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TO: COUNCIL MEMBERS

FROM: David Whitaker, Director 
Legislative Policy Division

DATE: February 21, 2025

RE: Report on the June 30, 2024 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:

- **June 30, 2024 Audited Financials and DWSD Figures on Revenues & Expenses**
- **June 30, 2024 Audited Financials of GLWA and Possible Rate Increases for Fiscal Year 2026**
- **Lead service lines replacement**
- **Affordability rates – DWSD lifeline plan**
- **Biden Administration awards Detroit \$346 million to prevent basement flooding**
- **DWSD CEO assures residents water is safe after letters stir concerns**
- **Preliminary Proposed FY 2026 Operating Budget**

June 30, 2024 Audited Financials and DWSD Figures on Revenues & Expenses

The results of the June 30, 2024 DWSD audit by Plante & Moran, PLLC was a clean audit, meaning that the financial statements present fairly, in all material respects, the respective financial position of DWSD. Also, the auditors stated that there were no significant disagreements that arose during the audit, and they reported no significant difficulties in performing and completing the audit.

In summary, both the Water Fund and the Sewage Disposal Fund had positive results, with the Water Fund having Operating Income of \$31.9 million and Capital Grants of \$45.9 million, for an increase of \$77.8 million in net position. The Sewage Disposal Fund had Operating Income of \$40.7 million and Capital Grants of \$24.5 million, for an increase of \$65.2 million in net position.¹

	(In Millions)	
	Water Fund	Sewage Disposal Fund
Operating Revenue	\$ 143.6	\$ 338.1
Operating expenses	<u>(114.8)</u>	<u>(306.1)</u>
Total Operating Revenue	28.8	32.0
Nonoperating Revenue	28.3	26.3
Nonoperating Expense	<u>(25.2)</u>	<u>(17.6)</u>
Total Nonoperating Revenue	3.1	8.7
Operating Income/(Loss)	31.9	40.7
Capital Contributions - Capital Grants	<u>45.9</u>	<u>24.5</u>
Change in Net Position	77.8	65.2
Net Position - Beginning of Year	<u>597.1</u>	<u>895.2</u>
Net Position - End of Year	<u>\$ 674.9</u>	<u>\$ 960.4</u> ²

¹ The differences between the audited Revenues and Expenses (above) and the unaudited Revenues and Expenses (below) are the results of final adjustments made by Plante & Moran PLLC, DWSD’s auditors.

² Numbered Page 28 of Annual Comprehensive Financial Report of City of Detroit June 30, 2024.

The following unaudited comparisons were presented to the Finance committee of the Board of Water Commissioners (BOWC) in December 2024. The table below shows the operating revenues for Water.

For the Year Ended June 30, 2024 (Amounts in Millions)				
	Budget	Actual	Variance	%
Water Operating Revenue				
Commodity Sales	\$ 101,384	\$ 107,479	\$ 6,095	6.0%
Service Charges	24,373	25,691	1,318	5.4%
Private Firelines	2,130	1,955	(175)	-8.2%
Shared Services	1,178	930	(248)	-21.1%
Other GLWA Reimbursement	3,396	800	(2,596)	-76.4%
Penalties and Fees	4,210	5,247	1,037	24.6%
Total Operating Revenue	\$ 136,671	\$ 142,102	\$ 5,431	4.0%

- **Water Commodity Revenue³** was \$6.1 million (6.0%) over budget. This is primarily due to increased volume (usage) over budgeted level for the year. Actual Water volume exceeded budget by 135,030 Mcf⁴ resulting in positive revenue variance.

- **Water Service Charge Revenue⁵** was \$1.3 million (5.4%) over budget. This is primarily due to increase in actual meter equivalents over the budgeted level for the year. Actual meter equivalents exceeded budget by 185,900 equivalents resulting in positive revenue variance.

- **Decrease in Other GLWA reimbursement** is because the budgeted amount represents GLWA’s share of pension expense (\$2.6 million) and Debt Service (\$0.9 million) on B & C Notes. The actual expense only includes the interest portion of GLWA’s share⁶.

<https://detroitmi.gov/sites/detroitmi.localhost/files/2025-01/City%20of%20Detroit%20FY2024%20ACFR%20FINAL-R%20%2012.20.2024.pdf>

³ 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.

⁴ 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.

⁵ 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.

⁶ 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 “Employee Benefits” and “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 ended 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).

The following unaudited comparisons were presented to the Finance committee of the Board of Water Commissioners (BOWC) in December 2024. The table below shows the operating revenues for Sewer.

