

Cousineau, Sara (Treasury)

From: MIStateTreasurer
Sent: Monday, April 01, 2013 1:36 PM
To: Stibitz, Brom (Treasury); Dillon, Andy (Treasury); Fraser, Roger (Treasury)
Cc: Hichez, Amy (Treasury); Cousineau, Sara (Treasury)
Subject: FW: Karegnondi Water Authority - Oakland County opposition
Attachments: 2013 03 28 Dillion re Flint.docx

FYI

Faith Rodriguez

General Office Assistant

Executive Office - Department of Treasury

(517) 241-2840 - direct

(517) 373-3223 - main

From: Nash, Jim [mailto:nashj@oakgov.com]
Sent: Monday, April 01, 2013 11:19 AM
To: MIStateTreasurer
Subject: Karegnondi Water Authority - Oakland County opposition

Treasurer Dillon;

Please find the attached letter in opposition to Flint/Genesee County contract with the Karegnondi Water Authority. We in Oakland County do not see the business case for this project and the result could cause higher rates for our customers.

Thank you for your consideration.

Jim Nash

Oakland County Water Resources Commissioner
One Public Works Drive
Building 95 West
Waterford, MI 48328
(248) 858-0968

April 1, 2013

Andy Dillon, State Treasurer
State of Michigan
Department of Treasury
PO Box 30716
Lansing, Michigan 48909

Re: DWSD Water Services and the City of Flint

Dear Treasurer Dillon:

I am writing to express my concerns with the City of Flint's recent action to pursue a 25-year contract for water supply with the Karegnondi Water Authority. We believe that the business case for the Karegnondi Water Authority has not been sufficiently validated, whereas the savings to the City and Genesee County ratepayers, if the City were to continue its relationship with the City of Detroit, is more immediate and calculable. The City of Detroit maintains that the City and Genesee County ratepayers would save approximately \$4 Million annually with a new water supply contract, which is basically the same savings predicted by the KWA. Simply put, it does not make economic sense for the City of Flint to separate itself from the Detroit regional water supply system.

Sincerely,

Jim Nash

Cc: Sue McCormick, DWSD Director

Stanton, Terry A. (Treasury)

From: Wurfel, Brad (DEQ)
Sent: Tuesday, April 02, 2013 9:45 AM
To: Stanton, Terry A. (Treasury); Buhs, Caleb (GOV); Wurfel, Sara (GOV); Silfven, Ken (GOV)
Subject: RE: Flint Water System Update

The permits for KWA are already issued.

I've got our folks working up some talking points on the DEQ-related issues this week, but our role here is not what the news really cares about.

b

Brad Wurfel
Communications Director
Michigan Department of Environmental Quality
517-241-7395 - office
517-230-8006 - cell

From: Stanton, Terry A. (Treasury)
Sent: Tuesday, April 02, 2013 9:18 AM
To: Buhs, Caleb (GOV); Wurfel, Sara (GOV)
Cc: Wurfel, Brad (DEQ)
Subject: Fwd: Flint Water System Update

All,

Steve Carmody has asked for some information on this.

I will follow up with him based on the general info below. Any other "updates" at this point?

Thanks, Terry

Begin forwarded message:

From: "Buhs, Caleb (GOV)" <BuhsC2@michigan.gov>
Date: March 29, 2013, 1:12:05 PM EDT
To: "Wurfel, Brad (DEQ)" <WurfelB@michigan.gov>, "Stanton, Terry A. (Treasury)" <StantonT@michigan.gov>
Cc: "Wurfel, Sara (GOV)" <Wurfels@michigan.gov>, "Silfven, Ken (GOV)" <silfvenk@michigan.gov>, "Weiss, Kurt (GOV)" <WeissK5@michigan.gov>
Subject: Flint Water System Update

After speaking with Andy, Dan, Dennis and John, we have a plan for the next steps in Flint's request to participate in the KWA with Genesee County. Here is what we can confirm publicly, although unless it's a permitting question, we should have Treasury (Terry or I) answer any inquiries.

Ed Kurtz will submit a resolution to join the Karegnondi Water Authority (KWA) to the Treasurer, likely today. Once I receive word that we have officially received, we can confirm that we have it and the Treasurer will thoroughly review the resolution and perform due diligence before making a decision. Under PA 436, the State Treasurer must approve contracts over \$50,000 that were not competitively bid.

No date has been set for the Treasurer to complete his review, but, he is fully aware of the tight timelines necessary to get approvals for the upcoming construction season, and will conduct his review accordingly.

That is all we can confirm publicly through next week. Just so you are aware, **and not for public consumption**, a call was placed to DWSD to let them know that Ed Kurtz was submitting his request and that if they have a final best offer that they should submit it very soon. This may prompt them to go to the media, or not, but be prepared if you get a call from that angle.

We need to develop some talking points for the following week, when Andy makes his determination. I will try to put together a draft by the end of the day and send it around for review. If anyone has anything they would like me to add, feel free to send it my way.

Let me know if you have any questions.

-Caleb

Stanton, Terry A. (Treasury)

From: Stanton, Terry A. (Treasury)
Sent: Tuesday, April 02, 2013 2:00 PM
To: Stephen Carmody
Subject: RE: a question about the Flint-Detroit 'water wars' issue

Steve,

Flint Emergency Manager Ed Kurtz has submitted a resolution to join the Karegnondi Water Authority (KWA) to the State Treasurer, it was received late last week. As you are likely aware, under PA 436, the State Treasurer must approve contracts over \$50,000, if not competitively bid.

The Treasurer will thoroughly review the resolution before making a decision. No date has been set for the Treasurer to complete the review, but, he is fully aware of the timelines necessary to get approvals for the upcoming construction season, and will conduct the review accordingly.

Terry

From: Stephen Carmody [sgcarmod@umich.edu]
Sent: Tuesday, April 02, 2013 8:09 AM
To: Stanton, Terry A. (Treasury)
Subject: a question about the Flint-Detroit 'water wars' issue

Good Morning,

I'm looking for an interview or information about the state's opinion on the city of Flint taking part in the KWA pipeline project and the DWSD's opposition. There was a very interesting article about the dispute between KWA and DWSD in the Flint Journal.

Steve Carmody
Michigan Radio
517-962-4771

Stanton, Terry A. (Treasury)

From: Stibitz, Brom (Treasury)
Sent: Wednesday, April 03, 2013 1:04 PM
To: Stanton, Terry A. (Treasury)
Subject: RE: Flint & DWSD water

I am checking with AD

From: Stanton, Terry A. (Treasury)
Sent: Wednesday, April 03, 2013 1:01 PM
To: Stibitz, Brom (Treasury); Fraser, Roger (Treasury); Koryzno, Edward (Treasury)
Cc: Buhs, Caleb (Treasury); Buhs, Caleb (GOV)
Subject: FW: Flint & DWSD water
Importance: High

Do we have a sense on "when" review will be complete?

At last word, Caleb was working up talking points to be used after the review is complete...but hoping to have a sense of when it all could shake out...

From: Wurfel, Sara (GOV)
Sent: Wednesday, April 03, 2013 12:51 PM
To: Stanton, Terry A. (Treasury); Buhs, Caleb (GOV)
Cc: Muchmore, Dennis (GOV); Roberts, John (GOV); Stibitz, Brom (Treasury); Weiss, Kurt (GOV); Silfven, Ken (GOV); Holyfield, Jeff (GOV); Wisniewski, Wendy (GOV)
Subject: Flint & DWSD water

Hi guys –

Just wanted to loop back and check in re: timing on this issue. Last understanding was that was under close review by state treasurer and that soonest decision would be made is end of this week, beginning of next.

As you're both out this week (☹), just want to make sure we have a mechanism in place to coordinate with us in Gov's comm office as soon as know timing and plan so we can be ready with messaging and any outreach that may be needed. Sounds like this will be contentious one way or the other regardless of the determination so just trying to make sure we're prepared as possible.

Please advise. Thanks!
SW

Sara Wurfel, APR
Press Secretary | Executive Office of Governor Rick Snyder
wurfels@michigan.gov
517-335-6397, office
517-599-3470, mobile
Twitter: @SaraLW

Stanton, Terry A. (Treasury)

From: Muchmore, Dennis (GOV)
Sent: Thursday, April 04, 2013 9:44 AM
To: Stanton, Terry A. (Treasury); Stibitz, Brom (Treasury); Wurfel, Sara (GOV)
Cc: Buhs, Caleb (GOV); Roberts, John (GOV)
Subject: RE: Flint & DWSD water

I told the Gov about this again today. Let's make sure we sit on this until Tuesday or so, and do you have a comms plan in place?

From: Stanton, Terry A. (Treasury)
Sent: Wednesday, April 03, 2013 3:24 PM
To: Stibitz, Brom (Treasury); Wurfel, Sara (GOV)
Cc: Buhs, Caleb (GOV); Muchmore, Dennis (GOV); Roberts, John (GOV)
Subject: RE: Flint & DWSD water

Caleb is working on TPs to follow the review/determination. We will be sure to coordinate, etc., to ensure we are prepared.

From: Stibitz, Brom (Treasury)
Sent: Wednesday, April 03, 2013 3:01 PM
To: Wurfel, Sara (GOV)
Cc: Stanton, Terry A. (Treasury); Buhs, Caleb (GOV); Muchmore, Dennis (GOV); Roberts, John (GOV)
Subject: Re: Flint & DWSD water

Assuming we don't get different direction, I suspect Andy would sign early next week. He is on vacation this week.

Sent from my iPad

On Apr 3, 2013, at 12:51 PM, "Wurfel, Sara (GOV)" <Wurfels@michigan.gov> wrote:

Hi guys –

Just wanted to loop back and check in re: timing on this issue. Last understanding was that was under close review by state treasurer and that soonest decision would be made is end of this week, beginning of next.

As you're both out this week (☹), just want to make sure we have a mechanism in place to coordinate with us in Gov's comm office as soon as know timing and plan so we can be ready with messaging and any outreach that may be needed. Sounds like this will be contentious one way or the other regardless of the determination so just trying to make sure we're prepared as possible.

Please advise. Thanks!
SW

Sara Wurfel, APR
Press Secretary | Executive Office of Governor Rick Snyder
wurfels@michigan.gov
517-335-6397, office

Koryzno, Edward (Treasury)

From: Ed Kurtz <ekurtz@cityofflint.com>
Sent: Wednesday, April 10, 2013 9:31 AM
To: Stibitz, Brom (Treasury)
Cc: Fraser, Roger (Treasury); Koryzno, Edward (Treasury)
Subject: Letter to DWSD
Attachments: April 8letter to dwsd.doc

Brom,, attached is a copy of the letter I will be sending to DWSD this morning. First, let me apologize for the tenor of the original draft. However, I hope you can sense our frustration with DWSD. Instead of talking to us, DWSD chose to have a consultant issue press releases in our media market and then conduct live interviews on our local radio stations. This has caused the perception in the community that maybe we don't know what we are doing and have been "reckless" in our analysis of the options. Those releases also include language that makes it appear as though they have provided additional options to us that are less expensive than KWA, again giving the perception that we are not being completely truthful with the public. DWSD needs to understand that this is not helpful in creating a viable working relationship. I can also say in relation to the "bad blood" comment that there is a certain amount of mistrust on the part of the City as it relates to DWSD from the past. Finally, I do appreciate your comments and advise, and am only interested in getting the best long term deal for the City residents. Ed

ELECTRONIC LETTER

April 8, 2013

Sue F. McCormick, Director
Detroit Water and Sewerage Department
735 Randolph, Room 506
Detroit MI 48226

Dear Ms. McCormick:

The City of Flint is in receipt of your email of April 8. In it you indicate you would like to meet to discuss DWSD's recent proposals to Flint. The Emergency Manager, the Mayor and the Genesee County Drain Commissioner are not aware of any "recent proposals". We do see mention of other proposals in the media, but we have received nothing new in writing. In particular Flint takes offense to comments such as "effectively launched the greatest water war in Michigan's history", "reckless push" and a continued reference to "a credible state-sponsored study" that we indicated to you contained several inaccuracies.

It is the City's belief that you made your best offer to us in December of last year. However, having said that, the City of Flint would be willing to review any new options that would be in the best interest of our citizens. Any offer must be in writing, complete in detail, including projected costs over the life of the contract, and provided prior to any meeting. Any offer must also be endorsed by the office of the Detroit Emergency Manager.

Finally, time is of the essence. Please email any of the proposals you referenced in your email to me today.

Sincerely,

Edward Kurtz
Emergency Manager

Stanton, Terry A. (Treasury)

From: Stanton, Terry A. (Treasury)
Sent: Tuesday, April 09, 2013 11:45 AM
To: 'Pardo, Steven'
Subject: RE: Flint participation in the KWA

Still under review...a decision is likely soon.

From: Pardo, Steven [mailto:SPardo@detroitnews.com]
Sent: Tuesday, April 09, 2013 11:42 AM
To: Stanton, Terry A. (Treasury)
Subject: Flint participation in the KWA

Terry;

Can you give me an update/status of the Treasurer's take on Flint's participation in the Karegnondi Water Authority. Is that still "under review" and is a decision or ruling expected to be made soon?

Thanks.

Steve Pardo
Reporter
The Detroit News
(313) 222-2112
cell: [REDACTED]

You can now find us at <http://detroitnews.com>, the home of Michigan's latest breaking news, sports, business, features and commentary. Our email addresses have changed, as well. Please update my email address in your contacts to reflect the @detroitnews.com.

Stanton, Terry A. (Treasury)

From: Stanton, Terry A. (Treasury)
Sent: Wednesday, April 10, 2013 3:17 PM
To: 'Adams, Dominic'
Subject: RE: possibility of Flint joining Karegnondi Water Authority

Not for attribution to me:

Likely this week but nothing is set in stone.

From: Adams, Dominic [mailto:DADAMS5@mlive.com]
Sent: Wednesday, April 10, 2013 2:57 PM
To: Stanton, Terry A. (Treasury)
Subject: Re: possibility of Flint joining Karegnondi Water Authority

Terry:
Not being smart, but when does forthcoming soon mean? Today? This week?

Thanks,

Dominic Adams | The Flint Journal | dadams5@mlive.com | 810-241-8803 | www.twitter.com/dominicadams | www.facebook.com/dominic.adams.1865

On Apr 10, 2013, at 2:16 PM, "Stanton, Terry A. (Treasury)" <StantonT@michigan.gov> wrote:

The issue is still being reviewed. A decision will be forthcoming soon.

From: Adams, Dominic [mailto:DADAMS5@mlive.com]
Sent: Wednesday, April 10, 2013 12:23 PM
To: Stanton, Terry A. (Treasury)
Subject: possibility of Flint joining Karegnondi Water Authority

Terry:

Dominic Adams with MLive-Flint Journal here. I would like to know what the decision from treasury about Flint joining the Karegnondi Water Authority. Emergency Manager Ed Kurtz supports the measure, so what's the state's ruling? I am working on deadline so if you could let me know as soon as possible, I would really appreciate it.

Thanks,

Dominic Adams | police reporter | [The Flint Journal](http://TheFlintJournal.com) | 810-241-8803 | dadams5@mlive.com | [On Twitter](#) | [On Facebook](#)

Stanton, Terry A. (Treasury)

From: Stibitz, Brom (Treasury)
Sent: Thursday, April 11, 2013 5:31 PM
To: Fraser, Roger (Treasury); Koryzno, Edward (Treasury); Headen, Frederick (Treasury); Stanton, Terry A. (Treasury); Buhs, Caleb (GOV)
Subject: FW: KWA Approval Letter
Attachments: Flint - KWA Approval.pdf; Ed Kurtz ltr.pdf

From: Stibitz, Brom (Treasury)
Sent: Thursday, April 11, 2013 5:25 PM
To: Ed Kurtz (ekurtz@cityofflint.com); mbrown@reinvestflint.org
Cc: Dillon, Andy (Treasury)
Subject: KWA Approval Letter

Ed,

Attached, please find the Treasurer's approval for Flint to move ahead with the KWA project. As you will see, the effective date of the approval is Tuesday, April 16. Further, as you will see in the letter, Treasury will expect a written notice from the City indicating that one of two conditions has been met: DWSD has not presented an additional offer, or that the offer was received and was rejected in good faith.

Please let me know if I can be of further assistance in this matter.

Regards,

Brom Stibitz
Senior Policy Advisor
Michigan Department of Treasury
517-373-3223
snbitzb@michigan.gov



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ANDY DILLON
STATE TREASURER

Mr. Edward Kurtz
Emergency Manager
City of Flint
1101 South Saginaw Street
Flint, MI 48502

April 11, 2013

Dear Mr. Kurtz:

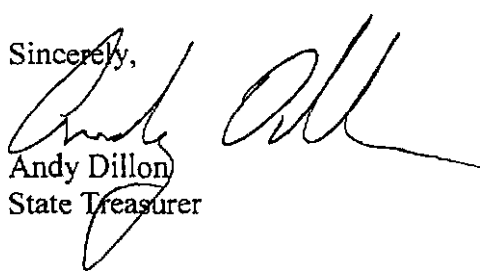
Thank you for your March 29, 2013 letter, which is attached for reference. As the Emergency Manager for the City of Flint ("Flint" or "City"), you have asked for my concurrence, pursuant to Public Act 436 of 2012, the Local Financial Stability and Choice Act, to authorize a contract in excess of \$50,000.00 not subject to competitive bidding. This request was related to the City entering into an agreement with the Karegnondi Water Authority (KWA) for provision of raw water for the City.

In considering your request, I took note of the following facts in support of Flint joining KWA. First, there is widespread support in the City for this move, including the support of the Mayor, the City Council, and the Emergency Manager. Second, this move will provide a unique opportunity for the City and County to partner on an important project, which will hopefully lead to future regional collaboration. Third, the Department of Environmental Quality is supportive of the City participating in the KWA project. Finally, your representations that this deal will lead to substantial savings for the City over the coming decades, savings that are desperately needed to help with the turnaround of the City of Flint.

It is my understanding that the Detroit Water and Sewer Department is making a final best offer to Genesee County and the City of Flint next Monday, April 15, 2013. As such, this approval will be effective at 5 pm on April 16, 2013 after receiving written notice from the City that either no such offer was presented to the county and the City or that an offer was received and was rejected in good faith based upon specified objections.

For the reasons described above and subject to the conditions set forth herein, pursuant to Section 12 (3) of PA 436 of 2012, I am authorizing you to proceed with adopting the resolution and entering into a contract with KWA.

Sincerely,


Andy Dillon
State Treasurer

Edward J. Kurtz
Emergency Financial Manager

March 29, 2013



Dayne Walling
Mayor

Andy Dillon, Treasurer
Michigan Department of Treasury
Lansing, MI 48922



Dear Treasurer Dillon:

As per Section 12 (3) "Except as otherwise provided in this subsection, any contract involving a cumulative value of \$50,000.00 or more is subject to competitive bidding by an emergency manager. However, if a potential contract involves a cumulative value of \$50,000.00 or more, the emergency manager may submit the potential contract to the state treasurer for review and the state treasurer may authorize that the potential contract is not subject to competitive bidding".

KWA needs commitment from its members regarding the capacity that each member will purchase in the pipeline. Capacity is available to members in increments of 1 million gallons per day known as units. For each unit of a capacity that a member purchases, the buyer shall pay to the KWA a one time fee of \$32,300.00. Additionally, the buyer shall pay to the KWA not less than \$32,300 per unit per year until such time as water is made available to the buyer. After water is made available, the buyer shall pay to the KWA an estimated amount not to exceed \$335,300.00 per unit per year until such time as the bonds are paid in full. If it is determined that the costs per unit will exceed \$355,300.00 the buyer has a right to cancel the contract".

Therefore, the Emergency Manager (EM) is asking Treasury to authorize the EM to adopt a resolution to and enter into a contract with KWA for up to 18 MDGS based on the above terms.

If you need additional information, please contact me.

Sincerely,

Edward J. Kurtz
Emergency Manager

Lamphier, Wendy (Treasury)

From: Dillon, Andy (Treasury)
Sent: Saturday, April 13, 2013 3:45 PM
To: Muchmore, Dennis (GOV); Wyant, Dan (DEQ)
Cc: Stibitz, Brom (Treasury); Roberts, John (GOV)
Subject: KWA

Follow Up Flag: Follow up
Flag Status: Flagged

The DetNews article suggests we may have a lot on our plate on this issue Monday and Tuesday. Dan, I suspect we may need your help to review and evaluate the "last best offer".

Sent from my iPad

Headen, Frederick (Treasury)

From: Stibitz, Brom (Treasury)
Sent: Monday, April 15, 2013 11:56 AM
To: Headen, Frederick (Treasury)
Cc: Monticello, Frank (AG)
Subject: FW: KWA Approval Letter
Attachments: Water Service Agreement City of Detroit-City of Flint.pdf; Amendment No.1 Water Service Agreement 12201965.pdf

Fred – The City of Flint believes that if (when) they move ahead with KWA, that DWSD will sue over the issue. See his email below.

DWSD has been in the media talking about a “termination penalty” which the City of Flint does not believe exists in anything they have signed. Attached are the historical agreements.

Can you blast through and see if there is anything you see that would suggest a termination penalty would be allowed?

Frank – this is just FYI for you.

