



# Detroit City Council

## Proposed FY 2014-15 DWSD Rates and Charges

June 10, 2014

# DWSD: FY 2014-15 Overview

- Renewed customer centered focus
- Budgeting in an era of uncertainty
- Commitment to cost control
- System-wide “revenue requirement” needs
- FY 2014-15 retail rate proposal



# FY 2014-15 Budget in Uncertain Era

- Proposed Rates balance those items which we internally control and those items occurring in our external environment
  - *Within our control*
    - ✓ Ongoing optimization efforts
    - ✓ Cost control initiatives
    - ✓ Managing effective operations
  - *Outside our control*
    - ✓ Possible developments regarding DWSD's future governance structure
    - ✓ Outcomes of City financial restructuring



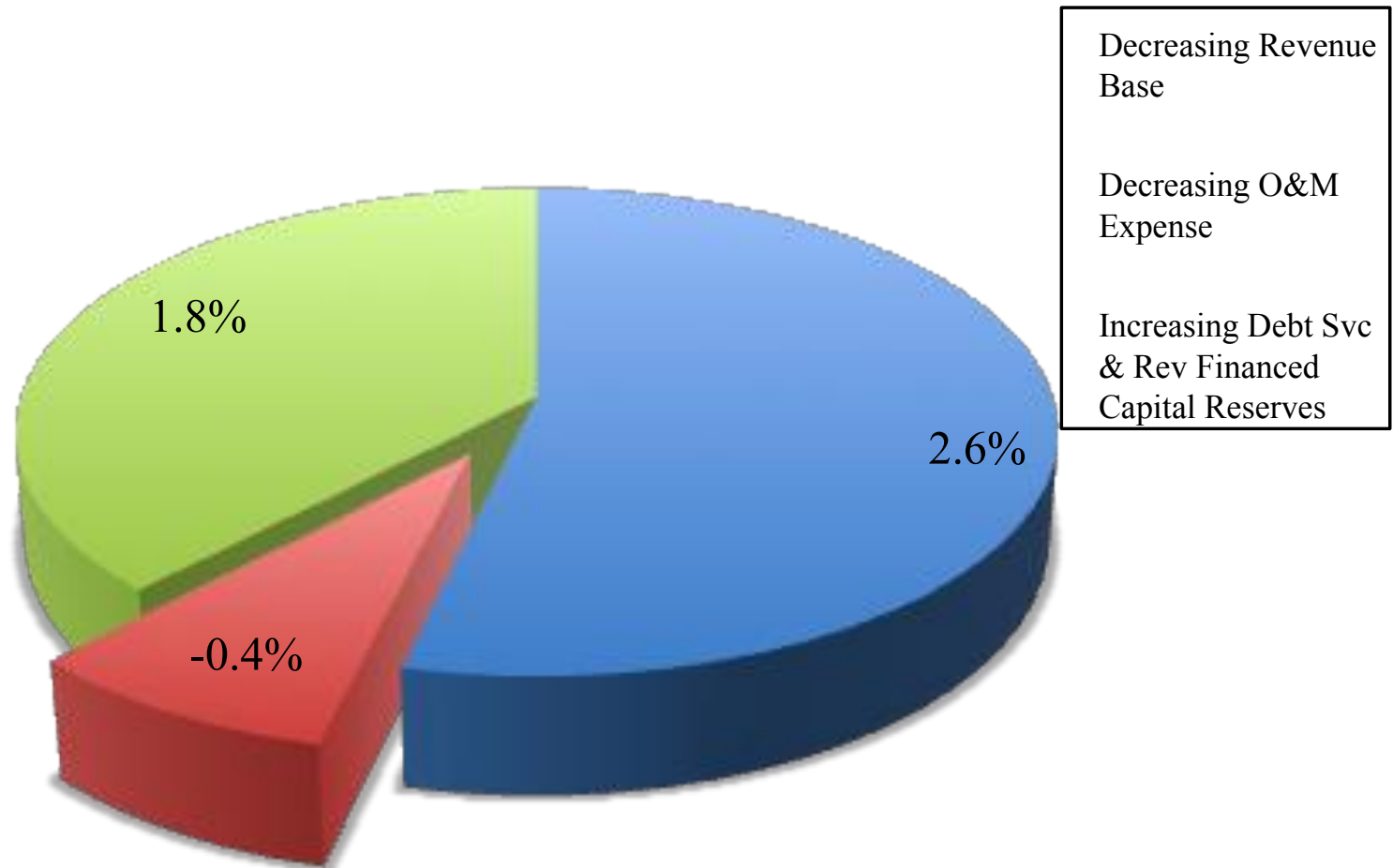
# FY 2014-15 System Revenue Requirement

- Proposed Rates support a 4% Water and Sewer *system-wide* revenue requirement increase