For the Year Ended June 30, 2024 (Amounts in Millions)				
	Budget	Actual	Variance	%
Sewer Operating Revenue				
Commodity Sales	\$ 122,856	\$ 123,422	\$ 566	0.5%
Service Charges	15,076	15,856	780	5.2%
Drainage Charges	188,982	183,306	(5,676)	-3.0%
Industrial Waste Charges	1,600	1,602	2	0.1%
Shared Services	1,323	1,214	(109)	-8.2%
Other GLWA Reimbursement	6,479	1,765	(4,714)	-72.8%
Penalties and Fees	8,500	8,487	(13)	-0.2%
Total Operating Revenue	\$ 344,816	\$ 335,652	\$ (9,164)	-2.7%

- **Commodity Sales 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.
- **Drainage Charge Revenue**⁷ fell short of budget estimate by \$5.7 million (3.0%). Decrease is due to lower BIA (Billable Impervious Acres) and increase in Green Credits.
- **Decrease in Other GLWA reimbursement** is because the budgeted amount represents GLWA’s share of pension expense (\$4.5 million) and Debt Service (\$2.0 million) on B & C Notes. The actual expense only includes the interest portion of GLWA’s share⁸.

The following table shows the unaudited Combined (Water and Sewer) Operating Expenses by budget and actual figures for the entire 2023-2024 fiscal year.

⁷ 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.

⁸ 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 “Employee Benefits” and “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 ended 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).

For the Year Ended June 30, 2024				
(Amounts in Millions)				
	Budget	Actual	Variance	%
Combined Operating Expense				
Salaries and Wages	\$ 42,593	\$ 42,002	\$ 591	1.4%
Employee Benefits	24,128	12,196	\$11,932	49.5%
Contractual Services	19,676	13,316	\$ 6,360	32.3%
Supplies	11,686	11,665	\$ 21	0.2%
Wholesale Charges	223,707	223,698	\$ 9	0.0%
Shared Services	2,725	2,224	\$ 501	18.4%
Utilities	3,863	3,232	\$ 631	16.3%
Other Operating	10,504	7,426	\$ 3,078	29.3%
Bad Debt Expense	59,613	43,493	\$16,120	27.0%
Total Operating Expense	\$ 398,495	\$ 359,252	\$39,243	9.8%

- **Employee Benefits** were 49.5% under budget because included in the budget is an amount of \$7.0 million which represents GLWA’s share of pension. This amount is included in the budget for budgetary control purpose and not included in the actual expense. Also, actual pension expense is lower based on actuarial determination of required pension contribution for the year⁹.

- **Contractual Services** savings include consulting and professional services (\$6.4 million) across multiple cost centers. Savings are attributable to unbilled services, project delays including: iTron, Residential service interruptions, GSI maintenance and restoration, warehouse consolidation, catch basin maintenance, audit services, cash management services, and facilities management.

- **Other Operating Expense** was under budget by \$3.0 million due to savings in purchased services and equipment rental accounts.

- **Bad debt Expense** decrease is due to year-end adjustment based on evaluation of receivables and potential of collectability.

⁹ 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 “Employee Benefits” and “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 ended 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).

The following table shows the unaudited Combined Departmental Expenses by budget and actual figures for the entire 2023-2024 fiscal year.

For the Year Ended June 30, 2024				
(Amounts in Millions)				
	Budget	Actual	Variance	%
Combined Departmental Expense				
Administration	\$ 1,763	\$ 1,631	\$ 132	7.5%
Operations	54,163	49,665	\$ 4,498	8.3%
Stores Inventory	-	1,225	\$(1,225)	N/A
Compliance	24,853	18,228	\$ 6,625	26.7%
Finance	16,424	11,760	\$ 4,664	28.4%
Customer Service	5,780	5,495	\$ 285	4.9%
Total Operating Expense	\$ 102,983	\$ 88,004	\$14,979	14.5%

- **Operations** savings include: (1) Personnel was over budget due to a combination of 32 vacancies abated in part by unbudgeted overtime (\$514,300), (2) Contractual services savings due to delayed projects and contracts such as iTron, repairs of facilities and grounds, fleet and equipment, service interruptions, and GSI maintenance and restoration (\$4.2 million), (3) Shared service savings due to over-estimated budget, and (4) Utility savings due to mild weather (\$630,400).

- **Compliance** savings include: (1) Personnel savings attributable to 8 vacancies (\$1,593,800), (2) certain Contractual services were postponed or not yet invoiced (\$598,700), (3) Shared service savings due to over estimated budgets, (4) other IT expenses including software, and telecommunication and data licensing agreements also invoiced and recorded on an annual basis (\$4.4 million).

