



Detroit Water and Sewerage Department

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Legislation Text

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The Board of Water Commissioners for the City of Detroit, Water and Sewerage Department **authorizes an amendment to the 2016-2017 Retail Water System Operations and Maintenance Budget of \$4,400,000.00 and an amendment to the 2016-2017 Retail Sewer System Operations and Maintenance Budget in the amount of \$14,298,000.00** and also authorizes the Director to take such other action as may be necessary to accomplish the intent of this vote.

Agenda of August 17, 2016

Item No. 16-0127

Amendment to 2016-2017 Retail Water System and Sewer System Operations and Maintenance Budgets

TO: The Honorable
Board of Water Commissioners
City of Detroit, Michigan

FROM Marcus Hudson, Chief Financial Officer
Water and Sewerage Department

RE: **Amendment to 2016-2017 Water System and Sewer System Operations and Maintenance Budgets of \$4.4 million and \$14.3 million, respectively**

MOTION

Upon recommendation of Marcus Hudson, Chief Financial Officer, the Board of Water Commissioners for the City of Detroit, Water and Sewerage Department **authorizes an amendment to the 2016-2017 Retail Water System Operations and Maintenance Budget of \$4,400,000.00 and an amendment to the 2016-2017 Retail Sewer System Operations and Maintenance Budget in the amount of \$14,298,000.00** and also authorizes the Director to take such other action as may be necessary to accomplish the intent of this vote.

JUSTIFICATION

As of June 30, 2016, the Retail Water System and Retail Sewer System had accrued operations and maintenance expenses of approximately \$4,400,000.00 and \$6,600,000.00, respectively, which will be paid in fiscal year 2017. These collective amounts include approximately \$4 million in gross shared services costs from the Great Lakes Water Authority. Given the cut-off of accounting periods associated with the implementation of the City's new financial system, these expenses cannot be assigned to fiscal year 2016 and must be recognized as being paid in fiscal year 2017. Though revenues have already been generated to pay these expenses, the 2017 budget, which was approved by the BOWC in March 2016, does not account for expenditures carried over from previous fiscal years; i.e., the accrued expense assumption is zero. Failure to modify the budgets will potentially cause the financial system to reject valid payments as violating budgeted limits. Note, this amendment is neutral to the budget as the increase in budgeted expenditures will be offset by an increase in improvement and extension funds carried over from the previous year and as yet to paid payroll reimbursements and shared services fees from the Great Lakes Water Authority.

As discussed at the August 3, 2016 BOWC Workshop, DWSD will incur approximately \$7,698,000.00 in start-up costs associated with the implementation of its drainage program. These costs include consulting fees, information technology upgrades, customer outreach and communicate, and credits for customers following green practices. The fiscal year 2017 budget approved by the BOWC in March 2016 did not contemplate the costs associated with the implementation of the drainage program as the program itself was not well defined and associated costs could not be reliably estimated. Now that costs can be measured with some degree of certainty,

the Sewer Operations and Maintenance budget must be modified to prevent potential rejection of payments by the financial system as violating budget limits. Again, this amendment is net neutral to the bottom line as incremental costs will be offset by incremental revenue.

BACKGROUND

Since the implementation of the City's new financial system, DWSD, along with other City agencies, has had difficulty remitting payments to suppliers in a timely matter. Though many of the initial implementation issues have been resolved, the inability to properly match incoming invoices with purchase orders has led to a backlog of unrecorded invoices as reflected in the above mentioned accrued balances for both Water & Sewer. We anticipate eliminating this backlog by the end of the First Quarter in the current year.

Between March 2016 and July 2016, DWSD staff developed a plan for implementing a new drainage methodology that focuses on improving the accuracy of rates and increasing the equity of charges across all customers. To assist with the implementation, DWSD has engaged a number of consultancies to aid with plan design and customer outreach. Further, DWSD will have to make certain modifications to the billing system to effectuate implementation. Part and parcel to implementation of the plan is the offering of billing credits to those entities which implement green practices; e.g., retention ponds, downspout disconnection, rain barrels, etc. Green practices are assumed to take volume out of the system allowing for longer term costs reductions. A break-down of drainage expenses is as follows:

SERVICE	DOLLAR VALUE
PROGRAM MANAGEMENT	\$318,000.00
LEGAL	255,000.00
INFORMATION TECHNOLOGY	250,000.00
CUSTOMER SERVICE	1,020,000.00
CUSTOMER OUTREACH	282,000.00
CREDIT DESIGN / TECH SUPPORT	1,850,000.00
MISCELLANEOUS OTHER COSTS	473,000.00
GREEN CREDITS	<u>3,250,000.00</u>
	<u>\$7,698,000.00</u>