

History in the Making: Creating a Water Authority for the Region

September 9, 2014, will go down as one of the most significant dates in the histories of Metro Detroit and Southeast Michigan. On that date, the Incorporating Municipalities that include the City of Detroit, the Counties of Macomb, Oakland and Wayne, and the State of Michigan signed a Memorandum of Understanding (MOU) that paved the way for the formation of a groundbreaking regional water Authority designed to leverage the assets of the Detroit-owned water and sewerage systems.

The Great Lakes Water Authority (GLWA) was formally approved on October 10, 2014. The proposal to create a regional Authority that would assume operation and control of the Detroit water and sewerage systems was a central part of Detroit Emergency Manager Kevyn Orr's plan of adjustment in taking the City out of bankruptcy.

The MOU calls for the new Authority to provide lease payments of \$50 million annually in exchange for management of the systems. The payments will fund the operation and maintenance of the City of Detroit's water and sewer infrastructure. DWSD-Retail (DWSD-R is a term being used during the interim period) will be responsible for maintaining and repairing infrastructure within the City limits. The GLWA will assume responsibility for operations and maintenance for water and sewer infrastructure supplying wholesale customers across the region.

A six-person board was established for the GLWA, comprised of one member from each County, one from the State of Michigan and two from the City of Detroit. All board members were appointed by January 7, 2015. A "super majority" of five votes is required to approve major decisions, such as those involving rates, capital improvements and other matters as set forth by the Authority.

Steps Required to Stand Up the GLWA

The MOU established a 200-day schedule from the date of the GLWA's first board meeting to get the Authority running independently. This schedule equates to a "stand-up" date of July 1, 2015.

Numerous steps must be taken before a final lease agreement can be crafted to provide the framework needed to get the GLWA ready for its official launch. A Program Management Office (PMO) will shepherd, along with various system stakeholders, the completion of these steps and to provide the GLWA Board with information needed to make critical decisions.



GREAT LAKES WATER AUTHORITY

Key Groups and Guiding Documents

GLWA (Great Lakes Water Authority): Regional Authority being created to serve all wholesale water and wastewater customers of the Detroit Water and Sewerage Department and the City of Detroit.

DWSD-R (Detroit Water and Sewerage Department-Retail): The department that will operate and maintain the local water and sewer infrastructure serving Detroit's retail customers.

PMO (Program Management Office): Staff from three consulting firms are providing support services needed to key stakeholders participating in planning for stand up of the GLWA. The PMO is located on the 11th floor of the DWSD Water Board Building.

MOU (Memorandum of Understanding): The legal agreement signed by Oakland, Wayne and Macomb Counties, the State of Michigan, and the City of Detroit on September 9, 2014, outlining the requirements to create the GLWA and DWSD-R.

Study Groups: Four groups representing the functional areas of the GLWA to support completion of the work outlined in the MOU. Groups are comprised of members identified by the Counties and DWSD including subject matter experts (SMEs).

Coordinating Group: Group that reviews Study Group deliverables, monitors master schedule progress and provides the GLWA Board of Directors with information for decision-making.

GLWA Board of Directors: Decision-making body for GLWA formation and future operation.

Basecamp: Internal project website maintained by PMO to store Study Group documents and monitor the master schedule. The site can be accessed by members of Study Groups, the Coordinating Group and the GLWA Board.

Program management is a project delivery method typically used to manage large capital improvement programs. It temporarily provides specialized expertise and resources to manage a short-term increase in workload. In the case of the GLWA, the PMO is providing resources to DWSD and the GLWA Board. These resources are supporting the founding members of the GLWA and system stakeholders as they take on extra activities to launch the GLWA.

The PMO is overseeing completion of activities outlined in the MOU as well as a broad range of other efforts required for formation and successful implementation of the GLWA. This includes managing the schedule and document storage, facilitating meetings and maintaining an internal program website. A public website (www.gwater.org) was also developed by the PMO and is being maintained by DWSD. Eric Rothstein, CPA, of Galardi Rothstein Group, is serving as the GLWA Implementation Planning Program Manager guiding development of the regional Authority. OHM Advisors and Project Innovations are providing the support services.

