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TO: COUNCIL MEMBERS

FROM: David Whitaker, Director   
Legislative Policy Division

DATE: July 8, 2020

RE: Detroit Water and Sewerage Department FY 2021 Revised Budget Analysis

City Council will recall that during the FY 2021 budget process there was no budget hearing for the Detroit Water and Sewerage Department (DWSD), as well as for several other City departments, due to a shorter budget hearing schedule due to the COVID-19 pandemic and Governor Gretchen Whitmer's Emergency Orders. However, given the import of the DWSD operations to the City of Detroit, the Legislative Policy Division (LPD) feels it is important for DWSD representatives to still address FY 2021 budget questions for Council's information and necessary follow up.

On March 13, 2020, LPD provided your Honorable Body a budget analysis based on a preliminary FY 2021 DWSD budget that DWSD representatives presented to the Board of Water Commissioners on January 15, 2020. Attached is our updated analysis regarding the DWSD Budget for FY 2021. The DWSD presented (Attachment III) a revised FY 2021 and 2022 budget to the Board of Water Commissioners (BOWC) on April 15, 2020. The BOWC approved the DWSD FY 2021 budget on April 15, 2020. This updated analysis includes the review of that budget.

We would appreciate Gary Brown, DWSD director, to provide a written response to the questions included in this analysis and the questions from our previous analysis at your earliest convenience. Please forward a copy of your responses to the Council members and the City Clerk's Office.

Please contact us if you have any questions regarding our analysis.

Thank you for your cooperation in this matter.

**Attachments:**

- Attachment I Water Fund FY 2020, FY 2021 and FY 2022 Budgets
- Attachment II Sewer Fund FY 2020, FY 2021 and FY 2022 Budgets
- Attachment III BOWC Presentation April 15, 2020

**cc:** Gary A. Brown, Director, DWSD  
Thomas Naughton, DWSD Chief Financial Officer  
Dave Massaron, Chief Financial Officer  
Auditor General's Office  
Tanya Stoudemire, Budget Director  
Avery Peoples, Mayor's Office

## Detroit Water and Sewerage Department

### **Updated Analysis by the Legislative Policy Division for the City's FY 2020-2021 Budget**

For Council's information, this report represents the Legislative Policy Division's (LPD) updated analysis regarding the Detroit Water and Sewerage Department's (DWSD) budget for Fiscal Year (FY) 2021. The DWSD presented a revised FY 2021 and 2022 budget to the Board of Water Commissioners (BOWC) on April 15, 2020. The BOWC approved the DWSD FY 2021 budget on April 15, 2020. This updated analysis includes the review of that budget. Most questions from LPD's original analysis of the DWSD FY 2020 budget on March 13, 2020 are also included below to be answered.

Attachment I details the comparison of the Water Fund Budgets for Fiscal Years 2020, 2021 and 2022.

Attachment II details the comparison of the Sewer Fund Budgets for Fiscal Years 2020, 2021, and 2022.

Attachment III Is the DWSD FY 2021 budget presentation to the BOWC on April 15, 2020.

The highlights of the DWSD Budget Presentation to the BOWC on April 15, 2020 are detailed below.

- Final GLWA wholesale charges increasing by 2.95% for Water and 2.25% for Sewer.
- Retail component of WRAP contribution increased to 1.0% from .5%. Additional \$1.2 million committed to affordability and conservation programs.
- Decreased personnel costs by \$1 million based on reduction of 10 FTEs.
- Decreased professional and contractual services by \$6 million to adjust the budget for certain services based on historical usage and current information.
- Increased supplies and other by \$1.6 million to adjust the budget based on historical usage and current usage.
- Decreased water utility budget by \$800K based on actual consumption history.
- Increased revenue financed capital based on revised revenue forecast.

Please note that as of this report date, the City of Detroit's adopted FY 2021-2024 Four-Year Financial Plan reflects the final Water and Sewer budgets, including budget detail by appropriation, object code and budgeted position detail for both the Water and Sewer Funds for FY 2021-2024.