- **Finance** savings include: (1) Personnel savings due to 14 vacancies (\$1,912,300), (2) Contractual services savings due to delayed or canceled projects, including Internal Audit services, external audit chargebacks, a proposed warehouse consolidation project, and other consulting initiatives (\$1.6 million), (3) Other expense savings due to delayed Purchased service and over-budgeted Shared service (\$1.1 million).

The following table shows the unaudited Combined Non-Departmental Expenses by budget and actual figures for the entire 2023-2024 fiscal year.

For the Year Ended June 30, 2024				
(Amounts Millions)				
	Budget	Actual	Variance	%
Combined Nondepartmental Expense				
Wholesale Charges	\$ 223,707	\$ 223,698	\$ 9	0.0%
Legacy Pension Expense	10,000	700	\$ 9,300	N/A
Retail Assistance Program	2,192	3,356	\$(1,164)	-53.1%
Bad Debt Expense	59,613	43,493	\$16,120	27.0%
Total Operating Expense	\$ 295,512	\$ 271,247	\$24,265	8.2%

- **Legacy Pension Expense** variance represents \$7.0 million GLWA’s share of pension expense which is included in the budget for budgetary control purpose but not in actual expense. The balance of the variance is due to budgetary savings based on actuarial determination of pension liability.

- **Bad Debt Expense** decrease is due to year-end adjustment of \$16.4 million based on evaluation of receivables and potential of collectability.

By reviewing the above tables, DWSD management has made a considerable effort to operate within budgeted amounts and revenues cover expenses. 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. Nearly 12,000 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. 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 in 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.

June 30, 2024 Audited Financials of GLWA and Possible Rate Increases for Fiscal Year 2026

The results of the June 30, 2024 GLWA audit by Baker Tilly US LLP was a clean audit, meaning that the financial statements present fairly, in all material respects, the respective position of GLWA. Also, the auditors stated that there were no significant disagreements that arose during the audit, and they reported no significant difficulties in performing and completing the audit.

In summary, both GLWA’s Water Fund and the Sewage Disposal Fund had positive results, with the Water Fund having Operating Income of \$2.4 million and Capital Grants of \$10.3 million, for an increase of \$12.7 million in net position. The Sewage Disposal Fund had Operating Income/(Loss) of (\$1.7) million and Capital Grants of \$30.1 million, for an increase of \$28.4 million in net position.¹⁰

	(In Millions)	
	Water Fund	Sewage Disposal Fund
Operating Revenue	\$ 358.6	\$ 477.0
Operating expenses	<u>(272.4)</u>	<u>(374.3)</u>
Total Operating Revenue	86.2	102.7
Nonoperating Expense	<u>(83.8)</u>	<u>(104.4)</u>
Total Operating Revenue/(Expense)	2.4	(1.7)
Capital Contributions - Capital Grants	<u>10.3</u>	<u>30.1</u>
Change in Net Position	12.7	28.4
Net Position - Beginning of Year	<u>(123.8)</u>	<u>(107.7)</u>
Net Position - End of Year	<u>\$ (111.1)</u>	<u>\$ (79.3)</u>

A unique historical driver of the deficits shown for GLWA is the accounting requirement for the start-up of GLWA on January 1, 2016, pursuant to GASB Statement No. 69.¹¹

A recent Detroit News article said the GLWA is considering adopting the highest water and sewer rate increases in its 10-year history as a 4% cap on higher prices ends this summer.

The authority that serves 112 communities across eight counties in southeast Michigan has proposed increasing its wholesale water rates by an average of 7.73% and 5.39% for sewer rates for the 2026 fiscal year, which begins July 1.

The authority’s board of directors is slated to vote on these charges during its February 26, 2025 meeting.

¹⁰.GLWA Annual Comprehensive Financial Report - <https://glwa.wpenginepowered.com/wp-content/uploads/2024/12/Great-Lakes-Water-Authority-AUD-06-30-2024-ACFR-Final.pdf>

¹¹ GLWA Annual Comprehensive Financial Report - <https://glwa.wpenginepowered.com/wp-content/uploads/2024/12/Great-Lakes-Water-Authority-AUD-06-30-2024-ACFR-Final.pdf>

GLWA officials say the increases are needed to cover capital investments and maintenance that have been deferred for several years, along with corrosion controls in its water.¹²

DWSD may not incur the same percentage increases mentioned above, as they are in the process of performing a rate analysis. Any increase will be discussed and voted on at the next Finance Committee meeting on March 5, 2025.