From: Ed Kurtz [mailto:ekurtz@cityofflint.com]
Sent: Friday, April 12, 2013 10:19 AM
To: Stibitz, Brom (Treasury)
Subject: Re: KWA Approval Letter

Thanks, looking forward to seeing the offer from DWSD. Front page article in the Detroit News this morning on the greatest water war in the history of Michigan. In the article they do make reference to substantial termination penalties. Our contract with DWSD goes back to 1965 and does not contain any language relative to termination fees. After 35 years (2000) it only requires a one year notice by either party to terminate the contract. I believed the new "model contracts" which we have not signed do contain termination penalties. I believe this is probably the first volley in what will probably be a legal attempt to delay the process if we go with KWA. Ed

On Thu, Apr 11, 2013 at 5:25 PM, Stibitz, Brom (Treasury) <StibitzB@michigan.gov> wrote:

Ed,

Attached, please find the Treasurer's approval for Flint to move ahead with the KWA project. As you will see, the effective date of the approval is Tuesday, April 16. Further, as you will see in the letter, Treasury will expect a written notice from the City indicating that one of two conditions has been met: DWSD has not presented an additional offer, or that the offer was received and was rejected in good faith.

Please let me know if I can be of further assistance in this matter.

Regards,

Brom Stibitz

Senior Policy Advisor

Michigan Department of Treasury

517-373-3223

stibitzb@michigan.gov

Stanton, Terry A. (Treasury)

From: Stanton, Terry A. (Treasury)
Sent: Monday, April 15, 2013 1:16 PM
To: 'Kirk Pinho'
Subject: RE: Flint and the Karegnondi Water Authority
Attachments: Flint - KWA Approval.pdf

See attached Kirk.

From: Kirk Pinho [mailto:kpinho@crain.com]
Sent: Monday, April 15, 2013 1:12 PM
To: Stanton, Terry A. (Treasury)
Subject: Flint and the Karegnondi Water Authority
Importance: High

Hi, Terry:

Can you shoot me any official documentation/ruling by Treasurer Dillon that determined that the city of Flint has the option of joining the Karegnondi Water Authority? I understand that one was issued on Friday.

Thanks.

Kirk Pinho
Reporter: Real estate, Detroit
Crain's Detroit Business
www.crainsdetroit.com
Office: 313-446-0412 | **Cell:** 248-520-6695
E-mail: kpinho@crain.com
Twitter: [@kirkpinhoCDB](https://twitter.com/kirkpinhoCDB)
My blog: [Big City, Big Deals](#)

Stanton, Terry A. (Treasury)

From: Ferretti, Christine <CFerretti@detroitnews.com>
Sent: Monday, April 15, 2013 5:58 PM
To: Stanton, Terry A. (Treasury)
Subject: RE: DWSD proposal

As far as I can tell, DWSD hasn't sent anything yet to the city or county or the KWA.

If they fail to do so today, what happens? The treasurer would have to consider a possible extension?

From: Stanton, Terry A. (Treasury) [StantonT@michigan.gov]
Sent: Monday, April 15, 2013 2:03 PM
To: Ferretti, Christine
Subject: RE: DWSD proposal

See the attached, which was sent to the city last week (I sent a copy to Pardo as he had been following)...

If the DWSD offers a proposal, it would go to the city (or Genesee County) for consideration.

Terry

-----Original Message-----

From: Ferretti, Christine [mailto:CFerretti@detroitnews.com]
Sent: Monday, April 15, 2013 1:55 PM
To: Stanton, Terry A. (Treasury)
Subject: DWSD proposal

Hello,

I'm working on the follow up story about the proposal that's expected from DWSD today in reference to Flint's plans to leave Detroit's system and participate instead in the KWA pipeline.

What happens after the state receives the proposal, what information are they looking for from DWSD and how soon could a decision be made on this issue?

Thank you,

Christine Ferretti
The Detroit News
(313) 600-5953
cferretti@detroitnews.com<mailto:cferretti@detroitnews.com>

Stanton, Terry A. (Treasury)

From: Stibitz, Brom (Treasury)
Sent: Tuesday, April 16, 2013 8:40 AM
To: Stanton, Terry A. (Treasury); Buhs, Caleb (GOV)
Subject: FW: KWA and City of Flint
Attachments: KWA and City of Flint.pdf

http://www.mlive.com/news/flint/index.ssf/2013/04/detroit_delivers_proposal_for.html#incart_river

Ed Kurtz indicates they are looking at the proposal seriously, and that it is "not without merit."

From: Ed Kurtz [mailto:ekurtz@cityofflint.com]
Sent: Monday, April 15, 2013 6:28 PM
To: Stibitz, Brom (Treasury)
Subject: Fwd: KWA and City of Flint

----- Forwarded message -----

From: Debra Ragland <dragland@dwsd.org>
Date: Mon, Apr 15, 2013 at 6:08 PM
Subject: KWA and City of Flint
To: ekurtz@cityofflint.com
Cc: jwright@co.genesees.mi.us, dillona@michigan.gov, James Fausone <fausone@dwsd.org>, orrk@detroitmi.gov, Sue McCormick <mccormick@dwsd.org>

Please see attached on behalf of Sue F. McCormick.

Faxed copy forwarded to Mayor Dayne Walling and Jeff Wright.

April 15, 2013

Karengondi Water Authority
4160 Beecher Rd.
Flint, Michigan 48532-2617

Ed Kurtz, Emergency Manager
City of Flint
1101 South Saginaw Street
Flint, Michigan

Gentlemen:

Over the last several months, governed by a process laid out by the State of Michigan, the Detroit Water and Sewerage Department (DWSD) has proposed a number of alternatives for long term water supply to the City of Flint. Each alternative was offered in the spirit of working in earnest to address the needs, priorities and concerns of the City of Flint and each provided an immediate cost reduction when compared to the current costs of water purchased from DWSD. In the final analysis conducted by Flint, these proposals did not overcome the desire for the Flint/Genesee region to be served by the same system and to have a voice in the future decisions governing the provision of water to this region.

Many of the proposals DWSD has made to Flint during this period are applicable to Flint/Genesee County or KWA with adjustments to demand and use requirements and would provide similar overall benefit. These options remain available for further discussion should the parties' desire. These prior proposals are included in summary form in Attachment 1 as an expanded table 6-1 from the February 2013 State of Michigan Contract No. 271N3200089, City of Flint Water Supply Assessment, submitted by Tucker, Young, Jackson, Tull, Inc. For comparison purposes only, DWSD's new proposal (Flint's 30% allocated share) is inserted.

The proposal scenarios outlined today offer a public/public partnership with options tailored to Flint/Genesee County or KWAs interests. For ease of writing, the remainder of this memo will present this proposal to KWA. Two basic scenarios are presented for consideration, both of which contemplate that KWA would enter a multi-year contract. Service commitments and usage definitions would be negotiated in the same manner as employed that have resulted in new contracts for other customers.

In brief, the proposal provides a unique opportunity to reserve capacity at DWSD's Lake Huron Water Treatment Plant and to participate in decision making for facility operation and capital investment through a joint operating committee. The proposal envisions that KWA would enter into a 30-year contract to purchase treated water directly onsite at DWSD's Lake Huron Water Treatment Plant.

In Scenario 1 the purchased water can either be pressurized or unpressurized. This first scenario results in a "supply only" rate schedule, with a "standby delivery" component to provide for emergency service at the existing Baxter / Potter connection. This scenario provides KWA the ability to construct new transmission owned and operated by KWA.

Scenario 2 maintains the public/public partnership concept and extends it to transmission facilities through which the Lake Huron Water Treatment Plant provides water. This scenario results in a "full service" rate schedule. The standby delivery component is eliminated, since the rate structure to KWA includes costs associated with the transmission system between the Lake Huron Water Plant and the Baxter / Potter connection.

DWSD proposes a modified rate schedule for the customers currently served through the contract with the City of Flint, which includes Flint and Genesee County. This modified schedule is intended to facilitate negotiations for a new water service agreement with the Karegnondi Water Authority (KWA). The scenarios presented herein represent the innovative thinking that DWSD and its new leadership are bringing to the table. Our goal is to provide the lowest cost water solution for the KWA service area.

The potential rate structures are introduced in summary form herein, with preliminary calculations using the proposed rate structures with FY 2013-14 as a baseline. These calculations and the accompanying discussion are based on the assumptions regarding contract terms that approximate recent discussions amongst the parties.

The proposal introduces the concepts, but does not definitively present all of the specifics, appreciating that such specifics are best addressed through negotiations designed to produce a new contractual agreement satisfactory to all parties.

[Remainder of page intentionally left blank]

Scenario 1 – Lake Huron Direct Supply Purchase:

- KWA enters into a long term partnering arrangement with DWSD to purchase all of its primary water supply directly at the DWSD Lake Huron water treatment plant.
- Supply rate schedule is designed to recover only water treatment revenue requirements. This rate schedule does not contain any delivery costs (pumping, transmission, storage, etc.).
- Supply rate schedule is computed based on specific costs associated with the Lake Huron Plant. No other DWSD revenue requirements, including those associated with other DWSD water plants, are included in the rate to KWA.
- Revenue requirements are separated into capital recovery and operation and maintenance expense elements. Baseline revenue requirement data (including operating budget, rate of return, depreciation assumptions, etc.) are identical to those developed for all other wholesale customers.
- KWA is allocated Lake Huron Plant capital revenue requirements based on the proportion of their contracted max day demand (assumed in these calculations at 40.6 mgd) relative to the total capacity at the Lake Huron Plant (400 mgd). The resulting revenue requirements are recovered through a fixed monthly charge.
- KWA is allocated Lake Huron Plant operating revenue requirements based on the proportion of their contracted average daily usage (assumed in these calculations at 24 mgd) relative to the total average daily usage at the Lake Huron Plant (assumed at 125 mgd in these calculations).
- Calculations are conducted for two alternatives. Purchase of *pressurized* water (after high lift pumping) and *unpressurized* water (KWA takes directly from clearwell.)
- Contract includes an arrangement for emergency service at the existing Baxter / Potter connection, and computes a standby charge related to such service.
- The standby charge is computed in the manner set for the by the American Water Works Association (AWWA) in its Manual of Water Supply Practices M1 - "Principles of Water Rates, Fees, and Charges" Manual M1.
 - KWA is allocated one day's worth of transmission related capital revenue requirements.

Scenario 2 – "Full Service" Lake Huron System

- Same as the "pressurized" option in Scenario 1, except that concept is extended to the pumping, storage, and transmission facilities directly served by the Lake Huron Plant
- Transmission rate schedule is computed based on specific costs associated with these facilities. No other DWSD revenue requirements, including those associated with other DWSD transmission mains, etc, are included in the rate to KWA.
- Revenue requirements are separated into capital recovery and operation and maintenance expense elements. Baseline revenue requirement data (including operating budget, rate of return, depreciation assumptions, etc.) are identical to those developed for all other wholesale customers.
- KWA is allocated Lake Huron "transmission system" capital revenue requirements based on the proportion of their contracted max day demand (assumed in these calculations at 40.6 mgd) relative to the total capacity at the Lake Huron Plant (400 mgd). The resulting revenue requirements are recovered through a fixed monthly charge.

- KWA is allocated Lake Huron "transmission system" operating revenue requirements based on the proportion of their contracted average daily usage (assumed in these calculations at 24 mgd) relative to the total average daily usage at the Lake Huron Plant (assumed at 125 mgd in these calculations).
- Standby charge is eliminated.

The resulting potential proposed rate structures under both Scenarios are summarized below.

**Potential Proposed DWSD Water Rate to KWA
Lake Huron Direct Scenario**

	1 - Supply Rate @ LH Plant		2 - Full Service
	<u>Unpressurized</u>	<u>Pressurized</u>	<u>Wholesale Rate</u>
<u>Supply Rate</u>			
Fixed Monthly Capital Charge - \$	219,900	316,600	503,200
Commodity Rate - \$/Mcf	2.60	4.16	5.31
<i>Average Unit Cost - \$/Mcf</i>	<i>4.85</i>	<i>7.40</i>	<i>10.46</i>
Monthly Standby Charge	167,500	110,300	0
Total Monthly Charge	387,400	426,900	503,200
<i>Total Average Unit Cost - \$/Mcf</i>	<i>6.57</i>	<i>8.53</i>	<i>10.46</i>

The direct comparison over the period 2013-2042 is demonstrated in Attachment 2.

As KWA considers this proposal, I offer the following observations for consideration:

- The Public Partnership requires the least near term capital investment and preserves the economy of scale associated with operation of a large regional system resulting in an immediate reduction in the cost of water supply for Flint/Genesee, making the identified and necessary near term investment in local water infrastructure more feasible.
- The Public Partnership provides the opportunity to optimize service level and efficiency through collaborative asset management decision making.
- The Public Partnership provides representation for critical decision making consistent with DWSD newly demonstrated interest in engaging our customers in critical decisions impacting them. This formalizes that interest in contractual terms.
- The Public Partnership reduces the risks identified with a 'go alone' solution, including further declines in use/sales (see graph), project cost overruns or schedule delays and other unforeseen costs inherent in starting a new venture. See Attachment 3
- The DWSD Board of Commissioners has previously approved sale of raw water from the Lake Huron facilities for raw water end use. We remain open to further discussion about the raw water capacity needs and stand ready to provide an affordable commodity option.



DWSD is an organization in transformation. In April of 2011, a new Board of Commissioners was seated with additional autonomy and more direct customer representation. In the past year we have demonstrated the ability to reduce costs, resolve long standing compliance issues and have gained support for establishing a new legal and operational model for DWSD that could enable broadened representation for Flint/Genesee on the Governing Board.

I remain available to discuss this proposal to assure that each of the issues critical to Flint/Genesee are addressed.

Best regards,

Sue M. McCormick

Sue McCormick, Director
Detroit Water and Sewerage Department

Cc: Andy Dillon, State Treasurer
Dayne Walling, Mayor – City of Flint
Kevyn Orr, City of Detroit Emergency Financial Manager
Jeff Wright, Genesee County Drain Commissioner
James Fausone, Chair – Detroit Board of Water Commissioners

Attachment 1

DWSD Water Supply Costs Estimates to Flint

<u>Option</u>	Water Supply Costs (\$) <u>through</u> <u>2042</u>	Ranking by <u>Cost</u>
DWSD 4/15/2013 Scenario 2	587,990,650	1
<i>DWSD 8 MGD Max Day @ Imlay</i>	634,795,488	2
<i>KWA (10/31/12 No Overruns, As Provided) *</i>	649,775,166	3
<i>DWSD 8 MGD Max Day @ Baxter / Potter</i>	672,671,705	4
<i>KWA-1 (10/31/12 No Overruns with Financing Costs)</i>	707,279,715	5
<i>DWSD 12 MGD Max Day @ Imlay</i>	725,576,803	6
<i>DWSD 12 MGD Max Day @ Baxter / Potter</i>	762,110,308	7
<i>KWA-2 (Treasury Estimate)</i>	766,784,313	8
DWSD 12 mgd Twin Line Proposal / No blending	818,092,150	9
<i>DWSD 18 MGD Max Day @ Baxter / Potter</i>	821,226,268	10

Italicized Options as presented in TYJT Report

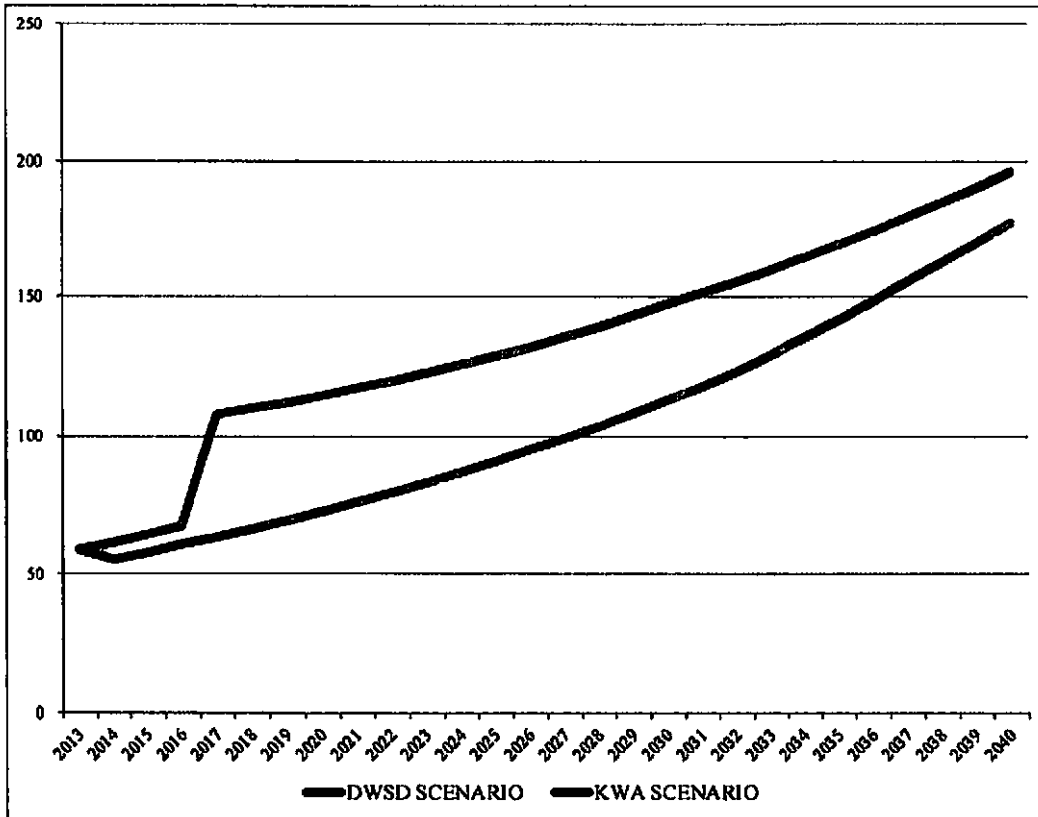
DWSD Water Supply Costs Estimates to Flint / GCDC \$ millions

<u>Option</u>	All Water Costs (\$) <u>through</u> <u>2042</u>	Ranking by <u>Cost</u>
DWSD 4/15/2013 Scenario 2	3,282.00	1
Estimate of KWA	4,090.06	2

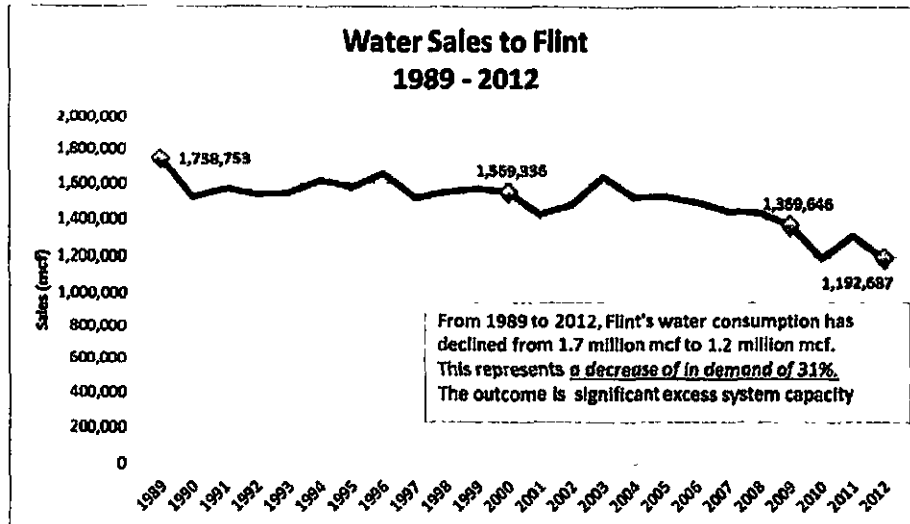


Attachment 2

SUMMARY OF TOTAL PROJECTED WATER COSTS TO FLINT/GCDC - SCENARIO COMPARISON (\$ millions)



Attachment 3



Koryzno, Edward (Treasury)

From: Cline, Richard (Treasury)
Sent: Tuesday, April 16, 2013 11:14 AM
To: Koryzno, Edward (Treasury)
Cc: Byrne, Randall (Treasury); Vandegrift, Drew (TREASURY)
Subject: RE: KWA and City of Flint

Importance: High

Ed/Randy,

Here are some observations and comments regarding the "Final Offer" from DWSD to Flint.

- The proposal is for 30 years, which is standard for DWSD.
- While the letter from DWSD is addressed to the City of Flint, the entire proposal seems addressed more to KWA and appears designed to apply to KWA as a collective entity.
- The proposal offers to allow the purchase of treated water directly from DWSD's Lake Huron WTP.
- It is unclear if the rates proposed by DWSD remain in-effect for 30-years.
- There is a statement in the cover letter "*Service commitments and usage definitions would be negotiated in the same manner as employed that have resulted in new contracts for other customers.*" This is very vague and implies further negotiation after approval of DWSD's offer. This raises concerns as to if additional costs might become a point of negotiation.
- There is an ill-defined comment that KWA can participate in facility operation and capital investment through a joint committee. More information would be needed on this prior to making a final decision.
- Broadened representation for Flint/Genesee County on the DWSD Governing Board is also implied but not defined. More information would be needed on this prior to making a final decision.

DWSD provides two scenario's for consideration.

- Scenario 1
 - Water purchases can be either *pressurized* or *unpressurized*. These terms are not defined and the impact of selecting an option could potentially impact delivery/transmission costs. I have concerns about proceeding without more clarity on the potential impacts of these options.
 - DWSD indicates that this scenario is a "supply only" rate schedule. Only water treatment costs would be recovered. DWSD would absorb all other delivery costs. It is not clear if this would remain in-effect for 30-years.
 - Capital and operating revenue charges are calculated based upon KWA's usage relative to the entire demand upon the Lake Huron WTP. Again, it is unclear if this is a fixed cost for 30-years.

- Emergency water service would be provided via the Potter and Baxter connection. It is assumed, but not specified, that the primary connection would be via the Imlay City connection.
- KWA would have the ability to construct and own its own transmission lines. It is assumed, but not specified, that no new connection points would need to be constructed to implement Scenario 1.

