

Great Lakes Water Authority- City of Detroit Agreements



Frequently Asked Questions

The approval on June 12, 2015, of leases and a water and sewer services agreements between the Great Lakes Water Authority (GLWA) and the City of Detroit is a historic event for southeastern Michigan. Establishing a new governance structure for the regional water and sewerage system creates new opportunities for cost savings, regional collaboration, and support for economic development. Below are brief responses to frequently asked questions about the creation of the GLWA and agreements with the City of Detroit.

<p>What are the basic components of the GLWA-City of Detroit agreements?</p>	<p>There are three key components:</p> <ul style="list-style-type: none"> • Governance structure. The agreements provide for a new governance structure that shares water and sewer utility decision-making authority across the region, rather than having it concentrated in the City of Detroit as it has been in the past. • Lease payment. The City of Detroit owns the water and sewer utility assets that serve the region. Under the agreements, the GLWA will lease these assets from the city, for a payment of \$50 million per year. The City may only use that payment to fund improvements in Detroit’s local water and sewer system or to pay the City’s debt service obligations on bonds issued to finance local or regional improvements. The payment cannot be used for any other local government needs. • Water Residential Assistance Program (WRAP). The agreements call for a program to help qualifying, low-income customers pay their water and sewer bills and manage their water use. This program will be funded through utility revenues, and it will be available to qualifying retail customers throughout the GLWA service area.
<p>What are the potential benefits of the GLWA for customer communities?</p>	<p>GLWA customer communities will benefit from more transparency and direct regional input into decision-making; lower interest rates on borrowing thanks to a stronger credit rating; and greater ability to achieve cost savings through more efficient business processes and procurement policies.</p>
<p>How will the City of Detroit benefit from these agreements?</p>	<p>The City will benefit through improvements to its local system infrastructure, funded through the lease payment as described above. The City will also benefit from a set of budget discipline measures incorporated into the agreements, which aim to ensure improvements in bill collections and financial management.</p>
<p>How can we be assured that our rates will stay as</p>	<p>The leases require, by contract, that the GLWA target no more than a 4% annual increase in its budget. Through the leases, GLWA’s customers are</p>

low as possible?	<p>expected to benefit from lower costs due to:</p> <ul style="list-style-type: none"> • Lower interest rates on borrowing, as a result of credit ratings that are expected to be better than DWSD's; and • Greater ability to achieve cost savings through more efficient business processes and procurement policies.
Who negotiated and approved the agreements?	Wayne, Oakland and Macomb counties and the City of Detroit each had their own staff attorneys on the negotiating team. In addition, Detroit and the GLWA were represented by outside counsel on the negotiating team. The leases and water and sewer services agreement between GLWA and Detroit were approved on June 12, 2015, by the GLWA Board and the Mayor of Detroit.
Why were "gag orders" imposed on negotiations of the MOU and agreements?	The bankruptcy court imposed confidentiality orders on these negotiations to support collaboration amongst the parties. These orders gave negotiators the opportunity to have honest, open and frank discussions about terms that would be in the best interests of all ratepayers. They also helped prevent premature disclosure of information while terms were in the early stages of discussion.
How were key stakeholders kept fully informed during the negotiation process?	GLWA's and Detroit's outside counsel provided regular briefings to the City and the GLWA Board throughout the lease negotiation process. As mediator of the negotiations, U.S. District Court Judge Sean Cox also enabled the negotiating parties to brief elected officials and other key stakeholders. More than 160 stakeholders from across the GLWA service area participated in study groups and work teams established to plan GLWA implementation.
How does the governance structure ensure regional collaboration?	The governance structure was agreed upon by all parties and is designed to protect the interests of all ratepayers. For example, by requiring a supermajority 5/6 th vote for critical decisions such as rate changes and budget approvals, the governance structure requires parties to arrive at mutually agreeable solutions. Detroit may block proposals that disadvantage the City; the counties may similarly block proposals that disadvantage suburban customers. Detroit's 2-vote representation generally aligns with the fact that the City generates approximately 40 percent of overall system revenues.
Who will run the GLWA?	DWSD's current leadership deserves to be commended for successfully navigating the utility through a particularly turbulent time in Detroit's history. Reflecting a commitment to transparency, the GLWA Board has initiated a national search to identify the best qualified candidates to the lead the organization going forward.
What impact will the City of Detroit's bankruptcy have on GLWA ratepayers?	Under the bankruptcy Plan of Adjustment, the bankruptcy is effectively <i>saving</i> regional water and sewer ratepayers more than \$30 million per year, thanks to reductions in liabilities related to pensions and other post-employee benefits (OPEB).
But what is the "pension	Under the bankruptcy Plan of Adjustment, DWSD is required to pay a