  - *Operating Budget and Financial Plan approved by BOWC in January in compliance with the November 4, Court Order*
- Drivers for Revenue Requirement Increase:
  - *Decreasing billable water and wastewater volume (results in higher per unit costs)*
  - *Building capital improvement funds (to lessen heavy debt burden over time)*
  - *Bad Debt Expense*



# Anatomy of the Revenue Requirement

## *Combined System Water and Sewer*



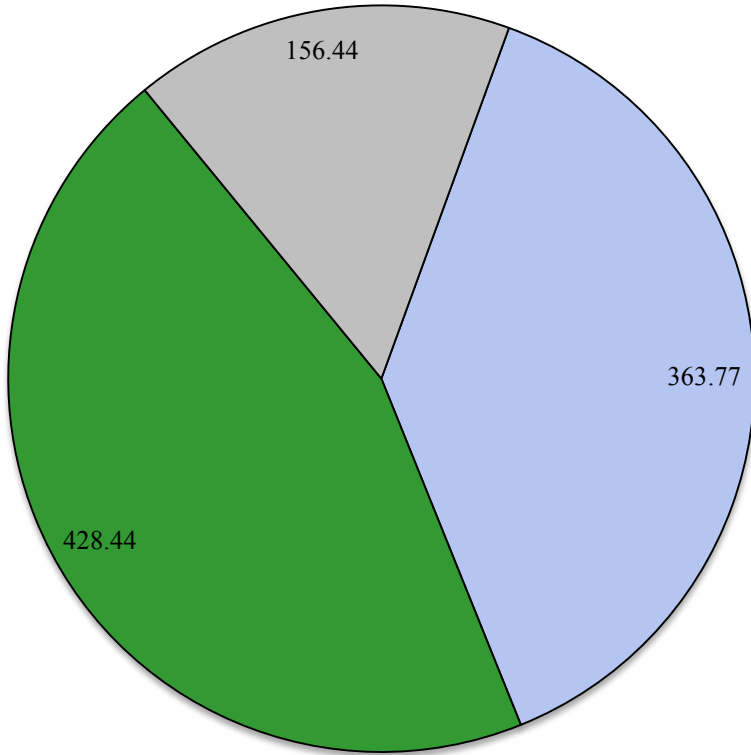
# DWSD Optimization Program and Cost Controls

- Less than 40% of the overall DWSD revenue requirement structure is related to the Operating Budget
  - *Balance is dedicated to debt service on revenue bonds, POC payments, and revenue funding capital improvements*
- Vast majority of Operating Expenses are fixed (utilities, chemicals, etc.)
  - *Very little “discretionary” budget items*



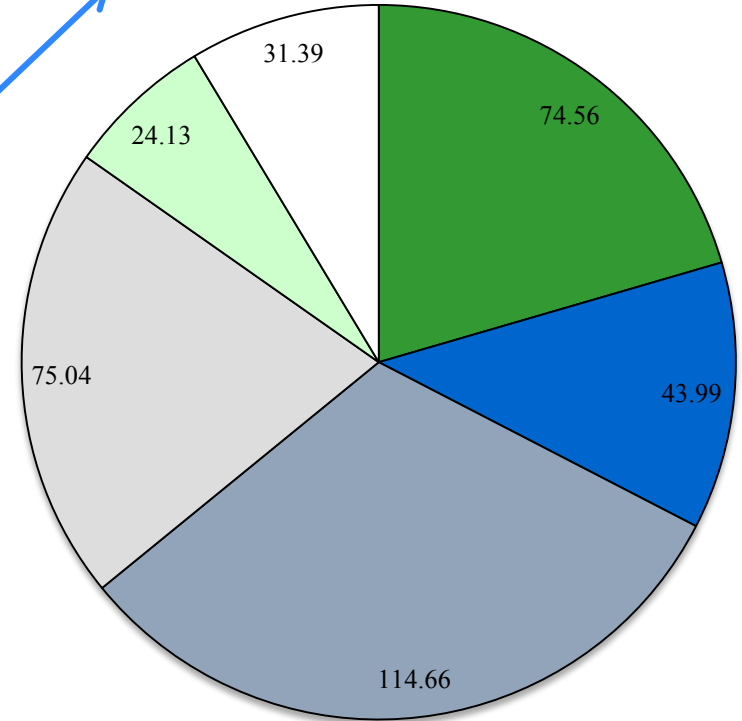
# Total Annual DWSD FY 2014-15 Revenue Requirement (\$ millions)

