



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



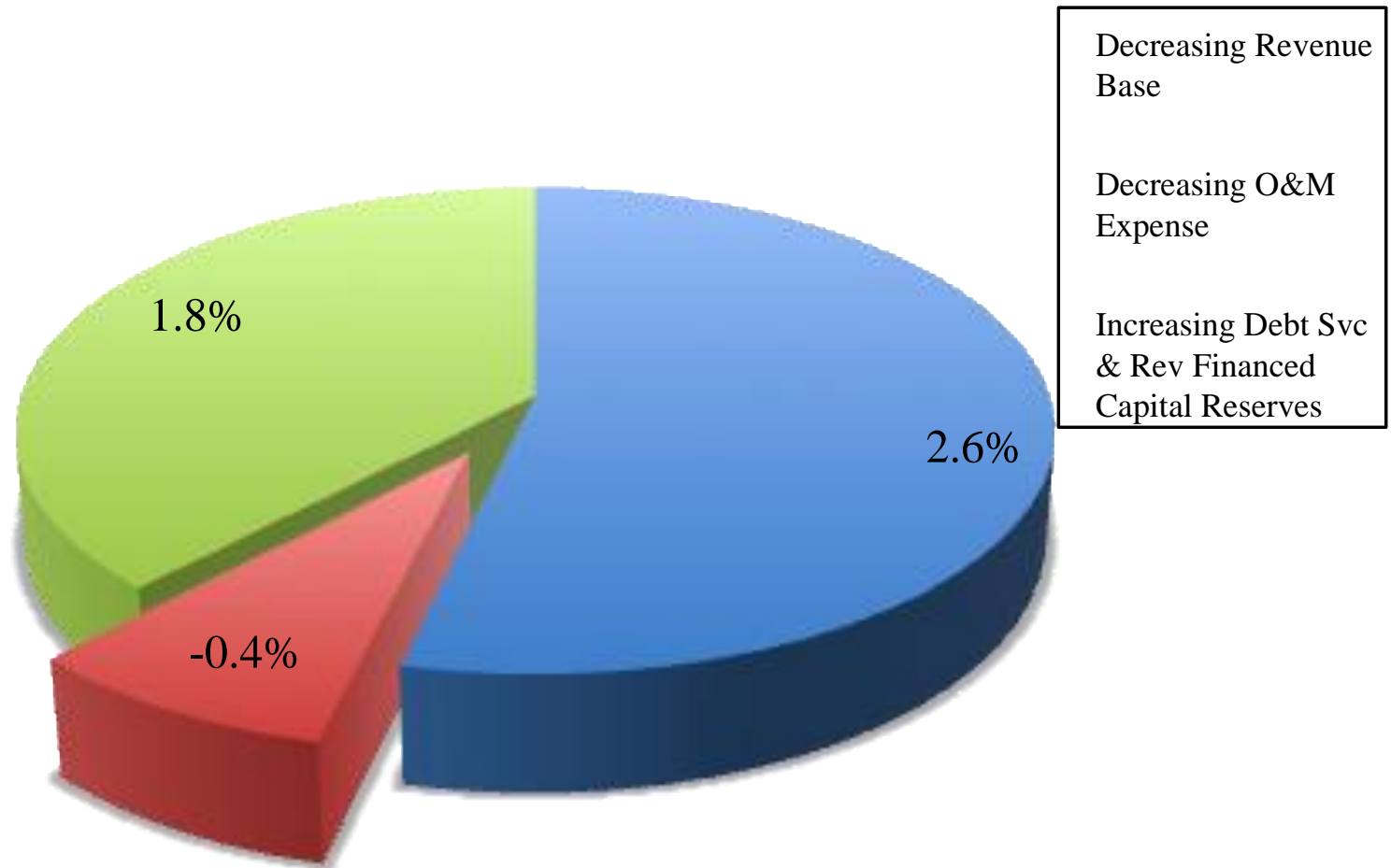
FY 2014-15 System Revenue Requirement

- 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



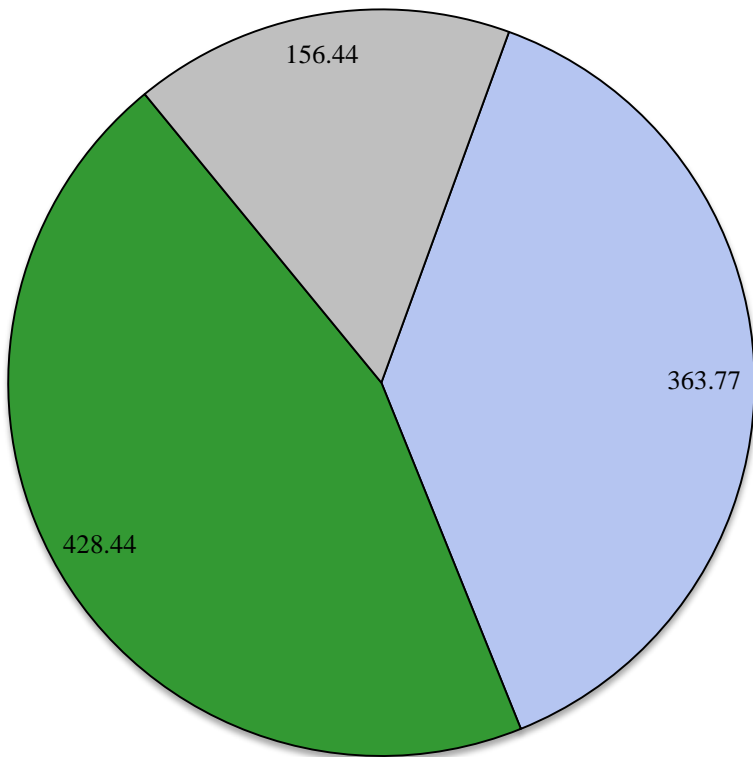
