

Great Lakes Water Authority Agreement

August 10, 2015

Agenda

- I. **Introduction** – Brian Kischnick, City Manager
- II. **Detroit Water and Sewer Department (DWSD) Contract** – Tim Richnak, Public Works Director and Tom Darling, Director of Financial Services
- III. **Evolution of Great Lakes Water Authority (GLWA)**
- IV. **Provisions of DWSD/GLWA Lease**
- V. **Operations**

City Council will need to determine assignment from DWSD to GLWA at a future meeting.

DWSD Contract | History

35

Years with Automatic
Extensions

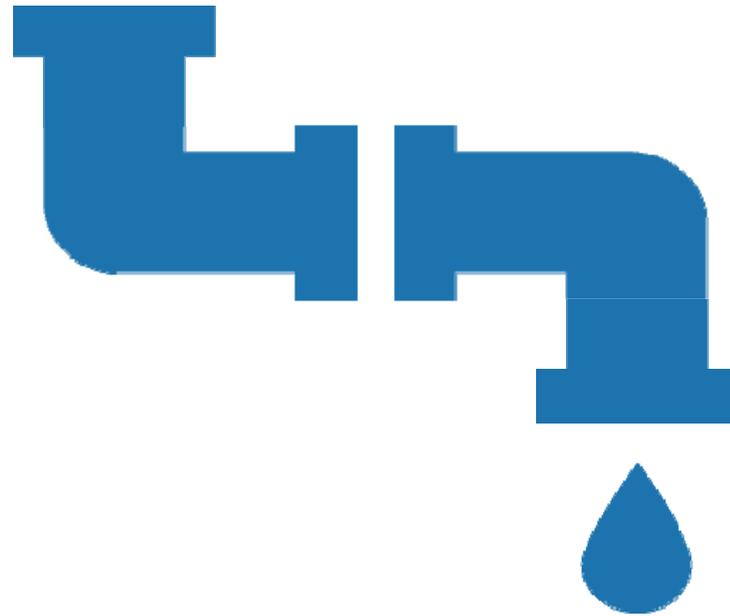
1961

30

Years with Automatic 10 Year
Extensions

2008

Current Contract | Article 5, Pressure and Flow Volume



DWSD Agrees to Deliver Water at
Six Distribution Points

Current Contract | Article 5, Pressure and Flow Volume



Periodic Review Years Two, Five and
Every Five Years Thereafter

Current Contract | Article 7, Rates



Customer Agrees to Pay Rates Established by
DWSD Board and Rates Shall be Reasonable

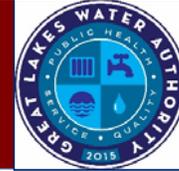
Current Contract | Article 13, Assignment



Consent to an Assignment Shall Not be
Unreasonably Withheld



CITY OF DETROIT - GREAT LAKES WATER AUTHORITY



GLWA Agreements/Impact/Transiti on

Bob Daddow
GLWA Board of Directors, Chair
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GLWA – Detroit Agreements

Water and Sewer Facilities Leases

- Approved June 12, 2015
- GLWA leases regional water and sewerage facilities
- GLWA holds interest in all revenues (including City of Detroit retail revenues)
- GLWA assigned bonds payable from revenues; no full faith and credit pledge.
- GLWA revenue requirement increases targeted at max of 4% per year, includes
 - \$50.0M lease payment (funded roughly \$38M suburbs / \$12M Detroit)
 - \$4.5M Water Residential Assistance Program (WRAP) payment
- GLWA frozen Pension Obligation expenses (via bankruptcy) at \$45M thru FY 2023
 - Represents DWSD's standard pension obligation + \$21.4 M / acceleration under Plan of Adjustment

Water and Sewer Facilities Leases (2)

- Lease payment may only be used for Detroit debt service obligations or Detroit local improvements
- A Budget Stabilization Fund (funded by Detroit) to ensure Detroit meets its obligations and Detroit residents are protected from dramatic year-to-year rate increases.
- GLWA assigned wholesale service contracts, vendor contracts, and labor contracts
 - Wholesale contracts subject to approvals not to be unreasonably withheld
- GLWA is a successor employer.

GLWA – Detroit Agreements

Leases Faithful to Articles of Incorporation

- Articles approved by votes of each Incorporating Municipality, and filed with State of Michigan on Nov 25, 2014
- Leases / service agreement provides legal framework for terms within Articles of Incorporation
- Over 200-day lease / service agreement negotiation period:
 - Independent validation of financial feasibility of payments within 4% revenue requirement increases
 - DWSD Board FY'16 rate action honored 4% limitation
 - Over 160 stakeholders engaged in implementation planning

Water and Sewer Services Agreement

- City of Detroit is delegated responsibility for setting retail rates, billing, collection and enforcement. Detroit designated Authority's agent
 - Revocable by Authority in event of failure to satisfy requirements
- **Detroit is responsible for Detroit bad debt expenses and must meet all GLWA obligations**
- Authority to establish 2-year budget; FY 2015-16 as adopted by BOWC in March

GLWA – Detroit Agreements

Water and Sewer Services Agreements (2)

- “Budget Discipline” requirements:
 - Quarterly financial reporting on Detroit retail performance.
 - Reconciliation Committee to address significant budget to actual variances
- Detroit CIP development by February 1 with associated plan of finance and coordination with GLWA CIP.
- City is first responder to field emergency situations within the City limits using prudent utility practices.

