

Lamphier, Wendy (Treasury)

From: Dillon, Andy (Treasury)
Sent: Thursday, January 03, 2013 2:02 PM
To: Fraser, Roger (Treasury)
Subject: Accepted: Follow Up Mtg re City of Flint KWA Water Report

Koryzno, Edward (Treasury)

From: Koryzno, Edward (Treasury)
Sent: Thursday, January 03, 2013 5:02 PM
To: Byrne, Randall (TREASURY); Cline, Richard (Treasury); Dube, Mathieu (Treasury)
Subject: FW: DWSD Proposal for Flint

Please disregard if I have previously forwarded this info.

Edward B. Koryzno, Jr. | Administrator - Office of Fiscal Responsibility State of Michigan | 430 W. Allegan Street, 1st Floor | Lansing, MI 48922
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Thank you

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

From: Stibitz, Brom (Treasury)
Sent: Friday, December 28, 2012 8:38 AM
To: Koryzno, Edward (Treasury); Fraser, Roger (Treasury)
Cc: Dillon, Andy (Treasury)
Subject: RE: DWSD Proposal for Flint

Can you guys please touch base with the City and Tucker to make sure that their analysis takes into account the details from DWSD?

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

From: Koryzno, Edward (Treasury)
Sent: Thursday, December 27, 2012 4:28 PM
To: Stibitz, Brom (Treasury); Fraser, Roger (Treasury)
Cc: Dillon, Andy (Treasury)
Subject: RE: DWSD Proposal for Flint

Below is Eric's initial observations of the preliminary TYJT report and what DWSD' current offer:

I have compared the written proposal received from DWSD to the Charts and PowerPoint provided by TYJT. As the DWSD proposal is written and contains more detail than the graphic summary provided by TYJT, it is difficult to completely determine if all points are covered in both presentation formats.

However, here is what stands out to me.

- The DWSD proposals state that the first year of a contract with Flint would be 2014. TYJT states 2013 as Year One.

- The DWSD proposals discuss a “redundancy credit” to Flint that will result from the blending option by Flint. I do not see this identified in the TYJT information.
- The DWSD proposals make no reference to the 12 or 8 MGD Maximum Day options outlined by TYJT.
- The information provided by TYJT makes no mention of DWSD reserving the right to serve existing customers on the 72” pipeline, if purchased). Nor is there a mention of the wheeling charge (paid to Flint) in the TYJT information.
- DWSD estimates Flint would not begin utilizing a blending option until 2018. Until then, it is assumed that DWSD would provide 100% of water to Flint. This is not referenced in the TYJT information.

This is my first analysis. If you wish additional analysis to be done, please let me know.

Eric Cline | Unit Operations Specialist - Office of Fiscal Responsibility State of Michigan | Michigan Department of Treasury
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From: Stibitz, Brom (Treasury)
Sent: Thursday, December 27, 2012 12:14 PM
To: Fraser, Roger (Treasury); Koryzno, Edward (Treasury)
Cc: Dillon, Andy (Treasury)
Subject: DWSD Proposal for Flint

This came in the mail from DWSD on the Friday before Christmas. I have not reviewed it to know whether the proposals it contains match up to those presented by TYJT last week.

Koryzno, Edward (Treasury)

From: Koryzno, Edward (Treasury)
Sent: Friday, January 04, 2013 4:41 PM
To: Cline, Richard (Treasury); Fraser, Roger (Treasury)
Cc: Byrne, Randall (TREASURY)
Subject: RE: Questions Regarding the City of Flint's Decision about KWA vs. DWSD

See Comments below



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Thank you

From: Cline, Richard (Treasury)
Sent: Friday, January 04, 2013 2:28 PM
To: Koryzno, Edward (Treasury); Fraser, Roger (Treasury)
Cc: Byrne, Randall (TREASURY)
Subject: Questions Regarding the City of Flint's Decision about KWA vs. DWSD
Importance: High

Ed/Roger,

Per your request, here are some questions regarding the proposals by both KWA and DWSD that our review of the information provided in the preliminary report from TYJT has raised. I believe it beneficial for the EFM team in Flint to review these questions prior to our January 10 meeting. We are also trying to organize an internal meeting on Monday to discuss this entire issue before we meeting with Flint.

- What is the current rate Flint is paying to DWSD for water? How many MGD is Flint currently purchasing? What is the current cost for water that Flint is currently paying?
- Is there an estimated amount that the Flint water system is currently losing? How is this loss impacting current or future purchases from either DWSD or KWA? My recollection from our meeting with Flint officials and TYJT, the estimated loss is 25%
- Is there a plan to address water loss? Is there a projected cost for these repairs? From the same meeting I recall Flint officials stating that they have replaced 3,000+ of a total 4,000+ water meters.
- What is the City's current repair/maintenance budget for the water system?

- How old is the Flint Water Plant? What is its projected lifespan?
- How large is the current staff at the Water Plant? What staffing level would be required to run the plant at full capacity?
- Does the City's Water Fund have a budget surplus? Are any funds available for additional repairs, staffing, capital improvements, etc.?
- What is the current maximum production capability of the Flint Water Plant? What is the current annual cost to run the plant?
- Given the current financial situation, does the City have the ability to sell the bonds necessary to make the improvements being proposed for the Water Plant?
- It appears that the overall expenditures required to cover any of the outlined options are going to require water rates to rise almost annually. Has there been any analysis on what rates might look like and/or what the capacity of the public to pay these rates might be?
- The December 21st letter from DWSD to Flint outlines some different options for Flint than what was presented by TYJT. Is the EFM team aware of these changes? What are the potential impacts?
- Is the projected cost to acquire the 72" Line from DWSD \$4.7-million? The December 21st Letter discusses a "lease" of this line. Is this a true lease or a lease-to-own situation?
- What is the projected lifespan of this line? What is the annual maintenance cost? What is the replacement cost? Does Flint have the capability to maintain this line?
- Has any consideration been given to if any of the options can provide Flint with water above the current projections in the event that the City experiences unexpected growth? Do we know the maximum MGD DWSD can provide? Do we know the maximum MGD KWA can provide?
- Has any consideration been given to the operational or financial impacts if decline continues in Flint and what this will do to water purchases and debt payments?
- Given the very high O&M costs for the Flint Water Plant, could the City "mothball" the Water Plant and have DWSD provide 100% finished water?
- Could the City partner with KWA to increase the size of their water plant and purchase 100% of water from them? Could the City use DWSD as a backup? Could KWA purchase or lease Flint's water plant for redundancy?
- Has any consideration been given by Flint to negotiate better terms with either KWA or DWSD?

If there are any additional questions or you wish to discuss this further, please let me know.

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ROWE PROFESSIONAL SERVICES COMPANY

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January 7, 2013

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

Subject: Review of December 21, 2012 Presentation – City of Flint Water Supply Assessment

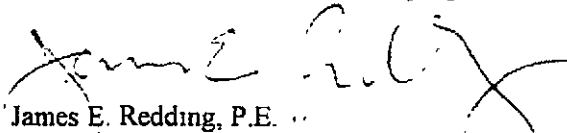
Dear Mr. Kurtz:

As requested, we have reviewed the analysis of water supply alternatives for the City of Flint which was presented to the State Department of Treasury by Tucker, Young, Jackson, and Tull, Inc. (TYJT) on December 21, 2012. Our review is attached and summarizes the primary differences between the TYJT assessment and our previous studies and provides explanations of why we believe there are differences.

We have also reviewed the options for continued DWSD supply included in the TYJT presentation. It is not clear whether these are presented as specific offers on behalf of DWSD or included as examples for analysis, but we have noted some items which we believe should be addressed and considered as these options are compared.

If there are questions, please contact me.

Sincerely,
ROWE Professional Services Company



James E. Redding, P.E.
Vice President / Director of Engineering

Attachment

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**Review of TYJT December 21, 2012 Presentation
City of Flint Water Supply Assessment
Prepared by Rowe Professional Services Company**

DWSD Supply (Slides 7 through 9)

1. The 8 mgd maximum day supply by DWSD options can result in periods during the summer when most of the water to meet demands will be supplied by the City from the river. To aid in maintaining a consistent water quality, softening of the water from the river should be provided with this option, greatly increasing the City's costs.
2. Upgrades to Flint's WTP and dams will be needed for options requiring blending, since the WTP will be required to provide continuous, reliable service and compliance with recent surface water treatment regulations.
3. The rates for the options analyzed are shown on Slide 9 as "TYJT Estimates". Options and rates shown are different than presented by DWSD previously.

	DWSD 11/29/2012	TYJT Estimates
18 mgd Maximum Day - P&B	\$16.24	\$16.37
12 mgd Maximum Day - P&B	\$16.30	\$16.31
8 mgd Maximum Day - P&B		\$12.68
12 mgd Maximum Day - Imlay	\$14.38	\$14.38
8 mgd Maximum Day - Imlay		\$11.11

4. Since the rates used in the analyses are shown as estimates, are they actual offers or just presented as "what if" scenarios?
5. We assume that the Imlay options are based on transfer of the 72" main through Lapeer County to Flint. The analyses show a capital cost of \$4.7 million; we assume that this is the proposed purchase / lease cost to Flint. This should be clarified along with pertinent details.
6. If the transmission main is transferred to Flint, what are Flint's responsibilities regarding service to the Lapeer County customers? If they remain DWSD customers, then Flint should receive some revenue for the use the main. It does not appear this is included in the TYJT analyses.
7. If the transmission main is transferred to Flint, we assume that the city will be responsible for the maintenance of the 50 year old main. The TYJT analysis did not include this.
8. Do the rates shown include the credit for "reliability" which had been discussed with DWSD?
9. If the point of commerce is changed from Baxter and Potter to Imlay, a new meter pit will be required. The cost of this does not appear to be included in the TYJT cost analyses.

Flint River Supply (Slide 10)

1. If any of the “blending” options are chosen, it will be necessary to upgrade the Flint WTP and dams to provide reliable, continuous service and compliance with recent surface water treatment regulations.

Data Collected (Slide 14)

1. The slide notes that Flint blending is based on DWSD supplying 2/3 and Flint supplying 1/3 of 12 MGD ADD. For the maximum day demand (18 mgd), if DWSD supplies a maximum of 8 mgd, Flint will supply 10 mgd or 56% of the total. However, such a large portion will make it more difficult to blend and achieve consistent water quality. Flint will need to soften water for these options

Benchmarking Comparisons (Slide 16)

1. The slide subtitles are “KWA O&M Inflation Factor” and “DWSD and Flint Rate Inflation Factor”. It seems appropriate to benchmark O&M costs for the KWA, because future costs of service will be dependent on how operating costs are impacted by inflation. For Flint, it does not seem appropriate that “rate inflation” from other utilities be used to determine the impact of inflation on future cost of service. Rates are impacted by inflation, but also by other factors such as debt and customer base. O&M expenses and rates are different and care should be exercised not to mix the two during analyses. The TYJT analyses apply an inflation factor (based on rates from other utilities) to the Flint WTP operating expenses, which does not seem to be consistent.
2. The KWA will supply raw water; SOCWA and YUCA both supply finished water. Regulations impact the O&M for finished water suppliers but should not impact the KWA O&M. The use of data from SOCWA and YUCA does not seem like a comparable comparison with the KWA. Finished water suppliers will have increased costs due to regulatory compliance, which really are not due to “inflation” of the costs of wages, power, chemicals, etc.
3. DWSD has a history of rates to Flint and other suburban wholesale customers. Rates tend to be quite specific to each utility, based on much more than just the costs of operating and maintenance. It appears that DWSD historical rates have not been considered in projecting future DWSD rate increases.

Capital Financing (Slide 17)

1. KWA bonds are planned to be general obligation bonds, backed by member counties.

O&M Inflation Factor (Slide 20)

1. SOCWA and YUCA are finished water suppliers; ever-changing regulatory requirements will impact their operating costs more than a raw water supplier, such as KWA.
2. KWA will be a supplier of raw water. O&M costs should primarily be limited to power and labor, with a little chemical use for zebra mussel control. KWA will not provide treatment of the water.

3. The KWA study assumed power, labor, and chemical costs increase at an annual average of 3%. TYJT indicated this is too low and suggested 5%.
4. Following are examples of historical inflation, which support the 3% as a reasonable assumption for O&M expenses (not rates)
 - a. Labor- GCDC-WWS labor costs have increased at an annual average rate of 2.5% since 2003
 - b. Electricity Rates in Michigan (per U.S. Energy Information Administration) have increased an average of 3.2% since 1999.
 - c. The U.S. Bureau of Labor Statistics indicates that the inflation rate over the last 30 years has been an average of 2.8%.

Finished Water Rate Inflation (Slide 21)

1. TYJT bases their assumptions for rate inflation on a survey of rates from three other water suppliers, but ignored the actual rate history of DWSD. TYJT assumed DWSD rate increases of 4.4% annually (if water is purchased from P&B) and 2.9% annually (if water is purchased from Imlay). Based on the actual charges by DWSD to Flint, DWSD historical rates are as follows:
 - a. 10 year increase in DWSD rates to Flint:: 10.5% annually
 - b. Average annual increase through 45 year history: 6.7%
2. Note that for the KWA analyses, an inflation factor has just been applied to power, labor, and chemicals. Although higher prices for labor, power, and chemicals impacts utility rates; rates are impacted by many other factors, many of which are not related to inflation. Rate inflation will likely be different than O&M inflation. Other factors impacting rates:
 - a. Debt – the amount of debt varies widely between utilities
 - b. Number of customers / quantity of water sold – there are many fixed expenses with a utility, that if are distributed amongst more users/more gallons sold will result in lower rates. Conversely, if there are fewer users or less water sold, the rates are higher. Assumptions regarding future water consumption will have a great impact on “rate inflation”.
3. Unlike KWA and Flint operating expenses which will increase over time based on inflation, the cost of continued DWSD service should be based on the inflation of DWSD rates, to include the increasing cost of other DWSD expenses such as debt and the impact of reduced customers / demands in addition to increasing O&M expenses.
4. Even though there could be a one-time reduction in DWSD rates through adopting the model contract, limiting peak demands, and or changing the point of commerce; it doesn't seem reasonable to assume that subsequent annual increases will only average 4.4% through the 30 year period of analysis. This is significantly less than historical performance (yet TYJT suggests that inflation for KWA O&M expenses will increase at almost double the rate of historical indicators).

Capital Financing with Revenue Bonds (Slide 24)

1. Note that the KWA bonds will be general obligation bonds backed by the member counties.
2. The 2009 KWA Study assumed 6%, 25 year financing. The interest rate for planning was reduced in the 2012 Study update to 5%, which is still higher than if bonds were sold today.
3. Financial consultants determined the charges for purchasing capacity in the KWA supply based on the estimated project cost plus appropriate financing costs. Based on 60 units of capacity, \$538,764,000 will be generated for repayment of debt and project costs using the capacity charges in the KWA capacity agreement.

25 years * 60 units * \$355,300 / unit =	\$532,950,000
3 years * 60 units * \$32,300 / unit =	<u>\$ 5,814,000</u>
	\$538,764,000
4. For a KWA project cost of \$272,421,558, total P&I is \$483 million. The difference of \$55,500,000 is available for financing expenses (capitalized interest, bond issuance costs, etc.) and additional contingencies
5. Bond holder reserve is not a requirement for general obligation bonds.
6. TYJT assumed that 3% interest would be earned on the bond holder reserve during the 25 year bond period. Current interest rates are less than 1% and it seems inappropriate to assume such a high rate will be earned on retained funds.
7. Bondholder reserve, if provided, should be applied against the last couple of P&I payments. The TYJT did not apply it. This will reduce their project costs.

KWA Construction (Slides 26 through 29)

TYJT has indicated that the KWA construction cost estimate is too low. The primary differences in cost estimates for the project appear to be the following components:

1. Pump Stations (Slide 27) – The TYJT estimate for the pump stations is more than double that used by the KWA (\$54,573,314 vs. \$24,618,080). KWA estimates were based on actual construction costs from recent projects completed by Genesee County within the last eight years.
 - a. 32mgd water pump station including two-10 MG ground storage tanks - \$13.4 million
 - b. 80 mgd wastewater pump station, 50 feet deep wetwell – \$8.3 million
 - c. 30 mgd wastewater pump station, 50 feet deep wetwell – \$9.4 million

The KWA budgeted amount seems reasonable for two pumping stations as currently planned and to be constructed in rural areas (not southeast Michigan).

2. Redundant Power – There is no need for redundant power, other provisions will provide reliability of supply.
3. Land – Preliminary engineering has continued so earlier budgets established for planning for land acquisition can be greatly reduced. Options have been obtained on all properties which must be

purchased, so purchase prices are known. It will be necessary to obtain easements for only two miles of pipeline construction. All land costs are now estimated at \$1.25 million.

4. Engineering, Legal, Administration & Contingencies

- a. The October 2012 KWA estimate provided an allowance of 25% of construction cost to cover engineering, legal, administration, and contingencies (ELAC). This was reduced from the 38% allowance used in the 2009 Study because ongoing planning and design have firmed up many of the details of the project, including:
 - i. The intake design has been completed and all regulatory permits obtained.
 - ii. The transmission main route has been determined. Meetings with road agencies have firmed up the requirements for construction and restoration within rights-of-way. Environmental review and permitting are in process.
- b. TYJT costs for Intake Crib, Pump Stations, and Transmission Mains (Slide 30) include a 30% allowance for ELAC. These allowances (from Slides 26 through 28) total \$72,139,566. In addition, Slide 30 provides the following additional ELAC costs in the project total:

Design Engineering / Pump Stations	\$16,939,581
Construction Management	\$14,434,410
Administration	\$ 349,440
Legal	\$ 831,000
Total	\$32,554,431

- c. Combining this with the \$72,139,566 totals \$104,693,997 or 43% of the estimated construction cost. We believe that such a high allowance for ELAC is not appropriate for a project of this magnitude where preliminary engineering and some design have already been completed.

Cost Comparison (Slide 30)

1. The TYJT pump station price is too high based on costs of similar projects; costs used by KWA are based on costs of recent local projects. The KWA estimate is believed to be sufficient for the proposed pumping stations.
2. Redundant power is not required; this does not need to be included in the TYJT estimate.
3. Land for LHPS – actual price is \$360,000
4. Design Engineering / PS and Transmission – KWA included engineering in the 25% ELAC allowance included in the \$207,752,895 estimated cost of transmission mains; TYJT included engineering in their 30% ELAC allowance included in the \$218,811,559 estimated cost. By adding \$16,939,581 for design engineering, \$14,434,609 for construction administration, \$349,440 for administration, and \$831,000; it seems that ELAC is being “double-counted”. The TYJT 43% allowance for ELAC seems unwarranted for a project with a great deal of preliminary and design engineering completed. The 25% KWA allowance is believed to be sufficient.
5. Easements and land (other than LHPS) should total \$1,140,000, based on current options and specific needs for easements.

Other Considerations – Redundancy / Reliability (Slide 33)

1. Unfunded Mandates/ Future Regulations
 - a. The proposed KWA supply will deliver raw water; it is not anticipated to be affected by future changes to regulations. Regulations will impact the City of Flint with respect to treatment and/or distribution of finished water. The City will be subject to these requirements with any of the DWSD blending options, just as they will be responsible for them if supplied by KWA. Some compliance costs may actually be less with the higher quality Lake Huron water rather than Flint River water as the source.
2. State Goals
 - a. The TYJT presentation indicates that creation of a new raw water supply is contrary to the governor's goals as suggested. However, the development of a new raw water supply provides new opportunities. Communities in Sanilac, St. Clair, and Lapeer counties will have the option to join a regional water supply and replace their small local supplies where limited supplies and high concentrations of arsenic have been a concern. The new water supply also provides great economic development opportunities. The raw water supplied by KWA will make a new commodity, raw water, available to the region. A large, low-cost supply of raw water can be a valuable resource for industries and agribusinesses. The development of a new water supply will also create construction jobs through the short term period of building the new water supply and subsequently over a longer period as new businesses and industries are developed in the area.
 - b. The City of Flint and area communities will benefit as permanent jobs are created for operating and maintaining the local treatment facilities.
3. Redundancy
 - a. We agree that the KWA and DWSD options are similar with respect to redundancy. Both provide the primary water supply; customers are responsible for their backup supply.

Other Considerations – Cost Slide 34

1. TYJT indicates that the DWSD 8 mgd supply option is the least cost alternative.
 - a. The TYJT analysis does not include the cost of needed upgrades to the City's WTP or increased operating costs in their analysis. During summer months, water from the river will need to be softened before blending. More than half of the water supplied will be provided from the river. When the cost of upgrades to the WTP and the increased operating costs (for softening) are added to the TYJT analysis, the KWA option is less than the DWSD 8 mgd option.
2. For any of the DWSD "blending" options, upgrades will need to be made at the WTP to provide for continuous, reliable operation and compliance with new surface water treatment rules. Increased capital and operating costs for treating water from the river should be added to the TYJT costs for comparison with the other options.
3. Water from the river will require greater effort to treat than water from Lake Huron (more chemicals, power, and residuals). The TYJT analysis shows about the same O&M costs for the Flint WTP, regardless of water source. It seems that the WTP O&M costs for the KWA options should be reduced to reflect the savings from treating Lake Huron water.

4. The TYJT presentation noted that the KWA analysis did not include allowances for mechanical and process improvements within the planning period. The KWA will supply raw water. The facilities consist of pipe, pumps, and a tank. There are no treatment facilities which would be susceptible to future regulatory changes. The only improvements that seem likely would be the need to provide additional capacity. Capacity expansion is planned to be financed through capacity charges to new users.
5. The provision for redundant connections between the City's water system and the GCDC system was included in the most recent water supply agreement between the two, in 2011. Although not a KWA cost, the cost of the redundant connections should be considered with all options.
6. The \$2.3 million budgeted for land by KWA was intended to cover all land requirements. Since the October update, options have been obtained on all land to be purchased and the locations of easements needed has been finalized. Total land costs are now estimated to be about \$1.5 million.
7. The 2004 study included a 47% allowance for engineering, legal, administration, and contingencies (ELAC). The 2009 study reduced the allowance for ELAC to 37% because many of the details since the 2004 conceptual study had been better defined. For the October 2012 update, the allowance for ELAC was reduced to 25% because continued planning and preliminary engineering further addressed details from the earlier concepts.
 - a. The detailed design (plans and specifications) and permitting have been completed.
 - b. The transmission main route has been finalized. Meetings with road agencies have established requirements for construction and restoration within road rights-of-way. Environmental permitting is in process. The primary remaining unknown is pipe sizing, which is largely dependent on Flint's participation.

It is our experience that the 25% ELAC allowance is appropriate for a project of this magnitude at this stage in the planning / design stage. The 43% ELAC allowance recommended by TYJT is excessive for a project in the design phase.

8. Flint's WTP as a backup to the KWA will be less difficult to provide for than the current arrangement as a backup to DWSD. We believe there is potential for challenges with chemistry and treatment for the proposed DWSD blending options, too.
9. It doesn't seem that oversizing the KWA capacity is a good solution for the city's water loss problems, if that is what is being suggested.
10. Yes, it would be nice if the KWA system could be constructed to firmly determine its cost and time to complete before making a decision about water supply alternatives. However, a decision is needed regarding Flint's participation so that the sizing and design can be completed, before it can be built.

Project Costs - TYJT Slides 26 through 30

	KWA	TYJT
Intake and Crib		
Construction	\$22,076,850	\$22,076,850
ELAC	\$5,519,213	\$5,519,213
Property	\$2,300,000	\$2,300,000
Pumping Stations		
Construction	\$24,618,080	\$54,573,314
Land		\$75,000
ELAC	\$6,154,520	\$16,394,494
Transmission Mains		
Construction	\$166,202,316	\$167,419,530
ELAC	\$41,550,579	\$50,225,859
Easements		\$1,166,170
Engineering		
Design Engineering		\$16,939,581
Construction Management		\$14,434,609
Administration		\$349,440
Legal / Easements / Contracts		\$831,000
Power	\$4,000,000	\$4,000,000
Redundant Power		\$1,273,200
Total Construction	\$212,897,246	\$244,069,694
Total ELAC	\$53,224,312	\$104,694,196
Total Land / Property / Easements	\$2,300,000	\$3,541,170
Total Power	\$4,000,000	\$4,000,000
Total Redundant Power	\$0	\$1,273,200
Total	\$272,421,558	\$357,578,260
ELAC as % of Construction	25.0%	42.9%

Option	TYJT Total Cost	TYJT minus additional costs of river treatment	TYJT minus treatment plus redundant Flint-GCDC connections	TYJT minus additional costs of river treatment plus redundant connections less KWA reserve	TYJT minus additional costs of river treatment plus redundant connections less KWA reserve	TYJT plus Flint WTP	Adjusted Total Cost	Ranking
1 Flint WTP Only	\$590,441,893						\$590,441,893	3
2 DWSD 8 MGD Max Day at Imlay	\$621,211,298					\$771,289,948	\$771,289,948	5
3 KWA 10/31/12 Update	\$649,775,166	\$534,615,996	\$554,555,960				\$554,555,960	1
4 DWSD 8 MGD Max Day at P&B	\$657,167,877					\$807,246,527	\$807,246,527	6
5 KWA-1	\$707,279,715	\$592,120,545	\$612,060,509		\$572,731,459		\$572,731,459	2
6 DWSD 12 MGD Max Day at Imlay	\$707,994,386					\$858,073,036	\$858,073,036	8
7 DWSD 12 MGD Max Day at P&B	\$742,168,081					\$892,246,731	\$892,246,731	9
8 KWA - 2	\$766,784,313	\$651,625,143	\$671,565,107	\$654,706,341			\$654,706,341	4
9 DWSD 18 MGD Max Day at P&B	\$791,202,885						\$812,337,848	7

Option for Water Supply	TYJT Projected 30 Year Total Cost	30 Year O&M Reduction for Treating Lake Huron Water	25 Year Bond Cost for Redundant Connections	Eliminate KWA Reserve	Use KWA 25 Year Capital Charge \$355,300 /MGD	25 Year Bond Cost for Flint WTP Upgrades	Adjusted 30 Year Total Cost	Rank (Least to Highest Cost)
1 Flint WTP Only	\$590,441,893		Included				\$590,441,893	3
2 DWSD 8 MGD Max Day at Imlay	\$621,211,298		Note 1			\$150,078,650	\$771,289,948	5
3 KWA 10/31/12 Update	\$649,775,166	-\$115,159,170	\$21,134,963				\$555,750,960	1
4 DWSD 8 MGD Max Day at P&B	\$657,167,877		Note 1			\$150,078,650	\$807,246,527	6
5 KWA-1	\$707,279,715	-\$115,159,170	\$21,134,963		-\$39,329,050		\$573,926,459	2
6 DWSD 12 MGD Max Day at Imlay	\$707,994,386		Note 1			\$150,078,650	\$858,073,036	8
7 DWSD 12 MGD Max Day at P&B	\$742,168,081		Note 1			\$150,078,650	\$892,246,731	9
8 KWA - 2	\$766,784,313	-\$115,159,170	\$21,134,963	-\$16,858,766			\$655,901,341	4
9 DWSD 18 MGD Max Day at P&B	\$791,202,885		\$21,134,963				\$812,337,848	7

9

DWSD Rate Inflation

	\$ / MCF	
2002	\$8.01	
2003	\$11.06	38.1%
2004	\$10.24	-7.4%
2005	\$10.56	3.1%
2006	\$11.09	5.0%
2007	\$11.35	2.3%
2008	\$13.07	15.2%
2009	\$14.32	9.6%
2010	\$16.19	13.1%
2011	\$18.50	14.3%
2012	\$20.70	11.9%
		10.5%

Note: prior to 2010 commodity charge only; 2010 and later, unit shown is composite RTS + commodity

Note: Average increase over 45 year history from GCDC spreadsheet

R1

Historical
Water
Rates to Flint

cost of water
annual increase
average annual
10 year increase

Rate (Flint)	cost per M cf	% annual change	10 - year increase	cumulative increase average of annual increase %
1987	\$ 1.303	0		0
1988	1.303	0		0
1989	1.303	0		0
1990	1.383	6.14%		6.14%
1991	1.383	0%		6.14%
1992	1.614	16.70%		23.87%
1993	1.614	0		23.87%
1994	1.614	0		23.87%
1995	1.614	0		23.87%
1996	2.245	39.10%		72.29%
1997	2.245	0		72.29%
1998	2.245	0		72.29%
1999	2.245	0		72.29%
2000	2.82	25.61%		118.42%
2001	2.82	0		118.42%
2002	3.09	9.57%		137.15%
2003	3.12	0.97%		139.45%
2004	3.38	8.33%		169.40%
2005	3.47	2.68%		166.31%
2006	3.9	12.39%		189.31%
2007	3.71	-4.87%		184.73%
2008	3.89	4.85%		198.54%
2009	3.89	0.00%		198.54%
2010	4.18	7.46%		220.80%
2011	4.55	8.85%		249.19%
2012	5.01	10.11%		284.50%
2013	5.01	0.00%		284.50%
2014	5.18	3.39%		297.54%
2015	5.43	4.83%		316.73%
2016	5.65	4.05%		333.61%
2017	5.63	3.19%		347.43%
2018	6.04	7.22%		382.73%
2019	6.29	4.14%		384.27%
2020	6.31	0.32%		384.27%
2021	6.86	8.72%		426.48%
2022	8.01	16.76%		514.74%
2023	11.06	38.08%		748.81%
2024	10.24	-7.41%		685.88%
2025	10.56	3.13%		710.44%
2026	11.09	5.02%		751.11%
2027	11.35	2.34%		771.07%
2028	13.07	15.15%		903.07%
2029	14.32	9.58%		999.00%
2030	16.19	13.06%		1142.52%
2031	18.50	14.30%		1276.82%

6.4% * \$14.29 + RTS \$1.00 @ 1.4 NMCF

6.7% * commodity plus fixed fee

12 mgd & 10 20% markup

see note

18.50
20.70

2012

R3

[illegible]

Handy any questions?

Ed will send KWA response to TVT & T questions.

1/8/13

First KWA

5 notes on
would to go

~~5 notes on~~ of KWA (including Min. Dept of Agriculture)

1. Est of eng. prog. status

2. 10% reserve not necessary (John Burton?)

backed by full funds & assets

- did not apply to the last 3 years of bond payments

3. DWSP rate increase 4.4% (2004-14)

KWA
not
change
the
rate
to 7.9%

last 10 yr 10.7% rate increase
per unit cost

2004 (7.7)% MCF

Resolution to
Rayer to approve
creation of water
of Republic.

Gr. Cost 2002-2012

Level * 3.2 million
cost
Reverse
costly cost
actual cost \$320,000 ← KWA cost

Cost of contingencies 25% reasonable pipe line

Delays will not give First unit or rate costs

13

communities
not signed
model
contract

15% premium - legal challenge

KWA 3 years build out

Start of fees

FY 19-20

Water loss
1) water leaks
2) fines (5-7 per day)
3) bad debts
4) theft

* 3 million - delay to 120 bills / collect 3%.

* 11.1%

+ 5% increase fee

34% house
non household

20% delinquent

* who is legal
expert on
model contract

2/8/13 Ed Kutz

1. H₂O letter sent to Regis

What is time frame for decision, is there more info needed, or adjts a resolution by court

2. Truck Outsourcing

- Regular ~~high~~ ^{monthly} ~~contract~~ ^{contract} on 2/9/13 with
new power ~~truck~~ ^{truck} expenses per day test
surveys to CDL#
1.5 m
for sales
trucksRegular buyer 3/4/13 Trucks decided by
city 3/1/13. Same routes. Savings \$1 million
54,000 lots in Truck, 11K vacant, need to get
our actual costs of \$ of units, ~~in~~ ⁱⁿ company
cost less ~~for~~ ^{than} ~~spending~~ ^{spending} themselves

3. Police hours

Heavy 2/8/13 ^{important} only for ~~contract~~ ^{contract} to ~~rebuild~~ ^{rebuild}
contract prior to Police changes. Judge terms
~~contract~~ ^{contract} ~~reused~~ ^{reused} himself last time.4. Discuss of county-wide 1 mile per public
safety for ~~providing~~ ^{providing} ~~required~~ ^{required} effort.

5. Fire Trucks / Fire Camp

6. Candidates to Interview, Also
have an ~~admission~~ ^{admission} to PO

(2)

2/8/13

ED KURTZ

Mott Foundation -

Will allow them to run the remaining
grant \$

MOOD

Reeling 1-69 from Port to Center, north
14 \$575K because city has pay greater than
50K may pay 12% plus 1 of 4 total cost
60K \$1-475¹³ 1-69 175K 16 [EQ will sub info.]

Local Streets

\$ will be used for maintenance, no capital
improvements. Will have spf for balance on
copper and roads. No paving until streets
are replaced.

New Hires

Hiring officers for passing 1 million

Only white officers qualified, ~~and~~ need for
affirmative action officers, black officers applied
but didn't make it. Mtg of black leaders
today.

5yr. budget, starting process

Adopted new DEP

\$10m deposit, however \$12m ^{into} shorter \$7m over 5yr.
can't pay back or more than \$12m

3

Ed Kurtz

- WATER / Seawater Regt
 * 4.5 m/min for return heatreue

- Proposed to name income tax
would generate \$7 million. Some counties as
property tax along, no impact on 13-14
budget, on budget 11/13

Koryzno, Edward (Treasury)

From: Cline, Richard (Treasury)
Sent: Tuesday, January 08, 2013 12:54 PM
To: Koryzno, Edward (Treasury); Byrne, Randall (TREASURY)
Subject: FW: Draft Flint Supply Assessment.Questions

FYI.

From: David Guastella [<mailto:DGuastel@tyjt.com>]
Sent: Tuesday, January 08, 2013 11:39 AM
To: Cline, Richard (Treasury)
Subject: RE: Draft Flint Supply Assessment.Questions

Eric

I ran some rough numbers and I would say that the twin pipe for Flint's 18 MGD demand next to the 72-inch main would probably be a 24 or 30-inch pipe and approximately cost \$50M. I hope this helps.

Dave

From: Cline, Richard (Treasury) [<mailto:cliner1@michigan.gov>]
Sent: Thursday, January 03, 2013 1:25 PM
To: David Guastella
Subject: RE: Draft Flint Supply Assessment.Questions

Dave,

Thanks for the information. I will be in-touch.

Eric Cline | Unit Operations Specialist - Office of Fiscal Responsibility
State of Michigan | Michigan Department of Treasury
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From: David Guastella [<mailto:DGuastel@tyjt.com>]
Sent: Wednesday, January 02, 2013 1:29 PM
To: Cline, Richard (Treasury)
Cc: Byrne, Randall (TREASURY); George Karmo; Cubba, John; Awni Qaqish; Fraser, Roger (Treasury); Koryzno, Edward (Treasury)
Subject: RE: Draft Flint Supply Assessment.Questions

Eric

Sorry for the delayed response; in addition to the holidays we also moved our office. We are just getting things organized.

Below is my response to your questions. Please review and let me know if you have any questions.

Additionally, as we discussed at the presentation. We will wait to hear back from you regarding the January 10th meeting with Flint and what adjustments will be needed to the schedule. However, we will begin drafting the report.

Dave

From: Cline, Richard (Treasury) [<mailto:cliner1@michigan.gov>]
Sent: Friday, December 28, 2012 2:13 PM
To: David Guastella
Cc: Byrne, Randall (TREASURY)
Subject: Draft Flint Supply Assessment.Questions
Importance: High

Dave,

Good afternoon. I hope you had a good holiday and are planning on a good New Year.

Thanks for the presentation information. Just to follow-up, it appears that no additional presentation on the 15th is being asked for. Should that change, I will let you know.

I have some additional questions I want to clarify with you. Some of these are just internal questions we have and want to make sure we are interpreting your presentation information correctly. I have highlighted my specific questions for clarity.

- You should have received a copy of a letter from DWSD to Flint dated December 21st. As I review the options that they provide Flint, I note some differences with what you outlined as the DWSD options for Flint. **Have you taken these changes into account? If not, what is the impact these "latest" proposals will have?**

Yes, we did receive a copy from the Director dated, December 21st. The proposals appear to be similar to what we presented for the 18 MGD maximum day customer from P&B and from Imlay. However, the attached exhibits referenced were not attached for us to review the specific rates.

Overall, I have some broad, "strategic" questions:

- Anticipating a return of future growth to the City, **what is the maximum MGD DWSD could provide to Flint? What about KWA?** The overall question is whether either entity could provide more water to Flint than is anticipated if they needed to.

Regarding the KWA, we do not have specifics on the route and profile so we can't do a hydraulic analysis to determine the additional capacity that could be provided by their proposed system. However, prior hydraulic analyses of the existing 72-inch main has shown that in excess of 90 MGD can be supplied to Flint by DWSD.

- On the flip-side, if decline continues in Flint, **what happens if Flint needs less water than projected? What would that do to the financial projections?**

Regarding both proposals we need to know the volume of water purchased to do a reasonable estimate. With regards to KWA, since the percentage of the water supplied would be reduced, we would need to confirm that their capital investment obligation would be reduced accordingly based on Flint's percentage of the total volume.

- **Given Flint's current financial situation, did you analyze the City's ability to actually sell bonds to make any of these improvements?**

As we indicated in our presentation, this is a concern. It has been assumed that the KWA bonds would be backed by Genesee County; however, Flint would still need to bond for the improvements at their WTP.

- It appears that the overall expenditures required to cover any of the outlined options are going to require water rates to rise almost annually. **Has there been any analysis on what rates might look like and/or what the capacity of the public to pay these rates might be?**

We were not requested to analyze the capacity of the public to pay the water rates, so I can't respond to that question. However, we did include the rate increase in all of our scenarios. It is shown on our spreadsheets as, "Escalation/Inflation Rate."

Specifically:

- **What is the total cost for Flint to buy the 72" line from DWSD?** I see a capital cost on that option of \$4.7-million. **Does that include the 72" line?** Related to this, **do we know what the projected lifespan of that line is?** **What would the replacement cost be?** A question we are having is whether Flint would have the financial and/or operational ability to maintain this line. Also, **I am unsure, once you account for O&M costs and bond payments, if there is enough overall benefit to Flint owning that line is if they remain with DWSD.**

The \$4.7M shown is for the purchase of the 72-inch line. It is the best estimate DWSD has provided so far, but the actual cost would be dependent on negotiations between DWSD and Flint. The bond payments are included in our analysis. DWSD has also offered to "role" the cost into the annual Flint water rate. Our analysis did indicate that the Imlay option was less expensive than for most of the other options.

The pipe itself is a pre-stressed concrete cylinder pipe (PCCP) that has excellent life expectancy. Assuming that the water main was installed in the late 60's I would suspect that the life expectancy to be beyond the planning period we analyzed.

- It appears to me that the O&M costs for the Flint Water Plant are very high. **If Flint were to continue to buy water from DWSD, other than for a back-up, is there any reason they could not avoid those costs by mothballing the plant and having DWSD provide 100% finished water to them?**

The issue has been related to MDEQ requiring that Flint have a backup supply in case their service is interrupted by a loss of the 72-inch main. Flint is supplied off a single line and that is why the redundancy is required.

- Regarding KWA, perhaps I missed this explanation, but **why are the options for KWA for 12 MGD as opposed to the option for 18 MGD?**

The 12 MGD is the daily average. KWA has indicated that their system can provide the maximum day demand to Flint as well.

- **Is there any financial sense for Flint to close its plant and KWA builds theirs bigger to accommodate them?**

That option was not investigated and we do not know the associated cost of the Genesee County plant. However, each community was pointing to an inter-agency agreement that would allow them each to provide a backup supply to the other. That would not be possible with just one plant.

- Regarding your spreadsheet for the KWA Proposal 2, I note that it appears you are using numbers (\$7.758-million) from Proposal 1 in calculating some of the capital costs. **Is this correct?**

Yes, this is the \$7.1M projected in the 2009 report that was adjusted for inflation at 3%/year for three years.

I recognize what you provided was a preliminary report, but these are some questions I noted as your information was reflected upon. I would appreciate your comments on these questions.

Please note that I will not be in the office again until January 3, so please copy Randall Byrne, OFR Manager, on any responses.

Regards,

Eric Cline | Unit Operations Specialist - Office of Fiscal Responsibility
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-----Original Message-----

From: David Guastella [<mailto:DGuastel@tyjt.com>]

Sent: Saturday, December 22, 2012 9:21 AM

To: gambrose@cityofflint.com

Cc: Fraser, Roger (Treasury); Cline, Richard (Treasury); ekurtz@cityofflint.com; George Karmo; Awni Qaqish

Subject: Flint Supply Assessment 12-21-12

Jerry

Per our discussion yesterday, please find attached our presentation information.

Dave

Koryzno, Edward (Treasury)

From: Cline, Richard (Treasury)
Sent: Tuesday, January 08, 2013 5:07 PM
To: Koryzno, Edward (Treasury); Byrne, Randall (TREASURY); Dube, Mathieu (Treasury)
Subject: RE: Rowe review

Importance: High

I have reviewed this and, personally, I don't think I would want to base my justification to make final decisions about the better option based upon this. One could get the impression that KWA is the better option because Rowe says that it is.

This report appears to be primarily a rebuttal of TYJT's preliminary report; though there are a couple of possibly valid points that could be checked out. No supporting data is provided.

Two significant things jump out at me after reading this:

- 1) There are a number of references to data that is not included, so it is very difficult to determine whose numbers are accurate.
- 2) It is very unlikely that KWA completed all of the activities that they list as lowering costs (permits, land purchases, easements, preliminary engineering, etc.) since our December meeting with Flint. Then why was TYJT not provided some of this information when they were doing their analysis. They appear to be faulted for not taking some of these items into account, but it seems like they should have received this data in order to make a sound analysis.

We can discuss this further tomorrow.

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From: Koryzno, Edward (Treasury)
Sent: Tuesday, January 08, 2013 3:07 PM
To: Byrne, Randall (TREASURY); Cline, Richard (Treasury); Dube, Mathieu (Treasury)
Subject: FW: Rowe review

FYI



Edward B. Koryzno, Jr. | Administrator - Office of Fiscal Responsibility
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Thank you

From: Ed Kurtz [<mailto:ekurtz@cityofflint.com>]
Sent: Tuesday, January 08, 2013 2:27 PM
To: Koryzno, Edward (Treasury)
Subject: Rowe review

Attached is the review from Rowe, Ed

**Review of TYJT December 21, 2012 Presentation
City of Flint Water Supply Assessment
Prepared by Rowe Professional Services Company**

DWSD Supply (Slides 7 through 9)

1. The 8 mgd maximum day supply by DWSD options can result in periods during the summer when most of the water to meet demands will be supplied by the City from the river. To aid in maintaining a consistent water quality, softening of the water from the river should be provided with this option, greatly increasing the City's costs.
2. Upgrades to Flint's WTP and dams will be needed for options requiring blending, since the WTP will be required to provide continuous, reliable service and compliance with recent surface water treatment regulations.
3. The rates for the options analyzed are shown on Slide 9 as "TYJT Estimates". Options and rates shown are different than presented by DWSD previously.

	DWSD 11/29/2012	TYJT Estimates
18 mgd Maximum Day - P&B	\$16.24	\$16.37
12 mgd Maximum Day - P&B	\$16.30	\$16.31
8 mgd Maximum Day -P&B		\$12.68
12 mgd Maximum Day - Imlay	\$14.38	\$14.38
8 mgd Maximum Day - Imlay		\$11.11

4. Since the rates used in the analyses are shown as estimates, are they actual offers or just presented as "what if" scenarios?
5. We assume that the Imlay options are based on transfer of the 72" main through Lapeer County to Flint. The analyses show a capital cost of \$4.7 million; we assume that this is the proposed purchase / lease cost to Flint. This should be clarified along with pertinent details.
6. If the transmission main is transferred to Flint, what are Flint's responsibilities regarding service to the Lapeer County customers? If they remain DWSD customers, then Flint should receive some revenue for the use the main. It does not appear this is included in the TYJT analyses.
7. If the transmission main is transferred to Flint, we assume that the city will be responsible for the maintenance of the 50 year old main. The TYJT analysis did not include this.
8. Do the rates shown include the credit for "reliability" which had been discussed with DWSD?
9. If the point of commerce is changed from Baxter and Potter to Imlay, a new meter pit will be required. The cost of this does not appear to be included in the TYJT cost analyses.

Flint River Supply (Slide 10)

1. If any of the “blending” options are chosen, it will be necessary to upgrade the Flint WTP and dams to provide reliable, continuous service and compliance with recent surface water treatment regulations.

Data Collected (Slide 14)

1. The slide notes that Flint blending is based on DWSD supplying 2/3 and Flint supplying 1/3 of 12 MGD ADD. For the maximum day demand (18 mgd), if DWSD supplies a maximum of 8 mgd, Flint will supply 10 mgd or 56% of the total. However, such a large portion will make it more difficult to blend and achieve consistent water quality. Flint will need to soften water for these options.

Benchmarking Comparisons (Slide 16)

1. The slide subtitles are “KWA O&M Inflation Factor” and “DWSD and Flint Rate Inflation Factor”. It seems appropriate to benchmark O&M costs for the KWA, because future costs of service will be dependent on how operating costs are impacted by inflation. For Flint, it does not seem appropriate that “rate inflation” from other utilities be used to determine the impact of inflation on future cost of service. Rates are impacted by inflation, but also by other factors such as debt and customer base. O&M expenses and rates are different and care should be exercised not to mix the two during analyses. The TYJT analyses apply an inflation factor (based on rates from other utilities) to the Flint WTP operating expenses, which does not seem to be consistent.
2. The KWA will supply raw water; SOCWA and YUCA both supply finished water. Regulations impact the O&M for finished water suppliers but should not impact the KWA O&M. The use of data from SOCWA and YUCA does not seem like a comparable comparison with the KWA. Finished water suppliers will have increased costs due to regulatory compliance, which really are not due to “inflation” of the costs of wages, power, chemicals, etc.
3. DWSD has a history of rates to Flint and other suburban wholesale customers. Rates tend to be quite specific to each utility, based on much more than just the costs of operating and maintenance. It appears that DWSD historical rates have not been considered in projecting future DWSD rate increases.

Capital Financing (Slide 17)

1. KWA bonds are planned to be general obligation bonds, backed by member counties.

O&M Inflation Factor (Slide 20)

1. SOCWA and YUCA are finished water suppliers; ever-changing regulatory requirements will impact their operating costs more than a raw water supplier, such as KWA.
2. KWA will be a supplier of raw water. O&M costs should primarily be limited to power and labor, with a little chemical use for zebra mussel control. KWA will not provide treatment of the water.

3. The KWA study assumed power, labor, and chemical costs increase at an annual average of 3%. TYJT indicated this is too low and suggested 5%.
4. Following are examples of historical inflation, which support the 3% as a reasonable assumption for O&M expenses (not rates)
 - a. Labor- GCDC-WWS labor costs have increased at an annual average rate of 2.5% since 2003
 - b. Electricity Rates in Michigan (per U.S. Energy Information Administration) have increased an average of 3.2% since 1999.
 - c. The U.S. Bureau of Labor Statistics indicates that the inflation rate over the last 30 years has been an average of 2.8%.

Finished Water Rate Inflation (Slide 21)

1. TYJT bases their assumptions for rate inflation on a survey of rates from three other water suppliers, but ignored the actual rate history of DWSD. TYJT assumed DWSD rate increases of 4.4% annually (if water is purchased from P&B) and 2.9% annually (if water is purchased from Imlay). Based on the actual charges by DWSD to Flint, DWSD historical rates are as follows:
 - a. 10 year increase in DWSD rates to Flint:: 10.5% annually
 - b. Average annual increase through 45 year history: 6.7%
2. Note that for the KWA analyses, an inflation factor has just been applied to power, labor, and chemicals. Although higher prices for labor, power, and chemicals impacts utility rates; rates are impacted by many other factors, many of which are not related to inflation. Rate inflation will likely be different than O&M inflation. Other factors impacting rates:
 - a. Debt – the amount of debt varies widely between utilities
 - b. Number of customers / quantity of water sold – there are many fixed expenses with a utility, that if are distributed amongst more users/more gallons sold will result in lower rates. Conversely, if there are fewer users or less water sold, the rates are higher. Assumptions regarding future water consumption will have a great impact on “rate inflation”.
3. Unlike KWA and Flint operating expenses which will increase over time based on inflation, the cost of continued DWSD service should be based on the inflation of DWSD rates, to include the increasing cost of other DWSD expenses such as debt and the impact of reduced customers / demands in addition to increasing O&M expenses.
4. Even though there could be a one-time reduction in DWSD rates through adopting the model contract, limiting peak demands, and or changing the point of commerce; it doesn't seem reasonable to assume that subsequent annual increases will only average 4.4% through the 30 year period of analysis. This is significantly less than historical performance (yet TYJT suggests that inflation for KWA O&M expenses will increase at almost double the rate of historical indicators).

Capital Financing with Revenue Bonds (Slide 24)

1. Note that the KWA bonds will be general obligation bonds backed by the member counties.
2. The 2009 KWA Study assumed 6%, 25 year financing. The interest rate for planning was reduced in the 2012 Study update to 5%, which is still higher than if bonds were sold today.
3. Financial consultants determined the charges for purchasing capacity in the KWA supply based on the estimated project cost plus appropriate financing costs. Based on 60 units of capacity, \$538,764,000 will be generated for repayment of debt and project costs using the capacity charges in the KWA capacity agreement.

25 years * 60 units * \$355,300 / unit =	\$532,950,000
3 years * 60 units * \$32,300 / unit =	<u>\$ 5,814,000</u>
	\$538,764,000
4. For a KWA project cost of \$272,421,558, total P&I is \$483 million. The difference of \$55,500,000 is available for financing expenses (capitalized interest, bond issuance costs, etc.) and additional contingencies.
5. Bond holder reserve is not a requirement for general obligation bonds.
6. TYJT assumed that 3% interest would be earned on the bond holder reserve during the 25 year bond period. Current interest rates are less than 1% and it seems inappropriate to assume such a high rate will be earned on retained funds.
7. Bondholder reserve, if provided, should be applied against the last couple of P&I payments. The TYJT did not apply it. This will reduce their project costs.

KWA Construction (Slides 26 through 29)

TYJT has indicated that the KWA construction cost estimate is too low. The primary differences in cost estimates for the project appear to be the following components:

1. Pump Stations (Slide 27) – The TYJT estimate for the pump stations is more than double that used by the KWA (\$54,573,314 vs. \$24,618,080). KWA estimates were based on actual construction costs from recent projects completed by Genesee County within the last eight years.
 - a. 32mgd water pump station including two-10 MG ground storage tanks - \$13.4 million
 - b. 80 mgd wastewater pump station, 50 feet deep wetwell – \$8.3 million
 - c. 30 mgd wastewater pump station, 50 feet deep wetwell – \$9.4 million

The KWA budgeted amount seems reasonable for two pumping stations as currently planned and to be constructed in rural areas (not southeast Michigan).

2. Redundant Power – There is no need for redundant power; other provisions will provide reliability of supply.
3. Land – Preliminary engineering has continued so earlier budgets established for planning for land acquisition can be greatly reduced. Options have been obtained on all properties which must be

purchased, so purchase prices are known. It will be necessary to obtain easements for only two miles of pipeline construction. All land costs are now estimated at \$1.25 million.

4. Engineering, Legal, Administration & Contingencies

- a. The October 2012 KWA estimate provided an allowance of 25% of construction cost to cover engineering, legal, administration, and contingencies (ELAC). This was reduced from the 38% allowance used in the 2009 Study because ongoing planning and design have firmed up many of the details of the project, including:

- i. The intake design has been completed and all regulatory permits obtained.
- ii. The transmission main route has been determined. Meetings with road agencies have firmed up the requirements for construction and restoration within rights-of-way. Environmental review and permitting are in process.

- b. TYJT costs for Intake Crib, Pump Stations, and Transmission Mains (Slide 30) include a 30% allowance for ELAC. These allowances (from Slides 26 through 28) total \$72,139,566. In addition, Slide 30 provides the following additional ELAC costs in the project total:

Design Engineering / Pump Stations	\$16,939,581
Construction Management	\$14,434,410
Administration	\$ 349,440
Legal	<u>\$ 831,000</u>
Total	\$32,554,431

- c. Combining this with the \$72,139,566 totals \$104,693,997 or 43% of the estimated construction cost. We believe that such a high allowance for ELAC is not appropriate for a project of this magnitude where preliminary engineering and some design have already been completed.

Cost Comparison (Slide 30)

1. The TYJT pump station price is too high based on costs of similar projects; costs used by KWA are based on costs of recent local projects. The KWA estimate is believed to be sufficient for the proposed pumping stations.
2. Redundant power is not required; this does not need to be included in the TYJT estimate.
3. Land for LHPS – actual price is \$360,000
4. Design Engineering / PS and Transmission – KWA included engineering in the 25% ELAC allowance included in the \$207,752,895 estimated cost of transmission mains; TYJT included engineering in their 30% ELAC allowance included in the \$218,811,559 estimated cost. By adding \$16,939,581 for design engineering, \$14,434,609 for construction administration, \$349,440 for administration, and \$831,000; it seems that ELAC is being “double-counted”. The TYJT 43% allowance for ELAC seems unwarranted for a project with a great deal of preliminary and design engineering completed. The 25% KWA allowance is believed to be sufficient.
5. Easements and land (other than LHPS) should total \$1,140,000, based on current options and specific needs for easements.

Other Considerations – Redundancy / Reliability (Slide 33)

1. Unfunded Mandates/ Future Regulations
 - a. The proposed KWA supply will deliver raw water; it is not anticipated to be affected by future changes to regulations. Regulations will impact the City of Flint with respect to treatment and/or distribution of finished water. The City will be subject to these requirements with any of the DWSD blending options, just as they will be responsible for them if supplied by KWA. Some compliance costs may actually be less with the higher quality Lake Huron water rather than Flint River water as the source.
2. State Goals
 - a. The TYJT presentation indicates that creation of a new raw water supply is contrary to the governor's goals as suggested. However, the development of a new raw water supply provides new opportunities. Communities in Sanilac, St. Clair, and Lapeer counties will have the option to join a regional water supply and replace their small local supplies where limited supplies and high concentrations of arsenic have been a concern. The new water supply also provides great economic development opportunities. The raw water supplied by KWA will make a new commodity, raw water, available to the region. A large, low-cost supply of raw water can be a valuable resource for industries and agribusinesses. The development of a new water supply will also create construction jobs through the short term period of building the new water supply and subsequently over a longer period as new businesses and industries are developed in the area.
 - b. The City of Flint and area communities will benefit as permanent jobs are created for operating and maintaining the local treatment facilities.
3. Redundancy
 - a. We agree that the KWA and DWSD options are similar with respect to redundancy. Both provide the primary water supply; customers are responsible for their backup supply.

Other Considerations – Cost Slide 34

1. TYJT indicates that the DWSD 8 mgd supply option is the least cost alternative.
 - a. The TYJT analysis does not include the cost of needed upgrades to the City's WTP or increased operating costs in their analysis. During summer months, water from the river will need to be softened before blending. More than half of the water supplied will be provided from the river. When the cost of upgrades to the WTP and the increased operating costs (for softening) are added to the TYJT analysis, the KWA option is less than the DWSD 8 mgd option.
2. For any of the DWSD "blending" options, upgrades will need to be made at the WTP to provide for continuous, reliable operation and compliance with new surface water treatment rules. Increased capital and operating costs for treating water from the river should be added to the TYJT costs for comparison with the other options.
3. Water from the river will require greater effort to treat than water from Lake Huron (more chemicals, power, and residuals). The TYJT analysis shows about the same O&M costs for the Flint WTP, regardless of water source. It seems that the WTP O&M costs for the KWA options should be reduced to reflect the savings from treating Lake Huron water.

4. The TYJT presentation noted that the KWA analysis did not include allowances for mechanical and process improvements within the planning period. The KWA will supply raw water. The facilities consist of pipe, pumps, and a tank. There are no treatment facilities which would be susceptible to future regulatory changes. The only improvements that seem likely would be the need to provide additional capacity. Capacity expansion is planned to be financed through capacity charges to new users.
5. The provision for redundant connections between the City's water system and the GCDC system was included in the most recent water supply agreement between the two, in 2011. Although not a KWA cost, the cost of the redundant connections should be considered with all options.
6. The \$2.3 million budgeted for land by KWA was intended to cover all land requirements. Since the October update, options have been obtained on all land to be purchased and the locations of easements needed has been finalized. Total land costs are now estimated to be about \$1.5 million.
7. The 2004 study included a 47% allowance for engineering, legal, administration, and contingencies (ELAC). The 2009 study reduced the allowance for ELAC to 37% because many of the details since the 2004 conceptual study had been better defined. For the October 2012 update, the allowance for ELAC was reduced to 25% because continued planning and preliminary engineering further addressed details from the earlier concepts.
 - a. The detailed design (plans and specifications) and permitting have been completed.
 - b. The transmission main route has been finalized. Meetings with road agencies have established requirements for construction and restoration within road rights-of-way. Environmental permitting is in process. The primary remaining unknown is pipe sizing, which is largely dependent on Flint's participation.

It is our experience that the 25% ELAC allowance is appropriate for a project of this magnitude at this stage in the planning / design stage. The 43% ELAC allowance recommended by TYJT is excessive for a project in the design phase.

8. Flint's WTP as a backup to the KWA will be less difficult to provide for than the current arrangement as a backup to DWSD. We believe there is potential for challenges with chemistry and treatment for the proposed DWSD blending options, too.
9. It doesn't seem that oversizing the KWA capacity is a good solution for the city's water loss problems, if that is what is being suggested.
10. Yes, it would be nice if the KWA system could be constructed to firmly determine its cost and time to complete before making a decision about water supply alternatives. However, a decision is needed regarding Flint's participation so that the sizing and design can be completed, before it can be built.

Lamphier, Wendy (Treasury)

From: Dillon, Andy (Treasury)
Sent: Wednesday, January 09, 2013 7:20 AM
To: Stibitz, Brom (Treasury)
Subject: KWA and DWSD. Flint.

Follow Up Flag: Follow up
Flag Status: Flagged

Curious what is status of that situation.

Sent from my iPad

Lamphier, Wendy (Treasury)

From: Koryzno, Edward (Treasury)
Sent: Wednesday, January 09, 2013 8:22 AM
To: Dillon, Andy (Treasury); Fraser, Roger (Treasury); Stibitz, Brom (Treasury); Byrne, Randall (TREASURY); Cline, Richard (Treasury)
Subject: Follow Up Mtg re City of Flint KWA Water Report

Follow Up Flag: Follow up
Flag Status: Flagged

FYI – Mike Brown called to say that Mayor Walling will be joining Ed Kurtz, Mike Brown and Jerry Ambrose for this afternoon's meeting.



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

Koryzno, Edward (Treasury)

Subject: Follow Up Mtg re City of Flint KWA Water Report
Location: Treas_Confrm_Local Govt Large

Start: Wed 1/9/2013 2:00 PM
End: Wed 1/9/2013 3:00 PM

Recurrence: (none)

Meeting Status: Accepted

Organizer: Fraser, Roger (Treasury)
Required Attendees: Dillon, Andy (Treasury); Koryzno, Edward (Treasury); Stibitz, Brom (Treasury); Byrne, Randall (TREASURY); Cline, Richard (Treasury)
Optional Attendees: Hichez, Amy (Treasury); Cousineau, Sara (Treasury)

Final list of attendees confirmed.

Attendees:
Andy Dillon
Roger Fraser
Brom Stibitz
Ed Koryzno
Randy Byrne
Ed Kurtz, City of Flint
Jerry Ambrose, City of Flint
Mike Brown, City of Flint
Howard Croft, City of Flint



January 14, 2013

Mr. Eric Cline
Unit Operations Specialist
430 West Allegan Street
Lansing, Michigan 48922

Dear Mr. Cline,

RE: SOW No. 271Q3209, Flint Municipal Water Supply Assessment

Subject: Response to Rowe Professional Services Company Comments on TYJT's December 20, 2012 Presentation

The purpose of this letter is to respond to the subject comments provided to TYJT on January 9, 2013. The comments are provided below followed by our response. The presentation is provided as an attachment for reference.

It should be noted that due to the time constraints identified, our evaluation was completed in a very short duration. Our analysis is therefore based on the limited information that was provided. We believe that the assumptions made are valid, however; if further analysis is required, TYJT suggests that more information such as the KWA route including topography and easement information, pump station siting, condition of the Flint WTP, and water chemistry information related to blending is obtained.

Furthermore, per the Treasury's direction, Flint has indicated that they do not want to pursue the stand-alone option of only using their plant nor do they want to consider being supplied from the Imlay Station because they are concerned with long-term costs associated with the 72" line. Therefore, responses to comments specific to these options are not provided.

DWSD Supply (Slides 7 through 9)

Rowe Comment No. 1: The 8 mgd maximum day supply by DWSD options can result in periods during the summer when most of the water to meet demands will be supplied by the City from the river. To aid in maintaining a consistent water quality, softening of the water from the river should be provided with this option, greatly increasing the City's costs.

TYJT's Response: Flint's email dated 12/6/12 indicates that the average production rate when they operate the plant is 11 MGD. It was assumed that plant water quality produced was sufficient to meet the necessary water quality requirements since it is to serve as a backup to the DWSD supply.

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If softening is required then its cost required for maximum flow rate analyzed would need to be included. Another question that should be addressed is if softening is required, why it is not part of the current treatment for the backup supply.

Furthermore, from the meeting on November 20, 2012, KWA indicated that the Flint River would serve as a backup supply to the KWA system. This would mean that the Flint WTP would have to maintain two treatment trains; one for lake water and one for river water. Depending on how long the plant would have to operate as a backup could trigger the need under the KWA option to improve the river infrastructure as the Flint WTP would need to produce up to 18 MGD.

Rowe Comment No. 2: Upgrades to Flint's WTP and dams will be needed for options requiring blending, since the WTP will be required to provide continuous, reliable service and compliance with recent surface water treatment regulations.

TYJT's Response: As indicated in our previous response; it was assumed that the plant has capacity to supply up to 11 MGD. Furthermore, per the LAN/Rowe report on the Flint River dated July 2011, the summary on Page 12 states that without making any modifications to the river infrastructure, the water plant is limited to 11.6 MGD. Therefore, if the maximum needed from the plant under the various scenarios presented is 10 MGD, no additional work to the dams should be required.

Rowe Comment No. 3: The rates for the options analyzed are shown on Slide 9 as "TYJT Estimates". Options and rates shown are different than presented by DWSD previously.

	DWSD	TYJT Estimates
	11/29/2012	
18 mgd Maximum Day - P&B	\$16.24	\$16.37
12 mgd Maximum Day - P&B	\$16.30	\$16.31
8 mgd Maximum Day -P&B		\$12.68
12 mgd Maximum Day - Imlay	\$14.38	\$14.38
8 mgd Maximum Day - Imlay		\$11.11

TYJT's Response: The rates presented were provided by DWSD and are provided as an attachment to this response.

Rowe Comment No. 4: Since the rates used in the analyses are shown as estimates, are they actual offers or just presented as "what if" scenarios?

TYJT's Response: Per DWSD, the allocated costs of service and rates computed for Flint follow an "all else being equal" application of the current (FY 2012-13) DWSD unit costs. This is consistent with the figures used in discussions with Flint representatives previously. Whenever the actual service requirements get applied, the lower DWSD System units associated with lower Flint units will raise the unit costs for all customers, creating a moderate impact for all customers. This has been described to Flint representatives.

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As such, in DWSD's discussions with Flint they've identified these figures as hypothetical results indicative of rate calculations, as opposed to firm offers. So, while the rates are still estimates until the volume and type of the purchase is determined, it can be assumed that the actual rates will be similar to the estimates shown.

Rowe Comment No. 5: We assume that the Imlay options are based on transfer of the 72" main through Lapeer County to Flint. The analyses show a capital cost of \$4.7 million; we assume that this is the proposed purchase / lease cost to Flint. This should be clarified along with pertinent details.

TYJT's Response: In the Treasurer's email to TYJT, dated January 9, 2013, this option is no longer being considered by Flint. Therefore, a response is not required.

Rowe Comment No. 6: If the transmission main is transferred to Flint, what are Flint's responsibilities regarding service to the Lapeer County customers? If they remain DWSD customers, then Flint should receive some revenue for the use the main. It does not appear this is included in the TYJT analyses.

TYJT's Response: In the Treasurer's email to TYJT, dated January 9, 2013, this option is no longer being considered by Flint. Therefore, a response is not required.

Rowe Comment No. 6: If the transmission main is transferred to Flint, we assume that the city will be responsible for the maintenance of the 50 year old main. The TYJT analysis did not include this.

TYJT's Response: In the Treasurer's email to TYJT, dated January 9, 2013, this option is no longer being considered by Flint. Therefore, a response is not required.

Rowe Comment No. 6: Do the rates shown include the credit for "reliability" which had been discussed with DWSD?

TYJT's Response: TYJT has not been party to the discussions regarding a reliability credit, so we assume that the rates used in our presentation do not include the credit.

Rowe Comment No. 9: If the point of commerce is changed from Baxter and Potter to Imlay, a new meter pit will be required. The cost of this does not appear to be included in the TYJT cost analyses.

TYJT's Response: In the Treasurer's email to TYJT, dated January 9, 2013; this option is no longer being considered by Flint. Therefore, a response is not required.

Flint River Supply (Slide 10)

Rowe Comment No. 1: If any of the "blending" options are chosen, it will be necessary to upgrade the Flint WTP and dams to provide reliable, continuous service and compliance with recent surface water treatment regulations.

TYJT's Response: Please refer to our response to Comments No. 1 and No. 2 for Slides 7 through 9.

Data Collected (Slide 14)

Rowe Comment No. 1: The slide notes that Flint blending is based on DWSD supplying 2/3 and Flint supplying 1/3 of 12 MGD ADD. For the maximum day demand (18 mgd), if DWSD supplies a maximum of 8 mgd, Flint will supply 10 mgd or 56% of the total. However, such a large portion will make it more difficult to blend and achieve consistent water quality. Flint will need to soften water for these options.

TYJT's Response: Please refer to our response to Comments No. 1 for Slides 7 through 9.

Benchmarking Comparisons (Slide 16)

Rowe Comment No. 1: The slide subtitles are "KWA O&M Inflation Factor" and "DWSD and Flint Rate Inflation Factor". It seems appropriate to benchmark O&M costs for the KWA, because future costs of service will be dependent on how operating costs are impacted by inflation. For Flint, it does not seem appropriate that "rate inflation" from other utilities be used to determine the impact of inflation on future cost of service. Rates are impacted by inflation, but also by other factors such as debt and customer base. O&M expenses and rates are different and care should be exercised not to mix the two during analyses. The TYJT analyses apply an inflation factor (based on rates from other utilities) to the Flint WTP operating expenses, which does not seem to be consistent.

TYJT's Response: It is widely acceptable to compare O&M costs of similar facilities and communities and Benchmarking the Flint WTP rate was one item used in determining the best way to account for inflation associated with O&M costs for the planning period. Based on our analysis, we believe that the 4.51% is appropriate. It is also worth noting that in the letter to Mr. Kurtz from the Flint Finance Director, Mr. Ambrose, he used an inflation factor of 5% for the Flint WTP operations with the KWA system.

Rowe Comment No. 2: The KWA will supply raw water; SOCWA and YUCA both supply finished water. Regulations impact the O&M for finished water suppliers but should not impact the KWA O&M. The use of data from SOCWA and YUCA does not seem like a comparable comparison with the KWA. Finished water suppliers will have increased costs due to regulatory compliance, which really are not due to "inflation" of the costs of wages, power, chemicals, etc.

TYJT's Response: Benchmarking the KWA rate was one item used in determining the best way to account for inflation associated with O&M costs for the planning period. Additionally, per Mr. O'Brien's statement in our meeting on November 20, 2012, he suggested that we use GC-WWS inflation rate. Over the last 10 years, GC-WWS increase was 10.5%.

Based on our analysis, we believe that the 5% is appropriate. It is also worth noting that in the letter to Mr. Kurtz from the Flint Finance Director, Mr. Ambrose, he used an inflation factor of 5% for the KWA system.

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Rowe Comment No. 3: DWSD has a history of rates to Flint and other suburban wholesale customers. Rates tend to be quite specific to each utility, based on much more than just the costs of operating and maintenance. It appears that DWSD historical rates have not been considered in projecting future DWSD rate increases.

TYJT's Response: This is incorrect. Please see the attachment provided by DWSD that shows the historical rates for Flint.

Capital Financing (Slide 17)

Rowe Comment No. 1: KWA bonds are planned to be general obligation bonds, backed by member counties.

TYJT's Response: Reference is made to an email from Mr. Kurtz, dated 12/4/12 that indicated revenue bonds would be used to finance the capital needs of KWA and this has been our basis of analysis. We would need to recalculate the capital cost if general obligation bonds are used.

It is worth noting that general obligation bonds are backed by the full faith and credit of the issuer. Our previous discussions with Flint indicated that they were not even sure if they could get a bond rating. Furthermore, Genesee County indicated that they would not back Flint's share of the obligations. We are surprised that general obligation bonds are now being considered.

O&M Inflation Factor (Slide 20)

Rowe Comment No. 1: SOCWA and YUCA are finished water suppliers; ever-changing regulatory requirements will impact their operating costs more than a raw water supplier, such as KWA.

TYJT's Response: Please refer to our response to Slide 16, Comment No. 2.

Rowe Comment No. 2: KWA will be a supplier of raw water. O&M costs should primarily be limited to power and labor, with a little chemical use for zebra mussel control. KWA will not provide treatment of the water.

TYJT's Response: Please refer to our response to Slide 16, Comment No. 2.

Rowe Comment No. 3: The KWA study assumed power, labor, and chemical costs increase at an annual average of 3%. TYJT indicated this is too low and suggested 5%.

TYJT's Response: Please refer to our response to Slide 16, Comment No. 2.

Rowe Comment No. 4: Following are examples of historical inflation, which support the 3% as a reasonable assumption for O&M expenses (not rates)

- a. Labor- GCDC-WWS labor costs have increased at an annual average rate of 2.5% since 2003

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- b. Electricity Rates in Michigan (per U.S. Energy Information Administration) have increased an average of 3.2% since 1999.
- c. The U.S. Bureau of Labor Statistics indicates that the inflation rate over the last 30 years has been an average of 2.8%.

TYJT's Response: Please refer to our response to Slide 16, Comment No. 2.

Finished Water Rate Inflation (Slide 21)

Rowe Comment No. 1: TYJT bases their assumptions for rate inflation on a survey of rates from three other water suppliers, but ignored the actual rate history of DWSD. TYJT assumed DWSD rate increases of 4.4% annually (if water is purchased from P&B) and 2.9% annually (if water is purchased from Imlay). Based on the actual charges by DWSD to Flint, DWSD historical rates are as follows:

- a. 10 year increase in DWSD rates to Flint: 10.5% annually
- b. Average annual increase through 45 year history: 6.7%

TYJT's Response: Please provide documentation of the referenced increases. Per our response to Slide 7 through 9, Comment No. 3, DWSD has provided their historic rates over the past 10 years. It could also be argued that these rate increases are skewed higher than they will be in the future since a dramatic reduction in water sales due to the recession required DWSD's fixed costs to be distributed over less units.

Rowe Comment No. 2: Note that for the KWA analyses, an inflation factor has just been applied to power, labor, and chemicals. Although higher prices for labor, power, and chemicals impacts utility rates; rates are impacted by many other factors, many of which are not related to inflation. Rate inflation will likely be different than O&M inflation. Other factors impacting rates:

- a. Debt – the amount of debt varies widely between utilities
- b. Number of customers / quantity of water sold – there are many fixed expenses with a utility, that if are distributed amongst more users/more gallons sold will result in lower rates. Conversely, if there are fewer users or less water sold, the rates are higher. Assumptions regarding future water consumption will have a great impact on "rate inflation".

TYJT's Response: Rowe's comment is noted.

Rowe Comment No. 3: Unlike KWA and Flint operating expenses which will increase over time based on inflation, the cost of continued DWSD service should be based on the inflation of DWSD rates, to include the increasing cost of other DWSD expenses such as debt and the impact of reduced customers / demands in addition to increasing O&M expenses.

TYJT's Response: DWSD's rates do include these variables as their rates are inclusive of their total costs; operations and fixed. It is also worth noting that once the KWA construction begins, Flint fixed costs will be set regardless of their actual water use.

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Rowe Comment No. 4: Even though there could be a one-time reduction in DWSD rates through adopting the model contract, limiting peak demands, and or changing the point of commerce; it doesn't seem reasonable to assume that subsequent annual increases will only average 4.4% through the 30 year period of analysis. This is significantly less than historical performance (yet TYJT suggests that inflation for KWA O&M expenses will increase at almost double the rate of historical indicators).

TYJT's Response: Please see our response to Slide 16, Comment No. 3.

Capital Financing with Revenue Bonds (Slide 24)

Rowe Comment No.1: Note that the KWA bonds will be general obligation bonds backed by the member counties.

TYJT's Response: Please refer to our response to Slide 17, Comment No. 1.

Rowe Comment No. 2: The 2009 KWA Study assumed 6%, 25 year financing. The interest rate for planning was reduced in the 2012 Study update to 5%, which is still higher than if bonds were sold today.

TYJT's Response: We believe that it was prudent to use 5% as a conservative assumption. This is consistent with the KWA study.

Rowe Comment No. 3: Financial consultants determined the charges for purchasing capacity in the KWA supply based on the estimated project cost plus appropriate financing costs. Based on 60 units of capacity, \$538,764,000 will be generated for repayment of debt and project costs using the capacity charges in the KWA capacity agreement.

25 years * 60 units * \$355,300 / unit = \$532,950,000

3 years * 60 units * \$32,300 / unit = \$ 5,814,000

\$538,764,000

TYJT's Response: Please refer to our response to Slide 17, Comment No. 1.

Rowe Comment No. 4: For a KWA project cost of \$272,421,558, total P&I is \$483 million. The difference of \$55,500,000 is available for financing expenses (capitalized interest, bond issuance costs, etc.) and additional contingencies.

TYJT's Response: Please refer to our response to Slide 17, Comment No. 1.

Rowe Comment No. 5: Bond holder reserve is not a requirement for general obligation bonds.

TYJT's Response: Please refer to our response to Slide 17, Comment No. 1.

Rowe Comment No. 6: TYJT assumed that 3% interest would be earned on the bond holder reserve during the 25 year bond period. Current interest rates are less than 1% and it seems inappropriate to assume such a high rate will be earned on retained funds.

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TYJT's Response: Although the current interest rate is less than 1% it was assumed that current fiscal policy could not be sustained for 30 years. Therefore 3% was assumed. Note that this is interest coming back to KWA and actually reduces the total cost.

Rowe Comment No. 7: Bondholder reserve, if provided, should be applied against the last couple of P&I payments. The TYJT did not apply it. This will reduce their project costs.

TYJT's Response: The reserve was only applied over the duration of the loan.

KWA Construction (Slides 26 through 29)

TYJT has indicated that the KWA construction cost estimate is too low. The primary differences in cost estimates for the project appear to be the following components:

Rowe Comment No. 1: Pump Stations (Slide 27) – The TYJT estimate for the pump stations is more than double that used by the KWA (\$54,573,314 vs. \$24,618,080). KWA estimates were based on actual construction costs from recent projects completed by Genesee County within the last eight years.

- a. 32 mgd water pump station including two-10 MG ground storage tanks – \$13.4 million
- b. 80 mgd wastewater pump station, 50 feet deep wetwell – \$8.3 million
- c. 30 mgd wastewater pump station, 50 feet deep wetwell – \$9.4 million

The KWA budgeted amount seems reasonable for two pumping stations as currently planned and to be constructed in rural areas (not southeast Michigan).

TYJT's Response: Of the three projects identified only the first one is a water system project; the other two are wastewater lift stations. Since these estimates are based on a preliminary design, TYJT believes that our estimate is a more prudent representation of cost.

Rowe Comment No. 2: Redundant Power – There is no need for redundant power; other provisions will provide reliability of supply.

TYJT's Response: TYJT disagrees with this statement. Backup power is a standard practice in the water industry. Furthermore, a loss of power at either pumping facility will prevent the supply of water to both Flint and Genesee County. TYJT is not aware of what "other provisions" are being provided.

Rowe Comment No. 3: Land – Preliminary engineering has continued so earlier budgets established for planning for land acquisition can be greatly reduced. Options have been obtained on all properties which must be purchased, so purchase prices are known. It will be necessary to obtain easements for only two miles of pipeline construction. All land costs are now estimated at \$1.25 million.

TYJT's Response: Our analysis has been based on the information provided to us. Revising and changing numbers will require another analysis.

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Rowe Comment No. 4: Engineering, Legal, Administration & Contingencies:

- a. The October 2012 KWA estimate provided an allowance of 25% of construction cost to cover engineering, legal, administration, and contingencies (ELAC). This was reduced from the 38% allowance used in the 2009 Study because ongoing planning and design have firmed up many of the details of the project, including:
 - i. The intake design has been completed and all regulatory permits obtained.
 - ii. The transmission main route has been determined. Meetings with road agencies have firmed up the requirements for construction and restoration within rights-of-way. Environmental review and permitting are in process.
- b. TYJT costs for Intake Crib, Pump Stations, and Transmission Mains (Slide 30) include a 30% allowance for ELAC. These allowances (from Slides 26 through 28) total \$72,139,566. In addition, Slide 30 provides the following additional ELAC costs in the project total:

Design Engineering / Pump Stations	\$16,939,581
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Total	\$32,554,431
- c. Combining this with the \$72,139,566 totals \$104,693,997 or 43% of the estimated construction cost. We believe that such a high allowance for ELAC is not appropriate for a project of this magnitude where preliminary engineering and some design have already been completed.

TYJT's Response: In an email from Mr. O'Brien on December 5, 2012, the design is less than 15% complete on the pipeline and the final route is only 90% confirmed. Since these estimates are based on a preliminary design, TYJT believes that our estimate is a more prudent representation of cost.

The \$72,139,566 is for construction contingencies only. This figure includes \$5,519,213 for ELAC of 25% per KWA's cost estimate for the intake construction which is reasonable for a project at the 90% design completion. The balance of the construction contingency of \$66,620,335 is based on 30% contingency since the design for the transmission mains and the IPS is at only 15% preliminary design.

The \$32,554,431 is a budget for:

- a. completing the design of the IPS and transmission mains to 100% bidding stage,
- b. construction management fee for the firm responsible to oversee the construction startup and commissioning of the project,
- c. legal and survey fee to acquire the land and 277 easements (per KWA 2009 report), and
- d. for the KWA staff to administer the project.

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In summary the \$72 million is for construction contingency and the \$32 million is for the engineering and administration of the project.

Cost Comparison (Slide 30)

Rowe Comment No. 1: The TYJT pump station price is too high based on costs of similar projects; costs used by KWA are based on costs of recent local projects. The KWA estimate is believed to be sufficient for the proposed pumping stations.

TYJT's Response: Please see our response to Slide 26 through 29, Comment No. 1.