**LPD respectfully requests that DWSD representatives provide responses to the following questions that primarily relate to the updated DWSD's FY 2021 proposed budget presented to the BOWC on April 15, 2020:**

#### Issues and Questions

1. Please detail the additional reduction of 10 FTEs. What are these positions?



2. Why are the Water Fund penalties and fees increasing \$2.1 million or 77.6% from the FY 2020 Budget?
3. Why are Drainage Fees increasing by \$5.7 million for FY 2021?
4. What is the Sewerage Fund \$2.6 million Highway Drainage revenue for FY 2021? Why wasn't there a Highway Drainage revenue for FY 2020?
5. What are the plans to amend the FY 2020 and FY 2021 budgets for the fiscal impact of the COVID-19 pandemic once they become known? Please share revised FY 2021 budgets based on the anticipated fiscal impact of the COVID-19 pandemic, if available. (Please note that LPD is submitting a report on the impact of the COVID-19 pandemic on the FY 2020 Water and Sewer Fund financial operations and measures DWSD is undertaking to mitigate the fiscal impact of the pandemic under separate cover.)

**LPD respectfully requests that DWSD representatives provide responses to the following questions that primarily relate to DWSD's FY 2021 proposed budget that were raised in LPD's March 13, 2020 budget analysis (note: some questions have been updated to reflect June 30, 2020 as the target date for responses or to reflect more recent data):**

#### **Issues and Questions**

1. In LPD's FY 2020 DWSD budget analysis report, we asked "Does the DWSD plan on coming to City Council for approval of the FY 2020 rates and FY 2020 budget?" DWSD provided the following response:

DWSD Response: DWSD will not seek City Council approval of FY 2020 rates or the FY 2020 and FY 2021 budgets as it is not required to do so. Pursuant to Sec. 7-1202 of the 2012 Detroit City Charter, the Board of Water Commissioners directs the DWSD in the supply of water drainage and sewerage services within the City and establishes the rates to be paid by the owner or occupant of each house or building using water, drainage or sewerage services.<sup>1</sup> Judge Sean Cox's December 15, 2015 Order<sup>2</sup> (entered in anticipation of the bifurcation of DWSD into a separate regional wholesale system and a Detroit retail operation) reiterated the powers granted to the BOWC under Article 7, Chapter 12. The Court also stated the BOWC rates shall be developed to satisfy the revenue requirements established by the GLWA for water and sewer service as well as the expenses of operating the local water and sewer infrastructure, consistent with the Water and Sewer Services Agreement approved and executed by the City and the Authority.<sup>3</sup> Lastly, the Order states in the event the BOWC fails to comply with the requirements of the Water and Sewer

<sup>1</sup> This charter-mandated power to direct DWSD and establish the retail rates for Detroit customers is separate from its (former) charter-mandated power to set wholesale rates for customers outside the city limits. As a result of the bifurcation of DWSD into a Detroit retail operation governed by the BOWC and a regional wholesale system with a separate governing body (Great Lakes Water Authority), the BOWC no longer sets wholesale rates for customers.

<sup>2</sup> *United States v City of Detroit, et al*, United States District Court case No. 77-cv-71100-SFC

<sup>3</sup> As this Honorable Body is aware, since Detroit is no longer a municipal water and sewerage system that serves more than 40% of the population of the state, Sec. 5e of the Home Rule City Act, requiring the governing body to vote on rates, is inapplicable. (MCL 117.5e)

Services Agreement with respect to rate-setting, billing, collection and enforcement for the local water and sewer systems, the GLWA may assume that responsibility. DWSD's budget and obligations under the Water and Sewer Services Agreement are based on rates and these matters fall within the purview of the BOWC, only.

