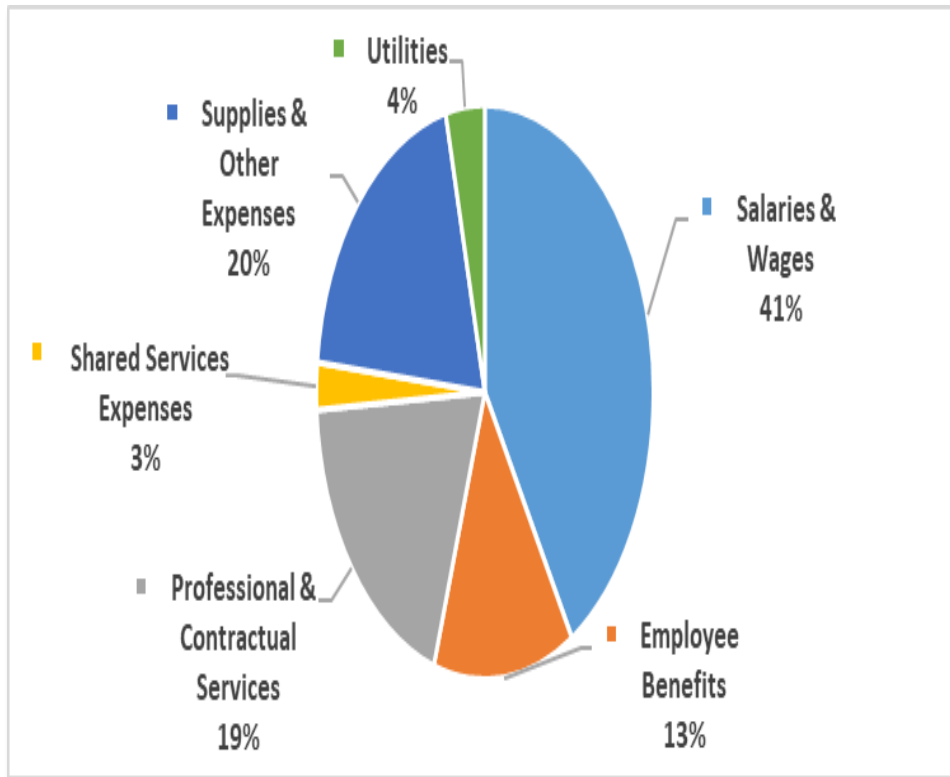


# Departmental Expenses

Water & Sewer Funds Combined	Approved Budget FY 2023	Proposed Budget FY 2024	Change	% Change
<b>Departmental Expenses</b>	(millions)	(millions)	(millions)	
Salaries & Wages	\$ 37.94	\$ 42.59	\$ 4.65	12.3%
Employee Benefits	13.35	13.95	0.60	4.5%
Professional & Contractual Services	18.71	19.68	0.97	5.2%
Shared Services Expenses	3.86	2.73	(1.14)	-29.4%
Supplies & Other Expenses	19.03	20.17	1.14	6.0%
Utilities	3.58	3.86	0.28	7.8%
<b>Total Departmental Expenses</b>	<b>\$ 96.48</b>	<b>\$ 102.98</b>	<b>\$ 6.50</b>	<b>6.7%</b>

- Personnel costs - Salaries & Wages and Employee Benefits increased \$5.25 million representing approximately 81% of the total increase of \$6.5 million.
- It also represents 16.8% increase over FY 2023. This increase is mainly due to increase in projected FTE count for FY 24.
- Majority of the increase in FTEs is in Operations to help improve service levels as well as to address back log in service deliverables.

# Departmental Expenses



- This slide summarizes the share of the various direct expenses in the Revenue Requirement structure.
- Personnel costs consisting of Salaries & Wages and Benefits make up 54% of the total Departmental expenses budget.
- The increase in personnel costs is primarily due to increase in headcount for FY 24.
- Headcount is projected to increase primarily to support DWSD's strategic initiatives to provide better service delivery and to also to catch up on backlog of service deliverables.