Rowe Comment No. 2: Redundant power is not required; this does not need to be included in the TYJT estimate.

TYJT's Response: Please see our response to Slide 26 through 29, Comment No. 2.

Rowe Comment No. 3: Land for LHPS – actual price is \$360,000

TYJT's Response: The \$2.3 million for land came from the KWA Preliminary Engineering Report, dated September 2009 and Appendix 20 the updated report, dated October 4, 2012. Paragraph 2.3.2 (page 3) of Appendix 2 of the Preliminary Engineering Report dated September 2009 states, "Genesee County purchased 230 acres of land in Worth Township, Sanilac County in 2002. The land was purchased for the potential use as a water supply facility. The land was purchased for \$2.3 million." This same \$2.3 million is shown as the cost for the land (Figure 1-KWA Water Supply Project Cost) in, Appendix 20 October 2012 Preliminary Engineering Report Update- Final Report.

Rowe Comment No. 4: Design Engineering / PS and Transmission – KWA included engineering in the 25% ELAC allowance included in the \$207,752,895 estimated cost of transmission mains; TYJT included engineering in their 30% ELAC allowance included in the \$218,811,559 estimated cost. By adding 16,939,581 for design engineering, \$14,434,609 for construction administration, \$349,440 for administration, and \$831,000; it seems that ELAC is being "double-counted". The TYJT 43% allowance for ELAC seems unwarranted for a project with a great deal of preliminary and design engineering completed. The 25% KWA allowance is believed to be sufficient.

TYJT's Response: TYJT did not double count the ELAC. TYJT broke down the ELAC into engineering fee for design, legal cost to acquire easements and land for the project, KWA administrative and management cost, and construction management fee. These cost amount to approximately \$32.5 million. The 30% contingency listed in TYJT's cost estimate is a construction contingency since the design is at 15% (other than the intake) according to John O'Brien's statement during the meeting with the City of Flint on November 20, 2012.

Rowe Comment No. 5: Easements and land (other than LHPS) should total \$1,140,000, based on current options and specific needs for easements.

TYJT's Response: Appendix 5 of the KWA 2009 report listed the cost for land acquisition for the Lake Huron Transmission at \$615, 740, for the North Transmission Main at \$214,300, and the Flint Transmission at \$336,130 for a total of \$1,166,170. TYJT estimated the land cost for the IPS and

January 14, 2013

reservoir only at \$75,000 since the LHPS land has already been purchased by Genesee County. TYJT estimate for easements and land (not the LHPS) to be \$1,241,170 versus Rowe's recent information of \$1,140,000 for a difference of \$101,000. For all practical matter TYJT and KWA estimates are the same.

Other Considerations – Redundancy / Reliability (Slide 33)

Rowe Comment No. 1: Unfunded Mandates/ Future Regulations

- a. The proposed KWA supply will deliver raw water; it is not anticipated to be affected by future changes to regulations. Regulations will impact the City of Flint with respect to treatment and/or distribution of finished water. The City will be subject to these requirements with any of the DWSD blending options, just as they will be responsible for them if supplied by KWA. Some compliance costs may actually be less with the higher quality Lake Huron water rather than Flint River water as the source.

TYJT's Response: This is obviously hard to quantify since identifying regulation requirements over 30 years is hard to determine. However, it is widely understood that a large system has greater ability to respond to unfunded mandates because the cost can be distributed over a large customer base.

Rowe Comment No. 2: State Goals:

- a. The TYJT presentation indicates that creation of a new raw water supply is contrary to the governor's goals as suggested. However, the development of a new raw water supply provides new opportunities. Communities in Sanilac, St. Clair, and Lapeer counties will have the option to join a regional water supply and replace their small local supplies where limited supplies and high concentrations of arsenic have been a concern. The new water supply also provides great economic development opportunities. The raw water supplied by KWA will make a new commodity, raw water, available to the region. A large, low-cost supply of raw water can be a valuable resource for industries and agri-businesses. The development of a new water supply will also create construction jobs through the short term period of building the new water supply and subsequently over a longer period as new businesses and industries are developed in the area.
- b. The City of Flint and area communities will benefit as permanent jobs are created for operating and maintaining the local treatment facilities.

TYJT's Response: Reference is made to the Treasury policy that promotes consolidation of resources and services. Therefore, two existing customers of DWSD (Flint and Genesee County) along with the potential of others customers (Lapeer, Mayfield, Imlay City) separating to form another water system is counter to the initiative.

Rowe Comment No. 3: Redundancy:

- a. We agree that the KWA and DWSD options are similar with respect to redundancy. Both provide the primary water supply; customers are responsible for their backup supply.

January 14, 2013

TYJT's Response: Agreed; however, from the meeting on November 20, 2012, KWA indicated that the Flint River would serve as a backup supply to the KWA system. This would mean that the Flint WTP would have to maintain two treatment trains; one for lake water and one for river water. Whether there is sufficient space or additional capital required for the WTP was not investigated as part of this study.

Other Considerations – Cost Slide 34

Rowe Comment No. 1: TYJT indicates that the DWSD 8 mgd supply option is the least cost alternative.

- a. The TYJT analysis does not include the cost of needed upgrades to the City's WTP or increased operating costs in their analysis. During summer months, water from the river will need to be softened before blending. More than half of the water supplied will be provided from the river. When the cost of upgrades to the WTP and the increased operating costs (for softening) are added to the TYJT analysis, the KWA option is less than the DWSD 8 mgd option.

TYJT's Response: Please see our response to Slide 7 through 9, Comment No. 1. Furthermore, our operating costs for the Flint WTP were increased per the analysis provided to KWA for review.

Rowe Comment No. 2: For any of the DWSD "blending" options, upgrades will need to be made at the WTP to provide for continuous, reliable operation and compliance with new surface water treatment rules. Increased capital and operating costs for treating water from the river should be added to the TYJT costs for comparison with the other options.

TYJT's Response: Please see our response to Slide 7 through 9, Comment No. 1 and No. 2.

Rowe Comment No. 3: Water from the river will require greater effort to treat than water from Lake Huron (more chemicals, power, and residuals). The TYJT analysis shows about the same O&M costs for the Flint WTP, regardless of water source. It seems that the WTP O&M costs for the KWA options should be reduced to reflect the savings from treating Lake Huron water.

TYJT's Response: Please see our response to Slide 7 through 9, Comment No. 1. Additionally, we used the chemical costs from February 2009 preliminary design report adjusted for inflation.

Rowe Comment No. 4: The TYJT presentation noted that the KWA analysis did not include allowances for mechanical and process improvements within the planning period. The KWA will supply raw water. The facilities consist of pipe, pumps, and a tank. There are no treatment facilities which would be susceptible to future regulatory changes. The only improvements that seem likely would be the need to provide additional capacity. Capacity expansion is planned to be financed through capacity charges to new users.

January 14, 2013

TYJT's Response: The point made here is that replacement costs of equipment were not included; e.g., pumps, motors, etc.

Rowe Comment No. 5: The provision for redundant connections between the City's water system and the GCDC system was included in the most recent water supply agreement between the two, in 2011. Although not a KWA cost, the cost of the redundant connections should be considered with all options.

TYJT's Response: Noted, but the redundancy is limited since both of the water systems would be supplied by KWA and a loss of power to one of the pumping facilities without backup power would interrupt the supply.

Rowe Comment No. 6: The \$2.3 million budgeted for land by KWA was intended to cover all land requirements. Since the October update, options have been obtained on all land to be purchased and the locations of easements needed has been finalized. Total land costs are now estimated to be about \$1.5 million.

TYJT's Response: Please see our response to Slide 7 through 9, Comment No. 1.

Rowe Comment No. 7: The 2004 study included a 47% allowance for engineering, legal, administration, and contingencies (ELAC). The 2009 study reduced the allowance for ELAC to 37% because many of the details since the 2004 conceptual study had been better defined. For the October 2012 update, the allowance for ELAC was reduced to 25% because continued planning and preliminary engineering further addressed details from the earlier concepts.

- a. The detailed design (plans and specifications) and permitting have been completed.
- b. The transmission main route has been finalized. Meetings with road agencies have established requirements for construction and restoration within road rights-of-way. Environmental permitting is in process. The primary remaining unknown is pipe sizing, which is largely dependent on Flint's participation.

It is our experience that the 25% ELAC allowance is appropriate for a project of this magnitude at this stage in the planning / design stage. The 43% ELAC allowance recommended by TYJT is excessive for a project in the design phase.

TYJT's Response: Please see our response to Slide 30, Comment No. 4.

Rowe Comment No. 8: Flint's WTP as a backup to the KWA will be less difficult to provide for than the current arrangement as a backup to DWSD. We believe there is potential for challenges with chemistry and treatment for the proposed DWSD blending options, too.

TYJT's Response: Please see our response to Slide 33, Comment No. 3.

Rowe Comment No. 9: It doesn't seem that oversizing the KWA capacity is a good solution for the city's water loss problems, if that is what is being suggested.

TYJT's Response: It would be recommended to determine what the water loss is in Flint and what the implication would be on sizing the KWA pipe. A determination could then be made once this analysis was performed.

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January 14, 2013

Rowe Comment No. 10: Yes, it would be nice if the KWA system could be constructed to firmly determine its cost and time to complete before making a decision about water supply alternatives. However, a decision is needed regarding Flint's participation so that the sizing and design can be completed, before it can be built.

TYJT's Response: Noted.

Please let us know how we should proceed. Should you have any questions or need any additional information, please contact me.

Sincerely,
TUCKER, YOUNG, JACKSON, TULL, INC.

A handwritten signature in black ink, appearing to read "D. Guastella".

David Guastella, P.E.
Project Manager

Attachments

Lamphier, Wendy (Treasury)

From: Koryzno, Edward (Treasury)
Sent: Wednesday, January 09, 2013 10:09 AM
To: Dillon, Andy (Treasury); Fraser, Roger (Treasury); Stibitz, Brom (Treasury); Byrne, Randall (TREASURY); Cline, Richard (Treasury)
Subject: FW: Attached Document
Attachments: Scan314.PDF

Follow Up Flag: Follow up
Flag Status: Flagged

A document for discussion at this afternoon's meeting from Ed Kurtz regarding Flint water system options.



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: Maxine Murray [mailto:mmurray@cityofflint.com]
Sent: Wednesday, January 09, 2013 10:05 AM
To: Koryzno, Edward (Treasury)
Cc: Ed Kurtz
Subject: Attached Document

Good morning Mr. Koryzno:

Ed Kurtz asked me to send you the attached document which will be presented at today's meeting. He wanted you to have it prior to the meeting.

Thank you.

--

Maxine Murray
Executive Assistant to
Mayor Dayne Walling
Edward J. Kurtz, Emergency Financial Manager
Michael K. Brown, City Administrator
1101 S. Saginaw Street
Flint, MI 48502

UPDATE TO TREASURY REGARDING THE CITY OF FLINT EVALUATION OF WATER SERVICE DELIVERY

1. It is the goal of the City of Flint to assure the delivery of water to its residents and businesses at the lowest cost possible over the long term. City officials have expended considerable amounts of time over the past many months evaluating three primary options: water service delivery by KWA, continued water service delivery by DWSD, and sole reliance on the Flint River. At this time we continue to consider the KWA and DWSD options, but do not believe that sole reliance on the Flint River would be in the best interests of the City.
2. We have previously provided Treasury with an analysis of the KWA and DWSD options. At this time, depending on the final outcome of negotiations regarding future costs, either option could be the best for the City.
3. Treasury engaged the services of Tucker, Young Jackson, Tull, Inc. (TYJT) of Detroit to review the assumptions underlying the KWA option. Their assessment was recently presented to City officials and raised several questions as to the credibility of the KWA option. City officials shared the TYJT assessment with Rowe Engineering and the Genesee County Water and Waste Services and requested their response to the TYJT analysis.
4. Rowe Engineering met with City Officials to review their response to the TYJT assessment and provided the attached report. In our judgment, Rowe adequately addressed the significant concerns raised by TYJT, including those related to pump station costs, land acquisition costs, legal, engineering and contingency estimates, and bonding costs. Consequently, it is our belief that the KWA proposal as outlined in October, 2012, is credible, and should continue to be used in evaluating the City's options.
5. Further, our review of the proposal from DWSD (December 21, 2012) raises questions which must be addressed. For example, the DWSD proposal indicates that the cost reductions would be phased in over five years. Further, no actual projected dollar amounts for the first year or subsequent years were included in the proposal. The City has asked DWSD, based on a projected water usage, to supply the City with projected dollar and unit costs over the next five years. The Detroit proposal also does not address projected future rate increases. (See attached Proposal and Rate information)
6. Based on the Proposal from Detroit along with projected rates for FY13 provided November 9, 2012 by DWSD, The City has developed a cost analysis of the following options:
 - a. Detroit Proposal 1 with a 6.8% annual rate of increase
 - b. Detroit Proposal 1 with a 4.4% annual rate of increase
 - c. KWA based on the Rowe study

It is important to note that a review of the City's records reflects a 10.5% average increase over the past 10 years. For the entire history of our contract with DWSD the average annual increase has been 6.7%. Note that the TYJT's analysis was based on the 2004 through 2014 years which showed a -7.4% rate increase in the first year (2004), while ignoring the 2003 year which showed a 38.1% rate

increase. The time period of 2002 through 2012 was used to calculate Genesee County' rate. (See attached Rate Analysis)

The City's projections for the above referenced options over the 30 year life is as follows: (See attached Cost Analysis)

- a. Detroit Proposal 1 with a 6.8% annual rate of increase---\$890,513,917
 - b. Detroit Proposal 1 with a 4.4% annual rate of increase---\$705,602,181
 - c. KWA based on the Rowe study--\$649,241,254
7. One of the options provided by TYJT on page 9 of their slides projects a rate of \$11.11/MCF. If DWSD can provide that rate along with a guarantee of future rates not to exceed their projection of 4.4% over the life of the contract, the City would sign a contract with Detroit. It is the City's belief that the WSW would also sign a contract.
 8. If the City of Flint signs a contract with Detroit the following provisions should also be agreed upon:
 - a. The City would have a seat on the Technical Advisory Board
 - b. The City would have a seat on the DWSD board
 - c. That the City could opt out if the conditions as Proposed by DWSD are not agreed to
 9. All things being equal the City believes the following are also important:
 - a. The availability of raw water to the City and County for economic development in heavy/light industry, food processing and agriculture
 - b. The possibility of creating a Mid-Michigan Regional Water/Sewer Authority
 10. For the sake of regional integrity, it would also be a step backwards for the City of Flint and Genesee County to be on different water supply systems. It is in the City's best interest to be able to pursue shared services with nearby municipalities and counties
 11. The City would also reiterate the critical nature of long term costs. The City is not well served with decisions that work for the short term but not the long.

Koryzno, Edward (Treasury)

From: Byrne, Randall (TREASURY)
Sent: Monday, January 14, 2013 8:11 AM
To: Cline, Richard (Treasury)
Cc: Koryzno, Edward (Treasury)
Subject: FW: KWA/DWSD

Eric:

Could you answer these questions? Please discuss with me.

Thanks,
Randy,

From: Koryzno, Edward (Treasury)
Sent: Friday, January 11, 2013 5:15 PM
To: Byrne, Randall (TREASURY); Cline, Richard (Treasury)
Cc: Lutz, Shannon (TREASURY)
Subject: FW: KWA/DWSD

Another additions to Monday's Team agenda.



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: Friday, January 11, 2013 3:34 PM
To: Fraser, Roger (Treasury); Koryzno, Edward (Treasury)
Cc: Dillon, Andy (Treasury)
Subject: KWA/DWSD

Andy asked for a little followup on our conversations. Can you guys have someone put together a written response to these questions ASAP?

- 1) Please show the different projected construction costs provided by TYJT and in the presentation by Flint this week. If different, please indicate why we believe the Flint #'s are acceptable projections.
- 2) Please show the contingency on construction included in both projections.

- 3) What are the protections that Flint has in the case of a) cost overruns on construction, and b) a delay in the construction timeline that forces Flint to use DWSD water longer.

Thanks.

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

Koryzno, Edward (Treasury)

From: David Guastella <DGuastel@tyjt.com>
Sent: Tuesday, January 15, 2013 9:29 AM
To: Cline, Richard (Treasury)
Cc: Fraser, Roger (Treasury); Koryzno, Edward (Treasury); Byrne, Randall (TREASURY); George Karmo; Awni Qaqish
Subject: Flint Supply Assessment

Eric

To follow up on our discussion yesterday about Flint now not wanting to blend their water, I took a look at the rates assuming a parallel line was installed along the 72-inch route. If DWSD agrees that it is a Common to All (CTA) cost then there should be no impact on Flint's rate directly. With this assumption I took out the cost of operating the Flint WTP, since it would no longer be needed for back up to the 72-inch line. The summary is shown below. As you can see, the 18 MGD option from DWSD would then be less cost than the KWA costs (their estimate or ours).

Dave

Option	Costs through 2042	Ranking
Flint WTP Only	\$ 590,441,893	1
DWSD 18 MGD Max Day at P&B	\$ 605,004,098	2
DWSD 8 MGD Max Day at Imlay	\$ 634,795,488	3
KWA 10/31/12 Update	\$ 649,775,166	4
DWSD 8 MGD Max Day at P&B	\$ 672,671,705	5
KWA-1	\$ 707,279,715	6
DWSD 12 MGD Max Day at Imlay	\$ 725,576,803	7
DWSD 12 MGD Max Day at P&B	\$ 762,110,308	8
KWA -2	\$ 766,784,313	9

Koryzno, Edward (Treasury)

From: Koryzno, Edward (Treasury)
Sent: Tuesday, January 15, 2013 11:50 AM
To: Byrne, Randall (TREASURY)
Cc: Cline, Richard (Treasury)
Subject: RE: Flint Water

The Local government meeting for today has disappeared from my calendar. Stay tuned!



Edward B. Koryzno, Jr. | Administrator - Office of Fiscal Responsibility
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Thank you

From: Byrne, Randall (TREASURY)
Sent: Tuesday, January 15, 2013 11:31 AM
To: Koryzno, Edward (Treasury)
Cc: Cline, Richard (Treasury)
Subject: Flint Water

Ed:

We left a message for Ed Kurtz to call us regarding water questions. Eric is preparing a response to the Treasurer's questions with the information that we have. Would you like to discuss his report with us?

Randy,



Randall D. Byrne, Manager, Office of Fiscal Responsibility
State of Michigan 430 W. Allegan St. , Lansing, MI 48922
ByrneR1@michigan.gov (517) 355-2521



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CITY OF FLINT CONFERENCE CALL NOTES

WATER ASSESSMENT PROJECT

JANUARY 16, 2013

PARTICIPANTS: Randall Byrne, Eric Cline, Ed Kurtz, Howard ~~XXX~~

System Leaks:

- A plan is being developed to address leaks within the system.
- Currently 100 leaks are known and awaiting repair. Estimated cost of \$50,000.
- System loss is estimated at 20%. Two prior leaks in major transmission lines have “skewed” losses.
- System improvement is a major budget priority for next fiscal year.
- Repairs are a staffing and overtime issue within the Water Services Department. Timely response has been a persistent issue.
- Active hydrant replacement program.
- \$1.5-million spent on replacement of 4,900 meters; 1/3 of total.

Blending:

- Remains a viable option, but only if DWSD becomes cheaper than KWA.
- City cannot acquire future rate projections from DWSD
- DWSD only provides short-term cost savings.

Plant Operations:

- Confident in longevity of the Water Plant. Majority of equipment <10 years old.
- Plant needs a minimum of \$200,000 in upgrades; \$3.5-million capital upgrades planned if KWA selected.
- No need to soften water unless an 8 MGD option with DWSD is selected; will add \$5.00/mcf to treatment costs.
- MEDQ had effectively condemned two (2) dams.
- No analysis of TYJT’s cost analysis on sole reliance on Flint River and the Water Plant. Rowe indicated that projections are inaccurate.
- Consulting Engineer is Rick Freeman from Rowe.

Bond Issuance:

- County will sell all bonds (G.O. bonds) for all KWA construction.
- SRF/DWRF loans will be necessary for upgrades if DWSD is selected.

KWA Deal:

- The EFM has an upcoming meeting with KWA to negotiate a way to prevent short-term rate increases.
- Flint would buy into approximately 30% of the KWA system.

Declining Usage:

- Water costs would decline if usage drops because the City only pays for what it uses.
- Fixed costs under the KWA option remain even if usage drops because Flint is buying a fixed % of the system.

Contingency:

- Flint would likely pay 30% of any cost overruns because they are buying a 30% "stake" in the KWA system.

City of Flint Water Analysis

Options/Issues

1. Issues:

- a. TYJT v. ROWE
- b. DWSD information on rates
- c. Insufficient analysis of DWSD December 21st Proposal
- d. Flint ability to efficiently operate water plant into the future
- e. Analysis of system/plan to address water loss
- f. Long term ability to finance and future rates

2. Options:

- a. Delay-60 days
 - i. Independent Consultant?

Byrne, Randall (TREASURY)

From: Lutz, Shannon (TREASURY)
Sent: Thursday, January 17, 2013 8:16 AM
To: Cline, Richard (Treasury); Byrne, Randall (TREASURY)
Subject: FW: Flint Water Discussion

Here is the response that I received from Mike this morning regarding our conversation yesterday.

Shannon Lutz | Executive Secretary-Office of Fiscal Responsibility
Department of Treasury
430 W Allegan Street, 3rd Floor, Lansing, MI 48922
(517) 335-2439

From: Prysby, Mike (DEQ)
Sent: Thursday, January 17, 2013 7:33 AM
To: Lutz, Shannon (TREASURY)
Subject: RE: Flint Water Discussion

Shannon,

As we discussed, I will need a meeting agenda or list of items or questions that your staff wish to discuss in order to determine who from our staff, in addition to me, may need to attend. Thanks.

Michael Prysby, P.E.
District Engineer
Office of Drinking Water and Municipal Assistance
517 335-6122

From: Lutz, Shannon (TREASURY)
Sent: Wednesday, January 16, 2013 3:53 PM
To: Prysby, Mike (DEQ)
Subject: Flint Water Discussion

Mike,
I spoke with you a few moments ago and told you that I would be blocking off your calendar. Please stay tuned.
Thank you,

Shannon Lutz | Executive Secretary-Office of Fiscal Responsibility
Department of Treasury
430 W Allegan Street, 3rd Floor, Lansing, MI 48922
(517) 335-2439

Cline, Richard (Treasury)

From: Cline, Richard (Treasury) <cliner1@michigan.gov>
Sent: Thursday, January 17, 2013 3:28 PM
To: Cline, Richard (Treasury)
Subject: City of Flint

Importance: Low

EMERGENCY MANAGER CITY
EFM ED KURTZ
CITY ADMINISTRATOR MIKE BROWN
GF DEFICIT - \$19.1-MILLION
WATER FUND DEFICIT - \$8.8-MILLION

01-17-13: Q4 2012 EFM report analyzed.

- **EFM Reports – Q4-2012; Q1; Q2; Q3; Q4.**
- **Outstanding Issues.**
 - The **\$19-million GF deficit** needs to be monitored to ensure that projected declines occur in FY 2013
 - The **\$8-million Water Fund deficit** needs to be monitored given the issues related to the water system.
 - The level of **Tax Revenue** needs to be monitored given its apparent tenuous levels.
 - **Overtime** in the **Fire Department** is excessive and needs to be monitored.
 - The status of **ongoing litigation** should be monitored. **Also, I find no record of receiving any quarterly litigation reports.**
 - Monitoring should be conducted to ensure the anticipated **DEP** is filed in a timely manner.
 - The **OPEB** debt needs to be monitored.
 - The development of a **5-year Strategic Plan** and multi-year budgets is a positive step. This process should be monitored and it is possible that the OFR could also assist.
 - Monitoring of the **Bank Reconciliation** process should occur to ensure improvement.
 - Monitoring of the **MERS** transition should be monitored to ensure no additional issues develop.
 - Regarding **Unplanned Transfers Out:**
 - 2 of the 7 transfers were **over \$1-million.**
 - 6 of the 7 transfers were **over \$100,000**
 - **Sanitation** required a transfer of **\$1.8-million**. It is unclear what the reasons were or how this will be corrected moving forward.
 - **Building Safety** required a transfer of **\$1.1-million**. It is unclear what the reasons were or how this will be corrected moving forward.
 - Regarding **Departmental Over-Expenditures:**
 - 2 of the 7 departments overspent by **over \$2-million.**
 - 5 of the 7 departments overspent by **over \$300,000.**
 - **Public Safety** overspent by **\$6-million.**
 - **Community Development** overspent by **\$2-million.**
 - **Transportation** and **Parks & Recreation** overspent by nearly \$1-million each; **\$922,669** and **\$871,250** respectively

01-15-13: Received Q4 EFM Report.

- **EFM Reports – Q4 2012; Q1; Q2; Q3; Q4**

Koryzno, Edward (Treasury)

From: Koryzno, Edward (Treasury)
Sent: Monday, January 21, 2013 10:18 AM
To: Stibitz, Brom (Treasury); Fraser, Roger (Treasury)
Subject: RE: Flint/KWA

I believe Ed Kurtz stated that the Flint City Council is 100% in favor of the KWA option.

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

From: Stibitz, Brom (Treasury)
Sent: Friday, January 18, 2013 6:20 PM
To: Fraser, Roger (Treasury); Koryzno, Edward (Treasury)
Subject: Flint/KWA

Andy is pretty reluctant to have an unelected EM/EFM make the decision on the KWA. Do we have any sense where the council is on this issue? I think he would feel much better if we had a supportive resolution from the Council.

Can you please inquire?

Sent from my iPad



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ANDY DILLON
STATE TREASURER

ANALYSIS

TO: Edward Koryzno, Administrator; Office of Fiscal Responsibility

FROM: Eric Cline, Unit Operations Specialist

SUBJECT: Flint Water System Status Assessment

DATE: January 22, 2013

On November 26, 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 overarching purpose of this study was to provide objective analysis to the State Treasurer and to Flint's Emergency Financial Manager (EFM) in order to secure potable drinking water for the City for the foreseeable future. The Office of Fiscal Responsibility (OFR) has been the lead office representing Treasury on this project.

On December 21, 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, TYJT outlined 5 options that they had analyzed. These options were: 1) 100% water provision by the City of Flint Water Plant from its water source of the Flint River; 2) 100% provision of untreated Lake Huron Water by KWA (which would require treatment by the Flint Water Plant); 3) Effective 100% provision of treated drinking water by DWSD; 4) Provision of variable amounts of water from DWSD through the existing Potter & Baxter mains (this option called for Flint to treat and *blend* river water into DWSD water in order to reach their daily needs); and 5) Provision of variable amounts of water from DWSD through the 72" Imlay City main (this option also called for Flint to treat and *blend* river water into DWSD water in order to reach their daily needs). Each of the blending options looked at Flint purchasing 4, 8, or 12 Million Gallons per Day (MGD) from DWSD and blending the balance in river water to achieve their maximum daily water needs of 18 MGD. The Imlay City option also provided for DWSD to sell the 72" main to the City of Flint, which would then become the operational and maintenance responsibility of Flint.

From the presentation of the preliminary report on December 21 to the planned submission of the final report to the State by TYJT, a number of developments have occurred that have resulted in a final decision becoming more complex to make. First, the City of Flint received slightly modified proposals from DWSD; one on December 21, 2012, and the second on January 10, 2013.

On January 8, 2013, the OFR received, via the City of Flint, a written response from Rowe Professional Services Company (Rowe), the principal engineering firm for KWA, disputing a number of the conclusions reached by TYJT regarding the construction of the KWA pipeline. It should be noted that

Rowe Professional Services Company is the consulting engineering firm for KWA and they also provide engineering services to Genesee County and the City of Flint.

The Flint EFM also provided information to the Department of Treasury at a January 10, 2013, meeting disputing several of TYJT's conclusions. A written rebuttal to the Rowe report was received from TYJT on January 14, 2013. A follow-up conference call was also held with Flint officials on January 16, 2013.

Also on January 14, 2013, the State Treasurer requested information to three questions. The three questions are summarized as follows: 1) Show the different projected construction costs provided by TYJT and by the City of Flint/KWA. If these costs are different, explain why Treasury believes that the projects provided by Flint/KWA are acceptable; 2) identify the construction contingencies included in the TYJT and Flint/KWA projections; and 3) identify the options Flint will utilize in the event of a construction cost overrun or a delay in construction by KWA. For purposes of this analysis, all responses have been organized to respond to the questions posed by the State Treasurer.

Projected Construction Costs:

Based upon the provided construction estimates, TYJT estimates the KWA construction costs at **\$357.6-million**. KWA estimates construction costs at **\$272.4-million**. There is a lack of agreement on which of these estimates is more accurate.

Given all of the available information to the OFR, the following details make arriving at a clear recommendation difficult. Below is a summary of these details.

City of Flint Water System

- At a January 10, 2013, meeting with Treasury, Flint officials eliminated the 100% Water Plant option, using the Flint River as a 100% water source (which was cheapest option, as determined by TYJT).
- According to Flint officials, their water system experiences water losses, at a minimum, between 20-30%. Despite assurances that a plan is being developed to address losses, the true condition of the water system is not clearly known. Percentage losses of this size would suggest an impact upon current (and future) water purchases if not addressed. Further, it is logical to conclude that water loss has some impact upon making future usage and cost projections.
- Funding sources for any City water system upgrades are unclear. TYJT based many of their cost models on the issuance of revenue bonds. At the January 10, 2013, meeting, Flint officials indicated that the County would issue G.O. bonds for all KWA-related work. The January 8 report from Rowe also indicated that G.O. bonds would be issued.
- Flint officials also indicated that approximately \$3.5-million in capital upgrades is needed for the Water Plant if the KWA option is selected. It is unclear if this cost would be part of any County G.O. bond issuance.
- Flint officials have also indicated that if DWSD is selected as a final option then any needed plant upgrades will likely require SRF/DWRF loans to complete.

DWSD Options

- At the January 10 meeting, Flint officials eliminated all of the DWSD Imlay City options (which were the cheapest DWSD options) over concerns of owning and maintaining the 72" water main.
- It is also the understanding of the OFR that Flint officials will only consider any of the blending options originally proposed to DWSD if they are certain that it is a cheaper option than KWA.

Blending was one of the initial criteria that TYJT was asked to evaluate by Treasury and was an option raised by the City of Flint.

- Further, the blending options to purchase only 8 MGD from DWSD and blend the balance of water from the Flint River appear to be no longer viable. According to Flint officials, blending more than 1/3 of the total water volume will require water softening to be added to the process; adding approximately \$5.00/mcf (one-thousand cubic feet). One million gallons of water is approximately 133.7mcf, so treatment costs could raise \$669/MGD.
- There is no agreement on the estimates used to project future water rates that will be charged by DWSD. The information provided by DWSD regarding water rates they charged Flint over the past 10-years does not appear to match the rates Flint officials stated that they have paid. TYJT maintains that DWSD rates are a matter of public record and rate information was provided directly by DWSD. Flint officials state that invoices received from DWSD indicate higher rates.

KWA Options

- There is a complete lack of agreement regarding the most accurate cost estimates for construction.
- KWA has made no provisions for redundant power at the pumping facilities. TYJT included the provision of redundant power in their estimates and notes that this is an industry standard. TYJT estimates that adding redundant power adds \$1.3-million to the total project cost.
- TYJT based many of their cost models on the issuance of Revenue Bonds. Revenue bonds were initially being considered over concerns that Flint would not have the capacity to issue General Obligation bonds. At the January 10, 2013, meeting, Flint officials indicated that Genesee County would issue G.O. bonds for any system upgrades related to the KWA option. The January 8 report from Rowe also indicated that G.O. bonds would be issued.

Given the above points, it appears that the only options remaining under consideration by Flint are the 100% DWSD option (which TYJT estimated to be more expensive than either of the KWA cost options) and joining KWA.

Given the above information, additional discussions among all parties might be necessary to further refine project details and arrive at a conclusion on which option to pursue.

Project Contingency:

Construction contingency costs, also known as Engineering, Land, Administration, and Contingency costs (ELAC) are summarized in an attached chart developed by Rowe for the City of Flint. KWA/Rowe estimates total construction at \$272.4-million, with **\$53.2-million** (25%) for ELAC contingencies. TYJT estimates total construction at \$357.6-million, with **\$104.6-million** (42.9%) for ELAC contingencies.

Construction Cost Overrun/Construction Delay Options:

The OFR is not aware of any contingency plans developed by either KWA or the City of Flint to address construction cost overruns or significant construction delays. As the City of Flint would purchase approximately 30% of the KWA system, any additional debt levied to complete the project would likely require the City to assume 30% of that cost.

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

From: Cline, Richard (Treasury)
Sent: Tuesday, January 22, 2013 5:14 PM
To: Koryzno, Edward (Treasury); Byrne, Randall (TREASURY)
Subject: Flint Water Parallel Line Option
Importance: High

Ed/Randy,

I spoke with Dave Guastella regarding the DWSD Parallel Line option. Here is what our conversation covered.

- DWSD open to constructing a parallel line as Common-to-All cost. It would run from Imlay City through Potter & Baxter. Approximately 30 miles.
- DWSD would roll the cost into all customer rates over 30-years. Flint, thereby, would avoid capital costs. DWSD said that they could calculate impact on rates about one day after an estimated cost of construction is developed.
- Dave indicated that the line could be built to bypass failures. It would also contain interconnects so water could be transferred between the lines.
- Flint will probably have to construct line from the Water Plant (about 2 miles) to connect to the new line for true redundancy.

Let me know how you wish to proceed with this new information.

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
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Koryzno, Edward (Treasury)

From: Byrne, Randall (TREASURY)
Sent: Wednesday, January 23, 2013 7:53 AM
To: Cline, Richard (Treasury)
Cc: Koryzno, Edward (Treasury)
Subject: RE: Flint Supply Assessment Additional Service

Eric:

Please discuss with me.

Randy,

From: Cline, Richard (Treasury)
Sent: Tuesday, January 22, 2013 5:21 PM
To: Koryzno, Edward (Treasury)
Cc: Byrne, Randall (TREASURY)
Subject: FW: Flint Supply Assessment Additional Service
Importance: High

Ed,

I received this from TYJT this afternoon.

Please advise on this.

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: David Guastella [<mailto:DGuastel@tyjt.com>]
Sent: Tuesday, January 22, 2013 4:12 PM
To: Cline, Richard (Treasury)
Subject: FW: Flint Supply Assessment Additional Service

Eric

The purpose of this email is to request compensation for the effort that is in addition to the original scope of work. We have identified additional tasks below to describe the work and the level of effort required. The estimated fees for each task would be billed on a time and material basis, not to exceed the total shown for the work described.

Task 3.3: This task would include the effort that has been expended thus far in analyzing and responding to additional comments and options presented by the KWA and DWSD. The work has included consultation with Treasury personnel,

analyzing comments provided by KWA to the December 20th presentation, and our detailed response to the KWA comments. All documentation of this work has been provided to Treasury.

Estimated Level of Effort: \$7,000

Task 3.4: The Treasury has requested that TYJT perform a site visit of the Flint WTP and evaluate the plant as it relates to its capacity to sufficiently treat river water and proposed lake water. This effort would include the services of a process engineer and chemist with expertise in water treatment (see bio below). Work would include review of pertinent reports and documentations as well as monthly operating reports and water quality data. The scheduled site visit would be completed and then a memorandum of findings would be produced and provided to the Treasury.

Estimated Level of Effort: \$8,500

Task 3.5: This task would be used to cover other services that may be required until the determination is made by the Treasury regarding the best solution for supplying the City of Flint with potable water. This work would be as required and approved by the Treasury to include additional consultation, participation in meetings, and documentation of findings.

Estimated Level of Effort: \$10,000

Per the contract TYJT will continue to charge services on a time and material basis in accordance with the approved rate schedule. Approval of this additional work is requested.

Thank you,

Dave

Ms. Janice Skadsen's Bio:



Ms. Skadsen is an environmental scientist and project manager with extensive experience in water quality issues, particularly as they relate to drinking water systems, including water treatment processes, source water issues, distribution water quality, and regulatory development and compliance.

She was a water quality manager for the City of Ann Arbor for 13 years and has a thorough knowledge of water quality needs from the client's perspective. As Ann Arbor's water quality manager,

Ms. Skadsen works for the national firm, CDM Smith and provides her expertise to their clients for projects throughout the country.

Council

1/23/13

Phone Call Ed Kutz

8. Police - task

1. Signed Agents of AFSCME
outline of solid waste collection
Roger must sign resolution
When will not vote & Granger
Vote by AFSCME necessary
President signed off MOU

last discussion
to reauthorize. poster
- 64 applicants 4
12 spaces -
- candidates/
interview or
interview
early Feb on
street.

2. PM to present audit to Council next week

budget include, no police / law budget / resolution 20th
1/28/13

- 3 HUD / WSP 1 & 11

2/8/13 Deadline

Fredy to submit to spend

Mark Kurlander person is a hospital

Probably will not leave from \$400K

Spent by Sept - GOAL

- 4 HO Next Meeting of

- 5 Free another of scheduled

- getting names of potential chief candidate

6. Start 5 year budget process / DEP of

- * 7. ~~Constitution~~ Convention / Trans / Gov.

was as the plan, when they will the go on
scheduled 10/14/13 / start with 1/13.

Flint Water Supply Questions

Office of Fiscal Responsibility

January 24, 2013

1. Please describe your latest cost estimate of construction. When will the intake be let for bids? Is it still estimated to cost \$23,000,000? Why is KWA the most cost effective option for the City of Flint? Please describe.
2. Identify the construction contingencies included in the project and why you believe your estimate is accurate than Tucker, Youngs?
3. How will Flint pay for any costs, overruns, or a delay in construction by KWA?
4. IF Flint joins KWA, do you still intend on purchasing Flint's 72" main to supply the Genesee County System?
5. Will Flint be able to finance its water plant capital upgrades of approximately \$5,000,000 by using Genesee County G.O. bonds? Will Flint's share of KWA financing be provided by Genesee County G.O. Bonds?
6. What emergency power backup is provided by the KWA project?

7. Does Flint need to purchase 30% of the KWA capacity if Flint repairs the water leakage in other their distribution system (estimated at 30%)?
8. What does Genesee County believe will be their finished water cost to customers once its treatment plant is complete and online? How much cheaper is this than Detroit?
9. Can Flint's water plant, if joined with KWA, treat both lake water and river water, which is extremely important if it is provided as emergency backup water to KWA? Will KWA provide funding for this?
10. Would KWA purchase Detroit's 72" main if given the opportunity? If so, why?
11. How does Flint plan on paying the premium charge for water from DWSD while the KWA system is under construction?

Cline, Richard (Treasury)

From: Cline, Richard (Treasury) <cliner1@michigan.gov>
Sent: Tuesday, September 11, 2012 9:06 AM
To: Cline, Richard (Treasury)
Subject: City of Flint KWA Assessment

Importance: High

EMERGENCY MANAGER CITY

01-25-13: Meeting with OFR SAM regarding status of discussions Meeting with SAM and Purchasing to discuss response to request for additional funds. Purchasing directed to negotiate with TYJT. Conference call with SAM and OFR Admin regarding project

- ***KWA Water Supply Assessment –Final Report January 15, 2013; CCI Role.***
- ***Flint Meeting –Scenarios; Meeting with Rowe on January 28.***
- ***TYJT – Flat Fee vs. Time & Material; Purchasing Negotiation.***
- ***MDEQ – Redundancy of Flint Water Plant; Mothballing Plant; Blend with KWA; Capable Staff; Plant Capability.***
- ***Parallel Line Option – Cheaper than KWA?***
 - DWSD open to constructing line as Common-to-All cost.
 - Roll into all rates over 30-years.
 - Build bypass with interconnects.
 - Flint must connect to Plant for true redundancy.
- **Needed Information.**
 - **New DWSD Information – Included?**
 - **Maximum MGD – 1) KWA; 2) DWSD; Use of More Water?; Use of Less Water.**
 - **Ability of Flint to Issue Bonds Given Current Financial Situation?**
 - **Potential Raising of Water Rates – How High? Ability to Collect those Payments?**
 - **Water Plant – Mothball and buy from DWSD Directly? Mothball and Join KWA with a Bigger Plant?**
 - **KWA – 12 MGD vs. 18 MGD for DWSD.**
 - **Spreadsheet Error?**

01-22-13: Report to Treasurer updated and transmitted Update received from TYJT regarding Parallel Line DWSD open to constructing line as Common-to-All cost. Roll into all rates over 30-years Build bypass with interconnects. Flint must connect to Plant for true redundancy. Updated OFR. Informed by OFR SAM that he has spoken with MDEQ. River water likely not a good option; Flint has capable staff and capacity in plant. Formal Request received from TYJT for Fee Modification. Transmitted to OFR management.

- ***KWA Water Supply Assessment –Final Report January 15, 2013; CCI Role.***
- ***Flint Meeting –Scenarios; Meeting with Rowe on January 28.***
- ***TYJT – Flat Fee vs. Time & Material; Review of Numbers.***
- ***MDEQ – Redundancy of Flint Water Plant; Mothballing Plant; Blend River Water with DWSD; Blend with KWA; Capable Staff; Plant Capability.***
- ***Parallel Line Option – Cheaper than KWA?***
 - DWSD open to constructing line as Common-to-All cost.

- Roll into all rates over 30-years.
- Build bypass with interconnects.
- Flint must connect to Plant for true redundancy.
- Needed Information.
 - New DWSD Information – Included?
 - Maximum MGD – 1) KWA; 2) DWSD; Use of More Water?; Use of Less Water.
 - Ability of Flint to Issue Bonds Given Current Financial Situation?
 - Potential Raising of Water Rates – How High? Ability to Collect those Payments?
 - Water Plant – Mothball and buy from DWSD Directly? Mothball and Join KWA with a Bigger Plant?
 - KWA – 12 MGD vs. 18 MGD for DWSD.
 - Spreadsheet Error?

01-18-13: Discussion with TYJT regarding fees. Received original KWA Report and 2012 update. Update and Executive Summary provided to OFR.

- *KWA Water Supply Assessment –Final Report January 15, 2013; CCI Role.*
- *Flint Meeting –Scenarios; Meeting with Rowe on January 28.*
- *TYJT – Flat Fee vs. Time & Material; Review of Numbers.*
- *MDEQ – Redundancy of Flint Water Plant; Mothballing Plant; Blend River Water with DWSD; Blend with KWA.*
- *Parallel Line Option – Cheaper than KWA?*
- Needed Information.
 - New DWSD Information – Included?
 - Maximum MGD – 1) KWA; 2) DWSD; Use of More Water?; Use of Less Water.
 - Ability of Flint to Issue Bonds Given Current Financial Situation?
 - Potential Raising of Water Rates – How High? Ability to Collect those Payments?
 - Water Plant – Mothball and buy from DWSD Directly? Mothball and Join KWA with a Bigger Plant?
 - KWA – 12 MGD vs. 18 MGD for DWSD.
 - Spreadsheet Error?

01-17-13: Invite to TYJT to Flint Meeting on January 28. Discussion with TYJT regarding Parallel Line concept.

- *KWA Water Supply Assessment –Final Report January 15, 2013; CCI Role.*
- *Flint Meeting –Scenarios; Meeting with Rowe on January 28.*
- *TYJT – Flat Fee vs. Time & Material; Review of Numbers.*
- *MDEQ – Redundancy of Flint Water Plant; Mothballing Plant; Blend River Water with DWSD; Blend with KWA.*
- *Parallel Line Option – Cheaper than KWA?*
- Needed Information.
 - New DWSD Information – Included?
 - Maximum MGD – 1) KWA; 2) DWSD; Use of More Water?; Use of Less Water.
 - Ability of Flint to Issue Bonds Given Current Financial Situation?
 - Potential Raising of Water Rates – How High? Ability to Collect those Payments?
 - Water Plant – Mothball and buy from DWSD Directly? Mothball and Join KWA with a Bigger Plant?
 - KWA – 12 MGD vs. 18 MGD for DWSD.
 - Spreadsheet Error?

01-16-13: Conference call with OFR SAM and Flint EFM. Follow-up questions discussed. Notes compiled. Report to Treasurer modified. Work with EA to schedule conference call with MDEQ.

- ***KWA Water Supply Assessment —Final Report January 15, 2013; CCI Role.***
- ***Flint Meeting —Scenarios; Meeting with Rowe.***
- ***TYJT – Flat Fee vs. Time & Material; Review of Numbers.***
- ***MDEQ – Redundancy of Flint Water Plant; Mothballing Plant; Blend River Water with DWSD; Blend with KWA.***
- ***Parallel Line Option – Cheaper than KWA?***
- ***Needed Information.***

- ***New DWSD Information – Included?***
- ***Maximum MGD – 1) KWA; 2) DWSD; Use of More Water?; Use of Less Water.***
- ***Ability of Flint to Issue Bonds Given Current Financial Situation?***
- ***Potential Raising of Water Rates – How High? Ability to Collect those Payments?***
- ***Water Plant – Mothball and buy from DWSD Directly? Mothball and Join KWA with a Bigger Plant?***
- ***KWA – 12 MGD vs. 18 MGD for DWSD.***
- ***Spreadsheet Error?***

01-15-13: Meeting with SAM to review response to Treasurer. Call to Flint EFM. Message left. Response finalized and transmitted to OFR. New option received from TYJT to lay parallel line from DWSD to Flint to create redundancy.

- ***KWA Water Supply Assessment —Final Report January 15, 2013; CCI Role.***
- ***Flint Meeting —Scenarios; Meeting with Rowe.***
- ***TYJT – Flat Fee vs. Time & Material; Review of Numbers.***
- ***MDEQ – Redundancy of Flint Water Plant; Mothballing Plant; Blend River Water with DWSD; Blend with KWA.***
- ***Parallel Line Option – Cheaper than KWA?***
- ***Needed Information.***

- ***New DWSD Information – Included?***
- ***Maximum MGD – 1) KWA; 2) DWSD; Use of More Water?; Use of Less Water.***
- ***Ability of Flint to Issue Bonds Given Current Financial Situation?***
- ***Potential Raising of Water Rates – How High? Ability to Collect those Payments?***
- ***Water Plant – Mothball and buy from DWSD Directly? Mothball and Join KWA with a Bigger Plant?***
- ***KWA – 12 MGD vs. 18 MGD for DWSD.***
- ***Spreadsheet Error?***

01-14-13: Questions received from Treasurer regarding final direction of Flint. Meeting with OFR Admin and SAM to discuss response. Rebuttal from TYJT received and transmitted to OFR. Response to Treasurer drafted.

- ***KWA Water Supply Assessment —Final Report January 15, 2013; CCI Role.***
- ***Flint Meeting —Scenarios; Meeting with Rowe.***
- ***TYJT – Flat Fee vs. Time & Material; Review of Numbers.***
- ***MDEQ – Redundancy of Flint Water Plant; Mothballing Plant; Blend River Water with DWSD; Blend with KWA.***
- ***Needed Information.***

- ***New DWSD Information – Included?***
- ***Maximum MGD – 1) KWA; 2) DWSD; Use of More Water?; Use of Less Water.***
- ***Ability of Flint to Issue Bonds Given Current Financial Situation?***
- ***Potential Raising of Water Rates – How High? Ability to Collect those Payments?***
- ***Water Plant – Mothball and buy from DWSD Directly? Mothball and Join KWA with a Bigger Plant?***
- ***KWA – 12 MGD vs. 18 MGD for DWSD.***
- ***Spreadsheet Error?***

01-09-13: Meeting with OFR Admin and OFR SAM. Issues identified and recommendation prepared to suggest delay. Information received from Flint. Suggests leaning toward KWA. Discussion with TYJT. Informed them of Rowe report. Report transmitted. TYJT

will review numbers. TYJT requests consideration of charging fee or time and material. Follow-up. Meeting with DT, Admin, SAM, Brom and Flint contingent. Flint states not interested in Imlay City due to potential costs of 72" line. DT states his support for KWA. Information received from Flint. Plans to travel to Flint to meet with Rowe.

- **KWA Water Supply Assessment —Final Report January 15, 2013; CCI Role.**
- **Flint Meeting — January 10, 2013; Scenarios; Meeting with Rowe.**
- **TYJT — Flat Fee vs. Time & Material; Review of Numbers.**
- **MDEQ — Redundancy of Flint Water Plant; Mothballing Plant; Blend River Water with DWSD; Blend with KWA.**
- **Needed Information.**
 - **New DWSD Information — Included?**
 - **Maximum MGD — 1) KWA; 2) DWSD; Use of More Water?; Use of Less Water.**
 - **Ability of Flint to Issue Bonds Given Current Financial Situation?**
 - **Potential Raising of Water Rates — How High? Ability to Collect those Payments?**
 - **72" Line — 1) Total Cost to Buy?; 2) Lifespan? 3) Replacement Cost? 4) Benefit to Owning?**
 - **Water Plant — Mothball and buy from DWSD Directly? Mothball and Join KWA with a Bigger Plant?**
 - **KWA — 12 MGD vs. 18 MGD for DWSD.**
 - **Spreadsheet Error?**

01-08-13: Meeting with SAM. Additional questions for MDEQ, TYJT, and Flint developed. Conference call with TYJT. Call to MDEQ. Message left. Conference call with Admin, SAM, and Flint. Flint Plant option out. Flint has analysis from KWA engineers. Complete disagreement with TYJT analysis. Discussion with MDEQ. Blending not an issue with either DWSD or KWA provided standards maintained. Redundancy required. Informed OFR Admin. Report from KWA engineers received and review transmitted to OFR.

- **KWA Water Supply Assessment —Final Report January 15, 2013; CCI Role.**
- **Flint Meeting — January 10, 2013; Scenarios.**
- **MDEQ — Redundancy of Flint Water Plant; Mothballing Plant; Blend River Water with DWSD; Blend with KWA.**
- **Needed Information.**
 - **New DWSD Information — Included?**
 - **Maximum MGD — 1) KWA; 2) DWSD; Use of More Water?; Use of Less Water.**
 - **Ability of Flint to Issue Bonds Given Current Financial Situation?**
 - **Potential Raising of Water Rates — How High? Ability to Collect those Payments?**
 - **72" Line — 1) Total Cost to Buy?; 2) Lifespan? 3) Replacement Cost? 4) Benefit to Owning?**
 - **Water Plant — Mothball and buy from DWSD Directly? Mothball and Join KWA with a Bigger Plant?**
 - **KWA — 12 MGD vs. 18 MGD for DWSD.**
 - **Spreadsheet Error?**

01-07-13: Discussion with OFR SAM and OFR Admin. Develop Pro/Con chart for meeting with DT. Meeting with DT, OFR Admin and OFR SAM. Contact MDEQ and Flint prior to January 10 meeting. Develop Scenarios for recommendation to Treasurer.

- **KWA Water Supply Assessment —Final Report January 15, 2013; CCI Role.**
- **Flint Meeting — January 10, 2013; Scenarios.**
- **MDEQ — Redundancy of Flint Water Plant; Mothballing Plant; Blend River Water with DWSD; Blend with KWA.**
- **Analysis Questions to DT/OFR Admin.**
- **Needed Information.**
 - **New DWSD Information — Included?**
 - **Maximum MGD — 1) KWA; 2) DWSD; Use of More Water?; Use of Less Water.**
 - **Ability of Flint to Issue Bonds Given Current Financial Situation?**
 - **Potential Raising of Water Rates — How High? Ability to Collect those Payments?**
 - **72" Line — 1) Total Cost to Buy?; 2) Lifespan? 3) Replacement Cost? 4) Benefit to Owning?**
 - **Water Plant — Mothball and buy from DWSD Directly? Mothball and Join KWA with a Bigger Plant?**

- **KWA – 12 MGD vs. 18 MGD for DWSD.**
- **Spreadsheet Error?**

01-04-13: Analysis questions summarized and transmitted to OFR Admin, OFR SAM, and DT.

- ***KWA Water Supply Assessment* –Final Report January 15, 2013; CCI Role.**
- ***Flint Meeting* – January 10, 2013.**
- ***Analysis Questions to DT/OFR Admin.***
- **Needed Information.**
 - **New DWSD Information – Included?**
 - **Maximum MGD – 1) KWA; 2) DWSD; Use of More Water?; Use of Less Water.**
 - **Ability of Flint to Issue Bonds Given Current Financial Situation?**
 - **Potential Raising of Water Rates – How High? Ability to Collect those Payments?**
 - **72" Line – 1) Total Cost to Buy?; 2) Lifespan? 3) Replacement Cost? 4) Benefit to Owning?**
 - **Water Plant – Mothball and buy from DWSD Directly? Mothball and Join KWA with a Bigger Plant?**
 - **KWA – 12 MGD vs. 18 MGD for DWSD.**
 - **Spreadsheet Error?**

01-03-13: Response to questions received from TYJT. Discussion with OFR SAM regarding TYJT answers. New questions formulated. Discussion with OFR Admin. Provide questions to Admin and DT.

- ***KWA Water Supply Assessment* –Final Report January 15, 2013; CCI Role.**
- ***Flint Meeting* – January 10, 2013.**
- ***Analysis Questions to DT/OFR Admin.***
- **Needed Information.**
 - **New DWSD Information – Included?**
 - **Maximum MGD – 1) KWA; 2) DWSD; Use of More Water?; Use of Less Water.**
 - **Ability of Flint to Issue Bonds Given Current Financial Situation?**
 - **Potential Raising of Water Rates – How High? Ability to Collect those Payments?**
 - **72" Line – 1) Total Cost to Buy?; 2) Lifespan? 3) Replacement Cost? 4) Benefit to Owning?**
 - **Water Plant – Mothball and buy from DWSD Directly? Mothball and Join KWA with a Bigger Plant?**
 - **KWA – 12 MGD vs. 18 MGD for DWSD.**
 - **Spreadsheet Error?**

12-28-12: Directed by OFR Admin to follow-up with TYJT on whether differences with DWSD letter is included in analysis. Meeting with OFR SAM. Additional questions raised. Conference call with OFR Admin regarding questions. Questions transmitted to TYJT. Review of Water Budget information. Analysis provided to OFR

- ***KWA Water Supply Assessment* –Final Report January 15, 2013; CCI Role.**
- ***Flint Meeting* – January 10, 2013.**
- **Needed Information – 1) Bond Rating;**
 - **New DWSD Information – Included?**
 - **Maximum MGD – 1) KWA; 2) DWSD; Use of More Water?; Use of Less Water.**
 - **Ability of Flint to Issue Bonds Given Current Financial Situation?**
 - **Potential Raising of Water Rates – How High? Ability to Collect those Payments?**
 - **72" Line – 1) Total Cost to Buy?; 2) Lifespan? 3) Replacement Cost? 4) Benefit to Owning?**
 - **Water Plant – Mothball and buy from DWSD Directly? Mothball and Join KWA with a Bigger Plant?**
 - **KWA – 12 MGD vs. 18 MGD for DWSD.**
 - **Spreadsheet Error?**

12-27-12: Directed to organize meeting with Flint and State Treasurer. Requested assistance from EA. Received and analyzed updated proposal from DWSD. Differences noted. Informed OFR Admin.

- ***KWA Water Supply Assessment – Final Report January 15, 2013; CCI Role.***
- ***Flint Meeting – January 10, 2013.***
- ***Needed Information – 1) Bond Rating;.***

12-21-12: Meeting with TYJT, DT, OFR Admin, OFR SAM, Flint EFM, Flint CM, FD, and DPW to review Preliminary Water Assessment Report. Follow-up meeting with Flint in early January 2013. Message to OFR Admin on Follow-up meeting and meeting for Final Report on January 15.

- ***KWA Water Supply Assessment – Initial Report December 20, 2012; Final Report January 15, 2013; CCI Role.***
- ***Flint Meeting – January 10, 2013.***
- ***Needed Information – 1) Bond Rating;.***
- ***December 21 Presentation.***

12-12-12: Conference Call with TYJT. Summary submitted to OFR. Discussion with OFR Admin regarding December 21 presentation.

- ***KWA Water Supply Assessment – Initial Report December 20, 2012; Final Report January 15, 2013; CCI Role.***
- ***Needed Information – 1) Bond Rating;.***
- ***December 21 Presentation.***
- ***Conference Call – December 10, 2012.***

12-07-12: Conference Call organized with TYJT to discuss project.

- ***KWA Water Supply Assessment – Initial Report December 20, 2012; Final Report January 15, 2013; CCI Role.***
- ***Needed Information – 1) Bond Rating; .***
- ***Conference Call – December 10, 2012.***

12-06-12: Message to TYJT regarding status of project.

- ***KWA Water Supply Assessment – Initial Report December 20, 2012; Final Report January 15, 2013; CCI Role.***
- ***Needed Information – 1) Bond Rating; .***

12-04-12: Informed by OFR Admin that Flint not providing needed information as quickly as need to TYJT OFR Admin to follow-up with EFM.

- ***KWA Water Supply Assessment – Initial Report December 20, 2012; Final Report January 15, 2013; CCI Role.***
- ***Needed Information – 1) Bond Rating; .***

11-28-12: Contract Executed with Tucker Young Jackson Tull. Informed that designated as CCI for Contract. Follow-up with OFR Admin.

- ***KWA Water Supply Assessment – Initial Report December 20, 2012; Final Report January 15, 2013; CCI Role.***

11-26-12: Received copies of minutes from meetings between vendor and DWSD and KWA. Informed that DT has approved authorization of Proposal. Informed that signed SOW transmitted to Vendor.

- **KWA Water Supply Assessment – Initial Report December 20, 2012; Final Report January 15, 2013.**
- ~~Bids Due – Proposal Received.~~
- ~~Start Date – November 26, 2012.~~

11-21-12: Informed by Purchasing that TYJT revised proposal and lowered cost by \$1,200 for deletion of QA/QC as opposed to listed \$5,000. OFR Admin informed. Deadline for Proposals. Updated Price received from Vendor. New cost \$39,900.

- **~~Bids Due – November 21, 2012; Proposal Received.~~**
- **Start Date – November 26, 2012.**

11-20-12: Comments received from OFR Admin to confirm timeline, approval date, validity of Proposal, Number of meetings and cancel QA/QC Review. Discussion of comments with OFR MGR. Meeting with OFR MGR and Purchasing. Purchasing confirms deadline for award is 5 p.m. November 26, 2012; only two meetings necessary and that QA/QC process cancelled.

- **Bids Due – November 21, 2012; Proposal Received.**
- **Start Date – November 26, 2012.**

11-19-12: Concerns received from Purchasing regarding Proposal. Analysis of concerns provided to OFR MGR.

- **Bids Due – November 21, 2012; Proposal Received.**
- **Start Date – November 26, 2012.**

11-16-12: Questions Due from Bidder. Received complete proposal from Vendor. Transmitted to OFR. Noted that projected cost has increased from \$39,000 to \$45,000.

- ~~Questions Due – November 16, 2012.~~
- **Bids Due – November 21, 2012; Proposal Received.**
- **Start Date – November 26, 2012.**

11-14-12: Water Analysis SOW issued.

- ~~Issue – November 14, 2012.~~
- **Questions Due - November 16, 2012.**
- **Bids Due – November 21, 2012.**
- **Start Date – November 26, 2012.**

11-13-12: Draft IV received from Purchasing. Draft V generated and transmitted to OFR Admin and OFR MGR for review. OFR Admin approves Draft V. Final Working Draft generated and transmitted to Purchasing for distribution.

- **Issue – November 14, 2012.**
- **Questions Due - November 16, 2012.**
- **Bids Due – November 21, 2012.**
- **Start Date – November 26, 2012.**

11-09-12: Draft II received from Purchasing. Draft III generated and transmitted to Purchasing, OFR Admin and OFR MGR.

11-08-12: No changes from OFR Admin. Meeting with DT, OFR Admin, OFR MGR, and TYJT VP. Draft II generated. Draft transmitted to Purchasing.

11-07-12: Draft I of SOW developed and transmitted to OFR Mgr and OFR Admin for review. Minor comments from OFR MGR.

11-05-12: Directed by OFR Admin to develop SOW for Water Assessment for possible City participation in Karegnondi Water Authority.

09-12-12: Informed that Flint CoC is aiding City Council in EM Lawsuit and paying for legal counsel.

09-11-12: Flint City Council members individually sue EM and State claiming that PA 72 is not automatically revived with suspension of PA 4.

Koryzno, Edward (Treasury)

From: Koryzno, Edward (Treasury)
Sent: Friday, January 25, 2013 4:41 PM
To: Byrne, Randall (TREASURY)
Subject: RE: TYJT request for additional compensation

Go for it!



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: Byrne, Randall (TREASURY)
Sent: Friday, January 25, 2013 3:02 PM
To: Koryzno, Edward (Treasury)
Subject: FW: TYJT request for additional compensation

Ed:

This is what Tom would like to send to Dave at TYJT. Please give me a call to discuss.

Thanks,
Randy,

From: Falik, Tom A. (Treasury)
Sent: Friday, January 25, 2013 2:30 PM
To: Byrne, Randall (TREASURY); Cline, Richard (Treasury)
Subject: FW: TYJT request for additional compensation

Randy and Eric,

A draft response for issuance per our meeting follows (just let me know if/when it should be issued):

"Mr. Guastella,

Treasury Purchasing recently received a request to increase the current Municipal Water Supply Assessment contract. The request was in the amount of \$7,000. It is unclear if the additional amount is outside the contract's scope.

Please provide the following:

1. A detailed work breakdown of the \$7,000 (e.g., task or deliverable being performed that is out-of-scope)
2. Section of DTMB contract where the \$110/hour Senior Financial Advisor rate is identified
3. Section of DTMB contract where the \$214.68/hour Principal-in-Charge rate is identified.

I will follow-up with a phone call. Contact me with any questions.

Thanks,

Tom Falik
State of Michigan
Department of Treasury
Purchasing Section
Phone: (517) 373-3185"

From: Falik, Tom A. (Treasury)
Sent: Thursday, January 24, 2013 5:11 PM
To: Byrne, Randall (TREASURY)
Cc: Koryzno, Edward (Treasury); Cline, Richard (Treasury)
Subject: RE: TYJT request for additional compensation

Randy,

Per our phone discussion, general comments follow:

1. Out-of-scope work is not normally allowed unless prior approval and the contract is updated
2. A detailed breakdown of the \$7,000 should be received (e.g., how much for 4-hour Flint trip and how much for out-of-scope work, if any?)
3. It is not clear at this point if the contract allows these extra charges without sufficient detail to determine if its in-scope or out-of-scope from the contract
4. At this time, it does not appear we should be liable for additional charges due to the following:
 - A. The final report has not been provided per section 1.022A.3
 - B. Contractor recognized the importance and necessity of including all applicable costs for a relative comparison (Sample Project Plan attachment, section 3.1)
 - C. How many Data Collection and Review meetings did Contractor attend with both DWSD and KWA? Two for both were assumed in Sample Project Plan attachment, section 3.1
 - D. Contractor understood additional evaluation criteria/factors may need to be identified and used in consultation with Treasurer (Sample Project Plan attachment, section 3.2). An additional cost was not identified
 - E. Contractor anticipated incorporating comments from Treasury's review and submit a final document for use (Sample Project Plan attachment, section 3.2). An additional cost was not identified
 - F. Contractor did not note an additional cost for general meetings at conclusion of work (Sample Project Plan attachment, section 4).
 - G. Contractor acknowledged analysis was based on limited info in January 14 letter. Did they identify limited information available before evaluation?
 - H. Some of the information appears to be collected before the actual contract start date per January 14 letter (reference to November 20, 2012 meeting for various responses).

Contact me with any questions.

Tom
Phone: (517) 373-3185

Koryzno, Edward (Treasury)

Subject: flint meeting/water discussions
Location: Flint City Hall, Mayor's Office large conf room

Start: Mon 1/28/2013 3:00 PM
End: Mon 1/28/2013 5:00 PM

Recurrence: (none)

Meeting Status: Accepted

Organizer: Dempkowski, Angela (Treasury)
Required Attendees: Fraser, Roger (Treasury); Koryzno, Edward (Treasury); Byrne, Randall (TREASURY); Cline, Richard (Treasury)

Confirmed with Maxine.

Attendees:

City of Flint

Ed Kurtz

Mike Brown

Mayor Walling

Jerry Ambrose

Howard Croft

Daugherty Johnson

Brent Wright

Genesee County Drain Commission

Commissioner Jeff Wright

John O'Brien

Rowe Professional Services

John Matonich

Jim Redding

Koryzno, Edward (Treasury)

From: Cline, Richard (Treasury)
Sent: Wednesday, January 30, 2013 10:03 AM
To: Stibitz, Brom (Treasury)
Cc: Koryzno, Edward (Treasury); Byrne, Randall (TREASURY)
Subject: RE: Flint Questions

Brom,

I drafted a report and sent it to Ed and Randy to review. However, based upon Monday's meeting, Randy has asked me to update it and resend to them. I will be working on this today.

If you have further questions, please let me know.

Regards,

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: Stibitz, Brom (Treasury)
Sent: Wednesday, January 30, 2013 7:47 AM
To: Cline, Richard (Treasury)
Subject: Flint Questions

Eric,

I had sent some questions a couple weeks ago to Ed regarding Flint's decision between KWA and DWSD. Do you by any chance know what the status of those answers is? I believe Ed said you were working on them.

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



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ANDY DILLON
STATE TREASURER

ANALYSIS

TO: Edward Koryzno, Administrator; Office of Fiscal Responsibility

FROM: Eric Cline, Unit Operations Specialist

SUBJECT: Updated Flint Water System Status Assessment

DATE: January 31, 2013

On November 26, 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 overarching purpose of this study was to provide objective analysis to the State Treasurer and to Flint's Emergency Financial Manager (EFM) in order to secure potable drinking water for the City for the foreseeable future. The Office of Fiscal Responsibility (OFR) has been the lead office representing Treasury on this project.

On December 21, 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, TYJT outlined 5 options that they had analyzed. These options were: 1) 100% water provision by the City of Flint Water Plant from its water source of the Flint River; 2) 100% provision of untreated Lake Huron Water by KWA (which would require treatment by the Flint Water Plant); 3) Effective 100% provision of treated drinking water by DWSD; 4) Provision of variable amounts of water from DWSD through the existing Potter & Baxter mains (this option called for Flint to treat and *blend* river water into DWSD water in order to reach their daily needs); and 5) Provision of variable amounts of water from DWSD through the 72" Imlay City main (this option also called for Flint to treat and *blend* river water into DWSD water in order to reach their daily needs). Each of the blending options looked at Flint purchasing 4, 8, or 12 Million Gallons per Day (MGD) from DWSD and blending the balance in river water to achieve their maximum daily water needs of 18 MGD. The Imlay City option also provided for DWSD to sell the 72" main to the City of Flint, which would then become the operational and maintenance responsibility of Flint.

From the presentation of the preliminary report on December 21 to the planned submission of the final report to the State by TYJT, a number of developments have occurred that resulted in making a final decision more difficult. These developments were:

- The City of Flint received slightly modified proposals from DWSD; one on December 21, 2012, and the second on January 10, 2013.
- On January 8, 2013, the OFR received, via the City of Flint, a written response from Rowe Professional Services Company (Rowe), the principal engineering firm for KWA, disputing a number

of the conclusions reached by TYJT regarding the construction of the KWA pipeline. It should be noted that Rowe Professional Services Company is the consulting engineering firm for KWA and they also provide engineering services to Genesee County and the City of Flint.

- The Flint EFM also provided information to the Department of Treasury at a January 10, 2013, meeting disputing several of TYJT's conclusions. A written rebuttal to the Rowe report was received from TYJT on January 14, 2013. A follow-up conference call was also held with Flint officials on January 16, 2013 to further discuss these issues.

Also on January 14, 2013, the State Treasurer requested information to three questions. The three questions are summarized as follows: 1) Show the different projected construction costs provided by TYJT and by the City of Flint/KWA. If these costs are different, explain why Treasury believes that the projects provided by Flint/KWA are acceptable; 2) identify the construction contingencies included in the TYJT and Flint/KWA projections; and 3) identify the options Flint will utilize in the event of a construction cost overrun or a delay in construction by KWA.

On January 28, 2013, Deputy Treasurer Roger Fraser, State Administrative Manager Randall Byrne and I met with Flint Officials (Mayor Dane Walling, Emergency Financial Manager Ed Kurtz, City Administrator Mike Brown, Flint Finance Director Jerry Ambrose, Public Works Administrator Howard Croft, and Flint Utility Administrator Duffy Robinson) and representatives from KWA Water Authority that included Genesee County Drain Commissioner Jeff Wright, Genesee County Water and Sewer Administrator John O'Brien, and Jim Redding of Rowe Engineering.

Some clarifications to ongoing questions were provided at this meeting. Also, at this meeting, EFM Kurtz stated that he believes the KWA option is the cheaper alternative over time. He also stated that he believes that the Mayor and City Council will support the KWA Project.

On January 29, 2013, the OFR received a preliminary copy of the Final Report of the analysis performed by TYJT. This report is currently under review, but some relevant information has been highlighted below.

For purposes of this analysis, all responses have been organized to respond to the questions posed by the State Treasurer on January 14, 2013.

Projected Construction Costs:

Based upon the provided construction estimates, TYJT estimates the KWA construction costs at **\$357.6-million**. KWA estimates construction costs at **\$272.4-million**. There is a lack of agreement on which of these estimates is more accurate.

Given all of the available information to the OFR, the following details make arriving at a clear recommendation difficult. Below is a summary of these details.

City of Flint Water System

- At a January 10, 2013, meeting with Treasury, Flint officials eliminated the 100% Water Plant option, using the Flint River as a 100% water source (which was cheapest option, as determined by TYJT).
- According to Flint officials, their water system experiences water losses, at a minimum, between 20-30%. Despite assurances that a plan is being developed to address losses, the true condition of the water system is not clearly known. Percentage losses of this size would suggest an impact upon current (and future) water purchases if not addressed. However, at the January 28 meeting, it was stated that Flint is billing for 85% of the water it distributes and the majority of loss comes from fires,

deficient water meters, and theft. It is reasonable to conclude that at this time verification of true system losses is likely difficult to achieve. Further, it is logical to conclude that water loss will have some impact upon making future usage and cost projections.

- Funding sources for any City water system upgrades are unclear. TYJT based many of their cost models on the issuance of revenue bonds. At the January 10, 2013, meeting, Flint officials indicated that the County would issue G.O. bonds for all KWA-related work. The January 8 report from Rowe also indicated that G.O. bonds would be issued. However, at the January 28 meeting, KWA officials emphatically stated that revenue bonds would be issued for this project.
- Flint officials indicated that approximately \$3.5-million in capital upgrades is needed for the Water Plant if the KWA option is selected. At the January 28, 2013 meeting, it was stated that Genesee County will permit Flint to participate in its revenue bond sale for KWA for Flint's 30% share of capacity in the KWA System and for plant upgrades. Given Flint's current financial situation, were this participation to occur, it will be a positive development for the City because it is likely Flint would have a very difficult time issuing bonds on the strength of its own credit rating.
- Flint officials have also indicated that if DWSD is selected as a final option then any needed plant upgrades will likely require SRF/DWRF loans to complete.

DWSD Options

- At the January 10 meeting, Flint officials eliminated all of the DWSD Imlay City options (which were the cheapest DWSD options) over concerns of owning and maintaining the 72" water main.
- It is also the understanding of the OFR that Flint officials will only consider any of the blending options originally proposed to DWSD if they are certain that it is a cheaper option than KWA. Blending was one of the initial criteria that TYJT was asked to evaluate by Treasury and was an option raised by the City of Flint.
- Further, the blending options to purchase only 8 MGD from DWSD and blend the balance of water from the Flint River appear to be no longer viable. According to Flint officials, blending more than 1/3 of the total water volume will require water softening to be added to the process; adding approximately \$5.00/mcf (one-thousand cubic feet). One million gallons of water is approximately 133.7mcf, so treatment costs could raise \$669/MGD.
- There is no agreement on the estimates used to project future water rates that will be charged by DWSD. The information provided by DWSD regarding water rates they charged Flint over the past 10-years does not appear to match the rates Flint officials stated that they have paid. TYJT maintains that DWSD rates are a matter of public record and rate information was provided directly by DWSD. Flint officials state that invoices received from DWSD indicate higher rates. At the January 28, 2013 meeting, EFM Kurtz stated that DWSD is charging Flint and Genesee County between \$24- and \$25-million per year for water purchases.
- Even if Flint was to continue with DWSD supplying water, it is understood that the MDEQ will likely require DWSD to address the issue of redundancy for Flint during the term of the new water contract by constructing an additional water main from Oakland County to the City of Flint. This project has been in conceptual stages for many years but never implemented.

KWA Options

- There is a complete lack of agreement between the KWA and TYJT analyses regarding the most accurate cost estimates for construction.

- As previously indicated, there was some dispute on whether General Obligation or revenue bonds would be issued for construction of KWA. At the January 28, 2013 meeting it was clarified that revenue bonds will be issued for this project.
- It was announced at the recent January 28 meeting that bids will be opened for construction of the KWA lake water intake on February 26, 2013. Interest in the construction of the intake has apparently been very high. County Water and Sewer Administrator O'Brien noted that the size of the intake will be the same whether Flint joins KWA or not. It was also noted that the construction of the pipeline will be done by multiple contractors. This will save time and allow more Michigan contractors to bid on the project.
- County Drain Commissioner Wright also indicated at the January 28 meeting a willingness to discuss how KWA might mitigate the \$7- to \$8-million cost of the "premium" rate that would be charged to the City of Flint by DWSD for the City to purchase water while KWA was being constructed. These costs are of great concern to Flint officials if the KWA option is selected.
- KWA has made no provisions for redundant power at the pumping facilities. TYJT included the provision of redundant power in their estimates and notes that this is an industry standard. TYJT also notes that DWSD currently has redundant power for all of the major facilities currently supplying Flint.

Standby power was discussed at the January 28 meeting and KWA officials clarified that the water plant will have redundant power but that the pumping stations will not. The stated reasons for not including redundant power were cost containment, that Flint can use the Flint River as a backup water supply in the event of an extended power outage and that the KWA systems' water storage capacity will allow for 7 days of reserve supply. County Drain Commissioner Wright stated that KWA will look at installing standby power later but can utilize portable generators at the pumping stations, if necessary. TYJT estimates that adding redundant power adds \$1.3-million in new costs.

Given the above points, it appears that the only options remaining under consideration by Flint are the 100% DWSD option (which TYJT estimated to be more expensive than either of the KWA cost options) or joining KWA.

Project Contingency:

Construction contingency costs, also known as Engineering, Land, Administration, and Contingency costs (ELAC) are summarized in an attached chart developed by Rowe for the City of Flint. KWA/Rowe estimates total construction at \$272.4-million, with **\$53.2-million** (25%) for ELAC contingencies. County Water and Sewer Administrator O'Brien clarified at the January 28, 2013 meeting that there is a 15% contingency for unforeseen issues and 10% "extra." TYJT estimates total construction at \$357.6-million, with **\$104.6-million** (42.9%) for ELAC contingencies.

Construction Cost Overrun/Construction Delay Options:

The OFR is not aware of any contingency plans developed by either KWA or the City of Flint to address construction cost overruns or significant construction delays. The final TYJT Water Supply Assessment Report does reference an October 31, 2012 letter from KWA to EFM Kurtz in which KWA estimates that a 15% cost overrun and a one-year operational delay is possible. The OFR is verifying this reference. How a delay of this magnitude would financially impact Flint's participation in this project is uncertain.

County Drain Commissioner Wright stated at the January 28 meeting that, if necessary, KWA has the authority to borrow more funds to complete the project in the event that delays or cost overruns necessitate the borrowing of more funds. As the City of Flint would purchase approximately 30% of the

KWA system, any additional debt levied to complete the project would likely require the City to assume 30% of that cost. However, Mr. O'Brien also stated that the January 28 meeting that KWA expects to purchase an insurance policy to insure against delays to the project. Drain Commission Wright also indicated that if construction bids come-in significantly higher than estimated that KWA will likely reassess its approach to this project.

Summary:

Overall, comparing these two options is very difficult because they are very different types of operations. DWSD is a "known" entity and the system is already in-place and in operation. DWSD may also be the cheaper option in the short term. However, selecting DWSD requires a 30-year commitment, the unknown aspect of future rate increases is very concerning to Flint officials and there appears to be considerable local resistance to continuing with DWSD.

KWA is a new venture and the "unknowns" exist at the initial phases of the project. KWA has the potential to be the cheaper, long-term cost for the City of Flint after the bond debt for construction is retired. The upfront costs and the premium water charges assessed by DWSD while KWA is being constructed are of great concern to City officials. The potential inclusion of Flint in the issuance of revenue bonds by Genesee County and the potential for KWA to assist the City in mitigating some of these premium charges could greatly reduce those concerns. Significant construction delays and/or cost overruns could greatly add to the cost of this project, which could add to the financial burden on Flint. However, there appears to be good cooperation between City and County officials in discussing this project and there also appears to be community support for the City of Flint joining KWA. It should also be noted that this level of engagement and dialogue between city and county officials because of this project could continue to grow and lead to additional areas of cooperation and collaboration.

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

Copy: Randall Byrne, State Administrative Manager; Office of Fiscal Responsibility

Attachment

S:\OFR\Cities\City of Flint\KWA Water Authority\UPDATED FLINT DWSD KWA ASSESSMENT Version V1.01-31-13 doc

2/1/13

ED Kuroz - Flint

Solid Waste - Union telephone note 2/1 @ 11:00 am
offer contract 2/4, replace +.50 Monday in
March, going public 2/6. Flint is handling
interviews, explanation. Assembled about service
perhaps

KWA - Roger asked for info to resolve "big front"
issue ^(professional services) 2.3 million to KWA, \$5 million express
under contract DWSO (for being out of needed contract)
\$530K lease of contract saying approx. \$50K per
month until completion. Will hold Flint harmless to
of "honey" solution, \$2.3 million, Flint owns 72"
of pipe from Baxter ^{Potter} Road, serves southern
county for Owen County. County offered to buy
line for \$2.3 million (\$530K lease + \$50K per month)
Flint city attorney says they could sue county for
new town cost of water. Line began to Potter/Baxter
72" line, Diligent offered to sell line to Flint
Also offered to sell to Owen County. (County will buy
Flint line). KWA will buy line for DWSO. Proposal
will include DWSO pay back of to City &
County, depending on pipe / using model contract
price.

FPOA - filed lawsuit, only for reinstatement of
previous benefit set by Mike Brown, told FPOA

(2)

2/1/13

Ed KURTZ - FLINT

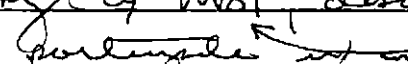
will not negotiate & defend lawsuit, Umm did not disclose lawsuit to 312 Abttrator,

- ~~HUSA~~ - hooky @ Model Center - Harry
Guy Ambrose saw a Committee

Fire Umm - MZ of Har today, on track to be
\$300K over budget in OT. line down, Intown the
extra get OT in line on 3/27 in 12 hr.
shift, part-time for fixtures, can't reduce
stuff because of SAFER grant.