Affordability rates - DWSD lifeline plan

The program, which launched in 2022, offers residents fixed monthly rates from \$18 to \$56 and removes past water debt, based on a household's income and water use. The \$18-a-month tier is available for families at 135% of the federal poverty level, or a family of three making up to \$34,857 a year. Nearly 22,000 households — the majority of enrollees — pay \$18, according to a DWSD dashboard online. The next highest payment plan, offering water bills at \$43 a month, is for three-person households making \$38,730 or less. The last tier, at \$56 a month, caps income at \$51,640 for three people in a home.

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.

Annually, residents already enrolled in the lifeline plan must recertify with Wayne Metropolitan Community Action Agency. This is to certify their income to determine if their income is still within the levels stated in the plan.

As of January 15, 2025, it was reported that there are 43,684 households determined enrolled as eligible in the Lifeline Plan. There are 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. In addition, Gary Brown, DWSD Director, stated at the February 5, 2025 Finance Committee Meeting, that in the Governor's mid-term budget message, there is a line item consisting of \$11 million in grants for water affordability. Wayne Metropolitan Community Action Agency administers the DWSD Lifeline Plan.

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.

Biden Administration awarded Detroit \$346 million to prevent basement flooding¹³

- **Mayor had sought funding to prioritize repair of clogged and collapsed alley sewers**

¹² The Detroit News. <https://www.detroitnews.com/story/news/local/michigan/2025/02/14/great-lakes-water-authority-water-rate-hike-detroit-oakland-macomb-wayne-counties/78460942007/>

¹³ City of Detroit Mayor's message dated January 8, 2025

- **Funding will help prevent basement backups at 10,000 Detroit homes over the next two years**
- **City also can use disaster recovery funds for new resilient affordable housing**
- **City to begin public engagement process to develop final Action Plan for use of funds**

The HUD Community Development Block Grant – Disaster Recovery (CDBG-DR) funding is tied to the flooding Detroit and other communities experienced in August 2023. From August 24-26 of that year, Detroit and other surrounding communities experienced severe storms, resulting in up to 5 inches of rain in a 6-hour period, which exceeded the design capacity of the public regional sewer system. The storms led to flooding on streets and freeways, as well as in residential and commercial basements, triggering a disaster declaration for nine counties, including Wayne County.

The City of Detroit has 1,800 miles of old alley sewer lines built 70-90 years ago for a city of 1.8 million residents. With 700,000 residents today, there is no way the City would be able to address a problem of this magnitude without significant federal support. DWSD said we now have the resources we need to make a significant impact on this problem.

DWSD said they want to use a significant portion of the funding to prioritize repairing and replacing these failing alley drains, with a goal of addressing blockages at 10,000 Detroit homes over the next two years. The HUD funding also can be invested in the construction of new flood-resilient affordable housing, which the Mayor also plans to prioritize.

“CDBG-DR provides critical funding to not only repair damages from severe storms, but also to increase community resilience in the face of future flooding events,” said Kera Package, Deputy Assistant Secretary for Grant Programs. “HUD is pleased to award \$347 Million to the City of Detroit to invest in local communities, and I’m proud of the work our disaster recovery team has done to ensure CDBG-DR funding nationwide will be deployed efficiently, effectively, and equitably.”

DWSD CEO assures residents water is safe after letters stir concerns

On November 19, 2024, Gary Brown, Director and CEO of the Detroit Water and Sewerage Department assured residents that the city's water is safe after more than 200,000 residents received letters saying their service lines may contain lead.

The city has approximately 80,000 lead service lines that need to be replaced. His department isn't sure of the material of another 20,000 lines, but 225,000 letters were sent to residents telling them their lines **may** contain lead and need to be replaced.

The letters stirred concerns from residents who feared the water wasn't safe to use. Mr. Brown assured that the city's water is safe. Some feared the Flint water crisis "was happening in Detroit."

Mr. Brown stated that there's no crisis at DWSD, and that we're not trying to hide anything. We haven't changed a thing to the way we were operating a year ago. The water is safe.

Brown said the city is in the process of replacing about 10,000 lead service lines each year in Detroit. He said of the 20,000 lines of which they don't know the material, their process is to assume the line has lead. If they start digging and the line is copper, they replace the dirt that's been removed and move on to the next line.

A City Councilman¹⁴ questioned why letters were sent to residents without more clear information. It did lead to a lot of questions. Mr. Brown apologized for the letters and pledged to better inform the public. He pledged to do a "full court press" to "get the correct information out.

Preliminary Proposed FY 2026 Operating Budget

On February 5, 2025, the DWSD Executive Team presented a preliminary fiscal year 2026 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.