DWSD Optimization Program and Cost Controls

- 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*



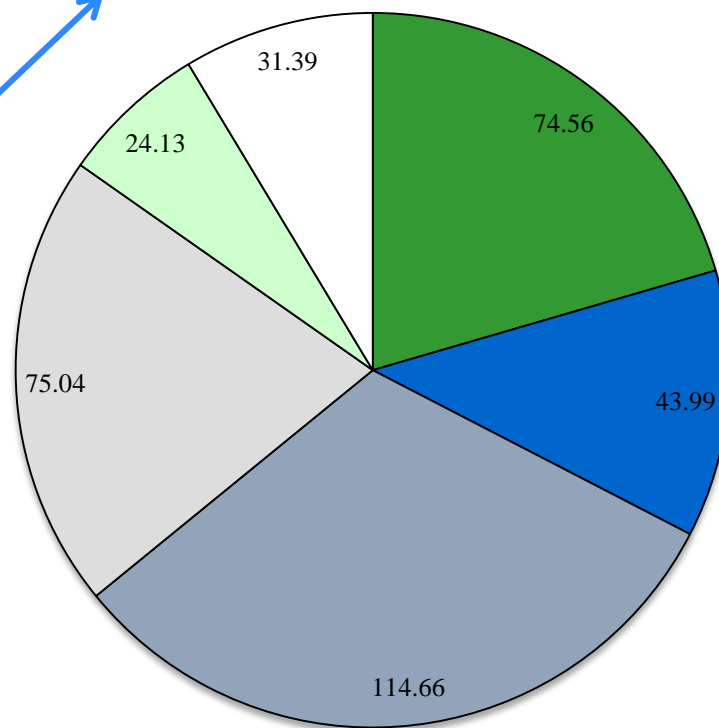
Total Annual DWSD FY 2014-15 Revenue Requirement (\$ millions)