Impacts

Positive Financial Outlook

- DWSD liability impact of Detroit bankruptcy
 - **Over \$750M cash flow savings over 40 year lease for all DWSD customers derived from pension / OPEB obligation restructuring**
- Detroit related risk mitigation embedded in lease and service agreements and Agency relationship
 - “Budget Discipline” / Budget Stabilization Fund
- Significant capital financing savings to be realized from improved credit ratings



Addn'l Benefits to Communities

- *Increased input by the region in the governance of the water and sewer operations.*
- *Improved transparency*
- *Stronger financial controls over the DWSD operation included in the water and sewer services agreement*
- *Improved opportunity to market the system and realize economy of scale benefits*

Next Steps

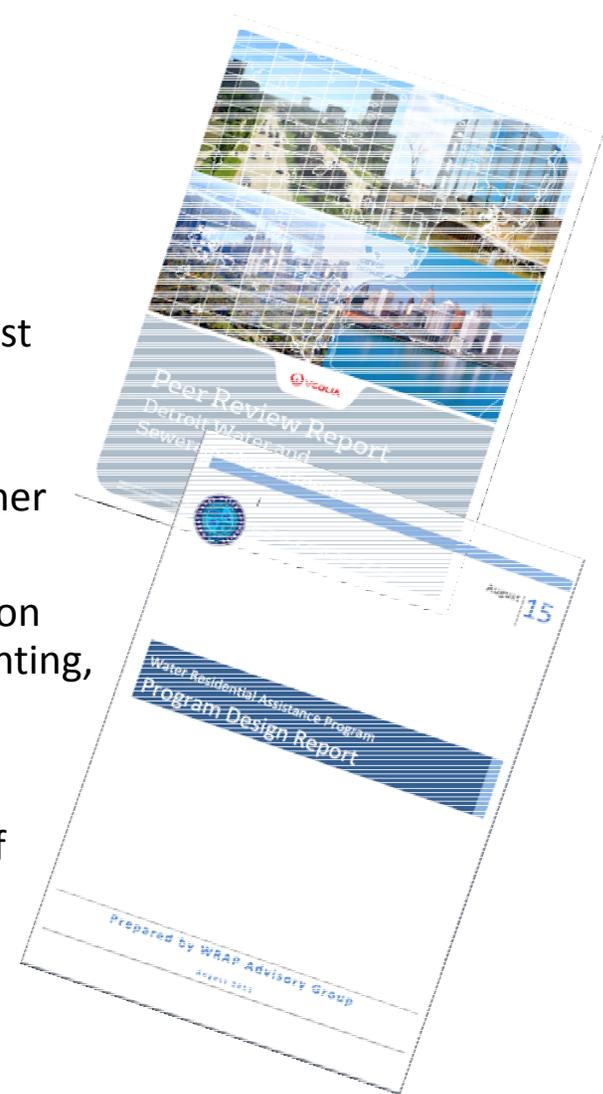
Conditions Precedent Top Priority

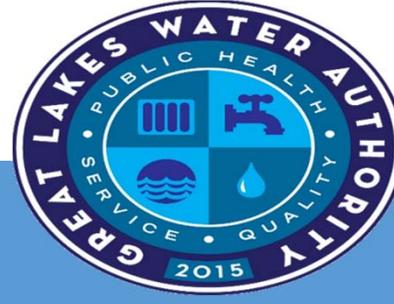
- Legal opinions
- Pension obligation reporting agreement development
- Shared services agreement
 - PIT / PMO / Operations study group
- Assignment of DWSD debt:
 - Ratings confirmation
 - Master Bond Ordinance
 - Bondholder consents
- Wholesale contract assignment process
 - Customer meetings / information / support
- Permit transfers/ GLWA addition to permits

Next Steps

Operational Planning

- Define levels of service, operating protocols, cost tracking and performance reporting of shared services
- Address employment, pension, benefit, and other HR related issues for respective staffs
- Plan deployment and transitioning of information technology systems (e.g., HRIS, financial/accounting, asset management)
- WRAP planning / administrator contracting
- Capital program review and planning (in light of master planning, Veolia, etc.)
- Modification and/or transfer of permits





Customer to Owner Then – Now - Future

July 2015

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Then – Early 2011

Detroit, Wayne, Oakland & Macomb agreed to restructure the 7 member Board of Water Commissioners.