Furthermore, the City's Comprehensive Annual Financial Report clearly designates DWSD as an enterprise agency. As such, the Uniform Budgeting and Accounting Act, MCL 141.421 et. seq. does not require DWSD to have its budget approved by City Council.<sup>4</sup> Lastly, DWSD's revenues are not considered during the City's Revenue Estimating Conference (Sec. 8-213, Detroit City Charter) because DWSD is an enterprise agency that does not require a general fund subsidy.

While this response is not intended to be a formal statement of DWSD's legal position, absent a federal court order or a super-majority vote of an Ad Hoc Root Cause Committee to do so, DWSD will not seek City Council approval for rates or budgets. Rather, DWSD will continue to make informational presentations and comply with the Memorandum of Understanding between DWSD and City Council that requires the Board of Water Commissioners to hold its regular meetings to present/approve the budget and rates during the evening in the community.

If we ask a similar question, "Does the DWSD plan on coming to City Council for approval of the FY 2021 rates and FY 2021 budget?", would the response given last year still apply?

2. Please explain the major proposed capital projects for FY 2021?
3. What are the major initiatives and focus for the DWSD FY 2021 Budget?
4. How much of the annual \$50 million Lease revenue due to DWSD is being applied to pay debt service in the FY 2021 budget?
5. What was the total WRAP/assistance to Detroit customers for FY 2019 and FY 2020 (to date) for the Water and Sewer Funds? How much WRAP assistance is included in DWSD's FY 2021 budget?
6. How many new residential accounts were added in calendar year 2019? How many residential accounts were deleted in calendar year 2019?
7. How many water shut-offs were there in calendar year 2019?

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<sup>4</sup>"Budget" means a plan of financial operation for a given period of time, including an estimate of all proposed expenditures from the funds of a local unit and the proposed means of financing the expenditures. *Budget does not include . . . (c) An enterprise fund.* (MCL141.422a)



8. How many homeowner water service line replacements were made in calendar year 2019 under the State mandated "Lead & Copper Rule"? How were the costs of the replacements funded? What was the total cost? What is the number of service line replacements and cost projected for the FY 2021 Budget?
9. What is the FY 2021 revenue budget for fire hydrant maintenance that will be billed to the Detroit Fire Department?
10. How does DWSD's liquidity look for the Sewer Fund at June 30, 2020? What is the amount owed to GLWA as of June 30, 2020 for loans to DWSD?
11. Why is the DWSD transitioning the CIPMO contract from the consultant AECOM to in-house staff in Field Engineering? Was AECOM performing satisfactory on the contract? What are the expected savings from this transition?
12. What is DWSD's level of vacancies as of June 30, 2020, pre-COVID and post-COVID? Is this due to cost and revenue constraints? What is the impact of the vacancies on maintenance and other DWSD services?
13. DWSD's April 2020 Review report for the BOWC's Finance Committee reported \$54.2 million in past due accounts receivable over 180 days in April 2020 for residential customers. In the same report the 3 month rolling average collection rate for residential customers was 85%. With such a large amount of old delinquent receivables how is it that DWSD's collection rate is so high? Are the old receivables included in the calculation of the collection rate? If they are not why aren't they written off?