- Scenario 2

- This is a “full service” rate option. DWSD provides all production and transmission services through the Potter/Baxter connection. It should be noted that this connection was determined to be more expensive than the Imlay City connection by TYJT.
- Transmission rates will be calculated only on those costs necessary to supply KWA. No additional transmission rates will be charged. Again, it is unclear if this extends for 30-years.
- Capital and operating revenue charges are calculated based upon KWA’s usage relative to the entire demand upon the Lake Huron WTP. Again, it is unclear if this is a fixed cost for 30-years.
- Emergency water services are not identified under this scenario.

DWSD provides a summary table of their unit costs but how these figures are arrived at are not clear, so analysis is difficult.

Attachment 1 lists the rank-ordered options (from cheapest to most expensive) identified by TYJT. DWSD Scenario 2 is listed as the least expensive option.

- How the total cost of this option is arrived at is unclear.
- It should be noted that Scenario 1 is *not listed* in Attachment 1.
- The previously identified, but unexamined, parallel line option raised by TYJT is listed as the 9th most expensive option. This option is not discussed in the DWSD proposal, so it is unclear how the total cost was arrived at.

The scenarios provided by DWSD could be cheaper than the KWA option, but this proposal lacks specificity and without delaying a final decision and conducting more analysis it is difficult to determine.

It is worth noting that if DWSD is able to provide these “advantageous rates” to Flint/KWA and expand decision-making representation to them, then it should be expected that other DWSD customers will desire similar terms.

It is peculiar that Scenario 1 notes that KWA would have the option to build and own its transmission lines. If no additional connection points are needed to implement this scenario, then why would KWA need to construct new lines (unless this refers to future expansion).

Scenario 2 seems to make KWA a “standard” DWSD customer with, perhaps, some more favorable rates and terms.

Scenario 1 references using the Potter/Baxter connection as an emergency connection. Given the history of back-up connections to DWSD, why is this point presented as almost a “non-issue?” Why then was it not previously implemented for Flint before this time? Also, why is the issue not addressed in Scenario 2?

A complete analysis of this proposal likely will require more information and additional time to complete.

If there are questions on the above comments, please let me know.

Eric Cline | Unit Operations Specialist - Office of Fiscal Responsibility
State of Michigan | Michigan Department of Treasury
430 W. Allegan Street, 3rd Floor | Lansing, MI 48922
(517) 335-2078 | cliner1@michigan.gov

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From: Byrne, Randall (Treasury)
Sent: Tuesday, April 16, 2013 8:47 AM
To: Cline, Richard (Treasury)
Subject: FW: KWA and City of Flint

Eric:

Please review and comment.

Thanks,
Randy,

From: Koryzno, Edward (Treasury)
Sent: Tuesday, April 16, 2013 8:32 AM
To: Byrne, Randall (Treasury)
Subject: FW: KWA and City of Flint

I anticipate this will be discussed at this afternoon's local government meeting. Have Eric take a look at this and offer his comments.



Edward B. Koryzno, Jr. | Administrator - Office of Fiscal Responsibility
State of Michigan | 430 W. Allegan Street, 1st Floor | Lansing, MI 48922
(517) 373-4415 | (517) 373-0633 (fax)
KoryznoE@michigan.gov



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Thank you

From: Stibitz, Brom (Treasury)
Sent: Tuesday, April 16, 2013 8:17 AM
To: Headen, Frederick (Treasury); Fraser, Roger (Treasury); Koryzno, Edward (Treasury)
Subject: FW: KWA and City of Flint

Received by Flint yesterday evening.

From: Ed Kurtz [<mailto:ekurtz@cityofflint.com>]
Sent: Monday, April 15, 2013 6:28 PM
To: Stibitz, Brom (Treasury)
Subject: Fwd: KWA and City of Flint

----- Forwarded message -----

From: Debra Ragland <dragland@dwsd.org>
Date: Mon, Apr 15, 2013 at 6:08 PM
Subject: KWA and City of Flint
To: ekurtz@cityofflint.com
Cc: jwright@co.genesees.mi.us, dillona@michigan.gov, James Fausone <fausone@dwsd.org>, orrk@detroitmi.gov, Sue McCormick <mccormick@dwsd.org>

Please see attached on behalf of Sue F. McCormick.

Faxed copy forwarded to Mayor Dayne Walling and Jeff Wright.

Lamphier, Wendy (Treasury)

From: Dillon, Andy (Treasury)
Sent: Tuesday, April 16, 2013 3:27 PM
To: Stibitz, Brom (Treasury)
Cc: Cousineau, Sara (Treasury)
Subject: FW: KWA and City of Flint
Attachments: KWA and City of Flint.pdf

Follow Up Flag: Follow up
Flag Status: Flagged

FYI

Amy Hichez
Executive Administrator to State Treasurer Andy Dillon
Richard H. Austin Building
430 West Allegan Street
Lansing, MI 48922
Office: 517-241-2624
Cell: [REDACTED]
Fax: 517-335-1785

From: Fausone, Jim [mailto:JFausone@fb-firm.com]
Sent: Tuesday, April 16, 2013 9:07 AM
To: Walsh, John J.; Dillon, Andy (Treasury); Robert Ficano; william.misterovich@macombgov.org; orrk; Craig Hupp; Jaye Quadrozzi (Quadrozzi@youngpc.com; cpugh313; Gary Brown; Jack Martin; bkenoyer@ford.com; blackmm@mail.resa.net; Fausone, Jim; fredtheengineer@comcast.net; jamjomar@msn.com; jwilliams@dickinsonwright.com; ldforte@comerica.com; Mary Blackmon
Cc: Sue McCormick; Matthew Schenk
Subject: KWA and City of Flint

Folks - This proposal saves Flint./Genessee essentially 50% TODAY and 20% when compared to KWA over 30 years.

If the decision is about economics or engineering, I don't see how F/G proceeds with KWA. Call the Director or me if you have questions. Jim

James G Fausone
Fausone Bohn, LLP
(248) 380-1818 tel
jfausone@fb-firm.com

From: Sue McCormick [mailto:mccormick@dwsd.org]
Sent: Monday, April 15, 2013 6:20 PM
To: Fausone, Jim
Cc: William Wolfson; billjohnson
Subject: Fwd: KWA and City of Flint

Gentlemen,

The cliffnotes version:

Proposal offers a today rate of water for Flint/Genesee of \$10.46 as compared to \$20.00 paid currently per Mcf - 48% less that could be realized nearly immediately and even more when compared to the increases coming with KWA.

When compared over the 30 year horizon the DWSD proposal saves \$800 million dollars or said differently - saves 20% over the KWA proposal.

Sue

Sue F. McCormick, Director
Detroit Water and Sewerage Department
735 Randolph, Room 506
Detroit, Michigan 48226
Office (313)224-4701
Fax (313)224-6067
McCormic@dwsd.org

Stanton, Terry A. (Treasury)

From: Stanton, Terry A. (Treasury)
Sent: Tuesday, April 16, 2013 1:39 PM
To: 'Pardo, Steven'
Subject: RE: KWA question
Attachments: Flint - KWA Approval (2).pdf

As noted in the letter sent to the city last week (see attached), the approval is effective at 5p on 4-16-13, after receiving written notice from the city...

From: Pardo, Steven [mailto:SPardo@detroitnews.com]
Sent: Tuesday, April 16, 2013 1:32 PM
To: Stanton, Terry A. (Treasury)
Subject: KWA question

Is the final approval for Flint to join the KWA scheduled to take place this week? You gave "tentative" approval last week. Is that the correct way to word it?

Thanks.

Steve Pardo
Reporter
The Detroit News
(313) 222-2112
cell: [REDACTED]

You can now find us at <http://detroitnews.com>, the home of Michigan's latest breaking news, sports, business, features and commentary. Our email addresses have changed, as well. Please update my email address in your contacts to reflect the @detroitnews.com.

Lamphier, Wendy (Treasury)

From: Dillon, Andy (Treasury)
Sent: Tuesday, April 16, 2013 5:19 PM
To: ken.buckfire@millerbuckfire.com; Orr, Kevyn (Treasury)
Cc: Headen, Frederick (Treasury); Stibitz, Brom (Treasury); Saxton, Thomas (Treasury)
Subject: Fwd: DWSD Rates

Follow Up Flag: Follow up
Flag Status: Flagged

Ken,

I thought this would be helpful for Jones Day. Didn't know who to send it to on their end. Can you forward?

Thanks.

Andy

Sent from my iPad

Begin forwarded message:

From: "Headen, Frederick (Treasury)" <HeadenF@michigan.gov>
Date: April 16, 2013, 4:38:12 PM EDT
To: "Dillon, Andy (Treasury)" <DillonA2@michigan.gov>, "Stibitz, Brom (Treasury)" <StibitzB@michigan.gov>, "Saxton, Thomas (Treasury)" <SaxtonT@michigan.gov>
Subject: DWSD Rates

Andy;

The rate setting process used by the Detroit Water and Sewer Department (DWSD) is as follows:

- (1) DWSD has a series of internal meetings with the other governmental units to which it supplies water. These meetings are not required, but have become customary. This series of meetings occur on an annual basis.
- (2) Based upon these meetings, DWSD recommends proposed water rates for the ensuing year (July 1 to June 30) to the Board of Water Commissioners. In turn, the Board of Water Commissioners recommends proposed water rates to the City Council, which has final approval.
- (3) Rates tend to be based upon factors such as usage, distance, and peak usage levels. If the contract with the City of Flint is characteristic, termination would require one-year's advance notice for a governmental unit to leave. Since rates are set annually, the departure of any governmental unit would result in rates for the next rate setting cycle being adjusted commensurately among remaining customers.

Valerie Brader, with whom I spoke this morning, was very helpful and provided much of this information.



**CITY OF FLINT
OFFICE OF EMERGENCY MANAGER
EDWARD J. KURTZ**

ELECTRONIC LETTER

April 16, 2013

Andy Dillon
State Treasurer
P. O. Box 30716
Lansing, MI 48909

Dear Treasurer Dillon:

Flint, Genesee County and KWA received an eight page letter from Detroit Water and Sewerage Department (DWSD) offering a framework for a long-term agreement with our region. Two scenarios were presented;

Scenario 1: Water from the Lake Huron Plant.

This offer was dismissed immediately because Flint would still be responsible for their share of the KWA water pipeline delivery system estimated to be \$79 million. In addition Flint would not be able to operate the Flint Water Plant in which we have invested over \$40 million per MDEQ mandates over the past ten years. Finally, although DWSD shows this as an option and supplied a per month cost projection for the first year, no total costs over the life of the contract were provided.

Scenario 2: "Full Service" Water Supply

This offer was also rejected. DWSD would supply water to Flint/Genesee the same way they currently are today. They would change the method of calculating our bill. The offer would provide a \$1.00 per ccf reduction on our usage for the first year, providing a 30 year contract is signed.

After review of the offer, Flint/Genesee has the following concerns:

1. DWSD's offer is a framework subject to negotiations and is not a firm offer.
2. DWSD's offer is based on 40.6 mgd, the KWA plan is based on 60 mgd. Flint/Genesee last summer hit the peak of 40.6 mgd and this DWSD offer provides no room for growth. Growth would result in penalties or added cost.
3. DWSD's offer does not include a guaranteed rate for years two through thirty, nor does it provide a maximum annual increase.
4. DWSD's offer does not provide a redundant supply for GCDC.
5. DWSD's offer does not allow for the use of Flint's existing water plant.
6. The offer indicates that the total cost to Flint over the life of the contract would be \$587,990,665. No indication of what annual rate of increase was used in this projection. Flint can only assume it is 4.4% based on the Tucker Young report. It is also based on 40.6 mgds. KWA's proposal is for \$649,775,166 based on 60mgds (33% more). Based on 60 mgds DWSD's proposal would be \$868,950,738.

On a final note, Flint/Genesee has great concern over the accuracy of the figures provided by DWSD. Attachment 1 indicates that our joint annual cost to DWSD is \$50 million; actual cost is less than \$25 million. Attachment 2 indicates \$800 million in savings over the next 30 years. That is greater than the total cost we would pay DWSD.

Therefore, I will sign the resolution to join KWA at the close of business today.

Sincerely,



Edward J. Kurtz
Emergency Manager

Stanton, Terry A. (Treasury)

From: Stibitz, Brom (Treasury)
Sent: Wednesday, April 17, 2013 7:56 AM
To: Stanton, Terry A. (Treasury); Fraser, Roger (Treasury); Koryzno, Edward (Treasury)
Subject: FW: DEQ Position - KWA

Background information from DEQ on KWA. They also believe that KWA remains the best option, even in light of the most recent offer by DWSD.

From: Dillon, Andy (Treasury)
Sent: Tuesday, April 16, 2013 5:12 PM
To: Wyant, Dan (DEQ)
Cc: Stibitz, Brom (Treasury); Saxton, Thomas (Treasury); Muchmore, Dennis (GOV); Roberts, John (GOV)
Subject: DEQ Position - KWA

Thanks Dan.

Sent from my iPad

On Apr 16, 2013, at 4:17 PM, "Wyant, Dan (DEQ)" <WyantD@michigan.gov> wrote:

Andy,

I have checked with multiple staff from both the Drinking Water Program and the Water Resource Division today. Their comments to me today are the same as before. KWA saves money if they separate.

Dan Wyant, Director
Department of Environmental Quality
517-373-7917

From: Creal, William (DEQ)
Sent: Tuesday, April 16, 2013 1:27 PM
To: Wyant, Dan (DEQ); Sygo, Jim (DEQ)
Cc: Verona, Laura (DEQ); Shekter Smith, Liane (DEQ)
Subject: Fwd: KWA and City of Flint

Here are Wrd comments.

Begin forwarded message:

From: "Verona, Laura (DEQ)" <VERONAL@michigan.gov>
Date: April 16, 2013, 12:00:29 PM EDT
To: "Creal, William (DEQ)" <CREALW@michigan.gov>
Cc: "Alexander, Christine (DEQ)" <ALEXANDERC2@michigan.gov>, "Smith, Laura (DEQ)" <SMITHL16@michigan.gov>
Subject: RE: KWA and City of Flint

Hi Bill,

From a capacity standpoint, supplying KWA is completely feasible under either proposal with no adverse impact to the rest of the DWSD supply network. The proposal lists KWAs contracted max day demand at 40.6 mgd, the design and rated capacity of the Lake Huron Plant is 400 mgd. The DWSD service area average and max day are about 650 and 950 mgd; the other four water plants combined have a rated capacity of over 1100 mgd.

I don't know the details of the cost analysis other than what has been reported by DWSD. It is my understanding that over the 30 year pay back period that full service water provided from DWSD would be more a lot more expensive than what KWA has projected if they separate. Several intermediate proposals of varying cost estimates have been presented without success. KWA was issued a permit last fall for constructing an intake (independent of DWSDs) and I think the plan is to start construction as early as this fall. Then a treatment plant would be constructed to treat the water. Flint has a water plant that draws raw water from the Flint River, but the plan would be to purchase raw water from the KWA intake and treat at their plant, using the River as a backup source. KWA has estimated a project cost of \$274 million, DWSD estimated the project cost at \$375 million; but I don't know exactly what the scope of work was for those estimates so I'm not sure that it's an apples to apples comparison.

Overall, besides the know impacts to DWSD for loss of revenue and increased cost to the rest of the system users to cover fixed cost, debt, etc., there could be other systems revisiting their proposals to separate. Grosse Ile and a few surrounding communities had looked into forming a water authority and building a plant to serve them; Grosse Pointe Park had submitted incomplete plans a few years back to build their own microfiltration plant. At one point, Grosse Pointe Shores was considering a study to see if they could re-work the Grosse Pointe Farms network to purchase water from them rather than DWSD through GP Woods.

Let me know if you want to discuss this further.

thanks,
Laura

From: Creal, William (DEQ)
Sent: Tuesday, April 16, 2013 8:02 AM
To: Verona, Laura (DEQ)
Cc: Alexander, Christine (DEQ); Smith, Laura (DEQ)
Subject: FW: KWA and City of Flint
Importance: High

Laura, please take a look at this and let me know if you have any comments. Need quickly. This appears to be mainly a drinking water issue right now. Thanks.

From: Wyant, Dan (DEQ)
Sent: Tuesday, April 16, 2013 6:51 AM
To: Sygo, Jim (DEQ); Creal, William (DEQ); Shekter Smith, Liane (DEQ)
Cc: Anderson, Madhu (DEQ)
Subject: FW: KWA and City of Flint

Bill and Liane,

Can you have your staff's take a quick look at this and let me know today if they think this changes their thoughts and comments to me last week.

Dan Wyant, Director
Department of Environmental Quality
517-373-7917

From: Dillon, Andy (Treasury)
Sent: Monday, April 15, 2013 7:55 PM
To: Wyant, Dan (DEQ); Dennis Muchmore; Roberts, John (GOV)
Cc: Stibitz, Brom (Treasury); Saxton, Thomas (Treasury)
Subject: Fwd: KWA and City of Flint

FYI

Dan, any thoughts re the attached?

We gave dwsd until today to put best offer on table. Flint is to get back to us tmrw. I want to make sure their expected rejection is made in good faith.

Sent from my iPad

Begin forwarded message

From: "Debra Ragland" <dragland@dwsd.org>
To: "ekurtz@cityofflint.com" <ekurtz@cityofflint.com>
Cc: "jwright@co.genesee.mi.us" <jwright@co.genesee.mi.us>, "Dillon, Andy (Treasury)" <DillonA2@michigan.gov>, "James Fausone" <fausone@dwsd.org>, "orrk@detroitmi.gov" <orrk@detroitmi.gov>, "Sue McCormick" <mccormick@dwsd.org>
Subject: KWA and City of Flint

Please see attached on behalf of Sue F. McCormick.

Faxed copy forwarded to Mayor Dayne Walling and Jeff Wright.

Lamphier, Wendy (Treasury)

From: Dillon, Andy (Treasury)
Sent: Wednesday, April 17, 2013 8:43 AM
To: Muchmore, Dennis (GOV)
Cc: Stibitz, Brom (Treasury); Roberts, John (GOV)
Subject: Re: KWA and City of Flint. URGENT

Follow Up Flag: Follow up
Flag Status: Flagged

That is the \$64,000 question. DEQ is firm that KWA is better. Are they an honest broker? I have to admit the engineering firm Treasury hired (Tucker Young) didn't make their case. No one on our side (DEQ or Treasury) sided with DWSD. I was the lone hold out but I couldn't argue against the defense Flint put forward against the TY report.

Sent from my iPad

On Apr 17, 2013, at 8:37 AM, "Muchmore, Dennis (GOV)" <muchmored@michigan.gov> wrote:

So, if the last DWSD proposal saves so much money, why are we moving ahead with KWA? I take it that Flint doesn't trust them and is just fed up? Does Kurtz have his head on straight here?

From: Dillon, Andy (Treasury)
Sent: Wednesday, April 17, 2013 8:33 AM
To: Stibitz, Brom (Treasury); Saxton, Thomas (Treasury); Muchmore, Dennis (GOV); Roberts, John (GOV); Headen, Frederick (Treasury); Brader, Valerie (GOV)
Cc: Snyder, Rick (GOV)
Subject: Fwd: KWA and City of Flint. URGENT

Interesting threat here. They will seek to recover sunk costs through rates in last two years. My guess is this will be a wildly huge increase. We cannot ignore the threat. We need legal advice asap. This needs immediate attention.

Fred please work with the AG and Valerie.

Brom, please advise Kurtz.

Note threat to HP. The two were never connected but this is a nail in the decayed coffin of HP.

Sent from my iPad

Begin forwarded message:

From: "Fausone, Jim" <JFausone@fb-firm.com>
Date: April 17, 2013, 8:08:55 AM EDT
To: "Walsh, John J." <jwalsh@fb-firm.com>, "Dillon, Andy (Treasury)" <DillonA2@michigan.gov>, Robert Ficano <IMSheriff2you@aol.com>, "william.misterovich@macombgov.org" <william.misterovich@macombgov.org>, orrk <orrk@detroitmi.gov>,

"bkenoyer@ford.com" <bkenoyer@ford.com>, "blackmm@mail.resa.net" <blackmm@mail.resa.net>, "Fausone, Jim" <JFausone@fb-firm.com>, "fredtheengineer@comcast.net" <fredtheengineer@comcast.net>, "jamjomar@msn.com" <jamjomar@msn.com>, "jwilliams@dickinsonwright.com" <jwilliams@dickinsonwright.com>, "ldforte@comerica.com" <ldforte@comerica.com>, Mary Blackmon <blackmm@att.net>

Cc: Sue McCormick <mccormick@dwsd.org>, Matthew Schenk <schenk@dwsd.org>

Subject: FW: KWA and City of Flint

Folks - I am disappointed to report that Flint/Genesee rejected the offer last night by press release to the Flint Journal.

The next step will be to send Flint a termination letter. Flint plans on buying water from DWSD for the next 3 years. Under the old contract, a termination letter is sent and then 12 months later DWSD can set new rates for the water delivered in year 2 and 3. The new rates will recover all sunk costs.

I am convinced the DWSD team acted in good faith and put forth an attractive offer. The local politics trumped reason, economics and engineering. I wish the people of Genesee County good luck and that the project saves them all the money promised by the politicians.

DWSD will move on. Our next big issue is the regional authority. I would also expect now that the State Treasurer has indicated there is no Flint/Highland Park linkage, the Department will sue Highland Park for the \$12.5 million it owes.