Key Provisions:

1. New board with 5 of 6 new members
2. Qualifications: 7 yrs exp – Regulatory Industry, Utility, Engineering, Finance or Law.
3. W/O/M nominate representatives & Mayor must appoint
4. Super majority vote (5/7) on Rates & Capital Improvement Plan
5. New Board started duties April 1, 2011

Changes for Long term Compliance

November 4, 2011

- **Adopts the Plan of Action**
- **New independent functions:
HR, Finance, Legal,
Procurement, IT(added)**
- **Expanded Procurement
authority**

November 4, 2011

- **Separate DWSD CBAs**
- **No City of Detroit bumping**
- **Can outsource/subcontract**
- **Struck past practice**
- **Increase workforce flexibility**
- **WCCC , MERC enjoined from
jurisdiction**
- **Unions enjoined from related
grievances, ULPs or arbitration
demands**

Then – Challenges and Goals

- Standing up the new ‘unitary’ Department

- **ACHIEVE AND MAINTAIN COMPLIANCE**
Address long standing WWTP solids handling/compliance issues & meet March 2016 Air Quality Mandates

- **Focus on Financial Planning**
 - Improve reporting and monitoring
 - Reduce the rate trajectory through budgetary constraints
 - Reduce reliance on debt financing

DWSD Focus on Effective and Efficient

Optimization

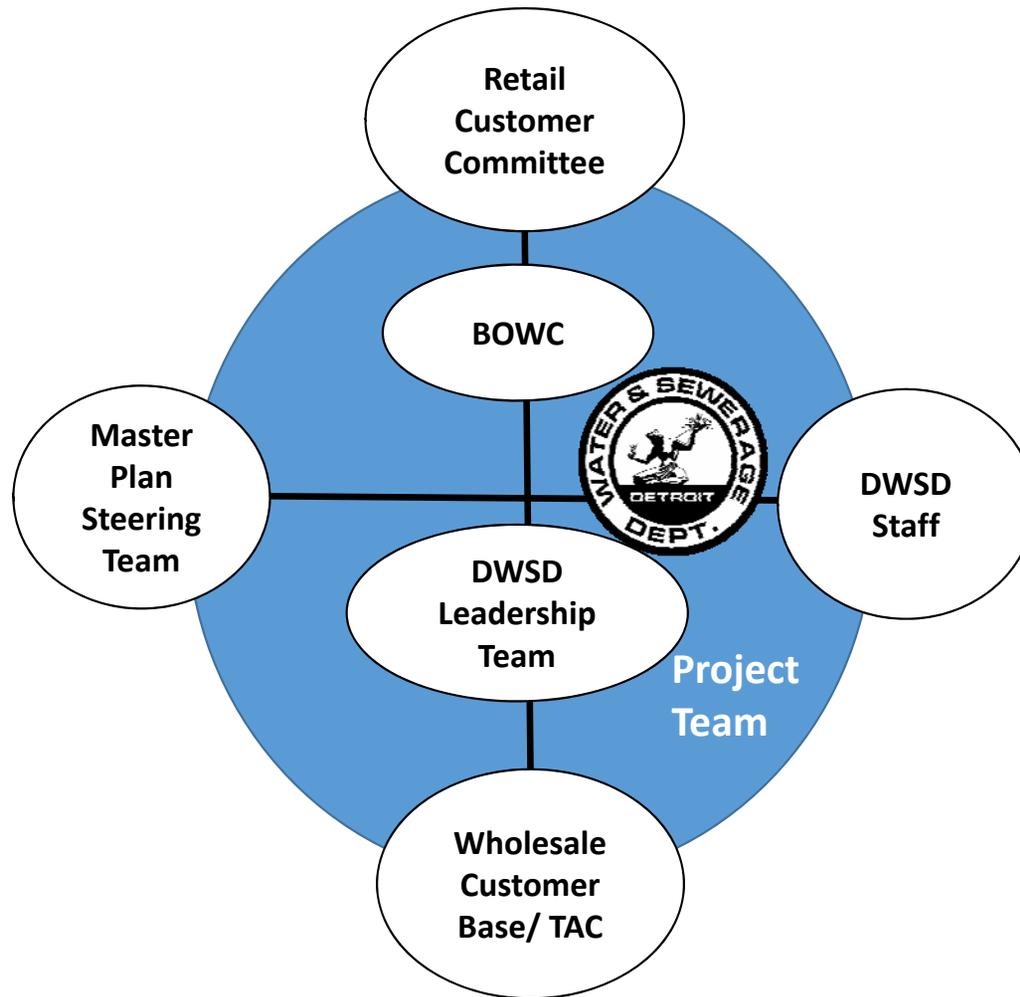
- Customer and Community Engagement
- Achieve and maintain compliance
- Employee Engagement
- OPT (Organization, Process, Technology)
- Selective sourcing
- Ongoing efforts in procurement
- Energy savings
- Capital planning and implementation