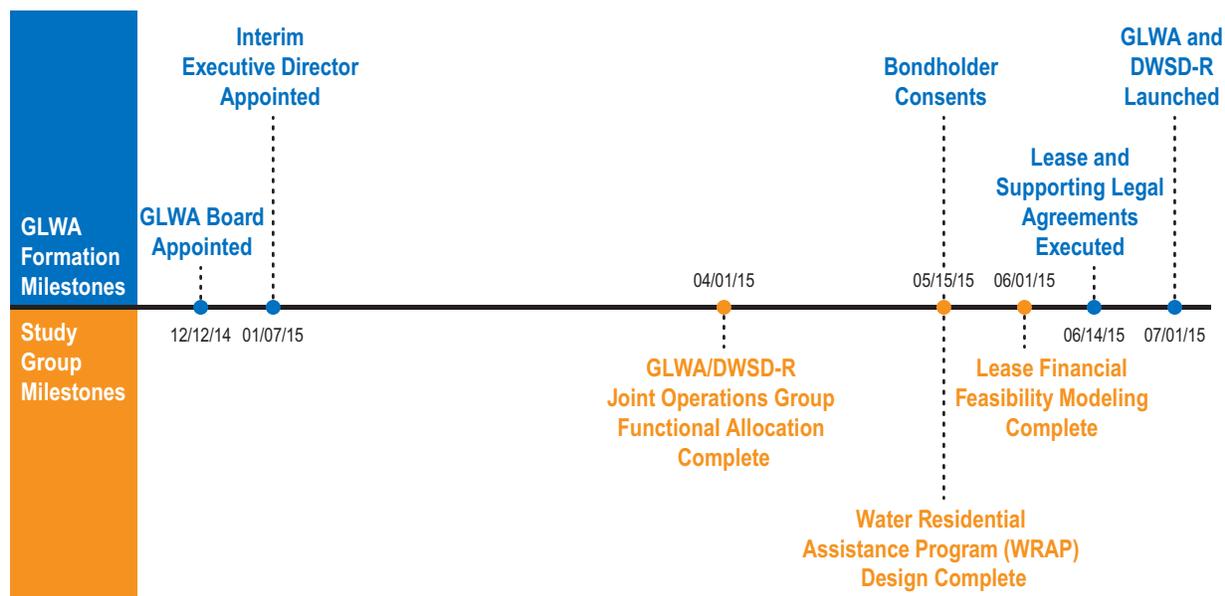
From an operational perspective, the most complex and daunting activity involves separating DWSD into the wholesale and retail service delivery providers of the GLWA and DWSD-R. The City of Detroit retains the right to keep employees and continue to operate, maintain, repair and improve its local system. The GLWA will have operational and rate-setting responsibilities for water and sewage treatment plants, major water transmission mains and sewage interceptors, and related facilities.

From a financial perspective, the MOU calls for developing a lease between the City of Detroit, who will retain ownership of the system, and GLWA for its use of the water and sewerage systems. The lease will have an initial term of 40 years and provide for allocation of \$50 million per year of revenue-financed capital for City of Detroit retail system capital improvements. The MOU also provides for funding of a Water Residential Assistance Program (WRAP) equal to 0.5% of the base operating revenues each year to assist low income residential customers throughout the system. This equates to \$4.5 million in program funding for fiscal year 2016. The annual system lease payment to Detroit and the WRAP contributions are to be shared by all system users as what is termed a “common-to-all” expense.

The MOU assumes that revenue requirement or budget increases for water and sewerage services will not exceed 4% each year for the first 10 years under Authority management. Revenue requirements are NOT the same as rates. Revenue requirements reflect the overall costs of the system and are a primary component of the rate formula, but are not the sole determinant of rate increases. Rate increases depend on the volumes of water sold (or wastewater managed) that ultimately impact the retail unit price, the number and types of customer accounts, and other factors.

The State of Michigan also has a role in standing up the GLWA. The State provided \$3.8 million in Competitive Grant Assistance Program (CGAP) funding to help pay for transition costs including

Milestones in GLWA Formation



The PMO is managing the completion of key milestones undertaken by Study Groups and the GLWA Board of Directors to launch the GLWA and DWSD-R in the 200-day timeframe.

financial, legal, and engineering consultant contracts and the PMO. The State also agreed to identify ways to facilitate the GLWA's access and eligibility for State Revolving Fund loans and will assist with permit matters. This includes transfer of the current wastewater treatment plant discharge permit and associated Administrative Consent Order.