Jim

From: Fausone, Jim

Sent: Tuesday, April 16, 2013 9:06 AM

To: Walsh, John J.; DillonA2@michigan.gov; Robert Ficano; william.misterovich@macombgov.org; orrk; Craig Hupp; Jaye Quadrozzi (Quadrozzi@youngpc.com; cpugh313; Gary Brown; Jack Martin; bkenoyer@ford.com; blackmm@mail.resa.net; Fausone, Jim; fredtheengineer@comcast.net; jamjomar@msn.com; jwilliams@dickinsonwright.com; ldforte@comerica.com; Mary Blackmon

Cc: Sue McCormick; Matthew Schenk

Subject: KWA and City of Flint

Folks - This proposal saves Flint./Genessee essentially 50% TODAY and 20% when compared to KWA over 30 years.

If the decision is about economics or engineering, I don't see how F/G proceeds with KWA. Call the Director or me if you have questions. Jim

James G Fausone
Fausone Bohn, LLP
(248) 380-1818 tel.
jfausone@fb-firm.com

From: Sue McCormick [<mailto:mccormick@dwsd.org>]

Sent: Monday, April 15, 2013 6:20 PM

To: Fausone, Jim
Cc: William Wolfson; billjohnson
Subject: Fwd: KWA and City of Flint

Gentlemen,

The cliffnotes version:

Proposal offers a today rate of water for Flint/Genesee of \$10.46 as compared to \$20.00 paid currently per Mcf - 48% less that could be realized nearly immediately and even more when compared to the increases coming with KWA. When compared over the 30 year horizon the DWSD proposal saves \$800 million dollars or said differently - saves 20% over the KWA proposal.

Sue

Sue F. McCormick, Director
Detroit Water and Sewerage Department
735 Randolph, Room 506
Detroit, Michigan 48226
Office (313)224-4701
Fax (313)224-6067
McCormic@dwsd.org

Pleyte, Beth (Treasury)

From: Brader, Valerie (GOV)
Sent: Wednesday, April 17, 2013 5:33 PM
To: Dillon, Andy (Treasury)
Cc: Headen, Frederick (Treasury); Stibitz, Brom (Treasury); Saxton, Thomas (Treasury); Muchmore, Dennis (GOV); Roberts, John (GOV)
Subject: Re: KWA and City of Flint. URGENT

Fausone chairs the DWSD Board of Water Commissioners, which is actually a body that exists under the Detroit Charter and is appointed by the Mayor. Fausone's appointment to the board was facilitated by the federal court, as a suburban representative (Bing agreed to name suburban reps; I can't remember if he did it to avoid an order or if Cox ended up issuing one on the matter). The Board's decisions in almost all key matters (rates, contracts) are subject to approval by the City Council, so KO does not need to listen to them.

All members of the board are mayoral appointees who serve at his pleasure, so in theory, KO could even fire Fausone if he tried this. the only potential obstacle is the potential federal court order, which if it exists, would arguably require him to ask Wayne County for a new name. I would need to refresh myself on Cox's orders on this to be sure of the process. Even if Cox technically ordered this, the federal court would likely avoid getting involved if the issue (as this is) was unrelated to the sewer system. I can't see any appeals court upholding a judge's order with that as the basis, and the 6th Circuit made it pretty clear in 07 or 08 that the federal court in this case had no authority over the water side of the system, and the argument that the water and sewer systems are linked via shared management is DOA.

Sent from my iPad

On Apr 17, 2013, at 8:59 AM, "Dillon, Andy (Treasury)" <DillonA2@michigan.gov> wrote:

He chairs the oversight board the federal judge put in place. Point well taken though. We need to understand to what extent KO needs to listen to this board.

Sent from my iPad

On Apr 17, 2013, at 8:54 AM, "Headen, Frederick (Treasury)" <HeadenF@michigan.gov> wrote:

Andy:

I forwarded this information to Frank Monticello, at the Attorney General's Office, and will keep Valerie apprised as to any developments at that end. I do not know what role Mr. Fausone plays in this matter, but his sentiments would seem to be idle threats given that the Emergency Manager now has statutory control over DWSD.

Fred

From: Dillon, Andy (Treasury)
Sent: Wednesday, April 17, 2013 8:33 AM
To: Stibitz, Brom (Treasury); Saxton, Thomas (Treasury); Muchmore, Dennis (GOV); Roberts, John (GOV); Headen, Frederick (Treasury); Brader, Valerie (GOV)
Cc: Snyder, Rick (GOV)
Subject: Fwd: KWA and City of Flint. URGENT

Interesting threat here. They will seek to recover sunk costs through rates in last two years. My guess is this will be a wildly huge increase. We cannot ignore the threat. We need legal advice asap. This needs immediate attention.

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Date: April 17, 2013, 8:08:55 AM EDT
To: "Walsh, John J." <jwalsh@fb-firm.com>, "Dillon, Andy (Treasury)" <DillonA2@michigan.gov>, Robert Ficano <IMSheriff2you@aol.com>, "william.misterovich@macombgov.org" <william.misterovich@macombgov.org>, orrk <orrk@detroitmi.gov>, "bkenoyer@ford.com" <bkenoyer@ford.com>, "blackmm@mail.resa.net" <blackmm@mail.resa.net>, "Fausone, Jim" <JFausone@fb-firm.com>, "fredtheengineer@comcast.net" <fredtheengineer@comcast.net>, "jamjomar@msn.com" <jamjomar@msn.com>, "jwilliams@dickinsonwright.com" <jwilliams@dickinsonwright.com>, "ldforte@comerica.com" <ldforte@comerica.com>, Mary Blackmon <blackmm@att.net>
Cc: Sue McCormick <mccormick@dwdsd.org>, Matthew Schenk <schenk@dwdsd.org>
Subject: FW: KWA and City of Flint

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engineering. I wish the people of Genesee County good luck and that the project saves them all the money promised by the politicians.

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Jim

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Sent: Tuesday, April 16, 2013 9:06 AM
To: Walsh, John J.; DillonA2@michigan.gov; Robert Ficano; william.misterovich@macombgov.org; orrk; Craig Hupp; Jaye Quadrozzi (Quadrozzi@youngpc.com); cpugh313; Gary Brown; Jack Martin; bkenoyer@ford.com; blackmm@mail.resa.net; Fausone, Jim; fredtheengineer@comcast.net; jamjomar@msn.com; jwilliams@dickinsonwright.com; ldforte@comerica.com; Mary Blackmon
Cc: Sue McCormick; Matthew Schenk
Subject: KWA and City of Flint

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James G Fausone
Fausone Bohn, LLP
(248) 380-1818 tel
jfausone@fb-firm.com

From: Sue McCormick [<mailto:mccormick@dwdsd.org>]
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Sue

Sue F. McCormick, Director
Detroit Water and Sewerage Department
735 Randolph, Room 506
Detroit, Michigan 48226
Office (313)224-4701
Fax (313)224-6067
McCormic@dwsd.org

Koryzno, Edward (Treasury)

From: Koryzno, Edward (Treasury)
Sent: Wednesday, April 17, 2013 9:18 AM
To: Fraser, Roger (Treasury)
Subject: RE: Flint/KWA

Thanks!



Edward B. Koryzno, Jr. | Administrator - Office of Fiscal Responsibility
State of Michigan | 430 W. Allegan Street, 1st Floor | Lansing, MI 48922
(517) 373-4415 | (517) 373-0633 (fax)
KoryznoE@michigan.gov



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Thank you

From: Fraser, Roger (Treasury)
Sent: Wednesday, April 17, 2013 9:17 AM
To: Koryzno, Edward (Treasury)
Subject: RE: Flint/KWA

I will do the letter.

From: Koryzno, Edward (Treasury)
Sent: Wednesday, April 17, 2013 8:03 AM
To: Fraser, Roger (Treasury)
Subject: FW: Flint/KWA

How do you want to handle this?



Edward B. Koryzno, Jr. | Administrator - Office of Fiscal Responsibility
State of Michigan | 430 W. Allegan Street, 1st Floor | Lansing, MI 48922
(517) 373-4415 | (517) 373-0633 (fax)
KoryznoE@michigan.gov



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sender by reply e-mail, and delete/destroy all copies of the original message and attachments.

Thank you

From: Stibitz, Brom (Treasury)
Sent: Wednesday, April 17, 2013 7:49 AM
To: Fraser, Roger (Treasury); Koryzno, Edward (Treasury)
Subject: FW: Flint/KWA

Please prepare a response to "Fred the Engineer" to be signed by Roger on behalf of Andy.

Will you please let me know today how long it will take to get a response out and then also CC me on the letter once it does go?

Thanks.

From: Muchmore, Dennis (GOV)
Sent: Tuesday, April 16, 2013 6:12 PM
To: Dillon, Andy (Treasury); Stibitz, Brom (Treasury); Headen, Frederick (Treasury); Saxton, Thomas (Treasury)
Cc: Roberts, John (GOV)
Subject: RE: Flint/KWA

I thought we had settled all these questions. If so, we need to answer his email with an explanation.

From: Dillon, Andy (Treasury)
Sent: Monday, April 15, 2013 11:11 AM
To: Stibitz, Brom (Treasury); Headen, Frederick (Treasury); Saxton, Thomas (Treasury)
Cc: Muchmore, Dennis (GOV); Roberts, John (GOV)
Subject: Fwd: Flint/KWA

I don't know who Fred the Engineer is.

I spoke to Brooks Patterson Sat night. He won't get in middle of this despite Det News story.

I think we need to understand if the legacy liability issue raised twice now presents a real risk to Flint. Also, Fred were you able to sort thru rate issue we discussed?

Thanks.

Andy

Sent from my iPhone

Begin forwarded message:

From: fredtheengineer <fredtheengineer@comcast.net>
Date: April 15, 2013, 10:46:35 AM EDT
To: "Dillon, Andy (Treasury)" <DillonA2@michigan.gov>
Subject: Flint/KWA

Dear Mr. Dillon:

The report produced, at your direction, by TYJT, indicated the most economical option for Flint water is to maintain a contract with DWSD. The KWA option will cost more money. Since

some of the funds for the KWA solution will come from State grants and State Revolving Fund loans, that solution will cost me more money in the form of taxes. The best solution from the economic and engineering perspective is DWSD. A purely political decision that ignores economics is not in the public interest.

Sincerely,

Fred W. Barnes, PE

Sent from my iPhone

Stanton, Terry A. (Treasury)

From: Dillon, Andy (Treasury)
Sent: Wednesday, April 17, 2013 10:50 AM
To: Saxton, Thomas (Treasury); Stanton, Terry A. (Treasury); Stibitz, Brom (Treasury)
Cc: Muchmore, Dennis (GOV); Roberts, John (GOV); Wyant, Dan (DEQ)
Subject: Fwd: KWA and City of Flint

May not be a bad idea to have this available for public consumption seeing as the two sides like to negotiate in the media.

Sent from my iPad

Begin forwarded message:

From: "Wyant, Dan (DEQ)" <WyantD@michigan.gov>
Date: April 17, 2013, 10:45:45 AM EDT
To: "Dillon, Andy (Treasury)" <DillonA2@michigan.gov>
Subject: FW: KWA and City of Flint

Andy,

More DEQ staff comments attached from this morning. Our analysis has not changed.

Dan Wyant, Director
Department of Environmental Quality
517-373-7917

From: Thelen, Mary Beth (DEQ)
Sent: Wednesday, April 17, 2013 10:43 AM
To: Wyant, Dan (DEQ)
Subject: FW: KWA and City of Flint

From: Busch, Stephen (DEQ)
Sent: Wednesday, April 17, 2013 9:51 AM
To: Sygo, Jim (DEQ); Shekter Smith, Liane (DEQ); Thelen, Mary Beth (DEQ)
Cc: Shaler, Karen (DEQ); Benzie, Richard (DEQ); Prysby, Mike (DEQ)
Subject: RE: KWA and City of Flint

Director Wyant, Deputy Director Sygo, and Liane,

A response at this point may be moot as Flint and Genesee Co. already held a press conference yesterday rejecting the DWSD offer.

It is also unclear whether DWSD provided its offer directly to Flint and Genesee Co. by the deadline in Treasurer Dillon's letter. However, Flint and Genesee Co. still took the offer under consideration.

Our office concurs with both Flint and Genesee Co. that the offers provided by DWSD were incomplete.

Of the two scenarios provided by DWSD it appeared that only Scenario 2 was listed as potentially being more cost effective. However, this scenario did not address the following:

1. The DWSD scenarios are based on 40 MGD of service capacity. However, the KWA project is providing 60 MGD of initial capacity with potential expansion to 75 MGD in the future. Therefore, in order for a more direct comparison the DWSD scenario would need to increase capacity to 60 MGD, which would increase fixed rate commodity costs as well as the capital costs for the Huron Plant that DWSD was planning to allocate to Flint and Genesee Co., presumably by as much as 50%.
2. DWSD proposals cover a 30 year period to 2042, but fail to recognize that after this period bond payments for the KWA project will be complete and result in a significant reduction in costs for the KWA option.
3. While DWSD indicates that Flint and Genesee Co. would be given "broadened representation", it remains unclear exactly what this means in terms of actual control in the decision making process.
4. This scenario continues to rely on a single transmission system and would require the City of Flint to maintain its WTP for emergency purposes and these costs do not appear to be included. In addition, use of the Flint WTP as an emergency backup would leave Genesee Co. without an adequate backup supply to meet their 30 year needs.

Again, without DWSD providing the specific details of these proposals, it is difficult to provide a true comparative analysis, and as such Flint and Genesee Co. appear to be justified in their rejection of these proposals.

Please let me know if you require any further response.

Stephen Busch, P E
Lansing and Jackson District Supervisor
Office of Drinking Water and Municipal Assistance
MDEQ
517-643-2314

From: Sygo, Jim (DEQ)
Sent: Tuesday, April 16, 2013 9:59 AM
To: Busch, Stephen (DEQ); Prysby, Mike (DEQ); Benzie, Richard (DEQ)
Cc: Shekter Smith, Liane (DEQ); Shaler, Karen (DEQ); Thelen, Mary Beth (DEQ)
Subject: FW: KWA and City of Flint

Steve, Mike and Richard,

Please take a look at DWSD's last best offer to the City of Flint and provide your collective perspective to the Director through Liane by the end of the week. Copy me in as well. I'll be out of the office but would like to know if you think this is worth considering.

Thank you for your expedited review.

From: Wyant, Dan (DEQ)
Sent: Tuesday, April 16, 2013 6:52 AM
To: Sygo, Jim (DEQ)
Subject: FW: KWA and City of Flint

Jim,

Liane is out of the office today, Can you forward this directly to her staff that worked on this with us.

Dan Wyant, Director
Department of Environmental Quality
517-373-7917

From: Wyant, Dan (DEQ)
Sent: Tuesday, April 16, 2013 6:51 AM
To: Sygo, Jim (DEQ); Creal, William (DEQ); Shekter Smith, Liane (DEQ)
Cc: Anderson, Madhu (DEQ)
Subject: FW: KWA and City of Flint

Bill and Liane,

Can you have your staff's take a quick look at this and let me know today if they think this changes their thoughts and comments to me last week.

Dan Wyant, Director
Department of Environmental Quality
517-373-7917

From: Dillon, Andy (Treasury)
Sent: Monday, April 15, 2013 7:55 PM
To: Wyant, Dan (DEQ); Dennis Muchmore; Roberts, John (GOV)
Cc: Stibitz, Brom (Treasury); Saxton, Thomas (Treasury)
Subject: Fwd: KWA and City of Flint

FYI

Dan, any thoughts re the attached?

We gave dwsd until today to put best offer on table. Flint is to get back to us tmrw. I want to make sure their expected rejection is made in good faith.

Sent from my iPad

Begin forwarded message

From: "Debra Ragland" <dragland@dwsd.org>
To: "ekurtz@cityofflint.com" <ekurtz@cityofflint.com>
Cc: "jwright@co.genesee.mi.us" <jwright@co.genesee.mi.us>, "Dillon, Andy (Treasury)" <DillonA2@michigan.gov>, "James Fausone" <fausone@dwsd.org>, "orrk@detroitmi.gov" <orrk@detroitmi.gov>, "Sue McCormick" <mccormick@dwsd.org>
Subject: KWA and City of Flint

Please see attached on behalf of Sue F. McCormick.

Faxed copy forwarded to Mayor Dayne Walling and Jeff Wright.

April 17, 2013

RECEIVED
CITY OF DETROIT
CITY CLERK'S OFFICE
2013 APR 18 AM 11:33

Via Certified Mail and Electronic Delivery

Ms. Inez M. Brown
City Clerk
City of Flint
2nd Floor, City Hall
1101 S. Saginaw Street
Flint, Michigan 48502

Dear Ms. Brown:

**Regarding: Termination of Contract for the Provision of Water Services
by the City of Detroit, Water and Sewerage Department**

On December 20, 1965, the City of Detroit, through its Board of Water Commissioners, (DWSD) and the City of Flint, Michigan (Flint) entered into a contract for the provision of DWSD treated water to Flint and the distribution by Flint of that water to other Genesee County communities. Section 18 of that Agreement¹ provides:

18. The Board [DWSD] shall supply and sell water to the City [Flint] from the water system of the City of Detroit, and the City shall receive and purchase such water in accordance with the terms of this Agreement for an indefinite period of time but at least for a period of thirty-five (35) years from the date hereof. This Agreement may be terminated by either party after expiration of said 35-year period, upon one year's written notice served upon the other party by delivering the same to the Secretary of the Board or to the Clerk of the City as the case may be, or at any time upon mutual consent of both parties.

Please take notice that pursuant to this section, 18, of the above-referenced Agreement, DWSD is terminating this Agreement one year from today's date (April 17, 2014).

Sincerely yours,


Sue F. McCormick
Director

¹ Although the Agreement between DWSD has been subsequently amended, Section 18 remains unchanged and in full effect.

Lamphier, Wendy (Treasury)

From: Muchmore, Dennis (GOV)
Sent: Wednesday, April 17, 2013 5:46 PM
To: Dillon, Andy (Treasury)
Subject: RE: Water meeting with Gov, Orr plus others

Importance: High

Follow Up Flag: Follow up
Flag Status: Flagged

That's probably enough. I'll come and probably Rustem. We can use the 15th floor.

From: Dillon, Andy (Treasury)
Sent: Wednesday, April 17, 2013 4:12 PM
To: Hichez, Amy (Treasury)
Cc: Stibitz, Brom (Treasury); Muchmore, Dennis (GOV); Roberts, John (GOV); Scott, Allison (GOV)
Subject: Re: Water meeting with Gov, Orr plus others

Ok to book during that window. Can it be in Detroit? This delay likely means Flint will be pregnant w KWA by then.

We let Kurtz come w he and two or three and DWSD Fausone w same # as Flint.

Also, invite Wyant and Key engineer. One from Tucker Young.

Dennis, I didn't send Governor report from DEQ (email I sent you) but will now. Is there a max # of people for this?

Sent from my iPad

On Apr 17, 2013, at 4:04 PM, "Hichez, Amy (Treasury)" <HichezA@michigan.gov> wrote:

The Governor would like to do this meeting next week. The Governor as well as Mr. Orr are available on Wed April 24th from 1-4pm. Andy, you requested a hold from 12-5 for a meeting with Mr. Buckfire on this day. Please clarify what you would like to do and WHO are the attendees/contacts for DWSD and KWA?

-----Original Message-----

From: Dillon, Andy (Treasury)
Sent: Wednesday, April 17, 2013 2:19 PM
To: Muchmore, Dennis (GOV)
Cc: Stibitz, Brom (Treasury); Scott, Allison (GOV); Roberts, John (GOV); Hichez, Amy (Treasury)
Subject: Re: KWA & DWSD

Ok. Amy, please get available times and dates from Governor. We should ask Wyant and one of his engineers.

Isn't Gov in Flint Friday? Maybe we could do it then in Flint if his schedule permits.

Sent from my iPad

On Apr 17, 2013, at 1:44 PM, "Muchmore, Dennis (GOV)" <muchmored@michigan.gov> wrote:

> The Gov would like you to call together Orr, Kurtz, DWSD, KWA and talk the situation through. He will participate. If something is resolved it will be good, if not, so be it.

Amy Hichez
Executive Administrator to State Treasurer Andy Dillon
Richard H. Austin Building
430 West Allegan Street
Lansing, MI 48922
Office: 517-241-2624
Cell: [REDACTED]
Fax: 517-335-1785

Lamphier, Wendy (Treasury)

From: Dillon, Andy (Treasury)
Sent: Thursday, April 18, 2013 11:50 AM
To: GovCalendar
Subject: Accepted: FW: Time TBD - KWA & DWSD Meeting

Lamphier, Wendy (Treasury)

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

Recurrence: (none)

Meeting Status: Accepted

Organizer: GovCalendar

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

From: GovCalendar
Sent: Wednesday, April 17, 2013 3:58 PM
To: GovCalendar; Hichez, Amy (Treasury); Muchmore, Dennis (GOV); Wisniewski, Wendy (GOV); Rustern, 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

[REDACTED]
[REDACTED]

Host: [REDACTED] - 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 McCormick (Director), Nikki Bateson (CFO)
Attending from Flint: Ed Kurtz and Flint Mayor Dayne Walling
Attending from Treasury: Andy Dillon, Amy Hichez
Attending from DEQ: Dan Wyant
George Karmo from Tucker Young Jackson Tull Inc



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

SUMMARY REPORT

TO: Brom Stibitz, Senior Policy Advisor, Department of Treasury
FROM: Eric Cline, Unit Operations Specialist
SUBJECT: Flint Water System Summary
DATE: April 18, 2013

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 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.

