

Summary of Proposed Regional Partnership on Water and Sewer System

The Memorandum of Understanding, signed today 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 Sewerage Department and is an effort to resolve a key issue in the Plan of Adjustment in the Detroit bankruptcy case.

The memorandum has 12 key provisions:

1. **Detroit maintains its own local system.** Detroit keeps exclusive control of the local water and sewer system in DWSD – under authority of Mayor and City Council. 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 authority to repair and rebuild the local system.
2. **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 GLWA 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 Wayne, Oakland, or Macomb choose not to participate, the Governor will appoint a board member from their area.
3. **5 votes required at GLWA for major issues.** Major issues will require 5 votes out of 6 for GLWA approval. These include decisions relating to rates, budgets, contracting, and selection of management.
4. **GLWA leases assets from Detroit 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.
5. **All lease payments must stay within system to fix Detroit's infrastructure.** Detroit will 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 can 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.
6. **GLWA supports bond issue to speed up Detroit rebuilding.** If Detroit chooses, GLWA will support using all or part of the \$50 million of the annual lease payment to support bond issues, potentially supporting \$500-800 million bond issues to allow Detroit to move quickly to rebuild its deteriorating local system.

- 7. Detroit solely responsible for paying for its system's operating costs. Detroit will take full responsibility for billing and collection for the Detroit local system and any shortfalls will be the responsibility of Detroit, and not any other community.**
- 8. \$4.5 million water affordability fund created. The GLWA will create a Water Residential Affordability Program (WRAP) with a dedicated contribution of 0.5% of operating revenues. The first year's funding will be \$4.5 million and is expected to grow annually. The fund will support water customers across the region who are financially unable to afford water service.**
- 9. Rate 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 lower financing costs, better energy usage, and more efficient operations, will allow the GLWA to make these payments and operate on annual revenue requirement rate increases of no more than 4% a year for the next 10 years. Individual communities might have higher rates if they choose to make additional local improvements. The parties have retained a consultant, Veolia, to do an independent review to validate the rate assumption and the parties have the right to opt out of the deal if the review shows that the 4% annual rate limit will not be able to be achieved.**
- 10. All 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 status. 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.**
- 11. Approval required by October 10th. 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, 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, the Governor will appoint the representative from that county. It is expected that an approved authority will be recognized in the final plan of adjustment adopted by the court in the bankruptcy case.**
- 12. GLWA to be up and running in 200 days. The formal start of the GLWA will occur within 200 days, subject to the due diligence process, obtaining the necessary legal approvals, and execution of the final documents.**