Leadership Focus – Engagement

- Leverage Wholesale Customer Outreach Programs (Sewer – 1998 and Water – 2003)
- Invite suburban customers into critical projects
- Reach out to Detroit Retail
- Establish “5th Floor” connection to staff!
- Treat the BOWC as a partner

Water Master Planning Customer Engagement Success

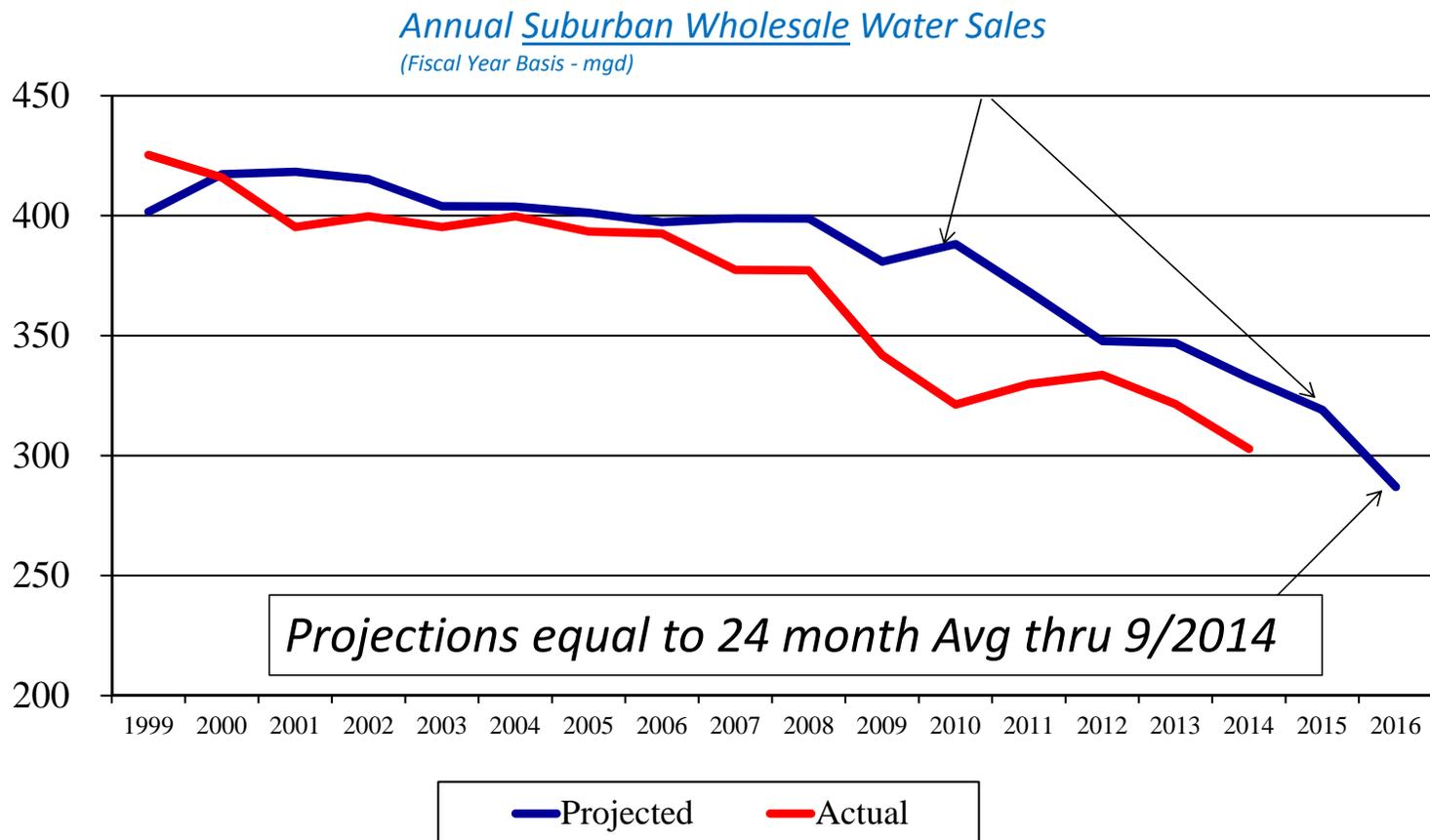
- Wholesale Customer Steering Committee
 - Developed the scope of the study
 - Assisted with RFP development
 - Participated in consultant selection
 - Provided oversight during the study and assured broader review through the outreach process
- Retail Customer Steering Committee
 - Identified Detroit concerns and priorities
 - Assisted in community meetings/outreach



Substantial Financial Benefits!

