

**SUMMARY OF GLWA REGIONAL PARTNERSHIP  
OAKLAND COUNTY BOARD OF COMMISSIONERS  
WATER ALTERNATIVES STUDY COMMITTEE  
SEPTEMBER 10, 2014**

The Memorandum of Understanding, signed on September 9, 2014, by Detroit Mayor Mike Duggan, Macomb County Executive Mark Hackel, Oakland County Executive L. Brooks Patterson, Wayne County Executive Bob Ficano, and Governor Rick Snyder seeks to end decades of regional division over the Detroit Water and Sewer Department and is an effort to resolve a key issue in the Plan of Adjustment in the Detroit bankruptcy case.

The memorandum has 15 key provisions:

1. **THE AUTHORITY HAS NO TAXING POWER.**
2. **THERE IS NO OAKLAND COUNTY GENERAL FUND OBLIGATION.**
3. **DETROIT MAINTAINS RESPONSIBILITY FOR ITS OWN LOCAL (RETAIL) WATER AND SEWER SYSTEM.** Detroit keeps exclusive responsibility for their local water and sewer system in DWSD. The Detroit local system is made up of approximately 3,000 miles of local sewer pipe and 3,400 miles of local water mains serving the neighborhoods of Detroit. Detroit will have full responsibility to repair and rebuild their local system; like all wholesale customers, the City retains the obligation to pay the entire cost of water and sewer services provided the City regardless of the actual collections from their customers; Detroit keeps their own bad debt expenses.
4. **A REGIONAL AUTHORITY IS FORMED TO OPERATE THE REGIONAL SYSTEM.** A new regional authority will be formed called the Great Lakes Water Authority (GLWA) to operate the regional water and sewer assets. The GLWS Board will be made up of 6 members: 2 appointed by the Mayor of Detroit, 1 each by Wayne, Oakland, and Macomb Counties, and 1 by the Governor from the service area outside the three counties. If the Board of Commissioners from Wayne, Oakland, or Macomb County chooses not to participate, the Governor will appoint a board member from their area but the law also provides that the charges or rates charged for services to a non-constituent municipality may be greater than those to constituent municipalities. MCL 124.290.
5. **THE SUBURBAN CUSTOMERS ARE PROTECTED BY SUPER MAJORITY VOTING REQUIREMENTS.** Major issues will require 5 votes out of 6 for GLWA approval. These include decisions relating to appointment of the Authority's general manager/executive director, approval of rates, fees and charges and rate setting protocols, issuance of debt which shall be revenue backed debt, approval of annual operating budget, annual approval of a rolling Five Year Capital Improvement Plan, adoption of a procurement policy, approval of a lease of the

systems from the City, removal of any board member for cause, determination of any compensation of Board Members which shall be consistent with practices for other large public utilities.

6. **GLWA LEASES REGIONAL ASSETS FROM THE CITY FOR \$50 MILLION A YEAR.** The GLWA will lease the regional assets from the City of Detroit for 40 years for \$50 million per year. The leased assets will include approximately 400 miles of regional water mains and 360 miles of regional sewer pipe, 5 water filtration plants, the Jefferson Avenue Sewage Treatment Plant, and a number of retention basins and pump stations. Detroit will retain ownership of these assets. Regional assets will involve all infrastructure, equipment, facilities, land and other such fixed assets other than those retained as local assets by the City (the split of which between the City and new Authority will be defined in the coming months).

7. **ALL LEASE PAYMENTS MUST STAY WITHIN SYSTEM TO FIX DETROIT'S INFRASTRUCTURE.** Detroit must use the \$50 million annual lease payment only for capital improvements to the system and not to support payments to its general fund. The Detroit local system has suffered more than 5,000 water main breaks the last three years, and the rate of incidents is rising dramatically. Detroit must use these funds for the repair and rebuilding of Detroit's local water system under DWSD, to build more capacity for storm water events, or to contribute to Detroit's share of the costs of GLWA's capital improvements.