Total Revenue Requirement



■ O&M ■ Debt Service ■ Other *

Operation and Maintenance (O&M) Expense Detail

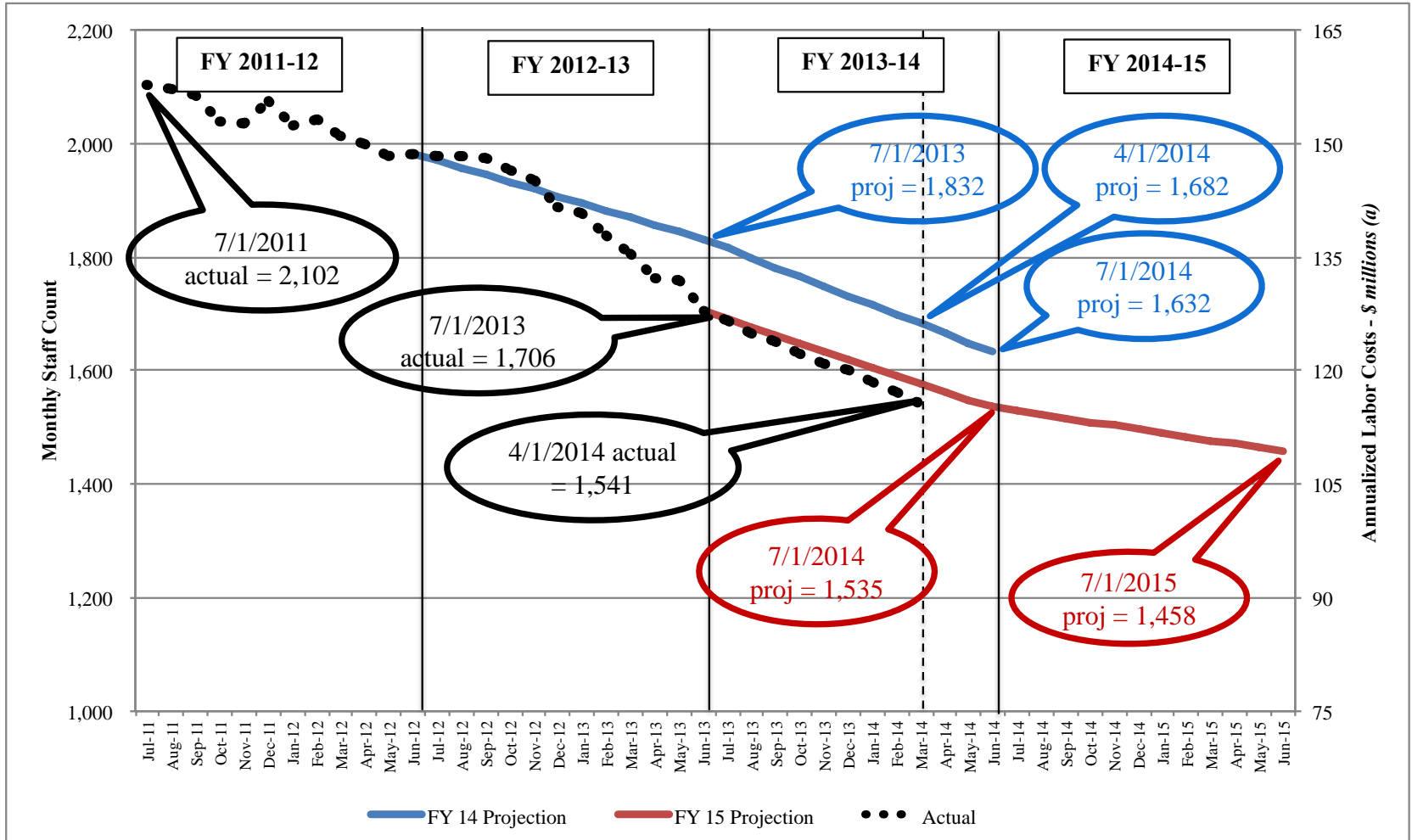


■ Salaries & Wages ■ Contractual / Purchased Services ■ Pensions & Fringes
 ■ Utilities ■ Chemicals ■ Supplies & Other

