
Subject: FW: RDS/GT/VB - KWA & DWSD (Water) Meeting
Location: Governor's SE MI Office

Start: Fri 4/19/2013 3:00 PM
End: Fri 4/19/2013 4:30 PM
Show Time As: Out of Office

Recurrence: (none)

Meeting Status: Accepted

Organizer: GovCalendar

-----Original Appointment-----

From: Emmitt, Beth (GOV) **On Behalf Of** GovCalendar

Sent: Thursday, April 18, 2013 1:42 PM

To: GovCalendar; Hichez, Amy (Treasury); Muchmore, Dennis (GOV); Wisniewski, Wendy (GOV); Rustem, William (GOV); Brader, Valerie (GOV); Tedder, Greg (GOV)

Cc: Clayton, Stacie (GOV); Thelen, Mary Beth (DEQ)

Subject: RDS/GT/VB - KWA & DWSD (Water) Meeting

When: Friday, April 19, 2013 3:00 PM-4:30 PM (UTC-05:00) Eastern Time (US & Canada).

Where: Governor's SE MI Office



Host:  SClayton to dial in as Host

Attendees:

RDS/GT in person, Val Brader by phone

Mr. Orr by phone

Harvey Hollins by phone or in person

Attending from DWSD: Jim Fausone, Sue McComerick (Director), Nikki Bateson (CFO) Attending from Flint: Ed Kurtz (he is sending his attendee list over shortly)

Attending from Treasury: Andy Dillon

TO: Governor Snyder
CC: Dennis Muchmore, John Roberts, Harvey Hollins, Allison Scott

FROM: Bill Rustem

SUBJECT: Flint Water System

DATE: April 18, 2013

Governor, this information was compiled by the Department of Treasury.

Summary

In November 2012 the Department of Treasury commissioned the firm of Tucker, Young, Jackson & Tull, Inc. (TYJT) to analyze options for the City of Flint to either remain a customer of the Detroit Water & Sewer Department (DWSD) or to join the Karegnondi Water Authority (KWA) in Genesee County. The purpose of this study was to provide objective analyses to the State Treasurer and Flint's Emergency Financial Manager (EFM) in order to secure future potable drinking water for the City.

In December 2012, staff from TYJT met with representatives from the Department of Treasury and the City of Flint to provide a preliminary report on their findings. At this meeting, five options were presented: These options ranged from the Flint Water Plant providing 100% water, to 100% provision of untreated Lake Huron Water by KWA, to 100% provision of treated drinking water by DWSD, or provision of variable amounts of water from DWSD using a combination of blended DWSD water and Flint River water.

From the presentation of the preliminary report in December 2012 to the submission of the final report by TYJT in January 2013, a number of developments made arriving at a final decision very difficult.

- DWSD provided the City of Flint with at least two modified proposals to consider.
- A debate ensued between TYJT and KWA's principal engineering firm regarding the others' conclusions and estimates for construction of the KWA pipeline.
- The Flint EFM eliminated all options except the 100% DWSD option or joining KWA.

In January 2013, the Office of Financial Review (OFR) provided a comprehensive report to the State Treasurer analyzing three questions: 1) The projected construction costs and why Treasury believed the projections provided by Flint/KWA were acceptable; 2) Identification of the construction contingencies; and 3) Identification of the options Flint will utilize in the event of a construction cost overrun or a delay in construction. At the end of this report, the OFR recommended to the State Treasurer that KWA presented the best future option for future potable water. The OFR also concluded that KWA appeared to be the cheaper option; the quality of water would improve; Genesee County appeared willing to assist the City in securing the financing for their portion of the project; the KWA project could signify the beginning of better collaboration between the City of Flint and Genesee County; and the KWA project had both political and popular support.

Between January and April, intense scrutiny of the various proposals was undertaken by Treasury and Flint officials. Treasury officials met with officials from Genesee County to gain a better understanding of the KWA project. In February 2013, Genesee County opened bids for construction of the Lake Huron intakes. This bid opening represented the first meaningful step toward commencing construction of the KWA system. The bid was \$3-million less than projected.

In March 2013, Treasury was notified that DWSD had contacted Flint to negotiate with the City to retain them as a customer. On April 12, 2013, the State Treasurer authorized the Flint EFM to join KWA, pending review of any final offer from DWSD. A final offer was received from DWSD on April 15, 2013.

DWSD's final offer provided two options. The first option was for a "supply only" rate schedule. Only water treatment costs would be recovered and DWSD would absorb all other delivery costs. Capital and operating revenue charges would be calculated based upon KWA's usage relative to the entire demand upon DWSD's Lake Huron WTP. KWA would also have the ability to construct and own its own transmission lines.

The second option was a "full service" rate option. DWSD would provide all production and transmission services. Transmission rates would be calculated only on those costs necessary to supply KWA and no additional transmission rates would be charged. Capital and operating revenue charges would be calculated based upon KWA's usage relative to the entire demand upon the Lake Huron WTP.

Independent analyses of DWSD's final offer by the OFR, the Flint EFM, and the Department of Environmental Quality (DEQ) generally reached the same conclusions:

- DWSD's offer was a framework subject to negotiations and was not a firm offer.
- The offer provided by DWSD was incomplete.
- DWSD's offer did not include a guaranteed rate beyond year one, nor did it limit maximum annual rate increases.
- The DWSD scenarios were based on 40 MGD of service capacity. However, the KWA project provides 60 MGD of initial capacity with potential expansion to 75 MGD.
- DWSD indicates that Flint/ Genesee County would be given "broadened representation," it is unclear exactly what this means in terms of actual control in the decision making processes.
- The DWSD offer relies on a single transmission system and would require the City of Flint to maintain its WTP for emergency purposes. In addition, it would leave Genesee County without an adequate backup supply to meet their needs.
- DWSD's offer included an attachment that listed the rank-ordered options (from cheapest to most expensive). DWSD Scenario 2 is listed as the least expensive option (but it is unclear how the total cost of this option was arrived at). DWSD Scenario 1 was not listed.
- DWSD provided a summary table of their unit costs but how these figures are arrived at was not clear, so analysis proved difficult.

Without specific details from DWSD on this proposal, a true comparative analysis is difficult to provide. As such the Flint EFM rejected the DWSD proposal and agreed to join KWA.

If further information on this issue is needed, please let me know.