


David Whitaker, Esq.
Director
Irvin Corley, Jr.
Executive Policy Manager
Marcell R. Todd, Jr.
Director, City Planning
Commission
Janese Chapman
Director, Historic Designation
Advisory Board

John Alexander
LaKisha Barclift, Esq.
Paige Blessman
M. Rory Bolger, Ph.D., FAICP
Lisa DiChiera
Eric Fazzini, AICP
Willene Green
Christopher Gulock, AICP
Derrick Headd

City of Detroit
CITY COUNCIL
LEGISLATIVE POLICY DIVISION
208 Coleman A. Young Municipal Center
Detroit, Michigan 48226
Phone: (313) 224-4946 Fax: (313) 224-4336

Marcel Hurt, Esq.
Kimani Jeffrey
Anthony W.L. Johnson
Edward King
Kelsey Maas
Jamie Murphy
Latawn Oden
Analine Powers, Ph.D.
W. Akilah Redmond
Rebecca Savage
Sabrina Shockley
Renee Short
Floyd Stanley
Thomas Stephens, Esq.
Timarie Szwed
Theresa Thomas
Ian Tomashik
Ashley A. Wilson

TO: COUNCIL MEMBERS

FROM: David Whitaker, Director 
Legislative Policy Division

DATE: March 4, 2024

RE: Report on the June 30, 2023 Audited Financials and Other Financial
Issues of DWSD

This report reviews major financial issues of the Detroit Water and Sewerage Department (DWSD), and its financial relationship with Great Lakes Water Authority (GLWA).

We thank the DWSD Director, Gary Brown and his staff, the GLWA CEO, Suzanne Coffey and her staff, for their assistance as we prepared this report. We must especially commend the DWSD Director, Gary Brown and his staff for some of the excellent work that they have accomplished over the past years in several areas. They took a system with billions of dollars in debt, survived through a difficult bankruptcy, a bifurcation with GLWA, and continued providing clean water and safe disposal of sewage. We also commend the DWSD CFO, Istakur Rahman, for his assistance in writing this report.

One of our long-range objectives in providing this report is to make every effort to ensure that our children, grandchildren and future generations have access to safe, clean and affordable water, and safe disposal of wastewater including drainage.

This report will provide information on:

- **Fiscal Year 2023 Year-End Budget Variances**
- **Lead service lines replacement**
- **Affordability rates – DWSD lifeline plan**
- **Federal, State and Local dollars that benefit DWSD**
- **DWSD Capital Improvement Program**
- **Status of DWSD’s 2024-2025 Rate Increase for Detroiters**

Fiscal Year 2023 Year-End Budget Variances

The following comparisons were presented to the Finance committee of the Board of Water Commissioners (BOWC) on December 6, 2023. The table below shows the operating results for both Water and Sewer.

For the Year Ended June 30, 2023				
(Amounts in thousands)				
	Budget	Actual	Variance	%
Water Operating Revenue				
Commodity Sales	\$ 98,116	\$ 109,984	\$ 11,868	12.1%
Service Charges	23,582	25,124	1,541	6.5%
Private Firelines	2,068	2,055	(14)	-0.7%
Shared Services	750	594	(156)	-20.8%
Other GLWA Reimbursement	12,316	672	(11,645)	-94.5%
Penalties and Fees	3,901	4,042	141	3.6%
Total Operating Revenue	\$ 140,734	\$ 142,469	\$ 1,736	1.2%

- **Water Commodity Revenue**¹ was \$11.9 million (12.1%) over budget. Actual volume exceeded budgeted volume by 251,600 Mcf ² or 9.8% resulting in a positive variance of \$9.6 million. In addition, there was a \$2.3 million increase due to average rate variance.
- **Water Service Charge Revenue**³ was \$1.5 million (6.5%) above budget.
- Decrease in **Other GLWA Reimbursement** is because the budgeted amount represents GLWA’s share of pension expense (\$11.4 million) plus debt service (\$0.9 million) on B & C Notes. GLWA’s share of pension expense is included in the budget for budgetary control purposes and not included in the actual expense. The actual expense only includes

¹ Water Commodity Revenue is the actual water usage (volume) based on meter readings. Water usage is the amount charged for freshwater. It is broken down by centum cubit feet (CCF). A CCF equals 100 cubit feet or approximately 748 gallons of water. Current water charges cover the cost of providing freshwater which flows into a customer’s property, be it for drinking, bathing, washing dishes, or watering your garden. Source: “How to Read Your Detroit Water Bill”, Outlier Media.

