Headen, Frederick (Treasury)

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

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

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

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

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

CITY OF FLINT
OFFICE OF EMERGENCY MANAGER
EDWARD J. KURTZ

ELECTRONIC LETTER

April 26, 2013

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

RE: DWSD Offer Evaluation

Dear Mr. Orr:

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

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