Fire Chry - interviewing candidates next week
candidates can for suggestions by Tues,
from Larry Chry, from Flint FT

Regional Concept - KWA partnership, follow up
is what can we do together, agreed of Dims
Common to design some County in treatment
- plant, cut & plug, repairs, with repair/reading
turn on/off, they moved to sewer, 1 to light
water by 2/1/13. Major issues 1) hard debt,
2) legacy costs

Shelf Issues - Took force issue, Ed not of Sheriff
designed. not of MSP Cynthia Arnold, very good
not of MSP, disagree of Sheriff, Sheriff is not
portable  took force

③
2/1/13

Ed Kurtz - FIND

Went from 60 detectives to 12 detectives
focus on high profile violent crime. Many
terminate control w/ Sheriff to run both

Police Dept - problem w/ procedures, work on
replacing Bonnell Jones (Mott Groat replaces 6/13
paid for Bonnell wages, no city paid + 10
police officer, 1 sergeant, will pay for bluffs
officers & Ward Chapman Criminal Coordinating
Council Director

10
officers
on the
street

Budget - Assembly 5 yr budget, Jerry met w/
Surgeon on the DEL, Texas. Is reviewing it
w/ Regard in 2 weeks, not in debt need
of cash, problem occur in April/May,
can't borrow \$19 million, inability to repay it

NSF I & II - work down down \$400K, down from
\$5 million. Budget is to D.C. HUD folks,
abolition of 600, South Village 39 units
occupancy rent 20, just sold next week

Low Park Properties - '9K, \$6K w/ structures
LB is good partner, need charters performed by
LB, City paid \$400K / LB paid \$800K
22% heavy stock used, 72% a 6.9% substantial
West & North of Flint River, not dev. for NW
neighborhood still stable.

City of Flint Wednesday 9:00 am Phone Conference Agenda

- 1) Public Safety Update – FPD, MSP (FFD if needed)
- 2) Governor’s Office Update
- 3) Retiree Lawsuit – Status, Issues
- 4) Budget Status
- 5) Model Labor Contracts – Status
- 6) Water Transition Plan, Negotiations, Communications
- 7) Hardest Hit Funds, MHSDA process
- 8) MDOT/GCRC snow assistance
- 9) Other Items

Created on: 02/04/13

1-888 - access code



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

DATE: February 1, 2013
TO: Andy Dillon, State Treasurer
FROM: Brom Stibitz, Senior Policy Advisor
SUBJECT: Flint Background Information

This memorandum summarizes the recent financial history of the City of Flint, as well as more recent efforts by the Emergency Financial Manager to rectify the financial emergency.

Background

On August 29th through September 12th, 2011, the Department of Treasury conducted a preliminary review (under the former PA 4 of 2011) of the finances of the City of Flint to determine whether or not probable financial stress existed. On September 12, 2011, the State Treasurer concluded that probably financial stress existed in the City of Flint and recommended the appointment of a Review Team. On September 30, 2011, the Governor appointed a Review Team, which met during the months of October and November. In its written report to the Governor on November 7, 2011, the Review Team confirmed the findings of the preliminary review and concluded that a financial emergency existed in the City of Flint and that no satisfactory plan existed to resolve the emergency. Because of this finding, the Review Team recommended the appointment of an Emergency Manager.

These reviews found, or confirmed, the following:

- The City had incurred cumulative deficits in many of its funds over several years. The following are fund deficits from 2007 to 2011:

Fund	2007	2008	2009	2010	Unaudited 2011
General	--	\$(7,046,820)	\$(10,113,744)	\$(14,621,546)	\$(11,149,907)
Building Department	--	(1,550,369)	--	(576,276)	(1,251,459)
Central Maintenance	\$(226,349)	(4,233,859)	(3,183,144)	(1,922,489)	*(2,029,230)
Data Processing	(778,458)	(245,488)	(72,773)	--	--
EDC	(26,772)	(10,721)	(58)	(7,404)	--
EDC Oak Business Ctr	(28,403)	(19,843)	(5,285)	(24,898)	--
Garbage Collection	--	--	--	(909,283)	(1,444,581)
Golf Course	(473,294)	(1,909,377)	--	(282,670)	*(576,861)
Self Insurance	--	--	--	--	(33,580)
Parks & Recreation	--	--	--	(163,096)	(185,255)
Senior Citizens	--	--	--	--	(26,709)
Water Supply	--	--	--	(5,795,973)	*(9,009,825)
Total	\$(1,533,276)	\$(15,016,477)	\$(13,375,004)	\$(24,303,635)	\$(25,707,407)

*Estimated

- General fund expenditures exceeded revenues since 2007 and fund deficits had existed since 2008, as follows:

	6/30/2007	6/30/2008	6/30/2009	6/30/2010	Unaudited 6/30/2011
Revenues	\$69,212,013	\$66,823,137	\$63,937,302	\$57,189,454	\$52,201,018
Expenditures	<u>70,908,742</u>	<u>79,475,612</u>	<u>66,703,149</u>	<u>64,741,451</u>	<u>58,969,882</u>
Excess/Deficiency	(1,696,729)	(12,652,475)	(2,765,847)	(7,551,997)	(6,768,864)
Other Sources (Uses)	<u>(866,831)</u>	<u>(568,589)</u>	<u>(478,527)</u>	<u>3,044,195</u>	<u>10,598,701</u>
Net Change	(2,563,560)	(13,221,064)	(3,244,374)	(4,507,802)	3,829,837
Beginning Fund Balance	8,915,254	6,351,694	(6,869,370)	(10,113,744)	(14,621,546)
Ending Fund Balance	<u>\$6,351,694</u>	<u>\$(6,869,370)</u>	<u>\$(10,113,744)</u>	<u>\$(14,621,546)</u>	<u>\$(10,791,709)</u>

- The City relied upon transfers from the water supply fund and the sewage disposal fund for general City operations. In 2009, City officials increased overhead charges from the water supply fund and the sewage disposal fund from \$1 million to \$2.4 million. Also in 2009, City officials began charging a return upon investments against the water supply fund and the sewage disposal fund of \$2.9 million. Combined, City officials had been utilizing \$5.3 million of water supply and the sewage disposal money for general fund operations annually. This amount of annual appropriation was not a loan and was not expected to be repaid to these funds.
- In addition to the foregoing activity, City officials had borrowed from other funds to compensate for cash shortages. For example, at June 30, 2010, the general fund owed other funds a total of \$18,002,907, of which \$11,698,376 was owed to the sewage disposal fund, \$1,059,914 was owed to the local street fund, \$1,683,733 was owed to the public improvement fund, and \$2,139,590 was owed to the self-insurance fund.
- The City continued to experience a cash shortage. In early 2011, the City borrowed \$8.0 million in fiscal stabilization bonds, pursuant to Public Act 80 of 1981, the Fiscal Stabilization Act, to assist with cash flow shortfalls. However, there remained many negative cash balances in the City's records as of June 30, 2011.
- The City's pension system was less than 60 percent funded. Benefits were based upon factors ranging from 1.7 to 2.6 of final average compensation. As of June 30, 2008, which was the last actuarial report for the 2010 audit period, there were 1,676 active members compared to 2,820 retirees. The unfunded accrued pension liability was over \$39 million, with a one-year increase in the net pension obligation of \$1,202,047. Additionally, the 2010 audited financial records indicate that the City had over \$860 million in unfunded other post-employment benefit (OPEB) liabilities.
- Between 2001 and 2010, City officials reduced staffing from total full-time equivalent positions of 1,525.8 to 767. Many of these reductions came from Police (336 to 122) and Fire (216 to 110). The City continued to reduce staff.
- Interviews with City staff painted a picture of elected officials who were unwilling to make the decisions necessary to align expenditures with revenues. Examples included the adoption of budgets with knowingly overestimated revenues, knowingly underestimated expenditures, or both; reluctance to amend the budget in a timely fashion to account for revenue reductions; and lack of follow-through on cost saving initiatives.

Emergency (Financial) Manager Actions

Since the declaration of financial emergency in November of 2011, Emergency Manager Mike Brown and Emergency Financial Manager Ed Kurtz have worked to return the city to financial solvency. The first step was stabilizing the finances of the City in order to provide basic services to citizens. Facing a projected gap of \$25 million between projected revenues and expenditures, the Managers worked to close the gap through a mixture of revenue increases and expenditure decreases. Accomplishments over the last 14 months include:

- Adoption and implementation of a balanced FY 13 budget. Mid-year projections from the City indicate that the budget remains in balance, and is expected to end the year without adding to the accumulated deficit.
- SAFER grant of \$6.9 million and 21st Century Community Policing grant of \$743,000 awarded, helping to stabilize fire and police operations in the City.
- An ongoing partnership with the State on public safety issues included partnerships between Flint police and the MSP as well as funding to support reopening the City lockup.
- New labor agreements implemented which reduced employee expenses by the equivalent of 20% of wages.
- Reduction of unfunded OPEB liabilities from \$900 million to roughly \$400 million. This reduced the Annual Required Contribution (ARC) from \$60 million to \$22 million.
- Substantial reduction of the City workforce.
- Voter approval of a 5 year 6 mill millage to support police and fire operations.
- Creation of a City-wide lighting authority reduced general fund subsidy of operation, maintenance and improvement of the City's lights.
- Implementation of a residential waste collection fee (replacing a 3 mill levy) and contracting out of solid waste removal and recycling have reduced general fund subsidy of waste operations.
- Outsourcing of the City's golf courses.
- Water and sewer rates adjusted to stabilize operations of the operation.
- Transfer of the Flint Employee Retirement System to Municipal Employee Retirement System (MERS).
- Improvement of the pooled cash position by over \$12 million compared to the previous year.

Next Steps

Though the managers have been able to stabilize the finances and operations in the City, much work remains to be done. The audited financial information for the year ending June 30, 2012 shows a \$19.2 million general fund deficit. Given the substantial level of cuts already implemented, the EFM does not believe that it is possible for the City to implement the level of cuts that would be necessary to eliminate this deficit over a 5 year period.

The plan to eliminate the deficit, as laid out in the draft Deficit Elimination Plan (DEP), relies on Treasury approval for the City to borrow \$12 million, either through an Emergency Loan from the State, or through another appropriate mechanism such as a fiscal stabilization bond. (This borrowing would also help stave off an impending cash crisis, which is expected to be an issue in April or May.) The remaining \$7.2 million would be eliminated through as yet to be identified spending cuts over the next 5 years in the following amounts: \$1 million, \$1 million, \$1.45 million, \$1.75 million, and \$1.9 million.

Treasury still has some concerns with the DEP as proposed. The primary concern is that the City has not identified additional cuts or revenues to cover the appropriation for deficit reduction over the next 5 years. Without this detail, it is impossible for Treasury to assess the feasibility of actually setting aside enough money to reduce the deficit. This is especially true given that the City expects further reductions in property tax revenues over that same time period.

The EFM has laid out a process by which the City will develop the budget for FY 14. Through this same process, he will also come up with a second year planning budget and a rough projection of the next three years that will include detail on how the deficit will be eliminated. At a high level, the plan includes the following steps, and is expected to be completed over the next 8 weeks:

- The budget development starts with the 5 year strategic plan that has already been developed by the leadership team at the City. This plan identifies the most important elements of City service that must be provided for the City to survive.
- Based on the details of the strategic plan, the EFM will work with a core management team of department heads and supervisors to determine the core functions that are to be continued, as well as objections, strategies, and metrics to measure success. The budget will be based on these core functions, and the manager expects that they will be forced to look at the absolute minimum services a City can provide.
- The EFM expects that the functional areas that will continue will be police, fire, roads, water, and sewer, as well as some services required by statute such as planning, zoning, and building safety.
- Once the core team puts together the draft budget, it will be presented to a larger group which includes the Mayor, Council, and community representatives.
- After 2 or 3 sessions with this larger group, they will present the proposed budget to the public.

Treasury will remain involved with the City throughout this process. Based on the outcome, Treasury will be in a better position to approve or reject the proposed DEP.

Other Issues

- The EFM is nearing a decision on whether to join the Karegnondi Water Authority (KWA) or continuing with the Detroit Water and Sewer Department (DWSD). Treasury has been consulted throughout this process. A decision is expected in the coming weeks.
- On March 28, the effective date of the replacement emergency manager legislation (PA 436 of 2012), Mike Brown will once again be eligible to be the Emergency Manager. A decision will need to be made. Ed Kurtz, the current EFM, is not interested in remaining in the role.

Koryzno, Edward (Treasury)

From: Cline, Richard (Treasury)
Sent: Monday, February 04, 2013 4:55 PM
To: Koryzno, Edward (Treasury); Byrne, Randall (TREASURY)
Subject: RE: Flint Supply Assessment

It is and I agree.

I told Dave that if he had ideas to discuss to submit in writing so we had no additional issues.

Wanted everyone to be aware that this came in.

Regards,

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

From: Koryzno, Edward (Treasury)
Sent: Monday, February 04, 2013 4:49 PM
To: Cline, Richard (Treasury); Byrne, Randall (TREASURY)
Subject: RE: Flint Supply Assessment

If this is the option of Flint constructing another water line, I suggest doing nothing.

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

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

From: Cline, Richard (Treasury)

Sent: Monday, February 04, 2013 4:44 PM

To: Byrne, Randall (TREASURY); Koryzno, Edward (Treasury)

Subject: FW: Flint Supply Assessment

FYI. I received this from TYJT regarding the Parallel Line option.

Please review and let me know how you wish to proceed.

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

From: David Guastella [<mailto:DGuastel@tyjt.com>]

Sent: Thursday, January 31, 2013 3:57 PM

To: Cline, Richard (Treasury)

Subject: Flint Supply Assessment

Eric

In recent discussions with the DWSD Director, the new option of twinning the 72-inch main with another main was discussed. DWSD believes that that twinned line from the Imlay Station to FL-1 (master meter at Potter and Baxter) would be a Common to All (CTA) cost and therefore allocated over the entire customer base.

However, from FL-1 to the WTP would probably not count as a CTA cost. DWSD would consider rolling the cost of the extension from FL-1 to the WTP into Flint's rate.

DWSD stated that for them to assess the rate impact of twinning the 72-inch water main, they would need an estimate of the engineering and construction cost. If you would like us to put together this estimate, please let me know. I believe we have the 72-inch pipeline profile in house and that will help us to better estimate the cost associated with river crossings, tunneling, etc. of the actual route.

Dave

Koryzno, Edward (Treasury)

From: Byrne, Randall (TREASURY)
Sent: Tuesday, February 05, 2013 7:59 AM
To: Cline, Richard (Treasury)
Cc: Koryzno, Edward (Treasury)
Subject: RE: Flint Supply Assessment

Eric:

I think at this time we need to find out if anyone has any comments on your analysis. It mentioned this additional option.

Thanks,
Randy,

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

From: Cline, Richard (Treasury)
Sent: Monday, February 04, 2013 4:44 PM
To: Byrne, Randall (TREASURY); Koryzno, Edward (Treasury)
Subject: FW: Flint Supply Assessment

FYI. I received this from TYJT regarding the Parallel Line option.

Please review and let me know how you wish to proceed.

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: David Guastella [<mailto:DGuastel@tyjt.com>]
Sent: Thursday, January 31, 2013 3:57 PM
To: Cline, Richard (Treasury)
Subject: Flint Supply Assessment

Eric

In recent discussions with the DWSD Director, the new option of twinning the 72-inch main with another main was discussed. DWSD believes that that twinned line from the Imlay Station to FL-1 (master meter at Potter and Baxter) would be a Common to All (CTA) cost and therefore allocated over the entire customer base.

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Dave

Koryzno, Edward (Treasury)

From: Koryzno, Edward (Treasury)
Sent: Wednesday, February 06, 2013 10:25 AM
To: Dempkowski, Angela (Treasury)
Subject: RE: Weekly call with Ed Kurtz

Thank you!

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

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

From: Dempkowski, Angela (Treasury)
Sent: Wednesday, February 06, 2013 10:15 AM
To: Koryzno, Edward (Treasury)
Subject: Weekly call with Ed Kurtz

Done. Rescheduled for 10 am on Friday, 2/8. I also declined your Talent Bank meeting so they would know that you will not be there today.

Angela Dempkowski
Senior Executive Management Assistant
Michigan Department of Treasury
dempkowskia@michigan.gov
(517) 373-4415

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

From: Dempkowski, Angela (Treasury)
Sent: Wednesday, February 06, 2013 10:09 AM
To: Koryzno, Edward (Treasury)
Subject: RE: Weekly call with Ed Kurtz

I will do this as Shannon is also out sick.

Angela Dempkowski

Senior Executive Management Assistant
Michigan Department of Treasury
dempkowskia@michigan.gov
(517) 373-4415

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

From: Koryzno, Edward (Treasury)
Sent: Wednesday, February 06, 2013 10:07 AM
To: Lutz, Shannon (TREASURY)
Cc: Dempkowski, Angela (Treasury)
Subject: Weekly call with Ed Kurtz

Please reschedule today's phone call with Ed to perhaps Friday morning.

Sent from my iPhone

THOUGHTS FROM THE EFM AFTER 6 MONTHS ON THE JOB

There are many significant issues facing the city going forward. Let me reflect on some of the more obvious ones.

LAND USE AND PROPERTY TAXES

1. Property taxes will continue to decline over the next three to four years with the projected decline in 2014 estimated to be 17%.
2. Much of the redevelopment is being done by the non-profit sector and will not be subject to property taxes.
3. The neighborhoods continue to decline with another 1,700 parcels turned over to the Land Bank and now exempt from taxes. (Note: we were able to demo 600 homes this fiscal year but added another 1,700 to the potential list of demos.) The City would need \$50 to \$60 million dollars for demo alone.
4. With a few exceptions, Wards 3 and five could effectively be renamed "Land Bank City".
5. Approximately 36% of the city's housing stock is either vacant, or in poor to substandard condition.
6. In addition to the residential properties there are a significant number of commercial properties that need to be demoed.
7. The proposed elimination of the personal property tax will also have a negative impact on the cities revenue. Other than public safety, only 80% of the lost revenue will be recovered.
8. Banks are now doing what they accused their customers of doing. They are walking away from foreclosed properties that they own and dumping them on the City and eventually the land bank.
9. It costs the City and the Land Bank approximately \$1.2 million per year to mow all the vacant property twice.
10. By the time the Land Bank receives the properties (3 years), they are basically stripped of all electrical, plumbing, etc and are not salvageable
11. The people of the City passed a 6 mil property tax increase exclusively for public safety. However, by the end of the six years it will be offset by the continued decline in property values.

IN SUMMARY, PROPERTY MANAGEMENT WILL HAVE TO BE A TOP PRIORITY FOR THE CITY OVER THE NEXT SEVERAL YEARS.

INCOME TAX

1. Income taxes which we initially projected to increase slightly, will now, with the announced closing of Delphi East probably decline.
2. The City is considering the possibility of raising the income tax. But this process requires legislative action and a vote of the people. This could be the straw that breaks the Camel's back.

FEES

1. The City has implemented fees for street lighting and garbage pick up. (The Garbage fee replaced a 3 mil property tax for that purpose. If a property was

1. The city continues to operate its own 911 center that is funded by a surcharge on phone service. As more and more people rely on methods other than land lines, the revenue continues to decline. The center is currently being subsidized by more than \$500,000 from the general fund annually.

COURTS

1. The 68th District court continues to be a significant cost factor to the city and is extremely busy.

IN SUMMARY, PUBLIC SAFETY CONSUMES 71% OF THE GENERAL FUND REVENUE PLUS THE TWO MILLAGE, ONE FOR 2MILS (POLICE ONLY) AND ONE FOR 6 MILS (POLICE AND FIRE ONLY). IT IS PROJECTED THAT STAFFING LEVELS WILL DECREASE BY 15 IN FISCAL 15, UNLESS THERE IS ADDITIONAL REVENUE CREATED. THIS PROJECTION IS BASED ON THE PREMISE THAT THE CITY WILL CONTINUE TO RECEIVE \$3 MILLION ANNUALLY IN GRANT ASSISTANCE FROM VARIOUS SOURCES. Barring that, the number of employee reductions will be larger. The 911 system should be merged with the county and the 67th District Court should be merged with the 68th. The potential for combined services in police and fire should be considered.

INFRASTRUCTURE

STREETS

1. In a recent assessment 26% of the City's streets received the lowest grades while only 10% received the highest. Regardless of the condition, the City will, by policy, use all of its Local Street Funds to maintain the current status as much as is possible. That means all funds will be used for sealing cracks, fixing potholes, etc. No replacement of existing roads will be done.
2. Our Major Street Fund dollars will be used mostly to meet our required match for MDOT projects projected to be \$575,000 in 2014.

IN SUMMARY, UNLESS ADDITIONAL REVENUE BECOMES AVAILABLE, OUR ROADS WILL AT BEST BE STABILIZED, BUT PROBABLY CONTINUE TO DETERIORATE

WATER AND SEWER

1. The charges for water and waste have increased by over 100% in the last 18 months, to the point that the average charge for a City of Flint resident is about double that of a Genesee county resident.
2. Currently there are over 8,000 accounts 60 days or more past due with a total dollar value of just under \$3 million.

3. The condition of our water and sewer infrastructure is, to say the least, not very good. Our treatment plants, both water and sewer are in good shape because of the continued mandates from DEQ for upgrades. However, this has also created significant bond debt to go with it, and, has resulted in limited capability of providing improvements to the in-city water delivery network and sanitary network
4. There is a constant backlog of unrepaired water main leaks, defective meters, turn ons/turnoffs, with insufficient staff to deal with them
5. Both funds are in deficit and have little money to address infrastructure.
6. Significant bond debt as well as legacy costs make partnering or selling of the system difficult
7. The City is finalizing a decision on its water supply for the next 30 years. Although it appears that KWA will be significantly less costly over the life of the contract, costs will continue to go up regardless of which option we take. A significant concern is that because a significant portion of the cost associated with KWA is fixed, with the continued exodus from the city, fewer and fewer customers will pay increased rates to cover bond costs. A draft of a study on the sewer system indicated it will take an estimated \$20 to \$30 million to repair the system.
8. There is currently over \$2 million of past due water bills attached to the affidavit process. The relatively small deposit required \$100.00 for a renter to get an affidavit results in many renters simply walking away and forfeiting their deposit, because the water bill is significantly more than the deposit. In addition on many occasions a new tenant moves in without filing an affidavit and the water continues to be billed to the former tenant, resulting in large amounts of bad debts. With an affidavit, the landlord is not responsible for the cost of water. In addition, there are individuals/companies that will illegally turn a persons water back on or in some cases actually bypass the meter. One of the largest causes of unbilled water is theft, along with fires and leakage. Again, there is a lack of staff to monitor and enforce. The City is increasing the water deposit amount to \$350.
9. The current water charge policy basically does not reward someone for conserving water. The fixed charge is a significant part of the cost. Maybe, the City should look at the potential for a consumption only charge.

IN SUMMARY, WATER RATES WILL CONTINUE TO GO UP FOR RESIDENTS OF THE CITY, BUT HOPEFULLY AT A MUCH LOWER RATE THAN IN THE PAST. IT WILL BE VERY DIFFICULT TO GENERATE REVENUE FOR INFRASTRUCTURE UNTIL RATES BECOME MORE COMPETITIVE WITH THE COUNTY.

PARKS AND SENIOR CENTERS AND GOLF COURSES

1. The City currently has over 60 parks as well as dozens of boulevards, triangles, etc to maintain. The parks are supported by a property tax levy that now produces less than \$400,000 per year. In addition forestry is included in the parks budget. Basically with the exception of a few parks that have been adopted, they are not

well maintained. In addition, several of the parks are not much more than a small piece of land that is underutilized.

2. The City can not operate Senior Centers effectively or economically. Centers will have to be outsourced, operated by Senior Center Boards, or closed. The only funds available will be funds obtained from the county wide millage for that purpose.
3. The City currently owns four golf courses. Three have been leased to a provider, who operated two of them in summer 2012. Though the lease has not been without concerns, the course will continue to be leased again this year. This group does intend to open the third course, possibly this season. The fourth course has been leased to a different group and is not operating and in bad condition. The City should probably look to sell the golf courses.

IN SUMMARY, ADDITIONAL REVENUE WILL HAVE TO BE FOUND, OR SEVERAL PARKS WILL HAVE TO BE ADOPTED OR CLOSED, SENIOR CENTERS MUST BE SELF SUFFICIENT OR CLOSE AND THE GOLF COURSES SHOULD BE SOLD.

STAFF

1. The City is currently functioning with a shared Assessor, part time Treasurer, contracted Risk Management and IT Directors. The Finance Director, Infrastructure Director, City Administrator, as well as others, are independent contractors. All departments are probably understaffed, but Human Resources, which is where everything starts, including labor relations, is probably the most apparent.

LEGACY COSTS

1. Although tremendous strides have been made in reducing the unfunded liability, retiree health care costs still have an unfunded balance of approximately \$350 million.
2. Even though the City's pension fund has consistently under performed most municipal plans, it had remained under the direction of a local pension board. In fiscal 2013, the plan was moved from FERS to MERS, which saved the City significant dollars in administration and fees. However, the pension fund is currently funded at less than 50%, with an unfunded liability of approximately \$450 million.

IN SUMMARY, LEGACY COSTS WILL BE A SIGNIFICANT ISSUE GOING FORWARD. AS GENERAL FUNDS DECREASE, AND FEWER EMPLOYEE'S CONTRIBUTE TO THE FUND. THE CITY COULD FACE CHOICES OF FUNDING LEGACY COSTS OR PROVIDING SERVICES.

LAWSUITS

1. The City still has several pending lawsuits that could have a significant negative financial impact on the City such as health care and water charges. The Health care lawsuit could cost the city upwards of \$3 million. The water charge lawsuit, filed by the President of the City Council, would either put the water department effectively out of business, or if covered with General Funds, cause the City to no longer be viably and probably forced to file for bankruptcy.

IN SUMMARY, A NEGATIVE OUTCOME IN ANY OF THE LAW SUITS WOULD HAVE A DEVISTATING IMPACT ON THE CITY.

GOVERNANCE

MAYOR

1. He is trying. Although the mayor talks a good show and writes well, he has blinders on as it relates to the true financial condition of the City as referenced by his recent State of the City address. He has done a decent job with economic development, a role to which we assigned him. Financially, I think he believes if he says it often enough, it will happen.

COUNCIL

1. All I can think of saying about the council is "Are we really going to turn the City back over to them?" In my view, they are basically dysfunctional, and not capable of acting responsibly or timely. Their meetings tend to be unprofessional and confrontational with each other.

assessed at less than \$50,000 the cost to the owner went up. If more than \$50,000 the cost went down. I am not sure either fee, because of vacant properties will, at the current assessment, generate enough income to cover the costs. Based on statistics from the Land Bank and the Master Planning process, there could be as many as 14,000 unlicensed rentals in the City. If licensed and inspected, it could generate an additional \$1 million in revenue. However, it has to be determined if the revenue would cover the costs of the program. There also appears to be hundreds maybe thousands of unlicensed business in the City. This also represents unrealized revenue as well as a disservice to those to do apply and pay for an annual license. Again, revenue versus expenses would need to be evaluated.

2. In addition the City is now billing for such things as fire runs, police response to accidents, etc. None of these charges are well received by the public, and have had significant administrative issues.

IN SUMMARY AS IT RELATES TO REVENUE, THERE ARE FEW ADDITIONAL PLACES THE CITY CAN LOOK FOR INCREASED REVENUE, WITH THE INCOME TAX BEING THE MOST LIKELY. WHETHER OR NOT FEES FOR THINGS LIKE RENTAL INSPECTIONS AND BUSINESS LICENSES WOULD EXCEED THE COST OF COLLECTION NEEDS TO BE ADDRESSED.

PUBLIC SAFETY

POLICE

1. By almost any measurement the police department is understaffed. We currently have a total of 140 employees in our police department including both sworn and civilian. Even with the passage of the 6 mil increase in property taxes exclusively for "public safety" and the commitment by ordinance of 55.5% of general fund revenues to police and fire, the number of officers will decline beginning in Fiscal 15. The department has been reorganized and significant improvements in response time, etc have been made. The State's help in providing funding to reopen the lockup and the addition of several state troopers to the city have helped significantly. Currently, eleven of the officers are paid for by a Mott grant that expires June 30, 2013 and will not be renewed..

FIRE

1. The city currently has 93 total employees, staffing five stations. The EMT service has been discontinued. Thirty nine of the current employees are paid for by a SAFER grant that expires in the spring of 2014. The city is currently setting aside some of the funds from the new millage to cover that loss. It is possible that the city by Fiscal 15 will be reduced to a maximum of three stations, possible two.

911 CENTER



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

DATE: February 8, 2013

TO: Governor Rick Snyder

FROM: Andy Dillon, State Treasurer

SUBJECT: Status of Financially Distressed Local Governments

JANUARY

DECEMBER

	Cities	Schools	Total	Cities	Schools	Total
EM/EFM	5	3	8	5	3	8
Consent Agreement	3	0	3	3	0	3
Watch List	7	2	9	6	2	8

Per your request, this memorandum summarizes the status of selected financially distressed units of local government. The following units of local government now are subject to Public Act 72 of 1990, the Local Government Fiscal Responsibility Act.

GENERAL ISSUES

Cities Close to an Exit by EFM:

- Ecorse – While most of the financial issues are resolved, the City Council without the State's involvement, has the authority, through practice and a loosely worded city charter, to meddle in the day-to-day operations of the City, including supervising staff and setting their pay. Efforts to obtain an Inter Local Agreement have been frustrated by the unwillingness of a majority of Council to see the need for the oversight contemplated by the ILA. While we continue to work on a compromise, worst case is that we will impose a transition advisory board (TAB) under PA 436 in late March.
- Pontiac – As explained below, Mr. Schimmel has a short list of projects to complete before he leaves this summer. Imposition of a TAB will be recommended.

Retiree Health Care – In most of the EFM cities, and certainly in those cities that are struggling but not yet in receivership, the cost of promised retiree health care is a major concern. In Pontiac and Flint where changes in retiree health care were imposed under PA 4, lawsuits are pending leaving the effects of those changes uncertain. In Pontiac, the annual liability is about \$6.0 million, which is also the amount of the City's current annual operating deficit. Allen Park's annual liability is approxi-

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mately \$2.5 million and Flint's is nearly \$20 million, half of which is in the general fund. While Flint and Pontiac have each taken steps to reduce the annual expense of the health coverage the retirees enjoy, those changes are being challenged. In most of our EFM cities, this issue is a difficult obstruction to fiscal balance. Pontiac, our most extreme case, currently has 52 current employees in the health care system compared to approximately 1200 retirees receiving health care. Treasury is working to develop a standard process to use when addressing retiree health care spending.

Law Enforcement – Based on the recent meeting with the Michigan State Police, it has become clear that increased coordination between Treasury and MSP is necessary. This is especially true in cities such as Flint and Detroit, where the City is both under some level of Treasury supervision and also has increased MSP presence. Treasury will initiate these discussions.

EMERGENCY MANAGER – Cities

City of Allen Park



- Update: Joyce Parker was appointed Emergency Financial Manager by the Emergency Loan Board on October 25, 2012, with duties beginning October 29. She also serves, part-time, as the Emergency Financial Manager for the City of Ecorse.
- For fiscal year ending June 30, 2012, the City had an operating surplus of \$2,973,862, or 18% of general fund revenues of \$16,202,731. However, when transfers out of the general fund are taken into account, the financial picture is much worse. The City transferred \$4.7 million (net of transfers in) from the general fund, including a \$2.4 million transfer associated with studio debt and a \$2.5 million transfer to cover retirement health care. Based on these numbers, the City's unrestricted accumulated general fund deficit is \$1,090,225 or 6.7% of revenues.
- In the audit for fiscal year ending June 30, 2012, the City's audit firm expressed doubts of the City's ability to continue as a going concern.
- The EFM has submitted an application for an emergency loan. The Department is reviewing the application to assure the City's request is consistent with their financial needs, but Treasury is not inclined to approve the loan until other options have been explored.
- A two year operating millage was on the November 6 ballot, which was for four mills and was defeated. Treasury is exploring the potential to restructure the studio debt. The EFM has listed the movie studio property for sale and is preparing a detailed Deficit Elimination Plan. The City's financial distress is exacerbated by the minimum staffing requirements contained in the public safety collective bargaining agreements and the cost of retiree health care.

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- **The Road Out:** With our recent entrance into Allen Park, several general strategies are in play. As noted above, the budget is in deficit primarily because of the movie studio debt and the retiree health care obligations. However, labor contracts have minimum manning provisions that need to be resolved, and there are several areas of ongoing expense that can be reduced. Among other things, the EFM's draft deficit elimination plan also includes personnel reductions (including police and fire), wage reductions, pension plan changes, active and retiree health care changes, reduction in sick days and holiday payouts, and revenue enhancements for rubbish and lights. Ms. Parker believes that it may be possible to balance these financial issues short of bankruptcy. However, that option is also being explored.

City of Benton Harbor



- Joe Harris was appointed Emergency Financial Manager on August 8, 2012. He was first appointed Emergency Financial Manager on April 1, 2010. The Emergency Loan Board terminated Mr. Harris' contract effective January 31, 2013 and appointed Mr. Tony R. Saunders II as the new EFM effective February 1, 2013. Prior to taking this appointment, Mr. Saunders worked on the staff of City Council Members in Detroit and, for the last year, has been assisting the City of Highland Park on behalf of the Department of Treasury.
- For the fiscal year ending June 30, 2012, Benton Harbor had an operating shortfall of \$1,125,798, exceeding general fund revenues of \$6,555,653 by 17%. The unrestricted accumulated general fund deficit is \$2,285,483 or 34% of general fund revenues. The unrestricted deficit increased slightly over 2011 by approximately \$56,000.
- The previous Emergency Financial Manager submitted an application for an emergency loan in the amount of \$3,900,000. Along with the application, the previous EFM included an updated deficit elimination plan, FY 2013 budget, a cash flow statement, and an accounts payable listing. Based on these reports, the City will experience a cash shortage in the general fund by April 2013 and has outstanding payables, as of December 31, 2012, of \$2.6 million. The Department has asked the incoming EFM to review the financial data to determine if the amount of the loan request is appropriate.
- Update: All City issues on the November 6 ballot were defeated including a charter amendment to restructure Council's reporting relationships with staff. A 10 mill operating levy that expired in 2011 was defeated, as was a proposed 2.0694 mill Headlee override. Absence of these revenues would mean the \$1.4 million reduction in annual revenues which began in July, 2012, will continue for the cash strapped City. In response to this shortfall the EFM approved, with City commission support, a 10 mill special assessment Public Safety millage which was levied with the winter taxes. It is expected that another effort will be made in the coming months to obtain approval of the 10 mill operating levy that would replace the special assessment.
- **The Road Out:** Mr. Saunders will review all City operational expenses in an effort to rationalize annual expenses and eliminate deficit spending. The large amount of accounts payable

is a near-term focus. The water plant is a major liability, particularly since users in Benton and St. Joseph Townships have withdrawn from the system due to ongoing political and financial management concerns. The City charter needs to be updated, the performance of City Council needs to be improved, and ongoing liabilities for retiree health care are also an issue. Treasury had anticipated that withdrawal from the City would be a near-term possibility if charter issues could be overcome. However, these recent revenue issues and the demise of the water system customer base, make a near-term exit more challenging. The new EM understands our desire to make our exit as soon as possible.

City of Ecorse

- Joyce Parker was appointed Emergency Financial Manager on August 8, 2012 by the Emergency Loan Board. She was first appointed Emergency Financial Manager on October 30, 2009. She continues to serve Ecorse on a part-time basis while she also serves as Emergency Financial Manager for the City of Allen Park.
- City Council is cool toward an interlocal agreement proposed by Treasury that would create an advisory board under the Urban Cooperation Act, PA 7 of 1967 (Ex. Session) and create a seamless transition process away from an EFM, allowing Ms. Parker to end her service there. A majority of Council believe such an advisory board is unnecessary. Treasury staff is redrafting the ILA to address some of the suggestions made by Council. After AG review, the revised agreement will be reviewed with the Council.
- For the fiscal year ending June 30, 2012 the City had a general fund balance of \$2,419,220 or 18.8% of general fund revenues of \$12,904,604 and experienced an operating surplus for the first time in several years.
- The Emergency Financial Manager's assignment is essentially complete and she is working part-time.
- The Road Out: The work of the EFM is essentially done. The remaining concern is with the City Council and the City charter language which allows substantial day-to-day involvement of the City Council. Discussions continue on an interlocal agreement to establish a Transition Advisory Board, as explained above. If this voluntary approach is not successful, a TAB can be imposed with the advent of PA 436 in late March.

City of Flint

- Edward Kurtz was appointed Emergency Financial Manager on August 8, 2012 by the Emergency Loan Board. He succeeded Mike Brown who was appointed Emergency Manager on November 29, 2011. The Emergency Financial Manager is anticipated to be in Flint for more than one year. Mr. Kurtz is taking a minimal salary as EFM, while Mike Brown now works as City Administrator, appointed by Mr. Kurtz. It is assumed that Mike Brown will be reappointed as EM in late March, and that Mr. Kurtz will be retained until June to consult with the City on the FY 2014 budget.

- For fiscal year ending June 30, 2012, the City incurred a general fund operating shortfall of \$10,169,828 exceeding general fund revenues of \$51,497,686 by 20%. This resulted in an unrestricted accumulated general fund deficit of \$19,184,850, which is 37% of general fund revenues.
- Update: The City of Flint has been participating with Genesee County on the feasibility of the City's use of a planned water pipe line from Lake Erie that would serve a large portion of Genesee County as an alternative to water supplied by DWSD. An engineering firm selected by Treasury to conduct an independent evaluation of Flint's choices for water supply presented their findings on December 18th. This is a critical long-term decision for Flint and the region. The economics show that but for the excess cost of DWSD water during the three year period of the Karegnondi Water Authority (KWA) pipeline construction, the City will be benefitted by lower water costs in the long term by using the KWA water and treating the water in Flint at their own, existing, water treatment plant. A recent proposal shows that with cooperative efforts with the County, those excess costs can be minimized.
- The Budget for the current fiscal year encompasses both revenue increases and expenditure reductions in an effort to achieve a balanced budget. For example, the budget includes assessments for waste collection, for the operation, maintenance, and improvement of street lights, and a 25 percent increase in water and sewer rates. Voters overwhelmingly approved a 6 mill public safety millage in November that will substantially improve the FY 14 budget. On the expenditure reduction side, the budget reduces the City's workforce by 150 positions (20 percent), and includes employee concessions and a restructuring of employee health care benefits. Retiree health care has been eliminated for future employees. Litigation is pending in federal court to preclude changes to retiree health care. The Emergency Financial Manager estimates that retiree health care costs will increase by \$3.5 million during the current fiscal year if he is prevented from implementing the planned changes.
- The City has recently submitted a five year deficit elimination plan that anticipates submittal of an emergency loan application of \$12 million to address the accumulated deficit. The remainder of the unrestricted accumulated general fund deficit will be eliminated through \$7.1 million in reductions. The City has not yet identified specific cuts but will do so as it works through the development of its fiscal year 2014 budget. The Department is assisting the City with the identification of possible reductions.
- The City's plan to contract for the first time with a private contractor to provide solid waste removal and recycling services was delayed because of an Unfair Labor Practice (ULP) filed by AFSCME. The union presented an alternate plan, which the EFM evaluated and deemed economically unsatisfactory. The City is required to meet with the union to discuss the impacts of the proposed change. The anticipated savings from this initiative is \$1 million and the contractor is willing to hire former Flint employees who previously performed this service.

- **The Road Out:** This is the first year of the EFM's balanced budget and they are currently on track with the budget. Major remaining issues are resolving public safety staffing and effectiveness; establishing new and cooperative approaches to water and sewer services; funding and maintaining infrastructure; defining and sustaining blight eradication strategies; funding OPEB liabilities.

City of Pontiac



- Lou Schimmel was appointed Emergency Financial Manager by the Emergency Loan Board on August 8, 2012. He was first appointed Emergency Manager on October 6, 2011. The Emergency Financial Manager is anticipated to complete his work by mid-2013, but a viable oversight mechanism, such as a Transition Advisory Board (TAB) under PA 436 of 2012, will be necessary for this to happen.
- For fiscal year ending June 30, 2012, the City had an operating shortfall of \$1,249,049 exceeding general fund revenues of \$38,709,018 by 3%. This resulted in an unrestricted accumulated general fund deficit of \$4,748,117 or 12% of general fund revenues. For fiscal year 2013, the City's financial position will benefit from the transfer of the Pontiac Wastewater Treatment Plant. From the assets received, \$8.4 million was used to pay off a loan to the general fund from the water/sewer fund; \$6 million was used for retiree healthcare bringing the 2013 budget into balance; \$3.4 million will be applied to the accumulated deficit from fiscal year 2012.
- The EFM reports that FY2014 would be balanced except for the \$6.0 million required for health care costs associated with retired non-public safety employees, and those who are still active employees. Retired public safety employees (there are no active Pontiac public safety employees) are covered by an existing VEBA.
- The Emergency Financial Manager continues to minimize the number of unused vacant properties in the City that are city-owned. The demolition of the Phoenix Center and sale of land project remains on hold after Oakland County Circuit Court Judge Michael Warren issued an injunction barring the City from demolishing the Phoenix Center. Settlement negotiations are proceeding.
- The announced partnership with Oakland County for a restructuring of the ownership of the Pontiac Wastewater Treatment Plant is essentially complete. The capitalization of assets created by the transfer generated approximately \$55 million, which was used to reduce bond debt related to Fiscal Stabilization bonds, Water Supply system, Sewage Disposal system, and Building Authority. The transaction has dramatically improved the City's cash position while also eliminating most of the City's outstanding debt, and preserving a reasonable fund for infrastructure maintenance within the City. It is also projected that Pontiac users of the system will enjoy significant reductions in their costs for sewer services in future years.

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- Update: The EFM continues to reduce general fund expenses. He has successfully negotiated cost reductions with the City's waste pickup contractor; secured agreement from the Chief Judge to control the City's subsidy to the 50th District Court by having the Court process its own employee payroll and pay court employees out of its own account instead of the City's general fund account; and he contracted out all remaining DPW services including the snow plowing of major streets with the Oakland County Road Commission.
- The Road Out: Mr. Schimmel expects to leave this summer and strongly supports the use of a transition advisory board. His list of tasks remaining are: Phoenix Center Demolition; sale of DPW building to Consumers Energy; auction of surplus stuff; provide for the redevelopment of the Hayes Jones Community Center; sale of various properties, including golf course; and substantially reduce the \$6.0 million annual deficit related to retiree health care.

EMERGENCY MANAGER - SCHOOLS

Detroit Public Schools



- Roy Roberts was appointed Emergency Manager on May 16, 2011 and Emergency Financial Manager on August 8, 2012.
- For fiscal year ending June 30, 2012, the District incurred a general fund operating shortfall of \$41,865,408 exceeding general fund revenues of \$892,452,098 by 4%. This resulted in an unrestricted accumulated general fund deficit of \$83,465,550, which is 9% of general fund revenues. The deficit was significantly reduced by issuance of long-term debt.
- A second \$6 million State aid note transaction closed on February 1st to assist in covering the costs associated with the transfer of DPS schools to the Education Achievement Authority (EAA). The note will mature on July 22, 2013.
- Treasury staff has begun meeting with the EAA to gain not only a better understanding of the EAA's financial & cash situation but how those risks may impact DPS's financial situation. This effort will focus initially on the impact of possible additional school transfers to the EAA (with the loss of enrollment to DPS), the transition of Title I funds, & the "lease – management" MOU between the EAA & DPS. (Concerning the latter item, the \$10 million EAA obligation may not be paid when due this August. While this may not have an accounting impact it would impact DPS's cash flow.)

Highland Park Schools



- Update: Don Weatherspoon was appointed Emergency Financial Manager on October 29, 2012.

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- The District has not filed its financial audit for its fiscal year ending June 30, 2012 which was due November 15th. The audit is taking longer than expected due to the lack of sufficient record keeping and staff continuity. We have been advised the audit should be complete in the next two weeks
- On August 16, the Emergency Loan Board approved an emergency loan for the School District in the amount of \$4.41 million in order for the School District to repay its August 2011 State aid note and meet other short-term expenses. To date, the District has drawn \$3.98 million of the loan proceeds.
- On January 18th the Emergency Loan Board approved a 2nd emergency loan for the School District in the amount of \$3.0 million. The issuance of a second emergency loan was anticipated as the first loan was used primarily to repay the District's outstanding State Aid Note in order to avoid a default. The proceeds of the second emergency loan will be used to pay critical vendors and it is expected the EFM would obtain vendor discounts in exchange for quick payment.
- It is anticipated the role of the Emergency Financial Manager will be greatly reduced in the next 12-18 months as prior liabilities are settled and processes are put in place to manage current operations including oversight of the charter school system.

Muskegon Heights Public Schools



- Don Weatherspoon was appointed Emergency Financial Manager on August 8, 2012.
- The District has not filed its financial audit report for fiscal year ending June 30, 2012 which was due November 15th. The audit is taking longer than expected due to the lack of sufficient record keeping and staff continuity. We have been advised the audit should be complete in the next two weeks.
- On August 16, the Emergency Loan Board approved an emergency loan for the School District in the amount of \$7.6 million in order for the School District to repay its August 2011 State aid note and meet other short-term expenses. To date, the District has drawn all of the loan proceeds.
- On January 18th the Emergency Loan Board approved a 2nd emergency loan for the School District in the amount of \$3.5 million. The issuance of a second emergency loan was anticipated as the first loan was used primarily to repay the District's outstanding State Aid Note in order to avoid a default. The proceeds of the second emergency loan will be used to pay critical vendors and it is expected the EFM would obtain vendor discounts in exchange for quick payment.

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- It is anticipated the role of the Emergency Financial Manager will be greatly reduced in the next 12-18 months as prior liabilities are settled and processes are put in place to manage current operations including oversight of the charter school system.

CONSENT AGREEMENT - CITIES

City of Detroit



- For fiscal year ending June 30, 2012, the City had an operating surplus of \$105,842,769. However, when transfers out of the general fund are taken into account, the City's financial position is much worse. The City transferred \$236,542,790 with the largest transfer going to the transportation fund for \$87.2 million, \$61.2 million to the debt service fund, and \$80.9 million for interest payments on the pension obligation certificates. This resulted in an unrestricted accumulated deficit of \$327,956,700 or 30% of general fund revenues of \$1,100,342,313.
- Update: The cash position of the City has continued to deteriorate through the first half of the 2013 fiscal year. After the City's projection of its cash position at the June 30, 2013 year end deteriorated over \$60 million over the course of three months (roughly September – November), a renewed emphasis was placed on cash preservation (discussed further below). Absent any further actions, current City projections indicate a negative cash position of roughly \$110 million at the June 30 year end. In the past, the City has temporarily “managed” negative cash by postponing property tax distributions to debt service funds and other taxing jurisdictions.
- Update: The plan developed by the City and its advisors, with input from Treasury, includes measures that are estimated to net approximately \$117 million in improvements by June 30. This includes roughly \$33 million of changes that result in permanent savings, \$63 million of short term cash opportunities (including many items that simply defer payments), and release of \$20 million in escrow proceeds currently controlled by Treasury. Included among the “permanent savings” are employee furloughs, headcount reductions, suspension of pension accrual (non-union employees), health care premium sharing increased to 30% (non-union employees), vendor cuts, and increase of fees. If implemented on a timely basis, these countermeasures should allow the City to maintain a positive cash position through the end of the year.
- Update: The City is in substantial compliance with the terms of the Milestone Agreement negotiated to control the terms of withdrawal of escrowed funds. This gives the City access to an additional \$20 million for which the draw request was received today. The Treasurer has indicated the desire to maintain a \$50 million reserve, which means that further draws are unlikely.
- Update: The operational and restructuring firms have all had contracts approved by City Council and have begun work. On February 1, a first draft of the 5 year plan for the City was presented to the Review Team. The plan would eliminate the deficit within 5 years

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by significantly lowering employee costs. Changes include a reduction of an additional 500 FTEs, freezing all pension vesting for one year, moving all employees to a defined contribution plan after that, and capping health care expenditures at \$125 million a year (compared to a current spend of roughly \$190 million). Other potential savings being considered include additional headcount reductions/furloughs, asset sales, debt restructuring, and revenues.

- Update: The Financial Review Team appointed under PA 72 continues its work. The report is due to the Governor on February 16 and there are no plans to ask for an extension as of this date.
- Update: After City Council once again failed to approve the State lease for Belle Isle, Mayor Bing announced the closure of 50 parks and reductions to recreation operations to make up for the foregone cost savings the lease would have provided.

City of Inkster

- The City of Inkster operates under a Consent Agreement which was implemented effective February 28, 2012.
- For fiscal year ending June 30, 2012, the City had a general fund operating shortfall of \$3,171,524 or 19% of general fund revenues of \$15,859,971. The FY12 shortfall increased the City's general fund unrestricted accumulated deficit to \$3,604,783 or 22% of general fund revenues.
- For FY13, the City reduced staffing by 20% and made other expenditure reductions. Current budget forecasts suggest a year end deficit of \$1.7 million, consistent with the DEP. The City's deficit elimination plan anticipates the FY14 budget will be balanced. Staff from OFR regularly visit with Inkster and finds them holding their own.

City of River Rouge

- The City of River Rouge operates under a consent agreement which was implemented effective December 15, 2009.
- For fiscal year ending June 30, 2012, the City had a general fund operating surplus of \$1,302,690 or 11% of general fund revenues of \$11,989,601. The surplus has reduced the unrestricted accumulated general fund deficit to \$1,039,067 or 8.6% of general fund revenues of \$11,989,601. The 2012 accumulated deficit is approximately half of the previous year's deficit so progress is evident. However, the 2012 operating surplus is a result of the receipt of approximately \$1.9 million in legal settlements. Had the legal settlements not occurred, the 2012 accumulated deficit would be an estimated \$2,900,000. OFR staff visits with River Rouge and feels comfortable that their ongoing efforts to reduce costs, such as the recent implementation of a public safety officer model for combined police

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and fire services will help the City achieve its FY14 budget objective of balanced revenues and expenditures.

LOCAL UNITS OF INTEREST

City of Hamtramck



- For fiscal year ending June 30, 2012, the City had a general fund operating shortfall of \$3,303,385 which is 22% of general fund revenues of \$14,827,148. This deficit eliminated the general fund balance and resulted in an unrestricted accumulated deficit of \$753,733 or 5% of general fund revenues. The cause of the imbalance was the result of the loss of revenue due to the expiration of the Poletown tax increment financing agreement and the failure of the City to reduce its expenditures accordingly.
- The City has submitted an application for an emergency loan for \$3 million. The Department is reviewing the application to determine if the City qualifies. In addition to the emergency loan, the City is pursuing the issuance of a tax anticipation note to address its cash shortage expected to occur in March 2013.
- Late last year, the City Council voted to request a financial review by the State. Prior to initiating the requested review, Treasury asked for and the City has submitted a deficit elimination plan (DEP). The plan relies heavily on the receipt of an emergency loan, an increase in rental inspection fees, and an increase in traffic violation revenues. Given the inadequacy of the DEP, Treasury is initiating a preliminary review on Monday, February 11.

City of Highland Park¹



- For fiscal year ending June 30, 2012, the City had a general fund operating surplus of \$1,293,462 or 12% of general fund revenues of \$10,718,332. This increased the City's unrestricted general fund balance to \$2,199,762 or 20% of general fund revenues. The positive fund balance is a result of the restatement of accrued state revenue from the fiscal year 2011 financial statements and, in large part, the forgiveness of a \$4 million payable due to DTE in 2011.
- The City's updated general fund projections indicate the City will reach a deficit situation during FY 2018. Should the City resolve the financial issues related to the Water system the

¹ Several EFM's have been appointed in Highland Park. While the financial emergency in the City remains in effect, no replacement EFM has been appointed. Treasury is working with the Mayor and Council, without an EFM appointment, to get the City out of the business of providing public services.

2018 date could be extended. Office of Fiscal Responsibility staff is working with local officials to develop and implement cost savings.

- **Update:** The Mayor has announced the City's intent to discontinue using their water treatment plant after attempting to implement MDEQ mandated improvements to the plant. Initial improvements were estimated at \$340,000, but escalated to an estimated \$5.9 million after valves and other essential parts of the system were found to be inoperable. The estimated cost to demolish the facility is \$3.6 million. Currently, the City is purchasing water from DWSD. Negotiations continue between the City and DWSD with the intent of DWSD operating the City's utility systems. One challenge to finalizing this arrangement is the \$8 million the City owes DWSD for sewage treatment. Treasury and City officials expect a proposal from DWSD which contains the prerequisites for a cooperative venture to proceed and also addresses the amortization of the City's sewer debt to the DWSD.
- On January 4, 2013, a Quo Warranto request to have Mayor DeAndre Windom, City Council President Chris Woodard, and City Councilman Rodney Patrick removed from office was dismissed. The request is based on the allegation that their oaths of office were not filed in a timely fashion, and that each of these individuals is "in default" to the City, which, under the City Charter, would preclude them from holding office.
- **The Road Out:** Highland Park's broken water system needs multiple strategies for resolution. DWSD is the major focus here for delivery of treated water and administration of water and sewer bills. The City's existing water treatment facilities are in need of demolition, which will be expensive. In addition to typical OPEB liabilities, H.P. also has a major, bank-funded debt because of a court order related to delinquent payments to police pension funds. That debt will need restructuring in the next 24 months. The continuing effort to minimize the services the City provides makes the City a prime candidate for participation in regional public safety.

The following units of local government are not currently subject to Public Act 72 of 1990, the Local Government Fiscal Responsibility Act:

Royal Oak Township



- The township had an operating deficit of \$132,358 and an unrestricted general fund balance of a negative \$34,821 at year end 2011. The unrestricted deficit was 3.6% of general fund revenues. However, the operating deficit is 14% of general fund revenues. The unrestricted deficit decreased significantly from 2010 to 2011; a negative \$284,416 in 2010 to a negative \$34,821. This appears to be related, in part to a 2011 interfund transfer between the Parks and Recreation Fund (dedicated millage) and the Senior /Transportation fund. There is no money budgeted to repay the loan. There is also a loan with a local bank that was not obtained in accordance with regulations, as well as accusations of credit card misuse. A new Supervisor, Clerk, and Treasurer were elected in November and the Treasurer contacted Treasury for assistance. Staff from the Office of Fiscal Responsibility has met with the new Treasurer, in response to her request as well

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as the new Clerk. Staff is continuing its discussions with both individuals to assist in improving the Township's financial practices.

City of Taylor

- For fiscal year ending June 30, 2012, the City had a general fund operating shortfall of \$3,905,004 exceeding general fund revenues of \$40,444,430 by 9.6%. This excessive spending eliminated the prior year general fund balance and resulted in a general fund unrestricted accumulated deficit of \$5,359,732. The general fund borrowed \$2 million from the water and sewer funds with no apparent commitment for repayment within a prescribed time period.
- The City fell short of its deficit elimination projections by a minimum of \$1.0 million. The majority of this can be attributed to Public Safety, which exceeded its budget expenditures by \$881,610. Consequently, the City has submitted an updated deficit elimination plan. Staff is reviewing the updated plan to determine if it is reasonable and achievable and will require the City to submit monthly reports to monitor its adherence to the new plan
- The relationship between the Mayor and City Council remains contentious. Rather than work together to solve the City's fiscal dilemmas, the City Council tends to make emotional decisions that seem intended to confront the Mayor. Sometimes, those decisions result in further aggravation of the City's financial condition.

County of Wayne

- Because the County's fiscal year corresponds to the calendar year, current audited financial results are not yet available for FY2012. Based on recent unaudited financial data provided by the County for its 2012 fiscal year, it appears the County will have an increase in the general fund deficit of \$21 million, for an accumulated total deficit of \$148 million.
- A revised deficit elimination plan has been submitted. Staff is working with the County to resolve several issues within the plan such as the transfer of assets from other funds and unsupported reductions to eliminate the general fund deficit.
- Update: Phase II of the State's consulting engagement contract with Pierce, Monroe & Associates to examine the funds of elected officials and other select departments is expected to be completed by the February deadline. The examination of the substantial balance amount in the Treasurer's Delinquent Tax Revolving Fund should also be completed by February. Anticipated future County borrowing, if any, will be conditioned to require changes in the financial behavior within County government. Treasury remains very concerned about the probability of jail construction cost overruns.

SCHOOL DISTRICTS OF INTEREST

Benton Harbor Area Schools



- On September 17, the Emergency Loan Board approved an emergency loan for the School District in the amount of \$2.0 million to assist the District in making payroll and meeting other short term obligations. The note proceeds have been escrowed and are being released upon approval from the Treasurer. While the district had originally indicated a desire for a larger emergency loan, Treasury agreed to the smaller number, with the option to renew the discussion once the district could demonstrate that the budget was in structural balance. As of late January, the District is in compliance with loan reporting requirements. Roughly \$100,000 of loan proceeds remains in escrow.
- The District has made substantial progress toward bringing expenses in line with revenues. This includes contracting out services, closing buildings, and negotiating employee savings. Despite these actions, it is still unclear that the budget has been brought to structural balance. The Michigan Department of Education is currently reviewing the newest deficit elimination plan, in consultation with Treasury.
- On January 31st, the District submitted a request for a second emergency loan in the amount of \$4.0 million to pay aged payables. The application is currently being reviewed, however current projections reviewed by Treasury show that the District can survive on a cash basis through the end of the school year, but this may leave Accounts Payable in an untenable situation, with the risk of critical vendors discontinuing service. Treasury is currently working with the District on options for tax anticipation notes (which the district has utilized in previous years) and potentially a second emergency loan. As noted previously, a second emergency loan is predicated upon this being the last step toward a structurally balanced budget.
- A preliminary review completed on December 20, 2011 by the Michigan Department of Education found probable financial stress in the District. However, based on actions taken by the District to reduce costs, the State Superintendent of Public Instruction did not recommend appointment of a Review Team
- The School District closed FY 12 with a general fund deficit of \$16.1 million on total revenues of \$31.9 million. For FY 13 revenues are expected to decrease more than \$2 million.
- The District borrowed \$9.8 million through the Michigan Finance Authority's August 2012 SAN program. This represents 62.5% of their projected FY13 state school aid. The statutory maximum borrowing amount is 70% of state school aid.

Governor Snyder
February 8, 2013
Page 15 of 20

Inkster Schools



- The District's pupil count dropped from 3,173 in 2010 to 2,294 for the current year; a 27% drop in enrollment.
- The District's deficit was \$9.3 million in 2010 increasing to \$12.8 million in 2012.
- The District borrowed \$12.3 million in August 2012 for cash flow purposes; the note matures August 20, 2013. An emergency loan would be needed before August 20 in order to repay the note and avoid a default; however, in the interim, approximately \$103,000 of state school aid will be intercepted each month (February – July) to offset the outstanding balance on the note.
- Updated cash flows were received on January 31st and it still appears the District can operate through June although payables have grown from a little over \$1 million to \$2.7 million.
- The District submitted its board approved deficit elimination plan to MDE on January 21st which outlines a K-8 District with a potential charter of the high school effective July 1st. We will work with MDE to review the plan, however we have noted the following:
 - The plan does not cash flow and fails to take into account repayment of the outstanding state aid note resulting in a \$7 + million cash shortfall in August.
 - The proposed DEP does not eliminate the GF deficit until sometime after 2017, likely not until 2021.
 - The plan assumes all the current K-8 students will remain in the District.
- Discussions have been held with MDE regarding initiating a preliminary review under P.A 72 and a meeting is being has been scheduled next week for February 13th with Dennis Muchmore to discuss options.

LITIGATION SUMMARY

1. *AFSCME 25, et al v Governor, et al.* This action was filed in United States District Court (Eastern District). The claim is that modifications by the Emergency Manager for Detroit Public Schools to collective bargaining agreements violated various constitutional provisions (e.g., the Contracts Clause and Takings Clause).

Status: Cross motions for summary disposition were pending. A motion hearing was held on November 1, 2012, and the Court took the matter under advisement.

2. *Bland v Brown, Kurtz, et al.* This action was filed in Genesee County Circuit Court. This is an action for declaratory and injunctive relief and mandamus. The claim is that the Emergency Manager transferred the assets of the Flint Retirement System to the Municipal Employees Retirement System of Michigan (MERS) in violation of Act 4. Section 19(1)(m)(iii) of the Act authorizes such a transfer provided the recipient pension fund is actuarially funded at a level of 80 percent or more. The claim is that MERS as of December 31, 2010 was funded at only 76 percent.

Status: A pre-trial conference was held the last week of October 2012.

3. *Brown v Snyder.* This action was filed in Ingham County Circuit Court. The claim is that Act 4 is unconstitutional, facially and as applied. The State sought a protective order in regards to discovery which the trial court denied. On appeal, the Court of Appeals vacated the denial of the requested protective order and remanded. The trial court hearing on remand is September 26, 2012.

Status: The case was dismissed. The parties on November 19, 2012, signed stipulations and a voluntary dismissal.

4. *Citizens United Against Corrupt Government, et al v City of Detroit, et al.* This action was filed in Ingham County Circuit Court. The claim is that a contract by Mayor with an outside law firm violates City charter.

Status: Awaiting a hearing date.

5. *Citizens United Against Corrupt Government, et al v Detroit Financial Advisory Board.* This action was filed in the Court of Appeals. This is an action for *quo warranto*. The claim is that, among other things, no portion of the Financial Stability Agreement, including the Financial Advisory Board, survived the disapproval of Act 4 by the voters.

Status: The case is pending having been filed on December 10, 2012.

6. *Citizens United Against Corrupt Government, et al v Detroit Financial Review Team.* This action was filed in Ingham County Circuit Court. The claim is that negotiation of the Fi-

nancial Stability Agreement, as well as two provisions of the Financial Stability Agreement, violated Act 4. The case was dismissed by the Ingham County Circuit Court.

Status: Plaintiff filed a claim of appeal with the Court of Appeals and plaintiff's brief is due on December 26, 2012.

7. *Coletta et al v David Clark et al*. This action was filed in Wayne County Circuit Court and has been certified as a class action involving approximately 9,000 plaintiffs. This is an action for declaratory and injunctive relief and damages. The claim is that trustees of the City of Detroit's General Employees Retirement system and the Police and Fire Retirement system violated various laws and breached certain fiduciary duties in regards to the investment of pension assets.
8. *Davis v Detroit Financial Advisory Board*. This action was filed in Ingham County Circuit Court. The claim was that the Board violated the Open Meetings Act.

Status: The case was dismissed.

9. *Davis v Detroit Financial Review Team, et al*. This action was filed in Ingham County Circuit Court. The claims were that review teams were subject to the Open Meetings Act and that the Detroit Financial Review Team had acted in violation of a trial court order. The Court of Appeals held on May 21, 2012, that review teams are not subject to the Open Meetings Act, but remanded to the trial court for an evidentiary hearing on the issue whether defendants should be held in contempt. Subsequently, the trial court declined to hold an evidentiary hearing and plaintiff appealed that decision to the Court of Appeals.

Status: Payment of plaintiff's costs and attorney fees rendered moot the need for an evidentiary hearing.

10. *Davis v Highland Park Financial Review Team* (referred to as *Highland Park II* to distinguish it from the first Highland Park case which claimed that review teams were subject to the Open Meetings Act). This action was filed in Ingham County Circuit Court. The claims are that the terms of review team members expire 60 day (90 day with an extension) after appointment and that Act 4 violated Section 29 of the Headlee Amendment. The trial court dismissed the former claim, but held that Act 4 did violate the Headlee Amendment.

Status: Plaintiff failed to file a brief.

11. *Davis v Parker*. This is an action for *quo warranto*. This action was filed in the Court of Appeals after the foregoing case was filed in Ingham County Circuit Court. The claims are that the Emergency Financial Manager has no entitlement to her office because the statutory process of Act 72 was not followed and that Act 72 is not revived because it was repealed by Act 4.

Status: The Court of Appeals denied application for leave to proceed by *quo warranto*.

12. *Davis v Rick Snyder, Michael Flanagan, and Joyce Parker*. This action was filed in Ingham County Circuit Court. This is an action for declaratory judgment. The claims are that the statutory process of Act 72 was not followed, that Act 72 does not authorize the grandfathering of actions taken under Act 4, and that the criteria for appointment of emergency managers under Act 4 and emergency financial managers under Act 72 differ.

Status: A motion hearing is scheduled on January 30, 2013.

13. *Davis v Roberts*. This action was filed with the Michigan Supreme Court. The action is for *quo warranto*. The claims are that the Emergency Financial Manager has no entitlement to his office because the statutory process of Act 72 was not followed and that Act 72 is not revived because it was repealed by Act 4. The Court of Appeals previously denied relief and held that Act was revived.
14. *Davis v State of Michigan, City of Detroit, et al.* This action was filed in Ingham County Circuit Court. The claim is that the financial stability agreement violates the Headlee Amendment. The trial court denied plaintiff's motion for an evidentiary hearing, but allowed depositions. The Court of Appeals granted the State's application for leave to appeal. Defendants filed a reply brief on September 27, 2012.

Status: The Court of Appeals held oral arguments on December 5, 2012. The matter is awaiting decision.

15. *DPOA v City of Detroit*. This action was filed in Wayne County Circuit Court. This was an action for injunctive relief. The claim was that duty to engage in Act 312 arbitration survived the duty to bargain under the Public Employment Relations Act. On August 30, 2012, the Court granted the State's motion to intervene, dissolved a previously entered temporary restraining order, refused to enter a preliminary injunction, and determined that the City's employment terms are controlling until a new agreement is reached. The Court dismissed the case.

Status: DPOA filed with the Court of Appeals a claim of appeal and motion to stay, the latter of which the Court denied.

16. *DPOA v City of Detroit*. This action was filed in the Court of Claims (Ingham County Circuit Court). The claim is that the duty to engage in Act 312 arbitration survived the duty to bargain under the Public Employment Relations Act.

Status: Supplemental briefs have been filed by all parties who are awaiting a decision.

17. *FPOA v City of Flint*. This action was filed in Genesee County Circuit Court. This is an action for injunctive relief. The claim is that an Emergency Manager order which im-

posed a labor contract should be invalidated because the statute under which it was issued, Act 4 of 2011, no longer is in effect.

18. *Kincaid v Kurtz*. This action was filed in Genesee County Circuit Court. This is an action for *quo warranto* against the Flint Emergency Financial Manager. The claim is that the appointment of the Emergency Financial Manager is unconstitutional because Act 72 was repealed by Act 4 and, per the anti-revival statute (MCL 8.4), Act 72 was not revived upon the suspension of Act 4. Plaintiff's amended complaint and brief as requested by the Court were due on November 19, 2012. A hearing was scheduled on November 26, 2012. The Court granted a motion to adjourn the November 26, 2012, hearing which was rescheduled for December 20, 2012.

Status: The case was dismissed on December 20, 2012.

19. *NCO Acquisitions, LLC, et al v Governor, et al*. This action was filed in United States District Court (Eastern District). The claim is that termination lease by Emergency Manager for Detroit Public Schools violated the Contracts Clause and Takings Clause of the federal Constitution.

Status: The parties have filed cross motions for summary disposition and a hearing has been scheduled for January 9, 2013.

20. *Roberts v Murray, et al, and Detroit Board of Education*. This action was filed in Wayne County Circuit Court. This was an action for injunctive relief filed by the Emergency Financial Manager with a cross claim for injunctive relief by the School Board. The Court adopted the position set out in Attorney General Opinion No. 7267 that Act 72 is revived during the suspension of Act 4. The Court also held that actions taken under Act 4 prior to the time of its suspension remained valid.

Status: Not available.

21. *Sutton v Brown*. This action was filed in Ingham County Circuit Court. The claim was that the appointment of Mike Brown as Emergency Manager for the City of Flint violated the Headlee Amendment. On August 8, 2012, the trial court dismissed the complaint due to lack of service by plaintiff.

Status: The case was dismissed.

22. *Valenti v Snyder, et al*. This action was filed in United States District Court (Eastern District). The claim is that the Detroit financial stability agreement violated the contracts clause, procedural due process, and amounted to a tortious interference with contractual relations. The Court concluded that the suspension of Act 4 rendered the case moot, but that the case could be revisited depending upon the outcome of the Act 4 referendum.

Status: The case was dismissed, but on January 24, 2013, plaintiffs filed a motion with the court to reopen the case.

23. *Watkins, et al v the Governor, State Treasurer, and Attorney General*. This action was filed in Ingham County Circuit Court on behalf of two members of the Pontiac City Council, four members of the Benton Harbor City Commission, and all nine members of the Flint City Council. This is an action for mandamus or, in the alternative, declaratory, and injunctive relief. The plaintiffs seek to have the reappointments of the seven existing emergency financial managers declared invalid on grounds that the suspension of Act 4 did not revive Act 72.

Status: The case was dismissed. At a motion hearing on December 5, 2012, the Ingham County Circuit Court denied plaintiffs' requested relief and granted summary disposition in favor of the State.

24. *Welch et al v Brown, Kurtz, et al*. This action was filed in United States District Court (Eastern District). This is a class action for injunctive relief and damages. The claim is that changes implemented by the Emergency Manager under Act 4 and to be implemented under Act 72 to retiree healthcare violate certain constitutional and contractual rights of retirees. At a hearing on September 6, 2012, the Court declined to grant an injunction. Instead, the Court directed the parties to meet. The Court was of the opinion that plaintiffs appeared to misunderstand the nature of changes to their coverage and should first meet with city representatives to discuss those changes.

Status: The meeting between plaintiff's counsel and City's counsel was held and plaintiffs are expected to continue litigation.

Proposal

Wednesday, February 13, 2013 8:48 AM

Subject	FW: Proposal to Address Short Term Funding Issues Associated with KWA
From	Fraser, Roger (Treasury)
To	Koryzno, Edward (Treasury); Byrne, Randall (TREASURY); Cline, Richard (Treasury)
Sent	Monday, February 04, 2013 11:04 AM
Attachments	 Proposal to Address S...

Please review and share your thoughts with me.

Thanks!

From: Maxine Murray [mailto:mmurray@cityofflint.com]
Sent: Friday, February 01, 2013 2:51 PM
To: Fraser, Roger (Treasury)
Cc: Ed Kurtz; Dempkowski, Angela (Treasury); Michael Brown
Subject: Proposal to Address Short Term Funding Issues Associated with KWA

Good afternoon Mr. Fraser:

Per Ed Kurtz, please find attached the City of Flint's proposal to address the short term funding issues associated with choosing KWA as the city's water source.

Maxine Murray
Executive Assistant to
Mayor Dayne Walling
Edward J. Kurtz, Emergency Financial Manager
Michael K. Brown, City Administrator
1101 S. Saginaw Street
Flint, MI 48502
810.237.2035 Telephone
810.766.7218 Fax

Edward J. Kurtz
Emergency Financial Manager



Dayne Walling
Mayor

**Proposal to Address Short-Term Funding Issues
Associated With Choosing KWA as the
City of Flint's Water Source**

Flint officials have spent numerous hours considering the options of securing quality water at an affordable price for city residents and businesses. There have been many discussions with KWA and County officials, state officials, and representatives of the Detroit Water and Sewer System. Our conclusion is that participation in the KWA project will be in the best interests of the City of Flint, both in financial terms and in the future development of the region. Over the next 30 years, we project that participation in KWA will be less costly than continued participation with DWDS by at least \$58 million and as much as \$293 million.

The one issue of concern is the short term costs associated with joining KWA while continuing as a customer of DWSD who is paying a 15% penalty for failure to enter into a 30 year contract with DWSD. The issue is significant financially:

1. The up front cost of KWA during the 3 year construction period is projected to be \$2,325,600.
2. The costs associated with continuing to pay DWSD an approximate 15% premium for not signing a 30 year model contract is projected to be \$5,504,524, assuming an annual rate increase of 4.4% for each of the three years.

I am pleased that we have identified a strategy which will mitigate this concern:

1. With respect to the up front costs of KWA, the City and the Genesee County Water and Waste Services (GCWWS) have agreed in principal that the City's six miles of 72" pipeline located in Genesee County will be transferred to GCWWS in lieu of the projected \$2.3 million up front payment. While this is subject to documentation of value, we believe that the value of the pipeline to GCWWS is at least \$2.3 million. It would be our intent to lease that pipeline to the GCWWS for three years for \$2.3 million and then deed it to GCWWS for one dollar when the pipeline is completed and KWA is delivering water to Flint. Once the City is part of KWA, the pipeline has no value to the City.

2. With respect to the ongoing penalty costs imposed by DWSD, it would be KWA's intent to enter into negotiations with DWSD to purchase their 72 inch pipeline which runs from Lapeer to Genesee County. This pipeline would have no value to DWSD when KWA is operational with Flint as a partner. In principle, the KWA offer would include contracting with DWSD at a reasonable rate to be the backup for KWA, including the elimination of the 15% penalty to Flint for the 3 years that KWA construction is underway and Flint is purchasing water from DWSD. The elimination of this penalty has the potential to reduce the cost of water to Flint during the three year construction period by some \$5 million.

We believe that this strategy has long term benefits to Flint, KWA, and DWSD. First, it makes use of existing infrastructure which would otherwise be abandoned as KWA goes forward. Secondly, it reduces the current projected costs of building KWA. And finally, it benefits DWSD by providing them a continuing revenue stream as the provider of redundancy. However, should we be unsuccessful in negotiating an equitable arrangement with DWSD, we will pursue an alternative strategy.

Development of this proposal has opened the possibility of additional cooperative arrangements between the City of Flint and the GCWWS. We have agreed to begin discussions on the possibility of the GCWWS contracting to operate the Flint Water System. The plan would be to reach a conclusion before the start of the next fiscal year. If an agreement is reached, then negotiations would begin immediately on waste water treatment as well. This could be the start of a regional water and sewer authority.

KPMG

City of Flint

**Water Supply Project
Key Considerations**

November 2012

AUDIT • TAX • ADVISORY

The City of Flint Water Supply Project Project Needs

- ◆ **Protecting public interest** – the City should articulate, protect and promote public policy objectives and interest while obtaining the best long-term solution.
- ◆ **Explore all options** – with respect to the options already considered, the City should understand the financial impact over the long-term of those options (KWA vs. DWSA); and which option provides a long-term cost effective solution to meet water demands.
- ◆ **Balance project risks and costs** – the City of Flint should identify and analyze project risks and develop an optimal risk allocation and procurement strategy that balances risk and cost to the City.
- ◆ **Minimize financial impact** – the City should evaluate the financial implication of the procurement options on all of the requisite infrastructure on the City's credit rating, balance sheet and water rates with a view to obtaining a lifecycle cost based solution.
- ◆ **Governance** – the City should assess various governance elements – e.g., voting rights, operation and maintenance requirements and associated costs, water entitlements, future expansion/contraction, binding vs. non-binding decisions, etc.
- ◆ **Procurement process** – the City should develop a project scope and procurement strategy that maximizes competitive interest in the project.

The City of Flint Water Supply Project Unique Challenges

- ◆ A thorough understanding of and experience with key contractual issues are critical:
 - Multi-jurisdictional project and inter-relationship with stakeholder goals;
 - Access to financing instruments;
 - Performance requirements;
 - Operational considerations;
 - Insurance and bonding requirements;
 - Warranties and guarantees of work products;
 - Environmental approvals and regulatory permits;
 - Procurement method;
 - Payment mechanism; and
 - Potential impact on the water rates.

The City of Flint Water Supply Project Project Risks

- ◆ The Lake Huron Water Supply Project involves a risk profile and procurement considerations that are different from a typical capital project.
- ◆ An appropriate and acceptable balance of risk and control is required after careful consideration of tradeoffs:
 - Demand and offtake risk;
 - Planning, design, engineering;
 - Regulatory approvals and permits;
 - Geotechnical / Site conditions;
 - Hazardous substances;
 - Financing risk;
 - Project costs and schedule delays;
 - Construction and materials;
 - Construction defects;
 - Contractor insolvency;
 - Operations risk; and
 - Performance risk

The City of Flint Water Supply Project Allocating Project Risks

- The Lake Huron Water Supply Project can be procured under a range of different contract models.
- The contract model defines the roles of public and private sector partners and how project risks are shared.

	Design	Construction	Operate & Maintain	Finance
Design-Build (DBB)	○	○	○	○
Design-Build (DB)	●	●	○	○
Design-Build/Operate/Maintain (DBOM)	●	●	●	○
Design-Build/Finance/Operate/Maintain (DBFOM)	●	●	●	●

○ Risk retained by The City of Flint

● Risk transferred to Private Sector

- The long term risks for the City of Flint in implementing the Lake Huron Water Supply Project can be very different depending upon how the procurement is structured.

The City of Flint Water Supply Project Lessons Learned from Other Projects

- ◆ Issue that will need to be considered based on our experience (we understand that a number of these already are under consideration) include consideration of:
 - Authority (KWA) membership and voting rights;
 - Clear articulation of funding options and implementation, including membership responsibility apportionment
 - Facilities ownership and management, including competing facility (e.g., DWSA)
 - Governance – board membership, terms, responsibilities, and officers
 - Taxing authority on local jurisdictions
 - Water supply needs for developing areas vs. developed areas
 - Cost allocation for future capital projects – e.g. based on usage, entitlements, etc.
 - Rate setting methodology – e.g. based on actual usage, capacity, fixed capital costs and variable O&M costs, etc.
 - Financing structure for major capital project (e.g., tax-exempt bond funding, PayGO, alternative or private finance etc.)
 - Consideration of the whole of life management and costs of the options being considered including what happens at the end of the useful life of the capital assets

The City of Flint Water Supply Project

Key success factors

- Strong project leadership
- Clearly defined project scope and objectives
- Availability of internal public sponsor resources and external advisory support
- Thorough planning and risk assessment in the early stages
- Project solution that takes operational requirements into consideration
- Well defined, fair and transparent procurement process
- Committed project timeline
- Proactive communication with senior staff, elected officials and stakeholders
- Early and meaningful dialogue with the industry
- Political and public support
- Long term service level to consumers

Koryzno, Edward (Treasury)

From: Koryzno, Edward (Treasury)
Sent: Wednesday, February 13, 2013 2:18 PM
To: Cline, Richard (Treasury); Byrne, Randall (TREASURY)
Subject: RE: UPDATED FLINT DWSD KWA ASSESSMENT

Importance: High

Roger has reviewed this and he had the following comments:

- We dodged the question of why TYJ&T costs estimates were double KWA.
- We need to reconcile the difference adequately.
- Recommendations "rings hollow" without more detail.
- If TYJ&T is "full of %&#%", there is a lack of substance to justify it
- Report is Too Bland!
- Andy's questions should be early in the report and there should be a direct linkage.

I want you to revisit the report given Roger's comments and make the necessary changes.

Let me know if you have any questions.



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: Cline, Richard (Treasury)
Sent: Wednesday, January 30, 2013 2:00 PM
To: Koryzno, Edward (Treasury); Byrne, Randall (TREASURY)
Subject: UPDATED FLINT DWSD KWA ASSESSMENT
Importance: High

Ed/Randy,

Here is an update to my January 22 report on DWSD/KWA. I have rewritten large sections of this so please review carefully and let me know how you wish to proceed.