**ATTACHMENT I**  
**DWSD Water Fund**

	Adopted Budget		Proposed Budget	
	FY 2020	FY 2021	Difference	Proposed Budget FY 2022
Commodity Sales	\$ 72,133,400	71,949,500	(183,900)	74,286,600
Service Charges	25,534,700	26,884,600	1,349,900	27,894,200
Firelines	3,124,200	3,754,600	630,400	3,871,900
Penalties and Fees	2,758,800	4,899,100	2,140,300	4,899,100
Permits and Other Revenue	2,200,000	1,250,000	(950,000)	1,262,500
<b>Total Retail Revenue</b>	<b>105,751,100</b>	<b>108,737,800</b>	<b>2,986,700</b>	<b>112,214,300</b>
GLWA Share of Pension and Notes	12,327,600	12,316,300	(11,300)	12,316,300
Revenue Financed Capital	(123,900)	-	123,900	-
Shared Service Revenue	2,020,000	1,260,000	(760,000)	1,020,000
<b>Total Non-Retail Revenue</b>	<b>14,223,700</b>	<b>13,576,300</b>	<b>(647,400)</b>	<b>13,336,300</b>
<b>Total Revenue</b>	<b>\$ 119,974,800</b>	<b>122,314,100</b>	<b>2,339,300</b>	<b>125,550,600</b>
Administration	\$ 2,949,800	1,285,400	(1,664,400)	1,324,000
Operations	21,086,700	21,391,500	304,800	22,033,200
Compliance	5,514,000	7,277,000	1,763,000	7,495,300
Finance	5,189,400	5,154,100	(35,300)	5,308,700
Customer Service	1,942,500	1,985,600	43,100	2,045,200
<b>Net Direct Expenses</b>	<b>36,682,400</b>	<b>37,093,600</b>	<b>411,200</b>	<b>38,206,400</b>
Wholesale Charges & WRAP	21,578,000	23,189,300	1,611,300	24,508,100
Obligation to GLWA	33,438,800	33,438,800	-	33,438,800
Series B and C Notes	1,505,000	1,493,700	(11,300)	1,493,700
Legacy Pension	19,522,000	19,522,000	-	19,522,000
Bad Debt Expense	7,248,600	7,524,400	275,800	7,773,200
Use of Fund Balance	-	52,300	52,300	608,400
<b>Total Indirect Expenses</b>	<b>83,292,400</b>	<b>85,220,500</b>	<b>1,928,100</b>	<b>87,344,200</b>
<b>Total Expenses Water Fund</b>	<b>\$ 119,974,800</b>	<b>122,314,100</b>	<b>2,339,300</b>	<b>125,550,600</b>

**ATTACHMENT II**  
**DWSD Sewer Fund**

	Adopted Budget	Proposed Budget	Difference	Proposed Budget
	FY 2020	FY 2021		FY 2022
Commodity Sales	\$ 147,153,500	146,584,900	(568,600)	151,355,200
Service Charges	13,601,000	14,063,600	462,600	14,602,400
Drainage Fees	154,464,700	160,160,400	5,695,700	173,911,000
Penalties and Fees	4,419,700	5,484,700	1,065,000	5,484,700
Highway Drainage	-	2,628,200	2,628,200	2,628,200
IWC Charges	1,700,000	1,481,100	(218,900)	1,481,100
Permits and Other Revenue	500,000	150,000	(350,000)	151,500
<b>Total Retail Revenue</b>	<b>321,838,900</b>	<b>330,552,900</b>	<b>8,714,000</b>	<b>349,614,100</b>
GLWA Share of Pension and Notes	22,460,100	22,444,700	(15,400)	22,444,700
Shared Service Revenue	3,030,000	1,890,000	(1,140,000)	1,530,000
<b>Total Non-Retail Revenue</b>	<b>25,490,100</b>	<b>24,334,700</b>	<b>(1,155,400)</b>	<b>23,974,700</b>
<b>Total Revenue</b>	<b>\$ 347,329,000</b>	<b>354,887,600</b>	<b>7,558,600</b>	<b>373,588,800</b>
Administration	\$ 6,882,200	2,999,400	(3,882,800)	3,089,400
Operations	35,983,400	35,167,200	(816,200)	36,222,200
Compliance	12,866,500	16,979,600	4,113,100	17,489,000
Finance	12,108,900	12,026,200	(82,700)	12,387,000
Customer Service	4,532,500	4,633,200	100,700	4,772,200
<b>Net Direct Expenses</b>	<b>72,373,500</b>	<b>71,805,600</b>	<b>(567,900)</b>	<b>73,959,800</b>
Wholesale Charges and Wrap	186,301,300	191,471,100	5,169,800	197,472,200
Industrial Waste Charges	1,700,000	1,481,100	(218,900)	1,481,100
Obligation to GLWA	26,271,500	26,271,500	-	26,271,500
Series B&C Notes	2,505,000	2,489,400	(15,600)	2,489,500
Legacy Pension	25,877,600	25,878,000	400	25,878,000
Bad Debt Expense	31,963,900	33,199,900	1,236,000	35,102,500
Use of Fund Balance	336,200	2,291,000	1,954,800	10,934,200
<b>Total Indirect Expenses</b>	<b>274,955,500</b>	<b>283,082,000</b>	<b>8,126,500</b>	<b>299,629,000</b>
<b>Total Expenses Sewer Fund</b>	<b>\$ 347,329,000</b>	<b>354,887,600</b>	<b>7,558,600</b>	<b>373,588,800</b>