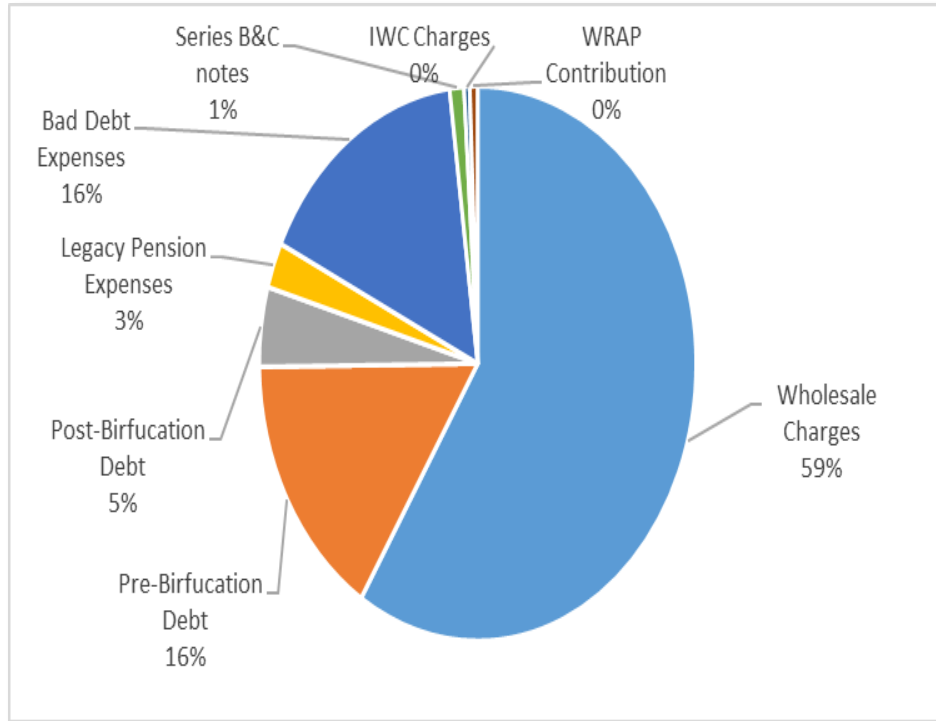
# Non-Departmental Expenses

Water & Sewer Funds Combined	Approved Budget FY 2023	Proposed Budget FY 2024	Change	% Change
Non-Departmental Expenses	(millions)	(millions)	(millions)	
Wholesale Charges	\$ 214.03	\$ 222.11	\$ 8.08	3.8%
Pre-Bifurcation Debt	59.71	59.71	-	-
Post-Bifurcation Debt	-	17.48	17.48	100.0%
Legacy Pension Expenses	45.40	10.00	(35.40)	-78.0%
Bad Debt Expenses	60.03	59.61	(0.42)	-0.7%
Series B&C notes	3.98	3.98	-	-
IWC Charges	1.62	1.60	(0.02)	-1.0%
WRAP Contribution	2.14	2.19	0.06	2.6%
<b>Total Non-Departmental Expenses</b>	<b>\$ 386.91</b>	<b>\$ 376.68</b>	<b>\$ (10.23)</b>	<b>-2.6%</b>

- Decrease in Non-Departmental expenses of \$10.2 million is primarily due to decrease in Legacy Pension expense (\$35.4 million) offset by increase in Wholesale Charges (\$8.1 million) and Post-Bifurcation Debt (\$17.5 million).
- Decrease in Legacy pension costs is due to expiration of the Pension Agreement at the end of FY 23 that resulted in savings of \$35.4 million.
- Wholesale Charges increase is due to a change in the method of calculating DWSD's SHARE in GLWA's Revenue Requirement and is based on water demand, including annual volumes and peak periods.
- Post-Bifurcation debt relates to debt issued after bifurcation. In FY 23, these costs were included in Improvement and Extension Budget.