acceleration” requirement, and how will creation of the GLWA affect that obligation?	portion of its (reduced) employee pension obligations early. That results in a total of an additional \$21 million in cash flow requirements through 2023, resulting in a total \$45 million in pension obligations through 2023. After 2023, no further legacy pension obligations will apply. Formation of the GLWA does not affect this pension acceleration obligation; it will be required of current DWSD customers under any and all circumstances. This pension acceleration is already reflected in the financial forecast projections that anticipate a 4% annual increase in GLWA’s revenue requirements.
What protections do GLWA’s ratepayers have from customer delinquencies?	In accordance with the MOU, every wholesale provider is responsible for its own financial obligations. Under the lease terms, Detroit will establish a Budget Stabilization Fund to cover unanticipated bad debt expenses.
What’s being done about the situation in Highland Park?	Highland Park presents some exceptionally difficult problems. DWSD and Highland Park are currently in active litigation regarding Highland Park’s unpaid water and sewer bills. DWSD has obtained and levied a Judgment against Highland Park. That Judgment has been appealed by Highland Park. DWSD (and likely GLWA as DWSD’s successor) is currently required by Court Order to continue delivering service to Highland Park despite its unpaid bills for water and sewer service until the appeal is resolved. The state is providing limited assistance to Highland Park through grants to improve utility operations and bill collections in that City. Similarly, despite the pending litigation, DWSD and Highland Park are meeting regularly to address operational issues.
What will happen to DWSD and its current employees?	<p>Under these agreements, the DWSD will continue to be the retail service provider for customers within the City of Detroit and will continue to operate, maintain and develop the City’s local system. GLWA employees will operate, maintain and develop the regional facilities.</p> <p>It is expected that most current DWSD employees will have an opportunity to remain employed by DWSD or to apply for positions with GLWA (but not both). Employees hired by GLWA will be offered a fair initial wage and benefit package.</p>
What is being done to help ensure that low-income customers have access to water and sewer services?	Creation of the GLWA provides for funding of a Water Residential Assistance Program (WRAP) that will help qualifying, low-income customers pay their water and sewer bills and manage their water use. This program will be funded through utility revenues and will be available to qualifying retail customers throughout the GLWA service area. The WRAP will complement other existing community assistance programs to help ensure that low-income customers have access to water and sewer services. The City of Detroit is also convening a panel of experts to consider additional options for assistance programs and affordability plans.
How will the agreements affect protection of the	Creation of the GLWA will enable more effective, region-wide optimization in the way sewer flows are managed – which will help reduce the risk of

<p>watershed and water quality?</p>	<p>sewage spills or overflows throughout the system. In the City of Detroit, the improvements to be funded through the lease payment will enable remediation of the system’s oldest or most vulnerable assets, also reducing the existing risk of sewage spills or overflows. Also, particularly in the Detroit local system, a commitment to investing in green infrastructure will help reduce water quality challenges related to wet weather system flows, while providing environmental amenities in the community.</p>
<p>What major capital investments are expected for the regional water and sewer systems?</p>	<p>Water system. DWSD has recently completed a Water Master Plan and defined a capital improvement program for the regional water system. These plans call for closing a water treatment plant and making numerous region-wide improvements to enhance system reliability and service levels. The water plant closure may provide substantial recurring operating and maintenance cost savings. Over the 5-year capital planning period ending in FY-2020, the planned system investments are expected to total \$614.5 million, all of which can be financed within the targeted limit of a 4% annual increase in revenue requirements.</p> <p>Sewer system. DWSD is completing two major biosolids management capital projects that will address long-standing regulatory compliance challenges. It is expected that the GLWA will initiate a sewer system master planning effort in the near future to define the investments needed to improve regional system optimization, address wet weather management challenges, and continue to enhance regulatory compliance.</p> <p>Several reviews of system needs, including that conducted by EMA, Veolia North America, and through the Water Master Planning process, as well as internal evaluations, have identified a variety of opportunities to achieve significant cost savings through investments in new processes and technologies. These identified projects resulting in cost savings and improvements in efficiencies are being incorporated in the operating and maintenance future plans of the water and sewer systems and / or are already in progress.</p>
<p>What major capital investments are expected for the Detroit local water and sewer systems?</p>	<p>The annual lease payments and Detroit local system revenues will be used to fund significant, needed reinvestment in the City’s local water and sewer systems, to address system efficiency, service levels and regulatory compliance.</p>