² Mcf equals 1,000 cubic feet. Water usage represents the cost of service for each Mcf of water used during a billing period. A customer’s usage is based on the monthly meter reading at the customer’s home.

³ Water Service Charge Revenue is a fixed monthly charge based on the size of a customer’s water meter and covers the cost of the meter, billing, and customer service.

the interest portion of GLWA’s share.⁴

For the Year Ended June 30, 2023					
(Amounts in thousands)					
	Budget	Actual	Variance	%	
Sewer Operating Revenue					
Commodity Sales	\$ 119,101	\$ 127,324	\$ 8,223	6.9%	
Service Charges	14,604	15,135	531	3.6%	
Drainage Charges	183,175	178,127	(5,048)	-2.8%	
Industrial Waste Charges	1,616	1,575	(41)	-2.5%	
Shared Services	1,750	1,386	(364)	-20.8%	
Other GLWA Reimbursement	22,521	1,511	(21,010)	-93.3%	
Penalties and Fees	7,539	6,930	(609)	-8.1%	
Total Operating Revenue	\$ 350,405	\$ 331,987	\$ (18,318)	-5.2%	

- **Sewer Commodity Revenue**⁵ exceeded budgeted revenues by \$8.2 million (6.9%). Positive variance is primarily due to actual volume exceeding budgeted volume by 167,000 Mcf resulting in \$9.3 million offset by average rate variance of \$1.1 million.

- **Drainage Charge Revenue**⁶ fell short of budget estimates by \$5.0 million (2.8%). Monthly Highway Drainage credits were \$170,000 more than budget. Also, Wayne County Roads were billed at pre-MDOT Settlement rates for the first 2 months of the fiscal year. Additionally, Green credits exceeded budgets by approximately \$95,000 per month.

- Decrease in **Other GLWA Reimbursement** is because the budgeted amount represents GLWA’s share of pension expense (\$20.5 million) plus debt service (\$2 million) on B &

⁴ Council should note that the large positive budget variances associated with the “GLWA’s Share of Pension & Notes” on DWSD’s operating revenue table above, and with the “Pension Expense” on DWSD’s operating expenses table below are based on the following: 1) Budgeted pension revenue and expense figures are based on the full contribution amount based on a post-bifurcation pension agreement between the City, DWSD and GLWA and the amount of contribution to the Legacy Pension was fixed at \$45.4 million per 4 year for 9 years. This agreement is ending on June 30, 2023. It included both the GLWA and DWSD share of Legacy Pension costs. 2) For the actual revenue and expense pension figures, the GASB 68 required contribution is done annually by the City based on actuarial determination and is different from the fixed contribution stated in 1).

⁵ Sewer Commodity Revenue is, for most customers, based on the actual water usage (volume) based on meter readings. Commercial businesses are based on their higher sewer line sizes. Sewer charges cover wastewater that flows away from a customer’s property, be it from toilet flushes and water going down a drain to rainwater running off a customer’s driveway. Sewerage Disposal is the cost to collect, treat, and dispose of untreated sewage. The rate is charged for each CCF of water brought into a customer’s house and measured on a customer’s water meter. Meters don’t track water leaving your property. Source: “How to Read Your Detroit Water Bill”, Outlier Media.

⁶ Drainage Charge Revenue is calculated based on the amount of hard, impervious surface (a surface that does not allow a fluid to flow through) on a customer’s property. This includes the roof of a customer’s home, garage, and driveways and patios. DWSD uses planes to estimate impervious surface areas. Those areas are measured in acres, and then multiplied by the rate charged per month, per acre. A drainage charge fee is for treatment and disposal of stormwater or snowmelt, which runs off a customer’s home or driveway. Detroit has a combined sewer system, where the sewage leaving a customer’s home gets combined with rainwater or snowmelt entering street drains. Because it combines with untreated sewage, water runoff must be treated before being returned to the environment. Source: “How to Read Your Detroit Water Bill”, Outlier Media.

C Notes. The actual expense only includes the interest portion of GLWA’s share.⁷

The following table shows the Combined Operating Expenses by budget and actual figures for the entire 2022-2023 fiscal year.