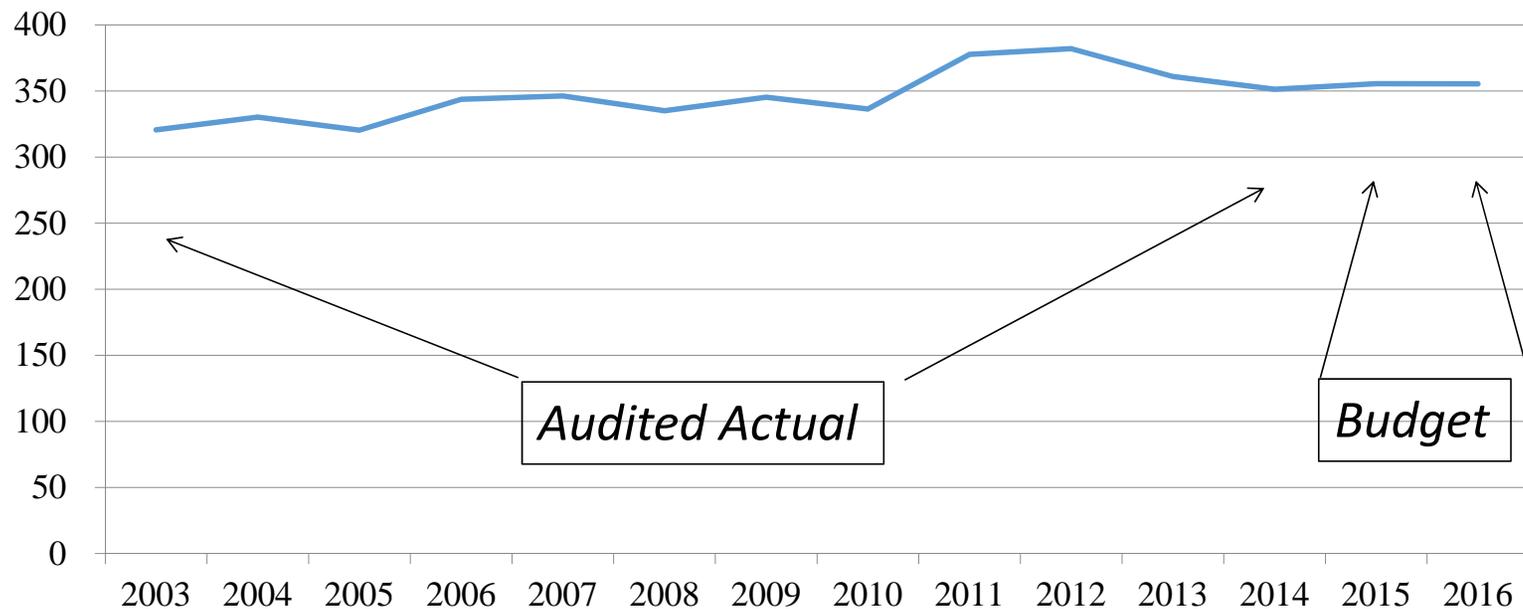
- Right-sizes treatment plants = \$455 million savings
- Reduces booster pumping stations = \$40 million savings
- Enables energy cost reduction of \$4 million per year
- Provides blueprint for DWSD-Retail annual CIP of \$25 million for water main renewal (renewal rate of 1% of system annually)
- Total CIP is \$2.9 billion (20 years) compared to \$9 billion (50 years) in the previous master plan
- CIP was incorporated into “Lease Feasibility Study” prepared by Plante Moran

Now - Benefits of Optimization have largely offset revenue loss due to volume declines