Total Revenue Requirement



■ O&M ■ Debt Service ■ Other \*

Operation and Maintenance (O&M) Expense Detail

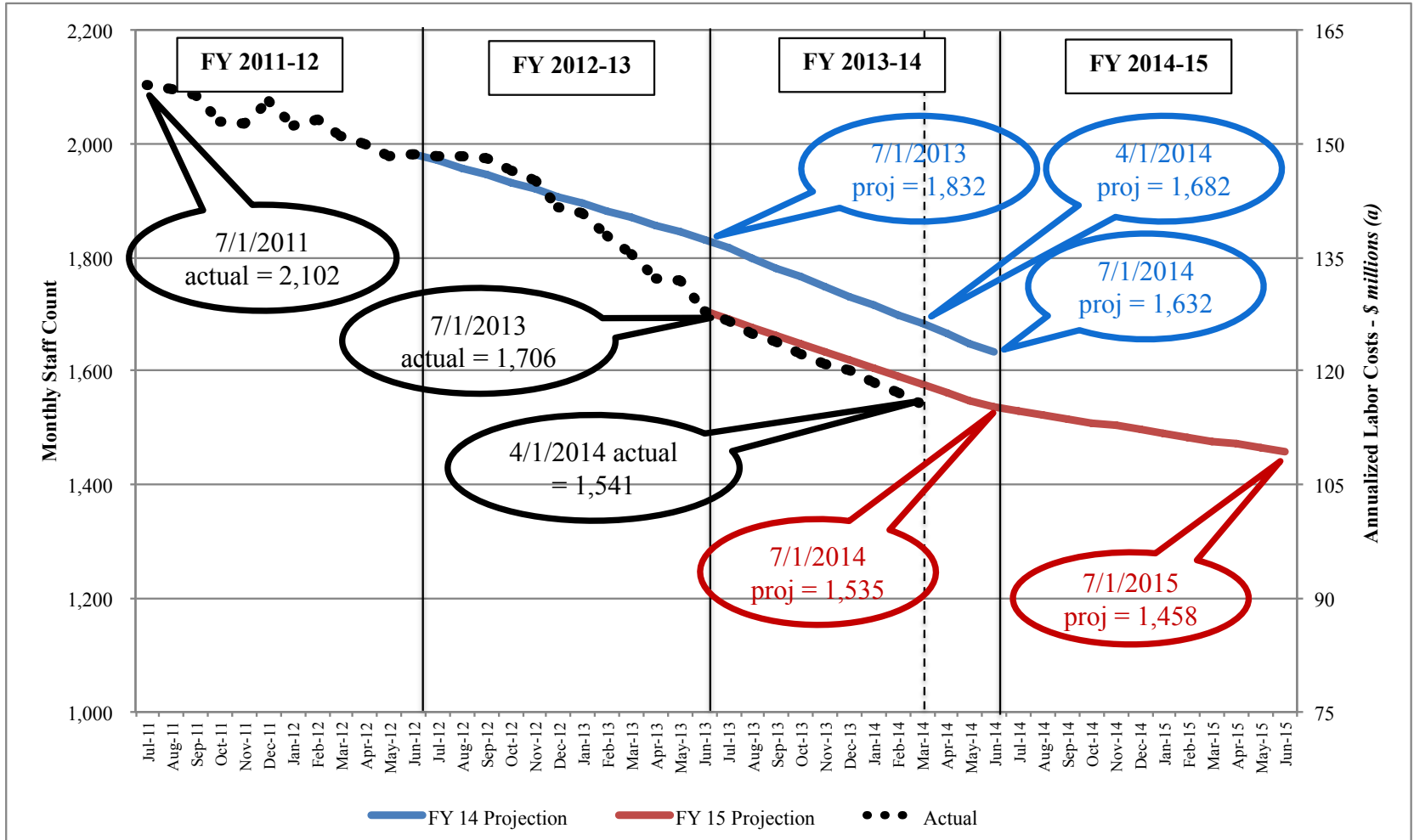


■ Salaries & Wages ■ Contractual / Purchased Services ■ Pensions & Fringes  
 ■ Utilities ■ Chemicals ■ Supplies & Other

\* Other represents amounts available to fund payments for pension obligation certificates, reserves, and revenue finance capital.