# Non-Departmental Expenses



- This slide summarizes the share of each non-departmental expense in the Revenue Requirement structure.
- These expenses represent costs over which DWSD has very little control.
- Wholesale Charges are based on GLWA's Revenue Requirement and makes up 59% of total Non-Departmental costs.
- Pre and Post Bifurcation debt are fixed commitments for DWSD and accounts for 21% of the total.
- Bad Debt is the 3<sup>rd</sup> largest cost category and accounts for 16% of the total Departmental costs.

# How Do We Fund Revenue Requirement?



Water & Sewer Funds Combined	Approved Budget FY 2023	Proposed Budget FY 2024	Change	% Change
<b>Estimated Revenue</b>	(millions)	(millions)	(millions)	
Retail Revenue				
Rate Revenue	\$ 440.65	\$ 454.80	\$ 14.15	3.2%
Non-Rate Revenue -Fines, Penalties, etc.	11.54	12.71	1.17	10.1%
<b>Total Retail Revenue</b>	<b>\$ 452.19</b>	<b>\$ 467.51</b>	<b>\$ 15.33</b>	<b>3.4%</b>
Non-Retail Revenue				
Shared Services Revenue	\$ 2.50	\$ 2.50	-	-
GLWA Share of Pension and Notes	34.84	9.87	(24.96)	-71.7%
IWC Charges	1.62	1.60	(0.02)	-1.0%
<b>Total Non-Retail Revenue</b>	<b>\$ 38.95</b>	<b>\$ 13.97</b>	<b>\$ (24.98)</b>	<b>-64.1%</b>
<b>Total Estimated Revenue</b>	<b>\$ 491.14</b>	<b>\$ 481.49</b>	<b>\$ (9.65)</b>	<b>-2.0%</b>

Water & Sewer Funds Combined	Approved Budget FY 2023	Proposed Budget FY 2024	Change	% Change
<b>Rate Revenue Requirement</b>	(millions)	(millions)	(millions)	
Total Revenue Requirement	\$ 491.14	\$ 481.49	\$ (9.65)	-2.0%
Less: Shared Services Revenue	(2.50)	(2.50)	-	-
Less: GLWA's share of Pension	(34.84)	(9.87)	24.96	-71.7%
Less: IWC Charges	(1.62)	(1.60)	0.02	-1.0%
Less: Non-Rate Revenue	(11.54)	(12.71)	\$ (1.17)	10.1%
<b>Total Rate Revenue Requirement</b>	<b>\$ 440.65</b>	<b>\$ 454.80</b>	<b>\$ 14.15</b>	<b>3.2%</b>

RR are funded by **Retail Revenue** (Rate Revenue and Non-Rate Revenue) and **Non-Retail Revenue** (Shared Services Revenue and GLWA's share of Pension).