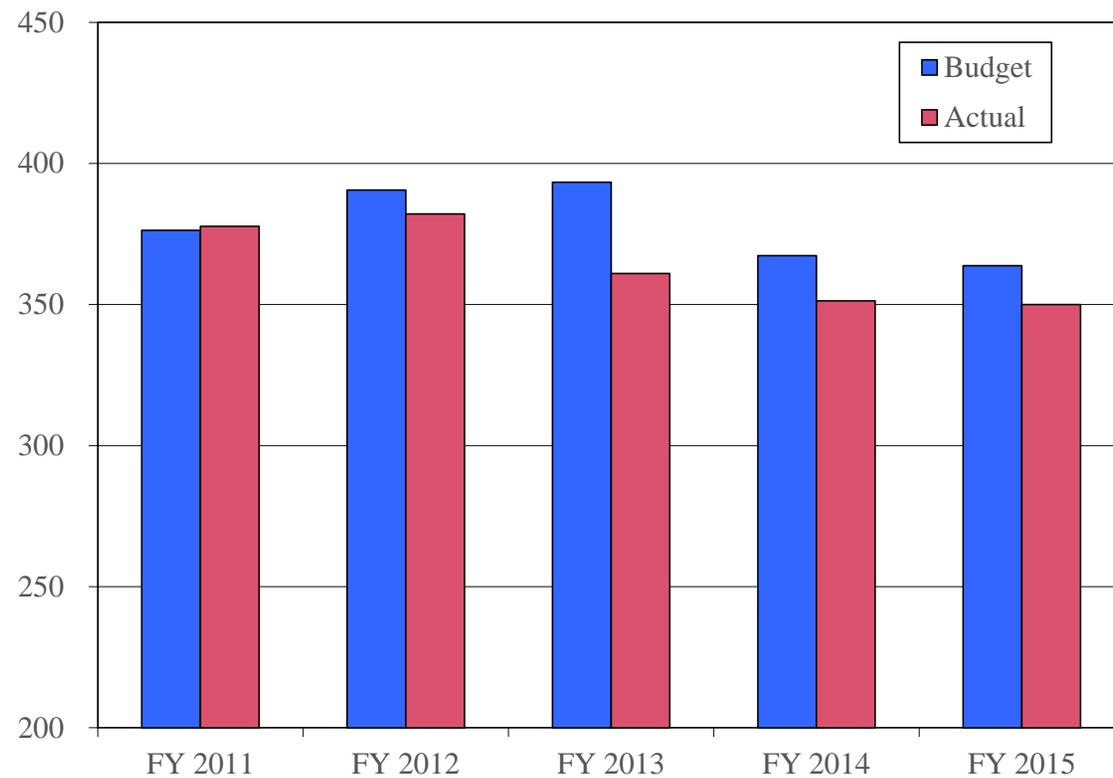


Now - DWSD Operation and Maintenance (O&M) expenses have been controlled.

- The FY 2016 O&M Budget is \$22 million lower than FY 2012 actual and only 2.5% higher than ten years ago.



Now - DWSD Budget vs. Actual O&M Expense (\$ millions)