For the Year Ended June 30, 2023					
(Amounts in thousands)					
	Budget	Actual	Variance	%	
Combined Operating Expense					
Salaries and Wages	\$ 37,943	\$ 37,711	\$ 232	0.6%	
Employee Benefits	58,903	24,647	34,256	58.2%	
Contractual Services	18,709	11,698	7,011	37.5%	
Supplies	10,198	10,133	65	0.6%	
Wholesale Charges	215,644	215,443	201	0.1%	
Shared Services	3,861	(996)	4,857	125.8%	
Utilities	3,585	3,298	287	8.0%	
Other Operating	10,816	8,105	2,711	25.1%	
Bad Debt Expense	60,034	43,422	16,612	27.7%	
Total Operating	\$ 419,693	\$ 353,461	\$ 66,232	15.8%	

- **Employee Benefits** were under budget for the year due to a reduction in workers’ compensation based on the actuarial valuation. Workers’ compensation expense was reduced by \$2.6 million compared to the budget. Also included in the budget is an amount of \$31.9 million which represents GLWA’s share of pension costs. This amount is included in the budget for budgetary control purposes and not included in the actual expense.

- **Contractual Services** were under budget due to delay in starting certain projects and contracts such as iTron, service interruptions, and GSI maintenance and restoration (\$5.9 million), internal audit services, external audit chargebacks, a proposed warehouse consolidation project and other consulting initiatives (\$1.4 million).

- **Shared Services** were under budget due to final true-up of invoices/services based on account reconciliation with GLWA. This impacts various cost centers, specifically cost centers in Operations and Compliance.

- **Other Operating Expenses** were under budget mainly due to certain purchased services (\$2.2 million) not required by year end.

- **Bad Debt Expense** The decrease at year end is due to adjustment to the bad debt allowance based on evaluation of receivables and potential collectability. This was offset by an increase in actual revenues compared to the budget.

⁷ See footnote 4 for more explanation of the variance between budgeted and actual Other GLWA Reimbursement revenue.

The following table shows Combined Departmental Expenses by budget and actual figures for the entire 2022-2023 fiscal year.

For the Year Ended June 30, 2023				
(Amounts in thousands)				
	Budget	Actual	Variance	%
Combined Departmental Expense				
Administration	\$ 2,062	\$ 1,746	\$ 316	15.3%
Operations	49,320	43,720	5,600	11.4%
Compliance	23,214	16,395	6,819	29.4%
Finance	16,898	13,052	3,845	22.8%
Customer Service	4,986	4,940	46	0.9%
Total Departmental	\$ 96,479	\$ 79,854	\$ 16,626	17.2%

- **Operations** savings include: (1) Personnel cost savings due to vacancies and (2) Contractual services savings due to delay in starting certain projects and contracts such as iTron, service interruptions, and GSI maintenance and restoration (\$5.9 million).

- **Compliance** savings include: (1) Personnel cost savings due to vacancies and (2) certain Contractual services were delayed to FY2024.

- **Finance** savings include: (1) Personnel cost savings due to vacancies and (2) Contractual services savings due to delay in starting certain projects such as internal audit services, external audit chargebacks, a proposed warehouse consolidation project, and other consulting initiatives.

The following table shows Combined Non-Departmental Expenses by budget and actual figures for the entire 2022-2023 fiscal year.

For the Year Ended June 30, 2023				
(Amounts in thousands)				
	Budget	Actual	Variance	%
Combined Nondepartmental Expense				
Wholesale charges	\$ 215,644	\$ 215,443	\$ 201	0.1%
Legacy pension expense	45,400	13,484	31,916	70.3%
Retail Assistance Program	2,136	1,258	878	41.1%
Bad debt expense	60,034	43,422	16,612	27.7%
Total Nondepartmental	\$ 323,214	\$ 273,607	\$ 49,608	15.3%

- **Legacy Pension Expense** variance represents \$31.9 million GLWA’s share of pension expense which is included in the budget for budgetary control purpose but not in actual expense.

- **Bad debt Expense** decrease is due to year-end adjustment of approximately \$21 million based on evaluation of receivables and potential of collectability. This was offset by an increase in bad debt allowance due to the increase in actual revenues compared to the budget.

By reviewing the above tables, DWSD management has made a considerable effort to operate within budgeted amounts. However, LPD is concerned with any negative impacts that project delays may have on service delivery, such as service interruptions, internal audit services, a proposed warehouse consolidation project, and other consulting initiatives.