# Filled Position Statistics / Projections



(a) Assumes average annual personnel costs of \$75,000 per position





# FY 2014-15 Water and Sewer RETAIL Rate Proposals

- Increase for Detroit Retail Class is larger than System average of 4%, reflective of:
  - *Greater Decline retail water sales levels; and*
  - *Increasing levels of uncollected bills*
- DWSD continues to explore enhanced Assistance Programs and rate protocol to alleviate financial pressure on Detroit rate payers
  - *Proposed uniform commodity water rate*
  - *Future affordability evaluations and considerations*



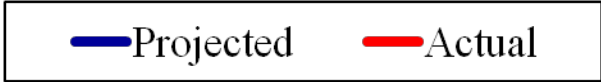
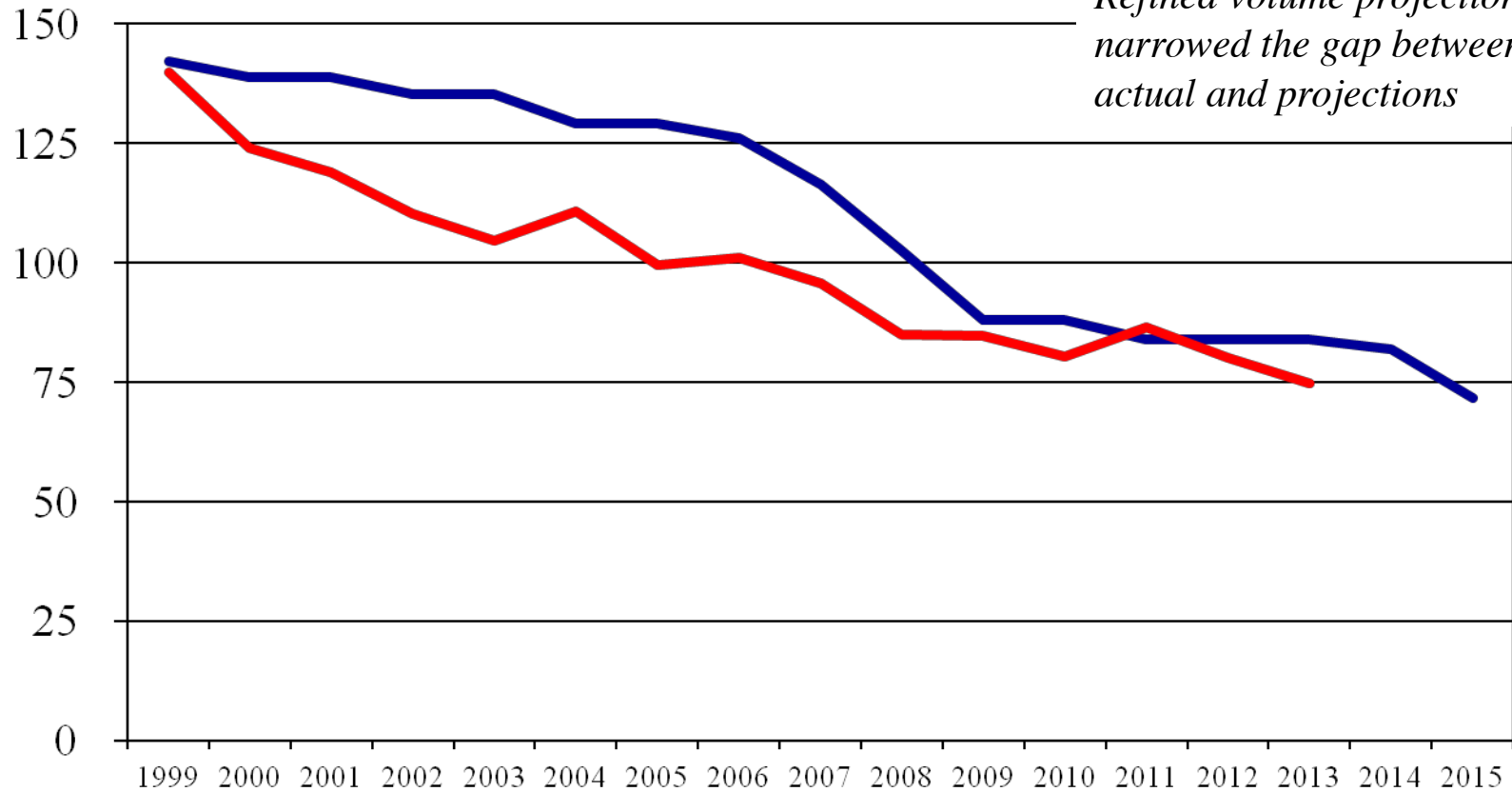
# Key Elements Impacting Retail Rate Proposals