**ATTACHMENT III**



**PRESENTATION TO THE BOARD OF WATER COMMISSIONERS**  
**PROPOSED OPERATING BUDGET**

**FISCAL YEAR 2021**

April 15, 2020

## Updates to the Preliminary Budget

(Since the December 4, 2019 Finance Committee Presentation)



- Final GLWA Wholesale Charges increasing by 2.95% for Water and 2.25% for Sewer
- Retail component of WRAP contribution increased to 1.0% from 0.5%. Additional \$1.2 million committed to affordability and conservation programs
- Decreased personnel costs by \$1 million based on reduction of 10 FTEs
- Decreased Professional and Contractual services by \$6 million to adjust the budget for certain services based on historical usage and current information
- Increased Supplies and Other by \$1.6 million to adjust the budget based on historical and current usage
- Decreased water utility budget by \$800K based on actual consumption history
- Increased Revenue Financed Capital based on revised revenue forecast

# Changes in Net Revenue Requirement Since December 4, 2019



	Water Fund	Sewer Fund
<b>Estimated Net Revenue Requirement per December 4, 2019</b>	\$ 121,380,100	\$ 356,548,300
Increase in Wholesale Charges and WRAP adjustment	570,000	221,700
Decrease in Personnel Cost	(398,200)	(611,300)
Decrease in Professional & Contractual Services	(1,855,000)	(3,972,400)
Increase in Shared Services Expense	109,000	121,000
Increase in Supplies & Other	185,700	1,438,700
Decrease in Utilities	(246,700)	(575,600)
Decrease in Legacy Cost	(11,300)	(15,200)
Increase in Bad Debt Expense	21,000	3,600
Increase in Revenue Financed Capital	2,559,500	1,728,800
<b>New Estimated Net Revenue Requirement</b>	<u>\$ 122,314,100</u>	<u>\$ 354,887,600</u>