Detroit's Immense Water and Sewerage Systems Provide Challenges and Opportunities

The Detroit water system includes five water treatment plants and a network of transmission mains and pumping stations that supply drinking water to 126 suburban communities. The sewage disposal system includes regional interceptors that collect sewage from 76 communities and transport it to a single wastewater treatment plant, as well as pumping stations and combined sewer overflow retention treatment basins.

The vast systems' aging infrastructure presents the GLWA Board with an immediate challenge to strategize and prioritize capital improvement projects. How to appropriate funds will be of paramount importance on July 1. With such a pressing need to address infrastructure, the GLWA Board has an opportunity to demonstrate how a regional Authority can work collaboratively, efficiently and effectively in tackling high priority items that affect millions of customers.

DWSD Staff, Detroit Staff and Stakeholders Do the Heavy Lifting

Several Study Groups have been created to complete the detailed analyses required to develop the lease and shared services agreements between the City of Detroit and GLWA. These Study Groups, which cover both GLWA and DWSD-R activities, report their findings to a Coordinating Group that evaluates and forwards information to the GLWA Board as well as the City of Detroit Mayoral Office. The Coordinating Group meets every other week focusing on a master program schedule developed by the PMO to track progress on key work items. The GLWA Board officially

meets once a month and holds workshops and committee meetings as needed to review, evaluate and discuss work activities.

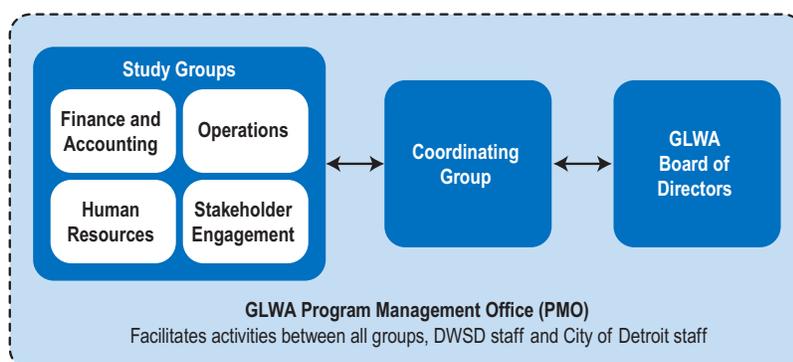
Currently, more than 40 organizations and 150 people are involved in the stand-up effort. Study Groups are composed of 15 to 30 individuals including staff members of each of the Incorporating Municipalities, DWSD and representatives of current DWSD customer communities. The Coordinating Group includes diverse representatives of each of the Incorporating Municipalities and is supported by a number of staff and consultants that facilitated negotiation of the MOU and developed the GLWA Articles of Incorporation.

The Finance and Accounting Study Group has several assignments including determining the accounting treatment of the GLWA formation and asset lease; developing preferred approaches to obtain bondholder consent for the assignment of DWSD debt to the GLWA; and determining how the GLWA and DWSD-R will collaborate to manage financial arrangements going forward.

The Operations Study Group and associated work teams are performing the legwork to allocate assets and operational responsibilities – a significant task considering DWSD's water infrastructure serves a 1,079-square-mile area and wastewater infrastructure serves a 946-square-mile area. The groups are reviewing DWSD, function by function, to determine how the GLWA and DWSD-R systems should work. For example, the groups are defining how Field Services will be coordinated to ensure delivery of service levels with the GLWA handling wholesale customer infrastructure and DWSD-R handling retail infrastructure.

The Human Resources (HR) Study Group is reviewing options for benefits, retirement plans, and compensation plans for both the GLWA and DWSD-R, as well as considering implications of the prospective transition for collective bargaining agreements. The groups are also building on HR

Flow of Information During GLWA Formation



Information flows between all groups involved in creation of the GLWA. The PMO facilitates activities between all groups serving as a repository of all work, providing scheduling oversight and facilitating meetings to keep work activities on target. The Coordinating Group serves as a clearinghouse that reviews information and forwards it on to the GLWA Board for decision making and incorporation into the final agreements.

practice reforms identified as part of DWSD's internal optimization effort. A plan will be developed to transition employees to GLWA and DWSD-R and share information about how these new entities will function. Employee communication is a priority as the new organizations evolve.