Copy: Roger Fraser, Deputy State Treasurer, Bureau of Local Government Services
Edward Koryzno, Administrator, Office of Fiscal Responsibility
Randall Byrne, State Administrative Manager, Office of Fiscal Responsibility

Pleyte, Beth (Treasury)

From: Saxton, Thomas (Treasury)
Sent: Friday, April 19, 2013 2:09 PM
To: Hichez, Amy (Treasury)
Subject: Fwd: DWSD / KWA Clark Hill letter
Attachments: image002.jpg; ATT00001.htm; 1581_001.pdf; ATT00002.htm

Sent from my iPhone

Begin forwarded message:

From: "Dillon, Andy (Treasury)" <DillonA2@michigan.gov>
Date: April 19, 2013, 2:06:47 PM EDT
To: "Saxton, Thomas (Treasury)" <SaxtonT@michigan.gov>, "Stibitz, Brom (Treasury)" <StibitzB@michigan.gov>
Subject: Fwd: DWSD / KWA Clark Hill letter

Tom please read.

Sent from my iPad

Begin forwarded message:

From: "Fausone, Jim" <JFausone@fb-firm.com>
To: "Dillon, Andy (Treasury)" <DillonA2@michigan.gov>, "Stibitz, Brom (Treasury)" <StibitzB@michigan.gov>
Subject: DWSD / KWA Clark Hill letter

Andy - I asked for thoughts from bond counsel on issues raised in the Tucker Young February 2013 report related to debt service and operating reserves. There are also some Act 436 procedural issues discussed in the letter. I just received this and want to send it to you in advance of the meeting today. Jim

James G. Fausone

[[cid:image002.jpg@01CE3D00.51F07310](#)]

41700 West Six Mile Road, Suite 101
Northville, Michigan 48168-3460
(248) 380-0000 tel. ext. 1818

(248) 380-3434 fax

jfausone@fb-firm.com<<mailto:jfausone@fb-firm.com>>

www.fb-firm.com<<http://www.fb-firm.com>>

Check out our Legal Help for Veterans practice group at
www.legalhelpforveterans.com<<http://www.legalhelpforveterans.com>> or
www.youtube.com/legalhelpforveterans<<http://www.youtube.com/legalhelpforveterans>>

This message is intended only for the use of the individual or entity to which it is addressed, and may contain information that is privileged, confidential and/or exempt from disclosure under applicable laws. If the reader of this message is not the intended recipient, or the employee or agent responsible for delivering the message to the intended recipient, you are hereby notified that any dissemination, distribution or copying of this communication is strictly prohibited. If you have received this communication in error, please notify us immediately by telephone and/or reply to the e-mail message. Thank you.

CLARK HILL

Robert L. Schwartz
T 248 988 5847
F 248 988 1834
Email rschwartz@clarkhill.com

Clark Hill PLC
151 South Old Woodward Avenue
Suite 200
Birmingham, Michigan 48009
T 248 642 9692
F 248 642 2174
clarkhill.com

April 19, 2013

Mr. James Fausone
Chair
Board of Water Commissioners
Detroit Water and Sewerage Department
Detroit, Michigan

Re: KWA Proposal

Dear Mr. Fausone:

This is in response to your request for our advice regarding certain financial and procedural aspects relating to the proposal made by the Karegnondi Water Authority ("KWA") to the City of Flint ("Flint") to replace the Detroit Water and Sewerage Department ("DWSD") as Flint's water supplier.

As bond counsel for the City of Detroit (the "City") in connection with the issuance by the City, on behalf of DWSD, of over \$650 million in sewer system bonds last year, we are familiar with DWSD, the water and sewerage systems and those matters most important to the successful financing of system improvements.

For purposes of this letter, we have reviewed, among other documents and correspondence, the City of Flint Water Supply Assessment, "*Preliminary Findings*," of Tucker, Young, Jackson, Tull, Inc., dated December 21, 2012 (the "Tucker Young Report"). We understand that the Tucker Young Report has been central to the discussion regarding whether or not the proposed KWA proposal should be pursued.

In our view, the financial analysis of the transaction and its consequences require reference to two subjects not materially considered by the Tucker Young Report or otherwise in connection with the KWA proposal. Among the most important are the effects on system debt service coverage and operating reserves. The Tucker Young Report notes that, among others, debt service coverage ratios and the funding of operating reserves were not specifically analyzed. The result could be a very significant understatement of costs. In this regard, we also note that the interest rates suggested for future Flint or system debt are, at best, purely speculative, if not considerably understated.

Debt Service Coverage

The debt service coverage ratio of any governmental body is a major consideration in the credit analysis of our national rating agencies. In this regard, one of the City's major underwriting firms, Siebert Brandford Shank & Co., LLC, has provided a comparative analysis of the credit ratings and debt service coverage ratios of several water systems, including the DWSD water system. The ability of a governmental body to pay its indebtedness is succinctly reflected in its debt service coverage ratio. National rating agencies have different credit criteria in this regard. Standard & Poor's Ratings Services requires a 1.5 debt service coverage ratio to assign a "strong" credit rating, while Fitch Ratings demands a debt service coverage ratio above 2.0.

The Ordinance governing the issuance of indebtedness for DWSD requires that the ratio of rates and charges to expenses be no less than 1.2 for senior debt.

In contrast, the KWA data reflects debt service coverage only in its financial proforma, which translates to a debt service coverage ratio of only 1.0, based on expectations, not experience. That ratio is extremely poor and unlikely to support any meaningful debt at any rate other than an unreasonably high one. This subject demands considerably more attention before a determination regarding the viability of the KWA proposal should be made.

Operating Reserves

In addition to the need for more analysis of the debt service coverage potential in connection with the KWA proposal, the strength of the potential operating reserves of the system must be considered. Our national rating agencies consider cash on hand as an indication of financial strength or weakness. The absence of cash to withstand negative unforeseen circumstances is a major negative factor in the rating analysis. Evidence of a three to twelve month operating reserve is extremely important. To our knowledge, there is no evidence of the means by which a meaningful operating reserve will be developed under the KWA proposal.

Act 436 Procedural Issue

Another issue of major importance is the procedure by which the KWA proposal has been or will be considered. The Local Financial Stability and Choice Act, Act 436, Michigan Public Acts of 2012 ("Act 436"), requires, in Section 12(3) thereof, that contracts with a cumulative value of \$50,000 or more be subject to competitive bidding, absent authorization by the State Treasurer to abandon bidding.

The circumstances under which Flint is considering the KWA proposal are totally unclear as to whether this provision has been satisfied. To our knowledge, based on correspondence we have seen to date, the State Treasurer has not specifically waived the competitive bidding process. Moreover, we are not aware that any specific bidding requirements were published or

Mr. James Fausone

April 19, 2013

Page 3

any information regarding evaluation criteria (of which, in complete disregard of customary and accepted governmental policy and practice, there appear to be none) disseminated. On what basis, then, can Flint legally proceed, particularly in view of the chronology of proposals submitted. No meaningful review of the DWSD's proposal viz-a-viz the KWA proposal conceivably could have been performed. Consequently, it can be concluded that the technical requirements of Act 436 were not satisfied and that a fair and intelligent analysis of competing contracts was clearly not made.

Public Policy

Finally, matters of public policy must be considered under circumstances as significant as these. Among such considerations are the existence of substantial public infrastructure with excess capacity, demographic data showing shrinking demand in the service area, the enthusiastic momentum behind the creation of a regional authority of which DWSD would be the structural foundation and the reduction in customer costs by a substantial percentage as reflected in the DWSD proposal, all of which militate substantially in favor of the DWSD proposal.

We have endeavored to summarize only a few of the more salient points relating to the analysis of the proposed KWA proposal in light of the proposals made by DWSD to continue the current relationship with Flint. Certainly, other matters of significance can and should be considered which may further affect the credibility of the KWA proposal.

Very truly yours,

CLARK HILL PLC

Robert L. Schwartz

RLS/jmh

Headen, Frederick (Treasury)

From: Dillon, Andy (Treasury)
Sent: Wednesday, April 24, 2013 8:48 AM
To: Wyant, Dan (DEQ)
Cc: Stibitz, Brom (Treasury); Tedder, Greg (GOV); Saxton, Thomas (Treasury)
Subject: Fwd: DWSD Proposal
Attachments: Flint04.23.13proposalfinal_(1)___Signed[2].pdf; ATT00001.htm;
Specification_Sheet_for_Evaluating_Water_Service_Options_to.doc; ATT00002.htm; EXH
1.pdf; ATT00003.htm; EXH 3.pdf; ATT00004.htm; EXH 2.pdf; ATT00005.htm

FYI. Thanks for all of your help on this.

Sent from my iPad

Begin forwarded message:

From: "Debra Ragland" <dragland@dwsd.org>
To: "ekurtz@cityofflint.com" <ekurtz@cityofflint.com>
Cc: "James Fausone" <jfausone@fb-firm.com>, "orrk" <orrk@detroitmi.gov>, "Dillon, Andy (Treasury)" <DillonA2@michigan.gov>
Subject: Fwd: DWSD Proposal

This email is being sent on behalf of Sue McCormick - Director, Detroit Water and Sewerage Department.

Please replace prior email with this one.

From: "Sue McCormick" <mccormick@dwsd.org>
To: "Ed Kurtz" <ekurtz@cityofflint.com>
Cc: "Jim Fausone" <jfausone@fb-firm.com>, "orrk" <orrk@detroitmi.gov>, "dillona" <dillona@michigan.gov>
Sent: Wednesday, April 24, 2013 8:15:18 AM
Subject: DWSD Proposal

Good morning Mr. Kurtz,

Please find attached DWSD's proposal for continued service to Flint and Genesee County. Within the hour I will also send a power point file that provides a summary level presentation of the proposal.

I look forward to answering any questions you may have and supporting the conversation between you and Mr. Orr over the next few days.

Sue

Sue F. McCormick, Director
Detroit Water and Sewerage Department
735 Randolph, Room 506
Detroit, Michigan 48226
Office (313)224-4701
Fax (313)224-6067
McCormic@dwsd.org

April 24, 2013

Ed Kurtz, Emergency Manager
City of Flint
1101 South Saginaw Street
Flint, Michigan

Dear Mr. Kurtz,

I am pleased to offer this Water Supply proposal for continued long-term water supply service to the City of Flint and Genesee County. DWSD is committed to becoming the provider of choice for Water service in Southeast Michigan and looks forward to the opportunity to partner with the City of Flint/Genesee County as the region moves forward. The proposal herein offers Flint the immediate opportunity for a 45% reduction in the cost of water supply saves the Flint/Genesee region over \$900 million dollars as compared to the KWA alternative over the 30 year contract period.

On December 20, 1965, the Cities of Detroit and Flint entered into a Water Service Agreement (Agreement) for the City of Detroit Water & Sewerage Department (DWSD) to provide treated water to Flint and for Flint to provide DWSD water to other areas of Genesee County. That Agreement had a 35-year minimum and an indefinite maximum term and is currently in effect. There has been one Amendment to that Agreement dated July 18th, 1990. That amendment addressed a Flint request to reduce the minimum consumption requirement in the agreement by changing "Article 8 (A and B)". This amendment resulted in significantly lower costs to Flint. All other provisions of the Agreement remained unchanged. For over a decade the cities of Detroit and Flint have been in discussions for a successor Water Service Agreement to replace the Agreement currently in place. During the course of those discussions many different service alternatives have been considered but the cities have been unable to agree on terms that would allow their current Agreement to be replaced by a successor water service agreement.

In recent months, via a process largely governed by the State of Michigan, DWSD has proposed a number of alternative approaches for long-term water supply to the Flint/Genesee region. During a meeting with the State on April 19th a process and schedule was outlined that provided DWSD the opportunity to deliver a final proposal to Flint for continued service to the Flint/Genesee region. The proposal herein provides a public/public partnership approach in response to the water service requirements set forth by Flint / Genesee County / KWA as of April 22, 2013 (attached).

The following discussion and exhibits are designed to present the highlights of our submittal, and specifically respond to the points set forth in the request. In summary, our proposal reflects a public/public partnership approach with Flint that is designed to launch a cooperative arrangement toward solving water supply challenges in the Flint/Genesee region in a manner that best meets the interests of Flint and is equitable across the DWSD service area. Our proposed approach is responsive to the specification and has direct benefits to Flint/Genesee. Notably:

- Provides Flint, as partner with a capacity share in the Lake Huron Water Treatment Plant, the advantage of treatment costs calculated from a facility that has a lower cost of production compared to DWSD's other treatment plants; this capacity obligation is secured by a contractual obligation to successors and assigns;
- Effectively negates the distance and elevation factor that exists in the current rate structure to Flint, calculating transmission costs based on the line from the Lake Huron plant to the Baxter/Potter connection;
- Provides redundant (back-up) water supply at the Imlay City Pump Station and reflects fair recognition that Flint will provide a level of "reliability" on its own that DWSD currently provides to other wholesale customers, through construction and ownership of redundant transmission from the Imlay pump station West to Baxter/Potter or other point of connection as determined by Flint further maximizing Flint's interest in ownership of assets.

Highlights of our proposal:

Contract Structure – It is proposed that Flint would enter into a public/public partnership with DWSD that would reflect more input into and control over system investments and cost variables. The contract between Flint and DWSD would include "purchased capacity rights" in the "Lake Huron System" (defined below) based on the specific demands in an Exhibit B to the new contract, presumably the demands would be those included in the specifications attached. This is consistent in nature to DWSD's model contract that has been in place since 2008.

Revenue Requirement Responsibility – Limited to the costs associated with the "Lake Huron System", which includes the Lake Huron Water Treatment Plant and Intake and the transmission, pumping and storage facilities between the Lake Huron Plant and the delivery to Flint at the Baxter/Potter connection. Baseline revenue requirement data (including operating budget, rate of return, etc.) are identical to those developed for all other wholesale customers. No other DWSD costs will be allocable to Flint.

Proposed Rate Structure – Revenue requirements for the Lake Huron System will be recovered through a fixed monthly charge to recover allocated capital revenue requirements, plus a commodity charge to recover annual operating expenses. A separate fixed monthly charge is recovers the allocated "emergency standby" capital revenue requirements.

Redundancy Solution – Emergency backup supply is provided to the Imlay pump station, with the associated standby charge. A second transmission water main from the Imlay City Pumping Station west to either the current connection at Baxter/Potter roads or to another location to be determined by Flint, as necessary to meet the full redundancy requirements specified is assumed for comparison purposes. To maximize Flint's interest in ownership, it is proposed that this line will be constructed by Flint or KWA, and owned and operated by Flint or KWA. No costs associated with this transmission line are included in the proposed rate structure summarized in Exhibit 1. For the purposes of comparison of alternatives we have included an estimated annual revenue requirement for constructing such line, and these costs are reflected in the projections summarized in Exhibits 2 and 3. The costs for the second line included herein are consistent with those identified by TYJT in a follow-on effort to their report dated February 2013 on the

"twinning" line approach. Should Flint decide that it is not their preference to own this new transmission line, DWSD is receptive to other approaches, including DWSD financing and ownership.

Representation on the DWSD Board of Commissioners – DWSD is receptive to this concept and will pursue modification of the current governance structure to accommodate it.

Rate Increase "Guarantee" - DWSD proposes a guarantee that the capital portion of the Lake Huron System rate structure (the fixed monthly charge) will not increase for the life of the contract, unless additional capital investment is made in current and future Lake Huron System facilities. The only project in the current Capital Improvement Plan for the Lake Huron System is replacement of one low lift pump that is included in the fixed cost calculation. (Throughout this proposal the O&M escalation for the various revenue requirements are consistent with those applied in the TYJT evaluation conducted for the state.) In addition to the governance representation noted above and additionally through contractual treatment as a "partner" in a Lake Huron Operating Committee (proposed to have two Flint representatives and two DWSD representatives) Flint will have a level of control of such investments, and therefore a level of control over future capital revenue requirements included in the Flint rate structure. At Flint's option, an independent audit of the Lake Huron System costs can be requested annually and conducted by a mutually agreed upon firm and at a mutually agreeable cost.

Capacity - Flint will be entering a unique partnering agreement, initially purchasing capacity rights of 40 MGD in the Lake Huron Facility. The initial contract capacity would be set at 40 MGD per the specification. In addition, the contract will provide a reopener process every five years during which KWA may increase the contracted demands. DWSD will then allocate costs to Flint based on the new capacity requirement in the same manner as the initial allocation. This provision will accommodate potential growth in the KWA region without requiring Flint to encumber the full cost of projected future demands in early stages of the contract.

Proposed Rate Calculation

The annual revenue requirements are calculated (using FY 2013-14 as the baseline) as those that are allocable to the Lake Huron System. For purposes of this proposal, the Lake Huron System is defined as including:

- The Lake Huron Water Treatment Plant and related structures (intake, etc.)
- The 120" water main from the Lake Huron Plant to the Imlay City Pumping Station
- The Imlay City Pumping Station and related structures (reservoir, etc.)
- The 72" main from the Imlay City Pumping Station to the connection to Flint at Baxter/Potter Road

The Flint relative shares of the allocated Lake Huron System revenue requirement are based on the specifications provided by Flint. Capital costs have been allocated based on relative max day demands (for the plant) and peak hour demands (for the transmission facilities). Operation and Maintenance expenses have been allocated based on relative average day demands for all facilities.

The rate structure proposed herein recovers the allocated FY 2013-14 revenue requirements. All capital revenue requirements are proposed to be recovered through a fixed monthly charge. All operation and maintenance revenue requirements are proposed to be recoverable through a commodity rate applied to actual water purchases. An "average unit cost" per Mcf has been calculated based on the specification provided to illustrate the total revenue requirement expressed as a unit cost of projected water sales.

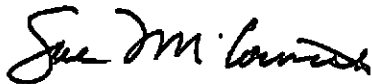
The analytical results of the proposal are illustrated in the attached table (Exhibit 1). Page 1 of this table shows the calculation of the proposed rate structure for FY 2013-14. As mentioned above, the fixed monthly charge associated with current capital costs of the Lake Huron System (shown on Line 1) will never increase so long as the purchased capacity requirement stays constant. Changes to the fixed monthly charge can increase only with (a) additional purchased capacity through the contract re-opener process (permissive to Flint), or (b) additional investment in Lake Huron System facilities for which Flint has both partnership input at the operating committee level and governance representation on the Board.

Page 2 of Exhibit 1 provides background to the rate structure calculation and illustrates the allocation of FY 2013-14 revenue requirements associated with the Lake Huron System facilities to Flint based on the contract demands set forth in the specifications document. It also illustrates the calculation of the emergency standby charge. This charge is designed to reflect the reservation of one day's worth of average daily capacity in the portions of the DWSD "backbone" (treatment and major transmission) system from which Flint will not receive "regular" service - and in which it will not be a "partner".

TYJT's report on the City of Flint Water Supply Assessment from February of this year included a number of tables and charts that compare revenue requirements to Flint under various alternatives. Attached herein is an updated Table 6.1 (Exhibit 2) which compares the cumulative annual cost of each option from the TYJT report with the new proposal included. We've also included an Exhibit 3 which is similar in format to Figure 6.1 in the TYJT report. However the data in this exhibit is a bit more inclusive, as it accumulates ALL of the annual utility costs for the KWA service area. DWSD submits that these exhibits illustrate the comparative advantage of DWSD's current proposal to the KWA proposal, and demonstrate the significant cost advantage provided with the innovative public/public partnership approach we are proposing.

In the nature of an executive summary or overview, we have submitted a companion power point presentation that calls out many of the significant features of this proposal. This is firm offer that is available with the rate season beginning July 1, 2014, however we remain open to discussion and negotiation.

Best regards,

A handwritten signature in black ink, appearing to read "Sue McCormick", written in a cursive style.

Sue McCormick, Director
Detroit Water & Sewerage Department

**Specification Sheet for Evaluating Water Service Options to
Flint and/or KWA/Genesee County (KWA/GC) Service Area**

Issued: April 22, 2013

Purpose: The purpose of this document is to 1) clarify the water service requirements so that DWSD may submit a proposal responsive to the current requirements of Flint and/or KWA/GC and 2) provide a framework for a comparable and equitable analysis of water service proposals from DWSD, KWA/GC, and/or any other parties.

- **Scope:** DWSD's proposal will be evaluated based on water service delivery to(select one):

Flint only

or

Flint and

KWA/GCC

2. **Objectives:** Identify the outcomes and criteria that serve as the basis for evaluating water service based on the scope defined in Q. 1 above.

- **Maintain current supply standards**
- **Reduce our cost share of DWSD system we don't use**
- **Stabilize rate**
- **Increase control over cost variables (be an owner, not a user)**
- **Redundant service at Baxter Potter**

3A. Treated Water Capacity Worksheet (5 Year Increments 2013-2042)

		2013	2018	2023	2028	2032	2037	2042
	<u>Flint</u>							
	Pressure Range							
	Max Day(MGD)							
	Peak Hour(MGD)							
	Avg Day (MGD)							
	<u>KWA/GC</u>							
	Pressure Range	50 PSI Winter 65 PSI Summer						
	Max Day(MGD)	40	43	47	50	53	57	60
	Peak Hour(MGD)	44	47	52	55	58	63	66
	Avg Day (MGD)	25	27	29	31	33	35	35
	<u>Total</u>							
	Pressure Range							
	Max Day(MGD)							
	Peak Hour(MGD)							
	Avg Day (MGD)							

3B. Raw Water (End Use) Capacity Worksheet (5 Year Increments 2013-2042) in excess of the specified treated water requirements

		2013	2018	2023	2028	2032	2037	2042
	<u>Flint</u>							
	Pressure Range							
	Max Day(MGD)							
	Peak Hour(MGD)							
	Avg Day (MGD)							
	<u>KWA/GC</u>							
	Pressure Range	0						
	Max Day(MGD)	0						
	Peak Hour(MGD)	0						
	Avg Day (MGD)	0						
	<u>Total</u>							
	Pressure Range	0						
	Max Day(MGD)	0						
	Peak Hour(MGD)	0						
	Avg Day (MGD)	0						

4. Provide Redundancy/Reliability alternatives for Treated Water? Circle yes or no for each

For Flint: Yes or No

For KWA/GC **Yes**

Option 1 -Full redundancy-2nd source (specify delivery point)

--Baxter Potter or second point into Genesee County

Option 2 – Redundancy via storage (specify location point and volume)

--Not Applicable

5. Permission to blend? No

If Yes, specify any operating requirements/limitations to blending.