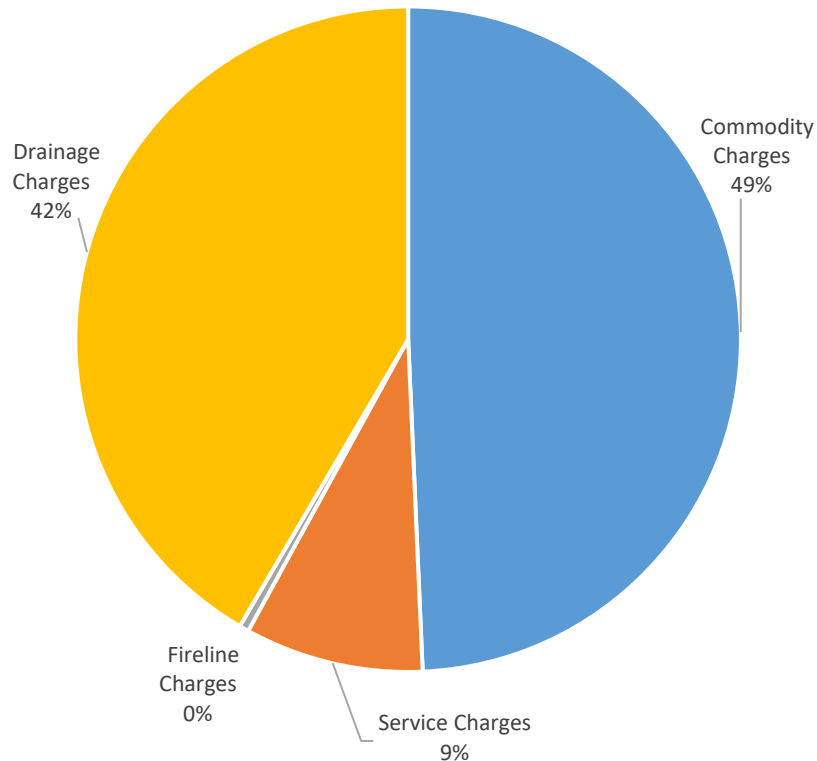


# Components of Rate Revenue Requirement

Water & Sewer Funds Combined	Approved Budget FY 2023	Proposed Budget FY 2024	Change	% Change
<b>Estimated Rate Revenue</b>	(millions)	(millions)	(millions)	
Commodity Charges	\$ 217.22	\$ 224.24	\$ 7.02	3.2%
Service Charges	38.19	39.48	1.29	3.4%
Fireline Charges	2.07	2.10	0.03	1.7%
Drainage Charges	183.17	188.98	5.81	3.2%
<b>Total Estimated Rate Revenue</b>	<b>\$ 440.65</b>	<b>\$ 454.80</b>	<b>\$ 14.15</b>	<b>3.2%</b>
<b>Estimated Rate Revenue by Fund</b>				
Water Fund Rate Revenue Requirement	\$ 123.77	\$ 127.89	\$ 4.12	3.3%
Sewer Fund Rate Revenue Requirement	316.88	326.91	10.03	3.2%
<b>Total Estimated Rate Revenue by Fund</b>	<b>\$ 440.65</b>	<b>\$ 454.80</b>	<b>\$ 14.15</b>	<b>3.2%</b>

- Water Fund Rate Revenue requirement is projected to increase by 3.3% and Sewer Fund by 3.2%.
- Overall Rate Revenue Requirement increase is projected at 3.2% except for Private Fireline.
- This chart breaks down Rate Revenue Requirement by revenue categories.

# Rate Revenue Requirement



- This slide represents the share of each Rate Revenue source that is required to fund the Revenue Requirement.
- Commodity Charges make up 49% of total Rate Revenue Requirement.
- Drainage Charges make 42% of the total Rate Revenue Requirement.