Eric Cline | Unit Operations Specialist - Office of Fiscal Responsibility
State of Michigan | Michigan Department of Treasury



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

ANALYSIS REPORT

TO: Edward Koryzno, Administrator; Office of Fiscal Responsibility
FROM: Eric Cline, Unit Operations Specialist
SUBJECT: Updated Flint Water System Status Assessment
DATE: February 15, 2013

Analysis Summary

On November 26, 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 overarching purpose of this study was to provide objective analyses to the State Treasurer and to Flint's Emergency Financial Manager (EFM) in order to secure potable drinking water for the City for the foreseeable future. The Office of Fiscal Responsibility (OFR) has been the lead office representing Treasury in this project.

On January 14, 2013, the State Treasurer requested responses to three questions: 1) Show the different, projected construction costs provided by TYJT and by the City of Flint/KWA. If these costs are different, explain why Treasury believes that the projects provided by Flint/KWA are acceptable; 2) identify the construction contingencies included in the TYJT and Flint/KWA projections; and 3) identify the options Flint will utilize in the event of a construction cost overrun or a delay in construction by KWA.

This has been a very difficult project to analyze because of the number of proposals to consider, differences of opinion about the conclusions of various engineering analyses that have been conducted, the fact that the analyses are comparing an existing, operational water system with one that has not yet been designed, and conditions within the City of Flint that make it difficult to assess their true water needs.

However, despite these difficulties, I believe that KWA presents the best future option to provide potable water for the City of Flint in the future. Long-term, KWA appears to be the cheaper option; the quality of water will almost certainly improve; Genesee County appears willing to assist the City securing the financial resources for their portion of the project; this project could signify the beginning of better collaboration between the City of Flint and Genesee County; the KWA project has both political and popular support.

The following details how this recommendation was arrived at:

Background:

On December 21, 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, TYJT outlined 5 options that they had analyzed. These options were: 1) 100% water provision by the City of Flint Water Plant from its water source of the Flint River; 2) 100% provision of untreated Lake Huron Water by KWA (which would require treatment by the Flint Water Plant); 3) Effective 100% provision of treated drinking water by DWSD; 4) Provision of variable amounts of water from DWSD through the existing Potter & Baxter mains (this option called for Flint to treat and *blend* river water into DWSD water in order to reach their daily needs); and 5) Provision of variable amounts of water from DWSD through the 72" Imlay City main (this option also called for Flint to treat and *blend* river water into DWSD water in order to reach their daily needs). Each of the blending options looked at Flint purchasing 4, 8, or 12 Million Gallons per Day (MGD) from DWSD and blending the balance in river water to achieve their maximum daily water needs of 18 MGD. The Imlay City option also provided for DWSD to sell the 72" main to the City of Flint, which would then become the operational and maintenance responsibility of Flint.

From the presentation of the preliminary report on December 21 to the submission of the final report to the State by TYJT on January 29, 2013, a number of developments occurred that made analysis and arriving at a final decision very difficult. They were:

- DWSD provided the City of Flint with at least two modified proposals to consider.
- TYJT and Rowe Professional Services Company (Rowe), the principal engineering firm for KWA (and Genesee County and the City of Flint), began disputing the others' conclusions and estimates regarding the construction of the KWA pipeline.
- The Flint EFM also disputed several of TYJT's conclusions. At a January 10, 2013, meeting with Treasury, the EFM also eliminated the 100% Water Plant option, using the Flint River as a 100% water source (which was cheapest option, as determined by TYJT).
- At a January 10, 2013 meeting, Flint officials eliminated all of the DWSD Imlay City options (which were the cheapest DWSD options) over concerns of owning and maintaining the 72" water main. They also eliminated consideration of any of the blending options originally proposed to DWSD, in part over concerns of added costs to soften the water. This effectively left the only options remaining under consideration by Flint to be the 100% DWSD option (which TYJT estimated to be more expensive than either of the KWA cost options) or joining KWA.

I believe that TYJT's analysis was hampered by the very short timeframe in which they attempted to conduct this analysis; which, may have led to being more conservative in some of their estimates. I believe that some of the comparable systems used in their analysis may not have been the best options but given that KWA is still in the design phase, may represent the best selection of comparable. I also believe, for whatever reasons, that all of the information (from both DWSD and KWA) TYJT needed to effectively analyze these options was not provided to them.

Projected Construction Costs:

Based upon the provided construction estimates, TYJT estimates the KWA construction costs at **\$357.6-million**. KWA estimates construction costs at **\$272.4-million**. TYJT states in their final report that they received "limited information" from KWA, which might have resulted in more conservative estimates.

The primary differences between the two estimates center around 1) the cost of constructing the pumping stations; 2) land acquisition costs; 3) contingency costs (discussed below); 4) the provision of

construction management services; 5) design costs; and 6) redundant power at the pumping stations. Cost estimates were reasonably similar by both firms in other areas except for those noted above.

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Conclusions:

It is likely that TYJT's estimates are overly conservative. Their own analysis concludes that KWA's projections are cheaper than their estimate of the KWA project. Even with a 15% cost overrun and a one-year delay (Worst-case scenario), KWA's estimate is still lower than TYJT. All estimates for KWA are cheaper than the 100% DWSD option (all other DWSD options were eliminated from consideration by the EFM).

That is not to say that the KWA estimates are without fault. KWA is a new venture and the "unknowns" exist at the initial phases of the project. KWA has the potential to be the cheaper, long-term cost for the City of Flint after the bond debt for construction is retired. Significant construction delays and/or cost overruns could greatly add to the cost of this project, which could add to the financial burden on Flint.

Realistically, the true cost for this project will likely be in the middle of the two estimates. The bids for construction of the KWA lake water intake will be opened on February 26, 2013. Comparison of the bids and the estimates for intake construction could be an indicator of the more valid estimate.

There are also some additional factors that are outside of the three questions asked by the State Treasurer that influence a final recommendation on this project. The first is DWSD. DWSD is a "known" entity and the system is already in-place and in operation. DWSD may also be the cheaper option in the short term. However, selecting them requires a 30-year commitment and the unknown aspect of future rate increases is very concerning to Flint officials. All estimates show KWA being cheaper to Flint than DWSD after capital costs are retired. There also appears to be considerable local resistance to continuing a relationship with DWSD.

The upfront costs and the premium water charges assessed by DWSD while KWA is being constructed are of great concern to City officials. Flint officials have indicated that approximately **\$3.5-million** in capital upgrades is needed for the Water Plant if the KWA option is selected. However, at a January 28, 2013 meeting, County Drain Commissioner Wright indicated that Genesee County will permit Flint to participate in its revenue bond sale for KWA for Flint's 30% share of capacity in the KWA System and for plant upgrades. Given Flint's current financial situation, were this participation to occur, it will be a positive development for the City because it is likely Flint would have a very difficult time issuing bonds on the strength of its own credit rating. The Drain Commissioner also indicated a willingness to discuss how KWA might mitigate the \$7- to \$8-million cost of the "premium" rate that would be charged to the City of Flint by DWSD for the City to purchase water while KWA was being constructed.

Recommendation:

A recommendation is being made to support the City of Flint joining KWA. Given, the conservatism of TYJT's estimates and the fact that all KWA estimates are cheaper than the 100% DWSD option, KWA appears to be the logical choice. EFM Kurtz has stated that he believes the KWA option is the cheaper alternative over time. There appears to be public support for the KWA project and EFM Kurtz has also stated that he believes that the Flint Mayor and City Council will support the KWA Project.

Also, the potential inclusion of Flint in the issuance of revenue bonds by Genesee County and the potential for KWA to assist the City in mitigating some of the DWSD premium charges could greatly reduce Flint's financial concerns.

There also appears to be good cooperation between City and County officials in discussing this project and this level of engagement and dialogue between city and county officials because of this project could continue to grow and lead to additional areas of cooperation and collaboration.

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

Copy: Randall Byrne, State Administrative Manager; Office of Fiscal Responsibility

Attachment

S:\OFR\Cities\City of Flint\KWA Water Authority\UPDATED FLINT DWSD KWA ASSESSMENT Version VII.02-13-13.doc

Koryzno, Edward (Treasury)

From: Fraser, Roger (Treasury)
Sent: Saturday, February 16, 2013 9:43 AM
To: Koryzno, Edward (Treasury)
Subject: Re: TYJT & DWSD - FW: Friday Meeting On

Let's not close any doors on the discussion about this issue. If we need to pay for their time, so be it.

Sent from Roger's iPad

On Feb 15, 2013, at 10:31 AM, "Koryzno, Edward (Treasury)" <KoryznoE@michigan.gov> wrote:

FYI – Not sure what Andy discussed with Mr. Fausone. Eric will be directed not to talk to TYJT.

 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

From: Cline, Richard (Treasury)
Sent: Friday, February 15, 2013 11:26 AM
To: Byrne, Randall (TREASURY); Koryzno, Edward (Treasury)
Subject: TYJT & DWSD - FW: Friday Meeting On
Importance: High

Please advise. Dave wants to speak with me prior to 1:30.

From: David Guastella [<mailto:DGuastel@tyjt.com>]
Sent: Friday, February 15, 2013 11:15 AM
To: Cline, Richard (Treasury)
Subject: FW: Friday Meeting On

From: Fausone, Jim [<mailto:JFausone@fb-firm.com>]
Sent: Thursday, February 14, 2013 2:59 PM
To: David Guastella
Subject: Friday Meeting On

David - This is to confirm Friday's 130pm meeting. Please send me the location. I met with Mr. Dillon today and he said to get with TYJT and discuss the Flint issue. I believe he was giving you and me full authority to meet and discuss. Feel free to call or email him. So, I would like to bring Director McCormick with me tomorrow and see the new digs and talk about Flint. Does that work? Jim

James G. Fausone

<image001.jpg>

41700 West Six Mile Road, Suite 101
Northville, Michigan 48168-3460
(248) 380-0000 tel ext. [REDACTED]
(248) 380-3434 fax
jfausone@fb-firm.com
www.fb-firm.com

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

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Local Government Continuing Agenda
Please submit updates at least one hour before meetings begin

Discussion Points:

Governor's Monthly Memo update

Real estate transfer tax

Increased reporting requirements triggers

Act 72: Have all cities submitted their requirement since the switch to PA 72?

DEP reporting requirements

Wayne County DTRF

Cities that require Pension and OPEB analysis - We have received 11 actuarial reports from Benton Harbor, Ecorse, Flint, Highland Park, Harper Woods, Inkster, Muskegon Heights, Pontiac, River Rouge, Taylor and Wayne County. Detroit and Hamtramck have not submitted information and a follow up letter will be sent. (ek 1/7/13)

EFM salaries

Dashboard Software-Two meetings with DTMB scheduled

Local Units:

Allen Park – Discussed emergency loan with Joyce Parker. A.P. will need loan by the end of Feb. Joyce would like to be approved for \$6M and will need \$2M immediately to address cash flow. The remaining \$4M can be held in escrow if they need it. Joyce is putting together DEP and is looking at the sale of movie studio as well as options to reduce retiree healthcare costs (ss 1/8)

Joyce is discussing shared services with Taylor's Mayor Lamarand. Initial focus is on fire. Meeting is scheduled with Andy for 11:30 a.m. Friday, 2.1.13. Joyce plans a review of her DEP and financial plan with OFR and Roger during the week of Feb. 4. (rf 1.30)

City of Benton Harbor – Tony Saunders has had positive discussions with the Mayor and a majority of the Commission members. Tony has met with Joe Harris and spent about five hours talking about Joe's efforts. Pending his start at the end of this week, Tony has been doing impressive due diligence on the City and meeting with many folks. (rf 1.30)

The latest emergency loan amount remains uncertain. Tony wants to evaluate the near-term needs before a loan app is finalized.

Benton Harbor Area Schools

City of Dearborn Heights

City of Detroit – After Roger and Ed met with Steve Hilfinger, it appears the three of us are not impressed with the proposal prepared for and submitted by Kriss Andrews. We are arranging to meet with Chris Gannon of Conway MacKenzie to strategize about the proposals and what an execution plan would look like.

MEDC is interested in the status of Treasury's discussions with the City on their plans for PDD, and more broadly, the Treasurer's bigger picture views on the City's plans for PDD. This would include what if

February 19, 2016

anything is included in any agreements relating to milestones for draws on the escrow funds as it relates to PDD reforms. (ek 1/14)

Detroit Public Schools –

Ecorse – A revised version of the ILA will be presented to Ecorse next week. (RF 1.30)

Village of Elberta

Flint – Roger, Randy and Eric met with City officials, County Drain Commissioner and staff, and Rowe Engineering for talk about the KWA. Details were shared regarding the status of the project; the history of the City and the County in dealing with DWSD; opportunities for additional collaboration with the County on water and sewer projects; and how the County could help the City with the higher costs of DWSD water during the first three years of the KWA project (construction). Staff sees KWA as the better long-term solution to the City's water issues, with the one caveat being the higher DWSD costs. Ed Kurtz is optimistic that those higher costs can be addressed in ways that will not compromise the City's finances. City staff are convinced that they must plan for no more increases in water rates. (rf 1.30)

Handy Township

Highland Park City – L.G. is working on a long term plan for the City to have submitted by 2.15.13. (rf 1.30)

Highland Park Schools

Hamtramck – A preliminary review is recommended. Suzanne will explain. (rf 1.30)

Harper Woods –

Inkster – MDEQ is requiring the city to install CSO improvements as part of an order by Judge Fiekens and estimated to cost \$20+ million. OFR staff attended a meeting on 12/17 with city staff and MDEQ staff to assess the necessity of the improvements given the city's current financial condition. (ek 12/17)

City of Muskegon Heights –

Muskegon Heights Public Schools

City of Pontiac – Lou submitted an updated project list. Should be able to go to a TAB in summer. (rf 1.08)

Pontiac School District

The preliminary review by the Department of Education found the existence of probable financial stress, but recommended that a financial review team not be appointed. As with Benton Harbor Schools, this recommendation is inconsistent with Section 12 of Act 4. (FH)

February 19, 2016

City of River Rouge – OFR staff is conducting an analysis of the PPT legislation's impact to the City. (ek 1/14)

Royal Oak Township – Staff was contacted by the newly elected Treasurer re: possible violations of PA 2 and Pa 33. Staff is reviewing documents provided by the Treasurer. (ek 1/8)

The FY 2013 budget has not been adopted and there are questions about authorizing payroll on 1/17/13; confidence in township attorney and financial consultant is low. (ek 1/14)

City of Taylor – The City has inappropriately borrowed from other funds to cover up cash flow issues. The deficit is \$5M and the feeling is that the council won't take the deficit seriously but the mayor doesn't seem able to come up with a reasonable plan either. (ss 1/8)

Joyce and Roger will be meeting with the Mayor to discuss service sharing. (rf 1.08)

Wayne County – Roger, Ed and OFR staff met with Community Mental Health personnel during December to discuss CMH's desire to participate in Phase II via an MOU similar to the one with DHS. OFR staff is preparing both a Statement of Work and a corresponding MOU. (ek 1/8)

Phase II contract -The majority of fieldwork required in the contract has been completed. Most of the contract items are more than 90% complete. The Contractor believes that a draft of the report will be completed by the end of the month. The addendum for the delinquent tax revolving fund is approximately 90% complete according to the Contractor. (ek 1/8)

Carla Sledge has submitted a draft DEP eliminating the deficit by 2017. DEP is limited on details so will need to discuss its acceptance. The County is also submitting an application for a TAN this month (ss 1/8)

Webber Township – OFR staff met with Township Supervisor and OFR staff is preparing an engagement proposal to prepare multiyear forecast for consideration by Township Board. (ek 1/14)

Treasury intervened in this case in July and is working with the Township and the property owners toward a settlement. Our perception is that the current assessed values will not be sustained. (RF 11.13)

Prior Approval Applications (ss 12/11)

Mount Clemens (\$5.7M) – under review by LAFD

Lansing Township DDA (\$7.5M)-under review by LAFD

Village of Prescott (\$690,000) – under review by LAFD

City of Flint Hospital Building Authority (\$71M) – Incomplete application

Emergency Loan Applications- cannot exceed \$35 million total (ss 9.25)

Allen Park-\$2 million (application received and under review)

February 19, 2016

Benton Harbor-\$3 million (application received and under review)
Hamtramck - \$3 million (application received and under review)

Additional

Melvindale – Cash flow shortage, budget violations (ss 12/11). OFR staff had a phone conference with the Administrator, City Attorney and Finance Director on 1/11, as part of enhanced DEP reporting requirements. Staff is preparing a proposal for an engagement.(ek 1/14)

Lincoln Park – Contacted by the City Manager on 1/11 who stated the city will be out of cash in April. OFR staff is examining most recent audit for possible causes. (ek 1/14)

Action Items 12-11

Suzanne is going to send Cary to talk to the Wayne County Prosecutor regarding cuts and TAN conditions

Suzanne is reviewing the Brownstown Township DDA audit

Tom Saxton and John Barton will notify Jack Martin about the need for a draw request. Releasing \$10 million to Detroit after verifying November milestones have been met.

John Barton is sending some bullet points about Pontiac to Andy

Benton Harbor- Andy meeting with Governor on Wednesday, talking to Ed and Roger Wednesday morning about how to resolve toxic environment before Andy meets with the Governor.

I am calling Phil Pierce regarding the Wayne County DTRF

I am also adding the necessary agenda items to our land bank conference call agenda

Additional:

Adding Real Estate Transfer Tax to the next meeting agenda

Adding Increased Reporting Requirements triggers to the next meeting agenda



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ANDY DILLON
STATE TREASURER

ANALYSIS REPORT

TO: Edward Koryzno, Administrator; Office of Fiscal Responsibility

FROM: Eric Cline, Unit Operations Specialist

SUBJECT: Updated Flint Water System Status Assessment

DATE: February 21, 2013

Analysis Summary

On November 26, 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 overarching purpose of this study was to provide objective analyses to the State Treasurer and to Flint's Emergency Financial Manager (EFM) in order to secure potable drinking water for the City for the foreseeable future. The Office of Fiscal Responsibility (OFR) has been the lead office representing Treasury in this project.

On January 14, 2013, the State Treasurer requested responses to three questions: 1) Show the different, projected construction costs provided by TYJT and by the City of Flint/KWA. If these costs are different, explain why Treasury believes that the projects provided by Flint/KWA are acceptable; 2) identify the construction contingencies included in the TYJT and Flint/KWA projections; and 3) identify the options Flint will utilize in the event of a construction cost overrun or a delay in construction by KWA.

This has been a very difficult project to analyze because of the number of proposals to consider, differences of opinion about the conclusions of various engineering analyses that have been conducted, the fact that the analyses are comparing an existing, operational water system with one that has not yet been designed, and conditions within the City of Flint that make it difficult to assess their true water needs.

However, despite these difficulties, I believe that KWA presents the best future option to provide potable water for the City of Flint in the future. Long-term, KWA appears to be the cheaper option; the quality of water will almost certainly improve; Genesee County appears willing to assist the City in securing the financial resources for their portion of the project; this project could signify the beginning of better collaboration between the City of Flint and Genesee County; the KWA project has both political and popular support.

The following details how this recommendation was arrived at:

Background:

On December 21, 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, TYJT outlined 5 options that they had analyzed. These options were: 1) 100% water provision by the City of Flint Water Plant from its water source of the Flint River; 2) 100% provision of untreated Lake Huron Water by KWA (which would require treatment by the Flint Water Plant); 3) Effective 100% provision of treated drinking water by DWSD; 4) Provision of variable amounts of water from DWSD through the existing Potter & Baxter master meter (this option called for Flint to treat and *blend* river water into DWSD water in order to reach their daily needs); and 5) Provision of variable amounts of water from DWSD through the 72" Imlay City main (this option also called for Flint to treat and *blend* river water into DWSD water in order to reach their daily needs). Each of the blending options looked at Flint purchasing 4, 8, or 12 Million Gallons per Day (MGD) from DWSD and blending the balance in river water to achieve their maximum daily water needs of 18 MGD. The Imlay City option also provided for DWSD to sell the 72" main to the City of Flint, which would then become the operational and maintenance responsibility of Flint.

From the presentation of the preliminary report on December 21 to the submission of the final report to the State by TYJT on January 29, 2013, a number of developments occurred that made analysis and arriving at a final decision very difficult. They were:

- DWSD provided the City of Flint with at least two modified proposals to consider.
- TYJT and Rowe Professional Services Company (Rowe), the principal engineering firm for KWA (and Genesee County and the City of Flint), began disputing the others' conclusions and estimates regarding the construction of the KWA pipeline.
- The Flint EFM also disputed several of TYJT's conclusions. At a January 10, 2013, meeting with Treasury, the EFM also eliminated the 100% Water Plant option, using the Flint River as a 100% water source (which was cheapest option, as determined by TYJT).
- At a January 10, 2013 meeting, Flint officials eliminated all of the DWSD Imlay City options (which were the cheapest DWSD options) over concerns of owning and maintaining the 72" water main. They also eliminated consideration of any of the blending options originally proposed to DWSD, in part over concerns of added costs to soften the water. This effectively left the only options remaining under consideration by Flint to be the 100% DWSD option (which TYJT estimated to be more expensive than either of the KWA cost options) or joining KWA.

I believe that TYJT's analysis was hampered by the very short timeframe in which they attempted to conduct this analysis; which, may have led to being more conservative in some of their estimates. I believe that some of the comparable systems used in their analysis may not have been the best options but given that KWA is still in the design phase, may represent the best selection of comparable. I also believe, for whatever reasons, that all of the information (from both DWSD and KWA) TYJT needed to effectively analyze these options was not provided to them.

Projected Construction Costs:

Based upon the provided construction estimates, TYJT estimates the KWA construction costs at **\$357.6-million**. KWA estimates construction costs at **\$272.4-million**. TYJT states in their final report that they received "limited information" from KWA, which might have resulted in more conservative estimates.

The primary differences between the two estimates center around 1) the cost of constructing the pumping stations; 2) land acquisition costs; 3) contingency costs (discussed below); 4) the provision of

construction management services; 5) design costs; and 6) redundant power at the pumping stations. Cost estimates were reasonably similar by both firms in other areas except for those noted above.

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If the additional costs are not included, then the TYJT and the KWA estimates are within 5% of each other. This may/may not be acceptable differences, but I believe the only way to verify the accuracy of either estimate would be to utilize a third engineering firm to independently review both TYJT and KWA's estimates.

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County Drain Commissioner Jeff Wright stated at a January 28 meeting that, if necessary, KWA has the authority to borrow more funds to complete the project in the event that delays or cost overruns necessitate the borrowing of more funds. However, Mr. O’Brien also stated that the January 28 meeting that KWA expects to purchase insurance policies to insure against delays to the project. It has been suggested that a one-year delay in completion could increase project costs by as much as \$20-million. Further discussion with Mr. O’Brien reveals that KWA is looking into purchasing a “wrap-around” policy against construction delays and a builders’ risk policy; the costs of which are still being determined by KWA. Drain Commission Wright also indicated at the January 28 meeting that if construction bids come in significantly higher than estimated that KWA will likely reassess its approach to this project.

Conclusions:

It is likely that TYJT’s estimates are overly conservative. Their own analysis concludes that KWA’s projections are cheaper than their estimate of the KWA project. Even with a 15% cost overrun and a one-year delay (Worst-case scenario), KWA’s estimate is still lower than TYJT. All estimates for KWA are cheaper than the 100% DWSD option (all other DWSD options were eliminated from consideration by the EFM).

That is not to say that the KWA estimates are without fault. KWA is a new venture and the “unknowns” exist at the initial phases of the project. KWA has the potential to be the cheaper, long-term cost for the City of Flint after the bond debt for construction is retired. Significant construction delays and/or cost overruns could greatly add to the cost of this project, which could add to the financial burden on Flint.

Realistically, the true cost for this project will likely be in the middle of the two estimates. The bids for construction of the KWA lake water intake will be opened on February 26, 2013, with the expectation of presenting a recommendation for bid award on March 20. Comparison of the bids and the estimates for intake construction could be an indicator of the more valid estimate.

There are also some additional factors that are outside of the three questions asked by the State Treasurer that influence a final recommendation on this project. The first is DWSD. DWSD is a “known” entity and the system is already in-place and in operation. DWSD may also be the cheaper option in the short term. However, selecting DWSD requires a 30-year commitment and the unknown aspect of future rate increases is very concerning to Flint officials. EFM Kurtz has stated that the City has experienced rate volatility over the history of its relationship with DWSD. According to the EFM, the average historical annual rate increase for the City is 6.7%, but over the past 10-years the average annual rate increase has been 10.5%.

All estimates show KWA being cheaper to Flint than DWSD after capital costs are retired. There also appears to be considerable local resistance to continuing a relationship with DWSD.

The upfront costs and the premium water charges assessed by DWSD while KWA is being constructed are of great concern to City officials. Flint officials have indicated that approximately **\$3.5-million** in capital upgrades is needed for the Water Plant if the KWA option is selected. However, at a January 28,

2013 meeting, County Drain Commissioner Wright indicated that Genesee County will permit Flint to participate in its revenue bond sale for KWA for Flint's 30% share of capacity in the KWA System and for plant upgrades. Given Flint's current financial situation, were this participation to occur, it will be a positive development for the City because it is likely Flint would have a very difficult time issuing bonds on the strength of its own credit rating. The Drain Commissioner also indicated a willingness to discuss how KWA might mitigate the \$5- to \$6-million cost of the "premium" rate that would be charged to the City of Flint by DWSD for the City to purchase water while KWA was being constructed.

On February 4, 2013, a proposal was received from EFM Kurtz that outlined a two-phased approach to resolve the cost of this premium charge. First, the City will transfer six miles of 72" water main owned by the City that extends into Genesee County in lieu of the \$2.3-million up-front payment the City would have to make for construction of the KWA system. The second phase involves KWA entering into negotiations with DWSD to purchase their 72" water main that runs from Imlay City to Genesee County and agreeing to purchase water from DWSD for redundant purposes in-exchange for DWSD eliminating the 15% premium rate to Flint during the three-year KWA construction period.

Recommendation:

A recommendation is being made to support the City of Flint joining KWA. Given, the conservatism of TYJT's estimates and the fact that all KWA estimates are cheaper than the 100% DWSD option, KWA appears to be the logical choice. EFM Kurtz has stated that he believes the KWA option is the cheaper alternative over time. There appears to be public support for the KWA project and EFM Kurtz has also stated that he believes that the Flint Mayor and City Council will support the KWA Project.

Also, the potential inclusion of Flint in the issuance of revenue bonds by Genesee County and the potential for KWA to assist the City in mitigating some of the DWSD premium charges could greatly reduce Flint's financial concerns.

There also appears to be good cooperation between City and County officials in discussing this project and this level of engagement and dialogue between city and county officials because of this project could continue to grow and lead to additional areas of cooperation and collaboration.

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

Copy: Randall Byrne, State Administrative Manager; Office of Fiscal Responsibility

Attachment

S:\OFR\Cities\City of Flint\KWA Water Authority\UPDATED FLINT DWSD KWA ASSESSMENT.Version VIII 02-21-13.doc

City of Flint Water Rate History						
Year (Date Effective)	Average Monthly Water/Sewer Bill*	Percentage Change In Water/Sewer Rates	Water Fund** Total Operating Revenue	Water Fund** Unrestricted Net Position	Water Fund** Capital Improvements	
2010	\$64	12%	\$31,956,754	-\$5,795,973	\$2,091,160	
1/15/2011	\$82	29%	\$36,762,663	-\$12,443,265	\$1,403,916	
9/16/2011	\$111	35%				
7/1/2012	\$111	26%	\$44,854,439	-\$8,758,091	\$755,681	
2013	\$140	0%	\$49,903,868	\$834,447	\$147,462	
07/01/13 to 06/30/14	\$140	0%	\$43,552,152	\$760,745	\$3,301,700	
07/01/14 to 06/30/15	\$149***	6%	N/A	N/A	N/A	
Note* Water rate information is based on average usage of 7 units per month with a 5/8" residential remote meter.						
Note** Water fund information was compiled from the City of Flint's CAFR filed with the Michigan Department of Treasury.						
Note*** Billing breakdown contained in attached memo.						

Note** Water fund information was compiled from the City of Flint's CAFR filed with the Michigan Department of Treasury.

Note* Billing breakdown contained in attached memo.**

City Operations – An initial review of several departments across the City indicates a significant need for a comprehensive IT infrastructure upgrade and City-wide integration of its centralized processes

Function	Observations
IT	▪ The technology infrastructure, support capabilities and governance appear to be in very poor condition ▪ The IT function is currently in a stage of transition in terms of people and investment. There is heavy reliance on third party advisors and little ownership by the departments utilizing the function ▪ The existing systems are antiquated and inefficient in structure. As an example, the Police system is run off of dozens of Access databases – which are relied upon to track critical data such as crime and intelligence data. Moreover, the ability to assess the patrol/arrest process time allocation is limited ▪ Police have received grants that make possible a system upgrade. However, the grant funding does not adequately cover the cost of process redesign, which will be a critical step in getting value from the IT upgrade ▪ It is apparent that the basic infrastructure and resources would need to be stabilized prior to optimizing specific systems. This includes a long term IT governance, disaster recovery and management / resource plan ▪ Telecommunication contracts appear to provide an opportunity for improvement. The current cost is in excess of \$1M projected for FY14. It is possible that the restructuring of these contracts to match the needs of the City may result in savings as much as 40% ▪ The current process and tools limit the ability to empower the department heads to track and manage budget / actual accountability and impacting also the ability to encumber current funds and limit multi-year rollovers. There is some expectation that the new accounting systems will provide the tools to improve these processes ▪ Vendor management, IFB and RFP process needs to be enhanced to ensure that Bid to Delivery process is tracked ▪ The City is experiencing significant issues surrounding the large increases in water costs. Water rates have more than doubled in the past 2 years and that has resulted in declining collections. The City has more than 8,000 or ~25% customers past due and does not yet have a strategy / process / resources to address this issue ▪ The City only has the capacity to perform 150 shut-offs a week. Given the level of delinquencies, it is clear there are not resources to properly enforce collections ▪ The City has also identified a growing issue surrounding unbilled water. This is a result of both fire department usage (driven by high number of fires) and theft.
Purchasing/ Accounting	
Water and Sewer	

Koryzno, Edward (Treasury)

From: Cline, Richard (Treasury)
Sent: Thursday, February 21, 2013 10:19 AM
To: Byrne, Randall (TREASURY)
Subject: Flint Water Parallel Line Option.Update

Importance: High

Randy,

Per your request, here is an update on this parallel line option as it relates to the Flint Water System Analysis.

- Below is a summary of the initial conversation I had with TYJT on this issue. This information was sent on January 22, 2013.
- On pages 17-18 of the Final Report provided by TYJT, this option was referenced. The report states the following:

Additionally, in recent conversations with the Treasury another option was discussed that could potentially be the most cost-effective solution.

Currently the Flint WTP serves as a backup if service is lost through either the DWSD or KWA pipeline. If the a twin pipe paralleling the DWSD 72-inch water main were constructed with interconnects with the 72-inch line, then the new water main could serve as the backup to Flint and the Flint WTP could be abandoned or potentially sold to Genesee County for their use.

The construction of the parallel pipeline would be considered in the DWSD capital expenditure as a Common to All (CTA) cost. This means that the capital cost of the pipeline would be shared by all DWSD customers and not just by Flint. Preliminary analysis of this option appears to be the most cost-effective of all the options discussed. However, a more thorough cost analysis is warranted and this approach would require an agreement between Flint and DWSD.

- On February 15, 2013, I was informed of a meeting between DWSD and TYJT regarding this option. Apparently, this meeting was authorized by the State Treasurer. The DWSD Director and Chair of the Board met with Dave Guastella, Vice President of TYJT. Mr. Guastella informed me that DWSD was inquiring how the Flint issue will move forward. They also, apparently, repeated their openness to the parallel line option and indicated willingness, were this option to move forward, to relocate the master meter from Potter & Baxter to the Flint WTP. This would eliminate the need for Flint to construct a connecting line to the master meter. DWSD also indicated that relocating this master meter could also be completed as a Common-to-all-Cost project.

This is all of the additional information I have at this point.

Please advise me on how you wish me to proceed.

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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Koryzno, Edward (Treasury)

From: Fraser, Roger (Treasury)
Sent: Thursday, February 21, 2013 6:15 PM
To: Stibitz, Brom (Treasury); Koryzno, Edward (Treasury)
Subject: RE: Treasury Flint Water Supply Assessment

We've been working on the final touches to our KWA report, which includes our recommendation. However, we learned within the past few days that Tucker Young apparently met with Andy and is exploring another alternative. Do you have any information about that?

I asked for some additional edits on the Highland Park plan, which has been evolving along with the KWA report.

From: Stibitz, Brom (Treasury)
Sent: Thursday, February 21, 2013 3:30 PM
To: Fraser, Roger (Treasury); Koryzno, Edward (Treasury)
Subject: FW: Treasury Flint Water Supply Assessment

Did we ever track down the responses to Andy's KWA questions?

What about the Highland Park plan?

From: David Guastella [mailto:DGuastel@tyjt.com]
Sent: Thursday, February 21, 2013 1:07 PM
To: jfausone@fb-firm.com
Cc: mccormick@dwsd.org; George Karmo; Awni Qaqish; Dillon, Andy (Treasury); Cline, Richard (Treasury); Stibitz, Brom (Treasury); Koryzno, Edward (Treasury)
Subject: FW: Treasury Flint Water Supply Assessment

Jim

The purpose of this email is to summarize our discussion from our meeting on February 15th for the Treasury who was not in attendance. They are copied on the email along with the Director and our staff who were present at the meeting. Please review the bullet items below and "Reply to All" if you have any revisions. TYJT is prepared to assist in any way possible to resolve the Flint supply issue.

- TYJT provided DWSD with a copy of the final report titled, "City of Flint Water Supply Assessment, February 2013."
- In addition to the options presented in the report, TYJT discussed the possibility of moving the metering point for Flint to Flint's WTP and twinning the existing pipeline so that the Flint WTP could be abandoned. The second line would serve as the required redundancy to Flint.

Moving the metering point to the Flint WTP would potentially allow for the entire cost of twinning the existing 72-inch main to be covered in DWSD's rate calculations as a Common to All cost that would get allocated as capital over the entire DWSD wholesale customer base. Since DWSD costs by customer are based on distance and elevation components it was recognized that moving the supply point west would increase the distance, but that the elevation of the plant appeared to be lower than the current supply point at Potter & Baxter. Therefore, the distance component may be off set in some degree by the elevation component. TYJT provided preliminary costs for twinning the pipeline to DWSD to aid in their calculation. DWSD indicated that they would estimate the rate impacts to Flint and get back with TYJT.

There was a brief discussion related to whether DWSD would buy the existing Flint main between the existing metering point at Potter & Baxter and the Flint WTP. It was found that a better understanding related to the condition of this main and its value would need to be evaluated.

- The DWSD Board of Water Commissioners is comprised of Detroit representatives and representatives from Oakland, Macomb, and Wayne Counties. Adding a representative from Genesee County was discussed. DWSD needs to look at charter restrictions and the judge's ruling to determine how this issue could be addressed.
- There was concern expressed as to whether KWA representatives are representing the actual opinions of the individual communities within the counties being supplied by DWSD. A discussion of possibly holding presentations of the Treasury findings to the individual communities was discussed.
- In general, the meeting was very positive with DWSD willing to address the issues Flint has identified so that the Department can retain Flint as a customer.

Dave

From: Fausone, Jim [mailto:JFausone@fb-firm.com]
Sent: Thursday, February 14, 2013 2:59 PM
To: David Guastella
Subject: Friday Meeting On

David - This is to confirm Friday's 130pm meeting. Please send me the location. I met with Mr. Dillon today and he said to get with TYJT and discuss the Flint issue. I believe he was giving you and me full authority to meet and discuss. Feel free to call or email him. So, I would like to bring Director McCormick with me tomorrow and see the new digs and talk about Flint. Does that work? Jim

James G. Fausone

FAUSONE BOHN LLP

41700 West Six Mile Road, Suite 101
Northville, Michigan 48168-3460
(248) 380-0000 tel ext. [REDACTED]
(248) 380-3434 fax
jfausone@fb-firm.com
www.fb-firm.com

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

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Koryzno, Edward (Treasury)

From: Byrne, Randall (TREASURY)
Sent: Friday, February 22, 2013 7:39 AM
To: Koryzno, Edward (Treasury)
Subject: FW: Flint water supply

Ed:

It sounds as if Roger has not received the email from Dave G. Do you want me to send it to him?

Randy,

From: Fraser, Roger (Treasury)
Sent: Thursday, February 21, 2013 6:21 PM
To: Byrne, Randall (TREASURY)
Cc: Koryzno, Edward (Treasury)
Subject: RE: Flint water supply

Do you know what, if any, traction there is on this idea?

From: Byrne, Randall (TREASURY)
Sent: Thursday, February 21, 2013 5:23 PM
To: Fraser, Roger (Treasury)
Subject: RE: Flint water supply

Roger:

The parallel line that DWSD would construct is from Imlay City to Flint. The benefit to Flint is that they may be able to abandon their water plant because the 2nd line would provide the redundancy that is required as per TYJT. The benefit to DWSD is that they would retain the City of Flint as a customer.

Randy,

From: Fraser, Roger (Treasury)
Sent: Thursday, February 21, 2013 3:22 PM
To: Byrne, Randall (TREASURY); Koryzno, Edward (Treasury)
Subject: FW: Flint water supply

The updated assessment appears fine. Thanks for the additional work.

The Flint parallel water line option is not one I understand. It is not clear why construction of a new line paralleling the 72" line from Port Huron would be of interest to DWSD and a benefit, not only to Flint, but also to the metro area users of the DWSD water services. Do we have any confirmation of DWSD's interest in this approach?

From: Byrne, Randall (TREASURY)
Sent: Thursday, February 21, 2013 10:52 AM
To: Fraser, Roger (Treasury)
Cc: Koryzno, Edward (Treasury)
Subject: Flint water supply

Roger:

I am forwarding to you the updated KWA Assessment and a question regarding another option that was not included in this Assessment. It was discussed by Tucker Young and DWSD last Friday, but we have nothing in writing from DWSD committing them to this proposal, nor do we have any engineering data to compare this option with the others. Please review Eric's comments to me and advise as to the best course of action.

Thanks,
Randy,



Randall D. Byrne, Manager, Office of Fiscal Responsibility
State of Michigan 430 W. Allegan St. , Lansing, MI 48922
ByrneR1@michigan.gov (517) 355-2521



Think Green! Don't print this e-mail unless you need to.

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Koryzno, Edward (Treasury)

From: Fraser, Roger (Treasury)
Sent: Friday, February 22, 2013 8:07 AM
To: Stibitz, Brom (Treasury)
Cc: Koryzno, Edward (Treasury); Byrne, Randall (TREASURY); Cline, Richard (Treasury)
Subject: FW: Flint water supply
Attachments: Flint Water Parallel Line Option.Update; UPDATED FLINT DWSD KWA ASSESSMENT.Version VIII.02-21-13.doc

Attached is our assessment of the KWA issue in Flint. The questions Andy raised are specifically addressed.

As you may recall, while receiving water from DWSD, an ongoing requirement, imposed by DEQ, is for a backup water system in Flint in case of failure of the DWSD service. To that end, Flint has been required to maintain their water plant, even though it rarely has been used. In the parallel line option, Tucker Young suggests that the need for Flint to maintain their water plant while receiving water from DWSD, might be resolved by running a parallel line from Imlay City that would provide a second means of delivery for DWSD treated water. That parallel line could, in the thoughts of Tucker Young, also resolve certain backup issues for other parts of the DWSD system.

We are unaware of any discussions with DWSD on this issue. An obvious concern would be where the cost for the parallel line fits in DWSD capital planning. From Flint's perspective, the value proposition has to be concerning as the City spent approximately \$45 million upgrading the plant recently, still has debt to pay related to those improvements, and would be faced with the longer term issue of what to do with the plant. Use by the County was suggested. Because of the low geographic elevation of the Flint plant, its use as other than a backup for the Genesee County water services would be difficult.

Based on what we understand of the somewhat dynamic circumstances around this decision, the KWA option still seems best for Flint.

From: Byrne, Randall (TREASURY)
Sent: Thursday, February 21, 2013 10:52 AM
To: Fraser, Roger (Treasury)
Cc: Koryzno, Edward (Treasury)
Subject: Flint water supply

Roger:

I am forwarding to you the updated KWA Assessment and a question regarding another option that was not included in this Assessment. It was discussed by Tucker Young and DWSD last Friday, but we have nothing in writing from DWSD committing them to this proposal, nor do we have any engineering data to compare this option with the others. Please review Eric's comments to me and advise as to the best course of action.

Thanks,
Randy,



Randall D. Byrne, Manager, Office of Fiscal Responsibility
State of Michigan 430 W. Allegan St., Lansing, MI 48922
ByrneR1@michigan.gov (517) 355-2521

Headen, Frederick (Treasury)

From: Cline, Richard (Treasury)
Sent: Thursday, February 21, 2013 10:19 AM
To: Byrne, Randall (Treasury)
Subject: Flint Water Parallel Line Option.Update

Importance: High

Randy,

Per your request, here is an update on this parallel line option as it relates to the Flint Water System Analysis.

- Below is a summary of the initial conversation I had with TYJT on this issue. This information was sent on January 22, 2013.
- On pages 17-18 of the Final Report provided by TYJT, this option was referenced. The report states the following:

Additionally, in recent conversations with the Treasury another option was discussed that could potentially be the most cost-effective solution.

Currently the Flint WTP serves as a backup if service is lost through either the DWSD or KWA pipeline. If the a twin pipe paralleling the DWSD 72-inch water main were constructed with interconnects with the 72-inch line, then the new water main could serve as the backup to Flint and the Flint WTP could be abandoned or potentially sold to Genesee County for their use.

The construction of the parallel pipeline would be considered in the DWSD capital expenditure as a Common to All (CTA) cost. This means that the capital cost of the pipeline would be shared by all DWSD customers and not just by Flint.

Preliminary analysis of this option appears to be the most cost-effective of all the options discussed. However, a more thorough cost analysis is warranted and this approach would require an agreement between Flint and DWSD.

- On February 15, 2013, I was informed of a meeting between DWSD and TYJT regarding this option. Apparently, this meeting was authorized by the State Treasurer. The DWSD Director and Chair of the Board met with Dave Guastella, Vice President of TYJT. Mr. Guastella informed me that DWSD was inquiring how the Flint issue will move forward. They also, apparently, repeated their openness to the parallel line option and indicated willingness, were this option to move forward, to relocate the master meter from Potter & Baxter to the Flint WTP. This would eliminate the need for Flint to construct a connecting line to the master meter. DWSD also indicated that relocating this master meter could also be completed as a Common-to-all-Cost project.

This is all of the additional information I have at this point.

Please advise me on how you wish me to proceed.

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: Cline, Richard (Treasury)
Sent: Tuesday, January 22, 2013 5:14 PM
To: Koryzno, Edward (Treasury); Byrne, Randall (TREASURY)
Subject: Flint Water Parallel Line Option
Importance: High

Ed/Randy,

I spoke with Dave Guastella regarding the DWSD Parallel Line option. Here is what our conversation covered.

- DWSD open to constructing a parallel line as Common-to-All cost. It would run from Imlay City through Potter & Baxter. Approximately 30 miles.
- DWSD would roll the cost into all customer rates over 30-years. Flint, thereby, would avoid capital costs. DWSD said that they could calculate impact on rates about one day after an estimated cost of construction is developed.
- Dave indicated that the line could be built to bypass failures. It would also contain interconnects so water could be transferred between the lines.
- Flint will probably have to construct line from the Water Plant (about 2 miles) to connect to the new line for true redundancy.

Let me know how you wish to proceed with this new information.

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Headen, Frederick (Treasury)

From: Cline, Richard (Treasury)
Sent: Thursday, February 21, 2013 10:36 AM
To: Byrne, Randall (Treasury)
Subject: UPDATED FLINT DWSD KWA ASSESSMENT.Version VIII.02-21-13.doc
Attachments: UPDATED FLINT DWSD KWA ASSESSMENT.Version VIII.02-21-13.doc

Importance: High

Per your request.

Eric Cline | Unit Operations Specialist - Office of Fiscal Responsibility
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RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ANDY DILLON
STATE TREASURER

ANALYSIS REPORT

TO: Edward Koryzno, Administrator; Office of Fiscal Responsibility

FROM: Eric Cline, Unit Operations Specialist

SUBJECT: Updated Flint Water System Status Assessment

DATE: February 21, 2013

Analysis Summary

On November 26, 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 overarching purpose of this study was to provide objective analyses to the State Treasurer and to Flint's Emergency Financial Manager (EFM) in order to secure potable drinking water for the City for the foreseeable future. The Office of Fiscal Responsibility (OFR) has been the lead office representing Treasury in this project.

On January 14, 2013, the State Treasurer requested responses to three questions: 1) Show the different, projected construction costs provided by TYJT and by the City of Flint/KWA. If these costs are different, explain why Treasury believes that the projects provided by Flint/KWA are acceptable; 2) identify the construction contingencies included in the TYJT and Flint/KWA projections; and 3) identify the options Flint will utilize in the event of a construction cost overrun or a delay in construction by KWA.

This has been a very difficult project to analyze because of the number of proposals to consider, differences of opinion about the conclusions of various engineering analyses that have been conducted, the fact that the analyses are comparing an existing, operational water system with one that has not yet been designed, and conditions within the City of Flint that make it difficult to assess their true water needs.

However, despite these difficulties, I believe that KWA presents the best future option to provide potable water for the City of Flint in the future. Long-term, KWA appears to be the cheaper option; the quality of water will almost certainly improve; Genesee County appears willing to assist the City in securing the financial resources for their portion of the project; this project could signify the beginning of better collaboration between the City of Flint and Genesee County; the KWA project has both political and popular support.

The following details how this recommendation was arrived at:

Background:

On December 21, 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, TYJT outlined 5 options that they had analyzed. These options were: 1) 100% water provision by the City of Flint Water Plant from its water source of the Flint River; 2) 100% provision of untreated Lake Huron Water by KWA (which would require treatment by the Flint Water Plant); 3) Effective 100% provision of treated drinking water by DWSD; 4) Provision of variable amounts of water from DWSD through the existing Potter & Baxter master meter (this option called for Flint to treat and *blend* river water into DWSD water in order to reach their daily needs); and 5) Provision of variable amounts of water from DWSD through the 72" Imlay City main (this option also called for Flint to treat and *blend* river water into DWSD water in order to reach their daily needs). Each of the blending options looked at Flint purchasing 4, 8, or 12 Million Gallons per Day (MGD) from DWSD and blending the balance in river water to achieve their maximum daily water needs of 18 MGD. The Imlay City option also provided for DWSD to sell the 72" main to the City of Flint, which would then become the operational and maintenance responsibility of Flint.

From the presentation of the preliminary report on December 21 to the submission of the final report to the State by TYJT on January 29, 2013, a number of developments occurred that made analysis and arriving at a final decision very difficult. They were:

- DWSD provided the City of Flint with at least two modified proposals to consider.
- TYJT and Rowe Professional Services Company (Rowe), the principal engineering firm for KWA (and Genesee County and the City of Flint), began disputing the others' conclusions and estimates regarding the construction of the KWA pipeline.
- The Flint EFM also disputed several of TYJT's conclusions. At a January 10, 2013, meeting with Treasury, the EFM also eliminated the 100% Water Plant option, using the Flint River as a 100% water source (which was cheapest option, as determined by TYJT).
- At a January 10, 2013 meeting, Flint officials eliminated all of the DWSD Imlay City options (which were the cheapest DWSD options) over concerns of owning and maintaining the 72" water main. They also eliminated consideration of any of the blending options originally proposed to DWSD, in part over concerns of added costs to soften the water. This effectively left the only options remaining under consideration by Flint to be the 100% DWSD option (which TYJT estimated to be more expensive than either of the KWA cost options) or joining KWA.

I believe that TYJT's analysis was hampered by the very short timeframe in which they attempted to conduct this analysis; which, may have led to being more conservative in some of their estimates. I believe that some of the comparable systems used in their analysis may not have been the best options but given that KWA is still in the design phase, may represent the best selection of comparable. I also believe, for whatever reasons, that all of the information (from both DWSD and KWA) TYJT needed to effectively analyze these options was not provided to them.

Projected Construction Costs:

Based upon the provided construction estimates, TYJT estimates the KWA construction costs at **\$357.6-million**. KWA estimates construction costs at **\$272.4-million**. TYJT states in their final report that they received "limited information" from KWA, which might have resulted in more conservative estimates.

The primary differences between the two estimates center around 1) the cost of constructing the pumping stations; 2) land acquisition costs; 3) contingency costs (discussed below); 4) the provision of

construction management services; 5) design costs; and 6) redundant power at the pumping stations. Cost estimates were reasonably similar by both firms in other areas except for those noted above.

The cost of constructing the pumping stations is the biggest difference between the two estimates (**\$24.6-million vs. \$54.5-million**). TYJT stated that they believe KWA had not designed the pumping stations to the point where more accurate numbers could be achieved. TYJT also stated that their estimates were based on construction costs for a similar project in SE Michigan. KWA maintains that construction costs in Genesee County are much lower than in SE Michigan and that they have extensive experience in construction projects that will help keep costs in-line. KWA has also stated that the construction of the transmission pipeline will be done by multiple contractors in order to save time and allow more Michigan contractors to bid on the project.

TYJT added \$1.2-million to their estimates for land and easement acquisition. KWA has stated that they have already secured nearly all of the land and easement accesses needed for this project. It is likely that TYJT was unaware of this when they developed their estimates.

TYJT also added 5% (**\$14.4-million**) to their estimated base cost for construction management services. TYJT has stated that KWA has not taken these costs into account. KWA maintains that they have accounted for them and these costs will not be that high.

Nearly **\$18-million** was added to TYJT's estimates for design costs and legal work for the design of both the pumping stations and the transmission pipeline. KWA maintains that they have accounted for these expenses.

TYJT also included **\$1.3-million** in new costs for standby power at the pumping stations. KWA has made no provisions for redundant power at the pumping facilities. TYJT included the provision of redundant power in their estimates and notes that this is an industry standard. KWA officials have stated that the new water plant will have redundant power but that the pumping stations will not. The stated reasons for not including redundant power were cost containment, that Flint can use the Flint River as a backup water supply in the event of an extended power outage and that the KWA systems' water storage capacity will allow for 7 days of reserve supply. KWA has also stated that they will look at installing standby power later but can utilize portable generators at the pumping stations, if necessary.

If the additional costs are not included, then the TYJT and the KWA estimates are within 5% of each other. This may/may not be acceptable differences, but I believe the only way to verify the accuracy of either estimate would be to utilize a third engineering firm to independently review both TYJT and KWA's estimates.

Project Contingency:

Construction contingency costs, also known as Engineering, Land, Administration, and Contingency costs (ELAC) are summarized in an attached chart developed by Rowe for the City of Flint. KWA/Rowe estimates total construction at \$272.4-million, with **\$53.2-million** (25%) for ELAC contingencies. County Water and Sewer Administrator John O'Brien clarified at a January 28, 2013 meeting that there is a 15% contingency for unforeseen issues and 10% "extra." TYJT estimates total construction at \$357.6-million, with **\$107.3-million** (30%) for ELAC contingencies.

TYJT stated that they believe that 25% ELAC for a project of this scope that is (at the time of the final report) less than 15% designed is insufficient; hence the more conservative estimate. The 5% difference in ELAC costs adds nearly \$40-million to the TYJT estimate.

Construction Cost Overrun/Construction Delay Options:

The OFR is not aware of any contingency plans developed by either KWA or the City of Flint to address construction cost overruns or significant construction delays. The final TYJT Water Supply Assessment Report does reference an October 31, 2012 letter from KWA to EFM Kurtz in which KWA anticipates a “worse-case scenario” of a 15% cost overrun and a one-year operational delay. KWA projects, under this scenario, that water from DWSD would be cheaper than KWA until 2020 as opposed to 2016; reducing projected cumulative savings from \$19-million to \$3.9-million by Year 8 (2020).

County Drain Commissioner Jeff Wright stated at a January 28 meeting that, if necessary, KWA has the authority to borrow more funds to complete the project in the event that delays or cost overruns necessitate the borrowing of more funds. However, Mr. O’Brien also stated that the January 28 meeting that KWA expects to purchase insurance policies to insure against delays to the project. It has been suggested that a one-year delay in completion could increase project costs by as much as \$20-million. Further discussion with Mr. O’Brien reveals that KWA is looking into purchasing a “wrap-around” policy against construction delays and a builders’ risk policy; the costs of which are still being determined by KWA. Drain Commission Wright also indicated at the January 28 meeting that if construction bids come in significantly higher than estimated that KWA will likely reassess its approach to this project.

Conclusions:

It is likely that TYJT’s estimates are overly conservative. Their own analysis concludes that KWA’s projections are cheaper than their estimate of the KWA project. Even with a 15% cost overrun and a one-year delay (Worst-case scenario), KWA’s estimate is still lower than TYJT. All estimates for KWA are cheaper than the 100% DWSD option (all other DWSD options were eliminated from consideration by the EFM).

That is not to say that the KWA estimates are without fault. KWA is a new venture and the “unknowns” exist at the initial phases of the project. KWA has the potential to be the cheaper, long-term cost for the City of Flint after the bond debt for construction is retired. Significant construction delays and/or cost overruns could greatly add to the cost of this project, which could add to the financial burden on Flint.

Realistically, the true cost for this project will likely be in the middle of the two estimates. The bids for construction of the KWA lake water intake will be opened on February 26, 2013, with the expectation of presenting a recommendation for bid award on March 20. Comparison of the bids and the estimates for intake construction could be an indicator of the more valid estimate.

There are also some additional factors that are outside of the three questions asked by the State Treasurer that influence a final recommendation on this project. The first is DWSD. DWSD is a “known” entity and the system is already in-place and in operation. DWSD may also be the cheaper option in the short term. However, selecting DWSD requires a 30-year commitment and the unknown aspect of future rate increases is very concerning to Flint officials. EFM Kurtz has stated that the City has experienced rate volatility over the history of its relationship with DWSD. According to the EFM, the average historical annual rate increase for the City is 6.7%, but over the past 10-years the average annual rate increase has been 10.5%.

All estimates show KWA being cheaper to Flint than DWSD after capital costs are retired. There also appears to be considerable local resistance to continuing a relationship with DWSD.

The upfront costs and the premium water charges assessed by DWSD while KWA is being constructed are of great concern to City officials. Flint officials have indicated that approximately \$3.5-million in capital upgrades is needed for the Water Plant if the KWA option is selected. However, at a January 28,

2013 meeting, County Drain Commissioner Wright indicated that Genesee County will permit Flint to participate in its revenue bond sale for KWA for Flint's 30% share of capacity in the KWA System and for plant upgrades. Given Flint's current financial situation, were this participation to occur, it will be a positive development for the City because it is likely Flint would have a very difficult time issuing bonds on the strength of its own credit rating. The Drain Commissioner also indicated a willingness to discuss how KWA might mitigate the \$5- to \$6-million cost of the "premium" rate that would be charged to the City of Flint by DWSD for the City to purchase water while KWA was being constructed.

On February 4, 2013, a proposal was received from EFM Kurtz that outlined a two-phased approach to resolve the cost of this premium charge. First, the City will transfer six miles of 72" water main owned by the City that extends into Genesee County in lieu of the **\$2.3-million** up-front payment the City would have to make for construction of the KWA system. The second phase involves KWA entering into negotiations with DWSD to purchase their 72" water main that runs from Imlay City to Genesee County and agreeing to purchase water from DWSD for redundant purposes in-exchange for DWSD eliminating the 15% premium rate to Flint during the three-year KWA construction period.

Recommendation:

A recommendation is being made to support the City of Flint joining KWA. Given, the conservatism of TYJT's estimates and the fact that all KWA estimates are cheaper than the 100% DWSD option, KWA appears to be the logical choice. EFM Kurtz has stated that he believes the KWA option is the cheaper alternative over time. There appears to be public support for the KWA project and EFM Kurtz has also stated that he believes that the Flint Mayor and City Council will support the KWA Project.

Also, the potential inclusion of Flint in the issuance of revenue bonds by Genesee County and the potential for KWA to assist the City in mitigating some of the DWSD premium charges could greatly reduce Flint's financial concerns.

There also appears to be good cooperation between City and County officials in discussing this project and this level of engagement and dialogue between city and county officials because of this project could continue to grow and lead to additional areas of cooperation and collaboration.

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

Copy: Randall Byrne, State Administrative Manager; Office of Fiscal Responsibility

Attachment

S:\OFR\Cities\City of Flint\KWA Water Authority\UPDATED FLINT DWSD KWA ASSESSMENT Version VIII 02-21-13 doc

Lamphier, Wendy (Treasury)

From: Dillon, Andy (Treasury)
Sent: Sunday, February 24, 2013 3:01 PM
To: Stibitz, Brom (Treasury)
Subject: Re: Flint water supply

Follow Up Flag: Follow up
Flag Status: Flagged

Let's discuss Monday.

Sent from my iPad

On Feb 22, 2013, at 2:33 PM, "Stibitz, Brom (Treasury)" <StibitzB@michigan.gov> wrote:

> Andy – attached is the Local Government analysis on KWA/DWSD.

>

> From: Fraser, Roger (Treasury)

> Sent: Friday, February 22, 2013 8:07 AM

> To: Stibitz, Brom (Treasury)

> Cc: Koryzno, Edward (Treasury); Byrne, Randall (TREASURY); Cline,

> Richard (Treasury)

> Subject: FW: Flint water supply

>

> Attached is our assessment of the KWA issue in Flint. The questions Andy raised are specifically addressed.

>

> As you may recall, while receiving water from DWSD, an ongoing requirement, imposed by DEQ, is for a backup water system in Flint in case of failure of the DWSD service. To that end, Flint has been required to maintain their water plant, even though it rarely has been used. In the parallel line option, Tucker Young suggests that the need for Flint to maintain their water plant while receiving water from DWSD, might be resolved by running a parallel line from Imlay City that would provide a second means of delivery for DWSD treated water. That parallel line could, in the thoughts of Tucker Young, also resolve certain backup issues for other parts of the DWSD system.

>

> We are unaware of any discussions with DWSD on this issue. An obvious concern would be where the cost for the parallel line fits in DWSD capital planning. From Flint's perspective, the value proposition has to be concerning as the City spent approximately \$45 million upgrading the plant recently, still has debt to pay related to those improvements, and would be faced with the longer term issue of what to do with the plant. Use by the County was suggested. Because of the low geographic elevation of the Flint plant, its use as other than a backup for the Genesee County water services would be difficult.

>

> Based on what we understand of the somewhat dynamic circumstances around this decision, the KWA option still seems best for Flint.

>

>

> From: Byrne, Randall (TREASURY)

> Sent: Thursday, February 21, 2013 10:52 AM

> To: Fraser, Roger (Treasury)

> Cc: Koryzno, Edward (Treasury)

> Subject: Flint water supply

> Roger:

>

> I am forwarding to you the updated KWA Assessment and a question regarding another option that was not included in this Assessment. It was discussed by Tucker Young and DWSD last Friday, but we have nothing in writing from DWSD committing them to this proposal, nor do we have any engineering data to compare this option with the others. Please review Eric's comments to me and advise as to the best course of action.

>

> Thanks,

> Randy,

>

>

>

>

>

> Randall D. Byrne, Manager, Office of Fiscal Responsibility [cid:image001.gif@01CE101D.E29B5610]

> State of Michigan 430 W. Allegan St. , Lansing, MI 48922

> ByrneR1@michigan.gov<mailto:ByrneR1@michigan.gov> (517) 355-2521

>

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> Thank you.

>

>

> <Flint Water Parallel Line Option.Update.eml> <UPDATED FLINT DWSD KWA

> ASSESSMENT.Version VIII.02-21-13.doc.eml> <UPDATED FLINT DWSD KWA

> ASSESSMENT Version VIII 02-21-13.pdf> <image001.gif>

Koryzno, Edward (Treasury)

From: Koryzno, Edward (Treasury)
Sent: Tuesday, February 26, 2013 4:54 PM
To: Fraser, Roger (Treasury)
Subject: RE: KWA

Very good news indeed!



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: Tuesday, February 26, 2013 4:29 PM
To: Ed Kurtz (ekurtz@cityofflint.com)
Cc: Koryzno, Edward (Treasury)
Subject: FW: KWA

Thanks. Helpful! Good news.

From: Ed Kurtz [<mailto:ekurtz@cityofflint.com>]
Sent: Tuesday, February 26, 2013 3:02 PM
To: Fraser, Roger (Treasury)
Subject: KWA

Roger, the county opened the bids today for the KWA intake construction in Lake Huron. The low bid, from a "very reputable" contractor came in at \$24,622,000, about \$3,000,000 less than the Tucker Young estimate in the study they did for Treasury. The County authorized the borrowing up to \$35,000,000 for the project. It is now estimated that the total cost with engineering, legal and contingencies will be less than \$31,000,000. Good news for KWA and the county. Just as an aside, four of the five bids were less than the Tucker Young projection. Ed

Lamphier, Wendy (Treasury)

From: Dillon, Andy (Treasury)
Sent: Thursday, February 28, 2013 6:58 PM
To: Muchmore, Dennis (GOV)
Cc: Stibitz, Brom (Treasury); Hichez, Amy (Treasury)
Subject: Re: Flint water bills

Follow Up Flag: Follow up
Flag Status: Flagged

Dennis, we will get back to you on this.

Sent from my iPad

On Feb 28, 2013, at 6:55 PM, "Muchmore, Dennis (GOV)" <muchmored@michigan.gov> wrote:

Just another example.

From: Corrigan, Maura (DHS)
Sent: Thursday, February 21, 2013 1:00 PM
To: Muchmore, Dennis (GOV)
Cc: Berger, Duane (DHS); Yager, Steve (DHS)
Subject: FW: Flint water bills

Can we do anything at all about this gouging?

From: Yager, Steve (DHS)
Sent: Thursday, February 21, 2013 12:00 PM
To: Berger, Duane (DHS); Corrigan, Maura (DHS)
Cc: Beurer, Terrence (DHS)
Subject: FW: Flint water bills

See below—is this something we might mention to Dennis M. ? This is a legitimate concern in my estimation.

From: Rauch, Randy (DHS)
Sent: Wednesday, February 20, 2013 3:18 PM
To: Yager, Steve (DHS)
Subject: Flint water bills

Steve,

I am wondering, if somehow, I could send a letter to the Governor regarding the water bills in the City of Flint. Effective 3-1-13, the City will now require a \$350 service fee for turning on water to a home. Shut off accounts and new water applications. Plus a \$75 deposit on top of that.

The fee was \$100. This is on top of a change that took effect just a few months ago of increasing the water fee to \$53 per month just to have water in the home. Then the usage is on top of that. This is the city managers way of trying to balance their budget.

People in Flint cannot afford this. DHS cannot afford this. It is hurting our SER funding and my CP/CP funding. People in Flint cannot live with these rates. I feel somehow the Governor needs to hear about this.

I have asked numerous times to meet with the City manager with no luck. My own Board member is an advisor to the city manager and I have asked him to set up a meeting and he has not.

What can we do to get the Governor's ear?

Randy Rauch

Child Welfare Director

Genesee Co. DHS

810-760-2648

Koryzno, Edward (Treasury)

From: Fraser, Roger (Treasury)
Sent: Monday, March 04, 2013 4:07 PM
To: Koryzno, Edward (Treasury)
Subject: FW: FW: Flint water bills
Attachments: Water Forum - Final.ppt; WATER RATES deposits.doc

FYI

From: Stibitz, Brom (Treasury)
Sent: Monday, March 04, 2013 3:33 PM
To: Fraser, Roger (Treasury)
Subject: FW: FW: Flint water bills

Just FYI. I will work with G's office on this.

From: Ed Kurtz [mailto:ekurtz@cityofflint.com]
Sent: Monday, March 04, 2013 10:44 AM
To: Stibitz, Brom (Treasury)
Subject: Re: FW: Flint water bills

Good morning Brom. In response to your email I have attached the following: 1. A narrative of water related issues, and 2. a copy of the slides used in presentations to the community in May/June 2012. If you need additional information, please let me know. Ed

On Mon, Mar 4, 2013 at 7:24 AM, Stibitz, Brom (Treasury) <StibitzB@michigan.gov> wrote:

Mike & Ed,

The Governor's office has been hearing from Department of Human Services workers with concerns for what the recent changes in water policy (rates, hookup deposits, etc) are doing to low income residents in the City.

We need to get them something in writing on why the recent changes were necessary. Also, if there is anything we are doing to help the low income population in the rules, can you please point that out.

Can you guys help us put something together?

A call to Randy Rauch to discuss the situation might help too.

Randy Rauch

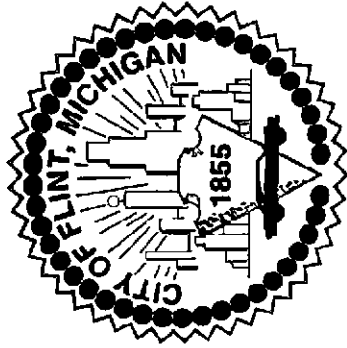
Child Welfare Director

Genesee Co. DHS

810-760-2648

Thanks.

Brom



City of Flint

Water Forum

5/31/2012

City Of Flint Water Forum

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City Of Flint Water History Facts

Current Treatment Plant was put into service in 1954.

Current 72" main pipeline was completed in 1970.

Flint signed a 30 year contract with Detroit Water and Sewer Department in the mid 1960's.

The contract with DWSD has expired and we are currently operating on a yearly extension.

In 2006 Flint completed a \$48,000,000 upgrade of the existing Water Plant (required by the MDEQ & for backup only).

Flint's Water & Sewer System is approximately a \$300,000,000 Enterprise.

Flint's Water & Sewer System is designed to deliver water to over 200,000 people with over 1,500 miles of infrastructure.

Flint's most recent census count shows a population of approximately 102,000 in 2010.

Flint's census population in 2000 was approximately 124,000.

The water system had over 45,000 customers in June of 1999.

The water system had just over 36,000 customers by June 2011.

The "Fixed Costs" that must be covered to maintain the system and deliver quality water have increased over time.

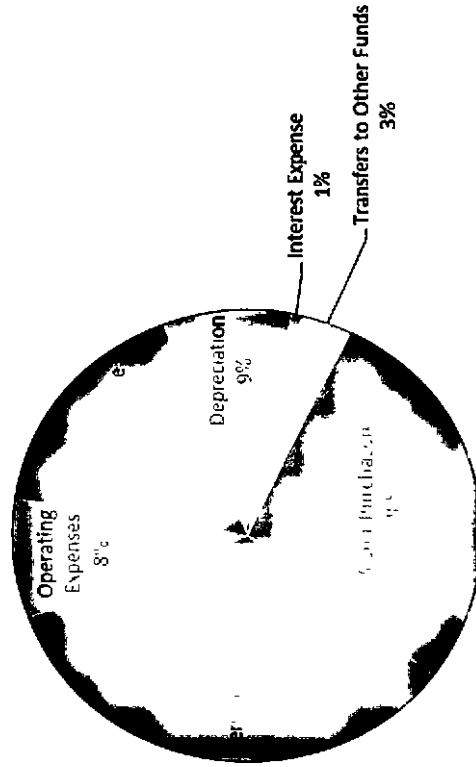
City Of Flint
Most Frequently Asked Questions about Water

- ☐ **Why are the water rates so high ?**
- ☐ **How does my water bill work (Explanation of charges) ?**
- ☐ **Why do others in the area pay less for the same amount of water ?**
- ☐ **Where has all of the water and sewer fund money gone ?**
- ☐ **What do I do if I think my bill is incorrect ?**
- ☐ **What effect does leakage or theft have on my bill ?**
- ☐ **How can I report water theft ?**
- ☐ **Why don't we go back to using the Flint River like we once did ?**

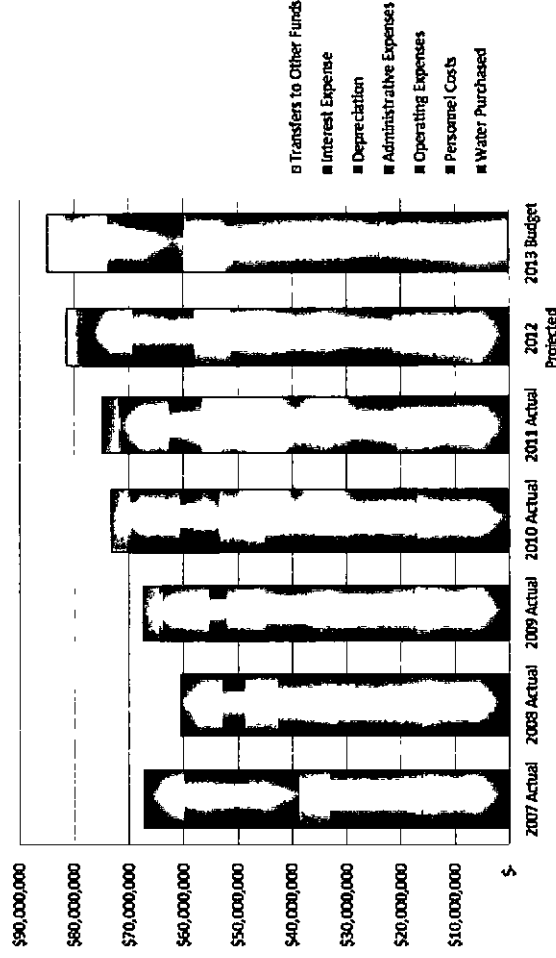
City of Flint

Budget Allocation and Fund Expenses

City of Flint
FY 2013 Budget Allocation
Water & Sewer Funds

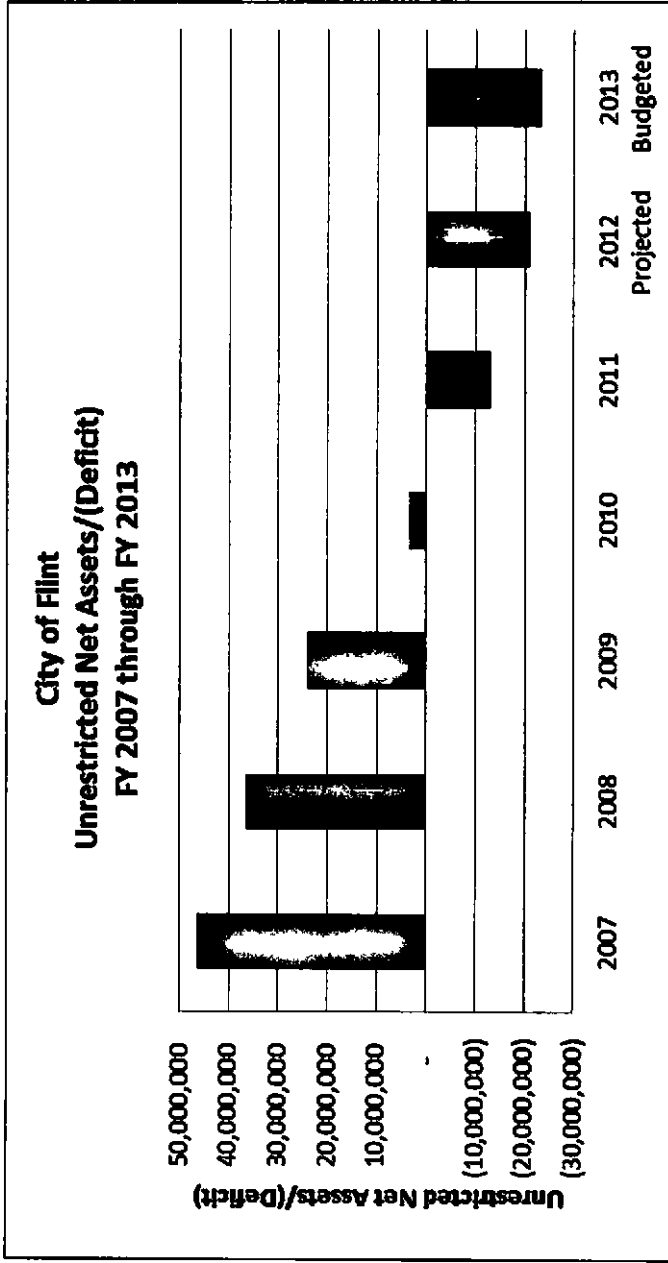


City of Flint
Water and Sewer Fund Expenses
FY 2007 through 2013

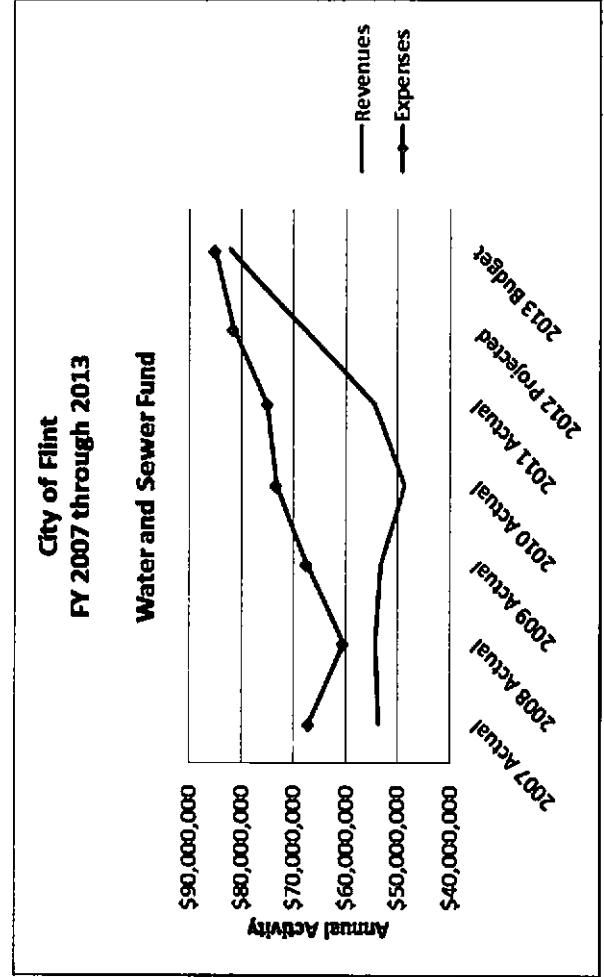
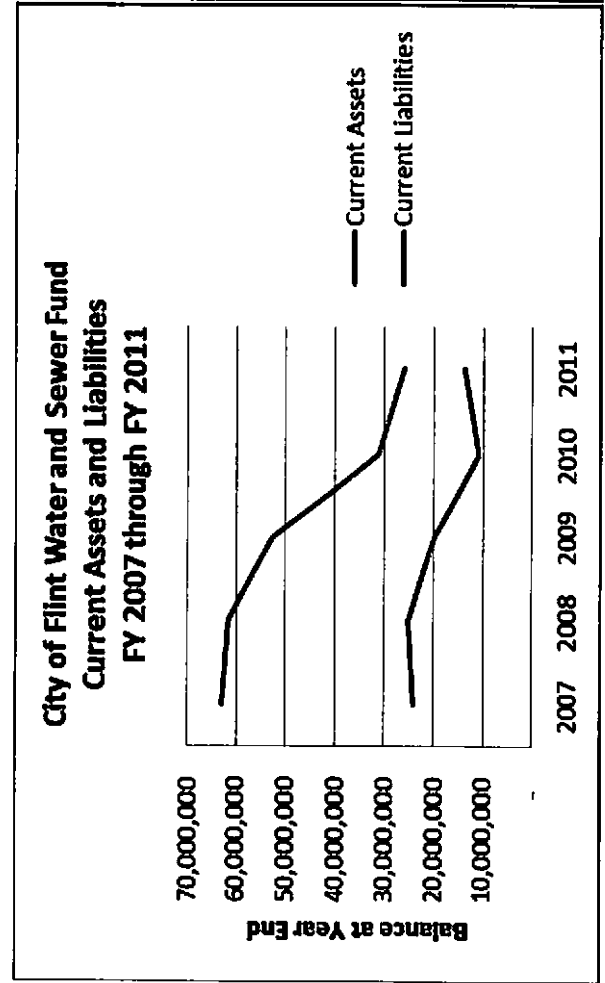


Audited

	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Projected	2013 Budget
Operating Revenues	51,090,679	51,100,332	51,906,553	47,926,589	54,385,644	67,983,044	81,734,552
Other Revenues	2,627,939	3,274,450	1,442,383	764,886	68,645	126,670	455,867
Annual Revenues	53,718,618	54,374,782	53,348,936	48,691,475	54,454,289	68,109,714	82,190,419
Water Purchased	16,052,006	16,297,871	17,421,663	17,103,752	20,919,987	21,756,787	24,031,417
Personnel Costs	17,292,444	26,302,590	27,591,206	28,149,946	28,618,817	29,640,499	28,546,350
Operating Expenses	5,355,638	6,145,119	6,950,534	8,146,390	6,917,964	6,420,260	7,259,290
Administrative Expenses	21,300,900	4,229,382	3,403,231	7,327,630	6,221,627	11,465,462	14,140,047
Depreciation	7,217,142	7,132,870	8,364,022	8,854,889	8,689,809	8,615,000	7,500,000
Interest Expense	86,632	485,499	868,031	812,270	754,890	705,150	644,314
Transfers to Other Funds	-	-	2,990,000	2,990,000	2,990,000	2,990,000	2,990,000
Annual Expenses	67,304,762	60,593,331	67,588,687	73,384,877	75,113,094	81,593,158	85,111,418



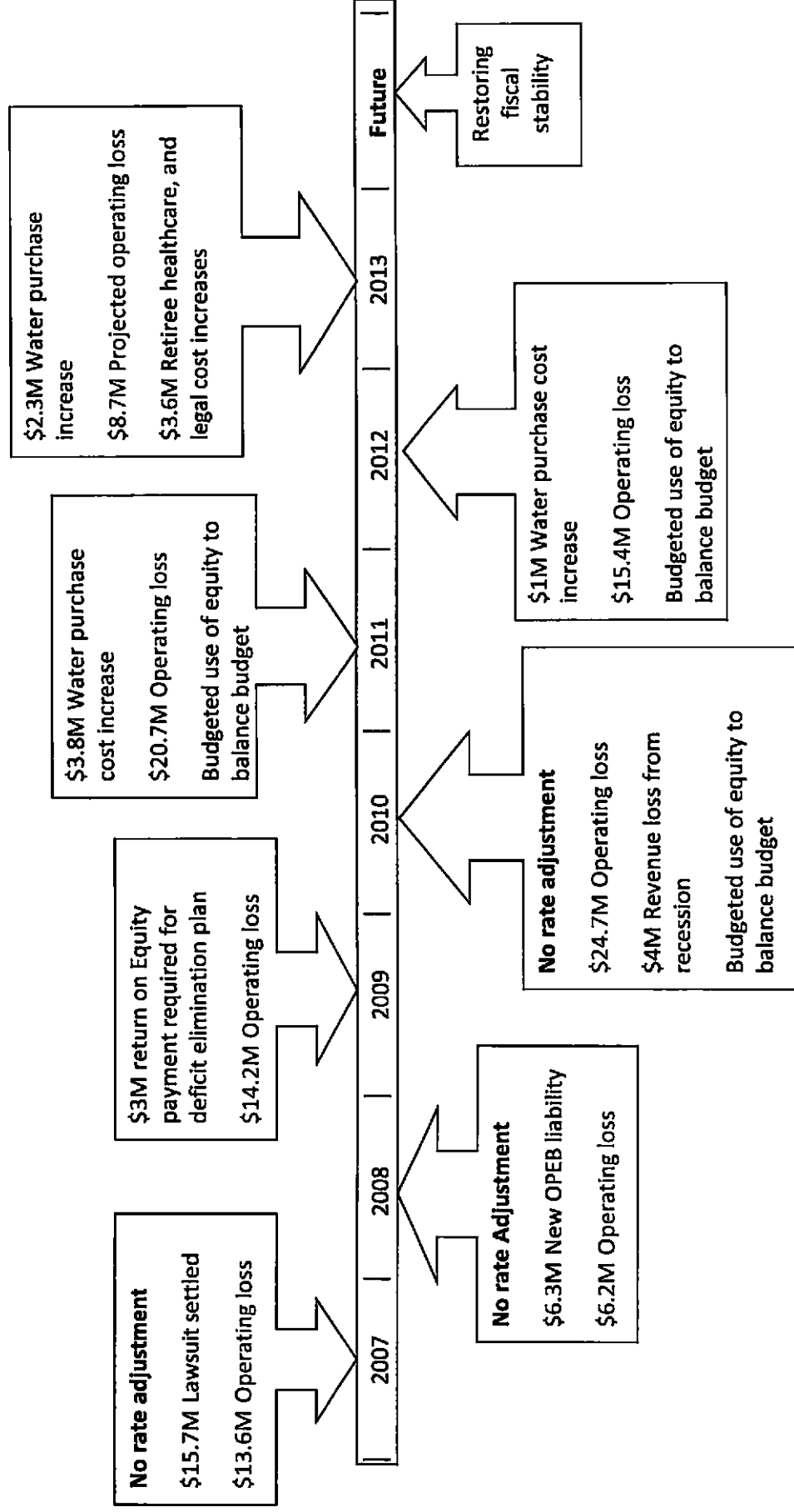
	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Projected	2013 Budget
Revenues	53,718,618	54,374,782	53,348,936	48,691,475	54,454,289	68,109,714	82,190,419
Expenses	67,304,762	60,593,331	67,588,687	73,384,877	75,113,094	81,593,158	85,111,418



City of Flint

Recent Timeline of Water and Sewer Funds

FY 2007 through 2013



City of Flint- Water and Sewer System Additional Asset / Revenue Data

The average annual residential water sewer bill in FY2005 was less than \$700 annually
The average annual residential water/ sewer bill in FY13 will be nearly \$1,700

Expenses have exceeded revenues every year since 2006:

FISCAL YEAR	Rate Base	Revenues	Expenses	Revenues Minus Expenses	Unreserved System Equity	FACTORS IMPACTING SOLVENCY	COST IMPACT
2006	2005	\$55,204,242	\$50,933,792	\$4,270,450	\$60,340,013		(millions)
2007	2005	\$53,856,857	\$67,442,993	(\$13,586,136)	\$46,399,452	No rate adjustment \$15.7 million lawsuit settlement	?? 15.7 0 \$15.7
2008	2005	\$54,374,761	\$60,593,331	(\$6,218,550)	\$36,482,488	No rate adjustment OPEB liabilities added	?? 3 6 2 7 \$6.3
2009	2009	\$53,488,463	\$67,728,218	(\$14,239,755)	\$24,023,065	ROE payment added as part of City t	1 9 1 1 \$3.0
2010	2009	\$48,820,329	\$73,513,725	(\$24,693,396)	\$3,531,768	No rate adjustment Use of retained earnings budgeted Revenue lost due to recession	?? 12 5 0.5 \$13.0 2 2 \$4.0
2011	2011	\$54,527,079	\$75,185,879	(\$20,658,800)	(\$12,866,607)	Use of retained earnings budgeted Water purchase cost increase	7.1 3.5 \$10.6 0 3.8 \$3.8
2012		\$68,279,187	\$83,682,840	(\$15,403,653)	(\$20,884,122)	Use of retained earnings budgeted Water purchase cost increase	5 1 0 \$5.1 0 0.8 \$0.8
2013	2013	\$82,220,420	\$90,970,420	(\$8,750,000)	(\$23,379,690)	Water purchase cost increase RHC/Legal/Admin Cost Allocation	0 2 3 \$2.3 2.1 1.5 \$3.6 \$68.2
				(\$99,279,840)			

Calculation of Water and Sewer Rates for FY13 Budget

March, 2012:

	Expense Projection Based on FY12 Costs	Revenue Projection Based on FY12 Receipts	Difference Between Projected Revenues and Expenses	Rate Increase Necessary To Close Gap
Water	\$49.9	\$44.4	-\$5.5	12.4%
Sewer	\$31.0	\$21.4	-\$9.6	44.9%
TOTAL	\$80.9	\$65.8	-\$15.1	22.9%

CITY of FLINT, MICHIGAN
WATER &/OR SEWER BILL
 Service at: 5810 BALDWIN BLVD

TREASURER
 CITY OF FLINT
 P.O. BOX 1950
 FLINT, MI 48501

PRESORTED
 FIRST CLASS MAIL
 US POSTAGE PAID
 CITY OF FLINT

3419 Active

Seq=3138

ACCOUNT NUMBER	DUE DATE
BALD-005810-0000-01	02/28/2012
	
RETURN THIS STUB WITH YOUR PAYMENT	
NET AMOUNT DUE	
147.85	

****AUTO**

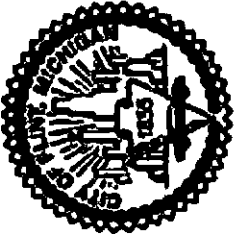


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KEEP THIS PORTION FOR YOUR RECORDS

LAST READ/DATE/TYPE	NEW READ/DATE/TYPE	CONS	SERVICE	CHARGE	Prev. Balance
381 01/25/2012 A	383 02/03/2012 A	2	Sewer Non-maint'd	6.62	161.08
			Sewer Svc Chrg	22.07	-75.00
			Water	13.38	0.00
			Water Svc Chrg	19.38	0.36
					61.41
				Total Due	147.85
ACCOUNT: BALD-005810-0000-01 SERVICE AT: 5810 BALDWIN BLVD				Due Date	02/28/2012

PENALTY ASSESSED 30 DAYS AFTER DUE DATE



**CITY OF FLINT
DEPARTMENT OF FINANCE
Customer Service Center**

**Dayne Walling
Mayor**

**Douglas Bingham
Treasurer**

**CITY OF FLINT
WATER NON-PAYMENT TURN-OFF POLICY**

1. Water services to any customer may be shut off if the account is not paid until after 30 days after the due date. (City ordinance 46-52 (h))
2. Non-payment turn-offs are done only Monday through Thursday. The Customer Service Center does not schedule non-payment turn-offs on Fridays, Saturdays, Sundays, or most recognized holidays.
3. Illegal usage, broken payment arrangements and NSF (non-sufficient funds) turn-offs are done at any time without additional notice.
4. Turn-off notices are mailed to delinquent customers fifteen (15) days before actual turn-off.
5. The water customer is responsible for maintenance of all plumbing in the premises including connection to City water mains or sewer lines.
6. If a customer disputes a water bill and is unable to resolve the issue with Customer Service personnel, the customer may request an administrative review. Further information on any water account may be obtained by calling (810) 766-7015 or visiting the Customer Service Center at 1st Floor, City Hall, 1101 S. Saginaw St.

