

GREAT LAKES WATER AUTHORITY – CITY OF DETROIT FACT SHEET



The approval on June 12, 2015 of leases and service agreements between the Great Lakes Water Authority (GLWA) and the City of Detroit, and modification of related US District Court mediation orders, provide an opportunity to clarify and underscore facts about the regional water authority:

- All system revenues, including Detroit retail revenues, will go to the GLWA and are insulated from any future bankruptcy claims. GLWA revenues are not transferable to the City of Detroit's General Fund and no payments to the City will be made for the lease of the water and sewer system. The City of Detroit, like all GLWA wholesale customers, is required to meet all of its financial obligations.
- The **only** new financial obligations arising from the GLWA leases are the lease payment (\$50M) and funding of the Water Residential Assistance Program (WRAP – set at 0.5% of revenues, estimated at \$4.5 million for FY 2015-16). Suburban customers will pay approximately 70% of these new obligations; Detroit customers will pay approximately 30%.
- The leases establish **by contract** the target of limiting revenue requirement increases to 4% per year. GLWA financial forecasts, independently affirmed by Plante Moran, show that both the lease payments and the WRAP can be funded within this limitation.
- **With or without establishment of the GLWA**, DWSD customers will remain responsible for the frozen DWSD employee-related pension obligations of \$45 million through 2023 (\$21.4 million of which represents the pension accelerated amount arising from the Plan of Adjustment with the remaining amount being the normal pension payments prior to bankruptcy). Suburban customers will pay approximately 60% of the regional system portion of this obligation; Detroit customers will pay approximately 40%.
- Wholesale customers, as well as Detroit retail customers, **benefit substantially** from the restructuring of Detroit pension/OPEB liabilities under bankruptcy. Annual cash flow savings for GLWA and DWSD customers are projected to exceed \$30 million per year, with total savings in excess of \$750 million.
- The GLWA will provide service to the Detroit retail system under terms that require **greater scrutiny** of Detroit's retail finances than of any of GLWA's wholesale customers. Unlike other customers of the GLWA, Detroit is required to fund a Budget Stabilization Fund for unanticipated bad debt expenses, has specific budgetary compliance requirements, is subject to a Financial Review Commission, will remain under certain court orders, and the GLWA Board is authorized by the leases to establish Detroit retail rates, bill, collect and enforce, if necessary, to ensure payment of all Detroit retail revenues.

- The GLWA governance **was agreed upon** by all parties to the Memorandum of Understanding and provides all of the Incorporating Municipalities with voting rights. Supermajority voting requirements on major decisions impose requirements for collaboration. Detroit's 2-vote representation **aligns with** Detroit's approximate 40% share of system revenues and can be countered by four votes appointed by the suburban interests. At least 3 non-Detroit votes will be required for major decisions.
- GLWA lease and service agreement negotiations, as well as operational planning, **were conducted openly**. Representatives of the Incorporating Municipalities were involved in all negotiations and, therefore, had every opportunity to brief key stakeholders, Board members, and elected officials. More than 160 stakeholders from across the GLWA service area participated in study groups and in work teams charged with planning GLWA implementation. The GLWA Board conducts business in open meetings and follows the requirements of the Michigan Open Meetings Act.
- Establishment of the GLWA **does not change** the treatment of the Highland Park delinquency, nor does it alter options for allocating costs associated with provision of water and sewerage services.
- Similarly, establishment of the GLWA cannot alter the fact that DWSD incurred, in years prior to the establishment of the GLWA, write-offs, losses, and substantial costs to terminate unfavorable financial arrangements. However, new governance of the GLWA (and of DWSD's retail system) will help avoid similar costs for all customers in the future. Current rates and system financial position already reflect these historical costs; they will impose no further rate impacts.
- DWSD is **not over-leveraged** or financially compromised by its indebtedness. DWSD's historical and projected financial performance provides for more than adequate coverage of debt service obligations, consistent with industry standards. DWSD's policies to reduce reliance on indebtedness reflect a policy direction to enhance financial flexibility and strength. The GLWA (or the DWSD Board) has discretion as to the timing and extent to which this policy direction is implemented.