# Volumes and Rates - Water Fund



Water Fund	Approved Budget FY 2023	Proposed Budget FY 2024	Change	% Change
<b>Volumetric Charges</b>				
Units (Mcf)				
Tier 1 Volume (up to 0.6 Mcf)	844,792	845,000	208	0.0%
<b>Tier 1 Volume Rate per Mcf</b>	<b>\$ 25.04</b>	<b>\$ 25.87</b>	<b>\$ 0.83</b>	<b>3.3%</b>
Total Tier 1 Volumetric Charges (millions)	\$ 21.15	\$ 21.86	\$ 0.71	3.3%
Tier 2 Volume (> 0.6Mcf)	1,713,288	1,715,000	1,712	0.1%
<b>Tier 2 Volume Rate per Mcf</b>	<b>\$ 44.92</b>	<b>\$ 46.37</b>	<b>\$ 1.45</b>	<b>3.2%</b>
Total Tier 2 Volumetric Charges (millions)	\$ 76.96	\$ 79.52	\$ 2.56	3.3%
<b>Total Volumetric Charges (millions)</b>	<b>\$ 98.11</b>	<b>\$ 101.38</b>	<b>\$ 3.27</b>	<b>3.3%</b>
<b>Services Charges</b>				
Equivalent Units				
Customers (Meters)	191,647	192,000	353	0.2%
Service Line Equivalents	243,907	244,000	93	0.0%
Connections Equivalent	367,978	368,000	22	0.0%
Charges per Equivalent Unit per Month				
Customers (Meters)	\$ 2.85	\$ 2.94	\$ 0.09	3.2%
Service Line Equivalents	\$ 2.63	\$ 2.72	\$ 0.09	3.4%
Connections Equivalent	\$ 2.12	\$ 2.19	\$ 0.07	3.3%
<b>Rate per 5/8" Equivalent Meter per Month</b>	<b>\$ 7.60</b>	<b>\$ 7.85</b>	<b>\$ 0.25</b>	<b>3.3%</b>
Number of Months	12	12	12	
<b>Total Service Charges (millions)</b>	<b>\$ 23.58</b>	<b>\$ 24.40</b>	<b>\$ 0.82</b>	<b>3.5%</b>
<b>Fireline Charges</b>				
6" Equivalent Connections	2,057	2,057	-	-
<b>Rate per 6" Equivalent Unit per Month</b>	<b>\$ 83.80</b>	<b>\$ 85.18</b>	<b>\$ 1.38</b>	<b>1.6%</b>
Number of Months	12	12		
<b>Total Fireline Charges (millions)</b>	<b>\$ 2.07</b>	<b>\$ 2.10</b>	<b>\$ 0.03</b>	<b>1.6%</b>



# Volumes and Rates - Sewer Fund

Sewer Fund	Approved Budget FY 2023	Proposed Budget FY 2024	Change	% Change
<b>Volumetric Charges</b>				
Units (Mcf)				
Residential Average Winter Usage	946,000	946,000	-	-
Non-Residential Volume	1,203,800	1,204,000	200	0.0%
Total Volume	2,149,800	2,150,000	200	0.0%
<b>Sewer Volume Rate per Mcf</b>	<b>\$ 55.40</b>	<b>\$ 57.14</b>	<b>\$ 1.74</b>	<b>3.1%</b>
<b>Total Volumetric Charges (millions)</b>	<b>\$ 119.10</b>	<b>\$ 122.85</b>	<b>\$ 3.75</b>	<b>3.2%</b>
<b>Service Charges</b>				
Equivalent Units				
Customers (Meters)	192,000	192,000	-	-
Meter & Service Lines	192,000	192,000	-	-
Charges per Equivalent Unit per Month				
Customers (Meters)	\$ 2.97	\$ 3.07	\$ 0.10	3.4%
Service Line Equivalents	\$ 3.37	\$ 3.48	\$ 0.11	3.3%
<b>Rate per 5/8" Equivalent Meter per Month</b>	<b>\$ 6.34</b>	<b>\$ 6.55</b>	<b>\$ 0.21</b>	<b>3.3%</b>
Number of Months	12	12	12	
<b>Total Service Charges (millions)</b>	<b>\$ 14.60</b>	<b>\$ 15.08</b>	<b>\$ 0.48</b>	<b>3.3%</b>
<b>Drainage Charges</b>				
Impervious Acres	26,461	26,363	(98.00)	-0.4%
<b>Rate per Impervious Acre per Month</b>	<b>\$ 678.30</b>	<b>\$ 695.57</b>	<b>\$ 17.27</b>	<b>2.5%</b>
Number of Months	12	12		
Total Drainage Charges	\$ 215.38	\$ 220.05	\$ 4.67	2.2%
Credits	\$ (32.21)	\$ (31.07)	\$ 1.14	-3.5%
<b>Total Drainage Charges (millions)</b>	<b>\$ 183.17</b>	<b>\$ 188.98</b>	<b>\$ 5.81</b>	<b>3.2%</b>