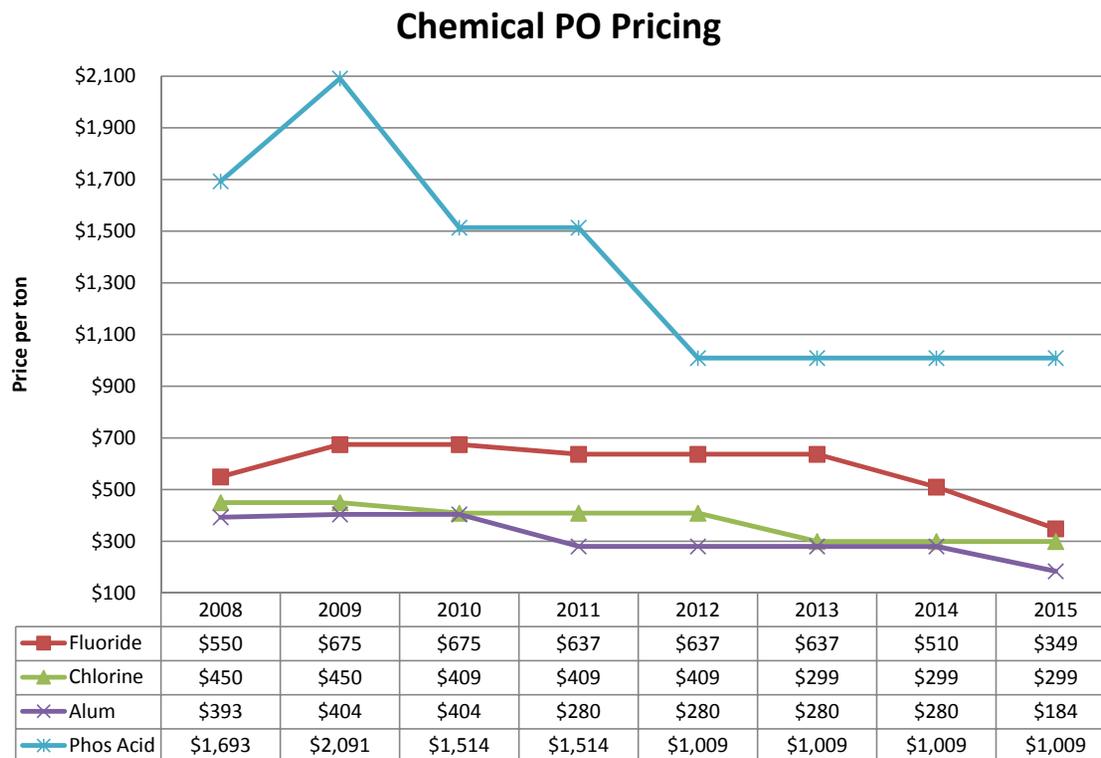


Now - FY 2015 Cost Savings

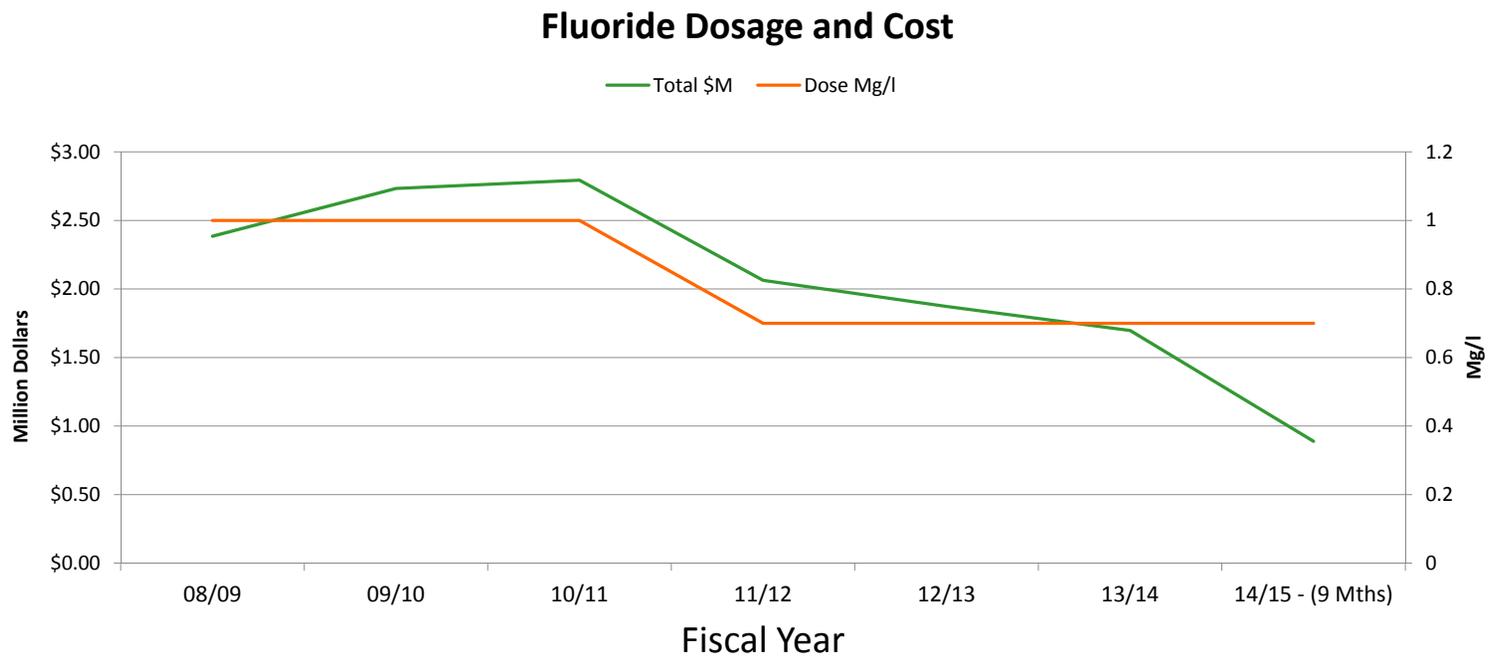
Category	Annual Savings
Ferric Chloride	\$345,560
Pure Oxygen Optimized	\$4,601,346
In-source Hazardous Response	\$1,200,000
Improved SCADA	\$70,000
Aeration Process Optimized	\$750,000
Chlorination-dechlorination Optimized	\$300,000
Reduce polymer dosage	\$750,000
Lower wet tonnage	\$2,592,000
Laboratory restructure	\$1,430,000
Total estimated annual savings	\$12,038,906

