Pleyte, Beth (Treasury)

From:	Baird, Richard (GOV)
Sent:	Wednesday, February 11, 2015 2:44 PM
To:	Saxton, Thomas (Treasury); Workman, Wayne (TREASURY)
Subject:	Fwd: Re: Flint - Random Thought DWSD

Sent from my Verizon Wireless 4G LTE DROID
---------- Forwarded message ----------
From: "Muchmore, Dennis (GOV)" <muchmored@michigan.gov>
Date: Feb 10, 2015 9:15 AM
Subject: Re: Flint - Random Thought DWSD
To: "Baird, Richard (GOV)" <bairdr@michigan.gov>
Cc:

What is she talking about? I'm getting so I understand Bob, but Sue talks in circles...

On Feb 5, 2015, at 9:29 AM, Baird, Richard (GOV) <bairdr@michigan.gov> wrote:

> *Sent from my Verizon Wireless 4G LTE DROI*
> *---------- Forwarded message ----------*
> *From: "**Daddow**, Robert" <daddowr@oakgov.com>*
> *Date: Feb 5, 2015 8:14 AM*
> *Subject: RE: Flint - Random Thought DWSD*
> *To: "Baird, Richard (GOV)" <bairdr@michigan.gov>*
> *Cc:*
>
> *A resend in response to the separate email you sent out last night on the DWSD response. Given that they have already reduced the annual cost from the $12.5M range to $10.5M range – even as the DWSD Board of Water Commissioners is about to raise the rates substantially for the coming fiscal year – the offer to Flint was reduced. Frankly, this alone would excite the locals. So far I have been requested to speak at no less than five local units' boards / councils and / or have working group sessions / meetings with City officials on DWSD. It is right now a very sensitive subject even as it has not gotten the media attention it will in the coming weeks. With the exception of a presentation I accepted no less than 4 months ago, I have turned them down or made arrangements to have DWSD – the folks actually in charge right now – to present. In the coming weeks, this is going to become the issue du jour.*
>
> *And, even as there were two courses of action on the use of a base (FY-2015 operating budget know to have flaws or the tender offer projections representing a forecast revised for matters not addressed formally by the BOWC through budget amendments) remains an open issue. A recently discovered timing issue in the contracts (namely, that the 'detailed rates' had to be provided to the locals at least 30 days advance of approval – and why they didn't know this in a contract they have been working on for eons is beyond me) may have resulted in the DWSD management determining the base outside even a public discussion of the BOWC or the Authority Board. The base issue is the cause of the range of the water rates being either 9% or 14% - and has a significant impact on the feasibility as described in the MOU. The more and more I learn, the less and less I want to know.*

From: *Sue McCormick [mailto:mccormick@dwsd.org]*
Sent: *Friday, January 30, 2015 6:25 PM*
To: *Robert Daddow*
Cc: *poissong@oakgov.com; Richard 'Baird (GOV)'; Nicolette Bateson*
Subject: *Re: Flint - Random Thought DWSD*

The rate we offerred Flint is a bit different than what we calculate for our contract customers. We adjusted the rate of return to reflect the short term, terminated contract status. In other words, the outstanding investment, that we made to serve Flint somewhat recently, will not be recovered without a long term contract. This differential rate of return is now being utilized by Genesee County who was served through the Flint contract, so add to the the additional complications. If we want to get to a lower rate for emergency 'short term' service, we can evaluate our options - but we would have to differentiate it somehow from Genesee or have additional revenue loss or legal exposure there and without a questions there will be huge political issues with our other customers.

Sue F. McCormick, Director
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From: *"Robert Daddow" <daddowr@oakgov.com>*
To: *"Sue McCormick" <mccormick@dwsd.org>, "Nicolette Bateson" <bateson@dwsd.org>*
Cc: *poissong@oakgov.com, "Richard 'Baird (GOV)'" <bairdr@michigan.gov>*
Sent: *Friday, January 30, 2015 5:40:16 PM*
Subject: *Flint - Random Thought*

Sue / Nikki – today I chatted with Rich Baird on the Flint matter given that they continue to have on-going water quality problems. Numerous articles are being written on this matter and I suspect it is getting a bit tense in Flint over this critical issue. They are balking at the cost of the DWSD water – which I understand may be a bit more expensive for them simply because of the distance and elevation – completely understandable. The attached letters indicate $847K per month at a standard commodity rate (which I now am beginning to realize is one of the volume flow issues giving rise to the situation we are in with all communities; but we'll leave that alone for the moment).

The attached letter suggest that they can re-connect to the DWSD using the same rates offered to other communities through June 30, 2015. This seems fair and would not exacerbate the already sensitive issue of the sizable rate increases the suburban and retail customers are now facing. Notwithstanding that matter, Mr. Baird inquired of some means of lowering the rate to encourage Flint to return to the DWSD fold on a marginal costing approach that covers some portion of the fixed costs but may be slightly lower than the amount offered in the letter.

The optics of this matter to the suburban customers now facing a 9% to 14% rate increases are troublesome (sans any provision for the balance sheet issues and with little or no provision for the Detroit retail customers likely collection issues arising from these rate increases – which is going to make this summer even more troublesome when the shut offs start circa March / April). How can a reduction occur in the Flint rate covering fixed costs such that additional volumes actually would serve to reduce what would otherwise be the present proposals on the table? Theoretically, it can be justified but it is steeped in cost accounting but if we can't seem to differentiate 'rates' versus 'revenue