* 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*



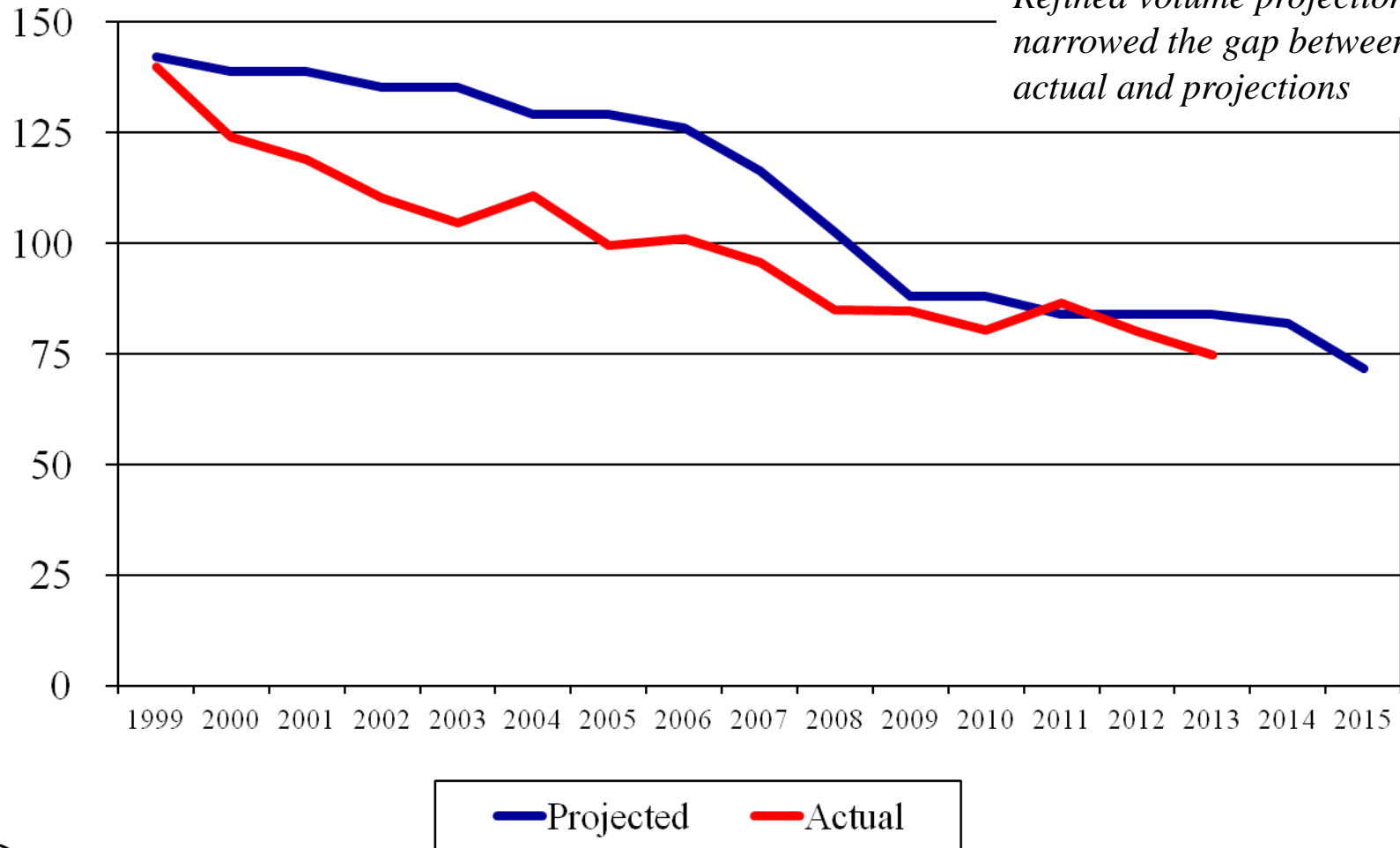
Key Elements Impacting Retail Rate Proposals