# Rate Structure – Water and Sewer Funds

Water Fund	Approved Budget FY 2023	Proposed Budget FY 2024	Change	% Change
<b>Proposed Rates</b>				
Volumetric Rate per Mcf				
Tier 1 (upto 0.6 Mcf)	\$ 25.04	\$ 25.87	\$ 0.83	3.3%
Tier 2 (> 0.6Mcf)	\$ 44.92	\$ 46.37	\$ 1.45	3.2%
Service Rate/equivalent unit per month	\$ 7.60	\$ 7.85	\$ 0.25	3.3%
Fireline Rate/equivalent unit per month	\$ 83.80	\$ 85.18	\$ 1.38	1.6%
Sewer Fund	Approved Budget FY 2023	Proposed Budget FY 2024	Change	% Change
<b>Proposed Rates</b>				
Volumetric Rate per Mcf	\$ 55.40	\$ 57.14	\$ 1.74	3.1%
Service Rate/equivalent unit per month	\$ 6.34	\$ 6.55	\$ 0.21	3.3%
Drainage Rate per Billable acre per month	\$ 678.30	\$ 695.57	\$ 17.27	2.5%

- Rates are proposed to increase between 3.1% to 3.3% for various categories except for Fireline (1.6%) and Drainage (2.5%).
- These proposed rates are required to meet the Revenue Requirement for the System.



# Summary of Revenues and Expenses - Water Fund

DETROIT  
Water & Sewerage  
Department

	Approved Budget FY 2023	Proposed Budget FY 2024	Change	% Change
<b>Estimated Revenue</b>				
<b>Retail Revenue</b>				
Commodity Sales	\$ 98.12	\$ 101.38	\$ 3.27	3.3%
Service Charges	23.58	24.40	0.82	3.5%
Firelines	2.07	2.10	0.03	1.7%
Permits, Penalties and Other Revenue	3.90	4.21	0.31	7.9%
<b>Total Retail Revenue</b>	<b>\$ 127.67</b>	<b>\$ 132.10</b>	<b>\$ 4.43</b>	<b>3.5%</b>
<b>Non-Retail Revenue</b>				
GLWA Share of Pension and Notes	\$ 12.32	\$ 3.40	\$(8.92)	-72.4%
Shared Services	0.75	1.18	0.43	57.0%
<b>Total Non-Retail Revenue</b>	<b>\$ 13.07</b>	<b>\$ 4.57</b>	<b>\$(8.49)</b>	<b>-65.0%</b>
<b>Total Estimated Revenue</b>	<b>\$ 140.73</b>	<b>\$ 136.67</b>	<b>\$(4.06)</b>	<b>-2.9%</b>
<b>Revenue Requirement</b>				
<b>Departmental (Direct) Expense</b>				
Administration	\$ 0.97	\$ 0.83	\$(0.14)	-14.5%
Operations	24.00	26.23	2.23	9.3%
Compliance	11.15	12.03	0.88	7.9%
Finance	7.21	6.87	(0.34)	-4.8%
<b>Total Departmental (Direct) Expense</b>	<b>\$ 43.33</b>	<b>\$ 45.96</b>	<b>\$ 2.63</b>	<b>6.1%</b>
<b>Non-Departmental (Indirect) Expense</b>	91.05	90.36	(0.68)	-0.7%
<b>Revenue Financed Capital</b>	6.35	0.35	(6.00)	-94.5%
<b>Total Revenue Requirement</b>	<b>\$ 140.73</b>	<b>\$ 136.67</b>	<b>\$(4.06)</b>	<b>-2.9%</b>





