



City of Detroit-Great Lakes Water Authority Agreement

Key Takeaways

- Historic, major step forward toward better, more transparent governance of the regional water and sewerage systems. While the lease has been executed, more work remains to fully stand up the Great Lakes Water Authority no later than January 1, 2016.
- Plante & Moran's feasibility study suggests the new authority's lease and low-income assistance program payments are feasible and the water and sewer systems are both expected to meet their ongoing revenue needs within the 4 percent annual revenue increase target.
- Creates guarantees and protections to ensure every community will be responsible for paying its own water and sewer bills. Highland Park amounts owed DWSD are not addressed in the lease agreement – Detroit Water and Sewerage Department has and will continue to pursue enforcement of a Circuit Court judgment ordering payment of amounts owed (\$26 million). The decision to enter or not to enter into the leases does not impact the ability to collect amounts owed from Highland Park.
- Establishes financial help for customers in need through a \$4.5 million regional Water Residential Assistance Program that will be available to all qualified residential customers in the regional system.
- Culminates a lengthy and complicated process that began nearly 200 days ago with the creation of a regional authority. That process required time and effort of representatives from across the region to collect and analyze the financial and other information needed to make this agreement possible.

40-year lease agreement forms first regional water authority in Southeast Michigan

Historic regional cooperation agreement between Detroit, Wayne, Oakland and Macomb counties provides better transparency and more regional control of the water and sewage system that serves some 4million residents. It provides wholesale water and sewerage service to customers throughout Southeast Michigan and water and sewerage service to retail customers in the city of Detroit.

Lease agreement provides \$50 million annual payment to support infrastructure improvements

The \$50 million annual lease payment stays in the system and must be used to make much needed repairs and investments in Detroit local water and sewer system infrastructure many of which could both assist the City but also improve the regional system as well. Initially, \$22.5 million is dedicated to local water and \$27.5 million is allocated for the local sewer system or associated debt service.

The creation of the GLWA and the water and sewage services agreement protects customers

The lease helps protect all wholesale customers against the delinquencies of City retail customers, creating a budget stabilization fund in the initial amount of \$23 million for retail revenue protection over the next three years. This lease also helps protect City retail customers against delinquencies of the wholesale customers. This fund will help ensure all communities are responsible for their own bills and creates a stronger level of confidence in the system's revenue projections. This provides the greatest level of protection for wholesale customers possible and ratepayers are protected from dramatic year-to-year revenue rate increases.

Quarterly financial performance reviews creates better transparency and corrective action

Establishing "budget discipline measures" will help evaluate budget and agreement performance. Quarterly reviews allow for corrective actions to be implemented and ensures fiscal issues, if any, are dealt with immediately.

Agreement creates balance between Detroit and the suburbs in regards to funding and administration

Detroit will become GLWA's largest customer and the lease agreement recognizes the uniqueness of the city's physical and legal relationship to the regional system. Factors include the integrated nature of the Detroit and regional piping systems, joint regulatory responsibilities and the City's continued ownership of the water and sewerage asset.

Water rates to be based on past usage

In addition to other elements such as peak demands, the amounts that the communities pay to the authority for water will be based on the 24-month average of the two most recent years volume of actual and will have a greater fixed cost element than in previous years. Previously, rates were based on customer-community water purchase commitments and had a smaller fixed cost component. This new approach, effective July 2015, should reduce significant fluctuations in revenues because the rates are

more closely tied to actual usage, not assumptions. Local communities set the rates charged to their residents and commercial customers for services including both the individual community costs as well as the amounts currently paid to DWSD.

In addition, with the changes in the methods and assumptions used in calculating the sewer charges to the communities, the charges have been largely fixed in any given year with variances prospectively considered. Billings for the sewer services rendered are now sent monthly and have improved the cash flow of the sewer operations (previously billed quarterly).

Authority assumes GLWA employee related pension obligations

The Authority, the City of Detroit and Detroit General Retirement System will enter an agreement regarding pension obligation reporting to enable the authority to manage its obligation to pay the GRS for its share of DWSD's obligation to the frozen GRS defined benefit plan. Actuarial reports will assist the Authority in managing this obligation to limit the amount of potential GRS liability it in 2023 and help ensure that the Authority funds only its share of the GRS in periods from FY-2024 forward.

Lease agreement takes effect upon satisfaction of conditions.

The lease agreement has been executed, but will not be effective until certain conditions have been met by no later than January 1, 2016.