- 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%*

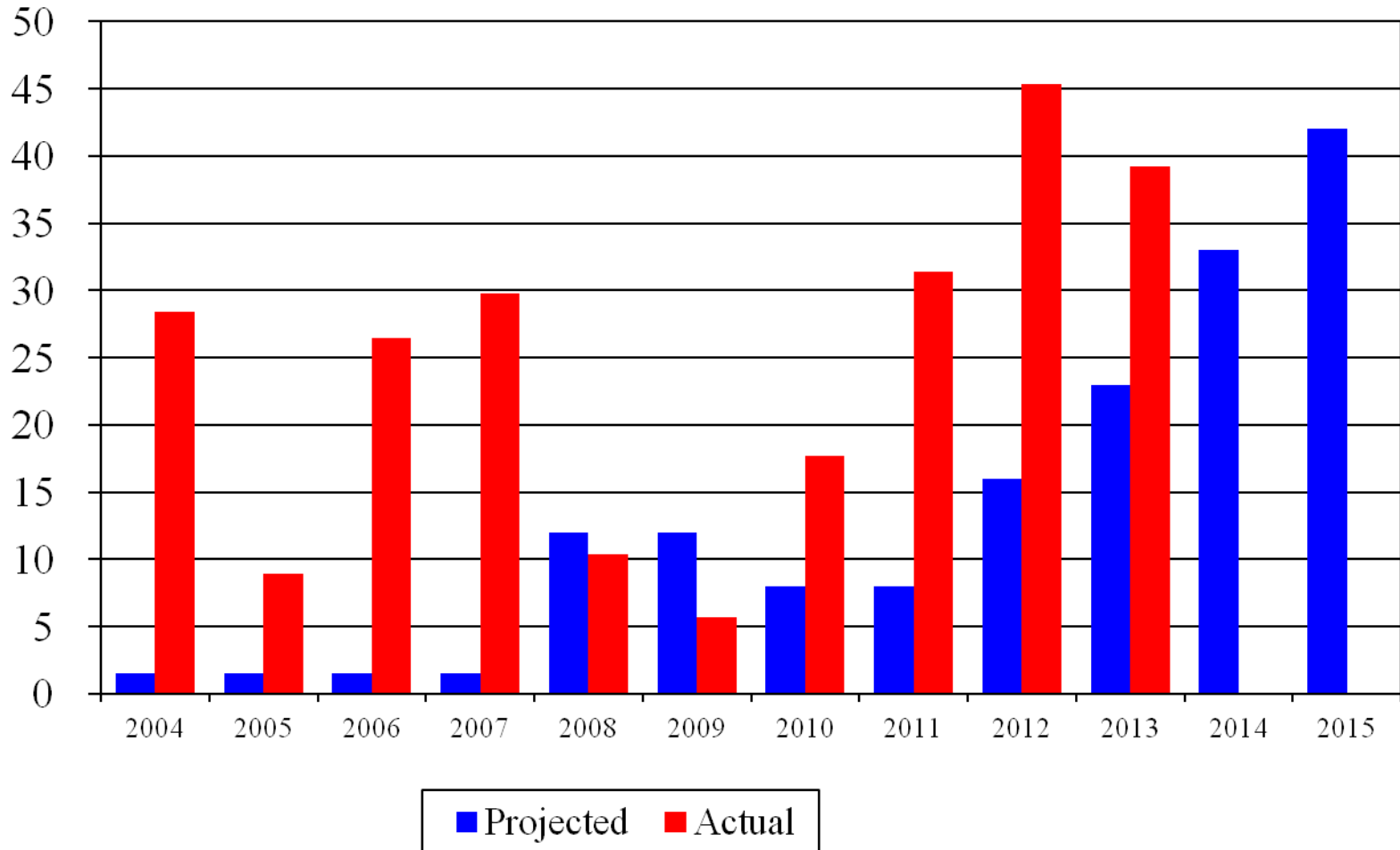


Annual Detroit Retail Water Sales (mgd)