8. **GLWA LEASE PAYMENTS WILL SUPPORT BOND ISSUE(S) TO SPEED UP DETROIT WATER AND SEWER SYSTEM REPAIR AND REBUILDING.** If Detroit chooses to bond (rather than contract and repair on an annual basis), the GLWA lease payments will fund the debt service (principal and interest) associated with potentially \$500-800 million in bond issues to allow Detroit to move quickly to rebuild its deteriorating local water and sewer system.

9. **DETROIT SOLELY RESPONSIBLE FOR PAYING FOR ITS LOCAL SYSTEM'S OPERATING COSTS.** Detroit retains and will take full responsibility for billing and collection for the Detroit local system, including the inability to collect from its residents and businesses. Any collection shortfalls will be the responsibility of Detroit, and not any other community.

10. **A REGIONAL \$4.5 MILLION WATER AFFORDABILITY FUND IS CREATED.** The GLWA will create a Water Resources Affordability Program (WRAP) with a dedicated contribution of 0.5% of revenues (a figure consistent with other water and sewer programs nationally). The first year's funding will be \$4.5 million (based on FY-2015 operating budget), and is expected to grow annually as revenues increase. The fund will help support water customers across the region that are financially unable to afford water service.

11. **REVENUE REQUIREMENT INCREASES TO BE LIMITED TO NO MORE THAN 4% A YEAR FOR 10 YEARS.** Based on an extensive analysis by several financial experts, the parties believe that the savings resulting from actions taken

in bankruptcy, lower financing costs, better energy usage, and more efficient operations, will allow the GLWA to make these payments within existing and already projected revenues and operate on annual revenue increases of no more than 4% a year for the next 10 years. Individual communities might have differing rates if they choose to make additional improvements to their local systems, use water and sewer equity in lieu of imposing rate increases, and for other causes specific to their local system. The parties retained a consultant, Veolia, to do an independent review to validate the revenue assumption and perform other due diligence necessary to formulate a strategic plan upon the launch of the Authority. The parties have the right to opt out of the deal if the review shows that the 4% annual revenue requirement limit will not be able to be achieved.

12. **ALL CURRENT UNION CONTRACTS WILL BE HONORED.** Of the approximately 1,400 current DWSD employees, it is expected that approximately 500 will stay at DWSD with no change in their employment status or collective bargaining agreement. Approximately 900 workers are expected to transfer to GLWA. GLWA will become a successor employer and will assume and honor all DWSD collective bargaining agreements as is required by Michigan law.

13. **ALL CURRENT CUSTOMER CONTRACTS WILL BE HONORED.** Counties, cities, villages, townships and authorities currently under contract with the DWSD will have their existing contracts honored in full and will realize the benefits of the contracts as they previously bargained for.

14. **APPROVAL BY COUNTY BOARDS OF COMMISSIONERS REQUIRED BY OCTOBER 10, 2014.** The proposed GLWA Articles of Incorporation will now be submitted to the City of Detroit and to the Boards of Commissioners of Macomb, Oakland, and Wayne Counties. The four have until October 10, 2014 to approve the Articles of Incorporation and create the GLWA. If Detroit and at least one other county have acted by October 10, 2014, 1955 PA 233 provides that the GLWA will be created and the Memorandum of Agreement will be in effect. If any of the counties have not acted by October 10, or if they choose to reject the Articles, the Governor will appoint the representative from that county and be subject to the provision of Act 233 that provides that the charges or rates charged for services to a non-constituent municipality may be greater than those to constituent municipalities. MCL 124.290. It is hoped that an approved authority will be included in the final plan of adjustment adopted by the court in the bankruptcy case.

15. **GLWA TO BE UP AND RUNNING IN 200 DAYS.** The formal start of the GLWA will occur within 200 days of its legal formation (on or about April 27, 2015), subject to the due diligence process, obtaining the necessary legal approvals, and execution of the final documents.

Those who oppose the regionalization of the water system under any circumstance should consider the alternative. It's likely if we didn't negotiate a deal that was fair to all sides then the bankruptcy court had the option of engaging in a forced resolution crafted solely by the City Emergency Manager,

**essentially a 'cram down.' That would mean the court could impose a City proposed solution it saw as "feasible" to resolve the challenges of the Detroit Water and Sewerage Board. We would not have the protections we were able to negotiate if we voluntarily stay out of the water Authority.**