# Water Revenues and Expenses



	Budget FY 2020	Budget FY 2021	Increase (Decrease)	% Change
<b>Estimated Revenue</b>				
<b>Retail Revenue</b>				
Commodity Sales	\$ 72,133,400	\$ 71,949,500	\$ (183,900)	-0.3%
Service Charges	25,534,700	26,884,600	1,349,900	5.3%
Fireline Charges	3,124,200	3,754,600	630,400	20.2%
Penalties and Fees	2,758,800	4,899,100	2,140,300	77.6%
Permits and Other Revenue	<u>2,200,000</u>	<u>1,250,000</u>	<u>(950,000)</u>	<u>-43.2%</u>
<b>Total Retail Revenue</b>	<u>105,751,100</u>	<u>108,737,800</u>	<u>2,986,700</u>	<u>2.8%</u>
<b>Non-Retail Revenue</b>				
GLWA Share of Pension and Notes	12,327,600	12,316,300	(11,300)	-0.1%
Shared Services	<u>2,020,000</u>	<u>1,260,000</u>	<u>(760,000)</u>	<u>-37.6%</u>
<b>Total Non-Retail Revenue</b>	<u>14,347,600</u>	<u>13,576,300</u>	<u>(771,300)</u>	<u>-5.4%</u>
<b>Total Estimated Revenue</b>	<u>\$ 120,098,700</u>	<u>\$ 122,314,100</u>	<u>\$ 2,215,400</u>	<u>1.8%</u>
<b>Net Revenue Requirement</b>				
<b>Departmental (Direct) Expense</b>				
Administration	\$ 1,334,100	\$ 1,285,400	\$ (48,700)	-3.7%
Operations	21,086,700	21,391,500	304,800	1.4%
Compliance	9,072,200	9,262,600	190,400	2.1%
Finance	<u>5,189,400</u>	<u>5,154,100</u>	<u>(35,300)</u>	<u>-0.7%</u>
<b>Total Departmental (Direct) Expense</b>	<u>36,682,400</u>	<u>37,093,600</u>	<u>411,200</u>	<u>1.1%</u>
Non-Departmental (Indirect) Expense	83,292,400	85,168,200	1,875,800	2.3%
Revenue Financed Capital	<u>123,900</u>	<u>52,300</u>	<u>(71,600)</u>	<u>-57.8%</u>
<b>Estimated Net Revenue Requirement</b>	<u>\$ 120,098,700</u>	<u>\$ 122,314,100</u>	<u>\$ 2,215,400</u>	<u>1.8%</u>

# Sewer Revenues and Expenses



	Budget FY 2020	Budget FY 2021	Increase (Decrease)	% Change
<b>Estimated Revenue</b>				
<b>Retail Revenue</b>				
Commodity Sales	\$ 147,153,500	\$ 146,584,900	\$ (568,600)	-0.4%
Service Charges	13,601,000	14,063,600	462,600	3.4%
Drainage Fees	154,464,700	160,160,400	5,695,700	3.7%
Highway Drainage	-	2,628,200	2,628,200	
IWC Charges	1,700,000	1,481,100	(218,900)	-12.9%
Permits and Fees	500,000	150,000	(350,000)	-70.0%
Penalties and Other Revenue	4,419,700	5,484,700	1,065,000	24.1%
<b>Total Retail Revenue</b>	<u>321,838,900</u>	<u>330,552,900</u>	<u>8,714,000</u>	<u>2.7%</u>
<b>Non-Retail Revenue</b>				
GLWA Share of Pension and Notes	22,460,100	22,444,700	(15,400)	-0.1%
Shared Services	3,030,000	1,890,000	(1,140,000)	-37.6%
<b>Total Non-Retail Revenue</b>	<u>25,490,100</u>	<u>24,334,700</u>	<u>(1,155,400)</u>	<u>-4.5%</u>
<b>Total Estimated Revenue</b>	<u>\$ 347,329,000</u>	<u>\$ 354,887,600</u>	<u>\$ 7,558,600</u>	<u>2.2%</u>
<b>Estimated Net Revenue Requirement</b>				
<b>Departmental (Direct) Expense</b>				
Administration	\$ 3,112,600	\$ 2,999,400	\$ (113,200)	-3.6%
Operations	35,983,400	35,167,200	(816,200)	-2.3%
Compliance	21,168,600	21,612,800	444,200	2.1%
Finance	12,108,900	12,026,200	(82,700)	-0.7%
<b>Total Departmental (Direct) Expense</b>	<u>72,373,500</u>	<u>71,805,600</u>	<u>(567,900)</u>	<u>-0.8%</u>
Non-Departmental (Indirect) Expense	274,619,300	280,791,000	6,171,700	2.2%
Revenue Financed Capital	336,200	2,291,000	1,954,800	581.4%
<b>Estimated Net Revenue Requirement</b>	<u>\$ 347,329,000</u>	<u>\$ 354,887,600</u>	<u>\$ 7,558,600</u>	<u>2.2%</u>

## Thank You



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