- Level of retail water sales (and billable wastewater volumes)
  - *46% decline in last 10 years*
  - *Billable volume projection for 2014 is slightly above 50% of 2004 volumes*
- Collection rate
  - *Bad Debt Expense more than doubled since 2010*
  - *Collection rate currently at less than 80%*

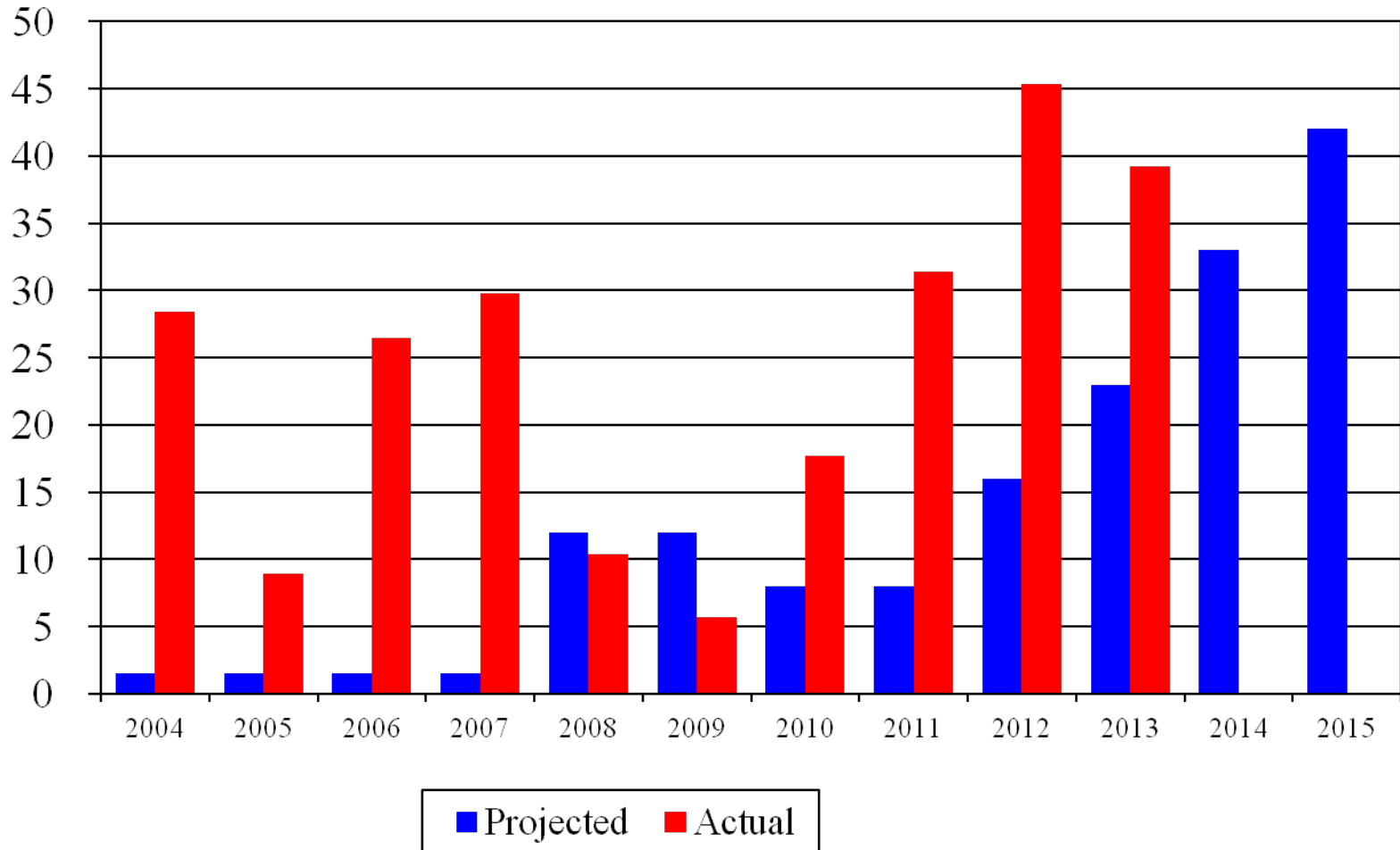


# Annual Detroit Retail Water Sales (mgd)

*Refined volume projections have narrowed the gap between actual and projections*