6. Representation:

On DWSD Board? **Yes**

On DWSD Operating Committee? **Yes**

7. Capital Costs: Capital improvements/upgrades requested to achieve water service objectives.

--See No. 4

8. Pricing: Cost of service based on a rate model specific to named facilities and auditable account structure.

Alternative 1: Annual rate proposed based on budget and estimated usage, billed monthly based on metered usage.

Electable option: Subject to annual audit and true up in the next full rate year after close of audit. **NA**

Alternative 2: Annual fixed amount proposed based on budget and estimated usage; billed monthly in 12 equal monthly bills. Subject to annual audit and true up in the next full rate year after close of audit. **NA**

Alternative 3: Customer specified pricing requirement(s)

- Redundant service as a separate fixed rate

- Annual fixed amount with a commodity charge based on service from Port Huron and pipeline only.

- Capital cost and O & M for Port Huron operations only

9. Other Criteria: Identify any other criteria or materials that DWSD should provide for an objective evaluation of DWSD provided service compared to non-DWSD options.

- All current and future costs not to increase by more than 4.7% annually over the life of the contract

Lamphier, Wendy (Treasury)

From: Dillon, Andy (Treasury)
Sent: Wednesday, April 24, 2013 10:11 AM
To: David Guastella; George Karmo
Cc: Stibitz, Brom (Treasury); Saxton, Thomas (Treasury)
Subject: Fwd: Flint/GC Presentation
Attachments: Proposal Presentation 4 24 2013 to Flint GC.pdf; ATT00001.htm

Follow Up Flag: Follow up
Flag Status: Flagged

FYI.

Sent from my iPad

Begin forwarded message:

From: Sue McCormick <mccormick@dwsd.org>
Date: April 24, 2013, 9:22:17 AM EDT
To: Ed Kurtz <ekurtz@cityofflint.com>
Cc: Jim Fausone <JFausone@fb-firm.com>, orrk <orrk@detroitmi.gov>, "Dillon, Andy (Treasury)" <DillonA2@michigan.gov>
Subject: Fwd: Flint/GC Presentation

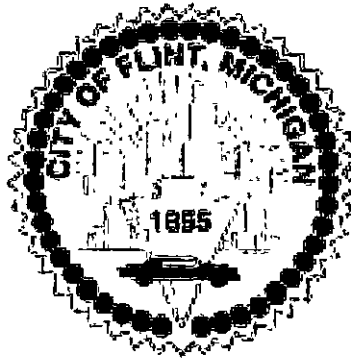
Good morning again Mr. Kurtz,

Please find attached a pdf version of the power point presentation noted in today's proposal sent earlier. This document provides an executive summary level view of the proposal.

Best regards,

Sue

Sue F. McCormick, Director
Detroit Water and Sewerage Department
735 Randolph, Room 506
Detroit, Michigan 48226
Office (313)224-4701
Fax (313)224-6067
McCormic@dwsd.org



A Public/Public
Partnership to
Provide Water
Service to Flint/KWA

*Submitted by City of Detroit Water & Sewerage Department
April 24, 2013*

Water Service Process

- April 22, 2013 – Flint Emergency Financial Manager (EFM) provides specifications to DWSD
- April 24, 2013 – DWSD submits proposal to Flint EFM
- April 25, 2013 – Flint/Detroit EFMs confer
- April 26, 2013 – Target date for decision

Water Service Objectives

Flint and Genesee County's Objectives

1. Be a system owner, not a user
2. Reduce cost
3. Stabilize rates for the long term
4. Obtain service redundancy
5. Maintain water quality standards

1. Be a system owner, not a user

This proposal provides for:

- A. A partnership with DWSD for a capacity share in the Lake Huron Water Treatment Plant
- B. A Lake Huron System operating committee to control facility investment and O&M costs
- C. Introduction to modifying current DWSD's governance structure to provide board representation for Flint/Genesee County

2. Reduce Cost

This proposal provides for:

- A. Water Supply costs based solely on Lake Huron System
- B. Eliminating the distance and elevation factor
- C. A **fixed** monthly charge for allocated capital revenue requirements
- D. A **commodity charge** to recover annual O&M expenses based on actual water purchases
- E. A **fixed** monthly charge for “emergency standby” capital costs to accommodate reliability from other DWSD assets

2. Reduce Cost (continued)

The proposal provides for significant cost reduction over the life of the contract when compared to both the current DWSD rate structure and the KWA Scenario.

Projected Annual Flint / GCDC Purchased Water Costs \$ millions				
	Current Rate Structure	Proposed Rate Structure	Variance	% Variance
2015	25.55	14.18	(11.37)	-45%
2020	32.14	17.55	(14.59)	-45%
2025	40.44	22.00	(18.44)	-46%
2030	50.87	27.59	(23.29)	-46%
2035	64.00	34.82	(29.18)	-46%
2040	80.53	44.48	(36.05)	-45%

The proposal results in immediate and continuing reduction in DWSD rates of 45%.

Projected TOTAL Water Costs to the Flint/GCDC Service Area FY 2016-17 - \$ millions			
	KWA Scenario	DWSD Proposal	Variance
DWSD Purchased Water	0.00	14.97	14.97
KWA Operating and Capital Costs	43.94	0.00	(43.94)
Flint/GCDC Op. and Capital Costs	64.15	50.74	(13.41)
	-----	-----	-----
TOTAL	108.09	65.71	(42.38)

The proposal is less costly than the KWA Scenario throughout the contract. Total savings to the Flint region are over \$900 million.

3. Stabilize rates for the long term

This proposal provides for:

- A. No increase in the Lake Huron System fixed capital monthly charge for the life of the contract unless new capital investment incurred
- B. No capital investment is made unless recommended by a new Lake Huron Operating Committee (proposed to have two Flint representatives and two DWSD representatives).
- C. An independent audit of the Lake Huron System costs can be requested annually

3. Stabilize rates for the long term

(continued)

- D. No increase in capital and standby costs as long as purchased capacity requirement is constant
- E. If increased capacity requested through contract re-opener process (permissive to Flint), change in costs based on new allocated share

3. Stabilize rates for the long term

(continued)

- F. Initial contract based on purchasing capacity rights of 40 MGD in the Lake Huron Facility
- G. Contract reopener every five years to accommodate potential growth of KWA region

4. Obtain Service Redundancy

This proposal provides for:

- A. Redundant supply provided by DWSD at the Imlay City Pump Station
- B. KWA constructs redundant transmission (from the Imlay pump station West to Baxter/Potter or other)
- C. Existing investment in Flint water treatment plant continues to be utilized

5. Maintain water quality standards

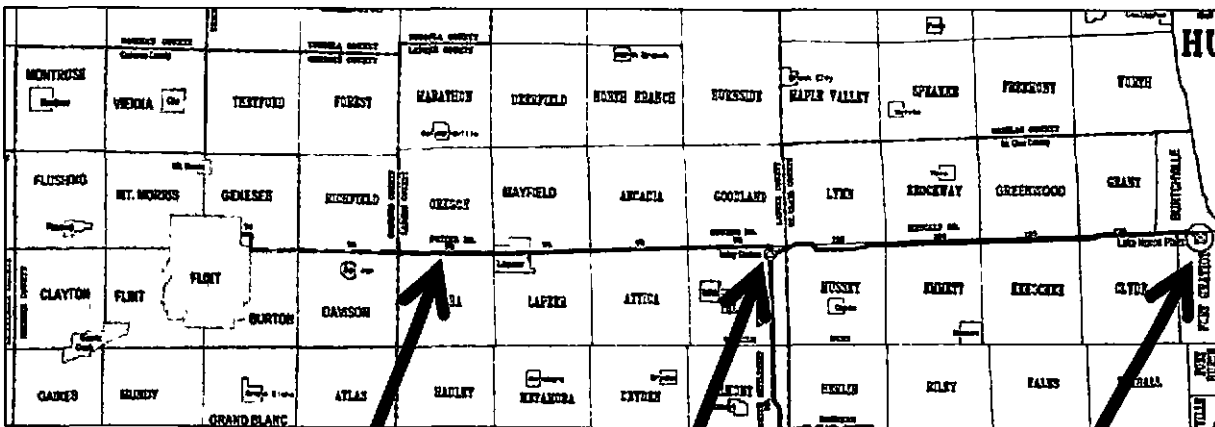
This proposal provides for:

- A. Ongoing access to DWSD's water which meets or surpasses all federal and state standards for quality and safety
- B. Meets pressure requirements requested in Flint/Genesee County proposal specifications
- C. As a partner, Genesee County will have DWSD's experience and customer community resources to ensure water quality standards

“Lake Huron System” Defined

- ✓ The Lake Huron Water Treatment Plant and related structures (intake, etc.)
- ✓ The 120" water main from the Lake Huron Plant to the Imlay City Pumping Station
- ✓ The Imlay City Pumping Station and related structures (reservoir, etc.)
- ✓ The 72" main from the Imlay City Pumping Station to the connection to Flint at Baxter/Potter Road

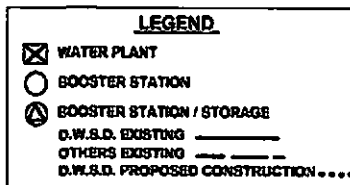
Lake Huron System Map



Baxter/Potter
Connection

Imlay City
Pump
Station

Lake
Huron
Plant



Rate History – Past & Future

Flint/DWSD Rate Adjustments, Ten Year History

Fiscal Year	Unit Cost	
	Rate	% Change
2004	\$ 11.06	
2005	10.24	-7.4%
2006	10.56	3.1%
2007	11.09	5.0%
2008	11.35	2.3%
2009	13.07	15.2%
2010	14.32	9.6%
2011	15.85	10.7%
2012	17.53	10.6%
2013	19.12	9.1%
2014	20.39	6.6%
Ten Year Geometric Average		6.31%

Future

- ✓ Fixed capital costs
- ✓ Fixed emergency standby costs
- ✓ Commodity charge based on allocated share of Lake Huron System
- ✓ Voice in capital and O&M cost levels
- ✓ Ability to audit cost detail

Next Steps

- This presentation highlights key points of proposal presented April 24, 2013. See proposal for complete explanation.
- Proposal review proposal process – DWSD welcomes opportunity to address questions and clarifications

DWSD H2O offer to Flint

Wednesday, April 24 2013 11:14 AM

Subject	FW: DWSD Proposal
From	Stibitz, Brom (Treasury)
To	Fraser, Roger (Treasury); Koryzno, Edward (Treasury)
Sent	Wednesday, April 24, 2013 8:49 AM
Attachments	 Flint04.23.1 3proposal...  ATT00001  Specificatio n_Sheet_f...  ATT00002  EXH 1  ATT00003  EXH 3  ATT00004  EXH 2

EXHIBIT 1
Calculation of DWSD Water Rate to KWA
Hypothetical FY 2013-14 Rate Structure

	<u>Annual Rev Req't (millions)</u>	<u>Unit Basis</u>	<u>Units</u>	<u>Avg Unit Cost</u>	<u>Rate Structure</u>
1 Capital Revenue Requirements	\$ 6.09	months	12		\$ 507,600 per month
2 Operating Revenue Requirements	\$ 4.40	Mcf	1.220		\$ 3.61 per Mcf
3 Subtotals / Avg Unit Cost	\$ 10.49		1.220	\$ 8.60	per Mcf
4 Standby Charge	\$ 3.32		12		\$ 276,900 per month
5 Totals / Avg Unit Cost	\$ 13.81		1.220	\$ 11.32	per Mcf
6 Total Monthly Charge					\$ 784,500 per month
7 Total Commodity Rate					\$ 3.61 per Mcf
8 plus Redundancy Solution (a)	\$ 8.59		Not a DWSD Cost		

(a) Redundancy Solution Calculations

9 Cost of Redundant Line	\$ 94.68
10 Issuance Expenses, etc	\$ 2.18
11 Required Financing	\$ 96.86
12 Finance Rate	5%
13 Finance Term	25
14 Annual Payment	\$ 6.87
15 Debt Svc Coverage	125%
16 Annual Revenue Requirement	\$ 8.59

TFG

EXHIBIT 1
Allocation of FY 2013-14 Revenue Requirements

		"LH System"	KWA Communities			
		Revenue Req't \$ millions	Capacity / Usage mgd	Capacity / Usage mgd	Relative Share %	Revenue Req't \$ millions
<u>Capital Cost Recovery</u>						
1	Treatment - LH WTP	30.35	400	40	10.0%	3.04
2	Pipeline - LH to Imlay	1.35	440	44	10.0%	0.14
3	Imlay Station	6.85	440	44	10.0%	0.68
4	Pipeline - Imlay to Baxter/Potter	0.74	44	44	100.0%	0.74
5	Other (Meters, Outreach, etc.)	7.50	125	25	20.0%	1.50
6	Total Capital Cost Recovery	46.79			13.0%	6.09
<u>Operating Costs</u>						
7	Treatment - LH WTP	15.02	125	25	20.0%	3.00
8	Pipeline - LH to Imlay	0.29	125	25	20.0%	0.06
9	Imlay Station	4.51	125	25	20.0%	0.90
10	Pipeline - Imlay to Baxter/Potter	0.23	25	25	100.0%	0.23
11	Other (Meters, Outreach, etc.)	1.02	125	25	20.0%	0.20
12	Total Operation and Maintenance	21.07			20.9%	4.40
<u>Annual Revenue Req't</u>						
13	Treatment - LH WTP	45.37				6.04
14	Pipeline - LH to Imlay	1.64				0.19
15	Imlay Station	11.36				1.59
16	Pipeline - Imlay to Baxter/Potter	0.96				0.96
17	Other (Meters, Outreach, etc.)	8.52				1.70
18	Subtotal DWSD Revenue Req't	67.87				10.49

Calculation of Standby Charge

		<u>Total</u>	<u>LH System</u>	<u>Other</u>
19	Capacity - mgd	1,760	400	1,360
20	Total "Backbone" Capital Costs - \$millions	227.54	46.79	180.75
21	Unit Capital Costs	0.129	0.117	0.133
22	Standby Requirements = Average Day			25
23	Standby Revenue Requirement - \$millions			3.32

EXHIBIT 2
DWSD Water Supply Costs Estimates to Flint

<u>Option</u>	Water Supply Costs (\$) <u>through 2042</u>	Ranking by <u>Cost</u>
DWSD 4/23/2013 Proposal	322,409,500	1
<i>DWSD 8 MGD Max Day @ Imlay</i>	634,795,500	2
<i>KWA (10/31/12 No Overruns, As Provided) *</i>	649,775,200	3
<i>DWSD 8 MGD Max Day @ Baxter / Potter</i>	672,671,700	4
<i>KWA-1 (10/31/12 No Overruns with Financing Costs)</i>	707,279,700	5
<i>DWSD 12 MGD Max Day @ Imlay</i>	725,576,800	6
<i>DWSD 12 MGD Max Day @ Baxter / Potter</i>	762,110,300	7
<i>KWA-2 (Treasury Estimate)</i>	766,784,300	8
DWSD 12 mgd Twin Line Proposal / No blending	818,092,200	9
<i>DWSD 18 MGD Max Day @ Baxter / Potter</i>	821,226,300	10

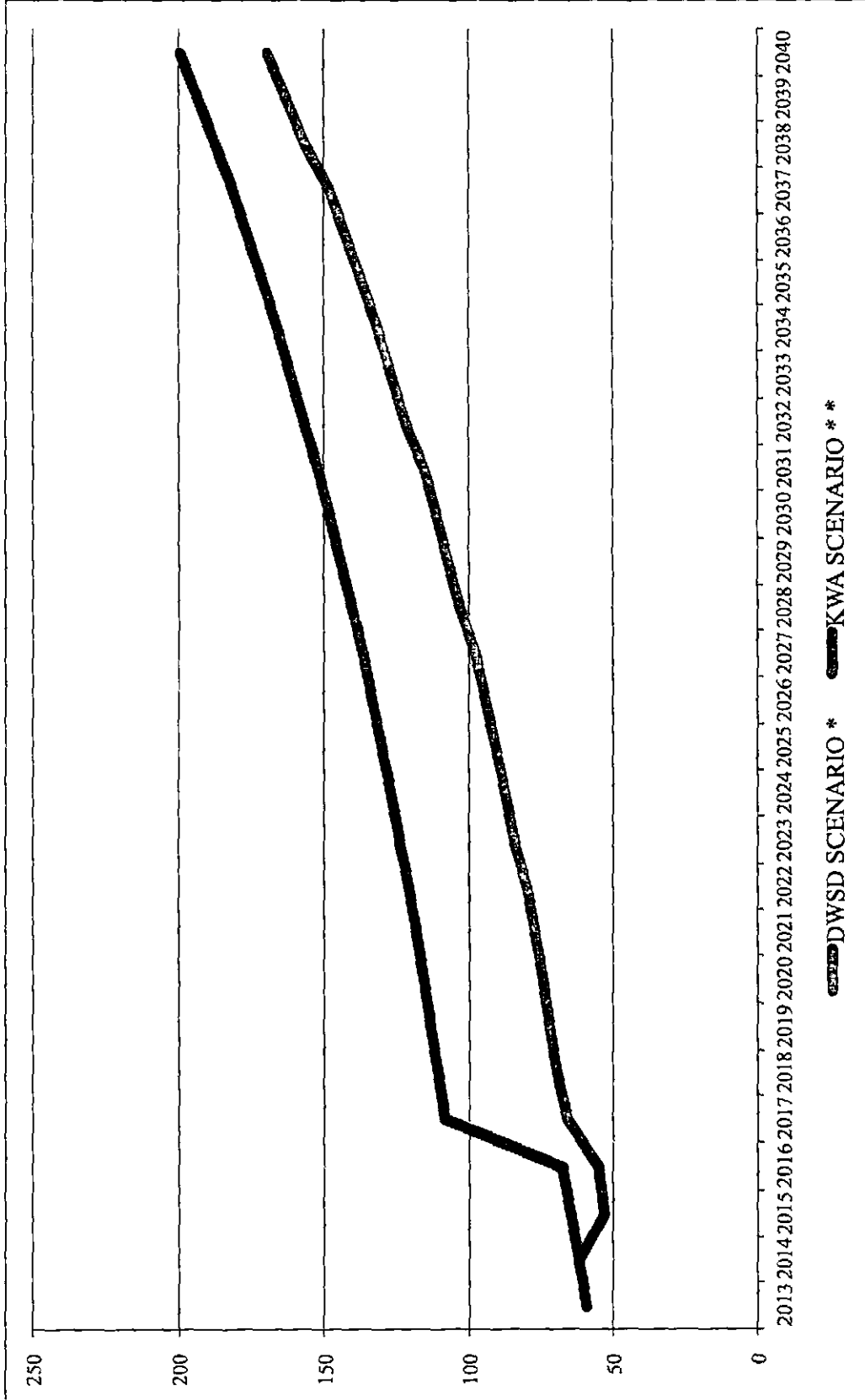
*Italicized Options as presented in TYJT Report
Only reflects estimated WATER SUPPLY Costs.*

DWSD Water Supply Costs Estimates to Flint / GCDC
\$ millions

	Total Water Costs (\$) <u>through 2042</u>	
DWSD 4/23/2013 Proposal	3,202.18	1
Estimate of KWA Scenario	4,123.89	2

Reflects ALL WATER UTILITY costs, including local Flint / GCDC requirements.

EXHIBIT 3
SUMMARY OF TOTAL PROJECTED WATER COSTS TO FLINT/GCDC - SCENARIO COMPARISON (\$ millions)



NOTE - This chart reflects estimated TOTAL water utility costs for the KWA Service Area, including local requirements of the Flint and GCDC Systems.

* Includes current annual capital costs for purchase of capacity in current LH System, based on escalated capacity from specifications. Does not include any additional future LH System capital costs. Includes LH System operating costs and standby charges for the rest of the System.

** It has come to our attention that the KWA Scenario will require construction of 14 days of raw water storage. Costs associated with such a project have not been published and are not included in this comparison.

Headen, Frederick (Treasury)

From: George Karmo <GKarmo@tyjt.com>
Sent: Wednesday, April 24, 2013 1:28 PM
To: Dillon, Andy (Treasury); David Guastella
Cc: Stibitz, Brom (Treasury); Saxton, Thomas (Treasury); Awni Qaqish
Subject: RE: Flint/GC Presentation

Mr. Dillon:

We have reviewed DWSD's final offer to Flint/ Genesee County of April 24, 2013 and find it responsive to Flint's concerns and their water demand requirements. The offer appears to mitigate all the potential risks to Flint (joining KWA) identified by TYJT in our February 2013 Report to you and our subsequent meetings.