# Summary of Revenues and Expenses - Sewer Fund

	Approved Budget FY 2023	Proposed Budget FY 2024	Change	% Change
<b>Estimated Revenue</b>				
<b>Retail Revenue</b>				
Commodity Sales	\$ 119.10	\$ 122.86	\$ 3.76	3.2%
Service Charges	14.60	15.08	0.48	3.3%
Drainage Fees	183.17	188.98	5.81	3.2%
IWC Charges	1.62	-	(1.62)	-100.0%
Permits, Penalties and Other Revenue	7.64	8.50	0.86	11.3%
<b>Total Retail Revenue</b>	<b>\$ 326.13</b>	<b>\$ 335.41</b>	<b>\$ 9.28</b>	<b>2.8%</b>
<b>Non-Retail Revenue</b>				
GLWA Share of Pension and Notes	\$ 22.52	\$ 6.48	\$(16.04)	-71.2%
IWC Charges	-	1.60	1.60	100.0%
Shared Services	1.75	1.32	(0.43)	-24.4%
<b>Total Non-Retail Revenue</b>	<b>\$ 24.27</b>	<b>\$ 9.40</b>	<b>\$(14.87)</b>	<b>-61.3%</b>
<b>Total Estimated Revenue</b>	<b>\$ 350.41</b>	<b>\$ 344.82</b>	<b>\$ (5.59)</b>	<b>-1.6%</b>
<b>Revenue Requirement</b>				
<b>Departmental (Direct) Expense</b>				
Administration	\$ 1.09	\$ 0.93	\$ (0.16)	-14.5%
Operations	25.32	27.94	2.62	10.3%
Compliance	17.05	18.60	1.55	9.1%
Finance	9.68	9.56	(0.13)	-1.3%
<b>Total Departmental (Direct) Expense</b>	<b>\$ 53.15</b>	<b>\$ 57.03</b>	<b>\$ 3.88</b>	<b>7.3%</b>
<b>Non-Departmental (Indirect) Expense</b>	295.86	286.32	(9.54)	-3.2%
<b>Revenue Financed Capital</b>	1.40	1.47	0.07	5.1%
<b>Total Revenue Requirement</b>	<b>\$ 350.41</b>	<b>\$ 344.82</b>	<b>\$ (5.59)</b>	<b>-1.6%</b>

# FTEs – Water and Sewer Funds



DETROIT  
Water & Sewerage  
Department

Cost Center	Budget FY 2023 FTE	Proposed Budget FY 2024 FTE	Increase (Decrease)
Chief Exec Officer	7	6	(1)
BOWC	1	1	-
Deputy Director Administration	5	-	(5)
Field Engineering	64	69	5
Facility Operation	14	15	1
Storm Water Management	26	28	2
Fleet Operation	18	20	2
Maintenance & Repairs	169	214	45
Meter Operation	62	63	1
Lead Service	3	4	1
General Counsel	6	9	3
Organization Developmemt	9	11	2
Information Technology	34	35	1
Security	37	34	(3)
Public Affairs	6	6	-
Customer Service	83	88	5
Chief Financial Officer	6	5	(1)
Finance (Controller)	15	13	(2)
Procurement	29	26	(3)
Treasury	4	4	-
Budget	3	3	-
Billing & Collection	18	22	4
Internal Audit	1	2	1
<b>Grand Total</b>	<b>620</b>	<b>678</b>	<b>58</b>

- FTEs increase by 58 headcount.
- Increase is primarily in Operations Cost Centers accounting for 95% of the increase.
- This strategy of increasing headcount for Operations is in keeping with DWSD's strategic initiative to enhance service levels and reduce backlog in service deliveries.

# Next Steps



- DWSD Finance will seek the Finance Committee’s approval of the FY 24 Proposed Operating Budget on **March 1, 2023**, and its recommendation of the Proposed Budget to the full Board for its approval on **March 15, 2023**.
- City Council review of DWSD’s FY 24 Operating Budget on **March 23, 2023**.
- Review and approval of Water and Sewer Rates (including Rates for other services) by Finance Committee on **April 1, 2023**, and its recommendation of the Rates to the full Board for its approval on **April 19, 2023**.
- FY 24 Rates become effective on **July 1, 2023**.



## **Detroit Water & Sewerage Department**

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