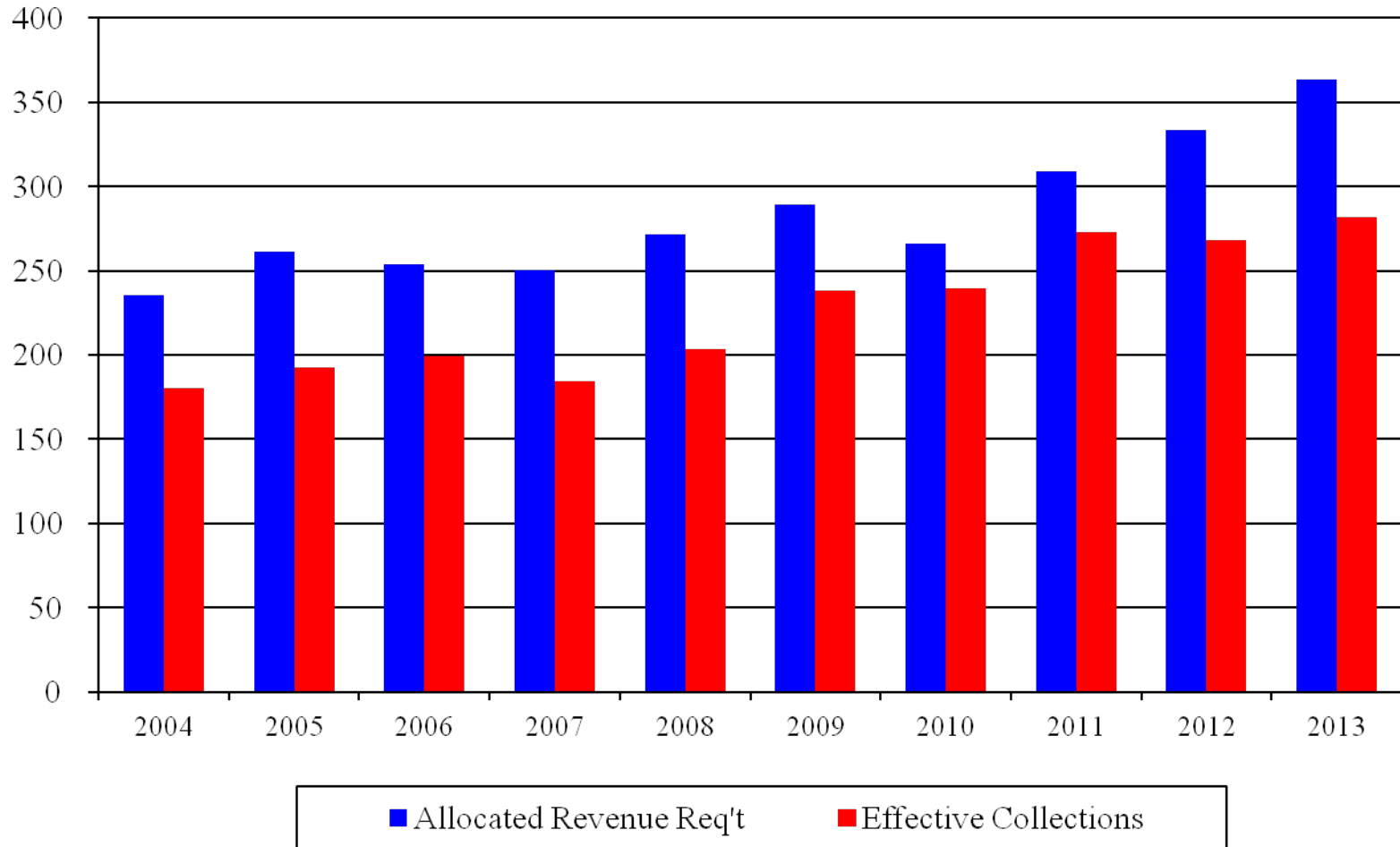


# Annual Detroit Retail Bad Debt Expense (\$ millions)

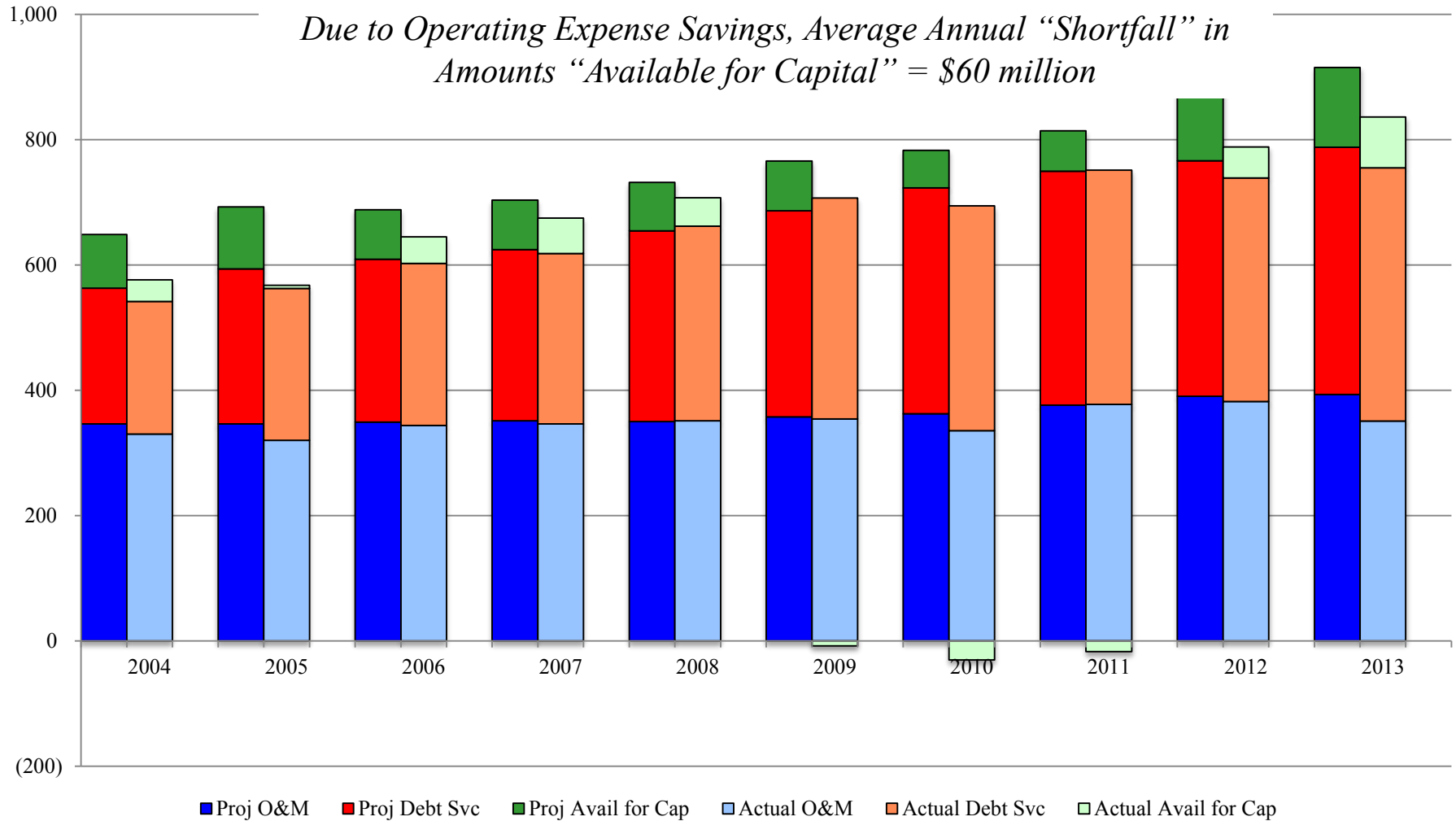


# Annual Detroit Retail Revenue Collected vs. Allocated Revenue Requirement - (\$ millions)

*Average Annual Revenue "Shortfall" = \$57 million (~20%)*



# Projected vs. Actual Revenue Requirements & Amounts Available for Capital - (\$ millions)



# DWSD Long Term Financial Planning

- Go forward capital financial planning strategies continue to focus on less reliance on debt
  - *Leveraging operating cost savings from Organizational Optimization Program*
- Designed to strengthen balance sheet and improve credit ratings
  - *Lower future borrowing costs*
- Managing minimal increases in System rate revenue
  - *Current 5-year projection is 4% annually*