Preliminary Options for Future City of Flint Water Sources

Consider a New Negotiated Contract with Detroit Water and Sewer Department

PRO'S	CON'S
No upfront capital costs Possibility to negotiate a lower rate Ability to "Blend" water sources to further control costs	Lack of control over new / fixed changes Past practices

Consider a Contract with the Karegnondi Water Authority

PRO'S	CON'S
Voting member of KWA board Ability to "Blend" water sources to further control costs Raw water is an asset for attracting new buisnesses	Capital cost (debt service) Uncertainty of final costs

Blended Use of the Flint River

PRO'S	CON'S
Helps control cost of water	

*** CURRENTLY NO DECISIONS HAVE BEEN MADE REGARDING THE FUTURE WATER SOURCE

Improvements for City of Flint Water System

Reduce Leakage

- **Finalize a Preventative Maintenance Plan**
 - (Planning started in January 2012, requires funding, ... part of Operational Costs)
 - Will help identify repair area's
- **Reduce water theft**
- **Replace water meters**
 - We currently have an eighteen month plan to replace all meters with more efficient "*Smart Meters*"
- **Encourage routine household checks**
 - "Faulty" toilets are a significant reason for household water loss. and unexpected larger bills.

Other Leakage concerns

- ✓ Transmission Loss
- ✓ Fire Hydrants
- ✓ Incorrect water bills
- ✓ Non-Payment

City of Flint Water Fund**Proprietary Funds Revenues, Expenditures, and Changes in Net Assets
Fiscal Year Ended June 30**

	2007	2008	2009	2010	2011	2012 Projected	2013 Budget
Current Assets	17,248,277	16,155,282	13,213,411	9,092,746	9,295,966		
Current Liabilities	7,053,131	7,039,015	6,796,178	8,287,409	11,736,286		
Capital Assets, net of accumulated depreciation	34,453,626	57,264,585	55,977,802	54,419,070	52,253,233		
Revenue Bonds, long-term portion	33,759,432	31,804,432	30,156,259	28,116,259	25,925,336		
Unrestricted Net Assets/(Deficit)	12,183,661	8,396,496	2,694,056	(5,795,973)	(12,443,265)	(13,237,665)	(12,733,233)

City of Flint Sewer Fund**Proprietary Funds Revenues, Expenditures, and Changes in Net Assets
Fiscal Year Ended June 30**

	2007	2008	2009	2010	2011	2012 Projected	2013 Budget
Current Assets	45,805,754	45,515,711	39,299,954	22,199,959	16,496,427		
Current Liabilities	17,117,109	18,000,968	12,928,688	2,570,710	1,894,249		
Capital Assets, net of accumulated depreciation	76,913,051	73,794,673	74,719,675	70,200,627	65,736,675		
Revenue Bonds, long-term portion	-	-	-	-	-		
Unrestricted Net Assets/(Deficit)	34,215,792	28,085,991	21,329,011	9,327,738	(423,349)	(7,646,457)	(10,646,457)

Water and Sewer Combined**Current Assets
Current Liabilities**

2007	2008	2009	2010	2011	2012 Projected	2013 Budgeted
63,054,031	61,670,993	52,513,365	31,292,705	25,792,393		
24,170,240	25,039,983	19,724,866	10,858,119	13,630,535		

Response to Treasury regarding water rates, etc.

The cost of water and sewer in the City of Flint has become one of the most vexing issues facing the Emergency Financial Manager. When the Emergency Manager was appointed in December 2011 the water system had a \$20 million deficit. In order to address this deficit the EM was forced to increase water and sewer rates by over a combined 120% in the past 18 months.

When the previous EFM left the City in 2004, the water system has a reserve of approximately \$60 million. In the intervening years several things occurred: for three of five years (2007-2011) no rate increases were passed along to customers even though Detroit charged increases of over 10% per year; in the years when increases were passed along those amounts did not equal the actual cost of the system; the City chose to use the equity built up in the Water and Sewer funds until that was no longer available; a large lawsuit was settled; the City must pay for the \$48 million MDEQ upgrades required at the Water Treatment Plant; and unbilled or unpaid water and sewer charges increased significantly.

In the past 18 months water and sewer rates have been increased to reflect the actual costs to operate the water and sewer system. Major leaks in the distribution system have been repaired. Unpaid water and sewer usage is now being addressed and the water affidavit process is part of this problem.

The City of Flint currently allows landlords to put the water and sewer billing in the name of the renter. This affidavit process holds the landlord harmless for any water costs. The deposit for the affidavit has been set at \$100, which is the lowest in the County. The deposit fees in the County range from a low of \$100 to a high of \$500. The City is raising its rate to \$350, which puts us about in the middle of the range. Depending on usage, this will cover 60 to 90 days' water charges and reduce the amount of uncollected billing. Keep in mind, any water not paid for is eventually charged to those who do pay through increased rates.

Because the deposit is so low in relation to the current charges, renters quickly owe more than the deposit, and find it easier to simply walk away from the rental and forfeit the deposit. This results in the City being on the hook for the unpaid bills. Currently there are 4,893 affidavits, and 4029 of them (82%) past due. This factor alone totals to just under \$3 million. In addition, when the renter walks away, the City has no way of knowing that the property is vacant. Many times the landlord rents the property again, without filing an affidavit, and the water continues to be charged to the former renter, again adding uncollected bills to the City. In the past the collection rate for past due accounts, when turned over to a collection agency, has been about 3% on average. Keep in mind that this is a deposit, not a fee, and can be refunded when the renter leaves the property. Also, the landlord can avoid the renter's deposit requirement by keeping the water and sewer billing in his name.

The City is also studying the potential to hold the landlord accountable for the water charges under certain conditions, such as failure to notify the City when a renter leaves and then renting the property again without filing a new affidavit.

The City recognizes that the high cost of water is a factor which is causing low income residents to choose to leave the City and the increase in the deposit fee might accelerate that choice. However, many of the surrounding communities charge a higher deposit than does the City of Flint. Renters are leaving the City because they can get better housing for less money, live in safer neighborhoods with better schools, have their water charges decrease by about half, and have their insurance rates reduced by approximately 50%.

Water and sewer costs have resulted in about 8,000 current customers to be more than 60 days past due. Many are senior citizens who have lived in Flint their entire life, paid their taxes, etc. and now find themselves unable to pay their water bill. This concerns the City more than the issue of deposits. We have put in place for this year the ability for citizens to direct a part of their city tax refund to help people with their water bills, and we are reviewing other options as well as scheduled meetings with agencies involved in helping low income people with their bills.

We further recognize that we have staffing issues and water theft to address. The City is able to complete about 120 water shut-offs per week. At that rate we can not keep up with delinquent account shut-offs. The city also recognizes that water theft through meter by-pass or unauthorized turn-on must be resolved.

Ultimately, the City must find a way to hold down future increases in the cost of water, to bring them more in line with the Genesee County water customers. To this end the City has recommended to Treasury, that the City leave the Detroit Water System and join KWA with Genesee County, Lapeer and Sanilac Counties and the City of Lapeer. We believe this is the most significant long term factor in stabilizing costs to the water customers in the City of Flint.

Koryzno, Edward (Treasury)

From: Koryzno, Edward (Treasury)
Sent: Wednesday, March 06, 2013 2:05 PM
To: Fraser, Roger (Treasury)
Subject: RE: Important Items from weekly call w/ Ed Kurtz

Thanks, I will share this info with Ed



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Thank you

From: Fraser, Roger (Treasury)
Sent: Wednesday, March 06, 2013 1:56 PM
To: Koryzno, Edward (Treasury)
Subject: RE: Important Items from weekly call w/ Ed Kurtz

I will press Brom on #1.

There is no conversation of which I am aware regarding a TAB in the near term for Flint. In his state of the city speech, Walling made his position clear that he and the Council could manage this.

From: Koryzno, Edward (Treasury)
Sent: Wednesday, March 06, 2013 11:34 AM
To: Fraser, Roger (Treasury)
Subject: Important Items from weekly call w/ Ed Kurtz

FYI - Ed shared a couple of items that I thought you should be aware of:

1. KWA – The County is sending Bids for engineering services to size the pipeline on 3/22/13. Per Ed this is the absolute deadline for making a decision to participate. Obviously he would like Treasury to share a decision with him ASAP. He also asked me to share with you that PA 72 does not appear to have a \$50k spending limit that PA 4 had and he is willing to proceed with the Project, independent of Treasury, if you desire.
2. Mayor Walling meeting w/ Governor – The Mayor is meeting with the Governor on 3/8/13 to discuss the TAB. Ed said that If Treasury is contemplating moving in this direction please let him know because it impacts the budget he will prepare. They are currently preparing a five-year budget. Appointment of a TAB only requires two year budget and certain charter provisions will increase costs to the City.



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Thank you

Stanton, Terry A. (Treasury)

From: Fraser, Roger (Treasury)
Sent: Wednesday, March 06, 2013 3:50 PM
To: Buhs, Caleb (Treasury)
Cc: Stanton, Terry A. (Treasury)
Subject: FW: Flint EM Achievements
Attachments: EFM Achievements and Progress.pdf

Since the first of the year, the major issue in Flint has been the decision regarding long term water service in Flint. The choice is to maintain service with treated water from DWSD, or to participate with Genesee County in the construction of a raw water pipeline from Lake Huron to Flint (the KWA or Karegnondi project). City officials are clearly inclined toward the local project. A decision is needed in the next two weeks and is being held up, primarily, because of expressed State concerns about the benefits of one approach versus the other.

From: Fraser, Roger (Treasury)
Sent: Wednesday, March 06, 2013 3:42 PM
To: Buhs, Caleb (Treasury)
Cc: Stanton, Terry A. (Treasury)
Subject: Flint EM Achievements

Caleb, attached is a fairly detailed document we received in January that describes EM achievements since day one.

EM/EFM Achievements & Progress

Major Events:

December, 2011:

- Immediate reduction in administrative expenses of more than \$600,000.
- Establishment of new budgetary guidelines calling for more discretion in departmental spending and ways in which to operate the City more efficiently at a reduced cost.
- Establishment of an EM Advisory Council for the purpose of gathering input and suggestions from members of the community.
- Creation of 5 volunteer advisory committees, one each centered on public safety, finance, infrastructure, legacy and community development for the purpose of helping to develop a business and operational plan for the State Treasurer.

January, 2012:

- Business and Operational Plan submitted and approved by the Treasurer of the State of Michigan.
- Continual reorganization and elimination of departments to improve efficiency and reduce costs.

February, 2012:

- Held Ward Forums to gather input from the community and share the primary focus of the business and operational plan in each of Flint's nine wards by the Emergency Manager.
- Deficit Elimination Plan for FY 2011 submitted and approved by the Treasurer of the State of Michigan.

March, 2012:

- Development and implementation adjustments in retiree health care to reduce costs while preserving their benefits.

- Grant agreement between the City of Flint and the State of Michigan Department of Community Health Crime Victims Services Commission reached to provide health services for the victims of violent crime.

April, 2012:

- Balanced Budget adopted cutting \$22 million in expenses.
- Tentative Collective Bargaining Agreements reached with Flint's AFSCME Local 1799, POLC Captains and Lieutenants' Union, POLC Sergeants' Union and IAFF Firefighters Union.
- Healthcare for active employees and retirees reduced.
- 3 mill waste collection levy replace with residential waste collection fee, recycling service added starting in 2013.
- Management and Maintenance of the City's four golf courses undertaken by Flint City Golf, LLC and Mott Park Public Golf Course Association.

May, 2012:

- New City of Flint Public Safety Plan introduced with ongoing implementation of outlined strategies.
- Michigan State Police patrol and detective partnerships implemented and expanded to enhance police presence in Flint.
- \$3.5 million to support reopening of the City Lockup approved and received from the State of Michigan.
- SAFER grant application approved, \$6.9 million grant awarded.
- Water & Sewer rates adjusted to reflected true cost of service, thereby stabilizing the finances of the operation.
- Special Assessment on street lighting done with the purpose of dedicating General Fund revenue to police and fire operations in order to preserve existing staffing levels.
- Ginosko Development Co. chosen as new developer of Smith Village with MSHDA approval.

- All five advisory committees convened for input on amendments to the business and operational plan.

June, 2012:

- New Labor Contracts implemented which reduced employee expenses by the equivalent of 20% of wages.
- Police and Fire staffing levels stabilized and maintained without layoffs.
- COPLOGIC online police reporting system for non-emergencies implemented.
- 6 month Financial & Operating Plan submitted to the State with amendments and achievements.
- Development of a plan with the Mott Foundation to extend and revise community policing grant, including funding for the Public Safety Administrator and Criminal Justice Advisory Committee Coordinator.
- All requirements met to receive 100% of State shared revenue allocation for FY 2013.
- Began implementation of Legacy Committee recommendations to transfer Flint Employee Retirement System (FERS) to Municipal Employee Retirement System (MERS).

August, 2012:

- Department of Energy Grant settled without any restrictive effects on the possibility of future grant applications and awards.
- Agreement between City of Flint and Flint Community Schools for the funding and operation of a PEG (Public, Educational & Governmental) television studio reached.
- Michigan State Housing Development Authority (MSHDA) approved developer Ginosko Development Corporation chosen to continue and complete construction at the Smith Village development site.
- Genesee Towers sold to Uptown Reinvestment, relieves City of Flint of considerably large insurance liability.

- Agreement reached between Genesee County Sheriff and City of Flint for the operation of the Flint Holding Facility (Lockup).
- Agreement reached between City of Flint and the Food Bank of Eastern Michigan for the renovation and maintenance of Brennan Park.
- 21st Century Community Policing grant awarded to Flint by the Mott Foundation in the amount of \$743,000.
- Contract between City of Flint and Diponio Contracting for the upgrade of City infrastructure awarded.

September, 2012:

- Waivers of assessments or fees for entitled property owners by City Treasurer authorized.

October, 2012:

- Flint City Police Lockup reopened.
- Smith Village construction resumes with new developer.

November, 2012:

- Police and Fire Protection Millage put on ballot and passed.
- Demolition resumes in locations identified as posing a threat to public safety.

December, 2012:

- Transition to 800 Mhz police & fire communications complete.
- Cost of waste collection reduced by utilization of third party vendor

Yearlong Efforts:

- Unfunded Other Post-Employment Benefits (OPEB) liability reduced by over \$500,000,000.
- HUD repayments for ineligible expenses reduced by over half.

- Cost saving transfer from Flint Employees Retirement System (FERS) to Michigan Employee Retirement Service (MERS) voted for by the Flint Employee Retirement Board.
- Audit of FY 2011 underway.
- Stabilizing cash flow each month.
- Comprehensive evaluation of City water system and options for providing water undertaken.
- Process of Master Plan for the City of Flint research and preparation underway.

Coming Soon:

- Decision on water provision and operation.
- Indigent Water Fund for eligible water customers.

Koryzno, Edward (Treasury)

From: Cline, Richard (Treasury)
Sent: Monday, March 11, 2013 11:50 AM
To: Koryzno, Edward (Treasury); Byrne, Randall (Treasury)
Subject: KWA Follow-up
Attachments: Project Costs for Flint.DWSD KWA Analysis.01-22-13.pdf
Importance: High

- 1) **Attachment** – Attached.
- 2) **KWA Projections Cheaper Than DWSD** – There are two references in the report regarding this. The first is on Page 2 (4th Bullet Point) and on Page 4 (1st Paragraph under *Conclusions*). Both comments are referring to **construction costs** not future rates. Specifically, these comments are comparing the 100% DWSD water provision option is more expensive than either KWA's own construction estimate or TYJT's estimate of KWA construction costs. This comparison is visually presented on Page 17 of TYJT's Final Report.
- 3) **Impact of Parallel Line Option** – No substantive analysis has been conducted on this option so the impact is unclear. To develop a solid recommendation, a study (possibly using TYJT) would have to be commissioned. In a February 22, 2013 e-mail to Brom Roger stated:

As you may recall, while receiving water from DWSD, an ongoing requirement, imposed by DEQ, is for a backup water system in Flint in case of failure of the DWSD service. To that end, Flint has been required to maintain their water plant, even though it rarely has been used. In the parallel line option, Tucker Young suggests that the need for Flint to maintain their water plant while receiving water from DWSD, might be resolved by running a parallel line from Imlay City that would provide a second means of delivery for DWSD treated water. That parallel line could, in the thoughts of Tucker Young, also resolve certain backup issues for other parts of the DWSD system.

[Cline, Richard (Treasury)] This is a very complex issue and is not easily summarized. If there is interest in this concept, more hard engineering needs to be performed before a better impact analysis can be performed.

If you have further questions, 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: Koryzno, Edward (Treasury)
Sent: Tuesday, March 05, 2013 8:02 AM
To: Byrne, Randall (Treasury)
Cc: Cline, Richard (Treasury)
Subject: Fwd: KWA

Let's discuss.

Sent from my iPhone

Begin forwarded message:

From: "Stibitz, Brom (Treasury)" <StibitzB@michigan.gov>
Date: March 4, 2013, 9:19:04 PM EST
To: "Koryzno, Edward (Treasury)" <KoryznoE@michigan.gov>
Cc: "Fraser, Roger (Treasury)" <FraserR1@michigan.gov>
Subject: KWA

Couple of followup questions on the memo.

- 1) I can't find an attachment that is referenced.
- 2) The statement is made a couple times that even the most expensive KWA projection is still cheaper than DWSD. What assumptions are made about rate increases for DWSD that leads to this conclusion?
- 3) How does the new issue of the second pipe for redundancy change the equation? Does it affect the recommendation?

Thanks.

Sent from my iPad

Project Costs - TYJT Slides 26 through 30

	KWA	TYJT
Intake and Crib		
Construction	\$22,076,850	\$22,076,850
ELAC	\$5,519,213	\$5,519,213
Property	\$2,300,000	\$2,300,000
 Pumping Stations		
Construction	\$24,618,080	\$54,573,314
Land		\$75,000
ELAC	\$6,154,520	\$16,394,494
 Transmission Mains		
Construction	\$166,202,316	\$167,419,530
ELAC	\$41,550,579	\$50,225,859
Easements		\$1,166,170
 Engineering		
Design Engineering		\$16,939,581
Construction Management		\$14,434,609
Administration		\$349,440
Legal / Easements / Contracts		\$831,000
Power	\$4,000,000	\$4,000,000
Redundant Power		\$1,273,200
 Total Construction	\$212,897,246	\$244,069,694
Total ELAC	\$53,224,312	\$104,694,196
Total Land / Property / Easements	\$2,300,000	\$3,541,170
Total Power	\$4,000,000	\$4,000,000
Total Redundant Power	\$0	\$1,273,200
 Total	\$272,421,558	\$357,578,260
 ELAC as % of Construction	25.0%	42.9%

Lamphier, Wendy (Treasury)

From: Koryzno, Edward (Treasury)
Sent: Tuesday, March 12, 2013 5:27 PM
To: Stibitz, Brom (Treasury); Dillon, Andy (Treasury)
Cc: Fraser, Roger (Treasury)
Subject: RE: Flint
Attachments: SUMMARY REPORT FLINT TAB REQUEST Version III 03-12-13 (2).doc

Follow Up Flag: Follow up
Flag Status: Flagged

The report is attached.

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Thank you

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

From: Stibitz, Brom (Treasury)
Sent: Tuesday, March 12, 2013 3:35 PM
To: Koryzno, Edward (Treasury)
Subject: Flint

Will you please send an electronic version of the Flint memo to me and Andy?

Thanks.

Sent from my iPad



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ANDY DILLON
STATE TREASURER

SUMMARY REPORT

TO: Edward Koryzno, Administrator; Office of Fiscal Responsibility
FROM: Eric Cline, Unit Operations Specialist
SUBJECT: City of Flint Transition Advisory Board Request
DATE: March 12, 2013

Summary

On March 11, 2012, the Office of Fiscal Responsibility (OFR) was asked to provide summary comments regarding a potential request by the City of Flint to be removed from Emergency Financial Manager (EFM) status. A determination needs to be made whether a Transition Advisory Board (TAB) will be installed and the City can be allowed to move away from EFM status.

The OFR has analyzed the operations of the City and has identified areas of concern. The operational areas reviewed included: 1) The General Fund; 2) the FY 2011-2012 budget adopted by the Flint City Council; 3) the Water and Sewer system; 4) OPEB Liabilities; 5) Public Safety; 6) Community Development.

While required reporting information provided by the EFM has shown that the City of Flint is making some progress in alleviating its fiscal distress, it is unlikely that the City is ready to leave EFM status or have a Transition Advisory Board appointed.

The following details these conclusions:

FY 2011-2012 Budget:

The following issues were noted within 2011-2012 Budget.

- The budget was adopted by the City Council with an **annual budget deficit and a Fund Balance deficit**.
- Audited Final Expenditures were **\$63.4-million** vs. audited Revenue of **\$51.4-million**.
- The annual budget deficit for FY 2012 was **\$11.4-million**.
- Interfund Transfers for Sanitation, Building Safety, Parking, Neighborhood Policing, Parks, Fleet Management, and Senior Centers were incorrectly budgeted at **<\$4.7-million.>**
 - 2 of the interfund transfers' deficits were over **\$1-million**.

- The Public Safety, Community Development, Transportation, Recreation, Judicial, General Government, and Legislative operations exceeded budget by a combined **\$10.2-million**.
 - 2 of the departments overspent by **over \$2-million**.
- Major and Local Streets have a budgeted annual deficit of **\$326,000**.

General Fund:

Structurally, some weaknesses remain in the General Fund and several financial procedural issues remain needing correction. Based upon EFM reporting, the following is noted:

- An accumulated **\$19-million General Fund deficit** remains.
- The EFM's amended budget projects deficit elimination in **49.6 years**.
- The General Fund continues to rely heavily upon **borrowed cash**.
- The EFM has indicated that Income Tax Revenue is lower than anticipated.
- A **Deficit Elimination Plan (DEP)** in-place and expected to be amended.
- An anticipated **\$507,000 refund** (plus interest) resulting from a MI Tax Tribunal (MTT) stipulation is expected to be made for fiscal years 2010, 2011, and 2012.

Community Development:

The demographic and economic outlook for the City is poor, which implies the likely generation of a number of social ramifications. The Genesee County Land Bank Authority is very active in the City of Flint and has provided much of the following data.

- **32% of all property** in the City is abandoned. This includes 12,000 vacant lots and 6,000 abandoned homes.
- Some residential blocks have over **50% abandonment**.
- The County Land Bank owns over 3,600 properties in the City.
- Average Sale Price for residential properties in Flint is approximately **20%** of the balance of Genesee County.
- These issues will require developing an innovative and coherent strategy for the challenges related to large tracts of abandon property.

OPEB Liabilities:

The City is facing a number of significant challenges regarding its OPEB liabilities. Based upon EFM reports, the following has been noted.

- Total OPEB liabilities are nearly **\$400-million**.
- The Annual Required Contribution (ARC) payment by the City is **\$22-million**.
- The City is facing **Pending Litigation** regarding retiree health care changes.

Water and Sewer System:

In addition to the formidable decision facing the community regarding its decision to join the KWA Water Authority or remain a customer of the Detroit DWSD system, the City is facing a number of other financial and structural issues with its water and sewer system, including:

- The adopted 2011-2012 Water Fund Budget was **\$48.3-million**. The adopted 2011-2012 Sewer Budget was **\$28.2-million**.
- An **\$8.8-million** accumulated Water Fund deficit.
- A budgeted annual Water Fund deficit of **\$4.1-million**.
- Water Loss in the Distribution System is estimated to be between **20-30%**.
- A budgeted annual Sewer Fund deficit of **5-million**.
- The City is facing **Pending Litigation** regarding water rate changes.

Public Safety:

The City continues to struggle with a number of systemic public safety issues. Fire services are a General Fund operation while law enforcement is separated as a Special Fund. Based upon EFM reporting, the City's Community Dashboard and review of local news stories, the following concerns are noted:

- The Fire Department budget for FY 2011-2012 was **\$11.6-million** while law enforcement was **\$3.2-million** respectively.
- **Public Safety** operations exceeded budget by **\$6-million**.
- Fire Department **Overtime** is in excess of budgeted amounts.
- Property crimes and "Other" crimes are rising within the community.
- Violent crime appears to be on the rise.
- The **Per Resident Cost** for Fire services and the District Court are rising.

Conclusions:

The City faces significant financial and operational challenges in the near and the long term. Given the concerns noted above, it is believed that these challenges will require the authority of an EFM to resolve. Therefore, it is recommended that the City is not yet demonstrated its readiness for a transition back to local control and that EFM status should be retained.

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

Copy: Randall Byrne, State Administrative Manager; Office of Fiscal Responsibility

Koryzno, Edward (Treasury)

From: Koryzno, Edward (Treasury)
Sent: Wednesday, March 13, 2013 5:32 PM
To: Fraser, Roger (Treasury)
Subject: Highlights from Weekly Call w/ Ed Kurtz

- Transition of Solid Waste collection to private section has been better than expected, minimal complaints.

I assured Ed that Andy is aware of the March deadline for KWA

- Back story on council tabling the KWA participation last week was about political posturing, Ed believes final vote will be 8/1 or 7/2
- FY 12-13 budget on track at the ¾ point
- Hired 7 officers with the additional public safety millage, but need 5 more. Will not be able to hire them until they run a new police academy about 16 weeks out.
- Retiree health care changes on hold until federal judge rules, current problem is the employee's costs exceed city's cap by \$150 and they are sending bills. They cannot differentiate between a 45 yr. old retiree receiving \$17,000 of healthcare benefits versus a 65 yr. old retiree who is on Medicaid. Not sure of the outcome this will have on the judge's ruling.
- Mike Brown talking to Jeff Barnes to make sure second year of state funding for the lockup is still available.
- I mentioned the sanitary sewer issue they are dealing with, 300-400 manholes need to be replaced @ \$800 per manhole.



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Thank you

Lamphier, Wendy (Treasury)

From: David Guastella <DGuastel@tyjt.com>
Sent: Thursday, March 14, 2013 5:10 PM
To: Hichez, Amy (Treasury)
Cc: George Karmo; Dillon, Andy (Treasury)
Subject: Meeting with the Treasurere regading KWA

Follow Up Flag: Follow up
Flag Status: Flagged

Good evening Amy,

I just received additional information from DWSD regarding an alternative option we had proposed. If at all possible it would be easier to go over this information in person rather than over the phone. As I indicated we can meet anywhere if that helps. Please let me know. Otherwise, I will wait for his call.

Thank you,
Dave



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

DATE: March 15, 2013
TO: Governor Rick Snyder
FROM: Andy Dillon, State Treasurer
SUBJECT: Status of Financially Distressed Local Governments

FEBRUARY

JANUARY

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Per your request, this memorandum summarizes the status of selected financially distressed units of local government. The following units of local government now are subject to Public Act 72 of 1990, the Local Government Fiscal Responsibility Act.

GENERAL ISSUES

Cities Close to an Exit by EFM:

- Ecorse – While most of the financial issues are resolved, the City Council without the State's involvement, has the authority, through practice and a loosely worded city charter, to meddle in the day-to-day operations of the City, including selecting and supervising staff and setting their pay. Efforts to obtain a voluntary Inter Local Agreement have been frustrated by the unwillingness of a majority of Council to see the need for the oversight contemplated by the ILA. While we continue to work on a compromise, worst case is that we will impose a transition advisory board (TAB) under PA 436 in late March.
- Pontiac – As explained below, Mr. Schimmel has a short list of projects to complete before he leaves this summer. Imposition of a TAB will be recommended.

Retiree Health Care – In most of the EFM cities, and certainly in those cities that are struggling but not yet in receivership, the cost of promised retiree health care is a major concern. In Pontiac and Flint where changes in retiree health care were imposed under PA 4, lawsuits are pending leaving the effects of those changes uncertain. In Pontiac, the annual liability is about \$6.0 million, which is also the amount of the City's current annual operating deficit. Allen Park's annual liability is approxi-

mately \$2.5 million and Flint's is nearly \$20 million, half of which is in the general fund. While Flint and Pontiac have each taken steps to reduce the annual expense of the health coverage the retirees enjoy, those changes are being challenged. In most of our EFM cities, this issue is a difficult obstruction to fiscal balance. Pontiac, our most extreme case, has 52 current employees in the health care system compared to approximately 1200 retirees receiving health care. Treasury is working to develop a standard process to use when addressing retiree health care spending.

EFM Exit Strategy – Treasury will be meeting individually with each EFM during the next two months to develop a timeline for them to exit the local unit. This timeline will include the specific financial and operational issues that must be resolved in order to exit; target dates for issue resolution; and a benchmarking component. Additionally, Treasury is crafting a list of criteria for each EFM city which establishes success and serves as benchmarks for returning each unit to local control.

EMERGENCY MANAGER – Cities

City of Allen Park

- Update: Joyce Parker was appointed Emergency Financial Manager by the Emergency Loan Board on October 25, 2012, with duties beginning October 29. She also serves, part-time, as the Emergency Financial Manager for the City of Ecorse.
- For fiscal year ending June 30, 2012, the City had an operating surplus of \$2,973,862, or 18% of general fund revenues of \$16,202,731. However, when transfers out of the general fund are taken into account, the financial picture is much worse. The City transferred \$4.7 million (net of transfers in) from the general fund, including a \$2.4 million transfer associated with studio debt and a \$2.5 million transfer to cover retirement health care. Based on these numbers, the City's unrestricted accumulated general fund deficit is \$1,090,225 or 6.7% of revenues.
- Treasury is exploring the potential to restructure the studio debt. The EFM has listed the movie studio property for sale and is preparing a detailed Deficit Elimination Plan. The City's financial distress is exacerbated by the minimum staffing requirements contained in the public safety collective bargaining agreements and the cost of retiree health care.
- The Road Out: With our recent entrance into Allen Park, several general strategies are in play. As noted above, the budget is in deficit primarily because of the movie studio debt and the retiree health care obligations. However, labor contracts have minimum manning provisions that need to be resolved, and there are several areas of ongoing expense that can be reduced. Among other things, the EFM's draft deficit elimination plan also includes personnel reductions (including police and fire), wage reductions, pension plan changes, active and retiree health care changes, reduction in sick days and holiday payouts, and revenue enhancements for rubbish and lights. Ms. Parker believes that it may be possible to balance these financial issues short of bankruptcy. However, that option is also being explored. Allen Park's exit from Emergency Manager status will likely de-

pend on Treasury's ability to restructure the City's movie studio debt and make significant adjustments to the City's retiree healthcare liabilities.

City of Benton Harbor

- Joe Harris was appointed Emergency Financial Manager on August 8, 2012. The Emergency Loan Board terminated Mr. Harris' contract effective January 31, 2013 and appointed Mr. Tony R. Saunders II as the new EFM effective February 1, 2013.
- For the fiscal year ending June 30, 2012, Benton Harbor had an operating shortfall of \$1,125,798, exceeding general fund revenues of \$6,555,653 by 17%. The unrestricted accumulated general fund deficit is \$2,285,483 or 34% of general fund revenues. The unrestricted deficit increased slightly over 2011 by approximately \$56,000.
- Update: The new EFM has established a working relationship with the City Commission which has resulted in the Commission approving a resolution of support placing a millage proposal on the May ballot. The millage proposal, if approved, replaces the 10 mill special assessment levied during December 2012, with a 10 mill operating levy. The proposal will also include asking voters for a 3 mill increase. The EFM has requested and received an advancement of the April and June revenue sharing payments to address the cash shortage. A \$2.5 million emergency loan application is anticipated during July.
- The Road Out: Mr. Saunders is reviewing all City operational expenses in an effort to rationalize annual expenses and eliminate deficit spending. The large amount of accounts payable is a near-term focus. The water plant is a major liability, particularly since users in Benton and St. Joseph Townships have withdrawn from the system due to ongoing political and financial management concerns. The City charter needs to be updated, the performance of City Council needs to be improved, and ongoing liabilities for retiree health care are also an issue. OFR staff are working with the new EM on the water/sewer system debt, transfer of the pension system to MERS and reductions in staff. Treasury had anticipated that withdrawal from the City would be a near-term possibility if charter issues could be overcome. However, these recent revenue issues and the demise of the water system customer base, make a near-term exit more challenging. The new EM understands our desire to make an exit as soon as possible.

City of Ecorse

- Joyce Parker was appointed Emergency Financial Manager on August 8, 2012 by the Emergency Loan Board. She was first appointed Emergency Financial Manager on October 30, 2009. She continues to serve Ecorse on a part-time basis while she also serves as Emergency Financial Manager for the City of Allen Park.
- City Council is cool toward an interlocal agreement proposed by Treasury that would create an advisory board under the Urban Cooperation Act, PA 7 of 1967 (Ex. Session) and create a seamless transition process away from an EFM, allowing Ms. Parker to end

her service there. A majority of Council believe such an advisory board is unnecessary. Treasury staff is redrafting the ILA to address some of the suggestions made by the AG. The revised agreement will be reviewed with the Council.

- For the fiscal year ending June 30, 2012 the City had a general fund balance of \$2,419,220 or 18.8% of general fund revenues of \$12,904,604 and experienced an operating surplus for the first time in several years.
- The Road Out: The work of the EFM is essentially done. The remaining concern is with the City Council and the City charter language which allows substantial day-to-day involvement of the City Council. Discussions continue on an interlocal agreement to establish a Transition Advisory Board, as explained above. If this voluntary approach is not successful, a TAB can be imposed with the advent of PA 436 in late March.

City of Flint

- Edward Kurtz was appointed Emergency Financial Manager on August 8, 2012 by the Emergency Loan Board. He succeeded Mike Brown who was appointed Emergency Manager on November 29, 2011. The Emergency Financial Manager is anticipated to be in Flint for more than one year. Mr. Kurtz is taking a minimal salary as EFM, while Mike Brown now works as City Administrator, appointed by Mr. Kurtz. It is assumed that Mike Brown will be reappointed as EM in late March, and that Mr. Kurtz will be retained until June to consult with the City on the FY 2014 budget.
- For fiscal year ending June 30, 2012, the City incurred a general fund operating shortfall of \$10,169,828 exceeding general fund revenues of \$51,497,686 by 20%. This resulted in an unrestricted accumulated general fund deficit of \$19,184,850, which is 37% of general fund revenues.
- Update: The City of Flint has been participating with Genesee County on the feasibility of the City's use of a planned water pipe line from Lake Huron that would serve a large portion of Genesee County as an alternative to water supplied by DWSD. An engineering firm selected by Treasury to conduct an independent evaluation of Flint's choices for water supply presented their findings on December 18th. This is a critical long-term decision for Flint and the region. The economics show that but for the excess cost of DWSD water during the three year construction period of the Karegnondi Water Authority (KWA) pipeline, the City will benefit from lower water costs in the long term by using the KWA water and treating the water in Flint at their own, existing, water treatment plant. A recent proposal shows that with cooperative efforts with the County, those excess costs can be further minimized.
- The Budget for the current fiscal year encompasses both revenue increases and expenditure reductions in an effort to achieve a balanced budget. For example, the budget includes assessments for waste collection, for the operation, maintenance, and improvement of street lights, and a 25 percent increase in water and sewer rates. Voters overwhelmingly approved a 6 mill public safety millage in November that will substantially improve the FY 14 budget.

On the expenditure reduction side, the budget reduces the City's workforce by 150 positions (20 percent), and includes employee concessions and a restructuring of employee health care benefits. Retiree health care has been eliminated for future employees. Litigation is pending in federal court to preclude changes to retiree health care. The Emergency Financial Manager estimates that retiree health care costs will increase by \$3.5 million during the current fiscal year if he is prevented from implementing the planned changes.

- The City has recently submitted a five year deficit elimination plan that anticipates submittal of an emergency loan application of \$12 million to address the accumulated deficit. The remainder of the unrestricted accumulated general fund deficit will be eliminated through \$7.1 million in reductions. The City has not yet identified specific cuts but will do so as it works through the development of its fiscal year 2014 budget. The Department is assisting the City with the identification of possible reductions.
- The City's first contract with a private solid waste removal firm was recently implemented. Republic Services hired 20 of the 24 former city employees who provided this service. Republic also purchased a number of former city waste vehicles and will implement recycling services during the summer of 2013. The transition has progressed smoothly.
- The Road Out: This is the first year of the EFM's balanced budget and they are currently on track with the budget. Major remaining issues are resolving public safety staffing and effectiveness; establishing new and cooperative approaches to water and sewer services; funding and maintaining infrastructure; defining and sustaining blight eradication strategies; and funding OPEB liabilities. Treasury will be meeting with Flint's EFM during the next month to develop a timeline for him to exit the local unit.

City of Pontiac

- Lou Schimmel was appointed Emergency Financial Manager by the Emergency Loan Board on August 8, 2012. He was first appointed Emergency Manager on October 6, 2011. The Emergency Financial Manager is anticipated to complete his work by mid-2013, but a viable oversight mechanism, such as a Transition Advisory Board (TAB) under PA 436 of 2012, will be necessary for this to happen.
- For fiscal year ending June 30, 2012, the City had an operating shortfall of \$1,249,049 exceeding general fund revenues of \$38,709,018 by 3%. This resulted in an unrestricted accumulated general fund deficit of \$4,748,117 or 12% of general fund revenues. For fiscal year 2013, the City's financial position will benefit from the transfer of the Pontiac Wastewater Treatment Plant. From the assets received, \$8.4 million was used to pay off a loan to the general fund from the water/sewer fund; \$6 million was used for retiree healthcare bringing the 2013 budget into balance; \$3.4 million will be applied to the accumulated deficit from fiscal year 2012.
- The EFM reports that FY2014 would be balanced except for the \$6.0 million required for health care costs associated with retired non-public safety employees, and those who are still

active employees. Retired public safety employees (there are no active Pontiac public safety employees) are covered by an existing VEBA.

- The Emergency Financial Manager continues to minimize the number of unused vacant properties in the City that are city-owned. The demolition of the Phoenix Center and sale of land project remains on hold after Oakland County Circuit Court Judge Michael Warren issued an injunction barring the City from demolishing the Phoenix Center. Settlement negotiations are proceeding.
- The partnership with Oakland County for a restructuring of the ownership of the Pontiac Wastewater Treatment Plant is essentially complete. The capitalization of assets created by the transfer generated approximately \$55 million, which was used to reduce bond debt related to Fiscal Stabilization bonds, Water Supply system, Sewage Disposal system, and Building Authority. The transaction has dramatically improved the City's cash position while also eliminating most of the City's outstanding debt, and preserving a reasonable fund for infrastructure maintenance within the City. It is also projected that Pontiac users of the system will enjoy significant reductions in their costs for sewer services in future years.
- Update: The EFM continues to reduce general fund expenses. He has successfully negotiated cost reductions with the City's waste pickup contractor; secured agreement from the Chief Judge to control the City's subsidy to the 50th District Court by having the Court process its own employee payroll and pay court employees out of its own account instead of the City's general fund account; and he contracted out all remaining DPW services including the snow plowing of major streets with the Oakland County Road Commission.
- The Road Out: Mr. Schimmel expects to leave this summer and strongly supports the use of a transition advisory board. His list of tasks remaining are: Phoenix Center Demolition; sale of DPW building to Consumers Energy; auction of surplus stuff; provide for the redevelopment of the Hayes Jones Community Center; sale of various properties, including golf course; and substantially reduce the \$6.0 million annual deficit related to retiree health care. Mr. Schimmel recently presented to Treasury a concept plan for utilizing apparent overfunding in two retirement plans to eliminate or dramatically reduce City costs for retiree health care. Treasury encouraged further refinement of the plan subject to certain conditions being addressed.

CONSENT AGREEMENT - CITIES

City of Detroit

- For fiscal year ending June 30, 2012, the City had an operating surplus of \$105,842,769. However, when transfers out of the general fund are taken into account, the City's financial position is much worse. The City transferred \$236,542,790 with the largest transfer going to the transportation fund for \$87.2 million, \$61.2 million to the debt service fund, and \$80.9 million for interest payments on the pension obligation certificates. This resulted in an unre-

stricted accumulated deficit of \$327,956,700 or 30% of general fund revenues of \$1,100,342,313.

- The City continues to implement the “countermeasures” developed in order to net approximately \$117 million in cash improvements by June 30 and allow the City to maintain a positive (though minimal) cash position through the end of the fiscal year. Much of the cash savings are realized by deferring required payments into the next fiscal year.
- On February 1, a first draft of the 5 year plan for the City was presented to the Review Team. The plan would eliminate the deficit within 5 years by significantly lowering employee costs. Changes include a reduction of an additional 500 FTEs, freezing all pension vesting for one year, moving all employees to a defined contribution plan after that, and capping health care expenditures at \$125 million a year (compared to a current spend of roughly \$190 million). Other potential savings being considered include additional head-count reductions/furloughs, asset sales, debt restructuring, and revenues. Update: As of early March, this has been expanded into a draft 10 year plan.
- Update: Information provided by the City (but as yet unverified) indicates that the General Retirement System Pension Board has set aside \$3 million of pension funds to fund a lawsuit against an Emergency Financial Manager, if one is named.
- Update: The Detroit Public Lighting Authority board held its first meeting on March 1. While the authority cannot draw utility tax revenues until bonds are issued, the immediate focus is on getting a loan from the general fund to replace 10-15,000 lights that are out due to operational issues (as opposed to underlying infrastructure issues).
- Update: Judge Cox, who currently oversees the Detroit Water and Sewerage Department (DWSD), has expressed an interest in ending federal oversight. Although non-binding, this will require initial agreement among stakeholders about the path going forward. Treasury generally supports a proposal to move DWSD to a semiautonomous authority. This course may significantly benefit the City however; it is also Treasury’s position that the City’s investment banker (Miller Buckfire) conduct a thorough analysis of the various options available, so that no action would be taken that would foreclose on any possibility. The “Root Cause Committee” (consisting of members from the City’s Administration, City Council and the Water Board), has drafted a non-binding report to be presented to Judge Cox in support of the authority option. The Judge had set a March 15 deadline for completion of the report.

City of Inkster

- The City of Inkster operates under a Consent Agreement which was implemented effective February 28, 2012.
- For fiscal year ending June 30, 2012, the City had a general fund operating shortfall of \$3,171,524 or 19% of general fund revenues of \$15,859,971. The FY12 shortfall increased

the City's general fund unrestricted accumulated deficit to \$3,604,783 or 22% of general fund revenues.

- For FY13, the City reduced staffing by 20% and made other expenditure reductions. Current budget forecasts suggest a year end deficit of \$1.7 million, consistent with the DEP. The most current budget to actual report shows the City's general fund breaking even instead of generating a \$600,000 surplus as budgeted. The City is preparing FY 2012-13 budget amendments which include proposed reductions of \$500,000. The projected loss in property value in the city for FY 2013-14 is 9.2%. The City's deficit elimination plan anticipates the FY14 budget will be balanced. Treasury is concerned about ongoing cooperation between the City Council and the city administration. City council's consideration of FY 2012-13 budget amendments at their 3/18/2013 meeting will be enlightening. Staff from OFR regularly visits Inkster.

City of River Rouge

- The City of River Rouge operates under a consent agreement which was implemented effective December 15, 2009.
- For fiscal year ending June 30, 2012, the City had a general fund operating surplus of \$1,302,690 or 11% of general fund revenues of \$11,989,601. The surplus has reduced the unrestricted accumulated general fund deficit to \$1,039,067 or 8.6% of general fund revenues of \$11,989,601. The 2012 accumulated deficit is approximately half of the previous year's deficit so progress is evident. However, the 2012 operating surplus is a result of the receipt of approximately \$1.9 million in legal settlements. Had the legal settlements not occurred, the 2012 accumulated deficit would be an estimated \$2,900,000. OFR staff visits with River Rouge and feels comfortable that their ongoing efforts to reduce costs, such as the recent implementation of a public safety officer model for combined police and fire services will help the City achieve its FY14 budget objective of balanced revenues and expenditures. Implementation of the Personal Property Tax reductions is anticipated to negatively impact the city. Efforts are underway to prepare more specific estimates of the impacts on both River Rouge and Ecorse, which have relied heavily on the PPT revenues from the Great Lakes steel mill.

LOCAL UNITS OF INTEREST

City of Hamtramck

- For fiscal year ending June 30, 2012, the City had a general fund operating shortfall of \$3,303,385 which is 22% of general fund revenues of \$14,827,148. This deficit eliminated the general fund balance and resulted in an unrestricted accumulated deficit of \$753,733 or 5% of general fund revenues. The cause of the imbalance was the result of the loss of revenue due to the expiration of the Poletown tax increment financing agreement and the failure of the City to reduce its expenditures accordingly.

- The City has submitted an application for an emergency loan for \$3 million. The Department is reviewing the application to determine if the City qualifies. In addition to the emergency loan, the City is pursuing the issuance of a tax anticipation note to address its cash shortage expected to occur during March 2013.
- Late last year, the City Council voted to request a financial review by the State. Prior to initiating the requested review, Treasury asked for and the City has submitted a deficit elimination plan (DEP). The plan relies heavily on the receipt of an emergency loan, an increase in rental inspection fees, and an increase in traffic violation revenues. Given the inadequacy of the DEP, Treasury initiated a preliminary review on Monday, February 11 and staff has completed the report.

City of Highland Park¹

- For fiscal year ending June 30, 2012, the City had a general fund operating surplus of \$1,293,462 or 12% of general fund revenues of \$10,718,332. This increased the City's unrestricted general fund balance to \$2,199,762 or 20% of general fund revenues. The positive fund balance is a result of the restatement of accrued state revenue from the fiscal year 2011 financial statements and, in large part, the forgiveness of a \$4 million payable due to DTE in 2011. Also a concern is the deficit in the water/sewer fund of approximately \$6.7 million and the unfunded pension liability of \$13.1 million. The unfunded liability for other post-employment benefits is \$26 million.
- The City's updated general fund projections indicate the City will reach a deficit situation during FY 2018. However, these forecasts do not address the possible consequences of various debt coming due within the next two years. Office of Fiscal Responsibility staff is working with local officials to develop and implement cost savings.
- Update: The City has discontinued using their water treatment plant after attempting to implement MDEQ mandated improvements to the plant. Initial improvements were estimated at \$340,000, but escalated to an estimated \$5.9 million after valves and other essential parts of the system were found to be inoperable. The estimated cost to demolish the facility is \$3.6 million. Currently, the City is purchasing water from DWSD. Negotiations continue between the City and DWSD with the intent of DWSD operating the City's water and sewer utility systems. One challenge to finalizing this arrangement is the \$8 million the City owes DWSD for sewage treatment. Treasury and City officials expect a proposal during April from DWSD which contains the prerequisites for a cooperative venture to proceed and also addresses the amortization of the City's sewer debt to the DWSD.

¹ Several EFM's have been appointed in Highland Park. While the financial emergency in the City remains in effect, no replacement EFM has been appointed. Treasury is working with the Mayor and Council, without an EFM appointment, to get the City out of the business of providing public services.

- The Road Out: Highland Park's broken water system needs multiple strategies for resolution. DWSD is the major focus here for delivery of treated water and administration of water and sewer bills. The City's existing water treatment facilities are in need of demolition, which will be expensive. In addition to typical OPEB liabilities, H.P. also has a major, bank-funded debt because of a court order related to delinquent payments to police pension funds. That debt will need restructuring in the next 24 months. The continuing effort to minimize the services the City provides makes the City a prime candidate for participation in regional public safety.

The following units of local government are not currently subject to Public Act 72 of 1990, the Local Government Fiscal Responsibility Act:

Royal Oak Township

- The township had an operating deficit of \$132,358 and an unrestricted general fund balance of a negative \$34,821 at year end 2011. The unrestricted deficit was 3.6% of general fund revenues. However, the operating deficit is 14% of general fund revenues. The unrestricted deficit decreased significantly from 2010 to 2011; a negative \$284,416 in 2010 to a negative \$34,821. This appears to be related, in part to a 2011 interfund transfer between the Parks and Recreation Fund (dedicated millage) and the Senior /Transportation fund. There is no money budgeted to repay the loan. There is also a loan with a local bank that was not obtained in accordance with regulations, as well as accusations of credit card misuse. Office of Fiscal Responsibility staff recently met with the newly elected Supervisor, Attorney and Financial consultant to discuss the Township's anticipated cash flow shortage during May. Subsequent discussion with staff from the Local Audit and Finance Division regarding potential borrowings by the Township also took place. Staff continues its discussions with the Supervisor, Treasurer and Clerk to improve the Township's financial practices.

City of Taylor

- For fiscal year ending June 30, 2012, the City had a general fund operating shortfall of \$3,905,004 exceeding general fund revenues of \$40,444,430 by 9.6%. This excessive spending increased the general fund unrestricted accumulated deficit to \$5,359,732 from approximately \$1.7 million in 2011. The general fund borrowed \$2 million from the water and sewer funds with no apparent commitment for repayment within a prescribed time period.
- The City fell short of its deficit elimination projections by a minimum of \$1.0 million. The majority of this can be attributed to Public Safety, which exceeded its budget expenditures by \$881,610. Consequently, the City has submitted an updated deficit elimination plan. Staff is reviewing the updated plan to determine if it is reasonable and achievable and will require the City to submit monthly reports to monitor its adherence to the new plan

- The relationship between the Mayor and City Council remains contentious. Rather than work together to solve the City's fiscal dilemmas, the City Council tends to make decisions that seem intended to confront the Mayor. Sometimes, those decisions result in further aggravation of the City's financial condition.

County of Wayne

- For fiscal year ending September 30, 2012, the County had a general fund operating surplus of \$73,158,000, or 14% of general fund revenues totaling \$532,919,000. However, the general fund transferred \$113,158,000 to other funds thereby increasing the 2011 unrestricted accumulated general fund deficit to \$148,925,000, which is 28% of general fund revenues.
- A revised deficit elimination plan has been submitted. Staff is working with the County to resolve several issues within the plan such as the transfer of assets from other funds and unsupported reductions to eliminate the general fund deficit.
- Update: Phase II of the State's consulting engagement contract with Pierce, Monroe & Associates to examine the funds of elected officials and other select departments was completed by the February deadline including examination of the substantial balance amount in the Treasurer's Delinquent Tax Revolving Fund.. Anticipated future County borrowing, if any, will be conditioned to require changes in the financial behavior within County government. Treasury remains very concerned about the probability of jail construction cost overruns.
- The County has submitted an application to issue \$90 million in tax anticipation notes, has committed to updating its deficit elimination plan to include the most recent deficit and to address concerns in a timely manner. They intend to submit monthly financial reports so that the Department may monitor the County's adherence to the plan. The Department will issue a conditional approval of the deficit elimination plan and approve the borrowing. However, the proceeds of the borrowing will be placed in an escrow account and draws will be approved by the Department subject to the County meeting certain budgeting goals.

LITIGATION SUMMARY

1. *AFSCME 25, et al v Governor, et al.* This action was filed in United States District Court (Eastern District). The claim is that modifications by the Emergency Manager for Detroit Public Schools to collective bargaining agreements violated various constitutional provisions (e.g., the Contracts Clause and Takings Clause).

Status: Cross motions for summary disposition were pending. A motion hearing was held on November 1, 2012, and the Court took the matter under advisement.

2. *Bland v Brown, Kurtz, et al.* This action was filed in Genesee County Circuit Court. This is an action for declaratory and injunctive relief and mandamus. The claim is that the Emergency Manager transferred the assets of the Flint Retirement System to the Municipal Employees Retirement System of Michigan (MERS) in violation of Act 4. Section 19(1)(m)(iii) of the Act authorizes such a transfer provided the recipient pension fund is actuarially funded at a level of 80 percent or more. The claim is that MERS as of December 31, 2010 was funded at only 76 percent.

Status: A pre-trial conference was held the last week of October 2012.

3. *Brown v Snyder.* This action was filed in Ingham County Circuit Court. The claim is that Act 4 is unconstitutional, facially and as applied. The State sought a protective order in regards to discovery which the trial court denied. On appeal, the Court of Appeals vacated the denial of the requested protective order and remanded. The trial court hearing on remand is September 26, 2012.

Status: The case was dismissed. The parties on November 19, 2012, signed stipulations and a voluntary dismissal.

4. *Citizens United Against Corrupt Government, et al v City of Detroit, et al.* This action was filed in Ingham County Circuit Court. The claim is that a contract by Mayor with an outside law firm violates City charter.

Status: Awaiting a hearing date.

5. *Citizens United Against Corrupt Government, et al v Detroit Financial Advisory Board.* This action was filed in the Court of Appeals. This is an action for *quo warranto*. The claim is that, among other things, no portion of the Financial Stability Agreement, including the Financial Advisory Board, survived the disapproval of Act 4 by the voters.

Status: The case is pending having been filed on December 10, 2012.

6. *Citizens United Against Corrupt Government, et al v Detroit Financial Review Team.* This action was filed in Ingham County Circuit Court. The claim is that negotiation of the Fi-

financial Stability Agreement, as well as two provisions of the Financial Stability Agreement, violated Act 4. The case was dismissed by the Ingham County Circuit Court.

Status: Plaintiff filed a claim of appeal with the Court of Appeals and plaintiff's brief is due on December 26, 2012.

7. *Coletta et al v David Clark et al.* This action was filed in Wayne County Circuit Court and has been certified as a class action involving approximately 9,000 plaintiffs. This is an action for declaratory and injunctive relief and damages. The claim is that trustees of the City of Detroit's General Employees Retirement system and the Police and Fire Retirement system violated various laws and breached certain fiduciary duties in regards to the investment of pension assets.
8. *Davis v Detroit Financial Advisory Board.* This action was filed in Ingham County Circuit Court. The claim was that the Board violated the Open Meetings Act.

Status: The case was dismissed.

9. *Davis v Detroit Financial Review Team, et al.* This action was filed in Ingham County Circuit Court. The claims were that review teams were subject to the Open Meetings Act and that the Detroit Financial Review Team had acted in violation of a trial court order. The Court of Appeals held on May 21, 2012, that review teams are not subject to the Open Meetings Act, but remanded to the trial court for an evidentiary hearing on the issue whether defendants should be held in contempt. Subsequently, the trial court declined to hold an evidentiary hearing and plaintiff appealed that decision to the Court of Appeals.

Status: Payment of plaintiff's costs and attorney fees rendered moot the need for an evidentiary hearing.

10. *Davis v Highland Park Financial Review Team* (referred to as *Highland Park II* to distinguish it from the first Highland Park case which claimed that review teams were subject to the Open Meetings Act). This action was filed in Ingham County Circuit Court. The claims are that the terms of review team members expire 60 day (90 day with an extension) after appointment and that Act 4 violated Section 29 of the Headlee Amendment. The trial court dismissed the former claim, but held that Act 4 did violate the Headlee Amendment.

Status: Plaintiff failed to file a brief.

11. *Davis v Parker.* This is an action for *quo warranto*. This action was filed in the Court of Appeals after the foregoing case was filed in Ingham County Circuit Court. The claims are that the Emergency Financial Manager has no entitlement to her office because the statutory process of Act 72 was not followed and that Act 72 is not revived because it was repealed by Act 4.

Status: The Court of Appeals denied application for leave to proceed by *quo warranto*.

12. *Davis v Rick Snyder, Michael Flanagan, and Joyce Parker*. This action was filed in Ingham County Circuit Court. This is an action for declaratory judgment. The claims are that the statutory process of Act 72 was not followed, that Act 72 does not authorize the grandfathering of actions taken under Act 4, and that the criteria for appointment of emergency managers under Act 4 and emergency financial managers under Act 72 differ.

Status: A motion hearing is scheduled on January 30, 2013.

13. *Davis v Roberts*. This action was filed with the Michigan Supreme Court. The action is for *quo warranto*. The claims are that the Emergency Financial Manager has no entitlement to his office because the statutory process of Act 72 was not followed and that Act 72 is not revived because it was repealed by Act 4. The Court of Appeals previously denied relief and held that Act was revived.
14. *Davis v State of Michigan, City of Detroit, et al.* This action was filed in Ingham County Circuit Court. The claim is that the financial stability agreement violates the Headlee Amendment. The trial court denied plaintiff's motion for an evidentiary hearing, but allowed depositions. The Court of Appeals granted the State's application for leave to appeal. Defendants filed a reply brief on September 27, 2012.

Status: The Court of Appeals held oral arguments on December 5, 2012. The matter is awaiting decision.

15. *DPOA v City of Detroit*. This action was filed in Wayne County Circuit Court. This was an action for injunctive relief. The claim was that duty to engage in Act 312 arbitration survived the duty to bargain under the Public Employment Relations Act. On August 30, 2012, the Court granted the State's motion to intervene, dissolved a previously entered temporary restraining order, refused to enter a preliminary injunction, and determined that the City's employment terms are controlling until a new agreement is reached. The Court dismissed the case.

Status: DPOA filed with the Court of Appeals a claim of appeal and motion to stay, the latter of which the Court denied.

16. *DPOA v City of Detroit*. This action was filed in the Court of Claims (Ingham County Circuit Court). The claim is that the duty to engage in Act 312 arbitration survived the duty to bargain under the Public Employment Relations Act.

Status: Supplemental briefs have been filed by all parties who are awaiting a decision.

17. *FPOA v City of Flint*. This action was filed in Genesee County Circuit Court. This is an action for injunctive relief. The claim is that an Emergency Manager order which im-

posed a labor contract should be invalidated because the statute under which it was issued, Act 4 of 2011, no longer is in effect.

18. *Kincaid v Kurtz*. This action was filed in Genesee County Circuit Court. This is an action for *quo warranto* against the Flint Emergency Financial Manager. The claim is that the appointment of the Emergency Financial Manager is unconstitutional because Act 72 was repealed by Act 4 and, per the anti-revival statute (MCL 8.4), Act 72 was not revived upon the suspension of Act 4. Plaintiff's amended complaint and brief as requested by the Court were due on November 19, 2012. A hearing was scheduled on November 26, 2012. The Court granted a motion to adjourn the November 26, 2012, hearing which was rescheduled for December 20, 2012.

Status: The case was dismissed on December 20, 2012.

19. *NCO Acquisitions, LLC, et al v Governor, et al*. This action was filed in United States District Court (Eastern District). The claim is that termination lease by Emergency Manager for Detroit Public Schools violated the Contracts Clause and Takings Clause of the federal Constitution.

Status: The parties have filed cross motions for summary disposition and a hearing has been scheduled for January 9, 2013.

20. *Roberts v Murray, et al, and Detroit Board of Education*. This action was filed in Wayne County Circuit Court. This was an action for injunctive relief filed by the Emergency Financial Manager with a cross claim for injunctive relief by the School Board. The Court adopted the position set out in Attorney General Opinion No. 7267 that Act 72 is revived during the suspension of Act 4. The Court also held that actions taken under Act 4 prior to the time of its suspension remained valid.

Status: Not available.

21. *Sutton v Brown*. This action was filed in Ingham County Circuit Court. The claim was that the appointment of Mike Brown as Emergency Manager for the City of Flint violated the Headlee Amendment. On August 8, 2012, the trial court dismissed the complaint due to lack of service by plaintiff.

Status: The case was dismissed.

22. *Valenti v Snyder, et al*. This action was filed in United States District Court (Eastern District). The claim is that the Detroit financial stability agreement violated the contracts clause, procedural due process, and amounted to a tortious interference with contractual relations. The Court concluded that the suspension of Act 4 rendered the case moot, but that the case could be revisited depending upon the outcome of the Act 4 referendum.

Status: The case was dismissed, but on January 24, 2013, plaintiffs filed a motion with the court to reopen the case.

23. *Watkins, et al v the Governor, State Treasurer, and Attorney General*. This action was filed in Ingham County Circuit Court on behalf of two members of the Pontiac City Council, four members of the Benton Harbor City Commission, and all nine members of the Flint City Council. This is an action for mandamus or, in the alternative, declaratory, and injunctive relief. The plaintiffs seek to have the reappointments of the seven existing emergency financial managers declared invalid on grounds that the suspension of Act 4 did not revive Act 72.

Status: The case was dismissed. At a motion hearing on December 5, 2012, the Ingham County Circuit Court denied plaintiffs' requested relief and granted summary disposition in favor of the State.

24. *Welch et al v Brown, Kurtz, et al*. This action was filed in United States District Court (Eastern District). This is a class action for injunctive relief and damages. The claim is that changes implemented by the Emergency Manager under Act 4 and to be implemented under Act 72 to retiree healthcare violate certain constitutional and contractual rights of retirees. At a hearing on September 6, 2012, the Court declined to grant an injunction. Instead, the Court directed the parties to meet. The Court was of the opinion that plaintiffs appeared to misunderstand the nature of changes to their coverage and should first meet with city representatives to discuss those changes.

Status: The meeting between plaintiff's counsel and City's counsel was held and plaintiffs are expected to continue litigation.

Byrne, Randall (Treasury)

From: Cline, Richard (Treasury)
Sent: Thursday, March 17, 2016 8:53 AM
To: Byrne, Randall (Treasury)
Subject: KWA Question

Randy,

This is the last communication I have from TYJT on the KWA issue.

It does not appear to address your question though.

Eric Cline | Department Manager | State of Michigan Michigan Department of Treasury | Local Government Financial Services Division | Fiscal Responsibility Section
430 W. Allegan Street, 3rd Floor | Lansing, MI 48922 Lansing Office (517) 335-2078 | Cell Phone (517) [REDACTED]
Traverse City Office (231) 922-5228 E-mail cliner1@michigan.gov

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

From: David Guastella [mailto:DGuastel@tyjt.com]
Sent: Tuesday, March 26, 2013 5:01 PM
To: Dillon, Andy (Treasury) <DillonA2@michigan.gov>; Hichez, Amy (Treasury) <HichezA@michigan.gov>
Cc: George Karmo <GKarmo@tyjt.com>; Awni Qaqish <aaqish@tyjt.com>; Cline, Richard (Treasury) <cliner1@michigan.gov>; Stibitz, Brom (Treasury) <StibitzB@michigan.gov>
Subject: FW: Meeting to review DWSD proposals

This email was sent from DWSD to Flint yesterday; TYJT was requested to forward this information to the Treasury.

Dave

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

From: Sue McCormick [mailto:mccormick@dwsd.org]
Sent: Monday, March 25, 2013 11:42 AM
To: Ed Kurtz
Cc: Michael Brown; Nicolette Bateson
Subject: Meeting to review DWSD proposals

Hello Mr. Kurtz,

Last week I spoke with Mayor Walling to share DWSD's continued interest in discussing a long term Water Service contract to serve Flint. Mayor Walling indicated he would pass along our interest in meeting in the next week or two to discuss new proposals that are responsive to the changes that the City of Flint has identified in terms of it's requirements and priorities including; a reduction in requirements from 18 to 15 MGD and the newly expressed desire not to blend Flint treated water with DWSD treated water. The latter change certainly came as a surprise given the

economic advantage of this for Flint and Flint's initiated request for this specific option. I am curious to know what new information resulted in this option becoming less desirable and if there are opportunities to address those concerns.

It has been a rather odd experience to be outside of the process these last few months. I've taken note that the KWA proposal provides a single line of supply and would still leave Flint in the position of retaining the Flint plant in a full time operating mode as well as maintaining the capacity of treating two very different sources of supply in the event of an interruption. Although the line would be newer than the existing transmission system serving Flint, it does not accomplish the redundancy in supply that Flint has long expressed an interest in.

With the changes identified in Flint's requirements and preferences, we have looked at opportunities to address these as well as Flint's historical concerns about the single transmission main and have developed proposals that twin the transmission main with smaller diameter pipe, provide transmission redundancy along the entire length from Imlay to the Flint Plant, as well as provide Flint the opportunity to consider selling Flint's portion of the 72 inch line and avoid the significant risks and costs Flint has expressed concern about in maintaining that line. In addition, the twinning of supply with full redundancy, without additional treatment requirements, would allow Flint to avoid capital and well as operating expenses in both the plant and transmission system. All of this can be accomplished with still a significant reduction in Flint's rates.

We are a new service organization. The rate adjustments for FY 14 are announced with significantly constrained adjustments from what had been forecast previously. Our financial plans reflect the ongoing benefit of our organizational optimization efforts. Recent discussions have brought attention to a near term opportunity to move toward greater independence with an opportunity to expand representation in our governance. This is not the DWSD of your recollection.

I welcome the opportunity for discussion at your earliest convenience.

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

Lamphier, Wendy (Treasury)

From: Dillon, Andy (Treasury)
Sent: Sunday, March 17, 2013 6:56 PM
To: Snyder, Rick (GOV); Muchmore, Dennis (GOV)
Cc: Stibitz, Brom (Treasury); Saxton, Thomas (Treasury); Roberts, John (GOV)
Subject: Fwd: Flint Water Supply Alternatives
Attachments: TYJT Recommendation DWSD vs Flint.pdf

Follow Up Flag: Follow up
Flag Status: Flagged

Governor and Dennis,

Attached is the recommendation from the engineers we hired to advise us on the KWA project for Genesee/Flint. As you will see, they are recommending that Flint stay with DWSD. This has ramifications that merit further discussion. Dennis and Brom, can you schedule a mtg for follow up?

Thanks,

Andy

Sent from my iPad

Begin forwarded message:

From: David Guastella <DGuastel@tyjt.com>
Date: March 17, 2013 1:07:03 PM EDT
To: "Dillon, Andy (Treasury)" <DillonA2@michigan.gov>
Cc: George Karmo <GKarmo@tyjt.com>, Awni Qaqish <aqaqish@tyjt.com>, "Hichez, Amy (Treasury)" <HichezA@michigan.gov>
Subject: Flint Water Supply Alternatives

Good afternoon Treasurer Dillon,

As requested in our meeting on Friday, March 15th, I am attaching TYJT's recommendation regarding Flint's alternatives for water supply. Please do not hesitate to contact us should you have any questions or wish us to look into anything further regarding this issue.

Thank you,

Dave



STATE OF MICHIGAN CONTRACT NO. 271N3200089

CITY OF FLINT WATER SUPPLY ASSESSMENT

At the request of the Treasurer, Tucker, Young, Jackson, Tull, Inc. (TYJT) makes the following recommendation to the Department of Treasury concerning Flint's water supply alternatives. Based on the financial analysis performed of the various options presented by DWSD to continue treated water service to Flint compared to Flint being supplied by the new KWA untreated water system, TYJT believes that several of the options presented by DWSD are lower in cost currently and over the long run than the one offered by KWA. TYJT also believes that DWSD's most recent offer (subsequent to the submittal of our report) to build a smaller parallel water main from Imlay to Flint, funded by the entire DWSD base of customers, is the best solution offering the least cost alternative and the required redundancy by MDEQ.

Furthermore, since a majority of the KWA system has not been designed and none of the system has been constructed, there is an additional risk that the cost of the KWA system may actually be higher than estimated due to potential construction delays and unforeseen conditions. This risk to Flint could be substantial since the city is responsible for 30 percent of the KWA design and construction costs while still having to purchase water from DWSD during the construction period.

Finally, there are other issues that were identified in our report that may result in risks to Flint if it were to join KWA that should be considered by the Treasury in determining how Flint's potable water should be supplied. These issues are related to redundancy and reliability, other items affecting cost, and Flint's desire to control its own destiny related to its water supply. These are described further below.

- DWSD's supply to Flint is via a 72-inch water main from Imlay City. This main also supplies Imlay City, Mayfield and the Greater Lapeer County Utilities Authority (GLCUA). The volume of water contained within the 72-inch main is approximately 30 million gallons. If Genesee and Flint move to KWA then the three remaining communities' consumption would most likely not be large enough to maintain fresh water in DWSD's pipeline (due to loss of chlorine residual). DWSD may consider shutting down the 72-inch line completely due to the water quality concerns, which would then create an additional burden for Imlay, Mayfield and GLCUA to finance treated water supplies.
- The KWA supply option is counter to the Treasury's Competitive Grant Assistance Program (Formerly EVIP Grant). This program has been put in place to allow for communities to consolidate their services and save money. Two existing customers of DWSD (Flint and Genesee County) along with the potential of others customers (GLCUA, Mayfield, Imlay City) separating from another water system is in contradiction to the program.
- There is a concern over the ability of smaller systems (KWA) over larger systems (DWSD) to pay for future unfunded mandates and regulations. Obviously, identifying regulation requirements over 30 years is hard to determine. However, it is widely accepted that a large system has greater ability to respond to unfunded mandates because the cost can be distributed over a large customer base.
- Although Flint will be responsible for 30 percent of the construction cost, they will only have a minority vote on the KWA board. Furthermore, there are other communities (Lapeer County, the City of Lapeer, and Sanilac County) that sit on the board and vote. However, they are not purchasing water nor contributing to the construction costs. Their position on the KWA Board will not provide them an ability to "control their own destiny," as they have stated to the Treasury.

Lamphier, Wendy (Treasury)

From: Dillon, Andy (Treasury)
Sent: Monday, March 18, 2013 9:51 AM
To: Stibitz, Brom (Treasury)
Cc: Saxton, Thomas (Treasury)
Subject: Re: KWA Memo

Follow Up Flag: Follow up
Flag Status: Flagged

This came up in our meeting. Let's forward this to TY and ask them for a brief explanation why City's decision to pull these options were not prudent plus I think DWSD modified their proposal from that point.

Sent from my iPad

On Mar 18, 2013, at 9:48 AM, "Stibitz, Brom (Treasury)" <StibitzB@michigan.gov> wrote:

Here is the bullet from OFR's memo regarding the DWSD blend options, which TYJT project as being the cheapest.

- At a January 10, 2013 meeting, Flint officials eliminated all of the DWSD Imlay City options (which

were the cheapest DWSD options) over concerns of owning and maintaining the 72" water main.

They also eliminated consideration of any of the blending options originally proposed to DWSD, in

part over concerns of added costs to soften the water. This effectively left the only options remaining

under consideration by Flint to be the 100% DWSD option (which TYJT estimated to be more expensive than either of the KWA cost options) or joining KWA.

Lamphier, Wendy (Treasury)

From: Dillon, Andy (Treasury)
Sent: Tuesday, March 26, 2013 8:04 AM
To: Muchmore, Dennis (GOV); Rustem, William (GOV); Roberts, John (GOV)
Subject: Fwd: Flint Water

Follow Up Flag: Follow up
Flag Status: Flagged

Sent from my iPad

Begin forwarded message:

From: "Saxton, Thomas (Treasury)" <SaxtonT@michigan.gov>
Date: March 26, 2013 7:57:47 AM EDT
To: "Stibitz, Brom (Treasury)" <StibitzB@michigan.gov>, "Dillon, Andy (Treasury)" <DillonA2@michigan.gov>
Subject: Flint Water

Fyi... in case you missed it I heard about this on the news this a.m.

Flint City Council approves resolution to buy water from Karegnondi, state approval still needed
By Dominic Adams | dadams5@mlive.com

on March 25, 2013 at 10:45 PM, updated March 26, 2013 at 1:28 AM

FLINT, MI – Flint is one step closer to getting its water from Lake Huron as part of the Karegnondi Water Authority.

The vote, approved 7-1 at the Flint City Council meeting Monday, March 25, may have set in motion the end to Flint paying to get its water from Detroit.

Under the proposal, Flint would get 16 million gallons per day of raw water from Lake Huron, pipe it to Flint for treatment and then sell it to customers throughout the city. Another 2 million gallons per day would come from the Flint River and will be treated in Flint.

