



# **CITY OF DETROIT COUNCIL BUDGET HEARING DWSD PROPOSED FY 2024 OPERATING BUDGET**

**March 23, 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 primarily due to increase in personnel costs for adding 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.

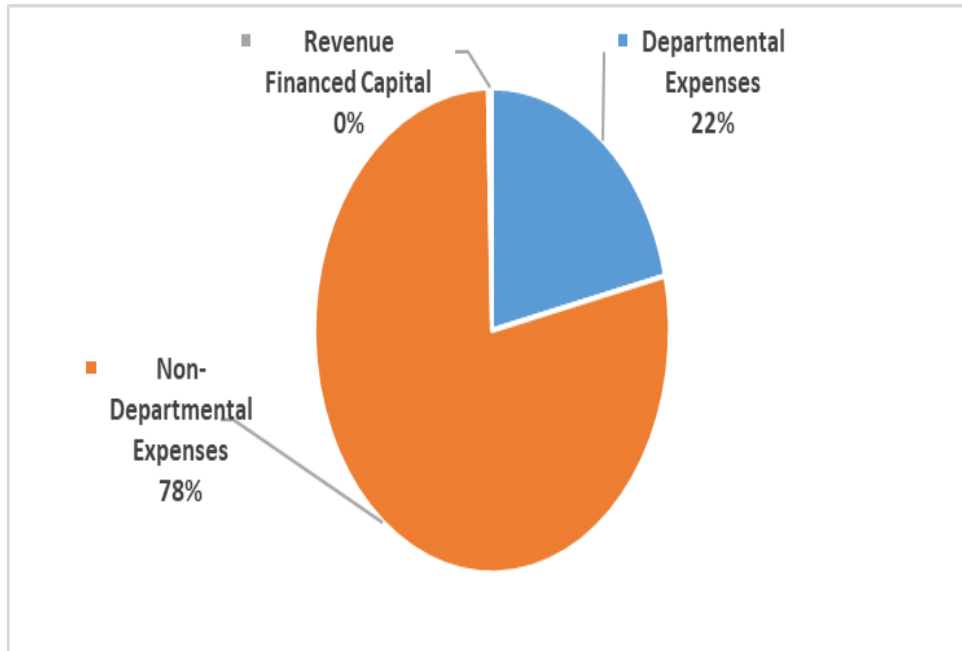


## Revenue Requirement (RR) - Systemwide

Water & Sewer Funds Combined	Approved Budget FY 2023	Proposed Budget FY 2024	Change	% Change
<b>Revenue Requirement</b>	(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>
<b>Revenue Requirement by Fund</b>				
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.
- Departmental or Direct Expenses** increased by 6.7%, **Non-Departmental or Indirect Expenses** decreased by 2.6% and **Revenue Financed Capital** decreased by 76.5%.
- Water Fund Revenue Requirement decreased by 2.9% and Sewer Fund Revenue Requirement decreased by 1.6 % with an overall Systemwide decrease of 2% over FY 2023.

## 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 or Direct Expenses - Systemwide

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>

- These are direct costs over which DWSD has some control.
- Personnel costs comprising of Salaries & Wages and Employee Benefits increased \$5.25 million representing approximately 81% of the total increase of \$6.5 million. This cost category make up 55% of total Direct expenses.
- It also represents 16.8% increase over FY 2023. This increase in mainly due to increase in projected FTE count for FY 24.
- Majority of the projected FTEs increase is in Operations Cost Centers to help improve service levels as well as to address back log in service deliverables.

# Non-Departmental or Indirect Expenses - Systemwide

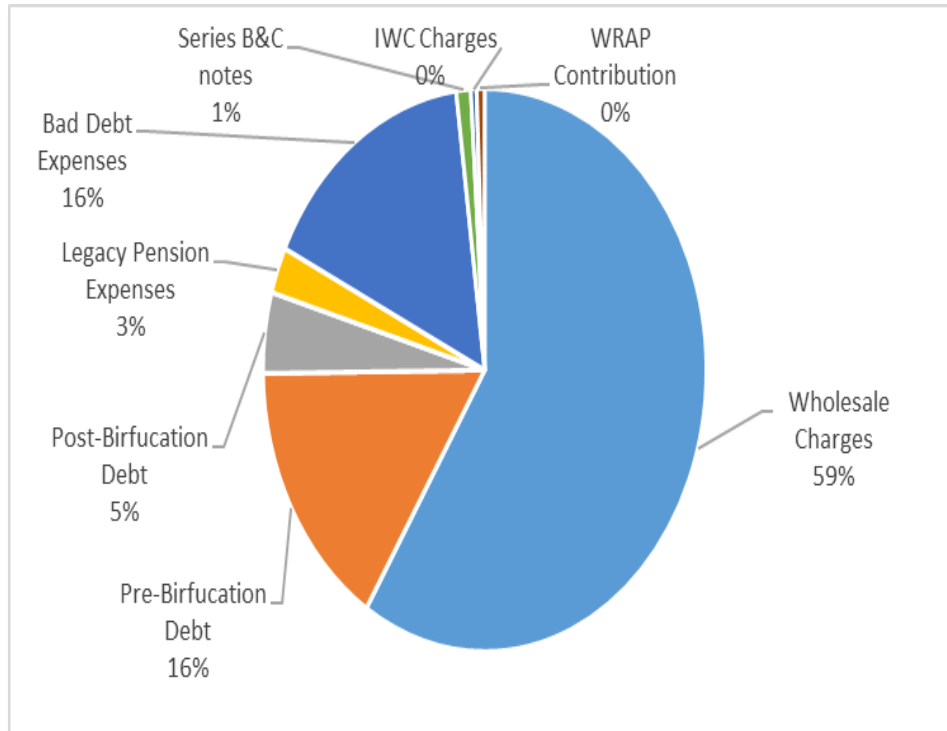


DETROIT  
Water & Sewerage  
Department

Water & Sewer Funds Combined	Approved Budget FY 2023	Proposed Budget FY 2024	Change	% Change
<b>Non-Departmental Expenses</b>	(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>

- These are indirect costs over which DWSD has little or no control.
- Decrease of \$10.2 million is primarily due to decrease in Legacy Pension (\$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 higher 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 or Indirect Expenses - Systemwide



- This slide summarizes the share of each non-departmental expense in the Revenue Requirement structure.
- These expenses represent costs over which DWSD has no or 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>

- This chart breaks down Rate Revenue Requirement by revenue categories and by Fund.
- 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.
- Commodity Charges make up 49% of total Rate Revenue and Drainage Charges make up 42%.



# Proposed 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

	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



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 Development	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.



## **Detroit Water & Sewerage Department**

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