Refined volume projections have narrowed the gap between actual and projections

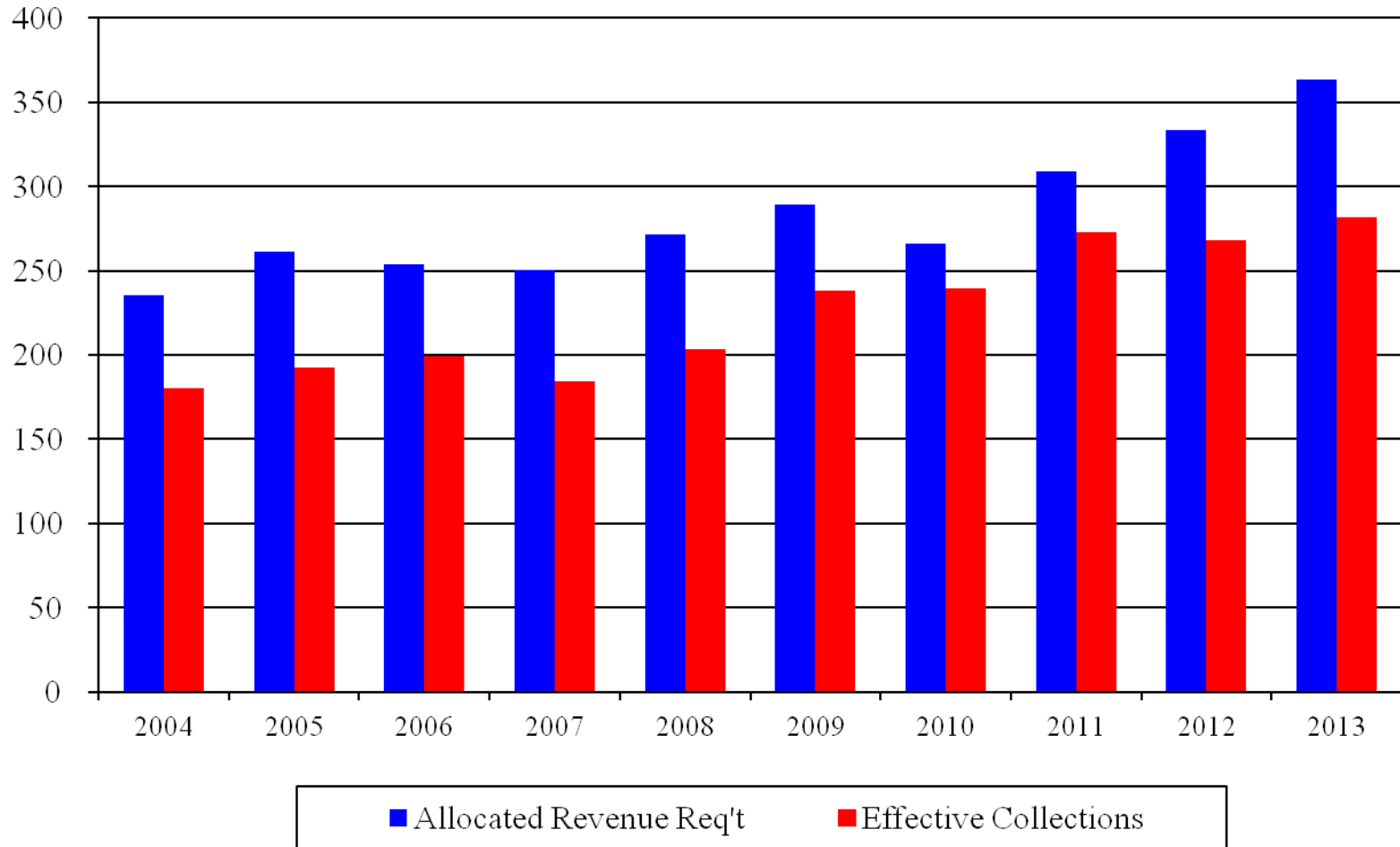


Annual Detroit Retail Bad Debt Expense (\$ millions)