Mayor Dayne Walling said the Department of Environmental Quality must approve Flint's getting 2 million gallons per day from the Flint River.

Tuesday's meeting followed weeks of discussions and special meetings surrounding the resolution.

"We got there," Councilman Joshua Freeman said. "That's the important thing."

There were more than 50 people at Monday's meeting.

"Going with Karegnondi is the best decision. We have no opinion on the economics of the decision," said Rebecca Fedewa, Flint River Watershed Coalition executive director. "If we start drawing water out of the Flint River, we are at risk of having to start releasing water from our reservoirs."

Genesee County Drain Commissioner Jeff Wright said the decision must still be approved by a county water and waste advisory board. The KWA board will then be reconvened for final approval.

Wright said construction could start in May.

State treasury officials still must approve the city council's move because Flint has an emergency

financial manager. All expenditures over \$50,000 must be approved.

Genesee County Drain Commissioner Jeff Wright has said that Flint would pay roughly \$6.4 million annually for water service if it joined the pipeline – a nearly \$4 million savings on what it pays Detroit for water.

Walling previously said the city would save \$19 million over eight years by getting water from the KWA.

“It’s a historic night in the City of Flint,” Walling said. “The savings will be less with the capacity level approved by city council because there will be increased treatment cost for the river water.”

He said the DEQ told the city it needed to get 18 million gallons per day or there would have to be additional work done at Flint’s water plant.

Flint’s water plant and the Flint River is currently the backup for Flint and Genesee County, however, the plant only operates four times per year.

Councilman Bryant Nolden was the lone dissenting vote.

“It was a protest vote,” Nolden said. “I knew they had enough votes. I just feel like the Flint River is our best option.”

Karengnondi is the regional water authority that includes Genesee, Lapeer and Sanilac counties and the cities of Flint and Lapeer.

Flint is the second municipality, behind Genesee County, to officially decide to purchase raw water through the KWA. Lapeer city officials said they intend to purchase water, but an agreement has been finalized.

Dominic Adams is a reporter for MLive-Flint Journal. Contact him at dadams5@mlive.com or 810-241-8803. Follow him on Twitter, Facebook or Google+.

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Koryzno, Edward (Treasury)

From: David Guastella <DGuastel@tyjt.com>
Sent: Monday, March 18, 2013 10:30 AM
To: Stibitz, Brom (Treasury)
Cc: George Karmo; Koryzno, Edward (Treasury); Cline, Richard (Treasury); Dillon, Andy (Treasury); Hichez, Amy (Treasury)
Subject: RE: Treasury: Flint Assessment
Attachments: TYJT Recommendation DWSD vs Flint.pdf

Good morning Brom,

We were contacted by the Treasurer last Thursday and met with him on Friday. He also asked that we draft a summary recommendation for his use. It was sent to him yesterday and is attached to this email along with his response below. Our recommendations are for Flint to continue with DWSD's services in lieu of being supplied by KWA.

Although your memorandum took into account alternative proposals by KWA, it did not consider DWSD's new proposals made through the Treasury last month to build a second parallel line to the existing Flint WTP. These proposals are less costly than the most optimistic KWA proposal and the cost information was provided to the Treasurer on Friday as well. Note that the a second parallel line removes the need for Flint to operate its treatment plant and significantly reduces their operating costs. The additional reasons for our recommendations are also summarized in the attached recommendations.

It is also worth noting that it is good engineering practice to be conservative in estimates when a majority of the design has not been completed. We believe this to be prudent; especially when considering the financial capabilities and responsibilities of the end user (Flint). When a design is nearly complete, then it is acceptable to use the engineering estimate as there are specific quantities and materials of construction to cost out.

This point is brought to your attention to outline our approach. For the intake estimate, which was 90% complete at the time of our analysis, was used "as provided" in our cost comparison. We would hope that this cost is close to the contractors bid in February. However, this should not be consider a telltale for the rest of the project as the remaining costly components are only designed at a very preliminary level.

Please contact me should you need further clarification or have any questions.

Thank you,
Dave

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

From: Dillon, Andy (Treasury) [mailto:DillonA2@michigan.gov]
Sent: Sunday, March 17, 2013 6:49 PM
To: David Guastella
Cc: George Karmo; Awni Qaqish; Hichez, Amy (Treasury); Saxton, Thomas (Treasury); Stibitz, Brom (Treasury)
Subject: Re: Flint Water Supply Alternatives

Thank you. This is exactly what I am looking for.

Sent from my iPad

On Mar 17, 2013, at 1:11 PM, "David Guastella" <DGuastel@tyjt.com> wrote:

> Good afternoon Treasurer Dillon,
>
> As requested in our meeting on Friday, March 15th, I am attaching TYJT's recommendation regarding Flint's alternatives for water supply. Please do not hesitate to contact us should you have any questions or wish us to look into anything further regarding this issue.
>
> Thank you,
>
> Dave
> <TYJT Recommendation DWSD vs Flint.pdf>

From: Stibitz, Brom (Treasury) [mailto:StibitzB@michigan.gov]
Sent: Monday, March 18, 2013 9:57 AM
To: David Guastella
Cc: George Karmo
Subject: Treasury: Flint Assessment

Andy asked that I forward this memo for your comment. Can you address the conclusions, especially the fact that the City removed from consideration the various "blend" options.

For the time being you can send any comments just to me and Andy.

Thanks.

Brom



STATE OF MICHIGAN CONTRACT NO. 271N3200089

CITY OF FLINT WATER SUPPLY ASSESSMENT

At the request of the Treasurer, Tucker, Young, Jackson, Tull, Inc. (TYJT) makes the following recommendation to the Department of Treasury concerning Flint's water supply alternatives. Based on the financial analysis performed of the various options presented by DWSD to continue treated water service to Flint compared to Flint being supplied by the new KWA untreated water system, TYJT believes that several of the options presented by DWSD are lower in cost currently and over the long run than the one offered by KWA. TYJT also believes that DWSD's most recent offer (subsequent to the submittal of our report) to build a smaller parallel water main from Imlay to Flint, funded by the entire DWSD base of customers, is the best solution offering the least cost alternative and the required redundancy by MDEQ.

Furthermore, since a majority of the KWA system has not been designed and none of the system has been constructed, there is an additional risk that the cost of the KWA system may actually be higher than estimated due to potential construction delays and unforeseen conditions. This risk to Flint could be substantial since the city is responsible for 30 percent of the KWA design and construction costs while still having to purchase water from DWSD during the construction period.

Finally, there are other issues that were identified in our report that may result in risks to Flint if it were to join KWA that should be considered by the Treasury in determining how Flint's potable water should be supplied. These issues are related to redundancy and reliability, other items affecting cost, and Flint's desire to control its own destiny related to its water supply. These are described further below.

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- Although Flint will be responsible for 30 percent of the construction cost, they will only have a minority vote on the KWA board. Furthermore, there are other communities (Lapeer County, the City of Lapeer, and Sanilac County) that sit on the board and vote. However, they are not purchasing water nor contributing to the construction costs. Their position on the KWA Board will not provide them an ability to "control their own destiny," as they have stated to the Treasury.

Koryzno, Edward (Treasury)

From: Cline, Richard (Treasury)
Sent: Monday, March 18, 2013 12:38 PM
To: Koryzno, Edward (Treasury); Byrne, Randall (Treasury)
Subject: FW: Flint Scenarios
Attachments: Flint Scenarios FY 2013-14.pdf; Recent DWSD Flint Supply Cost Options.pdf

Latest from TYJT.

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: David Guastella [<mailto:DGuastel@tyjt.com>]
Sent: Monday, March 18, 2013 11:53 AM
To: Cline, Richard (Treasury)
Cc: Koryzno, Edward (Treasury); Stibitz, Brom (Treasury); Dillon, Andy (Treasury); Hichez, Amy (Treasury); George Karmo
Subject: FW: Flint Scenarios

Eric

Here is the information we provided to the Treasurer on Friday regarding the recent DWSD offers. The first attachment was provided by DWSD to outline the cost of the twinning options. The second attachment is using DWSD's rates to project the 30 year cumulative cost for comparison. As you can see these options are less than the most optimistic KWA cost estimate.

Dave

Summary of FY 2013-14 DWSD Cost Allocations to Flint Under Various Scenarios
Flint Only

	<u>Revenue Requirement</u>	<u>Rates and Charges</u>		
		<u>Fixed</u>	<u>Commodity</u>	<u>Avg Unit Cost</u>
1 Status Quo (Flint Portion)	12,574,900	379,304	13.01	20.39
2 Suggested Cct (Flint Portion)	11,281,100	351,661	12.06	19.27
3 Change	(1,293,800)	(27,643)	(0.95)	(1.12)
4 % Change	-10.3%	-7.3%	-7.3%	-5.5%
5 Max Day Only	9,904,300	294,542	10.87	16.91
6 Change	(1,376,800)	(57,119)	(1.19)	(2.36)
7 % Change	-13.9%	-19.4%	-10.9%	-14.0%
8 Add CTA Line to BP	10,093,100	310,271	10.87	17.23
9 Change	188,800	15,729	0.00	0.32
10 % Change	1.9%	5.1%	0.0%	1.9%
11 CTA to BP / Flint only to FWTP	12,446,300	506,371	10.87	21.25
12 Change	2,353,200	196,100	0.00	4.02
13 % Change	18.9%	38.7%	0.0%	18.9%
14 Add CTA Line to FWTP	10,191,200	318,450	10.87	17.40
15 Change	(2,255,100)	(187,921)	0.00	(3.85)
16 % Change	-22.1%	-59.0%	0.0%	-22.1%
17 CTA to FWTP / Buy existing 72	10,009,600	303,315	10.87	17.08
18 Change	(181,600)	(15,135)	0.00	(0.32)
19 % Change	-1.8%	-5.0%	0.0%	-1.9%
20 Cumulative Change	(2,565,300)	(75,989)	(2.14)	(3.31)
21 Cumulative % Change	-20.4%	-20.0%	-16.4%	-16.2%

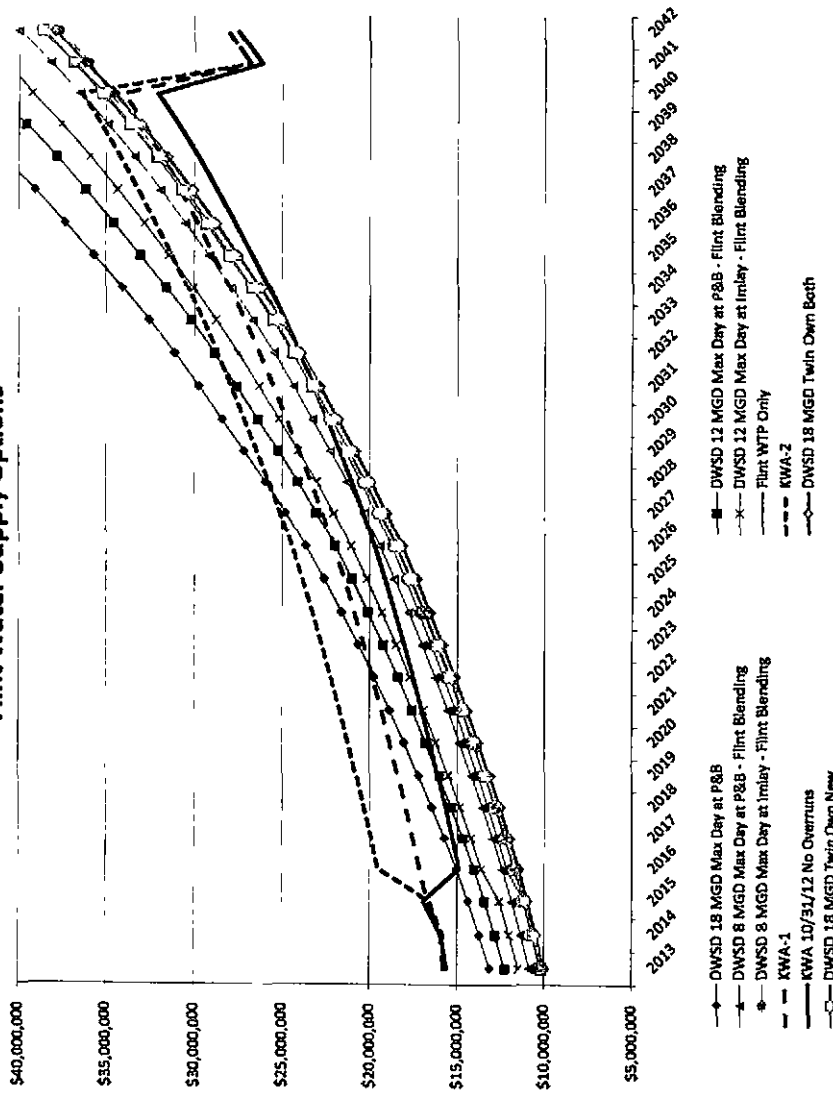
	<u>Assumptions</u>				
	<u>Avg Day</u>	<u>Max Day</u>	<u>Peak Hour</u>	<u>DWSD Investment</u>	
				<u>CTA</u>	<u>Flint Only</u>
	<i>mgd</i>	<i>mgd</i>	<i>mgd</i>	<i>\$</i>	<i>\$</i>
1 Status Quo	24.6	45.6	47.7	0	0
2 Suggested Contract	23.4	40.6	42.4	0	0
3 Max Day Only	12.0	18.0	18.0	0	0
4 Add CTA Line to BP	12.0	18.0	18.0	62,290,800	0
5 CTA to BP / Flint only to FWTP	12.0	18.0	18.0	62,290,800	32,391,300
6 Add CTA Line to FWTP	12.0	18.0	18.0	94,682,100	0
7 CTA to FWTP / Buy existing 72	12.0	18.0	18.0	94,682,100	(2,500,000)

TFG

DWSD Worksheet : 18 MGD Maximum Day Customer with Model Contract Twinning Line and Owning both to the Flint WTP

Capacity	Flint ADD: DWSD ADD:	0.00 MGD 12 MGD	- MCF/Day 1,604 MCF/Day	Year	Flint WTP O&M	Water Purchase	Revenue Bond Payment	Interest on Reserve	TOTAL
Annual Volume	Flint: DWSD:	- MCF 585,561 MCF		1	\$ 10,001,390	-	-	-	\$ 10,001,390
2013 Cost of Supply	Flint WTP O&M:	- /MCF	- /Yr	2	\$ 10,471,456	-	-	-	\$ 10,471,456
Escalation/Inflation Rate	Flint: DWSD:	4.51% /Yr 4.7% /Yr		3	\$ 10,963,614	-	-	-	\$ 10,963,614
Capital Expenditure	Amount \$ Reserve \$ Amount plus Reserve: \$ Revenue Bond Rate Number of Years Annual Cost:	- - - 5% 25 \$0	0.00% 0.00% 0.00% 5% 25 \$0	4	\$ 11,478,904	-	-	-	\$ 11,478,904
				5	\$ 12,018,412	-	-	-	\$ 12,018,412
				6	\$ 12,589,278	-	-	-	\$ 12,589,278
				7	\$ 13,174,692	-	-	-	\$ 13,174,692
				8	\$ 13,793,902	-	-	-	\$ 13,793,902
				9	\$ 14,442,216	-	-	-	\$ 14,442,216
				10	\$ 15,121,000	-	-	-	\$ 15,121,000
				11	\$ 15,831,687	-	-	-	\$ 15,831,687
				12	\$ 16,575,776	-	-	-	\$ 16,575,776
				13	\$ 17,354,838	-	-	-	\$ 17,354,838
				14	\$ 18,170,515	-	-	-	\$ 18,170,515
				15	\$ 19,024,529	-	-	-	\$ 19,024,529
				16	\$ 19,918,682	-	-	-	\$ 19,918,682
				17	\$ 20,854,860	-	-	-	\$ 20,854,860
				18	\$ 21,835,039	-	-	-	\$ 21,835,039
				19	\$ 22,861,286	-	-	-	\$ 22,861,286
				20	\$ 23,935,766	-	-	-	\$ 23,935,766
				21	\$ 25,060,747	-	-	-	\$ 25,060,747
				22	\$ 26,238,602	-	-	-	\$ 26,238,602
				23	\$ 27,471,816	-	-	-	\$ 27,471,816
				24	\$ 28,762,992	-	-	-	\$ 28,762,992
				25	\$ 30,114,852	-	-	-	\$ 30,114,852
				26	\$ 31,530,250	-	-	-	\$ 31,530,250
				27	\$ 33,012,172	-	-	-	\$ 33,012,172
				28	\$ 34,563,744	-	-	-	\$ 34,563,744
				29	\$ 36,188,240	-	-	-	\$ 36,188,240
				30	\$ 37,895,088	-	-	-	\$ 37,895,088
				31	\$ 39,684,320	-	-	-	\$ 39,684,320
				32	\$ 41,556,064	-	-	-	\$ 41,556,064
				33	\$ 43,510,352	-	-	-	\$ 43,510,352
				34	\$ 45,547,216	-	-	-	\$ 45,547,216
				35	\$ 47,667,680	-	-	-	\$ 47,667,680
				36	\$ 49,871,776	-	-	-	\$ 49,871,776
				37	\$ 52,160,528	-	-	-	\$ 52,160,528
				38	\$ 54,534,960	-	-	-	\$ 54,534,960
				39	\$ 56,995,088	-	-	-	\$ 56,995,088
				40	\$ 59,542,928	-	-	-	\$ 59,542,928
				41	\$ 62,178,496	-	-	-	\$ 62,178,496
				42	\$ 64,902,800	-	-	-	\$ 64,902,800
				43	\$ 67,715,840	-	-	-	\$ 67,715,840
				44	\$ 70,617,616	-	-	-	\$ 70,617,616
				45	\$ 73,608,128	-	-	-	\$ 73,608,128
				46	\$ 76,688,376	-	-	-	\$ 76,688,376
				47	\$ 79,858,360	-	-	-	\$ 79,858,360
				48	\$ 83,118,080	-	-	-	\$ 83,118,080
				49	\$ 86,467,536	-	-	-	\$ 86,467,536
				50	\$ 89,905,728	-	-	-	\$ 89,905,728
				51	\$ 93,432,656	-	-	-	\$ 93,432,656
				52	\$ 97,048,320	-	-	-	\$ 97,048,320
				53	\$ 100,753,728	-	-	-	\$ 100,753,728
				54	\$ 104,548,880	-	-	-	\$ 104,548,880
				55	\$ 108,433,680	-	-	-	\$ 108,433,680
				56	\$ 112,408,128	-	-	-	\$ 112,408,128
				57	\$ 116,472,224	-	-	-	\$ 116,472,224
				58	\$ 120,625,968	-	-	-	\$ 120,625,968
				59	\$ 124,869,360	-	-	-	\$ 124,869,360
				60	\$ 129,202,392	-	-	-	\$ 129,202,392
				61	\$ 133,625,064	-	-	-	\$ 133,625,064
				62	\$ 138,137,376	-	-	-	\$ 138,137,376
				63	\$ 142,739,328	-	-	-	\$ 142,739,328
				64	\$ 147,430,920	-	-	-	\$ 147,430,920
				65	\$ 152,212,144	-	-	-	\$ 152,212,144
				66	\$ 157,083,904	-	-	-	\$ 157,083,904
				67	\$ 162,046,208	-	-	-	\$ 162,046,208
				68	\$ 167,099,056	-	-	-	\$ 167,099,056
				69	\$ 172,242,448	-	-	-	\$ 172,242,448
				70	\$ 177,476,384	-	-	-	\$ 177,476,384
				71	\$ 182,799,864	-	-	-	\$ 182,799,864
				72	\$ 188,212,888	-	-	-	\$ 188,212,888
				73	\$ 193,715,456	-	-	-	\$ 193,715,456
				74	\$ 199,307,568	-	-	-	\$ 199,307,568
				75	\$ 204,989,224	-	-	-	\$ 204,989,224
				76	\$ 210,760,424	-	-	-	\$ 210,760,424
				77	\$ 216,621,168	-	-	-	\$ 216,621,168
				78	\$ 222,571,456	-	-	-	\$ 222,571,456
				79	\$ 228,610,288	-	-	-	\$ 228,610,288
				80	\$ 234,737,160	-	-	-	\$ 234,737,160
				81	\$ 240,952,072	-	-	-	\$ 240,952,072
				82	\$ 247,255,024	-	-	-	\$ 247,255,024
				83	\$ 253,646,016	-	-	-	\$ 253,646,016
				84	\$ 260,125,048	-	-	-	\$ 260,125,048
				85	\$ 266,692,112	-	-	-	\$ 266,692,112
				86	\$ 273,347,208	-	-	-	\$ 273,347,208
				87	\$ 280,090,336	-	-	-	\$ 280,090,336
				88	\$ 286,921,496	-	-	-	\$ 286,921,496
				89	\$ 293,840,688	-	-	-	\$ 293,840,688
				90	\$ 300,847,912	-	-	-	\$ 300,847,912
				91	\$ 307,943,168	-	-	-	\$ 307,943,168
				92	\$ 315,126,456	-	-	-	\$ 315,126,456
				93	\$ 322,397,776	-	-	-	\$ 322,397,776
				94	\$ 329,756,128	-	-	-	\$ 329,756,128
				95	\$ 337,202,512	-	-	-	\$ 337,202,512
				96	\$ 344,736,928	-	-	-	\$ 344,736,928
				97	\$ 352,358,376	-	-	-	\$ 352,358,376
				98	\$ 360,066,856	-	-	-	\$ 360,066,856
				99	\$ 367,862,368	-	-	-	\$ 367,862,368
				100	\$ 375,744,912	-	-	-	\$ 375,744,912
				101	\$ 383,713,488	-	-	-	\$ 383,713,488
				102	\$ 391,768,096	-	-	-	\$ 391,768,096
				103	\$ 399,908,736	-	-	-	\$ 399,908,736
				104	\$ 408,134,408	-	-	-	\$ 408,134,408
				105	\$ 416,445,112	-	-	-	\$ 416,445,112
				106	\$ 424,840,848	-	-	-	\$ 424,840,848
				107	\$ 433,321,616	-	-	-	\$ 433,321,616
				108	\$ 441,887,416	-	-	-	\$ 441,887,416
				109	\$ 450,538,248	-	-	-	\$ 450,538,248
				110	\$ 459,274,112	-	-	-	\$ 459,274,112
				111	\$ 468,095,008	-	-	-	\$ 468,095,008
				112	\$ 476,999,936	-	-	-	\$ 476,999,936
				113	\$ 485,987,896	-	-	-	\$ 485,987,896
				114	\$ 495,058,888	-	-	-	\$ 495,058,888
				115	\$ 504,212,912	-	-	-	\$ 504,212,912
				116	\$ 513,450,072	-	-	-	\$ 513,450,072
				117	\$ 522,770,368	-	-	-	\$ 522,770,368
				118	\$ 532,173,792	-	-	-	\$ 532,173,792
				119	\$ 541,660,344	-	-	-	\$ 541,660,344
				120	\$ 551,230,032	-	-	-	\$ 551,230,032
				121	\$ 560,882,848	-	-	-	\$ 560,882,848
				122	\$ 570,618,784	-	-	-	\$ 570,618,784
				123	\$ 580,437,840	-	-	-	\$ 580,437,840
				124	\$ 590,339,912	-	-	-	\$ 590,339,912
				125	\$ 600,325,000	-	-	-	\$ 600,325,000
				126	\$ 610,393,104	-	-	-	\$ 610,393,104
				127	\$ 620,544,224	-	-	-	\$ 620,544,224
				128	\$ 630,778,360	-	-	-	\$ 630,778,360
				129	\$ 641,095,416	-	-	-	\$ 641,095,416
				130	\$ 651,495,392	-	-	-	\$ 651,495,392
				131	\$ 661,978,288	-	-	-	\$ 661,978,288
				132	\$ 672,544,104	-	-	-	\$ 672,544,104
				133	\$ 683,192,832	-	-	-	\$ 683,192,832
				134	\$ 693,924,472	-	-	-	\$ 693,924,472
				135	\$ 704,739,024	-	-	-	\$ 704,739,024
				136	\$ 715,636,488	-	-	-	\$ 715,636,488
				137	\$ 726,616,864	-	-	-	\$ 726,616,864
				138	\$ 737,679,152	-	-	-	\$ 737,679,152
				139	\$ 748,823,352	-	-	-	\$ 748,823,352
				140	\$ 759,049,464	-	-	-	\$ 759,049,464
				141	\$ 769,457,488	-	-	-	\$ 769,457,488
				142	\$ 780,047,424	-	-	-	\$ 780,047,424
				143	\$ 790,719,272	-	-	-	\$ 790,719,272
				144	\$ 801,473,032	-	-	-	\$ 801,473,032
				145	\$ 812,308,704	-	-	-	\$ 812,308,704
				146	\$ 823,226,288	-	-	-	\$ 823,226,288
				147	\$ 834,225,776	-	-	-	\$ 834,225,776
				148	\$ 845,307,168	-	-	-	\$ 845,307,168
				149	\$ 856,470,464	-	-	-	\$ 856,470,464
				150	\$ 867,714,664	-	-	-	\$ 867,714,664
				151	\$ 879,039,768	-	-	-	\$ 879,039,768
				152	\$ 890,445,776	-	-	-	\$ 890,445,776
				153	\$ 901,932,688	-	-	-	\$ 901,932,688
				154	\$ 913,500,504	-	-	-	\$ 913,500,504
				155	\$ 92				

Flint Water Supply Options



Option	Costs through 2042	Ranking
Flint WTP Only	\$ 590,441,893	1
DWSD 8 MGD Max Day at Imley	\$ 634,795,488	2
KWA 10/31/12 Update	\$ 649,775,166	3
DWSD 8 MGD Max Day at P&B	\$ 672,671,705	4
KWA-1	\$ 707,279,715	5
DWSD 12 MGD Max Day at Imley	\$ 725,576,803	6
DWSD 12 MGD Max Day at P&B	\$ 762,110,308	7
KWA-2	\$ 766,784,313	8
DWSD 18 MGD Max Day at P&B	\$ 821,226,268	9
DWSD 18 MGD Max Twin Own Both	\$ 631,244,349	
DWSD 18 MGD Max Twin Own New Line	\$ 643,070,941	

Pleyte, Beth (Treasury)

Subject: Tom Saxton, Treasury with DEQ RE: DWSD
Location: 1st Floor Treasury Austin Bldg - Treasurer's Conf. Room

Start: Tue 3/19/2013 4:00 PM
End: Tue 3/19/2013 4:30 PM
Show Time As: Tentative

Recurrence: (none)

Meeting Status: Not yet responded

Organizer: Thelen, Mary Beth (DEQ)
Required Attendees: Wyant, Dan (DEQ); Saxton, Thomas (Treasury); Stibitz, Brom (Treasury); Sygo, Jim (DEQ); Creal, William (DEQ); Argiroff, Phil (DEQ); Wurfel, Brad (DEQ)
Optional Attendees: Thelen, Mary Beth (DEQ); Smith, Laura (DEQ); Pleyte, Beth (Treasury); Hichez, Amy (Treasury)

Importance: High

Tom Saxton has ½ hour at 4:00 on March 19 to talk with Director Dan Wyant and staff RE: DWSD. This has been confirmed.

DEQ Participants: Director Wyant, Jim Sygo, Bill Creal, and Phil Argiroff. Brad: FYI as needed.

Thanks.

Mary Beth
241-7390

Note from Treasury:

Tom and Brom Stibitz would have time @ 4:00 for a ½ hour. Tom will be out of state on Wed. I'm sorry that's the only option I have.

We are on the 1st Floor Austin Bldg. The meeting will be in the Treasurer's conference room.

Koryzno, Edward (Treasury)

From: Fraser, Roger (Treasury)
Sent: Wednesday, March 20, 2013 10:35 AM
To: Hichez, Amy (Treasury)
Cc: Stibitz, Brom (Treasury); Koryzno, Edward (Treasury)
Subject: Flint water

Is it possible to get time with Andy Monday afternoon to meet with Ed Kurtz and others about Flint's water?

Sent from my iPhone

Koryzno, Edward (Treasury)

From: Fraser, Roger (Treasury)
Sent: Wednesday, March 20, 2013 2:09 PM
To: Hichez, Amy (Treasury)
Cc: Dempkowski, Angela (Treasury); Koryzno, Edward (Treasury)
Subject: RE: Meeting with Andy

9:00 for Ed Kurtz, Mike Brown, Jerry Ambrose, Ed Koryzno and me.

15 minutes for me with Andy following that meeting.

From: Hichez, Amy (Treasury)
Sent: Wednesday, March 20, 2013 1:21 PM
To: Fraser, Roger (Treasury)
Subject: RE: Meeting with Andy

Please let me know soon as I cannot keep the whole morning open for long.

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: Fraser, Roger (Treasury)
Sent: Wednesday, March 20, 2013 1:13 PM
To: Hichez, Amy (Treasury)
Subject: Re: Meeting with Andy

Thanks. I will check with Flint.

Sent from my iPhone

On Mar 20, 2013, at 1:11 PM, "Hichez, Amy (Treasury)" <HichezA@michigan.gov> wrote:

9am-12 open. Pick your time(s) for both meetings please.

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: Fraser, Roger (Treasury)
Sent: Wednesday, March 20, 2013 1:11 PM
To: Hichez, Amy (Treasury)
Subject: Re: Meeting with Andy

That's fine. To confirm with Flint, are we scheduling time in morning or afternoon?

Sent from my iPhone

On Mar 20, 2013, at 1:06 PM, "Hichez, Amy (Treasury)" <HichezA@michigan.gov> wrote:

Andy is out the following week. I am going to cancel the meeting on Friday of this week. Can I schedule you time on Tuesday for Flint water meeting and for the meeting below that is needed (two separate meetings)?

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: Fraser, Roger (Treasury)
Sent: Friday, March 15, 2013 4:07 PM
To: Hichez, Amy (Treasury)
Subject: Re: Meeting with Andy

Friday does not work. How about the following week?

Sent from my iPhone

On Mar 15, 2013, at 4:05 PM, "Hichez, Amy (Treasury)" <HichezA@michigan.gov> wrote:

Andy is out of state Sunday-Thurs. Do you have time to meet with him on Friday or do you want a phone call set up?

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: Fraser, Roger (Treasury)
Sent: Friday, March 15, 2013 4:02 PM
To: Hichez, Amy (Treasury)
Subject: Meeting with Andy

Hi, Amy:

I need 15 minutes with Andy next week.

So you know, I will be attending the Governor's Economic event at Cobo Monday and Tuesday.

Thanks!

Roger

Pleyte, Beth (Treasury)

From: Saxton, Thomas (Treasury)
Sent: Wednesday, March 20, 2013 1:53 PM
To: Dillon, Andy (Treasury)
Cc: Stibitz, Brom (Treasury)
Subject: Re: Question - Tucker Young

For whatever credibility I have; I was a witness. Andy asked them given their past work with dwsd could they be a honest broker in this assessment and their response was an unequivocal "yes". To a point Brom raised previously are you ok with the rate assumptions over time ?

Sent from my iPhone

On Mar 20, 2013, at 10:28 AM, "Dillon, Andy (Treasury)" <DillonA2@michigan.gov> wrote:

I asked them that point blank w Tom.

Sent from my iPhone

On Mar 20, 2013, at 10:24 AM, "Stibitz, Brom (Treasury)" <StibitzB@michigan.gov> wrote:

I don't mean to argue with the numbers, but the document feels like a "sell job" to me. Were you totally clear with them in the meeting that his was unbiased by their relationship with DWSD?

From: David Guastella [<mailto:DGuastel@tyjt.com>]
Sent: Monday, March 18, 2013 10:30 AM
To: Stibitz, Brom (Treasury)
Cc: George Karmo; Koryzno, Edward (Treasury); Cline, Richard (Treasury); Dillon, Andy (Treasury); Hichez, Amy (Treasury)
Subject: RE: Treasury: Flint Assessment

Good morning Brom,

We were contacted by the Treasurer last Thursday and met with him on Friday. He also asked that we draft a summary recommendation for his use. It is was sent to him yesterday and is attached to this email along with his response below. Our recommendations are for Flint to continue with DWSD's services in lieu of being supplied by KWA.

Although your memorandum took into account alternative proposals by KWA, it did not consider DWSD's new proposals made through the Treasury last month to build a second parallel line to the existing Flint WTP. These proposals are less costly than the most optimistic KWA proposal and the cost information was provided to the Treasurer on Friday as well. Note that the a second parallel line removes the need for Flint to operate its treatment plant and significantly reduces their operating costs. The additional reasons for our recommendations are also summarized in the attached recommendations.

It is also worth noting that it is good engineering practice to be conservative in estimates when a majority of the design has not been completed. We believe this to be prudent; especially when considering the financial capabilities and responsibilities of the end user (Flint). When a design is nearly complete, then it is acceptable to use the engineering estimate as there are specific quantities and materials of construction to cost out.

This point is brought to your attention to outline our approach. For the intake estimate, which was 90% complete at the time of our analysis, was used "as provided" in our cost comparison. We would hope that this cost is close to the contractors bid in February. However, this should not be consider a telltale for the rest of the project as the remaining costly components are only designed at a very preliminary level.

Please contact me should you need further clarification or have any questions.

Thank you,
Dave

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

From: Dillon, Andy (Treasury) [<mailto:DillonA2@michigan.gov>]

Sent: Sunday, March 17, 2013 6:49 PM

To: David Guastella

Cc: George Karmo; Awni Qaqish; Hichez, Amy (Treasury); Saxton, Thomas (Treasury); Stibitz, Brom (Treasury)

Subject: Re: Flint Water Supply Alternatives

Thank you. This is exactly what I am looking for.

Sent from my iPad

On Mar 17, 2013, at 1:11 PM, "David Guastella" <DGuastel@tyjt.com> wrote:

> Good afternoon Treasurer Dillon,

>

> As requested in our meeting on Friday, March 15th, I am attaching TYJT's recommendation regarding Flint's alternatives for water supply. Please do not hesitate to contact us should you have any questions or wish us to look into anything further regarding this issue.

>

> Thank you,

>

> Dave

> <[TYJT Recommendation DWSD vs Flint.pdf](#)>

From: Stibitz, Brom (Treasury) [<mailto:StibitzB@michigan.gov>]

Sent: Monday, March 18, 2013 9:57 AM

To: David Guastella

Cc: George Karmo

Subject: Treasury: Flint Assessment

Andy asked that I forward this memo for your comment. Can you address the conclusions, especially the fact that the City removed from consideration the various "blend" options.

For the time being you can send any comments just to me and Andy.

Thanks.

Brom

<TYJT Recommendation DWSD vs Flint.pdf>

Lamphier, Wendy (Treasury)

From: Dillon, Andy (Treasury)
Sent: Thursday, March 21, 2013 12:52 PM
To: Stibitz, Brom (Treasury)
Subject: Re: KWA

Follow Up Flag: Follow up
Flag Status: Flagged

Yes. Pls email dan the report.

Sent from my iPad

On Mar 21, 2013, at 12:11 PM, "Stibitz, Brom (Treasury)" <StibitzB@michigan.gov> wrote:

Roberts is checking with G on KWA.

EsHe likes the idea of having DEQ weigh in. Did you talk to Wyant?

Headen, Frederick (Treasury)

From: Awni Qaqish <aaqish@tyjt.com>
Sent: Thursday, March 21, 2013 4:57 PM
To: Stibitz, Brom (Treasury)
Cc: David Guastella; George Karmo
Subject: Flint Water Supply Assessment Final Report
Attachments: flint water supply assessment final report 2-6-13.pdf

Brom,

On behalf of Dave Guastella, attached per your request, is a copy of the final Flint Water Supply Assessment Report dated February 2013. Please let us know if you need additional information

Awni

Awni Qaqish, P.E.
Vice President
Tucker, Young, Jackson, Tull, Inc.
615 Griswold St, Suite 600
Detroit, MI 48226
Phone: 313-963-0612
Fax: 313-963-2156

STATE OF MICHIGAN CONTRACT NO. 271N3200089

CITY OF FLINT WATER SUPPLY ASSESSMENT
February 2013

For Submittal to:
State of Michigan, Department of Treasury



Submitted by:

TY TUCKER, YOUNG,
JT JACKSON, TULL INC.
CONSULTING ENGINEERS-PLANNERS
615 Griswold Suite 600
Detroit, Michigan 48226
(313)963-0612 FAX (313)963-2158

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Appendix B – Cost Worksheets

1. INTRODUCTION

Tucker, Young, Jackson, Tull, Inc. (TYJT), at the request of the State Treasurer performed an analysis of the water supply options being considered by the City of Flint. The City of Flint is presently supplied potable water from the Detroit Water and Sewerage Department (DWSD). This supply is from a single 72-inch water main that terminates at a master meter located at Potter and Baxter. Additionally, downstream of the DWSD master meter, Flint supplies its customer Genesee County. The City of Flint also operates a water treatment plant that uses the Flint River as its source of supply to provide back up and redundancy to the DWSD supply as required by MDEQ.

The Karegnondi Water Authority (KWA) is planning on constructing a raw water supply system that could provide Lake Huron water to the Flint Water Treatment Plant. Flint's existing plant would be upgraded to treat the new raw water source.

The State Treasurer has appointed an emergency financial manager for the City of Flint. As such the Treasurer has requested TYJT to provide an analysis of the water supply options to assist the Treasurer in determining any potential risk and the best course going forward for supplying potable water to the City of Flint.

Report Organization

The following sections of this report are described below:

Section 2 – The basis of the analysis is described in this section. The options include the KWA option and several options offered by DWSD.

Section 3 – A significant amount of information and data was collected including memorandums, reports, drawings, financial reports, and other documents. This section summarizes the information used in the analysis.

Section 4 – This section describes the evaluation of the cost of supply for the Flint options. The costs are comprised of the initial cost of operations plus the annual rate of escalation/inflation.

Section 5 – The evaluation process used to analyze the construction costs associated with the KWA supply system is described in this section. Additionally, the cost of financing the capital requirements is described.

Section 6 – This section presents the financial review of the options considered to supply potable water to Flint. A summary of these options is also provided.

Section 7 – In addition to the financial analysis other considerations were identified that should be considered in understanding the risks and determining the best option to supply Flint. They include items related to cost, redundancy and reliability, and Flint's ability to control their future cost of water supply.

2. FLINT WATER SUPPLY OPTIONS

Two water purveyor options were evaluated; the KWA water supply system and continued supply from DWSD. Both suppliers would provide water from Lake Huron as the source. The KWA system is a raw water supply, which means that the water would have to be treated by Flint before distributing the potable water to its customers. The DWSD supply is potable or “finished” water and would not need additional treatment.

Additionally, an option for the Flint WTP to supply the City of Flint without being supplied from either DWSD or KWA was initially considered. The preliminary investigation evaluated the cost associated with the required improvements to the plant and to the Flint River dam system. Although it appeared that this was a viable option, Flint in a meeting on December 20, 2012 with the Treasury, stated that the City did not want to pursue the option and it is no longer being considered.

Karegnondi Water Authority (KWA) Lake Huron Water Supply

The KWA water supply system schematic is shown in Figure 2-1. The system is comprised of an intake in Lake Huron that supplies water to the Lake Huron Pump Station (LHPS). The LHPS lifts the water and pumps it through an approximately 22 mile long 60-inch pipeline. The pipeline terminates at a 5 MG reservoir and is then pumped from the Intermediate Pump Station (IPS) through approximately 26 miles of 60-inch and 18 miles of 30-inch pipeline to the existing Flint WTP. Downstream of the IPS, approximately half way to the Flint WTP, the 60-inch line would also supply a new Genesee County WTP.

The raw water transmission system has a 60 MGD capacity and is sized to deliver a maximum of 18 MGD to the Flint WTP with an average day supply of 12 MGD. Improvements at the Flint WTP would also be required to treat the lake water as the plant is currently designed to treat the Flint River water.

The term of the KWA contract for Flint is 40 years.

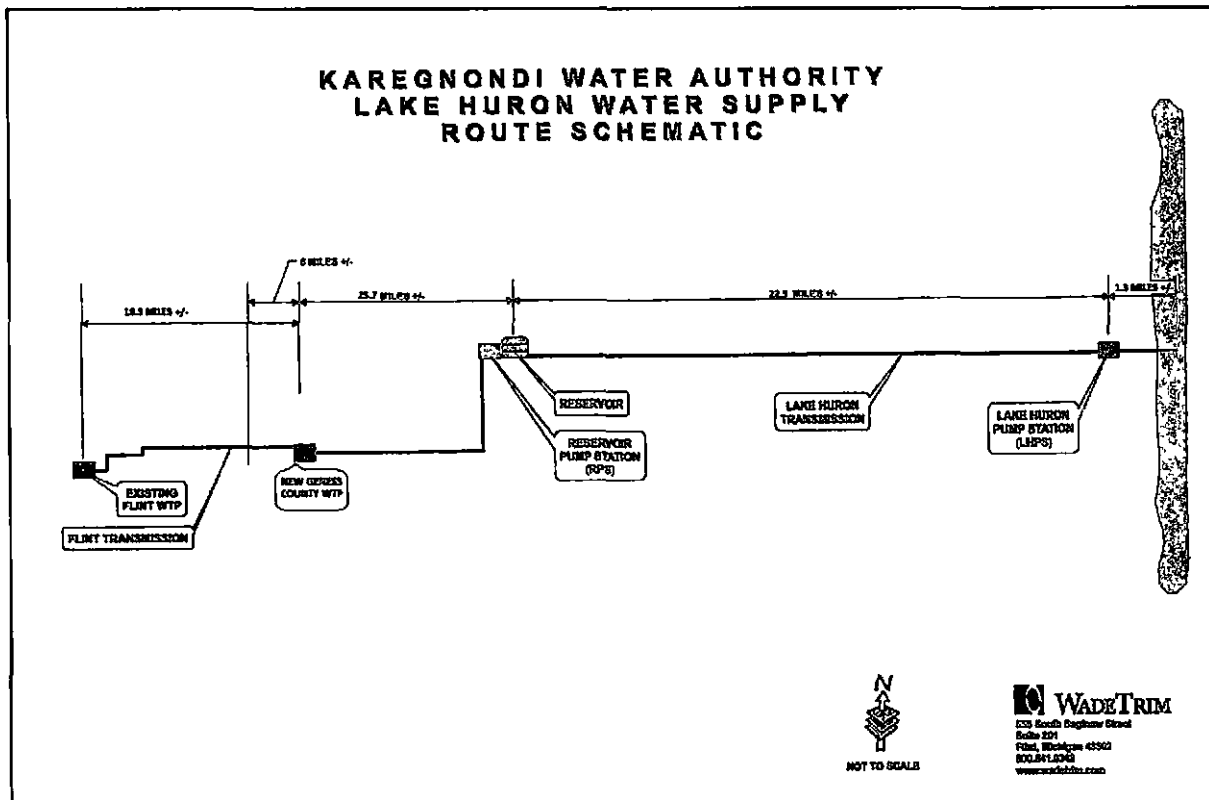


Figure 2-1: KWA Raw Water System

DWSD Water System

The DWSD system schematic is shown in Figure 2-2. Flint is currently supplied by DWSD at Master Meter FL-1, located at Potter and Baxter. Flint typically gets its water from the Lake Huron WTP, located in Fort Gratiot, Michigan; near the Lake Huron shoreline. Water is treated and pumped at the Lake Huron WTP and supplied through a 120-inch pipeline to an intermediate pump station called the Imlay Pump Station. The Imlay Pump Station has 20 MG of reservoir capacity. Depending on the time of year and the DWSD system demand, water is either bypassed directly to Flint or it is re-pumped at Imlay. It should be noted that the DWSD supply to Flint is part of a very large water system and during emergencies or outages water can be supplied from the south up to Flint in lieu of the Lake Huron facility.

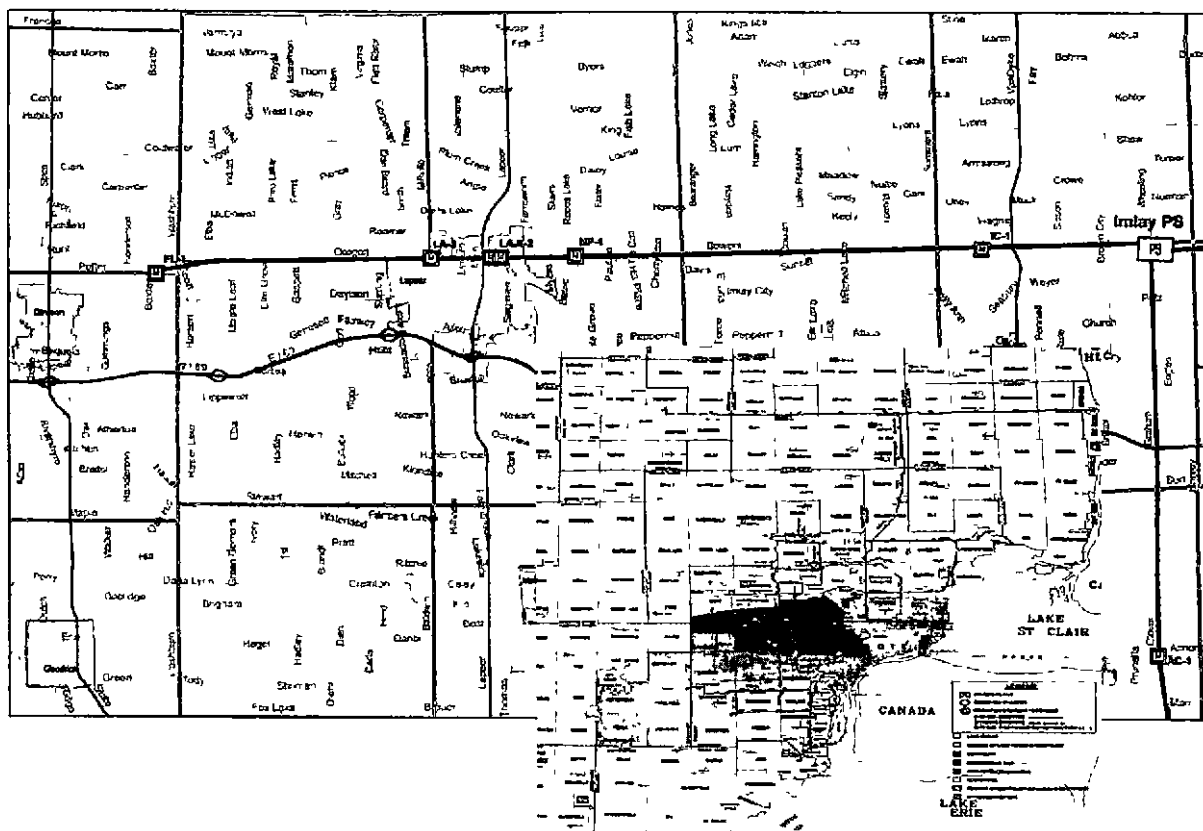


Figure 2-2: DWSD Water System

The pipeline from Imlay to FL-1 is a 72-inch pipeline. It has been estimated that the 72-inch line serving Flint has a capacity in excess of 90 MGD.

DWSD has presented several contractual options to Flint and all of them are based on Flint signing a new 30 year contract. The options shown in Table 2-1 are based on two different supply points; one at the current master meter location FL-1 at Potter and Baxter (P&B) and the other at the location of the Imlay Pump Station. The reason for the varying options is to provide a lower water rate at the Imlay Station, since the DWSD rate formula is based on distance and elevation factors related to the supply location.

The rates are also dependent on the maximum amount of water DWSD supplies. As example, if DWSD supplies a maximum day demand of 18 MGD that would equal the entire amount of water required by Flint.

For the options less than the maximum of 18 MGD means that the Flint WTP would supplement the difference by supplying water treated from the Flint River. These options are known as "blending" and would allow for Flint to blend two sources of water to supply its customers; the Flint River using the Flint WTP and Lake Huron from DWSD system.

Description	Average Day Demand
18 MGD Maximum Day Customer – FL-1	12 MGD
12 MGD Maximum Day Customer – FL-1	8 MGD
8 MGD Maximum Day Customer – FL-1	8 MGD
12 MGD Maximum Day Customer - Imlay	12 MGD
8 MGD Maximum Day Customer - Imlay	12 MGD

Table 2-1: DWSD Supply Options

3. DATA COLLECTION

During the course of the investigation several documents were used to perform the analysis. The names of the documents are listed below for reference.

KWA and Flint

- Preliminary Engineering Report, Lake Huron Water Supply Karegnondi Water Authority, September 2009;
- Analysis of the Flint River as a Permanent Water Supply for the City of Flint, July 2011;
- Cost Comparison, KWA vs. DWSD, Letter to Mr. Kurtz, October 31, 2012;
- Lake Huron Supply Study, KWA, Appendix 20, October 2012 Preliminary Report Update, Final Report (DRAFT), October 4, 2012;
- Articles of Incorporation of Karegnondi Water Authority, endorsed in 2010;
- Karegnondi Water Authority Bylaws, October 26, 2010;
- KWA Raw Water Supply Contract;
- Flint WTP Statement of Revenues and Expenditures 09' – 12';
- GCDC Division of Water and Waste Services Financial Statements 03' – 11'; and
- Assorted emails with further clarification of questions and documentation.

DWSD

- Historical Rates and Charges to Flint 04' – 13';
- Historical Rates and Charges to Flint with Hypothetical Model Contract 10' – 13';
- 2013 Rates and Charges for the following options:
 - 18 MGD Maximum Day Customer at FL-1;
 - 12 MGD Maximum Day Customer at FL-1 (Flint blending*);
 - 8 MGD Maximum Day Customer at FL-1 (Flint blending*);
 - 12 MGD Maximum Day Customer at Imlay (Flint blending*);
 - 8 MGD Maximum Day Customer at Imlay (Flint blending*); and
- Assorted emails with further clarification of questions and documentation.

- * Flint blending based on DWSD supplying two-thirds and Flint one-third of 12 MGD average day demand.

Two meetings were also held; one with DWSD and one with Flint and Genesee County representing KWA. The meetings were held on November 19, 2012 and November 20, 2012, respectively. Minutes from these meetings are included in Appendix A.

4. COST OF SERVICE

Information provided by DWSD, Flint, and representatives of the KWA were used in the cost of service evaluation. To evaluate the annual escalation/inflation rate over the planning period, the rate adjustment for DWSD was estimated based on the recent rate adjustment history. For the KWA system both the estimated cost of operations when the system begins supplying water and the annual rate adjustment or inflation was evaluated. The existing cost of operations and escalation for the Flint WTP was based on actual costs provided and then adjusted depending on the scenario considered. This section describes the evaluation process and the rates used in the analysis.

DWSD Water Supply

The City of Flint has been a customer of DWSD since 1967. The Flint WTP has been maintained as a backup to the DWSD system. As indicated previously, several options were provided by DWSD depending on the type of service Flint was to select. The unit cost of water for each of these options is shown in Table 4-1. These rates are based on DWSD's FY13, which are current until July 2013.

Description	Average Day Demand (MGD)	Unit Rate (\$/MCF)
18 MGD Maximum Day Customer – FL-1	12	16.37
12 MGD Maximum Day Customer – FL-1	8	16.31
8 MGD Maximum Day Customer – FL-1	8	12.68
12 MGD Maximum Day Customer - Imlay	12	14.38
8 MGD Maximum Day Customer - Imlay	12	11.11

Table 4-1: Cost of DWSD Supply Options

To determine annual escalation rate, DWSD's last 10 years of history was used along with other large urban water systems in Michigan. The water systems used for benchmarking comparison were: Lansing, Grand Rapids, and Saginaw.

Table 4-2 identifies the annual and average rate of increase to Flint based on supplying water either to the current FL-1 at Potter and Baxter or Imlay. Note the last three years of the rates (FY 2011 through FY 2013) assumes that Flint's cost would be based on the new 30 year contract; FY 2011 being the first year that the new contract was available.

Fiscal Year	Average Unit Cost (\$/MCF)	Annual 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	11.73	-10.3
2011	13.89	18.4
2012	15.08	8.6
2013	16.24	7.7
Average		4.4%

From FL-1

Fiscal Year	Average Unit Cost (\$/MCF)	Annual 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	11.16	-14.6
2011	12.23	9.6
2012	13.28	8.6
2013	14.32	7.8
Average		2.9%

From Imlay

Table 4-2: Recent DWSD Water Rates

Audited financial reports were used to determine the rate of inflation associated with other three large municipal systems. The results are shown in Table 4-3.

Water Systems	Years Evaluated	Average Rate (%)
Lansing	05'-12'	4.6
Grand Rapids	04'-11'	1.6
Saginaw	04'-11'	7.0

Table 4-3: O&M Inflation Rates of Other Large Water Systems

Based on the information analyzed from DWSD and the other communities, it was determined that a fair annual rate of inflation for operations and maintenance cost for the analysis should be 4.4%. The 4.4% has historical significance from Flint's current water supplier and falls within the range of the other communities.

KWA Water Supply

The initial projected O&M cost for the KWA supply would be comprised of KWA's O&M costs as well as Flint's O&M costs. Because there was limited information provided, the initial estimated rate of \$1.50/MCF was used. This rate is based on information from the cost comparison analysis attached to the letter to Mr. Kurtz, dated October 31, 2012.

The KWA cost evaluation used an annual O&M inflation rate of 5%. To validate this rate a similar analysis to DWSD's operations and maintenance annual rate of inflation was used. First, in discussions with Flint and the Genesee County Drain Commission (GCDC), they believed that the annual rate of inflation for the new KWA system would be similar to the GCDC Water & Waste Services (WWS). Additionally, two large transmission systems were used to benchmark the inflation rates: the Southeastern Oakland County Water Authority (SOCWA) and the Ypsilanti Utility Community Authority (YUCA). Although both of these systems transmit finished water opposed to raw water, they were considered similar enough for comparison as they are comprised of only large water mains, pumping facilities and storage.

Once again audited financial statements were used to calculate the inflation rates. A summary of the findings are shown in Table 4-4. Based on the fact that the information analyzed showed a large difference between the two systems, it was determined that the KWA assumption of 5% was a good rate of inflation to use in the financial analysis. This rate is almost equally between the GCDC rate and the other two transmission systems.

Systems	Years Evaluated	Average Rate (%)
GCDC WWS	03' – 11'	10.5
SOCWA	04'-12'	—
YUCA	04'-12'	0.7

Table 4-4: O&M Inflation Rates of Other Comparable Systems to KWA

Flint WTP

The Flint WTP currently serves as a backup supply to the DWSD service to Flint. To maintain backup operations, the City of Flint operates the plant approximately 20 days each year. Flint indicated that the average production rate when they operate is 11 MGD.

For the blending options and the KWA supply considered, Flint would be required to operate its plant all year around. Therefore, their operating and maintenance costs were evaluated and adjusted to determine an annual cost associated with year-round operations.

The Flint WTP provided three years of operating costs for the assessment. Additionally, reports listed in Section 3 were also used as reference to determine both operating costs for the plant processing Flint River water (blending options) and Lake Huron raw water (KWA option).

Major cost centers were analyzed to estimate annual operation and maintenance. They included: labor, utilities, chemicals and residual management. In general, as recommended by the Flint plant staff, labor and overhead were increased from the current costs by two-thirds. Additionally, variable costs for power, chemicals and residual cost were increased to estimate full time treatment at the Flint WTP. Data from the KWA Preliminary Report and annual operating data for the Flint WTP (provided separately) were analyzed to make these forecasts.

The annual operating and maintenance costs developed for Flint WTP used are shown in Table 4-5.

Source of Supply	Average Daily Production (MGD)	Estimated Annual O&M Cost
Flint River (Blending with DWSD)	4	\$5,895,097
Lake Huron (Supplied by KWA)	12	\$7,913,118

Table 4-5: FY 13 O&M Costs for Year-round Operations

It was determined that a fair annual rate of inflation for operations and maintenance cost for the Flint WTP plant should be 4.51%. The 4.51% is an average of Lansing, Grand Rapids and Saginaw facilities.

5. CAPITAL REQUIREMENTS

Large capital investments would be required by Flint and GCDC to construct the KWA supply system. Furthermore, some of the options presented by DWSD (supply point from Imlay) would require the purchase by Flint of DWSD's 72-inch water main. Performing the financial analysis; therefore, required an analysis of the KWA construction cost estimate for the transmission system and Flint WTP improvements.

Revenue bonds were also identified as the source of financing the new supply system and associated improvements. This section describes the assumptions made and the interest used for financing the improvements.

KWA Supply System

The most current cost estimate of the KWA system was presented in the document titled; Lake Huron Supply Study, KWA, Appendix 20, October 2012 Preliminary Report Update, Final Report (DRAFT), October 4, 2012. The cost of construction is estimated at \$272,421,558. Flint's portion would be 30% or \$81,726,467.

Due to the significance of this expenditure, a detailed review of the cost was performed and is presented in this section. The analysis was performed based on the main elements of the supply system: the lake intake, the two pumping stations, and the transmission pipeline. Additionally, an analysis was performed related to construction contingencies and other costs such as engineering, legal, and administration.

Lake Intake

KWA representatives indicated in a meeting in November that the design documents for the intake were at 90% and that it was planned for advertisement in January 2013. A summary of the estimate is shown in Table 5-1.

Description	Estimate
Intake and Crib	\$22,076,850
ELAC at 25%	5,519,213
Property	2,300,000
Total	\$29,896,063

Table 5-1: KWA Intake Cost Estimate

Based on the evaluation, it appeared that the cost estimate was reasonable. Given that the design was nearly complete, the engineering, legal, administration, and construction contingencies (ELAC) at 25% were also found to be appropriate.

Pumping Stations

KWA representatives indicated that the pump stations were estimated at a level of design less than 15%. Therefore, in addition to an evaluation of their cost estimate, other water pumping station costs were used for comparison. Additionally, contractors were also contacted for costs. Table 5-2 summarizes the KWA cost estimate compared to our cost estimate performed for the Treasury.

Description	KWA	Estimate	TW/T	Estimate
Pumping Stations		\$24,618,080		\$54,573,314
Land for Intermediate Pump Station and Reservoir		--		75,000
Subtotal		\$24,618,080		\$54,648,314
ELAC for Construction	25%	6,154,520	30%	16,394,494
Total		\$30,772,600		\$71,042,808

Table 5-2: Pumping Stations Cost Estimate

Two things to note regarding the difference in the cost estimates; firstly, there is a large difference in the cost estimates of the pumping stations. The estimate developed for the Treasury used several other pumping stations construction costs from Southeastern Michigan and discussions with contractors. These costs were then computed on a \$/MG's for comparison.

Secondly, our estimate for the Treasury is based on an ELAC of 30% instead of KWA's 25%. Although 25% was acceptable for the intake, it is believed to be too low for the pumping station estimate given that the engineering effort is less than 15%.

Transmission Main

Although the specific route for the transmission main was not provided, an estimate was calculated based on the general information provided. Once again, the KWA estimate was based on a level of design less than 15%. The estimate performed for the Treasury used the line items provided by KWA for the pipeline and also consulted with contractors to evaluate the cost of construction. The comparison is shown in Table 5-3.

Although the cost of construction of the pipeline is similar, a value of 30% was used for ELAC due to the level of design. Additionally, KWA did not believe there would be any additional costs for easements; however, this did not seem practical. Therefore an estimate for acquiring the easements was added to the Treasury estimate and is based on the 277 easements identified by KWA. The cost shown includes surveying, legal, engineering, administration, etc.

Description	KWA	Estimate	TYJT	Estimate
Transmission Mains		\$166,202,316		\$167,419,530
ELAC for Construction	25%	41,550,579	30%	50,225,859
Subtotal		\$207,752,895		\$217,645,389
Easements		—		1,166,170
Total		\$207,752,895		\$218,811,559

Table 5-3: Transmission Pipeline Cost Estimate

Other KWA Costs

In prior estimates of the construction cost, KWA used an ELAC of 37%. In this case it could be considered that the engineering effort associated with the design would have been included. However, it is believed that KWA's reduced ELAC of 25%, does not include the design effort. Additionally, it would be prudent to assume that the owner would want a construction manager during construction of this large project. A summary of these costs are shown in Table 5-4.

Description	Estimate
Design Engineering for Pumping Stations and the Transmission Pipeline	\$16,939,581
Construction Management at 5% of Project Cost Estimate of \$217,645,389	14,434,609
Administration	349,440
Legal, Easements, Contract Documents	831,000
Total	\$32,554,630

Table 5-4: Other Costs

Summary Comparison

A summary of the two cost estimates are shown in Table 5-5. Based on the comparison, the estimate performed by TYJT shows a higher cost to Flint by approximately \$25,000,000.

Note that there are two other costs shown in the summary that were not previously addressed; power and backup power. Regarding the cost of providing power to the pumping facilities, the cost of \$4,000,000 appears reasonable.

The KWA has repeatedly indicated that backup power is not needed. Backup power is a standard practice in the water industry. Furthermore, a loss of power at either pumping facility will prevent the supply of water to both Flint and Genesee County. For these reasons, the cost of providing backup power was included in our estimate for the Treasury.

Description	KWA Estimate	TRM Estimate
Intake/Crib	\$ 27,596,063	\$ 27,596,063
Pump Stations	30,772,600	71,042,808
Transmission Mains	207,752,895	217,645,389
Power	4,000,000	4,000,000
Redundant Power for PS		1,273,200
Land for Lake Huron Pumping Station	2,300,000	2,300,000
Design Engineering/PS and Transmission		16,939,581
Construction Management		14,434,410
Administration		349,440
Legal/Easement/Contract Documents		831,000
Easements		1,166,170
Total	\$ 272,421,558	\$ 357,578,060
Flint Share at 30%	\$81,726,467	\$107,273,418

Table 5-5: Total Cost Comparison

Flint WTP Improvements

The KWA analysis identified capital costs required to convert the existing WTP from river water treatment to treating lake water. The cost estimate was identified as \$7,100,000 in the 2009 report. This number was used in the our analysis, since additional information was not provided. For the purpose of the financial analysis; however, the \$7,100,000 was increased by 3% each year for three years to account for inflation.

DWSD Imlay Station Supply Options

The options identified by DWSD to supply service to Flint at the Imlay Pump Station would require Flint to purchase the 72-inch water main from Imlay to Master Meter, FL-1. The pipeline is approximately 25 miles long. The estimated cost provided by DWSD for estimating purposes is \$4,700,000.

Financing

The cost of financing the revenue bonds for the capital work was investigated. Based on conversations with local financial advisors knowledgeable in bond financing, an interest rate of 5% for the 25 year

period was considered acceptable. This is based on a Standard and Poor's bond rating of A without insurance.

Additional costs associated with the bond include the reserve and bond issuance fee. The bond holders will require a reserve of approximately 10% of the loan to be held for the 25 year payment period. The cost associated with the bond issuance has been estimated at 2.25% of the principal borrowed for the KWA project and 3% for the smaller loan associated with the Flint WTP improvements or the purchase of the 72-inch main.

Furthermore, since no revenue will be generated to pay on the bonds for the first three years that the system is being constructed, the cost associated with capitalizing the interest was also included.

Finally, interest on the reserve will be provided back to KWA and Flint. Although the interest is currently less than 1%, it was determined that a 3% rate would be more prudent long-term.

6. FINDINGS

Using the information described in the previous sections, a cost evaluation was conducted for the KWA supply and the DWSD options. Individual worksheets for each option are provided in Appendix B. For the purpose of comparison a 30 year period was used. This period includes the 3 year construction period, the 25 loan period and an additional two years to get a sense of the cost of operation after the loans have been paid.

There were three separate cost sheets prepared for the KWA option. The first cost sheet (KWA) is based on the cost estimate provided by KWA. The costs provided assumed no overruns or delay in construction. With KWA's own assumptions of an overrun in construction of 15% and a one year delay in operations, the KWA estimated cost becomes \$686,375,920 through Year 2042.

Since this cost estimate did not appear to include the financing of revenue bonds, another cost sheet (KWA-1) was developed that included KWA's cost estimate without overruns with the additional finance costs associated with the revenue bonds. A final cost sheet (KWA-2) includes the cost associated with the revenue bonds based on the estimate provided by TYJT for the Treasury.

A summary of the cost sheets provided in Appendix B are shown in Table 6-1. Figure 6-1 shows the cumulative annual costs associated with each option.

Option	Costs through 2042 (\$)	Ranking by Cost
DWSD 8 MGD Maximum Day at Imlay Station	634,795,488	1
KWA (10/31/12 No Overruns, As Provided)*	649,775,166	2
DWSD 8 MGD Maximum Day at FL-1	672,671,705	3
KWA-1 (10/31/12 No Overruns with Cost of Financing)	707,279,715	4
DWSD 12 MGD Maximum Day at Imlay Station	725,576,803	5
DWSD 12 MGD Maximum Day at FL-1	762,110,308	6
KWA-2 (Treasury Estimate)	766,784,313	7
DWSD 18 MGD Maximum Day at FL-1	821,226,268	8

* \$686,375,920 with 15% overrun in construction and a one year delay in operations

Table 6-1: Total Cost of Options through 2042

Based on the analysis, it is prudent to assume the KWA water supply option costs would be somewhere between the KWA-1 and KWA-2 options. Therefore, the analysis indicates that the two DWSD options of supplying 8 MGD on a maximum day and up to 8 MGD on average are the least cost options for Flint. These options allow Flint to maximize the use of existing assets; the City of Flint's (the Flint WTP) and DWSD's (the existing 72-inch main).

Additionally, in recent conversations with the Treasury another option was discussed that could potentially be the most cost-effective solution. Currently the Flint WTP serves as a backup if service is

lost through either the DWSD or KWA pipeline. If the a twin pipe paralleling the DWSD 72-inch water main were constructed with interconnects with the 72-inch line, then the new water main could serve as the backup to Flint and the Flint WTP could be abandoned or potentially sold to Genesee County for their use.

The construction of the parallel pipeline would be considered in the DWSD capital expenditure as a Common to All (CTA) cost. This means that the capital cost of the pipeline would be shared by all DWSD customers and not just by Flint. Preliminary analysis of this option appears to be the most cost-effective of all the options discussed. However, a more thorough cost analysis is warranted and this approach would require an agreement between Flint and DWSD.

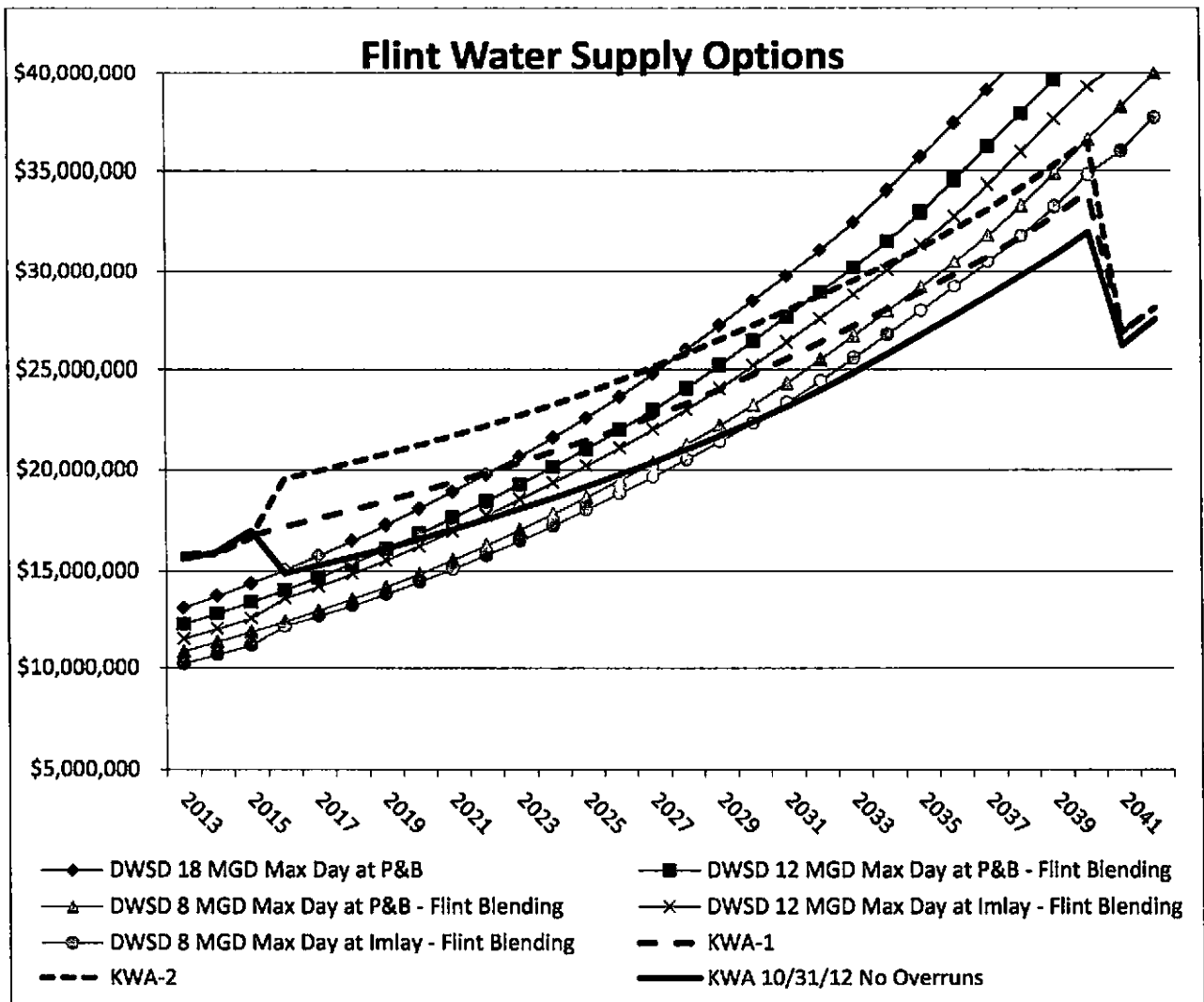


Figure 6-1: Flint Water Supply Options through 2042

7. OTHER CONSIDERATIONS

As part of the investigation other issues were identified that may result in risks to Flint that should be considered by the Treasury in determining how Flint's potable water should be supplied. These issues are related to redundancy and reliability, other items affecting cost, and Flint's desire to control its own destiny related to its water supply. These are described further below.

Redundancy/Reliability

In one of the first meetings related to this task assessment, which was held on November 1, 2012, the Genesee County Drain Commissioner, Mr. Jeff Wright, stated that one of the main reasons for pursuing the KWA supply option related to the lack of reliability of the DWSD system. He pointed to the Northeast blackout of 2003; a widespread power outage that occurred throughout parts of the Northeastern and Midwestern United States and Ontario, Canada, on Thursday, August 14, 2003. He stated that Flint and Genesee County were out of water for several days.

It is worth noting that this was a power outage of historic proportions that affected millions of Americans. However, DWSD did begin supplying water again relatively quickly in comparison to other major cities impacted by the same power outage.

Furthermore, the KWA supply system offers less redundancy to Flint than the current DWSD system. Under both options, Flint is supplied by a single pipeline; however, DWSD has backup power at all of its major facilities supplying Flint. The KWA system will not have a redundant power at its pumping facilities. This would be a major risk.

Currently, backup to the DWSD system for Flint is Flint's WTP using the Flint River as the source of supply. KWA has stated that the Flint River source would also be used as backup to Flint if the KWA supply through its pipeline was lost. However, since the Flint WTP would be upgraded to treat Lake Huron water under the KWA option, using the Flint River as a backup source would require the Flint WTP to maintain two process treatment streams.

In addition to Flint and Genesee County, the DWSD's 72-inch main supplies Imlay City, Mayfield and the Greater Lapeer County Utilities Authority (GLCUA). The volume of water contained within the 72-inch main is approximately 30 MG. Only supplying these three remaining communities would cause the water age to increase dramatically; somewhere in excess of three weeks old, before reaching the customers' master meters. Since the half-life of chlorine in the DWSD system is approximately 5 days, the chlorine would most probably be near zero requiring re-chlorination of the finished water upstream of the master meters.

Re-chlorinating is a costly and risky process due to the instability of chlorine gas. It is unknown whether DWSD would pursue this improvement or possibly abandoned the 72-inch pipeline.

If Flint is supplied by the KWA system, then DWSD supplying their other customers along the 72-inch water main may be reconsidered. Since the KWA system is a raw water supply, the communities would

either have to build a treatment facility to treat the water from KWA or find another water source for their communities.

Additional Cost and Risk Considerations

The design of the KWA supply and the construction of the system have not been completed; therefore, final costs and time to complete are unknown. Cost overruns and delays in completion will both negatively impact Flint's final cost. As example, if the project is not completed within the three year period, payment on the bonds will be due, but the revenue source needed from the sale of water could not be provided.

Furthermore, there is always a risk with large water system construction; especially those including an intake in the Great Lakes, pumping stations and rehabilitation of older water treatment plants. These risks include the potential of explosive gases in tunneling below Lake Huron, changing site conditions associated with the large number of miles of pipe installation and rehabilitating an older WTP, and the startup and debugging of the entire pumping system.

Flint has indicated that they have a high water loss. Not addressing this issue prior to sizing the Flint supply pipeline from KWA could cause the water main to be oversized along with its incremental cost in construction.

Also, the KWA supply option appears to run counter to the Treasury's Competitive Grant Assistance Program (Formerly EVIP Grant). This program has been put in place to allow for communities to consolidate their services and save money. Two existing customers of DWSD (Flint and Genesee County) along with the potential of others customers (GLCUA, Mayfield, Imlay City) separating to from another water system is in contradiction to the program.

Finally, there is a concern over the ability of smaller systems (KWA) over larger systems (DWSD) to pay for future unfunded mandates and regulations. Obviously, identifying regulation requirements over 30 years is hard to determine. However, it is widely accepted that a large system has greater ability to respond to unfunded mandates because the cost can be distributed over a large customer base.

Flint's Autonomy

Flint has indicated that a major point of consideration is that they have no control over the rate increases issued to Flint by DWSD. All other counties supplied by DWSD have representatives on the Board of Water Commissioners (BOWC). The BOWC is one of the governing bodies that approve the water rates. Since Flint and Genesee County do not have a representative on the BOWC, Flint believes they are held "hostage" to DWSD's rates and cost of service.

This issue was stated in Flint's handout at the November 1, 2012 meeting. The handout is titled, "Flint Water Supply Future." However, it is worth noting in the same handout, Flint also identifies similar concerns with the governing board of the KWA system. Notably, that although Flint and Genesee County will be the only customers and Flint will be responsible for 30 percent of the construction cost,

they will have a minority vote on the KWA board. Furthermore, there are other communities (Lapeer County, the City of Lapeer, and Sanilac County) that sit on the board and vote. However, they are not purchasing water nor contributing to the construction costs.

STATE OF MICHIGAN CONTRACT NO. 271N3200089

CITY OF FLINT WATER SUPPLY ASSESSMENT

State of Michigan, Department of Treasury

Appendix A: Meeting Minutes

MEETING MINUTES

IN ATTENDANCE: Sue McCormick, DWSD Director
Darryl Latimer, DWSD Deputy Director
George Karmo, TYJT
Awni Qaqish, TYJT
Dave Guastella, TYJT

DATE: November 24, 2012

PURPOSE OF MEETING: Meeting with DWSD for the Indefinite-scope, Indefinite-delivery Contract Number 00383, 2012 Professional General Architectural/Engineering Services – City of Flint Water Supply Assessment

PREPARED BY: Dave Guastella

A meeting was held at the DWSD Main Office Building on November 19, 2012 to discuss the water supply options being presented by DWSD to the City of Flint. The main items discussed generally followed the attached DWSD Discussion/Questions that were provided to the Department prior to the meeting. A summary of the key points discussed are provided below.

DISCUSSION ITEMS

1. Question/Discussion Item: Verify that the four options presented at the November 1, 2012 meeting are still available for consideration:
 - a. Supplied from Potter & Baxter using the new model contract (assume a Maximum Day Customer),
 - b. Supplied from Imlay Station,
 - c. Finished un-pumped supply from Lake Huron WTP, and
 - d. Raw un-pumped supply from Lake Huron WTP.

DWSD prefers to focus on the first two supply point listed; from the current location at Potter & Baxter and at the Imlay Pump Station as these apply specifically to Flint.

DWSD provided the attached summary regarding the current costs to Flint based on the various options that DWSD is offering. The savings associated with each option is provided as well. As example, if Flint were to purchase water from the supply point located at Imlay Station, the current cost to Flint would be \$5,661,000 and it would be a savings of nearly 50%

compared to Flint's current rate.

2. Question/Discussion Item: What additional capital improvements will be required for each option?

If Imlay Pump Station is selected as the supply point then Flint would need to purchase the 72-inch water main and an agreement to supply Lapeer would need to be worked out. DWSD believes that this could be worked out through a "wheeling" charge over the 72-inch main or possibly moving the supply point downstream of the Lapeer connection.. DWSD estimates the value of the water main at \$4.7M. Flint could bond for this amount or DWSD could include the cost into Flint's rate.

3. Question/Discussion Item: Are there other options being presented that should be considered (e.g., blending)?

Only the two options indicated above are currently being considered and both would include blending; DWSD providing 2/3 of the supply and the Flint WTP providing the other 1/3.

4. Question/Discussion Item: To evaluate each option over the 25 year planning period, provide:
- a. Annual water rate for Flint for 2002 through 2012, and the
 - b. Projected annual rate adjustment for each option. What are the proposed measures to keep the rate adjustments down in the future?

DWSD provided the attached historical rates from 2002 through 2012 for the existing water contract with Flint. The attachment also includes what the rates would have been if Flint had signed the new model contract or had taken service from Imlay. These rates were provided back to 2010.

DWSD believes that 5% would be a good estimation to assume for their annual escalation in rates over the 25 year planning period.

5. Question/Discussion Item: Flint stated a 10% increase in the capacity charge. What number did DWSD provide Flint?

It was unclear to DWSD where the 10% increase in capacity charge stated by Flint came from. DWSD's information provided shows an average of 6.3%. DWSD offered a meeting with TYJT to discuss how the fixed and commodity charges are allocated.

6. Question/Discussion Item: Flint financial comparison is based on the initial Cost of \$14,413,858, which includes \$2,725,538 for Flint WTP operating cost; i.e, DWSD charge is \$11,688,320. How good is this number?

DWSD indicated that the charge of \$11,638,320 is good through 6/30/13.based on their existing contract with DWSD.

7. Question/Discussion Item: KWA's initial charge to Flint is based on 12 MGD. Is DWSD charge

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based on 12 MGD?

Yes, 12 MGD from DWSD would be a maximum with Flint supplying 6 MGD for a total of 18 MGD (2/3 vs. 1/3).