City Council needs to closely observe the financial performance of the Water and Sewage Disposal Funds every year after the bifurcation to ensure revenues cover expenses, cash collections are equal to, or more than, cash disbursements, and essential services are provided. LPD assists City Council in observing the financial performance of the Water and Sewage Disposal Funds by providing your Honorable Body with periodic reports such as this report on DWSD's financial matters, as well as reviewing the City's, DWSD's, GLWA's annual financial statements and other financial documents. LPD also raises questions regarding DWSD's budget and other financial matters during the annual budget process.

Lead service lines replacement

Since 2018, DWSD has replaced lead service lines while on the same block replacing the water main. Additionally, DWSD has had two separate contracts (\$1M and \$10M) using Michigan State Revolving Funds to replace individual lead service lines on a first-come, first-served basis. Those two contracts are complete. Under these projects, nearly 3,000 lead service lines have been replaced and DWSD continues with replacing lead service lines during water main replacement.

Since Summer 2023, DWSD has moved to a neighborhood-by-neighborhood approach to replace lead service lines (in addition to water main projects) using \$75 million in ARPA funding through the Michigan Department of Environment, Great Lakes & Energy (EGLE). The City Council approved separate contracts to have five vendors provide the services. The neighborhood areas are prioritized by age of housing stock, density of population with seniors and children in the homes, and low-income areas. These DWSD contractors are currently in seven neighborhoods. DWSD is also using two in-house employee crews to replace the lines. So far, 2,060 additional lead service lines have been replaced under this neighborhood-by-neighborhood approach as of January 16, 2024, and the goal is to replace 5,000 to 10,000 service lines per year as long as federal funding continues to come to Detroit and have all the estimated 80,000 lead service lines replaced within 10 years.

DWSD at this time is not replacing individual lead service lines upon request. When DWSD arrives to each neighborhood, under the approach outlined above, the department will replace the lines of those houses that residents submitted to the wait list.

Currently, the Detroit water system is under the action level for lead content in the drinking water and has not exceeded the state or federal action level under the Lead and Copper Rule. Our drinking water is some of the best in the world and meets or exceeds the federal Safe Drinking Water Act. Detroit is one of a very few major cities in America that is replacing lead service lines without an action level mandate.

Affordability rates - DWSD lifeline plan

The DWSD Lifeline Plan launched in August 2022 as an income-based water affordability program. As of January 16, 2024, there are 27,196 households determined enrolled as eligible in the Lifeline Plan with 22,713 households receiving an \$18 monthly bill based on their annual household income. DWSD utilizes three buckets of funding to support the program including GLWA WRAP dollars provided annually, remaining federal Low Income Household Water Assistance Program (LIWHAP) funds and state funding allocations including two recent budgetary appropriations for statewide affordability funding. Wayne Metropolitan Community Action Agency administers the DWSD Lifeline Plan.

Enrolled households start fresh with a zero balance – their DWSD account past due amount is erased upon enrollment. Then, the household receives the following benefits when they pay their monthly Lifeline Plan bill:

- Affordable fixed bill based on household income and number of household members;
- Get up to 1,125 gallons of indoor water usage per household per member per month; shutoff protection while on the plan and as long as the household pays the monthly bill; and
- If qualified, the household receives a free water audit and minor plumbing repairs (as funding allows) to fix leaks and inefficient equipment which saves them money.

The income tiers for the DWSD Lifeline Plan are as follows:

TIER 1 135% FPL*		TIER 2 136% - 150% FPL*		TIER 3 151% - 200% FPL*	
YOU PAY MONTHLY \$18		YOU PAY MONTHLY \$42		YOU PAY MONTHLY \$56	
For water, sewer & drainage if your income is:		For water, sewer & drainage if your income is:		For water, sewer & drainage if your income is:	
Number of People Living in the Household	Maximum Annual Household Income	Number of People Living in the Household	Maximum Annual Household Income	Number of People Living in the Household	Maximum Annual Household Income
1	\$18,075	1	\$20,385	1	\$27,180
2	\$24,352	2	\$27,465	2	\$36,620
3	\$30,630	3	\$34,545	3	\$46,060
4	\$36,908	4	\$41,625	4	\$55,500
5	\$43,185	5	\$48,705	5	\$64,940
6	\$49,463	6	\$55,785	6	\$74,380
7	\$55,740	7	\$62,865	7	\$83,820
8	\$62,018	8	\$69,945	8	\$93,260

DWSD was part of the 60-member stakeholder group that provided input as Senator Stephanie Chang and her office crafted three senate bills (SIB-0549, SIB-0550 and SIB-0551) to create a water affordability program with 3% maximum of household income for the fixed monthly water bill, shutoff protection and a sustainable funding source using a \$2 per meter per residential household statewide fee. DWSD supports the bills, and it provides for sustained funding for the Lifeline Plan, if passed. Senate hearings were held in October 2023 and the bills should be introduced to the legislature in 2024 for consideration and vote.