We have one recommendation for consideration related to service redundancy (refer to bottom of page 2 and top of page 3 & Item 4, page 10 of the power point presentation material of DWSD's offer document): TYJT would recommend that Flint asks DWSD to construct the second redundant line from Imlay Station to Flint and possibly purchase the existing 72 inch Flint- Owned line from Baxter/Potter (FL-1) to the Flint WTP. This redundant line cost could either be allocated to the entire DWSD water system (common to all allocations) or the cost could be included under the new water rate to Flint (should push to be included in the common to all allocations). TYJT believes that this would result in the following benefits:

1. Since Flint is unable to cost- effectively bond capital, the cost of financing could be easily obtained by DWSD;
2. DWSD has detailed and unique engineering experience for large and lengthy transmission mains design and construction; and
3. Long term operation and maintenance of the piping would be the responsibility of one entity, thus mitigating in the future who may be responsible for water main failures (breaks, leaks, hydraulic transients, etc.).

With the twin line, redundancy will be afforded to Flint's supply which will help in eliminating the dependency on the WTP/Flint River (except for the use of the high lift pumps) and thus generating tremendous O&M savings.

Please let us know if need any additional support.

Regards,
George Karmo, P.E., BCEE
TYJT/President
[REDACTED] (direct office)
[REDACTED] (cell)
gkarmo@tyjt.com

-----Original Message-----

From: Dillon, Andy (Treasury) [mailto:DillonA2@michigan.gov]
Sent: Wednesday, April 24, 2013 10:11 AM
To: David Guastella; George Karmo
Cc: Stibitz, Brom (Treasury); Saxton, Thomas (Treasury)

Headen, Frederick (Treasury)

From: Ed Kurtz <ekurtz@cityofflint.com>
Sent: Friday, April 26, 2013 9:52 AM
To: Stibitz, Brom (Treasury)
Subject: Re: Detroit proposal

I have a phone conference frp, 12:15 to 1:30. Am available after that. Just let me know when. Ed

On Fri, Apr 26, 2013 at 9:45 AM, Stibitz, Brom (Treasury) <StibitzB@michigan.gov> wrote:
Do you have 10 minutes later this afternoon so you can discuss (over the phone) your response with Kevyn Orr?
It would be good if the two of you could talk before we get back to the Governor. He would appreciate you both coming to him, even though you might not accept their offer.

Sent from my iPad

On Apr 26, 2013, at 9:43 AM, "Ed Kurtz" <ekurtz@cityofflint.com> wrote:

> Just wanted to let you know that I received a call from the Flint Journal today. They have a copy of Detroit's latest proposal and wanted my comments on it. I have not returned there call nor do I intend to. Don't know where they got it from. Don't think it was from us,Ed

Headen, Frederick (Treasury)

From: Matthew Schenk <schenk@dwsd.org>
Sent: Friday, April 26, 2013 10:25 AM
To: ekurtz; hcroft@cityofflint.com
Cc: orrk; Dillon, Andy (Treasury); jfausone; Nicolette Bateson; Sue McCormick; Scott, Allison (GOV); William Wolfson; Stibitz, Brom (Treasury)
Subject: Fwd: DWSD's responses to Flint's Questions
Attachments: DWSD KWA Background.pdf

Mr. Croft and Mr. Kurtz,

Attached is the back-up data that we believe is responsive to your request below. Please keep in mind that the information provided was developed in order to provide Flint with an "apples to apples" comparison of rates between the DWSD and KWA scenarios based upon current rate assumptions under the contract in place through April 2014.

As always, please feel free to call with any questions.

Matt

From: "Howard Croft" <hcroft@cityofflint.com>
To: "Sue McCormick" <mccormick@dwsd.org>
Cc: "Ed Kurtz" <ekurtz@cityofflint.com>
Sent: Thursday, April 25, 2013 2:24:32 PM
Subject: DWSD's responses to Flint's Questions

Good Afternoon Ms. McCormick,

We appreciate your response to our additional questions, Mr. Kurtz would like to know if you could provide a quick summary to the following inquiry.

On page two, in paragraph one, it is stated that "the total Water Utility Costs through 2042 are only \$3,215.04 million, or \$908.85 million less than the KWA scenario."

We are curious what formula DWSD used to calculate the \$908.85 million dollars less than KWA?

We are meeting this afternoon to review your responses and any additional information on this issue would be greatly appreciated.

Thank you,

--

DWSD / KWA Executive Summary Outline

Premise and Approach

- Review most recent audited financial statements to establish baseline water revenues from Flint and Genesee County (GCDC), and how such revenues are applied.
- Estimate how baseline will be impacted under two scenarios
 - Continued purchase of treated water from DWSD
 - Construction of new KWA raw water supply system and treated water supply system for Genesee County and construction of modifications to Flint Water Treatment Plant
- Compare estimated short, mid, and long term financial projections for each scenario

Assumptions – common to both scenarios

- Current application of revenues is most accurately depicted by published audited financial statements for most recently fiscal years
 - FY ended December 31, 2011 for Genesee County Drain Commission (GCDC)
 - FY ended June 30, 2012 for City of Flint
- Most recently audited figures for Flint / Genesee County operating expenses, capital expenses, etc. are representative – inflate at 4.51%, ***consistent with TYJT report***

Assumptions – DWSD Scenario

- DWSD water rate schedule
 - DWSD rate structure to Flint / Genesee County is amended to reflect 4/24/2013 DWSD proposal, adjusted to reflect immediate reservation of 60 mgd capacity
 - DWSD rate escalation (for commodity and standby elements) at 4.7%, ***consistent with TYJT Report***

Assumptions – KWA Scenario

- KWA scenario begins in FY 2017, at which time purchased water from DWSD would cease
- Other than normal rate adjustments DWSD does not amend rate structure to Flint / GCDC
- KWA scenario costs
 - KWA Raw Water Pipeline and Appurtenances Construction = \$357.58 million, ***consistent with TYJT report***
 - Flint Water Treatment Plant Construction Improvements = \$7.1 million, ***consistent with TYJT report***
 - GCDC Water Treatment Plant Construction Improvements = \$110 million, ***consistent with 2009 KWA Preliminary Engineering Report***
 - All construction costs are financed in terms set forth in the TYJT Report
 - 3 years of capitalized interest
 - Fully funded bond reserve account
 - Bond issuance expenses at 2.25%
 - In addition, revenues are assumed to need to generate 1.20x coverage of annual debt service
 - Flint Water Treatment Plant Operating costs = \$8.27 million starting in 2017, ***consistent with TYJT report***
 - GCDC Water Treatment Plant Operating costs = \$1.82 million starting in 2017, ***consistent with unit costs from the 2009 KWA Preliminary Engineering Report***

Headen, Frederick (Treasury)

From: Ed Kurtz <ekurtz@cityofflint.com>
Sent: Friday, April 26, 2013 11:58 AM
To: Stibitz, Brom (Treasury)
Subject: Re: dwsd

Brom, I hope the Governor's office and Treasury share the same "outrage" that I have over this article. The Governor specifically asked all parties not to talk to the press. I am not sure the State understands the kind of issues these articles create in our community. I have honored the Governor's request and will continue to do so until Monday. It is this exact kind of behavior that has occurred over the past 12 years, and frankly, we cannot work with people that have so little respect for and lack of professionalism in this matter. Again, let me say I am not taking this personally, and can handle the heat that will come from this, but it is flat out wrong. Ed

On Fri, Apr 26, 2013 at 11:15 AM, Stibitz, Brom (Treasury) <StibitzB@michigan.gov> wrote:
Understood. You should mention this when you talk with Kevyn today. I suspect he won't have a lot of patience for this kind of behavior by DWSD.

Sent from my iPad

On Apr 26, 2013, at 11:11 AM, "Ed Kurtz" <ekurtz@cityofflint.com> wrote:

> Brom, there is now an MLive article in the journal, saying that according to Detroit, DWSD has now offered a 45% reduction in water costs to Flint and will save the City and the County over \$900 million over 30 years. I am now more than upset, particularly in light of the governor's request about talking to the media. Ed

Headen, Frederick (Treasury)

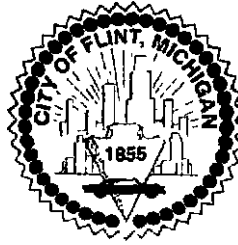
From: Stibitz, Brom (Treasury)
Sent: Friday, April 26, 2013 4:51 PM
To: Muchmore, Dennis (GOV); Roberts, John (GOV); Dillon, Andy (Treasury)
Cc: Buhs, Caleb (GOV); Wurfel, Sara (GOV); Stanton, Terry A. (Treasury)
Subject: Flint/DWSD
Attachments: Kevyn Orr - April 26, 2013.pdf

Ed Kurtz and Kevyn Orr spoke this afternoon. Ed indicated that Flint will not accept the last offer from DWSD. His formal letter is attached.

I spoke with both (separately) after the call. They both indicated that they had a good conversation, and that they sincerely look forward to working with the other in good faith over the next couple years.

Kevyn indicated that he would follow up with Sue McCormack, and that his direction will be that there be no more talking to the press about the issue. Ed plans to stay silent on the deal until Monday, at which time he will address the issue in a matter of fact matter, and stay away from any divisive language regarding the issue.

Brom Stibitz
Senior Policy Advisor
Michigan Department of Treasury
517-373-3223
stibitzb@michigan.gov



**CITY OF FLINT
OFFICE OF EMERGENCY MANAGER
EDWARD J. KURTZ**

ELECTRONIC LETTER

April 26, 2013

Mr. Kevyn Orr
Emergency Manager
Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 1126
Detroit, MI 48226

RE: DWSD Offer Evaluation

Dear Mr. Orr:

DWSD's offer of a Public/Public Partnership appears on the surface to offer significant cost of water savings, particularly in the near-term. However, further analysis exposes several flaws and weaknesses with the offer that reduce any potential appeal. First, the offer continues to use a grossly inaccurate estimate of the KWA operating and capital costs over the next thirty years. This one estimate is off by at least \$800 million and perhaps by as much as \$1 billion over that timeframe. And since DWSD claims "total savings to the Flint region are over \$900 million", they have relied on this flawed estimate of KWA cost to make this claim. This offer also relies on a projection based on very little capital expenditures, no repairs on a system that is past its life expectancy, and annual rate increases of 4.7% over the next 30 years.

Secondly, and of much greater concern to Flint and GCDC, DWSD's offer of partnership would not so much foster a true collaborative relationship, but instead contractually transfers significant liability and risk for the next thirty years. DWSD's offer states the contract "would reflect more input into and control over system investments and cost variables." Unfortunately, these future investments and cost variables are not contained in the DWSD cost estimates. DWSD has included a fixed monthly charge to recover allocated capital revenue requirements, but this number is largely for past expenditures and debt costs, and does not include the significant future capital costs which will be required to maintain their nearly 50 year-old system. Once again quoting from the

Mr. Kevyn Orr
April 26, 2013
Page 2

DWSD April 24th offer letter under the Rate Increase Guarantee section – “DWSD proposes a guarantee that the capital portion of the Lake Huron System rate structure (the fixed monthly charge) will not increase for the life of the contract, unless additional capital investment is made in current and future Lake Huron System facilities.” No one disputes that additional capital costs will be required that will total in the millions of dollars.

The DWSD offer is able to appear to offer savings on the surface since they have offloaded much of the above future capital costs. But to do so, DWSD has had to gloss over or simply ignore these large future expenditures. If these unaccounted for capital costs were to be calculated and added to the 30 year Flint and GCDC cost of water estimates, the DWSD offer becomes one in which the savings swing far to the advantage of the Karegnondi Water Authority.

Sincerely,

A handwritten signature in black ink, appearing to read "Edward J. Kurtz", written over a horizontal line.

Edward J. Kurtz

ATTACHMENT 1

This offer has more risk involved than previous proposals. KWA would be responsible for between 20% and 100% of the repair costs on the pipeline and related assets from Port Huron

The numbers in the offer do not make sense. DWSD indicates savings of over \$900 million while KWA's total cost over 30 years is less than \$650 million.

Offer is based on very little capital improvements, no repairs and a 4.7% annual increase over the life of the contract.

There are no rate guarantees after the first year for capital, O & M or consumption.

KWA would be responsible for redundancy at a cost of \$94.68 million per DWSD's estimate.

Does not guarantee a rate structure if system regionalizes or DWSD regionalizes, or Detroit enters bankruptcy.

Flint and Genesee County could have a connected waste/water system that serves all or part of five counties.

The potential for further consolidation of services between the city and the county i.e...water, wastewater, 911, etc,

This partnership will give Flint ownership of its own water supply system with real representation on its board of directors, making all treatment and delivery system decisions.

Flint's participation allows them to utilize its own water treatment facility that it has invested 50 million into and only currently exercises four days per year.

The investment gives us a new pipeline with a life expectancy of 75 years, as well as a 2nd product, untreated water. Under DWSD we would have no ownership after the end of the contract, and a new pipeline would still need to be built.

A 30 year contract with DWSD keeps us on a system that is 48 years old with a design life of 75 years. There will be necessary major investments or replacement costs that are not accounted for in this DWSD proposal.

KWA guarantees its capitol rate for 25 years. The capitol rate is 90 % of the total costs.

The commodity charge of \$1.30 per mcf is mainly driven by energy costs. The whole operation will employ 5-7 people.

A thirty year contract with DWSD will lock Flint into hundreds of employees, labor costs and legacy costs.

The combination of low financing, labor and material make this the optimal time for this investment. At our meeting with the governor on April 19th Detroit acknowledged a second pipeline had to be built.

KWA could be used as a backup emergency supply for the existing 48 year old pipeline.

It brings a total economic package to our community i.e. We have the I-69 corridor, I-75 interchange, the rail system connected to Port Huron, and one of the busiest airports in the state. Owning our own water supply completes that package and keeps \$25 million in our community.

Mr. Fausone's continued insistence on a 12 month timeline to calculate the termination fees leaves a question mark on the costs.

Construction Costs

- Rowe/AECOM/J & H \$272,000,000
- TYJT \$357,000,000

Include: 10% bond coverage (dispelled)

30% additional engineering (dispelled)

Back-up power (dispelled)

- DWSD Starts at: \$357,000,000 and adds:

\$134,630,000 for bond sizing

\$11,074,500 for bond sale cost

For a total of: \$503,274,500

Plus need to collect \$6,984,000 per year extra for bond coverage (20%)

Now we need:

20% bond coverage

30% additional engineering

38% bond sizing

We dispelled TYJT numbers; now DWSD starts with those numbers and adds more

They add the same costs to Flint and GCDC construction costs (baseline figures and assumptions – KWA)

Baseline Figures and Assumptions - KWA Scenario

DWSD Water Rate Structure		
Fixed	Standby	Commodity

2014 738,006 #N/A 13.01 Service ceases after 2016

Total Water Service Costs for Flint / Genesee County Drain Commission
Costs of Current Facilities / Operations

Same as DWSD scenario

Costs of Future Facilities / Operations

Financing Costs for New Projects	Flint WTP Improvements and Other	GCDC WTP and Other	KWA System (a)
Project Cost	7,100,000	110,038,554	357,578,000
Bond Sizing Factor	37.65%	37.65%	37.65%
Additional Bond Proceeds Needed	2,670,000	41,430,000	134,630,000
Bond Sale Size	9,800,000	151,500,000	492,200,000
Bond Issuance Expenses - %	2.25%	2.25%	2.25%
Bond Issuance Expenses	220,500	3,408,800	11,074,500
Finance Rate	5.00%	5.00%	5.00%
Finance Term	25	25	25
Bond Reserve Size - %	10.00%	10.00%	10.00%
Bond Reserve Size	980,000	15,150,000	49,220,000
Capitalized Interest term - years	3	3	3
Capitalized Interest	1,470,000	22,725,000	73,830,000
Net Bond Proceeds	7,129,500	110,216,200	358,075,500
Annual Debt Service Payment	695,300	10,749,300	34,922,800
Debt Service Coverage Requirement	120.00%	120.00%	120.00%
Annual Debt Service Coverage	139,100	2,149,900	6,984,600
Replacement?	144,900	2,251,600	(b)
Total Capital Financing Revenue Req't	979,300	15,150,800	41,907,400
Operating Cost Estimate Starting in FY 2017	8,270,000	1,819,900	(c)

- (a) excludes raw water reservoir
(b) assume no annual replacement required for pipeline
(c) \$1.30 per Mcf inflated to 2017

PRELIMINARY

TFG
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4/26/13

Headen, Frederick (Treasury)

From: David G. Heiman <dgheiman@JonesDay.com>
Sent: Friday, April 26, 2013 5:06 PM
To: Orr, Kevyn (Treasury); Dillon, Andy (Treasury); Sue McCormic; Ken Buckfire
Subject: RE: Fwd: DWSD Offer Evaluation

Kevyn--perhaps I am not knowledgeable enough on the specific facts here, but I find this to be a strange letter because he only attacks the calculations without offering his own assessment, proposing an alternative or threatening to pull out. Maybe that is a good sign rather than a bad one. You, I, Ken and Heather should discuss on Monday, or when we see you.

I am anxious to hear what Sue thinks.

***This e-mail (including any attachments) may contain information that is private, confidential, or protected by attorney-client or other privilege.

If you received this e-mail in error, please delete it from your system without copying it and notify sender by reply e-mail, so that our records can be corrected.***

----- Original Message -----

From : "Orr, Kevyn (Treasury)" <OrrK2@michigan.gov>
To : "Dillon, Andy (Treasury)" <DillonA2@michigan.gov>, "Sue McCormick" <mccormick@dwsd.org>, Ken Buckfire <ken.buckfire@millerbuckfire.com>, "David G. Heiman" <dgheiman@JonesDay.com>
Cc :
Sent on : 04/26 04:29:00 PM EDT
Subject : Fwd: DWSD Offer Evaluation

FYI.

Sent from my iPhone

Begin forwarded message:

From: "Maxine Murray"
<mmurray@cityofflint.com<mailto:mmurray@cityofflint.com>>
To: "Orr, Kevyn (Treasury)"
<OrrK2@michigan.gov<mailto:OrrK2@michigan.gov>>, "orrk@detroitmi.gov<mailto:orrk@detroitmi.gov>"
<orrk@detroitmi.gov<mailto:orrk@detroitmi.gov>>
Cc: "Stibitz, Brom (Treasury)"

<StibitzB@michigan.gov<mailto:StibitzB@michigan.gov>>, "Dayne Walling"
<dwalling@cityofflint.com<mailto:dwalling@cityofflint.com>>
Subject: DWSD Offer Evaluation

Good afternoon Mr. Orr:

Please find attached a communication from Ed Kurtz.

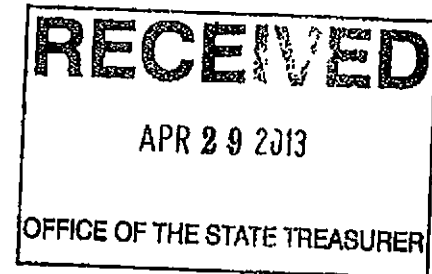
Thank you.

--

Maxine Murray
Executive Assistant to
Mayor Dayne Walling
Edward J. Kurtz, Emergency Manager
Michael K. Brown, City Administrator
1101 S. Saginaw Street
Flint, MI 48502
810.237.2035 Telephone
810.766.7218 Fax
(See attached file: Kevyn Orr - April 26, 2013.pdf)(See attached file:
ATT00001.htm)

April 24, 2013

Mr. Andy Dillon, Treasurer
Michigan Department of Treasury
Lansing, Michigan 48922



Dear Mr. Dillon:

Regarding: Rate Proposal for Flint / Genesee County

As you are aware, during our meeting on Friday, April 20, 2013, the Detroit Water and Sewerage Department (DWSD) was requested to provide a rate proposal to Flint and Genesee County by today based upon the specifications that Flint provided to DWSD on Monday, April 22, 2013. Early this morning, DWSD responded to that request with several documents that were also provided to your office by electronic communication.

In addition to the proposal document, the State of Michigan requested that DWSD include cost figures concerning DWSD's stranded costs associated with capital investment made by DWSD over the years related to serving both Flint and Genesee County as water customers. This issue of "stranded costs" has received significant media attention over the past several months, and my impression is that the State was looking for a clear figure so that there could be subsequent discussion and negotiation over all costs associated with Flint's decision on whether to join Karegondi Water Authority (KWA).

As you may know, State law requires that public utilities such as DWSD must base their rates upon the actual cost of service to particular customers. Additionally, state law limits the length of utility contracts to thirty years, while the useful life of capital assets in the water utility can greatly exceed that thirty year term.

Unfortunately, the computation of stranded costs for DWSD's capital investments in capacity and transmission attributable to Flint's and Genesee's consumption of DWSD water, is a complex calculation that cannot be performed with any level of certainty over the short time period provided by the State of Michigan for this analysis. Further, I have been advised by DWSD's General Counsel that it would not be prudent to engage in a process of trying to guestimate a price range for such a complex computation.

RECEIVED
5/1/2013

[Handwritten signature]

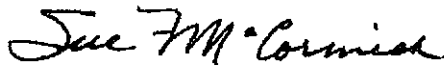


Mr. Andy Dillon, State Treasurer
April 24, 2013
Page 2

Based upon DWSD's termination of Flint's existing water contract last week, DWSD has roughly twelve months to determine the appropriate cost structure for Flint and Genesee's water consumption over the remaining term of their non-contracted water service from DWSD. DWSD will, however, endeavor to finalize the rate impact of the stranded costs by the end of the current calendar year.

Please rest assure that DWSD's computation will be in accordance with State Law which dictates that such rates will not result in a rate structure that would generate a profit for DWSD. Our intent is simply to compute the rates so that costs properly attributable to Flint and Genesee County will not be borne by the remaining DWSD water customers.

