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TO: COUNCIL MEMBERS

FROM: David Whitaker, Director
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DATE: November 4, 2021

RE: Report on Recent Financial Issues of DWSD and GLWA

This report reviews the current fiscal operations of the Detroit Water and Sewerage Department (DWSD), and its financial relationship with Great Lakes Water Authority (GLWA).

We thank the DWSD Director, Gary Brown and his staff, the GLWA Interim CEO, Suzanne Coffey and her staff, for their assistance as we prepared this report. We must especially commend the DWSD Director, Gary Brown and his staff for some of the excellent work that they have accomplished over the past years in several areas. They took a system with billions of dollars in debt, survived through a difficult bankruptcy, a bifurcation with GLWA, and continued providing clean water and safe disposal of sewage.

One of our long-range objectives in providing this report is to make every effort to ensure that our children, grandchildren and future generations have access to safe, clean and affordable water, and safe disposal of waste water including drainage.

This report will provide information on:

- **Amounts owed by DWSD to GLWA for Shortfalls**
- **Customer Past Due Balances Transferred to Tax Rolls and Amounts Collected**
- **Federal and State Grants received by DWSD**

- **Review of Long-Standing Policy of Splitting CSO Costs Between Detroit and Member Partners**
- **Fiscal Year 2022 Budget Amendment**
- **Recent Flooding Events**
- **SEMCOG Recent Water Infrastructure Seminars**
- **DWSD Water and Sewer Upgrades**

Amounts owed by DWSD to GLWA for Shortfalls:

In the agreement between DWSD and GLWA, there is a Master Bond Ordinance (MBO) that states that GLWA would assume all of the outstanding debt related to the regional and DWSD's local water supply and sewage disposal systems.

Both GLWA and DWSD have a Water Master Bond Ordinance and a Sewer Master Bond Ordinance. The Ordinances provide additional security for payment of the bonds. All revenues of the systems (GLWA and DWSD) were pledged and are deposited into Revenue Receipts Funds, which are held by a trustee, U.S. Bank National Association. GLWA and DWSD both have Receipt Funds for Water and Sewer.

Each month, the budgeted amount for the wholesale charges for water and sewage DWSD is purchasing from GLWA is deducted from the Revenue Receipts Fund, then transfers of cash are made according to the MBO. These transfers include Operations & Maintenance (O&M) which is based on 1/12th of the current year's budget, various bond and pension funds, the Water Residential Assistance Program (WRAP), Improvement & Extension Fund (I&E), and others.

For DWSD, if receipts are less than disbursements, GLWA must make up the difference. Since FY 2017, water's receipts were more than required disbursements. However, sewer's receipts were less than disbursements in FY 2016, FY 2017, and FY 2018.

DWSD has one year to pay-back, or cover an advance made in a specific year. We realize that this may be confusing, but the stipulations of the MOU state that any shortfall not cured by the end of the fiscal year following the year in which they arise shall be repaid in full, in installments over a period not to exceed three fiscal years. The installment payments will include a surcharge based on the three-year U.S. Treasury note plus 150 basis points (i.e., plus 1.5%).

At June 30, 2021, DWSD has paid approximately \$2.9 million in interest for fiscal years 2017 and 2018, the only two years that had balances that were not repaid by the end of the fiscal year following the year in which they arose. DWSD also paid approximately \$42 million of principal that was advanced by GLWA for FY 2017 and FY 2018. DWSD only owes \$8.3 million for FY 2018 at June 30, 2021.

DWSD management has done an outstanding job in eliminating shortfalls!

The issue of DWSD not collecting enough cash to cover disbursements is discussed with executive leadership at quarterly Reconciliation Committee meetings and at regularly scheduled internal DWSD and GLWA management meetings. DWSD worked to address

this shortfall resulting largely from the unforeseen COVID-19 pandemic using tax liens on commercial and industrial past due balances and the distribution of CARES Act funding from the State of Michigan.

City Council needs to closely observe the financial performance of the Water and Sewage Disposal Funds every year after the bifurcation to ensure revenues cover expenses, cash collections are equal to, or more than, cash disbursements, and essential services are provided.

Customer Past Due Balances Transferred to Tax Rolls and Amounts Collected:

DWSD has a very large percentage of customer billings not being paid. Recently, approximately 67% (\$166.0 million of \$248.1 million at June 30, 2021) of accounts receivable is owed over 180 days. However, DWSD has set up an allowance of \$200.9 million, reducing the net receivable down to \$47.1 million.

Drainage fees are charged based on impervious acreage. A large part of this represent vacant parcels, parking lots and other properties with no need for water service. Other properties with large impervious acreage include parking lots of churches, shopping plazas, schools, etc. Many of these non-commercial and non-industrial accounts have been struggling to pay their bills.