The Stakeholder Engagement Study Group will identify the WRAP components. They will also look at how the Water Technical Advisory Committee (TAC) and Wastewater Steering Committee can be used in the GLWA's future outreach process.

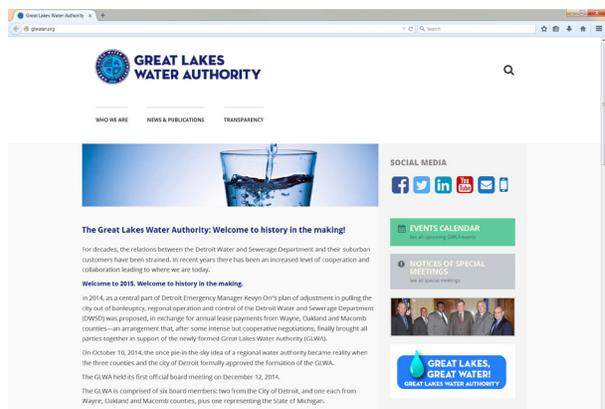
Creating a Financial Framework to Move Forward

Defining the options to provide a feasible lease agreement requires careful analysis and evaluation of accurate and timely financial information. This effort is being supported by the ongoing work of DWSD staff, as well as consultants hired by the GLWA to address fundamental issues. Plante Moran has been engaged to assess alternative accounting treatments of the GLWA and DWSD-R and to construct a cash-flow analysis model to evaluate lease feasibility. Gabriel Roeder Smith is providing actuarial information to assess the prospective Unfunded Accrued Actuarial Liability of the prospective GLWA and DWSD-R entities. Ernst & Young is supporting development of the DWSD-R financial management infrastructure and retail rate modeling tools. Veolia North America is helping to prioritize retail system capital projects and support efficient implementation of high-priority projects.

The GLWA's financial framework will continue to provide flexibility to achieve efficiencies and improve service levels. For example, DWSD's move from debt to cash financing for Capital Improvement Program (CIP) projects will facilitate payment of lease obligations and enable greater flexibility for strategic financial planning down the road.

The GLWA aims to create a strong financial framework for the region's ratepayers. This framework will enable the region to capitalize on profound opportunities to realize cost savings, optimize our water and sewer infrastructure, and promote rate stability.

A Rigorous Schedule for a Lease Agreement
Study Group members will work diligently through June completing assignments to facilitate lease negotiations and develop shared service arrangements between the GLWA and the City. A series of milestones will then be completed to address the MOU requirements and stand up the Authority. The PMO will support the Study Groups, Coordinating Group and GLWA Board throughout these milestones. At that point, the PMO will wind down its work and turn over transition management to the GLWA and DWSD-R.



The GLWA website (www.glwater.org) is one source of information to monitor progress on formation of the GLWA and DWSD-R.

PMO Builds on Wholesale Customer Outreach Process

DWSD and its wholesale customers have worked closely together in an outreach process for nearly 20 years. The PMO has been building on this process in practices and participants. A mix of DWSD, customers and consultants are working together as an integrated team. Natural leadership is being used in the Study Groups with everyone sharing responsibility for completing the work. Professional facilitators are used to ensure open discussions, listening and maximum participation in Study Groups. Finally, a portal called Basecamp is being used for digital documentation and as an important tool for Study Groups, the Coordinating Group and the GLWA Board to keep abreast of activities.

Confidentiality is a key area that differentiates the GLWA stand-up process. During development of the MOU, flow of information to stakeholders was limited by a federal order. As the GLWA is stood up, some information will be protected for financial and legal reasons. New mediation orders are likely to protect specific discussions and negotiations while providing a level of transparency necessary to generate public support for this effort.

Wholesale customers who are not involved in the effort but want to hear regular progress updates should attend the TAC and Steering Committee meetings held every two months; dates are posted on the outreach portal calendar at www.dwsdoutreach.org. The GLWA website (www.glwater.org) includes information from GLWA Board meetings in the transparency section.

“Area leaders, subject matter experts and key staff involved in delivery of water and sewer services are diligently working together to stand up the GLWA,” summarizes the PMO’s Rothstein. “This initiative provides new opportunities for regional collaboration on water resources that will be remembered for decades to come.”