# **FY 2014-15 DWSD Rate Proposals for City of Detroit Retail Customers**





# Summary of Retail Rate Alternatives

	FY 2013-14 Rate Basis & <u>Assumptions</u>	FY 2014-15 Possibilities		
		<u>Prelim Projs</u> <u>Feb. 2014</u>	<u>Preliminary Recommendation</u> <u>Scenario 1</u>	<u>Scenario 2</u>
<b><u>Billable Water Sales - Mcf</u></b>				
Water	4,000,000	3,775,000	<b>3,500,000</b>	<b>3,500,000</b>
Sewer	3,600,000	3,275,000	<b>3,100,000</b>	<b>3,100,000</b>
<b><u>Bad Debt Expense - \$</u></b>				
Water	10,000,000	10,000,000	<b>12,000,000</b>	<b>12,000,000</b>
Sewer	<u>23,000,000</u>	<u>23,000,000</u>	<b><u>30,000,000</u></b>	<b><u>30,000,000</u></b>
Total	33,000,000	33,000,000	<b>42,000,000</b>	<b>42,000,000</b>
<b>Water Rate Structure</b>	Decline Block	Decline Block	<i>Uniform</i>	<b>Decline Block</b>
<b>Stormwater Rate Structure</b>	Status Quo	Status Quo		<b>Status Quo</b>
<b><u>Total Rev Req't from Rates Variance</u></b>				
Water		5.8%	<b>13.7%</b>	<b>13.7%</b>
Sewer		3.1%	<b>9.1%</b>	<b>9.1%</b>
Total		3.9%	<b>10.4%</b>	<b>10.4%</b>
<b><u>Typical Residential Bill Impact - %</u></b>				
Water		5.9%	<b>7.8%</b>	<b>13.7%</b>
Sewer		3.1%	<b>9.1%</b>	<b>9.1%</b>
Total		3.9%	<b>8.7%</b>	<b>10.4%</b>
<b><u>Sample Large Industrial Bill Impact - %</u></b>				
Water		5.9%	<b>17.7%</b>	<b>13.7%</b>
Sewer		3.1%	<b>9.1%</b>	<b>9.1%</b>
Total		3.8%	<b>11.2%</b>	<b>10.2%</b>



# Rate Change Summary

- Proposed elimination of declining block commodity water rates
  - *No longer supported by review of peak demand data*
  - *Replaced with uniform commodity rate applicable to all use*
- All other retail rates have been increased uniformly by a % necessary to recover allocated revenue requirement
- Rates reflect most responsible approach to assure revenue recovery given two key elements:
  - *Declining Water Sales*
  - *Increasing levels of bad debt expense*



# Detroit Retail Proposed Rates

## Typical Bill Comparison

	Existing Rates \$/mo	Proposed Rates \$/mo	Difference \$/mo	% Change
<u>"Typical" Residential @ 6 Ccf per month</u>				
Water	17.93	19.33	1.40	7.8%
Sewer	<u>47.06</u>	<u>51.34</u>	<u>4.28</u>	9.1%
Total	64.99	70.67	5.68	8.7%
<u>"Large" Residential @ 10 Ccf per month</u>				
Water	26.22	28.01	1.79	6.8%
Sewer	<u>64.02</u>	<u>69.84</u>	<u>5.82</u>	9.1%
Total	90.24	97.85	7.61	8.4%
<u>"Sample" Large Industrial @ 500 Ccf per month</u>				
Water	1,056.00	1,243.10	187.10	17.7%
Sewer	<u>3,161.73</u>	<u>3,448.81</u>	<u>287.08</u>	9.1%
Total	4,217.73	4,691.91	474.18	11.2%

*The proposed rates will result in an increase of approximately \$5.68 per month for a Detroit resident that buys 600 cubic feet of water, which is the average Detroit residential use. A slightly larger water user will see an increase of approximately \$7.61 per month.*



# FY 2014-15 DWSD Rate Proposals

- Suburban Wholesale Water and Sewer Rates have been approved by the Board of Water Commissioners
- The Board of Water Commissioners has also approved the FY 2014-15 revenue requirement allocable to the City of Detroit retail class
- Today we are presenting retail rates for City of Detroit customers designed to recover the approved revenue requirement

