GREAT LAKES WATER AUTHORITY – CITY OF DETROIT WATER AND SEWER AGREEMENTS

Information to Address Major Concerns

The approval on June 12, 2015, of leases and service agreements between the Great Lakes Water Authority (GLWA) and the City of Detroit marks a historic opportunity to foster regional collaboration. The leases call for wholesale service contracts, currently between DWSD and its wholesale customers, to be assigned to the GLWA. As wholesale customers consider these contract assignments, it is important to address some specific concerns expressed by selected customers and community representatives, as discussed below.

Concern #1: The lease payment (LP) should only be paid to Detroit if actual system savings are achieved.

In the discussion related to these costs, there are contentions that the GLWA will result in $90 million per year in additional costs to customers, that the GLWA is to achieve savings to offset these costs, and that forecasts of suburban rate increases are almost 10% per year for the next two years. As to these contentions:

- The GLWA provides for two new payments to be paid within GLWA revenue requirements: the lease payment and the Water Residential Assistance Program (WRAP). **These payments will total approximately $54.5 million, not $90 million**, in fiscal year 2015-2016.
- **Savings to offset these payments were not required under the terms of the agreements.** The Memorandum of Understanding (MOU) and Articles of Incorporation established a change in governance structure for the regional water and sewer system in exchange for the new payments required under the leases. Nevertheless, creation of the GLWA is expected to result in substantial savings, thanks to better interest rates on debt and independence from the City of Detroit.
- The leases establish by contract the (DWSD-stated) target to limit 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. As always, rate increases will vary by community based on water sales and retail system costs. However, **annual revenue requirement increases of 4%, not 10%, are forecasted over each of the next 10 years.**

Concern #2: Detroit, as a wholesale customer, should have all the same responsibilities as any other wholesale customer – but they will not.

The City of Detroit will have *more*, not less, responsibility under the terms of the agreements. Excerpting from the agreements: "the City and each wholesale customer... shall retain complete responsibility for all obligations associated with their individual revenue requirements." **Detroit will pay the full amount of its billings; suburban customers will not backstop Detroit.** However, unlike GLWA's other wholesale customers, the City of Detroit:

- will be subject to a number of "budget discipline" measures to ensure against significant variation in budget to actual performance;
- must fund a Budget Stabilization Fund to address potential unbudgeted bad debt expenses; and
- is designated as GLWA's Agent for retail rate setting and collections such that GLWA may replace the City in the event that the City does not set rates or collect billings to meet its obligations.

As to a related contention that "the proposed workarounds are too little and likely won't be effective," it bears noting that these provisions were negotiated and through extensive engagement of GLWA counsel and representatives, including perhaps most notably GLWA Board Chair Robert J. Daddow.

Concern #3: Detroit can use the lease payment to subsidize and reduce rate increases and make fewer repairs than we intended.

The leases are completely faithful to the terms of the MOU and Articles of Incorporation signed by the executives of the Incorporating Municipalities and approved by the respective governing boards. The lease payments may be used only to pay for Detroit local improvements, for debt service on bonds issued to fund Detroit local improvements, or for the City's share of debt service on bonds issued to fund regional system improvements. In the context of the MOU negotiations, the City's agreement to "keep the funds in the System" was not only critical for the successful negotiation of the MOU, but also indicative of the City's commitment to fund its retail system improvements.

Concern #4: The governance structure requires Detroit's cooperation because Detroit gets 2 votes while individual counties get 1 vote (unlike the Cobo Deal, where each county gets 1 vote).

Beyond the fact that the governance structure was agreed upon by the executives of the Incorporating Municipalities, two aspects are noteworthy. First, **the need for cooperation is mutual.** Detroit Board members can be blocked by the collaboration of members from the counties; as noted, the counties can be blocked by Detroit. Second, Detroit currently represents roughly two-fifths of DWSD's existing revenue stream.

Concern #5: The State should solve Highland Park's (HP) $25 million of unpaid bills which grows by the day and is being paid for by the suburbs.

The State **is rendering assistance** to address, in part, Highland Park's difficult situation through grants to enhance utility operations. In any event, the Highland Park situation does not affect the merit of the GLWA or contract assignments thereto. **Citing Highland Park is a distraction**.