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**Indefinite-scope, Indefinite-delivery Contract Number 00383
2012 Professional General Architectural/Engineering Services**

CITY OF FLINT WATER SUPPLY ASSESSMENT

DWSD Discussion/Questions for the November 19, 2012 Meeting

1. Verify that the four options presented at the November 1, 2012 meeting are still available for consideration:
 - c. Supplied from Potter & Baxter using the new model contract (assume a Maximum Day Customer),
 - d. Supplied from Imlay Station,
 - e. Finished un-pumped supply from Lake Huron WTP, and
 - f. Raw un-pumped supply from Lake Huron WTP.
2. What additional capital improvements will be required for each option?
3. Are there other options being presented that should be considered (e.g., blending)?
4. To evaluate each option over the 25 year planning period, provide:
 - g. Annual water rate for Flint for 2002 through 2012, and the
 - h. Projected annual rate adjustment for each option. What are the proposed measures to keep the rate adjustments down in the future?
5. Flint stated a 10% increase in the capacity charge. What number did DWSD provide Flint?
6. Flint financial comparison is based on the initial Cost of \$14,413,858, which includes \$2,725,538 for Flint WTP operating cost, i.e DWSD charge is \$11,688,320. How good is this number?
7. KWA's initial charge to Flint is based on 12 MGD. Is DWSD charge based on 12 MGD?

Summary of DWSD Cost Allocations to Flint Under Various Scenarios
Flint Only

	Revenue	Rates and Charges		
	<u>Requirement</u>	<u>Fixed</u>	<u>Commodity</u>	<u>Avg Unit Cost</u>
1 Status Quo	11,461,700	357,271	12.46	19.91
2 Model Contract	9,732,100	275,517	11.16	16.90
3 Change	(1,729,600)	(81,754)	(1.30)	(3.00)
4 % Change	-15.1%	-22.9%	-10.4%	-15.1%
5 Max Day Only	9,424,700	271,010	10.72	16.37
6 Change	(307,400)	(4,507)	(0.44)	(0.53)
7 % Change	-3.3%	-1.7%	-4.1%	-3.3%
8 Allow Blending	6,302,800	182,369	10.72	16.42
9 Change	(3,121,900)	(88,641)	0.00	0.05
10 % Change	-49.5%	-48.6%	0.0%	0.3%
11 Inlay City Connections	5,800,700	170,912	9.77	15.11
12 Change	(502,100)	(11,457)	(0.95)	(1.31)
13 % Change	-8.7%	-6.7%	-9.7%	-8.7%
14 Cumulative Change	(5,661,000)	(186,359)	(2.69)	(4.80)
15 Cumulative %Change	-49.4%	-52.2%	-21.6%	-24.1%

	Assumptions					
	Avg Day	Max Day	Peak Hour	Distance	Elevation	Sales
	<i>mgd</i>	<i>mgd</i>	<i>mgd</i>	<i>miles</i>	<i>feet</i>	<i>mgd</i>
1 Status Quo	11.8	21.6	22.6	52.0	866	11.8
2 Model Contract	11.8	17.9	18.8	52.0	866	11.8
3 Max Day Only	11.8	17.9	17.9	52.0	866	11.8
4 Allow Blending	7.9	11.9	11.9	52.0	866	7.9
5 Inlay City Connections	7.9	11.9	11.9	45.2	866	7.9

Recent DWSD Water Rates to Flint

FY	Rates and Charges			Annual Change			Average
	Fixed \$/mo	Commodity \$/Mcf	Avg Unit Cost \$/Mcf	Fixed \$/mo	Commodity \$/Mcf	Avg Unit Cost \$/Mcf	Annual Change
<i>As Charged</i>							
2004		11.06	11.06				
2005		10.24	10.24			-7.4%	
2006		10.56	10.56			3.1%	
2007		11.09	11.09			5.0%	
2008		11.35	11.35			2.3%	
2009		13.07	13.07			15.2%	
2010		14.32	14.32			9.6%	
2011	182,301	14.29	16.01		-0.2%	11.8%	
2012	443,096	13.36	17.53	143.1%	-6.5%	9.5%	
2013	707,000	12.46	19.12	59.6%	-6.7%	9.1%	6.3%
<i>Hypothetical Model Contract</i>							
2004		11.06	11.06				
2005		10.24	10.24			-7.4%	
2006		10.56	10.56			3.1%	
2007		11.09	11.09			5.0%	
2008		11.35	11.35			2.3%	
2009		13.07	13.07			15.2%	
2010		13.96	13.96			6.8%	
2011	145,918	13.74	15.28		-1.6%	9.5%	
2012	378,968	12.58	16.57	159.7%	-8.4%	8.4%	
2013	597,323	11.63	17.93	57.6%	-7.6%	8.2%	5.5%

Recent DWSD Water Rates to Flint

FY	Rates and Charges			Annual Change			Average
	Fixed \$/mo	Commodity \$/Mcf	Avg Unit Cost \$/Mcf	Fixed \$/mo	Commodity \$/Mcf	Avg Unit Cost \$/Mcf	Annual Change
<u>As Charged</u>							
2004		11.06	11.06				
2005		10.24	10.24			-7.4%	
2006		10.56	10.56			3.1%	
2007		11.09	11.09			5.0%	
2008		11.35	11.35			2.3%	
2009		13.07	13.07			15.2%	
2010		14.32	14.32			9.6%	
2011	182,301	14.29	16.01		-0.2%	11.8%	
2012	443,096	13.36	17.53	143.1%	-6.5%	9.5%	
2013	707,000	12.46	19.12	59.6%	-6.7%	9.1%	6.3%
<u>Hypothetical Model Contract - Flint Only</u>							
2004		11.06	11.06				
2005		10.24	10.24			-7.4%	
2006		10.56	10.56			3.1%	
2007		11.09	11.09			5.0%	
2008		11.35	11.35			2.3%	
2009		13.07	13.07			15.2%	
2010		11.73	11.73			-10.3%	
2011	70,060	12.45	13.89		6.1%	18.4%	
2012	175,882	11.47	15.08	151.0%	-7.9%	8.6%	
2013	272,923	10.65	16.24	55.2%	-7.1%	7.7%	4.4%

TFG

PRELIMINARY

THE FOSTER GROUP

11/20/12

Recent DWSD Water Rates to Flint

FY	Rates and Charges			Annual Change			Average
	Fixed \$/mo	Commodity \$/Mcf	Avg Unit Cost \$/Mcf	Fixed \$/mo	Commodity \$/Mcf	Avg Unit Cost \$/Mcf	Annual Change
<u>As Charged</u>							
2004		11.06	11.06				
2005		10.24	10.24			-7.4%	
2006		10.56	10.56			3.1%	
2007		11.09	11.09			5.0%	
2008		11.35	11.35			2.3%	
2009		13.07	13.07			15.2%	
2010		14.32	14.32			9.6%	
2011	182,301	14.29	16.01		-0.2%	11.8%	
2012	443,096	13.36	17.53	143.1%	-6.5%	9.5%	
2013	707,000	12.46	19.12	59.6%	-6.7%	9.1%	6.3%
<u>Hypothetical Model Contract - Flint Only @ Imlay</u>							
2004		11.06	11.06				
2005		10.24	10.24			-7.4%	
2006		10.56	10.56			3.1%	
2007		11.09	11.09			5.0%	
2008		11.35	11.35			2.3%	
2009		13.07	13.07			15.2%	
2010		11.16	11.16			-14.6%	
2011	65,919	10.88	12.23		-2.5%	9.6%	
2012	165,275	9.89	13.28	150.7%	-9.1%	8.6%	
2013	255,580	9.09	14.32	54.6%	-8.1%	7.8%	2.9%

MEETING MINUTES

IN ATTENDANCE: Ed Kurtz; Flint Emergency Financial Manager, City of Flint
Dayne Walling; Mayor, City of Flint
Mike Brown, City of Flint
John O'Brien, Genesee County
Howard Croft, City of Flint
Dwayne "Duffy" Johnson, City of Flint
Brent Wright, City of Flint
Awni Qaqish, TYJT
Dave Guastella, TYJT

DATE: November 24, 2012

PURPOSE OF MEETING: Meeting with the City of Flint for the Indefinite-scope, Indefinite-delivery Contract Number 00383, 2012 Professional General Architectural/Engineering Services – City of Flint Water Supply Assessment

PREPARED BY: Dave Guastella

A meeting was held at the City of Flint Municipal Center on November 20, 2012 to discuss the water supply option being presented by the Karegnondi Water Authority (KWA) to the City of Flint. The main items discussed generally followed the attached KWA Discussion/Questions that were provided to City prior to the meeting. A summary of the key points discussed are provided below.

The questions submitted are repeated in the Discussion Items for easy reference. A summary of the action items generated from the meeting follow the Discussion Items.

DISCUSSION ITEMS

1. Question/Discussion Item: Is the maximum day demand of 18 MGD for Flint the maximum day demand (MDD) throughout the 25 year planning period? If not, what is the 25 year projected MDD?

KWA would supply up to 18 MGD. 18 MGD has been assumed as the maximum day demand and 12 MGD is assumed as the average day demand throughout the 25 year planning period.

2. Question/Discussion Item: Copy of the intake contract documents and engineer's estimate.

The intake contract documents are approximately 90% complete and are not available for distribution. However, the updated Appendix 20, dated October 4, 2012 includes the most recent cost estimate of the intake based on the current design in process.

Comments. Meeting minutes were recorded based on the understanding of the author. Please contact the author within three days if you have any different understanding of the meeting. These minutes will be considered approved unless comments are provided within three days.

-
3. Question/Discussion Item: Documentation of the Flint WTP improvements required and cost estimate.

The costs are approximately \$7M as presented in the September 2009 Preliminary Engineering Report. However, this estimate has been updated. Some processes have been eliminated. John O'Brien will provide the updated costs and the description of the planned improvements to the plant.

4. Question/Discussion Item: Confirm Flint's allocated percentage of the KWA capital improvements (30%?).

Yes, the allocation is based on 18 MGD/60 MGD total capacity.

5. Question/Discussion Item: Copy of the proposed KWA operating agreement for Flint.

John O'Brien will provide the operating agreement as well as the Capacity Contract and Articles of Incorporation.

6. Question/Discussion Item: What is the annual operating agreement adjustment projected for the 25 year planning period?

This information is provided in Appendix 14, Table 14.2 of the September 2009 Preliminary Engineering Report. Operating cost based on Table 1. Used 12 MGD as average day demand (ADD). Assumed 5% as the annual increase in operating costs. John O'Brien indicated that these operating costs were based on Genesee County's operating costs. John O'Brien will provide the last 10 years of audited financial statements for the water fund.

To assess operating and maintenance costs for the Flint WTP, Duffy will provide multiple years of financial statements for the water fund. Duffy did not believe they had 10 years, but they will provide what they have.

Regarding operation and maintenance costs, Flint believes that these costs will increase by 2/3 of what they are now.

7. Question/Discussion Item: Need the route of the pipelines and the locations of the facilities proposed. Purpose is to identify constraints that impact costs (i.e., utilities, environmental (e.g. wetlands), easements, etc.).

KWA will not release the route due to concerns regarding speculation of land and easements. John O'Brien did indicate that the Lake Huron pump station would be at Fisher and M-25. The intermediate pump station site is near a location of the Lapeer/Sanilac/St. Clair border; where all three meet.

8. Question/Discussion Item: KWA's initial charge to Flint is based on a 12 MGD average day demand. What is the basis of this number? Are there population projections and water use figures available that were used to determine the Flint demand for the 25 year planning period?

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This was answered in Question No. 1 above.

9. **Question/Discussion Item:** Is there a transition plan and cost during construction of the KWA system identified?

Flint is looking for an agreement with DWSD for back-up supply from the 72-inch main at the Genesee border.

10. **Question/Discussion Item:** The October 4, 2012 Preliminary Engineering Report Update states: "no backup power is planned for the pumps" (LHPS) and "No backup power is planned for pumping" (IPS). In case of power loss, how would Flint supply its customers?

Flint indicated that they have adequate storage to supply the system for 6 to 7 days. Flint has 55 MG of storage and Genesee County has 65 MG for 2.5 days.

11. **Question/Discussion Item:** The latest plan shows only a 5 million gallon ground reservoir is planned for balancing between LHPS and IPS. How is redundancy maintained?

In cases of emergency, Flint indicated that the back-up for the KWA system will be the same as it is now with DWSD; they will use the Flint River as the source water. Flint currently operates their plant four times a year.

When questioned as to whether the WTP will be able to treat both lake water from the KWA system and river water Flint indicated that once the improvements identified in the September 2009 Preliminary Engineering Report are completed they will be able to accomplish both treatment processes. Flint will provide a schematic of the treatment trains at the WTP and a copy of the Flint transmission system.

Genesee County indicated that additional redundancy would also be provided from the new Genesee County WTP.

Regarding hydraulic transients; Genesee County indicated that a model analysis has not been included, but capital costs for mitigating transients have been included.

12. **Question/Discussion Item:** Related to the construction cost:

- a. Does it include an additional traffic lane since the construction will occupy half the right of way? *Not required, all roads are county roads; however, there are a few State road crossings.*
- b. Does it include costs/fees for permit requirements such as inspection cost by the jurisdictional authorities? As a point of reference, the permit fee costs for the Flint Transmission System came out to be \$5.8 million. *Not required; all of the counties have waived any fees.*
- c. Does the cost of the steel pipe segments include corrosion protection measures such as

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anode stations and related O&M? *Yes; however, the KWA has not settled on using steel pipe. PCCP pipe may be used. Steel shown in estimate because it is highest in cost and therefore the pricing is conservative.*

d. SCADA monitoring stations require power. Is the cost of bring power to the SCADA stations included? Again, as a point of reference for the Flint Transmission System we estimated \$800,000 for power to SCADA and valve operators. *Yes, Genesee County did emphasize that the SCADA system will be simple and straightforward because a lot of controls are not required.*

e. Other items discussed at the meeting included:

- The 2009 plant improvement cost is still good; however, there will be some reduction, such as a sulfuric chloride feed system that was eliminated. Plant capacity now is 36MGD, but will be 18 MGD.
- The KWA Lake Huron Pumping Station (LHPS) is now only high lift pump station.
- Genesee County will provide the distance of the intake pipe from the crib to the LHPS.
- The intake project is almost ready to bid; waiting for the COE permit.
- Genesee County is estimating the construction for the pipe lines and pump stations will begin July 2013.
- The route has been flown for survey.
- Genesee County is estimating construction will be complete and the project will be placed in service by Jan 2016.
- Genesee County to provide a list of assumptions that the \$272 million cost estimate is based on since the route is now known.

13. The Flint River is identified as a backup: At what capacity? MDD or emergency supply?

The Flint River would serve as a back up supply.

14. Where did the 40 years come from (Flint hostage to Detroit)? DWSD's new contracts are 30 years with openers to revise terms of supply (volume and pressure) after the first two years, then three years, and then in five year increments thereafter.

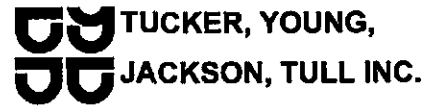
The 40 years was stated in error. The reference was to DWSD's requirement to sign a 30 year contract.

After 40 years Flint will own 30% of the project and can sell their share of ownership if they want. Conversely, with DWSD, they continue to pay for the capital projects but have no ownership. Flint believes they will know what they will be charged for the next 25 years versus DWSD that can't commit to a fixed escalation.

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Action Items for Follow-up		
Items:	Assigned To:	Date to Complete
1. Updated Costs for the Flint WTP Improvements and a description of the improvements.	John O'Brien	11/21/12
2. KWA Operating Agreement, Capacity Contract and Articles of Incorporation.	John O'Brien	11/20/12
3. Provide the last 10 years of audited financial statements for the Genesee water fund.	John O'Brien	11/20/12
4. Provide multiple years of financial statements for the City of Flint water fund.	Duffy Johnson	11/26/12
5. Provide schematic of the Flint WTP and a map of the Flint transmission system.	Brent Wright	11/26/12
6. Provide the length of the intake pipe from the crib to the pump station.	John O'Brien	11/20/12
7. Provide a list of assumptions that the \$272 million cost estimate is based on since the route is now known.	John O'Brien	11/26/12

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**Indefinite-scope, Indefinite-delivery Contract Number 00383
2012 Professional General Architectural/Engineering Services**

CITY OF FLINT WATER SUPPLY ASSESSMENT

KWA Discussion/Questions for the November 20, 2012 Meeting

1. Is the maximum day demand of 18 MGD for Flint the maximum day demand (MDD) throughout the 25 year planning period? If not, what is the 25 year projected MDD?
2. Copy of the intake contract documents and engineer's estimate.
3. Documentation of the Flint WTP improvements required and cost estimate.
4. Confirm Flint's allocated percentage of the KWA capital improvements (30%).
5. *Copy of the proposed KWA operating agreement for Flint.*
6. What is the annual operating agreement adjustment projected for the 25 year planning period?
7. Need the route of the pipelines and the locations of the facilities proposed. Purpose is to identify constraints that impact costs (i.e., utilities, environmental (e.g. wetlands), easements, etc.).
8. KWA's initial charge to Flint is based on a 12 MGD maximum day demand. What is the basis of this number? Are there population projections and water use figures available that were used to determine the Flint demand for the 25 year planning period?
9. Is there a transition plan and cost during construction of the KWA system identified?
10. The October 4, 2012 Preliminary Engineering Report Update states: "no backup power is planned for the pumps" (LHPS) and "No backup power is planned for pumping" (IPS). In case of power loss, how would Flint supply its customers?
11. The latest plan shows only a 5 million gallon ground reservoir is planned for balancing between LHPS and IPS. How is redundancy maintained?
12. Related to the construction cost:
 - a. Does it include an additional traffic lane since the construction will occupy half the right of way?
 - b. Does it include costs/fees for permit requirements such as inspection cost by the jurisdictional authorities? As a point of reference, the permit fee costs for the Flint Transmission System came out to be \$5.8 million.

Comments Meeting minutes were recorded based on the understanding of the author. Please contact the author within three days if you have any different understanding of the meeting. These minutes will be considered approved unless comments are provided within three days

-
- c. Does the cost of the steel pipe segments include corrosion protection measures such as anode stations and related O&M?
 - d. SCADA monitoring stations require power. Is the cost of bring power to the SCADA stations included? Again, as a point of reference the for the Flint Transmission System we estimated \$800,000 for power to SCADA and valve operators.
13. The Flint River is identified as a backup: At what capacity? MDD or emergency supply?
14. Where did the 40 years come from (Flint hostage to Detroit)? DWSD's new contracts are 30 years with openers to revise terms of supply (volume and pressure) after the first two years, then three years, and then in five year increments thereafter.

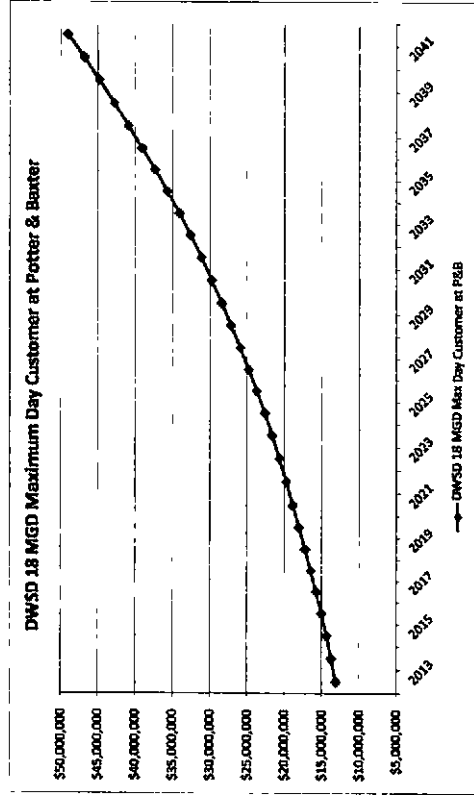
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STATE OF MICHIGAN CONTRACT NO. 271N3200089
CITY OF FLINT WATER SUPPLY ASSESSMENT
State of Michigan, Department of Treasury

Appendix B: Cost Worksheets

DWSD Worksheet : 18 MGD Maximum Day Customer with Model Contract at Potter & Baxter

Capacity	Flint ADD- DWSD ADD	0.60 MGD 12 MGD	81 MCF/Day 1,604 MCF/Day	Year	Flint WTP O&M Purchases	Revenue Bond Payment	Interest on Reserve	TOTAL
Annual Volume	Flint DWSD	29,412 MCF 585,561 MCF		1	9,585,642	-	-	\$ 13,123,056
				2	9,585,642	-	-	\$ 13,123,056
				3	9,585,642	-	-	\$ 13,123,056
				4	9,585,642	-	-	\$ 13,123,056
				5	9,585,642	-	-	\$ 13,123,056
				6	9,585,642	-	-	\$ 13,123,056
				7	9,585,642	-	-	\$ 13,123,056
				8	9,585,642	-	-	\$ 13,123,056
				9	9,585,642	-	-	\$ 13,123,056
				10	9,585,642	-	-	\$ 13,123,056
				11	9,585,642	-	-	\$ 13,123,056
				12	9,585,642	-	-	\$ 13,123,056
				13	9,585,642	-	-	\$ 13,123,056
				14	9,585,642	-	-	\$ 13,123,056
				15	9,585,642	-	-	\$ 13,123,056
				16	9,585,642	-	-	\$ 13,123,056
				17	9,585,642	-	-	\$ 13,123,056
				18	9,585,642	-	-	\$ 13,123,056
				19	9,585,642	-	-	\$ 13,123,056
				20	9,585,642	-	-	\$ 13,123,056
				21	9,585,642	-	-	\$ 13,123,056
				22	9,585,642	-	-	\$ 13,123,056
				23	9,585,642	-	-	\$ 13,123,056
				24	9,585,642	-	-	\$ 13,123,056
				25	9,585,642	-	-	\$ 13,123,056
2013 Cost of Supply	Flint WTP O&M DWSD	120.30 /MCF 16.37 /MCF	\$ 3,538,214 /Yr \$ 9,585,642 /Yr					
Escalation/Inflation Rate	Flint DWSD	4.51% /Yr 4.7% /Yr						
Capital Expenditure	Amount \$ Reserve \$ Amount plus Reserve \$ Revenue Bond Rate Number of Years Annual Cost	- 0% - 5% 25 \$0	Reserve Rate 0.00%					



DWSD Worksheet : 8 MGD Maximum Day Customer with Model Contract at Potter & Baxter/Blending with Flint

Capacity Flint ADD: 4 MGD 535 MCF/Day
 DWSD ADD: 8 MGD 1,070 MCF/Day

Annual Volume

Flint 195,187 MCF
 DWSD 390,374 MCF

2013 Cost of Supply

Flint WTP O&M \$ 30.20 /MCF \$ 5,895,097 /Yr
 DWSD \$ 12.68 /MCF \$ 4,949,947 /Yr

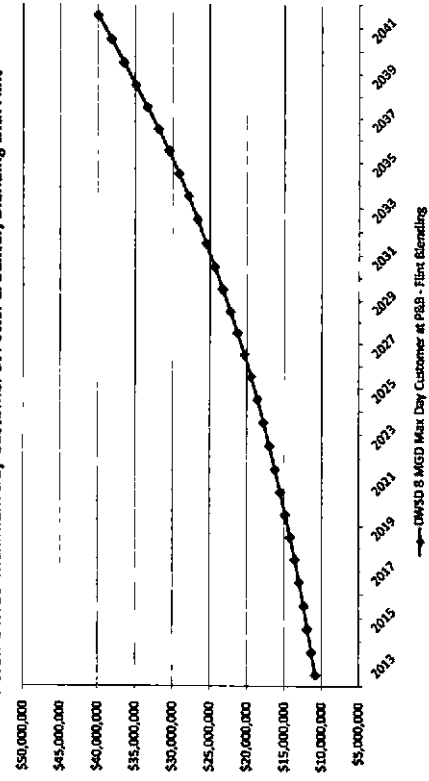
Escalation/Inflation Rate

Flint WTP O&M 4.51% /Yr
 DWSD 4.7% /Yr

Capital Expenditure

Amount: \$
 Reserve \$ 0% Reserve Rate 0.00%
 Amount plus Reserve \$
 Revenue Bond Rate 5%
 Number of Years 25
 Annual Cost \$0

DWSD 8 MGD Maximum Day Customer at Potter & Baxter/Blending with Flint



Year	Flint WTP O&M	Water Purchase	Revenue Bond Payment	Interest on Reserve	TOTAL
2013	\$ 5,895,097	4,949,947	-	-	\$ 10,845,044
2014	\$ 6,160,966	5,182,594	-	-	\$ 11,343,560
2015	\$ 6,438,876	5,426,176	-	-	\$ 11,865,052
2016	\$ 6,725,217	5,681,206	-	-	\$ 12,406,423
2017	\$ 7,032,705	5,948,233	-	-	\$ 12,980,938
2018	\$ 7,349,880	6,227,789	-	-	\$ 13,577,669
2019	\$ 7,681,359	6,520,495	-	-	\$ 14,201,853
2020	\$ 8,027,789	6,826,559	-	-	\$ 14,854,347
2021	\$ 8,389,842	7,147,826	-	-	\$ 15,537,668
2022	\$ 8,768,224	7,485,774	-	-	\$ 16,254,000
2023	\$ 9,163,571	7,835,511	-	-	\$ 16,999,082
2024	\$ 9,576,952	8,203,780	-	-	\$ 17,780,732
2025	\$ 10,008,873	8,598,358	-	-	\$ 18,607,230
2026	\$ 10,460,273	9,015,057	-	-	\$ 19,475,330
2027	\$ 10,932,031	9,455,731	-	-	\$ 20,387,762
2028	\$ 11,425,066	9,928,771	-	-	\$ 21,353,836
2029	\$ 11,940,356	10,431,609	-	-	\$ 22,371,965
2030	\$ 12,478,845	10,966,725	-	-	\$ 23,445,570
2031	\$ 13,041,641	11,534,641	-	-	\$ 24,576,282
2032	\$ 13,629,819	12,136,429	-	-	\$ 25,766,248
2033	\$ 14,244,524	12,773,211	-	-	\$ 27,017,735
2034	\$ 14,888,952	13,445,162	-	-	\$ 28,334,114
2035	\$ 15,565,354	14,153,548	-	-	\$ 29,718,902
2036	\$ 16,279,035	14,900,619	-	-	\$ 31,179,654
2037	\$ 16,993,363	15,695,156	-	-	\$ 32,688,519
2038	\$ 17,759,764	16,538,577	-	-	\$ 34,298,341
2039	\$ 18,580,729	17,430,490	-	-	\$ 36,011,219
2040	\$ 19,397,818	18,371,495	-	-	\$ 37,769,313
2041	\$ 20,272,660	19,362,288	-	-	\$ 39,634,948
2042	\$ 21,186,956	18,752,288	-	-	\$ 40,939,244

25 Yrs Cumulative
 \$ 489,780,792

30 Yrs Cumulative
 \$ 672,671,705

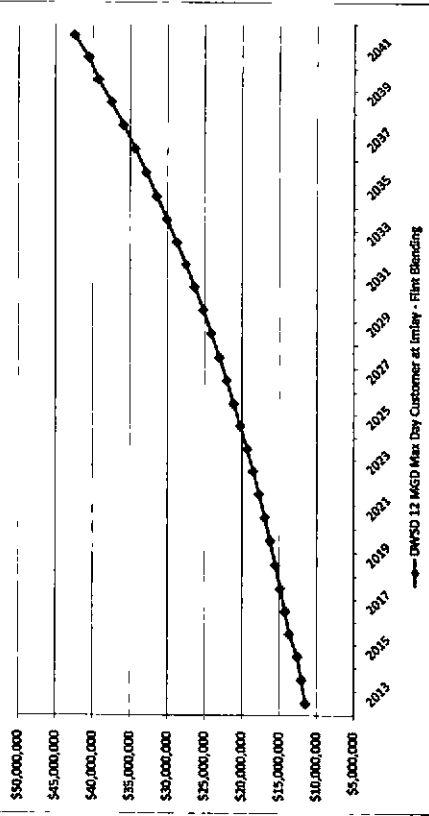
DWSD Worksheet : 12 MGD Maximum Day Customer with Modal Contract at Inlay/Blending with Flint

Capacity	Flint ADD	6 MGD	535 MCF/Day	Year	Flint WTP O&M	Water Purchase	Revenue Bond Payment	Interest on Reserve	TOTAL
DWSD ADD		B MGD	1,076 MCF/Day	2013	\$ 5,895,097	5,613,583	19,500	\$ 11,409,180	
Annual Volume				2014	\$ 6,160,966	5,877,421	19,500	\$ 12,018,888	
				2015	\$ 6,439,226	6,153,660	19,500	\$ 12,572,986	
				2016	\$ 6,729,217	6,442,882	19,500	\$ 13,181,909	
				2017	\$ 7,032,705	6,745,698	19,500	\$ 13,777,912	
				2018	\$ 7,349,880	7,062,745	19,500	\$ 14,355,735	
				2019	\$ 7,681,359	7,394,694	19,500	\$ 14,915,104	
				2020	\$ 8,027,789	7,742,245	19,500	\$ 15,518,144	
				2021	\$ 8,389,842	8,106,131	19,500	\$ 16,139,082	
				2022	\$ 8,768,224	8,487,119	19,500	\$ 16,803,432	
				2023	\$ 9,163,671	8,886,013	19,500	\$ 17,492,794	
				2024	\$ 9,576,952	9,303,656	19,500	\$ 18,213,718	
				2025	\$ 10,008,973	9,740,928	19,500	\$ 18,969,910	
				2026	\$ 10,460,273	10,198,751	19,500	\$ 19,752,194	
				2027	\$ 10,932,031	10,678,093	19,500	\$ 20,563,244	
				2028	\$ 11,425,066	11,179,963	19,500	\$ 21,408,139	
				2029	\$ 11,940,336	11,705,421	19,500	\$ 22,286,887	
				2030	\$ 12,478,845	12,255,576	19,500	\$ 23,177,531	
				2031	\$ 13,041,641	12,831,598	19,500	\$ 24,083,339	
				2032	\$ 13,629,819	13,434,673	19,500	\$ 25,007,602	
				2033	\$ 14,244,524	14,066,102	19,500	\$ 25,951,736	
				2034	\$ 14,886,952	14,727,209	19,500	\$ 26,917,271	
				2035	\$ 15,558,354	15,419,388	19,500	\$ 27,904,883	
				2036	\$ 16,260,035	16,144,099	19,500	\$ 28,914,245	
				2037	\$ 16,993,363	16,902,872	19,500	\$ 30,000,349	
				2038	\$ 17,759,764	17,697,307	19,500	\$ 31,167,481	
				2039	\$ 18,560,729	18,529,080	19,500	\$ 32,419,181	
				2040	\$ 19,397,818	19,399,947	19,500	\$ 33,747,273	
				2041	\$ 20,272,660	20,311,745	19,500	\$ 35,143,910	
				2042	\$ 21,186,956	21,266,397	19,500	\$ 36,613,853	

25 Yrs Cumulative \$ 229,865,071

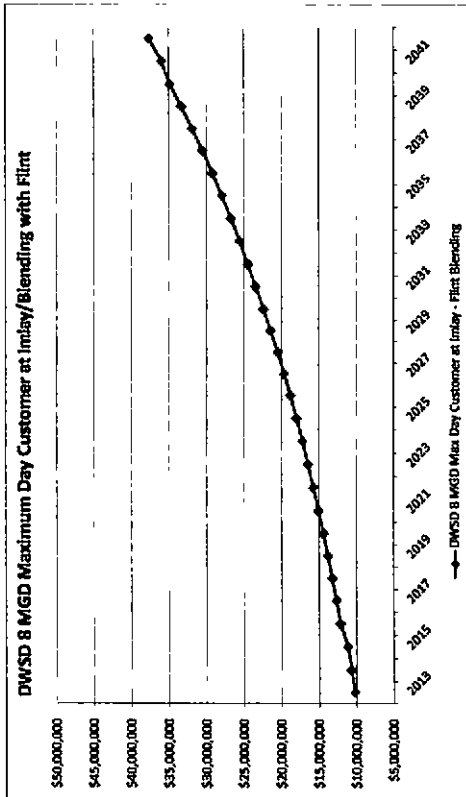
30 Yrs Cumulative \$ 775,576,203

DWSD 12 MGD Maximum Day Customer at Inlay/Blending with Flint



Capacity	Flint ADD- DMSO	ADD- DMSO	4 MGD	535 MCF/Day
Annual Volume	Flint DMSO		195,187 390,374	1,070 MCF/Day
3 Cogs of Supply	Flint WTP O&M DMSO	\$ \$	30.20 11.11	\$ 5,895,097 \$ 4,337,059

\$	25 Yrs Cumulative	493,063,801
\$	30 Yrs Cumulative	834,795,438

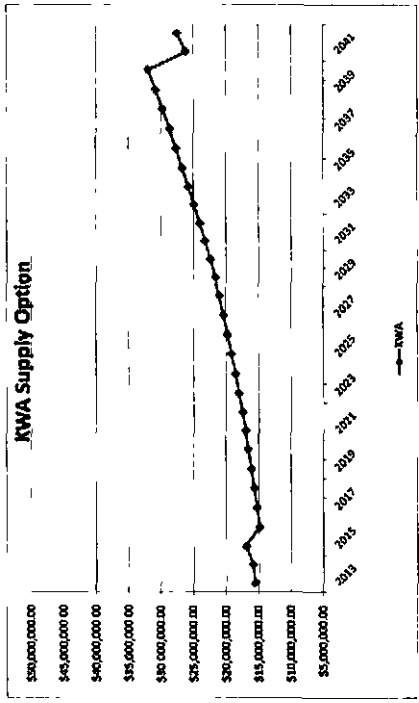


KWA Supply Option Worksheet
KWA 10/31/12 No Overruns

Year	DWSD & Fleet WTP Costs	KWA Entry Fee	KWA Debt service	Fleet WTP Debt Service	KWA Operations	Fleet WTP Operations with KWA	TOTAL
1	2013	\$ 14,413,858	1,162,800				\$ 15,576,658
2	2014	\$ 15,355,135	\$81,400				\$ 15,996,535
3	2015	\$ 15,365,534	\$81,400				\$ 15,996,534
4	2016			6,593,155	572,781	878,869	6,843,344
5	2017			6,593,155	572,781	922,512	7,185,511
6	2018			6,593,155	572,781	964,964	7,544,787
7	2019			6,593,155	572,781	1,017,401	7,922,035
8	2020			6,593,155	572,781	1,084,771	8,310,127
9	2021			6,593,155	572,781	1,171,684	8,734,034
10	2022			6,593,155	572,781	1,238,687	9,609,272
11	2023			6,593,155	572,781	1,298,490	10,110,786
12	2024			6,593,155	572,781	1,343,414	10,616,273
13	2025			6,593,155	572,781	1,431,583	11,457,058
14	2026			6,593,155	572,781	1,503,184	11,708,441
15	2027			6,593,155	572,781	1,578,322	12,269,663
16	2028			6,593,155	572,781	1,657,239	12,804,168
17	2029			6,593,155	572,781	1,740,101	13,563,353
18	2030			6,593,155	572,781	1,827,106	14,228,321
19	2031			6,593,155	572,781	1,918,461	14,938,162
20	2032			6,593,155	572,781	2,014,384	15,885,070
21	2033			6,593,155	572,781	2,115,103	16,469,323
22	2034			6,593,155	572,781	2,220,658	17,262,789
23	2035			6,593,155	572,781	2,331,901	18,157,409
24	2036			6,593,155	572,781	2,448,086	19,063,500
25	2037			6,593,155	572,781	2,570,021	20,073,565
26	2038			6,593,155	572,781	2,695,467	21,079,494
27	2039			6,593,155	572,781	2,834,440	22,070,668
28	2040			6,593,155	572,781	2,976,163	23,173,592
29	2041						
30	2042					3,128,570	24,332,691
							\$ 27,457,662

25 Yrs Commulative
\$ 428,456,185

50 Yrs Commulative
\$ 649,278,155



Concavity	First ADD-	12 MCSD	1,604 MCQ/Day	1
	EWMA ADD-	12 MCSD	1,604 MCQ/Day	2

Concentration Ratio	Part	4.5% /yr
13		
14		

Capitol	\$	272,421,553	27%
Business units not included			
Capitol	\$	272,421,553	27%
Business units not included			

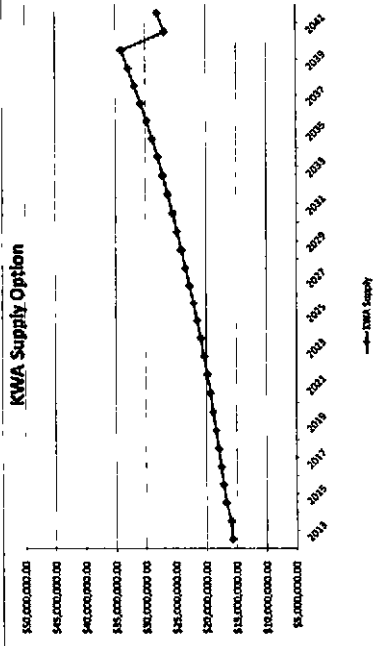
Year	Value	Unit
2000	374,861,358	Total \$
2001	374,861,358	Total \$
2002	374,861,358	Total \$
2003	374,861,358	Total \$
2004	374,861,358	Total \$
2005	374,861,358	Total \$
2006	374,861,358	Total \$
2007	374,861,358	Total \$
2008	374,861,358	Total \$
2009	374,861,358	Total \$
2010	374,861,358	Total \$
2011	374,861,358	Total \$
2012	374,861,358	Total \$
2013	374,861,358	Total \$
2014	374,861,358	Total \$
2015	374,861,358	Total \$
2016	374,861,358	Total \$
2017	374,861,358	Total \$
2018	374,861,358	Total \$
2019	374,861,358	Total \$
2020	374,861,358	Total \$
2021	374,861,358	Total \$
2022	374,861,358	Total \$
2023	374,861,358	Total \$
2024	374,861,358	Total \$
2025	374,861,358	Total \$
2026	374,861,358	Total \$
2027	374,861,358	Total \$
2028	374,861,358	Total \$
2029	374,861,358	Total \$
2030	374,861,358	Total \$
2031	374,861,358	Total \$
2032	374,861,358	Total \$
2033	374,861,358	Total \$
2034	374,861,358	Total \$
2035	374,861,358	Total \$
2036	374,861,358	Total \$
2037	374,861,358	Total \$
2038	374,861,358	Total \$
2039	374,861,358	Total \$
2040	374,861,358	Total \$
2041	374,861,358	Total \$
2042	374,861,358	Total \$
2043	374,861,358	Total \$
2044	374,861,358	Total \$
2045	374,861,358	Total \$
2046	374,861,358	Total \$
2047	374,861,358	Total \$
2048	374,861,358	Total \$
2049	374,861,358	Total \$
2050	374,861,358	Total \$
2051	374,861,358	Total \$
2052	374,861,358	Total \$
2053	374,861,358	Total \$
2054	374,861,358	Total \$
2055	374,861,358	Total \$
2056	374,861,358	Total \$
2057	374,861,358	Total \$
2058	374,861,358	Total \$
2059	374,861,358	Total \$
2060	374,861,358	Total \$
2061	374,861,358	Total \$
2062	374,861,358	Total \$
2063	374,861,358	Total \$
2064	374,861,358	Total \$
2065	374,861,358	Total \$
2066	374,861,358	Total \$
2067	374,861,358	Total \$
2068	374,861,358	Total \$
2069	374,861,358	Total \$
2070	374,861,358	Total \$
2071	374,861,358	Total \$
2072	374,861,358	Total \$
2073	374,861,358	Total \$
2074	374,861,358	Total \$
2075	374,861,358	Total \$
2076	374,861,358	Total \$
2077	374,861,358	Total \$
2078	374,861,358	Total \$
2079	374,861,358	Total \$
2080	374,861,358	Total \$
2081	374,861,358	Total \$
2082	374,861,358	Total \$
2083	374,861,358	Total \$
2084	374,861,358	Total \$
2085	374,861,358	Total \$
2086	374,861,358	Total \$
2087	374,861,358	Total \$
2088	374,861,358	Total \$
2089	374,861,358	Total \$
2090	374,861,358	Total \$
2091	374,861,358	Total \$
2092	374,861,358	Total \$
2093	374,861,358	Total \$
2094	374,861,358	Total \$
2095	374,861,358	Total \$
2096	374,861,358	Total \$
2097	374,861,358	Total \$
2098	374,861,358	Total \$</

Annual Cost	\$7,363,562	World Gasboards: Increase by 3%/yr to 8%
Interest on Reserve		

Check	2,270,000	2.27%
Check	1,600,000	9.07% (Bond Interest as Total)

Revenue Bond Rate:	5%
Number of Years:	20

KWA Supply Option

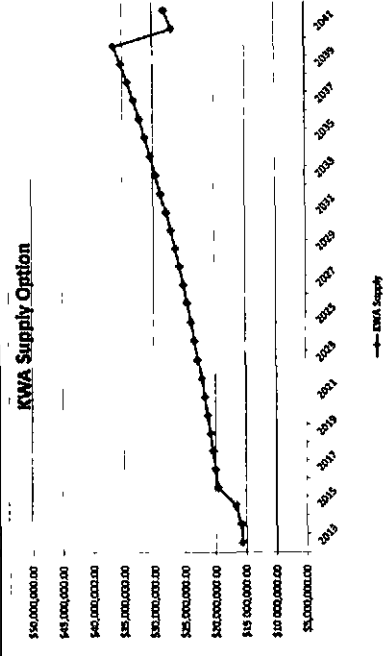


KWA Supply Option Worksheet
KWA-2

Capital	Fin ADP	1.2 MGD	1.604 MCF/Day
	KWA ADP	1.2 MGD	1.604 MCF/Day
Annual Volume	Fin	585,461 MCF	
	KWA	585,461 MCF	
2018 Cost of Supply	Fin WTP O&M \$	13.51 /MCF	\$ 7,918,118 /Yr
	KWA \$	1.50 /MCF	\$ 878,190 /Yr
Estimated/Assumed Rates	Fin	4.51% /Yr	
	KWA	5.10% /Yr	
Capital Expenditures	Capital \$	357,578,000	
	Bond Issuance (1.25% of Total)	11,050,000	
	3 Years of Capitalized Interest	74,000,000	
	Reserve (10% of Total)	49,000,000	
	Total \$	491,628,000	
	Fin's Share (20%)	147,488,418	
	Revenue Bond Rate	5%	
	Number of Years	25	
	Annual Cost	\$10,464,666	
	Interest on Reserve	3%	
	Capital \$	7,758,942	
	Bond Issuance (5% of Total)	240,000	
	3 Years of Capitalized Interest	1,500,000	
	Reserve (10% of Total)	1,070,000	
	Total \$	10,668,942	
	Revenue Bond Rate	5%	
	Number of Years	25	
	Annual Cost	\$796,946	
	Interest on Reserve	3%	

Capital	Fin ADP	1.2 MGD	1.604 MCF/Day
	KWA ADP	1.2 MGD	1.604 MCF/Day
Annual Volume	Fin	585,461 MCF	
	KWA	585,461 MCF	
2018 Cost of Supply	Fin WTP O&M \$	13.51 /MCF	\$ 7,918,118 /Yr
	KWA \$	1.50 /MCF	\$ 878,190 /Yr
Estimated/Assumed Rates	Fin	4.51% /Yr	
	KWA	5.10% /Yr	
Capital Expenditures	Capital \$	357,578,000	
	Bond Issuance (1.25% of Total)	11,050,000	
	3 Years of Capitalized Interest	74,000,000	
	Reserve (10% of Total)	49,000,000	
	Total \$	491,628,000	
	Fin's Share (20%)	147,488,418	
	Revenue Bond Rate	5%	
	Number of Years	25	
	Annual Cost	\$10,464,666	
	Interest on Reserve	3%	
	Capital \$	7,758,942	
	Bond Issuance (5% of Total)	240,000	
	3 Years of Capitalized Interest	1,500,000	
	Reserve (10% of Total)	1,070,000	
	Total \$	10,668,942	
	Revenue Bond Rate	5%	
	Number of Years	25	
	Annual Cost	\$796,946	
	Interest on Reserve	3%	

Capital	Fin ADP	1.2 MGD	1.604 MCF/Day
	KWA ADP	1.2 MGD	1.604 MCF/Day
Annual Volume	Fin	585,461 MCF	
	KWA	585,461 MCF	
2018 Cost of Supply	Fin WTP O&M \$	13.51 /MCF	\$ 7,918,118 /Yr
	KWA \$	1.50 /MCF	\$ 878,190 /Yr
Estimated/Assumed Rates	Fin	4.51% /Yr	
	KWA	5.10% /Yr	
Capital Expenditures	Capital \$	357,578,000	
	Bond Issuance (1.25% of Total)	11,050,000	
	3 Years of Capitalized Interest	74,000,000	
	Reserve (10% of Total)	49,000,000	
	Total \$	491,628,000	
	Fin's Share (20%)	147,488,418	
	Revenue Bond Rate	5%	
	Number of Years	25	
	Annual Cost	\$10,464,666	
	Interest on Reserve	3%	
	Capital \$	7,758,942	
	Bond Issuance (5% of Total)	240,000	
	3 Years of Capitalized Interest	1,500,000	
	Reserve (10% of Total)	1,070,000	
	Total \$	10,668,942	
	Revenue Bond Rate	5%	
	Number of Years	25	
	Annual Cost	\$796,946	
	Interest on Reserve	3%	



Year	Start WTP O&M	Water Purchase	Fin's Share	Fin's Share Bond Payment	Interest on Reserve	TOTAL
2013	\$ 1,558,214	\$ 11,462,700	\$ 1,152,800	\$ 1,152,800	\$ 473,100	\$ 15,088,614
2014	\$ 1,697,785	\$ 12,094,785	\$ 1,031,400	\$ 1,031,400	\$ 473,100	\$ 15,860,870
2015	\$ 1,846,838	\$ 12,816,524	\$ 918,656	\$ 918,656	\$ 473,100	\$ 16,609,182
2016	\$ 1,913,118	\$ 13,609,859	\$ 812,812	\$ 812,812	\$ 473,100	\$ 17,441,829
2017	\$ 2,000,000	\$ 14,484,559	\$ 716,559	\$ 716,559	\$ 473,100	\$ 18,344,618
2018	\$ 2,118,118	\$ 15,446,666	\$ 631,548	\$ 631,548	\$ 473,100	\$ 19,325,272
2019	\$ 2,259,467	\$ 16,498,666	\$ 557,199	\$ 557,199	\$ 473,100	\$ 20,387,425
2020	\$ 2,424,486	\$ 17,646,666	\$ 492,180	\$ 492,180	\$ 473,100	\$ 21,528,402
2021	\$ 2,609,467	\$ 18,884,666	\$ 436,199	\$ 436,199	\$ 473,100	\$ 22,745,465
2022	\$ 2,814,118	\$ 20,216,666	\$ 388,548	\$ 388,548	\$ 473,100	\$ 24,038,372
2023	\$ 3,038,666	\$ 21,646,666	\$ 348,111	\$ 348,111	\$ 473,100	\$ 25,409,538
2024	\$ 3,282,118	\$ 23,166,666	\$ 314,548	\$ 314,548	\$ 473,100	\$ 26,854,332
2025	\$ 3,544,666	\$ 24,776,666	\$ 286,559	\$ 286,559	\$ 473,100	\$ 28,368,884
2026	\$ 3,826,118	\$ 26,476,666	\$ 263,548	\$ 263,548	\$ 473,100	\$ 29,943,332
2027	\$ 4,126,666	\$ 28,266,666	\$ 245,559	\$ 245,559	\$ 473,100	\$ 31,571,484
2028	\$ 4,446,118	\$ 30,146,666	\$ 232,548	\$ 232,548	\$ 473,100	\$ 33,251,832
2029	\$ 4,784,666	\$ 32,116,666	\$ 224,559	\$ 224,559	\$ 473,100	\$ 34,979,884
2030	\$ 5,142,118	\$ 34,176,666	\$ 220,548	\$ 220,548	\$ 473,100	\$ 36,754,332
2031	\$ 5,518,666	\$ 36,326,666	\$ 220,548	\$ 220,548	\$ 473,100	\$ 38,574,332
2032	\$ 5,914,118	\$ 38,566,666	\$ 220,548	\$ 220,548	\$ 473,100	\$ 40,438,884
2033	\$ 6,328,666	\$ 40,896,666	\$ 220,548	\$ 220,548	\$ 473,100	\$ 42,348,332
2034	\$ 6,762,118	\$ 43,316,666	\$ 220,548	\$ 220,548	\$ 473,100	\$ 44,300,332
2035	\$ 7,214,666	\$ 45,826,666	\$ 220,548	\$ 220,548	\$ 473,100	\$ 46,294,332
2036	\$ 7,684,118	\$ 48,426,666	\$ 220,548	\$ 220,548	\$ 473,100	\$ 48,328,884
2037	\$ 8,171,666	\$ 51,116,666	\$ 220,548	\$ 220,548	\$ 473,100	\$ 50,400,332
2038	\$ 8,676,118	\$ 53,896,666	\$ 220,548	\$ 220,548	\$ 473,100	\$ 52,500,332
2039	\$ 9,198,666	\$ 56,766,666	\$ 220,548	\$ 220,548	\$ 473,100	\$ 54,629,332
2040	\$ 9,738,118	\$ 59,726,666	\$ 220,548	\$ 220,548	\$ 473,100	\$ 56,787,332
2041	\$ 10,294,666	\$ 62,776,666	\$ 220,548	\$ 220,548	\$ 473,100	\$ 58,964,332
2042	\$ 10,867,118	\$ 65,916,666	\$ 220,548	\$ 220,548	\$ 473,100	\$ 61,160,332
2043	\$ 11,456,666	\$ 69,146,666	\$ 220,548	\$ 220,548	\$ 473,100	\$ 63,386,332

\$ 28,358,884

\$ 28,358,884

Koryzno, Edward (Treasury)

From: Stibitz, Brom (Treasury)
Sent: Thursday, March 21, 2013 5:03 PM
To: Cline, Richard (Treasury); Koryzno, Edward (Treasury)
Cc: Byrne, Randall (Treasury)
Subject: RE: KWA Analysis

Thanks Eric.

Do you have any thoughts on Flint removing the blend options from consideration? That is what this comes down to ultimately, right?

From: Cline, Richard (Treasury)
Sent: Thursday, March 21, 2013 5:01 PM
To: Koryzno, Edward (Treasury); Stibitz, Brom (Treasury)
Cc: Byrne, Randall (Treasury)
Subject: RE: KWA Analysis
Importance: High

No basic assumptions were used. I reviewed the data to attempt to determine the best option.

Certain constraints focused the analysis in certain ways. The Flint EFM eliminated the use of the Flint River and all of the blending options. This decision eliminated all DWSD options with the exception of purchasing 100% of water from DWSD. The Treasurer asked some very specific questions that were addressed in my report. All of this is outlined in my report.

No other assumptions were utilized.

In the interest of time, this is a quick answer. If more discussion is needed, 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: Koryzno, Edward (Treasury)
Sent: Thursday, March 21, 2013 4:32 PM
To: Cline, Richard (Treasury)
Cc: Byrne, Randall (Treasury)
Subject: KWA Analysis

Brom asked if there were certain assumptions you used when you prepared this report and, if so, what were they? I could not remember



25-7-552

Karegnondi Water Authority®

G-4610 Beecher Road Flint, Michigan 48532-2617
Phone (810) 732-7870 Fax (810) 732-9773

March 25, 2013

Ms. Suzanne Schafer
Michigan Department of Treasury
Local Audit and Finance Division
P.O. Box 30728
Lansing, MI 48909

RECEIVED
DEPT. OF TREASURY

MAR 27 2013

LOCAL AUDIT & FINANCE DIV.

RE: Karegnondi Water Authority (KWA)

Dear Ms. Schafer:

This letter is to confirm the discussion you recently had with Joe Heffernan, Partner at Plante & Moran, PLLC on our behalf.

KWA was formed in 2010 after the counties of Genesee, Lapeer and Sanilac together with the cities of Flint and Lapeer adopted the KWA's Articles of Incorporation and the Articles of Incorporation were filed with Michigan's Office of the Great Seal.

Since 2010, KWA has had no financial transactions whatsoever, and has merely continued with planning and development of a possible project, all of which was done with the benefit of uncompensated time by our members. We have no assets or liabilities, and accordingly have had no financial activity to audit.

We do anticipate the KWA will become active financially, in the near future.

Based on your discussion with Mr. Heffernan, he confirmed to us that since KWA had no financial transactions at any time from 2010 until now, that we are not required to have an audit performed under PA 2 of 1968.

Furthermore, the fact that we have not had an audit for any time from 2010 until now will not be considered a violation of PA 2 of 1968 nor will it inhibit our ability to be qualified for future debt issuance.

Once we become active, we will of course submit audited financial reports as required.

Thank you for your guidance i

Sincerely,
Karegnondi Water Authorit

John O'Brien, PE, Deputy CE

CC: Les Pulver, Plante & Moran, I

Need to put in
system. Need fiscal year
NO activity. Putting it in
primary. Suzanne gave
when 1985

4/19/13

Dirvy.

Please create a muni
case & enter this into
the system with a
September fiscal year.
Thanks
Scan w/post it



**Karegnondi Water Authority
Statement of Budgeted Revenues and Expenses
for the Year Ending September 30, 2012**

	<u>2011 Actual</u>	<u>2012 Budget</u>
Revenues:		
Initiation Fee		
75 unit @ \$32,300 per unit	\$ -	\$ 2,422,500.00
Annual Fee	\$ -	\$ 2,422,500.00
Grants and Bonds	\$ -	\$ 10,000,000.00
Commodity Charge	\$ -	\$ -
Interest Income	<u>\$ -</u>	<u>\$ 10,000.00</u>
Total Revenues	\$ -	\$ 14,855,000.00
Expenses:		
Construction in Progress		
Professional Services		
Administration	\$ -	\$ 100,000.00
Engineering Fees	\$ -	\$ 10,000,000.00
Bond Counsel	\$ -	\$ 20,000.00
Legal Fees	\$ -	\$ 50,000.00
Audit	\$ -	\$ 5,000.00
Other Services	\$ -	\$ 2,500.00
Insurances	\$ -	\$ 5,000.00
Publication Expense	\$ -	\$ 15,000.00
Supplies	\$ -	\$ 10,000.00
Travel Rembursement		\$ 1,000.00
Capital Outlay		
Easements- Rights of Way	\$ -	\$ 1,530,000.00
Raw Water Booster Pump Station	\$ -	\$ 2,300,000.00
High Ground Reservoir	<u>\$ -</u>	<u>\$ 780,000.00</u>
Total Expenses	\$ -	\$ 14,818,500.00
Net Revenues Over Expenses	<u>\$ -</u>	<u>\$ 36,500.00</u>
Fund Balance	\$ -	\$ 36,500.00

Note: Karegnondi Water Authority was incorporated October 2010; no contracts were signed during the first year therefore there were no revenues or expenses for year ending September 31, 2011.

Koryzno, Edward (Treasury)

Subject: Meeting regarding Flint Water
Location: Richard H Austin Building, 430 West Allegan, Lansing--Treasurer's Conference Room
Start: Tue 3/26/2013 9:00 AM
End: Tue 3/26/2013 9:45 AM
Recurrence: (none)
Meeting Status: Accepted
Organizer: Hichez, Amy (Treasury)
Required Attendees: Dillon, Andy (Treasury); Stibitz, Brom (Treasury); Fraser, Roger (Treasury); Koryzno, Edward (Treasury)
Optional Attendees: Hichez, Amy (Treasury); Dempkowski, Angela (Treasury); Cousineau, Sara (Treasury)

Attendees:

Roger Fraser
Ed Kurtz
Mike Brown
Jerry Ambrose
Ed Koryzno
Andy Dillon
Brom Stibitz



GENESEE COUNTY DRAIN COMMISSIONER'S OFFICE

JEFFREY WRIGHT

COMMISSIONER

G-4608 BEECHER ROAD, FLINT, MI 48532
PHONE (810) 732-1590 FAX (810) 732-1474



FOR IMMEDIATE RELEASE

CONTACT: Jeff Wright

March 26, 2013

810-287-1925

What: Jeff Wright Statement on Flint City Council Approving Resolution to Join KWA.

When: March 26, 2013

Additional Info: Jeff Wright, CEO of the KWA, today praised the Flint City Council for voting to approve a resolution to officially have the City of Flint join the KWA and its' water line.

"I have said from the beginning that this decision must be made by Flint's City Council and Mayor," said Wright. "I appreciate the council voting the way they did, but even more than that, I am glad the residents of Flint were able to have their voices heard via their elected officials." The next step in the process will come with the KWA Board executing the contract for the City.

"The most important aspect from the vote is the fact that we as an Authority can move forward knowing Flint's intentions," said Wright.

Despite Emergency Manager Ed Kurtz publicly supporting the project, Wright had made a vote by council a condition of Flint joining the KWA so the residents would have their say.

"There is a basic tenet that government is best when it has local control. We saw that with the council vote. Nobody, whether they live in Flint, Grand Blanc, Davison, Fenton, or anywhere in Genesee County, should have these types of decisions made by people who live outside of their community," said Wright.

At the next Water and Waste Advisory Board meeting a vote will be taken to award a contract for construction of the intake portion of the water line. All bids were submitted to the board at their last meeting for review.

List of Flint Contacts for EM

Name	Email	Phone Number
~~HH~~ Tim Herman, chamb pres OR	~~_____~~ @flintandgenesee.org	810- ~~_____~~
~~HH~~ Duane Miller, chamb exec vp	~~_____~~ @flintandgenesee.org	810- ~~_____~~
~~HH~~ Ridgeway White, Mott Found	~~_____~~ @mott.org	810- ~~_____~~ - Lisa
~~PB~~ Handy Lindsey, Jr., RuthMottFoun	~~_____~~ @ruthmott.org	810- ~~_____~~ - Denise
~~EB~~ Ed Kurtz, Baker Coll., former EM	~~_____~~ @baker.edu	810- ~~_____~~
~~WV~~ Susan Borrego, U of M-Flt	~~_____~~ @umflint.edu	810- ~~_____~~ - Sheila
~~EB~~ Beverly Walker-Griffie, Mott CC	~~_____~~ @mcc.edu	810- ~~_____~~
~~WV~~ Bob McMahon, KU -	~~_____~~ @kettering.edu	810- ~~_____~~ - Evelyn
~~EB~~ Jamie Curtis, Co Bd Chair	~~_____~~ @co.genesee.mi.us	810- ~~_____~~ - Jon Care
~~EB~~ Larry Watkins, Flint Schools Supt.	~~_____~~ @flintschools.org	810- ~~_____~~ - Monaca
~~HH~~ Rev. Al Harris	~~_____~~ @hotmail.com	810- ~~_____~~

WV Bob Engelen - 810

~~_____~~

Lamphier, Wendy (Treasury)

Subject: Call with Dennis Muchmore regarding Flint Water Supply Alternatives
Location: Dial in number 888- [REDACTED], access [REDACTED], Brom to host
Start: Mon 3/25/2013 5:00 PM
End: Mon 3/25/2013 5:30 PM
Recurrence: (none)
Meeting Status: Accepted
Organizer: Hichez, Amy (Treasury)
Required Attendees: Dillon, Andy (Treasury); Stibitz, Brom (Treasury); Muchmore, Dennis (GOV)
Optional Attendees: Hichez, Amy (Treasury); Cousineau, Sara (Treasury); Wisniewski, Wendy (GOV)

Confirmed with Wendy on 3/20/13.

Koryzno, Edward (Treasury)

From: Cline, Richard (Treasury)
Sent: Tuesday, March 26, 2013 9:32 AM
To: Koryzno, Edward (Treasury)
Subject: Emailing: Rowe Engineering Review of TYJT Analysis.pdf
Attachments: Rowe Engineering Review of TYJT Analysis.pdf

Importance: High

Ed,

Here is Rowe's rebuttal to TYJT's preliminary findings. TYJT's counter-rebuttal will be forthcoming.

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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The message is ready to be sent with the following file or link attachments:

Rowe Engineering Review of TYJT Analysis.pdf

Note: To protect against computer viruses, e-mail programs may prevent sending or receiving certain types of file attachments. Check your e-mail security settings to determine how attachments are handled.

Lamphier, Wendy (Treasury)

From: Dillon, Andy (Treasury)
Sent: Tuesday, March 26, 2013 2:40 PM
To: Thelen, Mary Beth (DEQ)
Subject: Accepted: City of Flint - Meeting with DEQ, Treasury and City of Flint

Pleyte, Beth (Treasury)

From: Barrett, Thomas (Treasury)
Sent: Tuesday, March 26, 2013 4:54 PM
To: Dillon, Andy (Treasury); Hichez, Amy (Treasury); Koryzno, Edward (Treasury); Headen, Frederick (Treasury); Stibitz, Brom (Treasury); Saxton, Thomas (Treasury); Fraser, Roger (Treasury); Schafer, Suzanne K. (Treasury); Dempkowski, Angela (Treasury); Buhs, Caleb (Treasury); Stanton, Terry A. (Treasury); Barton, John (Treasury)
Subject: Local Government action items 3-26
Attachments: Local Government agenda 3-26.pdf

Below are the action items from today's meeting:

Andy raised the idea of restructuring some of Detroit's debts by creating a lock-box type of structure. Anyone with suggestions should raise them.

Wayne county jail conditions- Suzanne is checking. Roger is going to do a soft inquiry.

Allen Park TAN amount and DEP details- Suzanne.

Ecorse- Roger is going to talk to the mayor about the possibility of a TAB.

How is the TAB established under the new law? Fred, Roger and Ed are going to determine the appropriate steps.

Highland Park EM appointment- Fred is asking the AG's office for an opinion of how to proceed.

EM resources- Ed is going to begin a statement of work for services to assist newly appointed EMs to transition into their new position.

Lincoln Park- Ed and Roger are going to look for a qualified city manager who can steer them in the proper direction.

Wayne County- Suzanne is looking at who is on the authority board.

Also, I am going to send out a tutorial with how to use the new program we will be using for our agendas. Attached is a draft of an example we created in the new system. Any feedback is appreciated.

Department of Treasury

Weekly Local Government meeting

City	Owner	Status	Comments
1. General discussion points	Tom Barrett	R	Governor's Monthly Memo update Real estate transfer tax Act 72: Have all cities submitted their requirement since the switch to PA 72? Wayne County DTRF Cities that require Pension and OPEB analysis - We have received 11 actuarial reports from Benton Harbor, Ecorse, Flint, Highland Park, Harper Woods, Inkster, Muskegon Heights, Pontiac, River Rouge, Taylor and Wayne County. Detroit and Hamtramck have not submitted information and a follow up letter will be sent. (ek 1/7/13) Dashboard Software-Purchase order has been issued 2/12
City of Benton Harbor	Ed Koryzno	R	Tony is making reductions to the FY 2013 budget by laying off 12 people, changing attorney firms and removing Plante Moran. He is preparing the FY 2014 budget with a goal of reducing it by another \$500K. He will send a draft budget for our review by the end of this week. (ek 3/26) Tony Saunders is prepared to hold a special millage election in May. City council passed a resolution of approval at their meeting of 2/19/13. (ek 2/26) Tony has received a revenue sharing advance last week for the months of April and June. The most recent emergency loan has been withdrawn. Tony wants to evaluate the near-term needs before a loan app is finalized and anticipates submitting a new request during July. (ek 3/12)
City of Detroit	Andy Dillon	R	Ed Plawecki is under contract with P.I.E. to provide his services in Detroit. Roger and Ed met with Chris Gannon and Danielle Benedettini of Conway MacKenzie to discuss strategy regarding the PDD. Chris will meet with Kate Beebe who evaluated the PDD operation and prepared alternative reorganization strategies. (ek 2/26)
City of Flint	Roger Fraser	R	Ed Kurtz believes participation in the KWA is in the best interests of Flint. Short-term transition costs have been an issue up to this point and a strategy has been developed to address the \$7 million cost which include selling a 72" water main to Genesee County and buying a 72" water main from DWSD. Staff report and recommendations were submitted last week. (rf 2.26) The City Commission voted 7-1 at their 3/25 meeting to approve a resolution to participate in the KWA project. (ek 3/26) Ed Kurtz has been told that the Genesee County Drain Commission will send out bids to engineering firms on March 22 to size the KWA pipeline and that is the absolute deadline for Flint to participate. (ek 3/12) The Genesee County Drain Commissioner opened bids on 2/25/13 for the KWA intake construction in Lake Huron. The low bid was \$24,622,000, about \$3,000,000 less than the Tucker Young estimate in the study performed for Treasury. The County authorized the borrowing of \$35,000,000 for the project. It is now estimated that the total cost with engineering, legal and contingencies will be less than \$31,000,000.(ek2/27) City has submitted a DEP. The DEP projects \$1.5M in savings over next five years due to budget cuts but have not identified the source of cuts. Will provide more detail as they go through the 2014 budget process. The rest of the DEP relies on an emergency loan for \$12M. No application has been filed yet. (ss 2/12)
City of Inkster	Ed Koryzno	R	City Council, at their 3/18 meeting appointed Mark Stuhldreher as the Interim City Manager on a 4/3 vote while they search for a permanent manager. Council also amended their budget to account for \$600,000+ less in General Fund revenues.(ek 3/26) City Council terminated Ron Wolkowicz last week as city manager, but has retained him as Public Works and Recreation Director. Mark Stuhldreher has expressed concern that council may be reluctant to implement his recommended \$700,000 of budget reductions. A cash flow projection reveals that the general fund cash levels will be low at the end of June unless reductions are made. Ed will be meeting with city council and Mark Stuhldreher to reiterate the need for budget reductions and to hire a professional city manager. OFR also working with Mark to develop a list of projects to provide operational support to him. O700 (ek 3/12)

City of Lincoln Park	Roger Fraser	R	Roger, Ed and Randy attended the 3/20 City Council worksession where Roger emphasized to the Mayor and council immediate action is required to reduce their expenses. He reviewed 28 short, mid and long term recommendations for revenue enhancements or budget reductions.
Royal Oak Township	Ed Koryzno	R	Ed and Randy are meeting with Supervisor Squalls, the Township Clerk and Treasurer on 3/27 to offer OFR assistance. Long term financial viability of the township is doubtful. (ek 3/26) Ed and Randy will meet in the next two weeks with the Supervisor, Treasurer and Clerk to offer OFR's assistance. Since there is a political division on the board we are unsure if a majority of the Board will accept our help. Further nalysis of the township's public safety millage levy reveals it may be legal.. (ek 3/12)
Wayne County	Suzanne Schafer	R	LAFD is poised to approve the TAN but are waiting for the County to return the escrow agreement so the ball is in the County's court right now. Carla said she would send it this week although I expected it yesterday. As for the Mental Health Authority, the Mental Health Board is working with the County to minimize the impact on cash flow. A proposal will be made to the board to transfer 20% of the \$80M each year for 4 years. It is anticipated the board will accept this. The County may have to increase its TAN amount in 2014 by about \$20M but Carla is hoping that with the cuts the county will make, that won't be necessary. Carla is sending me the agreement when accepted and an updated cash flow showing the impact of the agreement. (ss 3/26) I talked to Carla Sledge on Friday regarding the TAN application and the DEP. I told her that we would move forward with the TAN approval with certain conditions. First, the TAN proceeds will be escrowed and she will need to provide us a proceeds use list. Secondly, as part of the TAN application, the County has to provide what we call a deficiency letter. The letter tells how the County is addressing its non-compliance issues with PA 34. Of course the biggest deficiency is the lack of an approved DEP. I told Carla that the deficiency letter should not be general in nature, i.e., "We are working with Treasury to achieve an acceptable DEP" like the County did last time. This deficiency letter needs to include specific actions taken by the County. We talked about what those actions should be and agreed upon the following 1) The DEP will be updated to include the FY2012 deficit by a specific date. I strongly suggested March 31 and she indicated that they were already working on the update. 2) The county will submit a monthly cash flow, budget to actual, and accounts payable aging so that the Department can monitor the County's progress on its DEP. 3) The county will respond to any requests regarding the DEP in a timely manner i.e. information regarding the road fund. I also indicated to Carla that the Order of Approval for the TAN and the Escrow agreement may contain stronger requirements such as adherence to a monthly budget by all Departments and elected officials. She was very agreeable to that. Mental Health Authority - The creation of the Mental Health Authority will significantly impact the County's cash flow. The Mental Health Fund accounts for 40% of the general pooled cash amount. That will be \$80 million that the County will have to transfer to the Authority when established, which will likely be in FY 2014. The County uses the general pooled cash to pay its current operating expense and the funds are reconciled at the end of the year. There may be other lesser negative impact regarding the time of cash available in pooled cash. The Mental Health Fund generates approximately \$50 million in revenue and has expenditures in a similar amount. Because the two are virtually equal, there should be no net effect on cash flow. However, there may be due to timing or due to the accounting practices of the County. Jail-In 2010, the Wayne County Building Authority issued 30 year general obligation limited tax bonds in the amount of \$200M for the County's jail facilities. The debt service payments are to be made from rental payments from the County to the Authority. Those rental payments have been pledged by the Authority for the payment of the bonds and the rental payments are a full faith and credit obligation of the County. We estimate that the average annual debt service to be around \$20M. The County was approved to issue \$300M in bonds so the remaining \$100M is expected to be issued this year. The County levies a jail millage of 0.9381 mills. Based on 2012 TV, this equates to about \$38M in annual revenue. The Phase II consulting engagement is complete. A final report and summary was sent to Andy, Roger and Brom. (ek 3/12) County has submitted a TAN application for \$90M on 2/11. The DEP is still under review as it is not clear the County has authority to use road funds to eliminate deficit. No details regarding where the expenditure reductions are coming from as requested in our 1/30 meeting. (ss 2/12)

City	Owner	Status	Comments

City of Allen Park	Ed Koryzno	Y	Joyce is making a few updates to the DEP at our suggestion. I hope to have something this week. She will also be filing a prior approval application for the TAN borrowing. We haven't received that yet. (ss 3/26)
			Submitted DEP relies on a voter approved millage (\$2M) in 2014, the reduction of debt service payments for the movie studio (\$600,000-\$1.2M), and the renewal of the existing police/fire millage (\$2M) in 2015. DEP also eliminates the incorrect deficit amount of \$800,000 instead of \$1M (ss 2/12)
City of Ecorse	Roger Fraser	Y	A revised version of the ILA has been prepared. After AG input, their suggestions were incorporated into the document and returned to the AG for final review on 2/25. Additional comments were received March 1 and are being incorporated into the document. (rf 3.5)
City of Hamtramck	Suzanne Schafer	Y	A preliminary review is underway. (ss 2/12)
City of Highland Park	Ed Koryzno	Y	During their weekly visit OFR staff discovered the City has exceeded its adopted budget by \$2.5M. The primary sources of overspending are Police(\$493K), Fire (\$353K), NSP grant costs (\$121K) and an unfavorable lawsuit verdict (\$1.3M).
			The absence of daily administrative support at the city is a concern. OFR will have a staff member at City Hall once a week, to provide operational assistance however the City requires more support than OFR can provide for the long term. (ek 3/12)
			Staff recommendations were submitted last week. Appointment of an EM, contracting for nearly all city services and bankruptcy are recommended.
City of Pontiac	Roger Fraser	Y	none.
City of River Rouge	Ed Koryzno	Y	ORTA will be working with Plante Moran to prepare a detailed analysis of the PPT's negative impact upon the River Rouge and Ecorse. (ek32/12)
City of Taylor	Ed Koryzno	Y	Ed spoke to Mayor Lamarand and Rick Eva the new Finance Director last week. Mayor still upset about inability to bond for pension costs. City overestimated SAFER grant revenues by \$3 million. He anticipates placing a question on the August ballot for a one-time millage levy to cover the shortfall.
Webber Township	Ed Koryzno	Y	OFR will send a letter of engagement to the Township this week. The engagement will be to perform a five year financial forecast. (ek 2/26)

City	Owner	Status	Comments
Follow up and additional tasks	Tom Barrett	C	Prior Approval Applications (ss 2/12) Van Buren Public Schools (\$3.5M line of credit) Village of Prescott (\$690,000) City of Mount Clemens (\$5.7M) University Yes Academy (\$50,000 line of credit) Emergency Loan Applications- cannot exceed \$35 million total (ss 9.25) Allen Park-\$2 million (application received and under review) Benton Harbor-\$3 million (application received and under review) Hamtramck - \$3 million (application received and under review) Additional Melvindale – Cash flow shortage, budget violations (ss 12/11). OFR staff has met with the City Attorney, City Manager and Finance Director. Currently awaiting a line item budget from the city. Staff is evaluating a proposal for an engagement. (ek 2/26) Lincoln Park – Roger and Ed will be meeting with the Mayor and City Council on 3/20/13. City projects a \$3 million deficit at the end of FY 2013. (ek32/12)

Koryzno, Edward (Treasury)

From: Cline, Richard (Treasury)
Sent: Tuesday, March 26, 2013 5:04 PM
To: Koryzno, Edward (Treasury); Byrne, Randall (Treasury)
Subject: FW: Meeting to review DWSD proposals

Importance: High

For your attention.

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

From: David Guastella [mailto:DGuastella@tyjt.com]
Sent: Tuesday, March 26, 2013 5:01 PM
To: Dillon, Andy (Treasury); Hichez, Amy (Treasury)
Cc: George Karmo; Awni Qaqish; Cline, Richard (Treasury); Stibitz, Brom (Treasury)
Subject: FW: Meeting to review DWSD proposals

This email was sent from DWSD to Flint yesterday; TYJT was requested to forward this information to the Treasury.

Dave

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

From: Sue McCormick [mailto:mccormick@dwdsd.org]
Sent: Monday, March 25, 2013 11:42 AM
To: Ed Kurtz
Cc: Michael Brown; Nicolette Bateson
Subject: Meeting to review DWSD proposals

Hello Mr. Kurtz,

Last week I spoke with Mayor Walling to share DWSD's continued interest in discussing a long term Water Service contract to serve Flint. Mayor Walling indicated he would pass along our interest in meeting in the next week or two to discuss new proposals that are responsive to the changes that the City of Flint has identified in terms of it's requirements and priorities including; a reduction in requirements from 18 to 15 MGD and the newly expressed desire not to blend Flint treated water with DWSD treated water. The latter change certainly came as a surprise given the

economic advantage of this for Flint and Flint's initiated request for this specific option. I am curious to know what new information resulted in this option becoming less desirable and if there are opportunities to address those concerns.

It has been a rather odd experience to be outside of the process these last few months. I've taken note that the KWA proposal provides a single line of supply and would still leave Flint in the position of retaining the Flint plant in a full time operating mode as well as maintaining the capacity of treating two very different sources of supply in the event of an interruption. Although the line would be newer than the existing transmission system serving Flint, it does not accomplish the redundancy in supply that Flint has long expressed an interest in.

With the changes identified in Flint's requirements and preferences, we have looked at opportunities to address these as well as Flint's historical concerns about the single transmission main and have developed proposals that twin the transmission main with smaller diameter pipe, provide transmission redundancy along the entire length from Imlay to the Flint Plant, as well as provide Flint the opportunity to consider selling Flint's portion of the 72 inch line and avoid the significant risks and costs Flint has expressed concern about in maintaining that line. In addition, the twinning of supply with full redundancy, without additional treatment requirements, would allow Flint to avoid capital and well as operating expenses in both the plant and transmission system. All of this can be accomplished with still a significant reduction in Flint's rates.

We are a new service organization. The rate adjustments for FY 14 are announced with significantly constrained adjustments from what had been forecast previously. Our financial plans reflect the ongoing benefit of our organizational optimization efforts. Recent discussions have brought attention to a near term opportunity to move toward greater independence with an opportunity to expand representation in our governance. This is not the DWSD of your recollection.

I welcome the opportunity for discussion at your earliest convenience.

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

Lamphier, Wendy (Treasury)

From: Wyant, Dan (DEQ)
Sent: Wednesday, March 27, 2013 2:13 PM
To: Dillon, Andy (Treasury)
Subject: FW: ODWMA Response - Flint KWA-DWSD Report
Attachments: deq-wb-dwehs-wwciu-gcdclqwwpermitresponsepubliccomment_290345_7.pdf; Rowe Review of Tucker Young Report.pdf

Importance: High

Follow Up Flag: Follow up
Flag Status: Flagged

Andy,

Attached is staff feedback. I will be getting additional feedback in the morning. All indications are that we are supportive of KWA and its cost benefits compared to DWSD options. If that is not the answer you want tomorrow – then we should discuss.

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

From: Busch, Stephen (DEQ)
Sent: Wednesday, March 27, 2013 1:39 PM
To: Thelen, Mary Beth (DEQ); Wyant, Dan (DEQ); Sygo, Jim (DEQ); Shekter Smith, Liane (DEQ)
Cc: Willard, Veronica (DEQ); Benzie, Richard (DEQ); Prysby, Mike (DEQ); Bloemker, Jon (DEQ); Donaldson, Kristina (DEQ); Creal, William (DEQ)
Subject: ODWMA Response - Flint KWA-DWSD Report
Importance: High

Director Wyant, and Deputy Director Sygo,

Addendums to ODWMA comments provided yesterday regarding the City of Flint water system and comments on the reports from Tucker, Young, Jackson, Tull, Inc. (TYJT) can be found below in red. Additional comments are as follows:

With regards to regulatory authority for DEQ to allow or prevent the breakup of water utilities, and State vs. local decisions about cost effectiveness, it is important to note that when the DEQ permitted the water withdrawal for KWA (permit 2009-001) part of the decision making process (copy attached) included reasonable use and the balance of Economic Development, Social Development, and Environmental Protection. As part of the public participation process general comments were received (pages 6 & 7) regarding impacts on DWSD and rates to remaining customers. The Department's response to those comments stated:

"The DEQ is specifically precluded from using part 327 to "...diminish or create any existing authority of municipalities to require persons to connect to municipal water supply systems as authorized by law" (MCL 324.32726)."

And

"It is appropriately an issue for water service contract negotiations between the regional water system and its customers. To do otherwise invites unwanted intervention of the state into local decision making."

ODWMA cannot on its own assess an actual dollar value to any regional benefit for the City of Flint to remain a full customer of DWSD, but the following should be included in any additional analysis:

- The cost estimates provided in the TYJT report show a cost difference between full KWA and full DWSD participation of \$172 million over 30 years.
- The formation of KWA would itself be considered one of the largest regional drinking water authorities in the State in terms of capacity, and as such any regional benefits provided by DWSD may only be marginal in comparison.

Finally, we have additional questions for TYJT regarding the various DWSD supply options and the considerations they made in the operations of the Flint WTP. These considerations will have an impact on the cost estimates for DWSD options.

We look forward to further discussion of these comments during our meetings tomorrow, and please let us know if you have any additional questions for us between now and then.

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

From: Busch, Stephen (DEQ)
Sent: Tuesday, March 26, 2013 3:58 PM
To: Wyant, Dan (DEQ); Thelen, Mary Beth (DEQ); Sygo, Jim (DEQ)
Cc: Willard, Veronica (DEQ); Shekter Smith, Liane (DEQ)
Subject: RE: Flint Draft Response

I will provide additional follow up by tomorrow (Wed.) afternoon to my previous email below based on our discussion and the conference call with Andy Dillon earlier today.