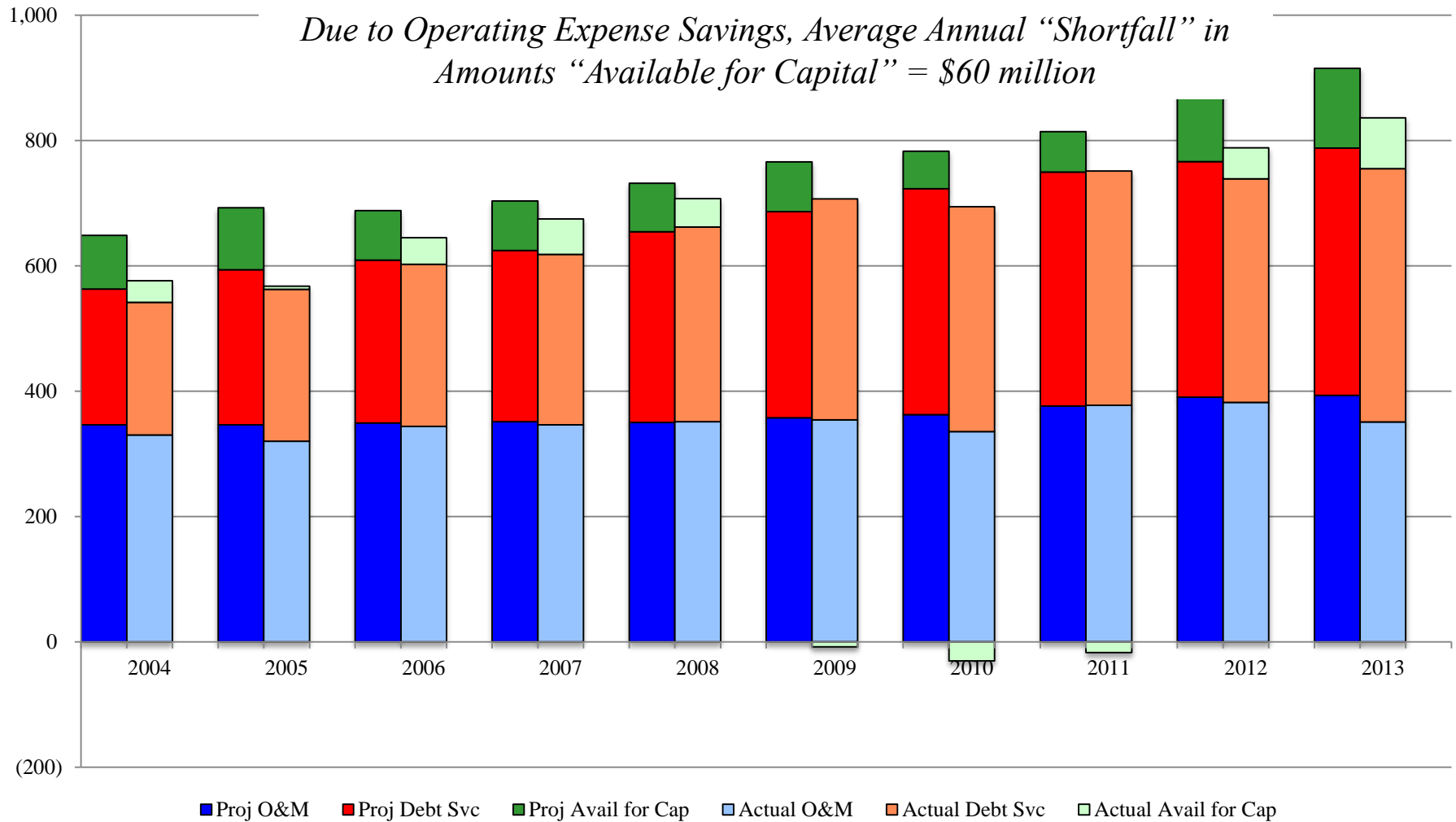


Annual Detroit Retail Revenue Collected vs. Allocated Revenue Requirement - (\$ millions)

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



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 <u>Rates</u> \$/mo	Proposed <u>Rates</u> \$/mo	<u>Difference</u> \$/mo	<u>% Change</u>
<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