Now – Optimize Chemical Feeds

Unit Cost Savings at Water Treatment Plants



Now - Optimize Chemical Feeds Fluoride Savings at Water Treatment Plants

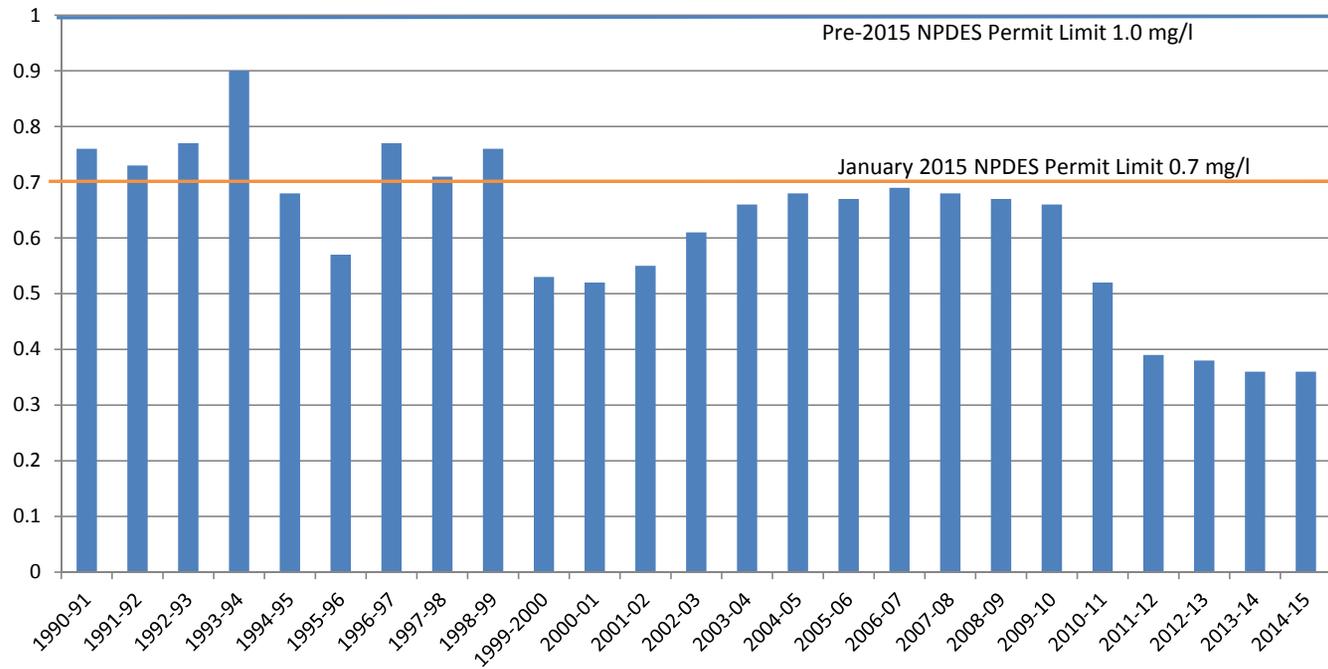


WTP – Unit Cost Savings for Primary Chemicals (FY15 as compared to FY14)

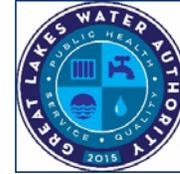
Chemical Commodity	Realized Savings
Aluminum Sulfate	\$480,000
Fluoride	\$180,000
Liquid Chlorine	\$70,000
Phosphoric Acid	\$30,000
TOTAL SAVINGS (Annual)	\$760,000

Cost Savings and Compliance

Historic WWTP Secondary Phosphorus Levels
(mg/l)



*The Future –
Our GLWA Commitment*



*“ Manage the system for
the benefit of all
customers”*



Benefits to Communities

- *Increased input by the region in the governance of the water and sewer operations.*
- *Improved bond rating resulting in future debt service being reduced*
- *Improved transparency*
- *Stronger financial controls over the DWSD operation included in the water and sewer services agreement*
- *Improved opportunity to market the system and realize economy of scale benefits*

Questions



Thank You!

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Procurement Division - Cost Savings

(Reductions, Avoidance, Containment)

Veolia Recommendations

- Achieve Support Functions Savings estimated below

FY	Total Savings
2015	\$ 3,339,766
2016	\$ 13,039,870
2017	\$ 14,206,417
2018	\$ 14,243,761
2019	\$ 14,875,331

- Achieve working capital gains through modified payment terms and early pay discounts
- Installation of fleet-wide GPS tracking system accounts for 100% of maintenance management savings (fuel and staff productivity)

DWSD Status Update

Category	Realized Savings
Competitive Process	\$ 2,030,000
Consolidated/Leveraged Purchases	\$ 110,000
Negotiated Savings	\$ 540,000
Outsourcing	\$ 1,080,000
Inventory Optimization	\$ 1,480,000
FY2015 Total Savings (Yr 1)	\$ 5,240,000

- Examine other segments including material substitutions, specification/scope modifications, transactional costs, insourcing and cost sharing agreements to identify direct cost savings opportunities.

And Soon - GLWA Cost of Service Study

- Much is changing...
 - Bifurcation of regional/local systems
 - Cost accounting and financial reporting improvements – supports improved transparency
 - Ability to consider incentives that drive further system improvements
 - Ability to consider marketing opportunities

Future - Deliver on Energy Opportunities

Improvement Measure Opportunity	Springwells WTP	Lake Huron WTP	Water Works WTP	West, North, Imlay Pumping Stations
Building Automation	X	X	X	X
Heating	X	X	X	X
Ventilation	X	X	X	X
Cooling	X	X	X	
Dehumidification	X	X	X	
Steam	X		X	
Lighting	X	X	X	X
Variable Frequency Drives	X	X	X	X
Chemicals	X	X	X	