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

From: Busch, Stephen (DEQ)
Sent: Tuesday, March 26, 2013 12:37 PM
To: Wyant, Dan (DEQ); Thelen, Mary Beth (DEQ); Sygo, Jim (DEQ)
Cc: Willard, Veronica (DEQ); Shekter Smith, Liane (DEQ)
Subject: Flint Draft Response

Director Wyant,

In preparation for our call today with Treasurer Dillon's office, ODWMA has developed the following for consideration. We can provide any additional info you require during the meeting.

ODWMA has reviewed the materials developed by the consultant Tucker, Young, Jackson, Tull, Inc. (TYJT) for Treasury regarding the City of Flint and potential alternatives for public water supply. Based on our reviews, we have developed the following comments to this point in our analysis:

1. The TYJT report does not contain the full scope of the Karegnondi Water Authority (KWA) raw water supply system. TYJT concerns over raw water supply redundancy and reliability are addressed to the satisfaction of

ODWMA under the full KWA proposal. Please note some portions of the overall project are being financed independently by the Genesee County Drain Commission.

2. There are significant differences in contract language between KWA and Detroit Water and Sewerage Department (DWSD) with respect to the contracted maximum day demand capacity.
 - a. Under a KWA contract, a “maximum day” capacity of 18 million gallons per day (MGD) would fully satisfy current demands of the City of Flint, without the need to supplement raw water capacity using the Flint River. (18 MGD, average over a 30 day period).
 - b. Under a DWSD model contract, a “maximum day” capacity, even at 18 MGD, would not satisfy the current demands for the City of Flint. (18 MGD, over any 24 hour period).
3. Restrictions in contracted capacity that would prevent the City of Flint from meeting peak demand requirements present potential limits to economic development within the City of Flint, including possible connection bans and water system extension bans. This information was previously conveyed to the City of Flint by ODWMA staff.
4. All contract options with DWSD that are considered semi-competitive with the KWA contract do not fully supply the City of Flint, and would require the City of Flint to meet a significant, if not majority, of its water demands by treating water from the Flint River. Continuous use of the Flint River at such demand rates would:
 - a. Pose an increased microbial risk to public health (Flint River vs. Lake Huron source water)
 - b. Pose an increased risk of disinfection by-product (carcinogen) exposure to public health (Flint River vs. Lake Huron source water)
 - c. Trigger additional regulatory requirements under the Michigan Safe Drinking Water Act (LT2ESWTR)
 - d. Require significant enhancements to treatment at the Flint WTP, beyond those identified in the TYJT report (see item 5 below).
 - e. Water Resource Division is evaluating potential impacts to NPDES wastewater discharge permits in downstream segments of the Flint River, as a result of decreased river baseflow caused by Flint WTP use.
5. The TYJT report does not adequately address increased requirements and costs associated with using the Flint River as a significant source for the Flint WTP, which are not necessary under a Lake Huron source water scenario. This includes:
 - a. The need to provide softening treatment
 - b. Limitations on disposal options for lime softening sludge
 - c. Increased ozone capacity, UV disinfection
 - d. Additional backup power, more power required for Flint River operation
6. The Flint WTP must operate at some minimum level and within a range of flow rates to maintain treatment effectiveness. Currently that minimum level is 9 MGD. This level may be reduced with additional capital costs to modify the WTP, not addressed in the TYJT report.
7. Allowing Flint WTP to blend water with DWSD sets a new precedent that could pose future consequences with other DWSD customers.
8. Costs impacts to remaining DWSD customers would be similar under the proposed scenarios, only retaining 8 MGD of 30+ MGD total Flint/Genesee Co. demands, based on the following:
 - a. Genesee County distribution system demands are pulling out of DWSD regardless of the decisions by Flint WTP
 - b. Flint’s need to utilize the Flint River as a source
9. ODWMA anticipates cost savings under the KWA proposal will be leveraged to provide additional improvements to the City of Flint water distribution system, improving efficiency and providing additional cost benefits. The

KWA water withdrawal permit (2009-001) includes the required implementation of conservation measures that would also drive these distribution system improvements.

10. Major cost discrepancies in TYJT analysis

- a. Engineering, Legal, Administration, Contingency – TYJT appears to have effectively double charged for these costs in their KWA estimates without adequate justification
- b. Pumping facilities – TYJT cost estimate methodology does not appear to address localized market costs and does not distinguish fixed and variable costs in its comparison analysis.

11. Remaining DWSD customers in Lapeer County could potentially see water quality impacts as a result of Flint joining KWA, if they remain with DWSD. However, indications to ODWMA are that these communities are currently in final negotiations with KWA for service, which would make this a non-issue.

- a. City Lapeer
- b. City of Imlay City

Additional response to the TYJT report has also been provided by Rowe Engineering to Flint EFM, Mr. Ed Kurtz. (Copy Attached)

ODWMA has continued to meet on a regular basis with KWA, Genesee County, and the City of Flint regarding these water supply proposals.

ODWMA will continue to provide any additional detailed analysis requested by Treasury or the DEQ Executive Office.

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

**GENESEE COUNTY DRAIN COMMISSION
APPLICATION FOR A WATER WITHDRAWAL FROM LAKE HURON**

**PERMIT DECISION
And
RESPONSE TO PUBLIC COMMENTS**

August 28, 2009

**Michigan Department of Environmental Quality
Constitution Hall, 525 West Allegan
P.O. Box 30273
Lansing, Michigan 48909-7773**

EXECUTIVE SUMMARY

GENESEE COUNTY DRAIN COMMISSION APPLICATION FOR A WATER WITHDRAWAL FROM LAKE HURON

On February 12, 2009, the Department of Environmental Quality (DEQ) received from the Genesee County Drain Commission (GCDC) a permit application submitted under Section 32723 of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended (NREPA). The permit application included a request that the DEQ begin the required evaluation and public notice under Part 327, Great Lakes Preservation, of NREPA for a proposed water withdrawal from Lake Huron.

Section 32723(4) of Part 327 requires that the DEQ provide for a public comment period of not less than 45 days before a permit application is acted upon. The DEQ invited public comment on the permit application via press release, public notice and website posting. The DEQ issued the press release on the permit application on May 27, 2009, and posted the public notice on the DEQ internet website the following day. A copy of the public notice was transmitted to the GCDC on May 28, 2009 for posting at the entrance to their premises and at the shoreline parcel where a "shore well and pumping station" are to be constructed. The press release and public notice announced the public comment period and requested that comment be submitted to the DEQ by July 15, 2009.

After considering the information submitted relevant to the factors used in determining the acceptability of a permit application and the comments received, the DEQ determined that the proposed GCDC withdrawal is in compliance with the applicable standards and should be issued.

On August 28, 2009, the DEQ rendered a decision in favor of issuing the permit concluding the GCDC proposed withdrawal would not likely cause an adverse resource impact and that all other factors in rendering a permit decision had been met.

This document includes the basis of decision for issuance of a permit to the GCDC for the future withdrawal of 85 MGD from Lake Huron. Responses are provided to comments received on the permit application during the public comment period that including concerns relating to the permit process, the environmental impact of the proposed water withdrawal, the legality of the proposed water use, and the applicability of laws and regulations to the proposed withdrawal.

Many of the early comments were critical of the public notice and comment period duration regarding the permit application. The DEQ is limited in its ability to provide public comment by a Part 327 statutorily required time frame for responding to the permit application. The DEQ recognizes that this is the first application for a permit to withdraw water from a Great Lake that is subject to the standards of Part 327, the Great Lakes Charter process, the standards-of-decision in the Great Lakes-St. Lawrence River Basin Water Resources Compact, and the Great Lakes-St. Lawrence River Basin Sustainable Water Resources Agreement. Therefore, the DEQ reviewed additional comments received after the public comment period for consideration in application and functionality of the administrative process on this and future permit applications.

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I. BACKGROUND

Proposed Withdrawal

The proposed 85 million gallons per day (MGD) water withdrawal is from a Lake Huron water intake. The permit applicant, Genesee County Drain Commission (GCDC), proposes to use the withdrawal water for a community public water supply system, to be owned and operated by a collection of municipalities organized as the Karegnondi Water Authority (KWA). The proposed withdrawal will be via a Lake Huron water intake located approximately 3.5 miles offshore and a shore well and pumping facilities located in the south of section 31 and 32, Worth Township, T.9N, R.17E, Sanilac County, Michigan. The maximum proposed withdrawal of 85 MGD, corresponds to a maximum pumping rate of ~59,000 gallons per minute (gpm).

Public water supply is a use that the DEQ estimates to be 10 percent consumptive. While 90 percent of the water will remain in the Lake Huron watershed, the consumptive use estimate places the loss from the Great Lakes hydrologic system at 8.5 MGD.

II. STATUTORY STANDARD

A person who proposes to develop a new withdrawal of 2 MGD or more from the waters of the state to supply a common distribution system, is required to obtain a water withdrawal permit prior to making the withdrawal (MCL 324.32723[1]).

Application Submittal

A person proposing a withdrawal from the surface waters of the state is required to apply for a permit by submitting an application for the withdrawal to the DEQ containing the following information (MCL 324.32723[2]):

- Capacity of equipment used to make the withdrawal,
- Location of the withdrawal,
- Withdrawal source,
- Amount and rate of withdrawal,
- Intended maximum monthly and annual volumes and rates, if different from the capacity of equipment used to make the withdrawal,
- Relevant information related to seasonal use,
- Description of how the water will be used and location, amount and rate of return flow,
- Any other information the person would like the DEQ to consider.

The application is required to include an evaluation of existing hydrological and hydrogeological conditions and a detailed description of proposed preventative measures where relevant. In addition, the applicant is required to submit an application fee in the amount of \$2000.00

Administrative Requirements

MCL 324.32723 requires the department to determine whether a permit application is administratively complete. The DEQ has 30 days to make this determination, unless the applicant is notified of deficiencies in the application requiring additional information. Once an application is determined to be administratively complete, the DEQ is required to provide a public comment period of not less than 45 days and render a decision on the permit application within 120 days from the completeness determination.

The DEQ received the original permit application from the GCDC on February 12, 2009. The information was submitted in accordance with Part 327, and "proposals subject to prior notice and consultation" of The Great Lakes Charter, Principles for the Management of Great Lakes Water Resources (The Charter). On March 4, 2009 the DEQ requested additional information to better fulfill the information requirements of The Charter essential to the administrative

process. Upon receipt of the additional information the DEQ sent a letter to the GCDC dated April 24, 2009 notifying them of the completeness of the application package.

The DEQ invited public comment on the permit application via press release, public notice and website posting. The press release was issued on May 27, 2009, and the posting of the public notice on the DEQ internet website on May 28, 2009. The GCDC was provided a copy of the public notice on May 28, 2009 for posting at the entrance to their premises and at the shoreline parcel where the proposed shore well and pumping station are to be constructed. The press release and public notice announced the 45-day public comment period and requested that comments be submitted to the DEQ by July 15, 2009.

The consumptive use estimate of 8.5 MGD exceeds the 5 MGD threshold established in the Charter for proposed withdrawals requiring Prior Notice and Consultation with the other Great Lakes states and provinces. In the spirit of the companion legislation adopted by the state of Michigan in conjunction with the Great Lakes-St. Lawrence River Basin Water Resources Compact (Compact), and pursuant to the Great Lakes-St. Lawrence River Basin Sustainable Water Resources Agreement (Agreement), the DEQ's Office of the Great Lakes provided notice of the proposed withdrawal on May 26, 2009. The complete application packet was transmitted to the other Great Lakes states, the Canadian provinces of Ontario and Quebec, and the Great Lakes first nation and federally recognized tribes, with a request that comments be provided by July 20, 2009 in order for the DEQ to meet the statutory obligations of Part 327.

Conditions Required for Issuance of a Permit

The DEQ is required to issue a permit for a water withdrawal if all of the following conditions are met (MCL 324.32723[6]):

- All water withdrawn, less any consumptive use, is returned to the source watershed;
- The withdrawal is implemented to insure there is no individual or cumulative adverse resource impact (ARI). Cumulative impacts are to be evaluated based upon available information gathered by the DEQ;
- The withdrawal will be implemented in compliance with all applicable local, state, and federal laws, as well as all legally binding regional interstate and international agreements;
- The proposed use is reasonable;
- The permit applicant certifies compliance with the environmentally sound and economically feasible water conservation measures for the applicable water use sector; and
- The proposed withdrawal does not violate public or private rights and limitations imposed by Michigan water law or other common law duties.

Parallel requirements for approval are spelled out in Section 4.11, Decision Making Standard, of the Compact. Section 4.11(5) of the Compact provides greater specificity on reasonable use conditions and requires the parties to consider efficient use of the water; efficient use of existing water supplies; the balance between economic and social development and environmental protection as they relate to other planned withdrawals and uses sharing the same source; supply potential; the degree and duration of likely adverse impacts and the restoration of hydrologic conditions.

III. DECISION MAKING PROCESS

Consumptive Use Considerations

The consumptive use calculation was based upon a consumptive use coefficient of 10 percent. The DEQ relied primarily upon the United State Geological Survey publication "Consumptive Water-Use Coefficients for the Great Lakes Basin and Climatically Similar Areas," Scientific Investigation Report 2007-5197. There is a relatively narrow range of coefficients for public water supplies in comparison with many of the other types of uses. Further, it is generally conceded the range is 10 to 15 percent as identified in Table 3-1, Consumptive-use coefficient used by Great Lakes jurisdictions, by water use category of the report. Upon review of the aforementioned report, the DEQ ultimately decided that 10 percent was the best estimate of consumptive use. This is the published value for the public water supply sector in Table 3-2, Total water use by category for the Great Lakes Basin, by year, from the Great Lakes Commission annual reports, 1998-2002. Based upon the 10 percent coefficient for consumptive use, the proposed withdrawal is projected to have a maximum consumptive use of 8.5 MGD.

Adverse Resource Impacts

Section 32721(1) of Part 327 prohibits a person from making a "...new or increased large quantity withdrawal from the waters of the state that causes an adverse resource impact." Section 32701(1)(a)(vii) defines an adverse resource impact (ARI) for a surface water body as "decreasing the level of a lake or pond with a surface area of 5 acres or more through a direct withdrawal from the lake or pond in a manner that would impair or destroy the lake or pond or the uses made of the lake or pond, including the ability of the lake or pond to support characteristic fish populations, or such that the ability of the lake or pond to support characteristic fish populations is functionally impaired." For flowing streams and rivers an ARI is defined as decreasing the flow by part of the index flow such that the ability of the stream to support the characteristic fish population is functionally impaired.

Part 327 establishes specific flow reduction as constituting an ARI for some stream types. No specific flow reductions are established for the Great Lakes or their connecting channels. In that case, a comparison of the proposed withdrawal to the water availability from the GL or connecting channel from which the withdrawal originates is one means of assessing the likelihood of an ARI. The proposed withdrawal of 85 MGD corresponds to a daily withdrawal of 1.136×10^7 cubic feet per day (ft^3/day) or 4.148×10^9 cubic feet per year (ft^3/year). The area of Lake Huron and Lake Michigan, which hydraulically act as a single source at the same elevation, possess a combined surface area of 45,300 square miles, or $1.263 \times 10^{12} \text{ ft}^2$. Based upon a consumptive use of 10 percent a withdrawal of 4.148×10^9 cubic feet per year (ft^3/year) would result in a projected loss of water from the Great Lakes Basin of $4.148 \times 10^8 \text{ ft}^3/\text{year}$. Assuming no recharge to lakes Michigan and Huron the consumptive use loss is projected to cause a reduction in lake levels of 0.0003284 feet (0.004 inches or 0.01 centimeter). Accordingly, the DEQ concludes the impact of the proposed 85 MGD withdrawal on lake levels and the corresponding impact to the characteristic fish population would not result in an ARI as defined in Part 327.

A comparison of the proposed withdrawal to flows immediately down stream of the proposed intake in the St. Clair River provides another reasonable measure of water availability and the potential for impact. The United States Geological Survey has published average flows for the St. Clair River in excess of 183,000 cubic feet per second, corresponding to a daily flow of ~118,268 MGD. When consideration is given to return flows and consumptive use, the water theoretically lost from Lake Huron of 8.5 MGD corresponds to 0.0072 percent of the total flow.

The DEQ concludes from this comparison that the proposed withdrawal would be insufficient to cause an ARI as defined in Part 327.

Applicable Local, State and Federal Laws

To be approved, the proposed withdrawal must be in compliance with all applicable local, state, and federal laws as well as legally binding interstate and international agreements, including the boundary waters treaty of 1909. Section 32726 governing local ordinances, specifically prohibits a local unit of government from enacting, or enforcing an ordinance that regulates a large quantity withdrawal. The information contained within the permit application indicates the withdrawal would be implemented in compliance with applicable state and federal laws (Part 327) and applicable international agreements. The Boundary Waters Treaty of 1909 was agreed to by the U.S. and Canada to provide a mechanism for the resolution of disputes over waters bordering the two countries and to insure the waters of the Great Lakes remain navigable. Nothing related to the GCDC proposed withdrawal volumes would be in violation of the treaty.

Reasonable Use

Part 327 requires that a proposed use be reasonable. As noted above the specific criteria for consideration the efficient use of the water and the efficient use of existing water supplies; a consideration of the balance between economic development, social development and environmental protect, supply potential; the degree and duration of likely adverse impacts and the restoration of hydrologic conditions. These considerations are consistent with Michigan's test for determining a reasonable use as set forth in Michigan Citizen for Water Conservation V. Nestle Waters of North America, Inc. [Michigan Citizens for Water Conservation v Nestlé Waters N America Inc, 269 Mich App 25; 709 NW2d 174 (2005)]. The considerations are addressed as follows:

Efficient Use of the Water: This requirement is directly tied to the user's commitment to Environmentally Sound and Economically Feasible Water Conservation Measures. (Conservation Measures) In the application the GCDC identified the Conservation Measures applicable to the public water supply sector that they are currently employing. A more comprehensive discussion is provided in the section entitled Conservation Measures on page 6.

Efficient Use of Existing Water Supplies: The language of the Compact specifies efficient use as a consideration when an increased withdrawal is proposed. The Compact language is intended to assure that water from various sources is being efficiently used by a large quantity user before they are granted approval for an increased withdrawal. Since the GCDC proposal is for a new withdrawal, this criterion does not apply.

Balance between Economic Development, Social Development and Environmental Protection: Reasonableness of a water use as it relates to the balance between economic development, social development and environmental protection is an important consideration in the acceptability of a proposed withdrawal.

Creation of a water authority and construction of the pipeline and treatment plants would enhance economic development in a variety of ways. During the 5-year construction period there project would provide an estimated \$100 million in skilled trades work, \$200 million in manufacturing of pipe and other equipment and 30 million in engineering and design services. Once on line the new pipeline and associated facilities is estimated to create over 50 new jobs necessary to the operation and maintenance treatment facilities, the Great Lakes intake, pipeline, and pump stations. Improving system reliability, as discussed below will also encourage economic development in the affected communities.

From a social standpoint, the proposed withdrawal and related facilities would benefit the area by enhancing the health, safety and security of area residents. The DEQ, Water Bureau (WB)

has identified deficiencies in the GCDC system primarily related to reliability. Significant effort will be placed on improving current system reliability in the design of system components associated with the proposed withdrawal. These efforts will meet with the requirements of the Safe Drinking Water Act. With the construction of new facilities the GCDC would also be improving system reliability for surrounding public water supply systems by offering emergency inter-connects and entering into mutual aid agreements.

Lastly, given the net effect of the withdrawal on the water resources as described above, these economic and social benefits to the area would be obtained without a perceptible impact on the environment.

Supply Potential: Supply potential consideration requires the DEQ look at the impact of the withdrawal on the quantity, quality, reliability, and safe yield of hydrologically interconnected water sources. The proposed withdrawal does not present any known or anticipated threat to the quantity or quality of Lake Huron as a water source. Also, the proposed withdrawal would have no impact on the reliability or the safe yield of the source as it relates to others using Lake Huron or hydrologically connected sources, such as the St. Clair/Detroit river systems.

Degree and Duration of Likely Adverse Impacts: The DEQ concluded the proposed withdrawal would not cause an ARI.

Restoration of Hydrologic Conditions: The water withdrawn by the GCDC, less consumptive use, would all be returned to the source watershed via treated wastewater discharges to the Flint River. The consumptive use losses for inside Great Lakes Basin uses are considered reasonable. Under Part 327 the restoration of hydrologic conditions does not apply to the proposed withdrawal.

Conservation Measures

For permit applications received on or after January 1, 2009, the applicant must self-certify that they are in compliance with Conservation Measures. More specifically they must certify that they are in compliance with the Conservation Measures developed by the applicable water user's sector or developed for the water use associated with that specific withdrawal (MCL 324.32723[6(e)]).

The GCDC has certified that they are in compliance with the accepted practices as developed and submitted to the DEQ for the public water supply sector by the Michigan Section of the American Water Works Association and set a goal of a less than 5 percent system wide water loss. GCDC further certifies to the promotion of educational programs related to lawn sprinkling and other outside uses, and the implementation of programs to promote water re-use and other water conservation measures by commercial and industrial facilities. The GCDC also practices "flat rate water billing," meaning large users do not pay proportionally less as their water use goes up. All water uses served by the GCDC are metered and billing is commensurate with the metered water usage. Lastly, the GCDC employs a local ordinance restricting outdoor water use during periods of peak use.

Public or Private Rights, Limitations and Common Law

The issuance of a permit on the proposed withdrawal must not violate public or private rights or interfere with limitations imposed on the use of the resource by Michigan water law or other common law decisions. Specifically, the DEQ must ascertain if the issuance of the permit would interfere with the principle that certain natural resources, which in this case is Lake Huron, are preserved for public use, and that the state is required to maintain the resource for the public's reasonable use. The issuance of a permit for the proposed withdrawal would not interfere with the public's access to Lake Huron, the public interest in Lake Huron as a natural resource, or maintenance of Lake Huron for drinking and recreational purposes.

VI. PUBLIC PARTICIPATION PROCESS

The DEQ invited public comment on the permit application via press release, public notice and website posting. The press release was issued on May 27, 2009, and the posting of the public notice on the DEQ internet website on May 28, 2009. The web posting included the permit application packet for the proposed withdrawal and the public notice announcement. The press release and public notice announced the public comment period and requested comments be submitted to the DEQ by July 15, 2009.

The Office of the Great Lakes provided notice of the proposed withdrawal on May 26, 2009, to the other Great Lakes states, provinces and federally recognized tribes and first nations. The notice included a request that comments be provided by July 20, 2009.

The remainder of this document summarizes the comments received based on the proposed 85 MGD withdrawal by the GCDC and the DEQ response to the comments on the basis of applicable rule, policy, and procedure in administration of the permit application and review process under Part 327, Great Lakes Preservation, of NREPA.

General Comments

Many of the comments were specific to ongoing negotiations between the GCDC and the City of Detroit relative to the continued provisions for water supply service from the Detroit Water and Sewer Department (DWSD).

It was expressed by some commenters that the GCDC proposal underestimates the reliability of the DWSD public water supply system noting that DWSD possesses sufficient capacity and has an approved proposal to provide the GCDC the desired redundancy. Conversely, it was claimed the request for redundancy was made in 1965 with reciprocal commitment to construct the necessary infrastructure over the past 30 years.

A comment was made that constructing a new intake does not appropriately address deficiencies in either the GCDC or DWSD systems. As an example, there was a reference to ongoing system losses for the GCDC and DWSD of 5 percent versus 20 percent of water pumped.

Multiple comments were received with regards to the impact on water rates for DWSD customers if the KWA member municipalities were to withdraw from the DWSD system. Rate increases for the remaining DWSD customers was estimated at approximately 6 percent. A counter argument was made that the loss of a customer should not affect remaining customer rates as costs are presumably based on "cost of service."

There was a claim that the cost of the intake structure, transmission line, and separate treatment facilities for the KWA would be much greater than provided in the preliminary estimates. Conversely, The GCDC claims that all potential KWA members are aware of the cost estimates. The intake and pipeline costs are estimated at 75 percent of costs, including plans for redundancy while the treatment costs will be 25 percent of costs. GCDC also noted that separate studies on the cost of various water supply alternatives should have no bearing on the permit decision.

Response to Comments: The DEQ does not consider any comments on the relative position of the DWSD and GCDC water supply system to be legally relevant to a decision as to whether or not a permit should be issued to the GCDC for the proposed 85 MGD withdrawal from Lake Huron. Part 327 specifically requires the DEQ to issue a permit if on the basis of the submitted material the proposed water withdrawal meets the decision making criteria. The DEQ is specifically precluded from using part 327 to "...diminish or create any existing authority of municipalities to require persons to connect to municipal water supply systems as authorized by law" (MCL 324.32726).

Any addition or loss of a major customer of a regional public water system has the likelihood of affecting water rates – clearly a major addition or loss affects both the revenues and costs of operation. Water rates and the basis for establishing water rates are not an issue under Part 327. It is appropriately an issue for water service contract negotiations between the regional water system and its customers. To do otherwise invites unwanted intervention of the state into local decision making. There is nothing in Part 327 or any provisions of the Agreement and Compact that would either mandate connection to a regional water system or bind a customer permanently to a regional water system.

Applicability of Law and Regulations

Comments criticized the GCDC's application under Part 327. As a community public water supply the commenter believes the application would have been more appropriately made under the Michigan Safe Drinking Water Act, Act 399, as amended and rules. A submittal of plans and specifications under Act 399 would have provided greater clarity as to the reasonableness of the water use and the applicant's intent relative to applicable Conservation Measures.

Other comments cited the application of requirements in the Compact and expressed the opinion that the GCDC proposal did not meet the applicable standards. Most frequently referenced were the standards identified in *Section 4.11, Decision Making Standard* and *Section 4.12, Applicability* of the Compact. Relative to the former, comments suggested the proposed use is not reasonable based on efficient use of existing water supplies, balance between economic and social development, environmental protection, use of same source by multiple users, and the probable degree of adverse impacts. Relative to the latter requirements, it was implied that the Compact provides the Originating Party (i.e. Michigan) with the power to apply a much more stringent standard.

Response to Comments: Part 327 and the companion amendments to Act 399 do not provide any restrictions as to who may apply for a permit to make a large quantity water withdrawal nor specify how one must go about obtaining a permit. GCDC stated that they submitted their request for approval through Part 327 in large part to obtain the appropriate authorization of the withdrawal before investing a significant amount of money in developing plans and specification for the water works systems. Conformity with the Decision Making Standard of the Compact is, in part, the basis for the DEQ's decision on the permit application.

New Withdrawal and Consumptive Use

A number of comments focused on the fact that approval of the GCDC proposal would not result in a decrease in Detroit's ability to pump water and solicit new customers to maintain their current rate of use. As a result commenters concluded that the GCDC proposal should be treated as a new withdrawal. A corollary to this criticism was the observation that the total water withdrawal from the Great Lakes Basin would increase and that approval of the proposal would encourage other users to pursue similar use of Great Lakes waters. Some comments questioned the water use projections by the GCDC for the years 2014 to 2039. GCDC projected water use to increase by 42 percent. There was also concern that projected demand was 78.7 MGD, yet the request is for 85 MGD. There were requests that the proposed new withdrawal should be considered unacceptable unless the Detroit withdrawal was reduced by a corresponding amount.

Concern was also expressed over an increase in consumptive use. The fact that there would be an increase in use would result in additional consumptive use loss from the Great Lakes Basin. Numerous comments, particularly from other states questioned the use of 10 percent as the consumptive use coefficient indicating it should be higher. USGS publications cite consumptive use on public water supply systems in the range of 10 to 15 percent.

Response to Comments: Comments on the increased use must be addressed within the context of public water supply system operation, in particular when the increase in use is based upon population projections over a period of years. GCDC conducted a study to obtain the projected use of 78.7 MGD by 2039 based upon population and water use trends for the area currently served by the GCDC system. The GCDC explains that the request for 85 MGD provides a slight buffer over that which would be needed to account for water use in KWA member water treatment plants for such things as filter backwash. Additional buffer is provided to account for system losses. The GCDC as previously noted has set a goal of 5 percent for system losses. The DEQ determined the 85 MGD request is appropriate relative to the projected use, system operation and system water losses.

The DEQ has projected an increase in consumptive use of 8.5 MGD because the GCDC proposal is a new withdrawal. The GCDC proposed withdrawal does not affect the baseline capacity of the DWSD system or DWSD's future use of their existing baseline capacity. In the short term, the combined use of water for both the DWSD and GCDC systems will not significantly increase, because GCDC presently receives their water from DWSD. The proposed withdrawal was evaluated by the DEQ on the basis of DWSD maintaining their existing baseline capacity and evaluating the impact of a new 85 MGD withdrawal by GCDC from Lake Huron.

The consumptive use coefficient of 10 percent was obtained from *Table 3-2. Total water use by category for the Great Lakes Basin, by year, from the Great Lakes Commission annual reports, 1998-2002* in the USGS publication Consumptive Water-Use Coefficients for the Great Lakes Basin and Climatically Similar Areas, Scientific Investigations Report 2007-5197. Consumptive use coefficients for public supply over the years cited (1998-2002) were 10 and 11 percent, with 10 percent cited as the consumptive use over the entire period in question. The DEQ deemed this reference to be the most reasonable estimate of consumptive use.

Conservation Measures

There were multiple criticisms of the GCDC's commitment to water conservation. Specifically, that the GCDC identified no measures aimed at water use reduction noting that water conservation on new systems should be aggressive. Comments cited the published water conservation measures applicable to the public water supply sector noting that the GCDC has not made a commitment to each and every conservation measure. Specifically, their description of conservation measures did not include measures that promote water use conservation and the reduction of system leaks. Lastly, none of GCDC proposed wholesale or municipal customers provided information on compliance with Conservation Measures.

Commenters also expressed concern that the conservation measures identified by the GCDC were not consistent with the requirements of the Agreement and/or Compact. Plans for water use reduction or conservation were characterized as inadequate as nothing was mentioned relative to targeting system leaks and the promotion of efficient water use, in particular those leaks mentioned for the Detroit system. It was expressed that no new withdrawals should be approved until Detroit's leak problems are addressed. Some indicate there should be no approval of the withdrawal without a "water master plan" including impacts of current conservation and efficient use measures that have reduced total use and consumption. Commenters questioned whether there would be a continuation of conservation efforts made to date or whether their efforts would be improved upon. It was noted that a projected increase in population does not necessarily correspond to a projected increase in use, if one assumes more efficient use and conservation. Some commented that additional documentation is needed on water conservation measures including clear goals, targets and means of assessment.

Response to Comments: After January 1, 2009 permit applicant's are required to "self-certify" that they are in compliance with conservation measures developed by the applicable water

user's sector or developed for the water use associated with that specific withdrawal. The GCDC certified to the promotion of educational programs related to lawn sprinkling and other outside water uses, implementation of programs to promote water re-use and promotion of other water conservation measures by commercial and industrial facilities, and has set a goal of a less than 5 percent for system wide water losses. The GCDC practices "flat rate water billing," meters all water uses and bills commensurate with the metered water usage. The GCDC employs a local ordinance restriction on outdoor water use during periods of peak use.

The DEQ acknowledges the GCDC has not certified as to employing each and every water conservation measure identified for the public water supply sector, and notes there is not a requirement in Part 327 that they do so. The DEQ does commit to working with public water supplies to further water conservation efforts and will do so with the GCDC. Relative to the GCDC customers, the GCDC is making application on behalf of member communities of the KWA. All KWA members would participate in the implementation of the identified conservation measures. References to fixing deficiencies in the DWSW system are not germane to the GCDC permit application.

Reasonableness of Proposed Withdrawal

A number of comments were received relative to the reasonableness of the proposed withdrawal noting that any proposal must be considered on the basis of its purpose, suitability of use to location, the extent and amount of harm, benefits, necessity and manner of use, and other factors. The Agreement and Compact also require consideration of the economic and social value relative to potential environmental impacts and other factors. Generally, comments on the reasonableness of the proposed withdrawal focused on:

- The environmental harm that might be caused by the return of treated wastewater, and
- The necessity and amount of the withdrawal given the availability of Detroit system.

Specifically, on the issue of return flow there is a concern that points of discharge and downstream segments would be incapable of absorbing the projected 42 percent increase in discharge (based on future growth projection) without adverse impact. Commenter's claim numerous combined sewer overflows have occurred and requested verification that discharges are operating in compliance with existing laws.

Regarding the availability of the Detroit system, many comments made reference to the fact that the efficient use of existing systems is a required demonstration of reasonableness. There were claims the GCDC application should be rejected since the GCDC failed to rule out the option of using the existing DWSW system. Comments indicated that DWSW currently has the capacity to meet the needs of the GCDC and its customer municipalities, is already providing service to the proposed service area, and alleges to having made a commitment to providing reliability.

A few comments related to the economic and social value criteria of the Agreement and Compact, which requires consideration of the balance between economic development and social development and environmental protection on planned withdrawals from the same source

Response to Comments: There are four wastewater discharges by the City of Flushing, City of Flint, Genesee County's "Ragnone Plant" and the City of Lapeer. The four wastewater treatment plants are in the process of reducing infiltration and inflow from their collection systems. The National Pollutant Discharge Elimination System (NPDES) permits for the Flint and Genesee Ragnone plants discharges require treatment facility and collection system capacity analyses. The City of Lapeer proposes to rehabilitate their plant to increase the treatment capacity and accommodate an increase in population and service area. All are operating and are in compliance with the parameters stipulated by their respective NPDES permits. If the GCDC service area demands increase in the future, or if the service area expands, the DEQ will use the standard NPDES permit review/reissuance cycle (5-years) to

evaluate any impacts from increases in wastewater flow. That process will include public participation.

The efficient use of existing systems is an applicable consideration when a proposal for an increased withdrawal and consumptive use is before the DEQ for approval. That is to say, an existing system must demonstrate that it is not wasteful of its water before a request for an increase in use can be approved. Because this is a new withdrawal the requirement for efficient use of existing systems, specifically the efficient use of a system owned and operated by another party (DWSD), is not germane to the permit decision.

As a consideration on the reasonableness of a water use, social and economic development considerations must be balanced against environmental impact of the proposed withdrawal. The GCDC outlined the potential benefits including enhanced public safety, security and health that would be provided to area communities served by the proposed withdrawal. Many of the social benefits would arise as a direct outcome of the new intake, pipeline, shore well and treatment facilities correcting existing system deficiencies identified by the DEQ. The GCDC projects the proposed construction of facilities would provide a direct infusion of money, jobs and manufacturing opportunities to the area. The DEQ determined there would likely be no ARI to the commonly shared water source as the withdrawal is not of sufficient magnitude to perceptibly lower the levels of Lake Michigan and Lake Huron. Accordingly, the DEQ concludes the GCDC proposal meets the reasonableness criteria relative to social development, economic development, and environmental impact.

Adverse Impact and Requirements for Ecological Improvement

Comments pointed out that the Great Lakes states and provinces have agreed to protect, conserve, restore and improve the Great Lakes resources. Some additional analysis recommended that the DEQ ascertain if there might be a cumulative ARI and questioned why the DEQ has not required the submittal of proposed restorative measures as part of the application packet. Comment pointed out that the application packet included no information as to whether Detroit will reduce its water use, whether GCDC will remain a DWSD customer for backup, and whether DWSD will seek additional customers. Commenters indicated that if there is no net reduction in use cumulative impacts need to be addressed. Some believe what was referred to as a diversion could have a significant impact on the levels of the Great Lakes and set precedent for other large scale diversions. Eleven comments focused solely on the impact the withdrawal would have on lake levels.

Response to Comments: The DEQ has determined there would be no ARI caused by the impact of the proposed withdrawal, and no perceptible impact on the levels of the Great Lakes or connecting channels. Given the likely near term affect of the proposed withdrawal on the volume of the DWSD withdrawal, there is no identifiable issue of cumulative impacts. Part 327, ~~which is~~ the guiding legislation in the issuance of the permit, requires “preventative measures” be submitted as part of a permit application only when necessary to preclude an otherwise prohibited environmental impact. As a proposed new withdrawal, the DEQ evaluated the GCDC withdrawal without assuming there would necessarily be any change to DWSD capacity to withdraw water from the Great Lakes.

Diversion or Intra-Basin Transfer

A number of comments assumed that the proposed withdrawal constitutes a diversion, or intra-basin transfer, precluding DEQ approval under Part 327, the Agreement and Compact. Comments indicated the need for the GCDC to better identify the current and proposed service area. This was especially true in dealing with service to Shiawassee County as portions of the county are in both the Lake Michigan and Lake Huron watersheds. There was also concern that some of the service area and return flow might be to the St. Clair/Detroit River watershed, or discharged to the Lake Erie watershed resulting in an intra-basin transfer. There was concern

that approval of the withdrawal would set a dangerous precedent for the review of diversion and intra-basin transfers in the future.

Response to Comments: In accordance with Part 327, the Agreement and Compact, the DEQ has determined the proposed withdrawal would not constitute a diversion or intra-basin transfer. Portions of Shiawassee County lie in both the Lake Michigan and Lake Huron watersheds. However, Section 4.12.9 of the Compact states that Lake Michigan and Lake Huron are to be considered a single hydrologic unit and watershed. And therefore the transfer of water between Lake Michigan and Lake Huron watersheds is not considered a diversion under the Compact. None of the proposed service area lies within the watershed of the connecting channel or Lake Erie. Connecting channels are those waters and associated watershed that lie between any two of the Great Lakes. Section 4.12.7 of the Compact treats connecting channels as though they are part of both the Great Lake watersheds above and below the connecting channel.

In summary, within the applicable definitions of Part 327, the Agreement, and Compact the proposed withdrawal would not constitute a diversion or intra-basin transfer. It is a proposal potentially subject to Prior Notice and Consultation under the Charter because it is proposed as an in basin use with the only loss of Great Lakes waters due to the associated consumptive use.

Inadequate Information

A number of comments criticized the adequacy of the submitted information. Some suggested more information was needed on the movement of ground water and surface water to determine if the proposal will result in an intra-basin transfer or cause an adverse impact to the quantity and quality of Great Lakes basin waters. There were claims the proposal did not meet the requirements, spirit or intent of Agreement or Compact. The presumed inadequacy of information led to concern over consumptive use, service area information and water loss. There was also concern over inconsistencies in the information such as references to the new capacity of 85 MGD, a maximum capacity of 110 MGD and a firm capacity of 88 MGD. There were questions as to the relationship between the various cited capacities.

Others acknowledged the effort made to demonstrate consistency with the Agreement and/or Compact while noting information deficiencies. In a few instances commenter's requested information concurrent with a request for extension of the public comment period.

Response to Comments: A permit applicant under Part 327 is required to submit information including pumping capacity; location of withdrawal; withdrawal source; amount and rate of withdrawal; the maximum monthly and annual volumes and rates; relevant information related to seasonal use; a description of how the water will be used; the location, amount and rate of return flow; and an evaluation of existing hydrological and hydrogeological conditions. Other information may be provided at the discretion of the applicant with a description of preventative measures required where relevant.

Due to the magnitude of the withdrawal and its qualifying as a proposal potentially subject to Prior Notice and Consultation under the Charter, the DEQ requested the submittal of additional information. Extensive information was provided to meet information requirements in accordance with the Charter, the Agreement and Compact. The DEQ deemed the information sufficient and notified the GCDC of such on April 24, 2009.

Regarding the request for an extension of the public comment period, Part 327 contains a statutory limit on the time the DEQ may give to the consideration of a permit application. Once the applicant is notified of the completeness of application the DEQ has 120 days in which to render a decision. Given the time constraints and the adequacy of the application packet, the DEQ denied requests to grant an extension to the public comment period.

V. Summary of DEQ Position

The DEQ has determined the application for the GCDC proposed withdrawal of water from Lake Huron was submitted in accordance with the permit requirements of Part 327. Further, the proposed withdrawal is deemed not likely to cause an ARI and, as proposed, meets the intent of the Great Lakes Charter and the decision making standards of the Agreement and Compact. The DEQ based this determination on a review of the information and data pertinent to the factors used in making a decision on a permit application which included a thoughtful consideration of the comments received from the public, the other Great Lakes states, the Canadian provinces of Ontario and Quebec, and federally recognized tribes and first nations on the permit application, as made available for public review.

The authorized withdrawal capacity is 85 million gallons per day (maximum withdrawal in any single day). The DEQ will assure that capacity is not exceeded in the issuance of the required Michigan Safe Drinking Water Act construction permits (1976 P.A. 399, as amended). In addition, the DEQ will require as a condition of this Part 327 authorization that the participating members of the Karegnondi Water Authority be committed to a water conservation/water use efficiency program consistent with the water sector guidelines accepted by the state under Part 327, and posted on the DEQ website.



ROWE PROFESSIONAL SERVICES COMPANY

Large Firm Resources. Personal Attention.™

January 7, 2013

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

Subject: Review of December 21, 2012 Presentation – City of Flint Water Supply Assessment

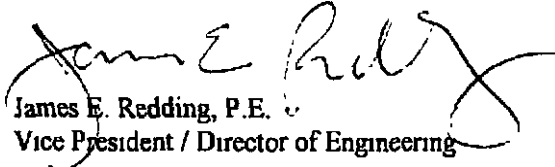
Dear Mr. Kurtz:

As requested, we have reviewed the analysis of water supply alternatives for the City of Flint which was presented to the State Department of Treasury by Tucker, Young, Jackson, and Tull, Inc. (TYJT) on December 21, 2012. Our review is attached and summarizes the primary differences between the TYJT assessment and our previous studies and provides explanations of why we believe there are differences.

We have also reviewed the options for continued DWSD supply included in the TYJT presentation. It is not clear whether these are presented as specific offers on behalf of DWSD or included as examples for analysis, but we have noted some items which we believe should be addressed and considered as these options are compared.

If there are questions, please contact me.

Sincerely,
ROWE Professional Services Company



James E. Redding, P.E.
Vice President / Director of Engineering

Attachment

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**Review of TYJT December 21, 2012 Presentation
City of Flint Water Supply Assessment
Prepared by Rowe Professional Services Company**

DWSD Supply (Slides 7 through 9)

1. The 8 mgd maximum day supply by DWSD options can result in periods during the summer when most of the water to meet demands will be supplied by the City from the river. To aid in maintaining a consistent water quality, softening of the water from the river should be provided with this option, greatly increasing the City's costs.
2. Upgrades to Flint's WTP and dams will be needed for options requiring blending, since the WTP will be required to provide continuous, reliable service and compliance with recent surface water treatment regulations.
3. The rates for the options analyzed are shown on Slide 9 as "TYJT Estimates". Options and rates shown are different than presented by DWSD previously.

	DWSD 11/29/2012	TYJT Estimates
18 mgd Maximum Day - P&B	\$16.24	\$16.37
12 mgd Maximum Day - P&B	\$16.30	\$16.31
8 mgd Maximum Day -P&B		\$12.68
12 mgd Maximum Day - Imlay	\$14.38	\$14.38
8 mgd Maximum Day - Imlay		\$11.11

4. Since the rates used in the analyses are shown as estimates, are they actual offers or just presented as "what if" scenarios?
5. We assume that the Imlay options are based on transfer of the 72" main through Lapeer County to Flint. The analyses show a capital cost of \$4.7 million; we assume that this is the proposed purchase / lease cost to Flint. This should be clarified along with pertinent details.
6. If the transmission main is transferred to Flint, what are Flint's responsibilities regarding service to the Lapeer County customers? If they remain DWSD customers, then Flint should receive some revenue for the use the main. It does not appear this is included in the TYJT analyses.
7. If the transmission main is transferred to Flint, we assume that the city will be responsible for the maintenance of the 50 year old main. The TYJT analysis did not include this.
8. Do the rates shown include the credit for "reliability" which had been discussed with DWSD?
9. If the point of commerce is changed from Baxter and Potter to Imlay, a new meter pit will be required. The cost of this does not appear to be included in the TYJT cost analyses.

Flint River Supply (Slide 10)

1. If any of the “blending” options are chosen, it will be necessary to upgrade the Flint WTP and dams to provide reliable, continuous service and compliance with recent surface water treatment regulations.

Data Collected (Slide 14)

1. The slide notes that Flint blending is based on DWSD supplying 2/3 and Flint supplying 1/3 of 12 MGD ADD. For the maximum day demand (18 mgd), if DWSD supplies a maximum of 8 mgd, Flint will supply 10 mgd or 56% of the total. However, such a large portion will make it more difficult to blend and achieve consistent water quality. Flint will need to soften water for these options.

Benchmarking Comparisons (Slide 16)

1. The slide subtitles are “KWA O&M Inflation Factor” and “DWSD and Flint Rate Inflation Factor”. It seems appropriate to benchmark O&M costs for the KWA, because future costs of service will be dependent on how operating costs are impacted by inflation. For Flint, it does not seem appropriate that “rate inflation” from other utilities be used to determine the impact of inflation on future cost of service. Rates are impacted by inflation, but also by other factors such as debt and customer base. O&M expenses and rates are different and care should be exercised not to mix the two during analyses. The TYJT analyses apply an inflation factor (based on rates from other utilities) to the Flint WTP operating expenses, which does not seem to be consistent.
2. The KWA will supply raw water; SOCWA and YUCA both supply finished water. Regulations impact the O&M for finished water suppliers but should not impact the KWA O&M. The use of data from SOCWA and YUCA does not seem like a comparable comparison with the KWA. Finished water suppliers will have increased costs due to regulatory compliance, which really are not due to “inflation” of the costs of wages, power, chemicals, etc.
3. DWSD has a history of rates to Flint and other suburban wholesale customers. Rates tend to be quite specific to each utility, based on much more than just the costs of operating and maintenance. It appears that DWSD historical rates have not been considered in projecting future DWSD rate increases.

Capital Financing (Slide 17)

1. KWA bonds are planned to be general obligation bonds, backed by member counties.

O&M Inflation Factor (Slide 20)

1. SOCWA and YUCA are finished water suppliers; ever-changing regulatory requirements will impact their operating costs more than a raw water supplier, such as KWA.
2. KWA will be a supplier of raw water. O&M costs should primarily be limited to power and labor, with a little chemical use for zebra mussel control. KWA will not provide treatment of the water.

3. The KWA study assumed power, labor, and chemical costs increase at an annual average of 3%. TYJT indicated this is too low and suggested 5%.
4. Following are examples of historical inflation, which support the 3% as a reasonable assumption for O&M expenses (not rates)
 - a. Labor- GCDC-WWS labor costs have increased at an annual average rate of 2.5% since 2003
 - b. Electricity Rates in Michigan (per U.S. Energy Information Administration) have increased an average of 3.2% since 1999.
 - c. The U.S. Bureau of Labor Statistics indicates that the inflation rate over the last 30 years has been an average of 2.8%.

Finished Water Rate Inflation (Slide 21)

1. TYJT bases their assumptions for rate inflation on a survey of rates from three other water suppliers, but ignored the actual rate history of DWSD. TYJT assumed DWSD rate increases of 4.4% annually (if water is purchased from P&B) and 2.9% annually (if water is purchased from Imlay). Based on the actual charges by DWSD to Flint, DWSD historical rates are as follows:
 - a. 10 year increase in DWSD rates to Flint:: 10.5% annually
 - b. Average annual increase through 45 year history: 6.7%
2. Note that for the KWA analyses, an inflation factor has just been applied to power, labor, and chemicals. Although higher prices for labor, power, and chemicals impacts utility rates; rates are impacted by many other factors, many of which are not related to inflation. Rate inflation will likely be different than O&M inflation. Other factors impacting rates:
 - a. Debt – the amount of debt varies widely between utilities
 - b. Number of customers / quantity of water sold – there are many fixed expenses with a utility, that if are distributed amongst more users/more gallons sold will result in lower rates. Conversely, if there are fewer users or less water sold, the rates are higher. Assumptions regarding future water consumption will have a great impact on “rate inflation”.
3. Unlike KWA and Flint operating expenses which will increase over time based on inflation, the cost of continued DWSD service should be based on the inflation of DWSD rates, to include the increasing cost of other DWSD expenses such as debt and the impact of reduced customers / demands in addition to increasing O&M expenses.
4. Even though there could be a one-time reduction in DWSD rates through adopting the model contract, limiting peak demands, and or changing the point of commerce; it doesn't seem reasonable to assume that subsequent annual increases will only average 4.4% through the 30 year period of analysis. This is significantly less than historical performance (yet TYJT suggests that inflation for KWA O&M expenses will increase at almost double the rate of historical indicators).

Capital Financing with Revenue Bonds (Slide 24)

1. Note that the KWA bonds will be general obligation bonds backed by the member counties.
2. The 2009 KWA Study assumed 6%, 25 year financing. The interest rate for planning was reduced in the 2012 Study update to 5%, which is still higher than if bonds were sold today.
3. Financial consultants determined the charges for purchasing capacity in the KWA supply based on the estimated project cost plus appropriate financing costs. Based on 60 units of capacity, \$538,764,000 will be generated for repayment of debt and project costs using the capacity charges in the KWA capacity agreement.
$$\begin{array}{rcl} 25 \text{ years} * 60 \text{ units} * \$355,300 / \text{unit} & = & \$532,950,000 \\ 3 \text{ years} * 60 \text{ units} * \$32,300 / \text{unit} & = & \$ 5,814,000 \\ & & \hline & & \$538,764,000 \end{array}$$
4. For a KWA project cost of \$272,421,558, total P&I is \$483 million. The difference of \$55,500,000 is available for financing expenses (capitalized interest, bond issuance costs, etc.) and additional contingencies.
5. Bond holder reserve is not a requirement for general obligation bonds.
6. TYJT assumed that 3% interest would be earned on the bond holder reserve during the 25 year bond period. Current interest rates are less than 1% and it seems inappropriate to assume such a high rate will be earned on retained funds.
7. Bondholder reserve, if provided, should be applied against the last couple of P&I payments. The TYJT did not apply it. This will reduce their project costs.

KWA Construction (Slides 26 through 29)

TYJT has indicated that the KWA construction cost estimate is too low. The primary differences in cost estimates for the project appear to be the following components:

1. Pump Stations (Slide 27) – The TYJT estimate for the pump stations is more than double that used by the KWA (\$54,573,314 vs. \$24,618,080). KWA estimates were based on actual construction costs from recent projects completed by Genesee County within the last eight years.
 - a. 32mgd water pump station including two-10 MG ground storage tanks - \$13.4 million
 - b. 80 mgd wastewater pump station, 50 feet deep wetwell – \$8.3 million
 - c. 30 mgd wastewater pump station, 50 feet deep wetwell – \$9.4 million

The KWA budgeted amount seems reasonable for two pumping stations as currently planned and to be constructed in rural areas (not southeast Michigan).

2. Redundant Power – There is no need for redundant power; other provisions will provide reliability of supply.
3. Land – Preliminary engineering has continued so earlier budgets established for planning for land acquisition can be greatly reduced. Options have been obtained on all properties which must be

purchased, so purchase prices are known. It will be necessary to obtain easements for only two miles of pipeline construction. All land costs are now estimated at \$1.25 million.

4. Engineering, Legal, Administration & Contingencies

- a. The October 2012 KWA estimate provided an allowance of 25% of construction cost to cover engineering, legal, administration, and contingencies (ELAC). This was reduced from the 38% allowance used in the 2009 Study because ongoing planning and design have firmed up many of the details of the project, including:
 - i. The intake design has been completed and all regulatory permits obtained.
 - ii. The transmission main route has been determined. Meetings with road agencies have firmed up the requirements for construction and restoration within rights-of-way. Environmental review and permitting are in process.

- b. TYJT costs for Intake Crib, Pump Stations, and Transmission Mains (Slide 30) include a 30% allowance for ELAC. These allowances (from Slides 26 through 28) total \$72,139,566. In addition, Slide 30 provides the following additional ELAC costs in the project total:

Design Engineering / Pump Stations	\$16,939,581
Construction Management	\$14,434,410
Administration	\$ 349,440
Legal	\$ 831,000
Total	\$32,554,431

- c. Combining this with the \$72,139,566 totals \$104,693,997 or 43% of the estimated construction cost. We believe that such a high allowance for ELAC is not appropriate for a project of this magnitude where preliminary engineering and some design have already been completed.

Cost Comparison (Slide 30)

- 1. The TYJT pump station price is too high based on costs of similar projects; costs used by KWA are based on costs of recent local projects. The KWA estimate is believed to be sufficient for the proposed pumping stations.
- 2. Redundant power is not required; this does not need to be included in the TYJT estimate.
- 3. Land for LHPS – actual price is \$360,000
- 4. Design Engineering / PS and Transmission – KWA included engineering in the 25% ELAC allowance included in the \$207,752,895 estimated cost of transmission mains; TYJT included engineering in their 30% ELAC allowance included in the \$218,811,559 estimated cost. By adding \$16,939,581 for design engineering, \$14,434,609 for construction administration, \$349,440 for administration, and \$831,000; it seems that ELAC is being “double-counted”. The TYJT 43% allowance for ELAC seems unwarranted for a project with a great deal of preliminary and design engineering completed. The 25% KWA allowance is believed to be sufficient.
- 5. Easements and land (other than LHPS) should total \$1,140,000, based on current options and specific needs for easements.

Other Considerations – Redundancy / Reliability (Slide 33)

1. Unfunded Mandates/ Future Regulations
 - a. The proposed KWA supply will deliver raw water; it is not anticipated to be affected by future changes to regulations. Regulations will impact the City of Flint with respect to treatment and/or distribution of finished water. The City will be subject to these requirements with any of the DWSD blending options, just as they will be responsible for them if supplied by KWA. Some compliance costs may actually be less with the higher quality Lake Huron water rather than Flint River water as the source.
2. State Goals
 - a. The TYJT presentation indicates that creation of a new raw water supply is contrary to the governor's goals as suggested. However, the development of a new raw water supply provides new opportunities. Communities in Sanilac, St. Clair, and Lapeer counties will have the option to join a regional water supply and replace their small local supplies where limited supplies and high concentrations of arsenic have been a concern. The new water supply also provides great economic development opportunities. The raw water supplied by KWA will make a new commodity, raw water, available to the region. A large, low-cost supply of raw water can be a valuable resource for industries and agribusinesses. The development of a new water supply will also create construction jobs through the short term period of building the new water supply and subsequently over a longer period as new businesses and industries are developed in the area.
 - b. The City of Flint and area communities will benefit as permanent jobs are created for operating and maintaining the local treatment facilities.
3. Redundancy
 - a. We agree that the KWA and DWSD options are similar with respect to redundancy. Both provide the primary water supply; customers are responsible for their backup supply.

Other Considerations – Cost Slide 34

1. TYJT indicates that the DWSD 8 mgd supply option is the least cost alternative.
 - a. The TYJT analysis does not include the cost of needed upgrades to the City's WTP or increased operating costs in their analysis. During summer months, water from the river will need to be softened before blending. More than half of the water supplied will be provided from the river. When the cost of upgrades to the WTP and the increased operating costs (for softening) are added to the TYJT analysis, the KWA option is less than the DWSD 8 mgd option.
2. For any of the DWSD "blending" options, upgrades will need to be made at the WTP to provide for continuous, reliable operation and compliance with new surface water treatment rules. Increased capital and operating costs for treating water from the river should be added to the TYJT costs for comparison with the other options.
3. Water from the river will require greater effort to treat than water from Lake Huron (more chemicals, power, and residuals). The TYJT analysis shows about the same O&M costs for the Flint WTP, regardless of water source. It seems that the WTP O&M costs for the KWA options should be reduced to reflect the savings from treating Lake Huron water.

4. The TYJT presentation noted that the KWA analysis did not include allowances for mechanical and process improvements within the planning period. The KWA will supply raw water. The facilities consist of pipe, pumps, and a tank. There are no treatment facilities which would be susceptible to future regulatory changes. The only improvements that seem likely would be the need to provide additional capacity. Capacity expansion is planned to be financed through capacity charges to new users.
5. The provision for redundant connections between the City's water system and the GCDC system was included in the most recent water supply agreement between the two, in 2011. Although not a KWA cost, the cost of the redundant connections should be considered with all options.
6. The \$2.3 million budgeted for land by KWA was intended to cover all land requirements. Since the October update, options have been obtained on all land to be purchased and the locations of easements needed has been finalized. Total land costs are now estimated to be about \$1.5 million.
7. The 2004 study included a 47% allowance for engineering, legal, administration, and contingencies (ELAC). The 2009 study reduced the allowance for ELAC to 37% because many of the details since the 2004 conceptual study had been better defined. For the October 2012 update, the allowance for ELAC was reduced to 25% because continued planning and preliminary engineering further addressed details from the earlier concepts.
 - a. The detailed design (plans and specifications) and permitting have been completed.
 - b. The transmission main route has been finalized. Meetings with road agencies have established requirements for construction and restoration within road rights-of-way. Environmental permitting is in process. The primary remaining unknown is pipe sizing, which is largely dependent on Flint's participation.

It is our experience that the 25% ELAC allowance is appropriate for a project of this magnitude at this stage in the planning / design stage. The 43% ELAC allowance recommended by TYJT is excessive for a project in the design phase.

8. Flint's WTP as a backup to the KWA will be less difficult to provide for than the current arrangement as a backup to DWSD. We believe there is potential for challenges with chemistry and treatment for the proposed DWSD blending options, too.
9. It doesn't seem that oversizing the KWA capacity is a good solution for the city's water loss problems, if that is what is being suggested.
10. Yes, it would be nice if the KWA system could be constructed to firmly determine its cost and time to complete before making a decision about water supply alternatives. However, a decision is needed regarding Flint's participation so that the sizing and design can be completed, before it can be built.

Project Costs - TYJT Slides 26 through 30

	KWA	TYJT
Intake and Crib		
Construction	\$22,076,850	\$22,076,850
ELAC	\$5,519,213	\$5,519,213
Property	\$2,300,000	\$2,300,000
Pumping Stations		
Construction	\$24,618,080	\$54,573,314
Land		\$75,000
ELAC	\$6,154,520	\$16,394,494
Transmission Mains		
Construction	\$166,202,316	\$167,419,530
ELAC	\$41,550,579	\$50,225,859
Easements		\$1,166,170
Engineering		
Design Engineering		\$16,939,581
Construction Management		\$14,434,609
Administration		\$349,440
Legal / Easements / Contracts		\$831,000
Power	\$4,000,000	\$4,000,000
Redundant Power		\$1,273,200
Total Construction	\$212,897,246	\$244,069,694
Total ELAC	\$53,224,312	\$104,694,196
Total Land / Property / Easements	\$2,300,000	\$3,541,170
Total Power	\$4,000,000	\$4,000,000
Total Redundant Power	\$0	\$1,273,200
Total	\$272,421,558	\$357,578,260
ELAC as % of Construction	25.0%	42.9%

Option	TYJT Total Cost	TYJT minus			TYJT plus Flint WTP	Adjusted Total Cost	Ranking
		TYJT minus additional costs of river treatment	TYJT minus additional costs of river treatment plus redundant Flint-GCDC connections	TYJT minus additional costs of river treatment plus redundant connections less KWA reserve			
1 Flint WTP Only	\$590,441,893					\$590,441,893	3
2 DWSD 8 MGD Max Day at Imlay	\$621,211,298				\$771,289,948	\$771,289,948	5
3 KWA 10/31/12 Update	\$649,775,166	\$534,615,996	\$554,555,960			\$554,555,960	1
4 DWSD 8 MGD Max Day at P&B	\$657,167,877				\$807,246,527	\$807,246,527	6
5 KWA-1	\$707,279,715	\$592,120,545	\$612,060,509		\$572,731,459	\$572,731,459	2
6 DWSD 12 MGD Max Day at Imlay	\$707,994,386				\$858,073,036	\$858,073,036	8
7 DWSD 12 MGD Max Day at P&B	\$742,168,081				\$892,246,731	\$892,246,731	9
8 KWA - 2	\$766,784,313	\$651,625,143	\$671,565,107	\$654,706,341		\$654,706,341	4
9 DWSD 18 MGD Max Day at P&B	\$791,202,885				\$812,337,848	\$812,337,848	7

Option for Water Supply	TYJT Projected 30 Year Total Cost	30 Year O&M Reduction for Treading Lake Huron Water	25 Year Bond Cost for Redundant Connections	Eliminate KWA Reserve	Use KWA 25 Year Capital Charge \$355,300 / MGD	25 Year Bond Cost for Flint WTP Upgrades	Adjusted 30 Year Total Cost	Rank (Least to Highest Cost)
1 Flint WTP Only	\$590,441,893		Included				\$590,441,893	3
2 DWSD 8 MGD Max Day at Imlay	\$621,211,298		Note 1			\$150,078,650	\$771,289,948	5
3 KWA 10/31/12 Update	\$649,775,166	-\$115,159,170	\$21,134,963				\$555,750,960	1
4 DWSD 8 MGD Max Day at P&B	\$657,167,877		Note 1			\$150,078,650	\$807,246,527	6
5 KWA-1	\$707,279,715	-\$115,159,170	\$21,134,963		-\$39,329,050		\$573,926,459	2
6 DWSD 12 MGD Max Day at Imlay	\$707,994,386		Note 1			\$150,078,650	\$858,073,036	8
7 DWSD 12 MGD Max Day at P&B	\$742,168,081		Note 1			\$150,078,650	\$892,246,731	9
8 KWA - 2	\$766,784,313	-\$115,159,170	\$21,134,963	-\$16,858,766			\$655,901,341	4
9 DWSD 18 MGD Max Day at P&B	\$791,202,885		\$21,134,963				\$812,337,848	7

Representative Genesee County Water and Wastewater Projects

Project	Description	All Engineering Fees	Engineer's Estimate	Bid Price	Final Construction Cost	Engineering & Contingency %
Fox Pump Station	30 mgd wastewater pump station & forcemain	\$1,829,259		\$12,394,273	\$12,074,223	
		15.2%				
NEES Project	60" Relief Sewer - included tunneled sections		\$54,707,212	\$55,985,672	\$69,999,429	
					28.0%	
North Water Loop	23 miles 36" and 48" transmission main, pump station, & 20 MG Reservoir	\$4,102,610	\$29,200,000	\$23,570,110	\$25,798,529	2.4%
		15.9%			-11.6%	
Henderson Road PS	32 MGD Water Pump Station & Two-10 MG Tanks		\$12,046,368	\$12,846,077	\$13,517,582	
					12.2%	
Pump Station #1	80 MGD wastewater pump station	\$1,735,063	\$10,269,000	\$8,225,400	\$8,292,277	-2.4%
		20.9%			-19.2%	

Notes:

Engineering Fees include all planning, soils investigation, design, construction inspection & testing, and construction management costs

Engineering Fees % is based on final construction cost

Engineering and Contingency % is based on engineering fees + amount final construction cost exceeds estimate

Final Construction Cost % is based on difference between final construction cost and engineer's estimate

NEES Project Contractor went out of business during project - increasing cost to finish project

Projects constructed within last ten years

EM SUBMISSION NO.: 2013EM041

PRESENTED: 3-28-13

ADOPTED: 3-29-13

BY THE EMERGENCY MANAGER:

**RESOLUTION TO PURCHASE CAPACITY FROM
KAREGNONDI WATER AUTHORITY**

The Karegnondi Water Authority (KWA) is a governmental consortium of cities and counties in southeastern Michigan that was created to build a water pipeline that will provide water from Lake Huron to interested communities in Sanilac, Lapeer, and Genesee counties. The incorporating bodies that created the KWA are Sanilac County, Lapeer County, Genesee County, the City of Flint, and the City of Lapeer.

The City of Flint is currently in a year to year contract with the City of Detroit for the purchase of water. A study was conducted that projected that staying with Detroit will cost the region \$2.1 billion over the next 25 years. In contrast, if the region builds its own pipeline, the projected costs are \$1.9 billion over the same period. After the initial 25 year period, the projected costs would be less then 25% of the projected water costs from Detroit.

In order to build the pipeline, the KWA needs commitment from its members regarding the capacity that each member will purchase in the pipeline. The KWA is allowed to withdraw 85 million gallons of water per day. Capacity is available to members in increments of 1 million gallons per day known as units. For each unit of 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 then \$32,300.00 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 \$355,300.00 per unit per year until such time that 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.

The purchase of capacity along with the payment of other costs necessary to operate the pipeline gives the member a right to water for sale to its customers. The buyer has a right to resell capacity and water rights. Each party entering into a capacity contract shall also be entitled to appoint additional board members equal to the party's percentage share of the total capacity under contract.

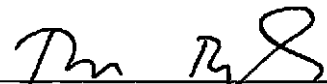
It is in the long term best interests of the City of Flint to enter into a contract with the KWA to purchase up to eighteen (18) units of capacity.

IT IS RESOLVED that City officials are authorized to enter into a contract with KWA to purchase up to eighteen (18) units of capacity.

IT IS FURTHER RESOLVED that the City Administrator is authorized to provide KWA information needed to administer the contract and, with approval of the Chief Legal Officer, to make minor (non-material) modifications to the contract.

APPROVED AS TO FORM:

APPROVED AS TO FINANCE:



Peter M. Bade, City Attorney

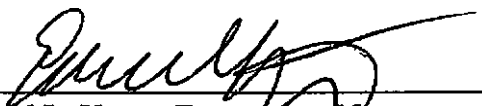


For Gerald Ambrose, Finance Director

EM DISPOSITION:

ENACT ✓ FAIL _____

DATED 3-29-13



Edward L. Kurtz, Emergency Manager

Headen, Frederick (Treasury)

From: Dillon, Andy (Treasury)
Sent: Thursday, March 28, 2013 1:36 PM
To: Stibitz, Brom (Treasury); Wyant, Dan (DEQ); Saxton, Thomas (Treasury); Rustem, William (GOV); Muchmore, Dennis (GOV); Roberts, John (DTMB)
Subject: Fwd: DWSD & Flint
Attachments: [Untitled].pdf

FYI

Sent from my iPad

Begin forwarded message:

From: "Fausone, Jim" <JFausone@fb-firm.com>
To: "Dillon, Andy (Treasury)" <DillonA2@michigan.gov>
Subject: DWSD & Flint

Andy - here is the information you requested. Let me know if you need more information. As we move into DWSD 2.0 without federal court supervision, I can hear the chanting "free at last...free at last" .Seriously this should make it easier to work things out with Flint and DWSD 2.0 if they want to work it out or get told to do it. Jim

James G. Fausone

[cid:image002.jpg@01CE2BAB.E4A45520]

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.

FAUSONE BOHN, LLP

March 28, 2013

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

Dear Treasurer Dillon,

We understand that you are tasked with evaluating the merit for the City of Flint to cede from participation in the DWSD water system. For the following reasons, we represent to you that Flint's continuance in the present system is not only what is best for the City of Flint and Genesee County, but for the entire DWSD customer base.

Background

Water is provided by DWSD to the City of Flint via a 72" water main that runs west from a booster pumping station at Imlay City. Water purchased by Flint is then sold to its customers in the City of Flint and to Genesee County. The City of Flint and Genesee County are evaluating the construction of a new raw water supply system as members of the Karegondi Water Authority (KWA). The decision point is whether the City of Flint is best served by KWA or DWSD. Genesee County is not bound by Flint's decision. For this discussion, however, the emphasis is on Flint which encompasses its customer Genesee County.

The items presented below are based on a brief staff analysis of water quality, system capacity, capital, and financial considerations of the loss of Flint as a DWSD customer.

Water Quality

If the 72" water main is idled, there will be water quality issues for remaining customers on that line.

- ✓ The 72" main to feed Lapeer, Mayfield and Imlay City will need to be modified based on their comparatively low consumption at 12% of the flow. That pipeline will be too large to support the reduced demand which presents water quality issues.
- ✓ System users along the water transmission line in Lapeer, Mayfield, and Imlay City may experience water quality problems due to reduced disinfection levels associated with stagnant water. Solutions include abandoning the 72" main and replacing it with a smaller diameter pipe or adding facilities to re-chlorinate and disinfect the water a second time. The latter option is problematic because re-chlorination results in higher levels of disinfection byproducts.
- ✓ The Lake Huron Plant ("Plant") will require modifications to address water quality issues for Lapeer, Mayfield, and Imlay City. That cost is unknown.
- ✓ The Imlay Booster Station ("Station") will also need modification to feed Lapeer, Mayfield, and Imlay City. An estimated cost is \$1 million.

- ✓ The true water quality impact would need to be confirmed through a study or the master planning effort. These concerns and alternatives are based on a brief analysis.

Excess Capacity of a Public Utility

- ✓ If DWSD is not supplying Flint with water, then there will be three high capacity pumps at the Station which will be significantly underutilized.
- ✓ DWSD currently has treatment capacity of 1.7 BGD, which is easily expandable to close to 2.0 BGD with infrastructure already in place at the Plant. Meanwhile current max day use of the DWSD System is only about 1 BGD.
- ✓ Although more than one DWSD facility is able to provide water to Flint, the reduction in use as represented at the nearest water treatment plant would result in excess capacity of up to 70% at the Plant.
- ✓ The water line servicing Flint is approximately 25 miles long (extending from Imlay City to Flint). That line would have no use if Flint joins KWA.

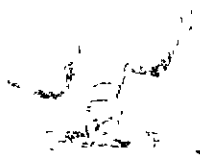
Impairment of Ratepayer Funded Assets

- ✓ Twenty-five miles of water line would likely be abandoned.
- ✓ Three pumps at the Station would also be idled.
- ✓ The net book value of the water line is at least \$5M.
- ✓ In addition, improvements were completed at the Station in 2012 which serves Flint and other customers. The construction cost was \$44 million.
- ✓ DWSD has in good faith preserved the terms and conditions of the 1965 service agreement with Flint which expired in 2000. Beginning in the 2000s DWSD and its wholesale water customers collaborated on a new model contract. Since that time, DWSD and 73 of its wholesale water customers have entered into new model contracts. The model contract provides for DWSD to recoup the costs of customer specific constructed facilities in the event that the contract is terminated.

Financial Implications to Other DWSD Ratepayers

The estimated immediate impact of the loss of Flint is an increase in rates to address a net revenue shortfall of approximately \$22 million, or 6 percent of total DWSD water revenue. The long-term impact would require further analysis to evaluate the capital investment and increases in cost to address the operational concerns noted earlier. The immediate impact estimate is based on the FY 2013-14 DWSD financial plan as explained below.

- ✓ Flint volume (including Genesee County) represents approximately 7.4% of the suburban wholesale water sales, and 5.9% of the total water sales (including Detroit retail accounts) based on approximately 1.2 million Mcf of water sales.
- ✓ The allocated revenue requirement totals \$24.23 million, which is approximately 8.3% of the suburban wholesale revenue requirement, and 6.6% of the total revenue requirement (including Detroit retail).

- 
-
- ✓ At most, variable cost savings of not providing service to Flint is 7 to 10 percent, or roughly \$2 million.
 - ✓ The City of Flint's and Genesee County's revenue split is approximately equal. Loss of Genesee customers to KWA while maintaining the City of Flint as a customer would reduce the rate and dollar amounts above by half.
 - ✓ DWSD ratepayers will incur the cost of operational changes at the Plant and the Station to address the water quality issues noted above, although charges to Flint during the KWA construction period would be evaluated.
 - ✓ These amounts exclude the new capital investment for transmission piping for customers in the areas served by the Station and potentially at the Plant. Additional costs would be incurred to resize the water main to assure compliance with water quality standards.

Financial Risk

The ability to manage the financial risk for the City of Flint is especially precarious given its financial condition. As recently as yesterday, the frailty of the City's fiscal capacity is described by the present emergency financial manager in the Bloomberg News. The bottom line is that KWA's optimistic project with a cost of \$272M (\$82M attributable to Flint KWA's proposal) poses an undue financial risk to the public given that a system with reliable, excess capacity is readily available through DWSD. That risk is even greater based on the Tucker, Young, Jackson, Tull report that the KWA costs are underestimated by \$100 million.

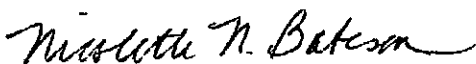
DWSD is undergoing monumental efforts to confront long-term operational and capital costs. The recent water rate adjustment was the lowest in decades, staff at all levels is actively involved in an organizational optimization process facilitated by EMA, there is an increased emphasis in long-term financial planning, and the transparency of these efforts is evident through more than a dozen customer-centric committees. Proactively addressing our borrowing costs and financial outlook is paramount to our mission. We understand the challenges that confront a public utility.

The bottom line is that Flint's financial flexibility will be impaired for generations by abandoning the DWSD system to participate in KWA. Duplicating the available capacity will expose them to a very large fixed cost obligation. As water utilities continue to experience reduced demand, the fixed costs component for capital, operating, and debt decrease the cost sharing base. For this reason, DWSD provides its customers the ability to adjust demand to control their costs.

Going Forward

DWSD is committed to the viability of Flint's water needs. Going forward there may be ways that DWSD can provide technical assistance and collaboration to the City of Flint. This includes methodologies to address its high water loss ratio, shut-off program, and capital planning needs. DWSD has fostered a strong customer community through its outreach program. We encourage Flint to become engaged with these resources. Finally, DWSD has demonstrated an earnest interest by offering service options specifically tailored for Flint's needs through a flexible contract approach. We look forward to reaching a long-term, viable solution to provide Flint a safe, reliable, cost-effective water system.

Sincerely,



Nicolette N. Bateson, CPA
Chief Financial Officer
Detroit Water & Sewerage Department

Lamphier, Wendy (Treasury)

From: Dillon, Andy (Treasury)
Sent: Friday, March 29, 2013 9:43 AM
To: Muchmore, Dennis (GOV)
Subject: Re: KWA

Follow Up Flag: Follow up
Flag Status: Flagged

Do want to discuss before noon?

Sent from my iPad

On Mar 29, 2013, at 9:39 AM, "Muchmore, Dennis (GOV)" <muchmored@michigan.gov> wrote:

> Wow, what happened? I thought we were going the other way.

>

> On Mar 28, 2013, at 6:17 PM, "Dillon, Andy (Treasury)" <DillonA2@michigan.gov> wrote:

>

>> Governor, based upon today's presentations to the DEQ by the City of Flint, KWA and the engineering firm (Tucker Young) Treasury hired to vet the options as to whether Flint should stay with DWSD or join KWA, I am recommending we support the City of Flint's decision to join KWA. The City's EM, Mayor and City Council all support this decision. Dan Wyant likewise concurs and will confirm via email.

>>

>> We have a briefing call tomorrow morning with Dennis and John to provide more background as to why we reached this conclusion. Flint's EM wants to sign the resolution asap as the project is moving forward with or without them and their participation affects the design and the construction season is upon them.

>>

>> I assume DWSD will make a last ditch effort to save the customer but I will not advise them of my recommendation until we brief Dennis and John.

>>

>> Regards,

>>

>> Andy

>>

>>

>> Sent from my iPad

Stanton, Terry A. (Treasury)

From: Stanton, Terry A. (Treasury)
Sent: Friday, March 29, 2013 1:14 PM
To: Stibitz, Brom (Treasury); Dillon, Andy (Treasury)
Cc: Hichez, Amy (Treasury)
Subject: FW: Flint Water System Update

fyi

From: Buhs, Caleb (GOV)
Sent: Friday, March 29, 2013 1:12 PM
To: Wurfel, Brad (DEQ); Stanton, Terry A. (Treasury)
Cc: Wurfel, Sara (GOV); Silfven, Ken (GOV); Weiss, Kurt (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

Koryzno, Edward (Treasury)

From: Stibitz, Brom (Treasury)
Sent: Friday, March 29, 2013 3:21 PM
To: Fraser, Roger (Treasury); Koryzno, Edward (Treasury)
Subject: FW: Ed Kurtz Letter
Attachments: Ed Kurtz ltr.pdf

FYI

From: Rodriguez, Faith (Treasury)
Sent: Friday, March 29, 2013 3:15 PM
To: Stibitz, Brom (Treasury); Dillon, Andy (Treasury)
Cc: Cousineau, Sara (Treasury); Hichez, Amy (Treasury)
Subject: Ed Kurtz Letter

This was dropped off this afternoon.

Thanks,

Faith Rodriguez

General Office Assistant

Executive Office - Department of Treasury

(517) [REDACTED] - direct

(517) 373-3223 - main



Edward J. Kurtz
Emergency Financial Manager

March 29, 2013

Dayne Walling
Mayor

RECEIVED

MAR 29 2013

OFFICE OF THE STATE TREASURER

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

Dear Treasurer Dillon:

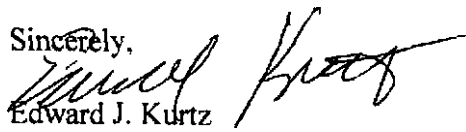
As per Section 12 (3) "Except as otherwise provided in this subsection, any contract involving a cumulative value of \$50,000.00 or more is subject to competitive bidding by an emergency manager. However, if a potential contract involves a cumulative value of \$50,000.00 or more, the emergency manager 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

Stanton, Terry A. (Treasury)

From: Buhs, Caleb (GOV)
Sent: Friday, March 29, 2013 5:05 PM
To: Wurfel, Sara (GOV); Wurfel, Brad (DEQ); Stanton, Terry A. (Treasury); Stibitz, Brom (Treasury)
Cc: Weiss, Kurt (GOV); Silfven, Ken (GOV)
Subject: Flint Water TPs

Here is the start of some topline messages for Flint ... I don't think that we need to get too deep into the specifics on the deal, we can leave that to Ed and others to discuss. Please let me know of any suggestions and additions that you have. I plan to also put together some background information that we can have on hand when discussing the topic. As I mentioned before, it likely won't be until the week of Apr 8th that we discuss this publicly.

- This is a decision made by the City of Flint and is a local decision that affects their local water supply.
- Flint Emergency Manager Ed Kurtz has heavily involved the city's elected officials throughout the decision-making process and all agree that this is best for the citizens and businesses in Flint.
- This will save Flint at least \$100 million over the next 25 years, and possibly as much as \$300 million.
- The Departments of Treasury and Environmental Quality have approved the financial and environmental soundness of KWA's plan.
- Flint accounts for only 2% of DWSD's capacity.

Thanks,
Caleb

Lamphier, Wendy (Treasury)

From: Dillon, Andy (Treasury)
Sent: Friday, March 29, 2013 6:45 PM
To: Muchmore, Dennis (GOV)
Cc: Stibitz, Brom (Treasury); Wyant, Dan (DEQ)
Subject: Re: Flint

Follow Up Flag: Follow up
Flag Status: Flagged

We grilled them on that quite a bit. There is a maximum guaranteed price on key construction items and the path allegedly presents limited risk- rural, thru areas w no gas or water lines, existing easements etc. I was the skeptic but view of my staff and deq was universal in favor of kwa. I was won over as well. I can't make a legitimate case that financially this is worse for Flint unless today's threat from Shank (DWSD will bill Flint for past capex) is real. We are sorting thru that.

I see lots of political downside as well. Community is invested in this.

Sent from my iPhone

On Mar 29, 2013, at 3:10 PM, "Muchmore, Dennis (GOV)" <muchmored@michigan.gov> wrote:

> How does Kurtz propose to protect them from cost overruns? Did they get a low ball price and how do we keep it from ballooning? Finally, what does that do to the sale value of DWSD?

>

> Sent from my iPhone