Sincerely,


Sue McCormick
Director

xc: The Honorable Rick Snyder, Governor State of Michigan
Ed Kurtz, Emergency Financial Manager, City of Flint
Kevyn Orr, Emergency Financial Manager, City of Detroit
James Fausone, Chairman, Board of Water Commissioners
William Wolfson, DWSD General Counsel
Nicolette Bateson, DWSD Chief Financial Officer

From: Dillon, Andy (Treasury)
Sent: Monday, April 29, 2013 5:40 PM
To: George Karmo; Stibitz, Brom (Treasury)
Cc: David Guastella
Subject: Re: Responses to Questions from Flint received last evening

Brom, can u follow up?

Sent from my iPad

On Apr 29, 2013, at 12:25 PM, "George Karmo" <GKarmo@tyit.com> wrote:

> Mr. Dillon:
> We understand that Flint/Genesee County rejected DWSD's Final Offer. Was there anything in writing from Flint to that effect? If yes, is it possible to forward that to us?
>
> Regards,
> George Karmo
> -----Original Message-----
> From: Dillon, Andy (Treasury) [<mailto:DillonA2@michigan.gov>]
> Sent: Thursday, April 25, 2013 1:08 PM
> To: Stibitz, Brom (Treasury); Saxton, Thomas (Treasury); Muchmore, Dennis (GOV); Roberts, John (GOV); Wyant, Dan (DEQ); George Karmo; David Guastella
> Subject: Fwd: Responses to Questions from Flint received last evening
>
>
>
> Sent from my iPad
>
> Begin forwarded message:
>
> From: Matthew Schenk <schenk@dwsd.org<<mailto:schenk@dwsd.org>>>
> Date: April 25, 2013, 11:27:13 AM CDT
> To: "ekurtz@cityofflint.com<<mailto:ekurtz@cityofflint.com>>"
> <ekurtz@cityofflint.com<<mailto:ekurtz@cityofflint.com>>>, "Dillon, Andy (Treasury)"
> <DillonA2@michigan.gov<<mailto:DillonA2@michigan.gov>>>, "Scott, Allison (GOV)"
> <scotta12@michigan.gov<<mailto:scotta12@michigan.gov>>>, "orrk@detroitmi.gov<<mailto:orrk@detroitmi.gov>>"
> <orrk@detroitmi.gov<<mailto:orrk@detroitmi.gov>>>
> Cc: jfausone@fb-firm.com<<mailto:jfausone@fb-firm.com>>>, Sue McCormick
> <mccormic@dwsd.org<<mailto:mccormic@dwsd.org>>>, Nicolette Bateson
> <bateson@dwsd.org<<mailto:bateson@dwsd.org>>>, William Wolfson <wolfson@dwsd.org<<mailto:wolfson@dwsd.org>>>
> Subject: Responses to Questions from Flint received last evening
>
> Mr. Kurtz,
>
> Please find attached responses to the 11 questions sent by Flint last evening to DWSD. Also, attached are revised exhibits to reflect the proposed change to reserve 60MGD of capacity beginning in year 1 of the proposed contract.
>

> Please advise if you have any additional questions. We look forward to continue working with Flint on this important issue.

>

>

> --

> Matthew Schenk

> Chief Operating Officer/

> Chief Compliance Officer

> DWSD

> City of Detroit

> Dave Bing, Mayor

> (313) 224-4707

>

>

DWSD's responses to Flint's Questions

April 25, 2013

Question 1: How does this proposal conflict with Article 14 ("Ensuring Equality of Contract Terms") of the existing contracts, which will result in a re-shuffling of cost and bring Flint/GCDC back to its original costs?

Response: This proposal is fully consistent with Article 14 of the Model Water Contract. Specifically, Article 14 provides that any existing customer can receive the benefit of a future contract provided to a different customer *provided that the existing customer assumes all of the new contract terms*. In other words, an existing customer cannot select one or two more preferable provisions without accepting the remaining terms that could be viewed as less preferable.

DWSD's proposal to Flint/KWA is unique in several aspects that would likely not be attractive to other existing customers of the system. Most notably, DWSD's proposal to Flint/KWA not only relieves DWSD of any financial obligation to provide redundancy for water service, but it also requires the customer to maintain its own treatment plant for redundancy. Additionally, the Flint/KWA proposal develops a fixed cost for the customer to guarantee a minimum capacity over the life of the contract. DWSD's other contracts allow for adjustments both up and down based upon changes in demand.

Question 2a: To compare apples to apples, KWA provides 60 mgd capacity. DWSD only provides 40 mgd. Will DWSD require purchase of 60 mgd capacity today or can we purchase 40 mgd today and reserve 20 mgd for later? Is there a premium penalty or no additional cost?

Response: The DWSD Proposal provides 60 MGD capacity in a stepped fashion consistent with the specification, providing Flint/GC the ability to adjust for actual growth rather than incur a larger initial obligation. Given the excess capacity in the system, there is little likelihood that capacity would not be available if and when it is needed by Flint/GC. However, Flint/GC may reserve 60 MGD capacity throughout the contract term. The new exhibits attached and dated 4/25/13 have been revised to reflect a contract reservation of 60 MGD throughout the term of the contract and would replace Exhibit 1 and Exhibit 3 previously provided.

Even with the reservation of this additional capacity, the total Water Utility Costs through 2042 are only \$3,215.04 million, or \$908.85 million less than the KWA scenario. This would result in a 37% decrease in rates for Flint in year one from current rates. This relative decrease would grow over the life of the contract.

Question 2b: Will DWSD stipulate that our cost cannot be increased due to regionalization?

Response: This broad question covers a number of topics. First, DWSD has proposed a contract cost structure that includes fixed charges to the greatest extent possible consistent with State Law. This structure provides significant protection from future rate increases. As was indicated by Mr. Kevyn Orr during our meeting on Friday, April 19, 2013, it is the view of DWSD and the City of Detroit that there will be a strong business case to justify suburban wholesale customers participating in any payment stream to the City of Detroit based on finance cost improvements associated with DWSD becoming a regional authority. Additionally, if Flint participates in the governance structure of the new Authority, it will be part of the deliberative process to agree upon the payment stream.

Question 3: DWSD indicated that the current capital improvement plan only includes replacement of one low lift pump. It has also come to our attention that the DWSD is contracting for a new capital improvement plan as of April 24, 2013.

Response: DWSD's CIP is updated annually. On April 24, 2013 the Board of Water Commissioner's (BOWC) approved a contract for an update to the Water Master Plan. The Water Master Plan is anticipated to provide insight relevant to future CIP's including asset management strategies that would extend the life of existing assets for the lowest NPV, however, the CIP is a separate and distinct effort.

Question 4: How old is the current CIP? Will Flint have input on the CIP? Please provide a better definition of "level of control" as used in your letter.

Response: The CIP is updated annually and on a schedule that is timed to run concurrent with development of the Annual Budget. The current CIP was adopted by the BOWC on January 23, 2013.

Question 5: What happens if substantial changes occur to the Port Huron Plant/Pipeline for the benefit of other customers?

Response: DWSD acknowledges that it is possible that there are investments in the Lake Huron system that might be made solely for the benefit of other customers of the DWSD system. Should investments of this nature be made, their cost would be excluded from the calculation of Flint's obligations. It is also possible that investments in the Lake Huron system might only benefit the Flint/GC Back up supply. Should this occur, any such adjustment would affect a minor component of the overall costs to Flint.

Question 6: Please explain why we are 20% of "other" (meters, outreach etc. – 7.5, 125, 25, 20%, 1.5).

Response: The 20% allocation of cost is a flow proportional allocation.

Question 7: If Lapeer is not part of the system, are we 100% of pipeline?

Response: Yes, if the GLCUA flow is removed from the line, Flint's flow requirement is 100% of the flow on the section of transmission main west of Imlay City.

Question 8: If we are responsible for 100% of the capital of the pipeline and 100% of the operations of the pipeline, why not turn it over to Flint? What would be the sale price?

Response: While it is not totally clear to DWSD what the question envisions in terms of the definition of the "pipeline" proposed to be sold to Flint, DWSD has in prior proposals and continues today to be open to discussing the opportunities to sell infrastructure to Flint/KWA as part of a long-term public/public partnership contractual arrangement. In prior proposals, offers specific to the 72 inch transmission main envisioned such a potential sale subject to more specific negotiations which might include reservation of wheeling rights to DWSD to service additional customers, address issues of competition associated with the use of the asset, etc.

While DWSD remains open to discussion, given the nature of the transaction, it is not possible to specify a purchase price or other terms at this time.

Question 9: When would this rate become effective, July 1, 2013 or July 1, 2014?

Response: The proposal indicates that these rates and charges are available as early as July 1, 2014. Rates and Charges for the FY beginning July 1, 2013 have already been adopted by the Board of Water Commissioners as necessary to meet the system's overall revenue requirements.

Question 10: As part of the discussions on Friday, April 19, 2013, should Flint/GCDC separate from Detroit, would DWSD be willing to enter into a contract extension for water supply during the construction period (3 years)? At what cost or premium would DWSD charge? And what is the basis for that charge?

Response: Again, this is a rather difficult question to answer with any specificity. As you may be aware, pursuant to Judge Sean F. Cox's order of November 4, 2011, the Board of Water Commissioners has full and final authority to approve rates for all suburban customers of DWSD. DWSD would certainly be willing to provide interim service to Flint during the construction phase of KWA on terms and rates as established by the Board of Water Commissioners. To the extent that your question is seeking clarification on the portion of charges that would be attributable to "stranded costs," I would refer you back to the letter dated April 24, 2013 that I sent to State Treasurer Dillon, with a copy to Ed Kurtz. Please keep in mind that the rates charged during the interim period would be consistent with state law requirements that would prohibit DWSD from charging rates that would generate a "profit" for DWSD.

Question 11: Would DWSD be willing to sell the section of pipeline from Imlay to Baxter and Potter if Lapeer also joins KWA? What would the cost be? If DWSD is willing to sell the pipeline, would they be willing to sell water to KWA on a standby basis? If so, what would be the cost?

Response: As stated previously, DWSD would be willing to look at opportunities to sell certain sections of pipeline to Flint as part of a public/public partnership arrangement.

Should Flint opt to join KWA and no longer be a customer of DWSD, DWSD would still be willing to look at opportunities to sell existing pipeline to Flint, with appropriate reservations of wheeling rights and non-compete clause language.

With regards to DWSD's interest in entering negotiation for potential standby service to KWA, should Flint leave the DWSD system, DWSD has previously indicated that we are open to discussion. Pricing of standby service in this proposal for a public/public partnership is on a significantly discounted basis as reflected in the attached Exhibit 1, page 2. DWSD has not calculated what a standby charge might be as related to the unspecified requirements to another utility.

Attachments

EXHIBIT 1
Calculation of DWSD Water Rate to KWA
Hypothetical FY 2013-14 Rate Structure

	<u>Annual</u> <u>Rev Req't</u> <u>(millions)</u>	<u>Unit Basis</u>	<u>Units</u>	<u>Avg Unit</u> <u>Cost</u>	<u>Rate</u> <u>Structure</u>
1 Capital Revenue Requirements	\$ 7.98	months	12		\$ 665,100 per month
2 Operating Revenue Requirements	\$ 4.40	Mcf	1.220		\$ 3.61 per Mcf
3 Subtotals / Avg Unit Cost	\$ 12.38		1.220	\$ 10.15	per Mcf
4 Standby Charge	\$ 3.32		12		\$ 276,900 per month
5 Totals / Avg Unit Cost	\$ 15.70		1.220	\$ 12.87	per Mcf
6 Total Monthly Charge					\$ 942,000 per month
7 Total Commodity Rate					\$ 3.61 per Mcf
8 plus: Redundancy Solution (a)	\$ 8.59		Not a DWSD Cost		
<u>(a) Redundancy Solution Calculations</u>					
9 Cost of Redundant Line	\$ 94.68				
10 Issuance Expenses, etc.	\$ 2.18				
11 Required Financing	\$ 96.86				
12 Finance Rate	5%				
13 Finance Term	25				
14 Annual Payment	\$ 6.87				
15 Debt Svc Coverage	125%				
16 Annual Revenue Requirement	\$ 8.59				

EXHIBIT 1
Allocation of FY 2013-14 Revenue Requirements

	"LH System"		KWA Communities		
	Revenue Req't \$ millions	Capacity / Usage mgd	Capacity / Usage mgd	Relative Share %	Revenue Req't \$ millions
<u>Capital Cost Recovery</u>					
1 Treatment - LH WTP	30.35	400	60	15.0%	4.55
2 Pipeline - LH to Imlay	1.35	440	64	14.5%	0.20
3 Imlay Station	6.85	440	64	14.5%	1.00
4 Pipeline - Imlay to Baxter/Potter	0.74	64	64	100.0%	0.74
5 Other (Meters, Outreach, etc.)	7.50	125	25	20.0%	1.50
6 Total Capital Cost Recovery	46.79			17.1%	7.98
<u>Operating Costs</u>					
7 Treatment - LH WTP	15.02	125	25	20.0%	3.00
8 Pipeline - LH to Imlay	0.29	125	25	20.0%	0.06
9 Imlay Station	4.51	125	25	20.0%	0.90
10 Pipeline - Imlay to Baxter/Potter	0.23	25	25	100.0%	0.23
11 Other (Meters, Outreach, etc.)	1.02	125	25	20.0%	0.20
12 Total Operation and Maintenance	21.07			20.9%	4.40
<u>Annual Revenue Req't</u>					
13 Treatment - LH WTP	45.37				7.56
14 Pipeline - LH to Imlay	1.64				0.25
15 Imlay Station	11.36				1.90
16 Pipeline - Imlay to Baxter/Potter	0.96				0.96
17 Other (Meters, Outreach, etc.)	8.52				1.70
18 Subtotal DWSD Revenue Req't	67.87				12.38

Calculation of Standby Charge

	<u>Total</u>	<u>LH System</u>	<u>Other</u>
19 Capacity - mgd	1,760	400	1,360
20 Total "Backbone" Capital Costs - \$millions	227.54	46.79	180.75
21 Unit Capital Costs	0.129	0.117	0.133
22 Standby Requirements = Average Day			25
23 Standby Revenue Requirement - \$millions			3.32

EXHIBIT 2
DWSD Water Supply Costs Estimates to Flint

<u>Option</u>	<u>Water Supply Costs (\$) through 2042</u>	<u>Ranking by Cost</u>
DWSD 4/23/2013 Proposal	328,669,100	1
<i>DWSD 8 MGD Max Day @ Imlay</i>	634,795,500	2
<i>KWA (10/31/12 No Overruns, As Provided) *</i>	649,775,200	3
<i>DWSD 8 MGD Max Day @ Baxter / Potter</i>	672,671,700	4
<i>KWA-1 (10/31/12 No Overruns with Financing Costs)</i>	707,279,700	5
<i>DWSD 12 MGD Max Day @ Imlay</i>	725,576,800	6
<i>DWSD 12 MGD Max Day @ Baxter / Potter</i>	762,110,300	7
<i>KWA-2 (Treasury Estimate)</i>	766,784,300	8
DWSD 12 mgd Twin Line Proposal / No blending	818,092,200	9
<i>DWSD 18 MGD Max Day @ Baxter / Potter</i>	821,226,300	10

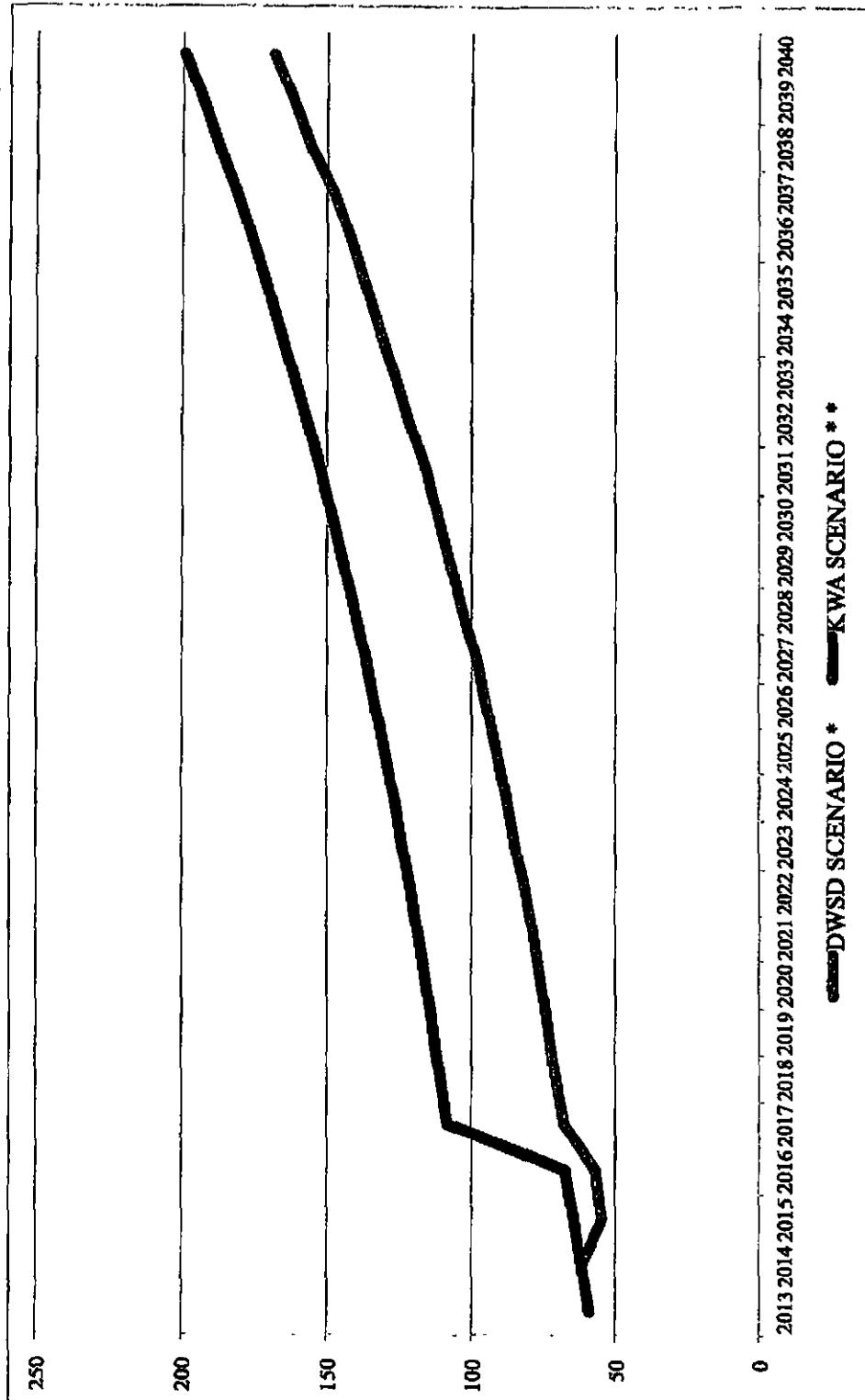
Italicized Options as presented in TYJT Report
Only reflects estimated WATER SUPPLY Costs.

DWSD Water Supply Costs Estimates to Flint / GCDC
\$ millions

	<u>Total Water Costs (\$) through 2042</u>	
DWSD 4/23/2013 Proposal	3,215.04	1
Estimate of KWA Scenario	4,123.89	2

Reflects ALL WATER UTILITY costs, including local Flint / GCDC requirements.

EXHIBIT 3
SUMMARY OF TOTAL PROJECTED WATER COSTS TO FLINT/GCDC - SCENARIO COMPARISON (\$ millions)



NOTE - This chart reflects estimated TOTAL water utility costs for the KWA Service Area, including local requirements of the Flint and GCDC Systems.

- * Includes current annual capital costs for purchase of capacity in current LH System, based on escalated capacity from specifications. Does not include any additional future LH System capital costs. Includes LH System operating costs and standby charges for the rest of the System.
- ** It has come to our attention that the KWA Scenario will require construction of 14 days of raw water storage. Costs associated with such a project have not been published and are not included in this comparison.

PRELIMINARY

TFG
 THE FOSTER GROUP

Stanton, Terry A. (Treasury)

From: Stanton, Terry A. (Treasury)
Sent: Tuesday, April 30, 2013 4:27 PM
To: Stibitz, Brom (Treasury)
Subject: FW: Flint/KWA

From: Wurfel, Brad (DEQ)
Sent: Tuesday, April 30, 2013 4:24 PM
To: Stanton, Terry A. (Treasury); Buhs, Caleb (Treasury); Wurfel, Sara (GOV); Silfven, Ken (GOV)
Subject: Fwd: Flint/KWA

Sent from my iPhone

Begin forwarded message:

From: "Busch, Stephen (DEQ)" <BUSCHS@michigan.gov>
Date: April 30, 2013, 3:55:36 PM EDT
To: "Wurfel, Brad (DEQ)" <WurfelB@michigan.gov>
Subject: Flint/KWA

Brad,

FYI. The press release on Flint's decision regarding KWA and DWSD is being postponed until tomorrow. Jeff Wright, Genesee Co., is in Chicago today and Kurtz wanted him to be available to answer questions.

If something comes up my number is listed below.

Stephen Busch, P.E.
Lansing and Jackson District Supervisor
Office of Drinking Water and Municipal Assistance
MDEQ
517-643-2314

Stanton, Terry A. (Treasury)

From: Buhs, Caleb (Treasury)
Sent: Tuesday, April 30, 2013 5:03 PM
To: Stanton, Terry A. (Treasury); Wurfel, Sara (GOV); Stibitz, Brom (Treasury)
Subject: Flint sticking with KWA water pipeline, spokesman for Gov. Rick Snyder says

FYI ... I spoke with Fonger this morning and this is his story. I had asked him to confirm with Ed Kurtz, but apparently he didn't want to wait.

http://www.mlive.com/news/flint/index.ssf/2013/04/spokesman_for_gov_rick_snyder.html