Proposed Budget 2026 Departmental (Direct) Expenses – Water & Sewer Funds Combined

	Approved Budget FY 2025	Proposed Budget FY 2026	Change	% Change
Salaries & Wages	\$ 43.0	\$ 45.0	\$ 2.1	4.8%
Employee Benefits	13.6	14.1	0.5	4.0%
Professional & Contractual Services	23.5	23.8	0.2	1.0%
Shared Services Expenses	2.8	2.4	(0.4)	-14.3%
Supplies & Other Expenses	19.9	22.0	2.2	11.0%
Utilities	3.6	3.7	0.1	3.9%
Total	\$ 106.3	\$ 111.0	\$ 4.8	4.5%

- Departmental expenses increased by 4.5% or \$4.8 million over FY 2025. Majority of the increase is in Personnel and Non-personnel costs such as Supplies and Other costs to help improve service levels as well as to address back log in service deliverables.
- Increase in personnel costs is due to the addition of net 20 new positions to strengthen service level effort
- Increase in Supplies and Other costs is due to increased activities planned with more FTEs.

Proposed Budget 2026 Non-Departmental (Indirect) Expenses – Water & Sewer Funds Combined

	Approved Budget FY 2025	Proposed Budget FY 2026	Change	% Change
Wholesale Charges	\$ 233.0	\$ 248.0	\$ 15.0	6.4%
Pre-Bifurcation Debt	59.7	59.7	-	-
Post-Bifurcation Debt	17.9	18.0	0.2	1.0%
Legacy Pension Expenses	2.5	-	(-2.5)	-100.0%
Bad Debt Expenses	61.8	68.2	6.4	10.4%
Series B&C Notes	7.5	7.4	(0.1)	-1.9%
IWC Charges	1.6	1.6	-	-

¹⁴ City of Detroit Council President Pro-Tem James Tate questioned Mr. Brown at a City Council hearing on November 19,2024.

WRAP Contribution	2.2	2.4	0.1	5.4%
Total	\$ 386.2	\$ 405.3	\$ 19.1	4.9%

- Non-Departmental expenses increased by 4.9% or \$19.1 million over FY 2025.
- Wholesale Charges increase of \$15 million is due increase in GLWA’s Revenue Requirements.
- Bad Debt increased by \$6.4 million due to increase in Revenue Requirement.
- Decrease in Legacy pension costs is due to expiration of the Pension Agreement at the end of FY 2023.
- The funds contributed so far by DWSD and GLWA towards Legacy Pension since 2016 has resulted in overpayment towards administrative costs. Such overpayment will now be applied towards future Required Contribution to the Pension Plan.

The Budget incorporates expenditures required to operate DWSD’s System for FY 2026. These expenditures become the basis for determining the Revenues required to operate and is termed as “Revenue Requirement”.

Proposed Budget 2026 Revenue Requirement – Water & Sewer Funds Combined

	Approved Budget FY 2025	Proposed Budget FY 2026	Change	% Change
Departmental Expenses	\$ 106.4	\$ 111.0	\$ 4.8	4.5%
Non-Departmental Expenses	386.2	405.3	19.1	4.9%
Revenue Financed Capital	2.9	4.4	1.5	49.9%
Total	\$ 495.4	\$ 520.7	\$ 25.4	5.1%

Total System-wide Revenue Requirement increased by 5.1% or \$25.3 million over FY 2025.

Departmental or Direct expenses increased by 4.5% or \$4.8 million and Non-Departmental or indirect expenses increased by 4.9% or \$19.1 million over FY 2025. Revenue Financed Capital increase is projected at \$1.5 million. The increase in Revenue Requirement in FY 2026 is primarily due to increases in GLWA’s Wholesale Charges (\$15.0 million), Bad Debt (\$6.5 million), Personnel costs (\$2.6 million), Non-personnel costs (\$2.3 million). These increases are offset by a decrease in Legacy Pension expense (\$2.5 million). Personnel costs increase is due to addition of net 20 new positions. These new additions are for Operations and are critical to improving DWSD’s service level and backlog reduction.

Again, this was the first primary budget presentation for FY 2026, and the DWSD Team is asking for DWSD Finance Committee members to review the presentation, and ask any questions prior to the next committee meeting on March 5, 2025, and then the final budget will be submitted to the DWSD Board of Water Commissioners for final approval on March 19, 2025. Mr. Brown said that his team will be working over the next month to limit any rate increases to customers at the lowest percentage possible.

City Council’s review of DWSD’s FY 2026 Operating Budget and Rates will be in the 2nd or 3rd week of March 2026. Water, Sewer and Drainage Rates for FY 2026 will become effective on July 1, 2025.

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

cc: Auditor General’s Office

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