For households with past due bills and are not low-income, they can enter the 10/30/50 Plan with a 10%, 30% or 50% deposit of their past due balance depending on their account status and the

remainder of the delinquency will be spread out over a number of months, added to their monthly water, sewerage, and drainage charges. As of January 16, 2024, 3,878 households are in the plan.

Federal, State and Local dollars that benefit DWSD

During fiscal 2023 and as of the date of this report, DWSD has received approval of \$211.2 million in various grants. Except for one, all of the grants are funded from the Federal American Rescue Plan Act (ARPA), awarded to the department primarily through the Michigan EGLE. Notable among these is the ARPA grant of \$75 million for lead service line replacement awarded by EGLE.

DWSD is currently constructing a project (Far West Project) to remove storm water from approximately 216 acres of a residential neighborhood immediately west of the Rouge River and north of West Warren Avenue. GLWA has identified this area for improvements that would reduce the combined sewer overflow discharge frequency and volume. The Evergreen-Farmington Sanitary District (EFSD) has agreed to make a capital contribution, disbursed through GLWA, in the amount of \$31.6 million for the design and construction of this project.

DWSD Capital Improvement Program

The fiscal 2024-28 Capital Improvement Program (CIP) that was approved by BOWC is for a total investment of \$675 million, of which \$150 million was for projects planned or under construction in fiscal 2023-24 and \$183 million for projects in fiscal 2024-25.

Five contracts were awarded in the recent past to replace lead service lines, for a total amount of \$80 million. Several other construction projects are in progress, either to replace aged water and sewer mains, or to repair and rehabilitate existing mains.

DWSD uses debt financing, issued by GLWA, along with Federal, State and Local Funds as summarized above to fund the CIP. In addition, DWSD leverages the \$50 million annual lease payment it receives from GLWA for the CIP.

The Infrastructure Coordinating Committee of the City ensures that infrastructure investments are scheduled and implemented in ways that are complementary to other necessary infrastructure investments. For example, when the Department of Public Works intends to replace a stretch of roadway, it will work with the Detroit Water and Sewerage Department and the Public Lighting Authority to ensure that any investments planned by these respective entities are undertaken while the road surface is already removed.

Status of DWSD's 2024-2025 Rate Increase for Detroiters

On February 7, 2024, the DWSD Executive Team presented a preliminary fiscal year 2025 Budget to their Finance Committee. The 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); and

- Employee Focus – training, retention and recruitment.

Again, this was the first primary budget presentation, and the Team is asking for DWSD Finance Committee members to review the presentation, and ask any questions prior to the next committee meeting on March 6, 2024, and then the final budget will be submitted to the DWSD Board of Water Commissioners for final approval on March 20, 2024.

Presented at the February 7, 2024 Finance Committee meeting was a 3.2% increase in water and sewer rates, and drainage fees for FY 2025.

Comments presented by the Executive Team:

- The Proposed FY 2025 Budget was developed in an inflationary environment. The annual inflation rate for the United States was 3.4% for the 12 months ending December 2023 according to U.S. Labor Department data;
- The Budget incorporates expenditures required to operate DWSD's System for FY 2025;
- This Budget proposes a 3.2% increase in rates across the System (except Private Fireline) to recover the Revenue Requirement required to operate the System for FY 2025.
- Private Fireline⁸ rate is projected to increase by 1.7% over FY2024.

Please let us know if we can be of any more assistance.

cc: Gary A. Brown, Director, DWSD
Istakur Rahman, CFO, DWSD
Jay Rising, CFO, City of Detroit
Auditor General's Office
John Naglick, Chief Deputy CFO/Finance Director
Tanya Stoudemire, Chief Deputy CFO – Policy & Administration Director
Steven Watson, Deputy CFO/Budget Director
Malik Washington, Mayor's Office

⁸ Private Firelines serve fire suppression systems within commercial buildings and provide a dedicated connection where the primary purpose of the water is for extinguishing fires that does not serve domestic water (i.e. fire sprinkler system).