The collections team and the legal team at DWSD have been aggressively working to clear this up. One customer, Michigan Department of Transportation (MDOT) is making partial payments on its billing statements, and DWSD and MDOT continue to exchange confidential letters as part of settlement negotiations.

DWSD has begun using tax liens on commercial and industrial past due balances, and transferred \$15 million to the 2021 tax roll. The City collected approximately \$5 million and the remainder was advanced from Wayne County.

Federal and State Grants received by DWSD:

DWSD has received Federal and State Grants in the past, and with the pandemic situation, they have received federal assistance dollars from the Coronavirus Aid, Relief, and Economic Security Act (CARES) during the summer and fall of 2020 as well as Senate Bill 690(SB 690) in November and December 2020. DWSD's customers received \$600,000 from CARES act and \$12.5 million from SB 690. All of the CARES Act money was deposited to the GLWA Trust account and credited to customer's accounts.

DWSD received a grant of about \$100,000 from Michigan Department of Environment, Great Lakes, and Energy (EGLE) to mitigate the impact of the Restart Program, and is anticipating \$18 million through the Low Income Household Water Assistance Program.

Additionally, DWSD expects to receive funds directly from funding sources and funds from the State of Michigan from American Rescue Plan Act (ARPA). Exact amounts are not known at this time.

DWSD has received additional grants for their work with the lead and copper rule:

Funding for this is from a \$50,000 grant from the Rockefeller Foundation and a \$50,000 grant from the Kresge Foundation to support BlueConduit's analysis and predictive modeling, and a \$154,000 grant from EGLE.

DWSD is partnering with Ann Arbor-based technology company BlueConduit to determine service line inventory and meet state-required reporting regulations for January 2025 under the Michigan Lead and Copper Rule.

DWSD will only have to excavate 384 stop boxes, instead of more than 300,000. The stop box is the turn-on/off valve outside that attaches to the service line which brings treated drinking water from Detroit's water system to the home or business. The data from these 384 excavations that visually verifies the service line material along with the address will be inputted into a predictive modeling to map the probable locations of lead service lines.

The project will save an estimated \$165 million – the projected cost of excavating EVERY stop box in the City.

The model will also inform future planning for the DWSD Capital Improvement Program.

Review of Long-Standing Policy of Splitting CSO Costs Between Detroit and Member Partners:

GLWA and DWSD initiated a waste water group to review the long-standing method of splitting CSO (Combined Sewer Overflow) costs with Detroit charged 83% and the other member partners being charged 17%.

This group began meeting a couple of years ago to try to come up with a more equitable way of splitting the cost of the CSOs, or the regional wet weather facilities. Their hope was that a new method could be incorporated into FY 2020 or FY 2021 rates. The 83% - 17% split came about when DWSD was under the oversight of a judge, and the judge stated that the City of Detroit would pay 83%, and the other member partners would pay 17%.

They explored considerations of peak flows as a replacement of "83/17" for CSO and conveyance costs, as suggested by Raftelis, a national consulting firm.

It was determined that adequate measures of peak flow were not available at that time, but they acknowledged that existing 83/17 contains an element of peak flow.

It was acknowledged that the 83/17% is set forth in legal agreements and contracts and changing it may be logistically challenging.

It was also stated that this percentage split has been negotiated and memorialized in legal documents.

It was discussed that even if a new percentage split would come about, it would be difficult to implement immediately, as member partners would need several years notice to incorporate newer costs into their rate structure, so we are still with the cost structure that has been in place for years.

The member partners have no interest in changing the 83/17% split, and DWSD remains open to finding innovative ways to allocated costs for capital projects especially when repurposing assets for the benefit of the region that were initially purchased with the City's 83% share of funding.

Fiscal Year 2022 Budget Amendment:

In January 2021, the Board of Water Commissioners approved a 2% increase for Water and a 0% increase for the Sewage system for FY 2022. These increases were effective July 1, 2021.

While the above 2% and 0% increases are noteworthy, the drainage fee per impervious acre was increased 8.1%, from \$626 per impervious acre to \$677. Approximately 29% of non-residential sewage accounts are drainage only accounts. These represent vacant parcels, parking lots and other properties with no need for water service. Other properties with large impervious acreage include parking lots of churches, shopping plazas, schools, etc.

In August 2021, DWSD management updated lower volume forecasts based on trends experienced in FY 2020 and FY 2021. These lower trends resulted in revenues and expenditures for water being \$6.0 million (4.9%) less, and revenues and expenditures for sewer being \$5.9 million (1.6%) less.

These lower volume forecasts reflect only decreasing total revenues and expenditures, and do not change the percentages increased July 1, 2021 for the retail customers of DWSD.

Recent Flooding Events:

A string of bad weather has brought rain, flooding, tornadoes and power outages this summer. Rainstorms June 25-26 dumped as much as 6 inches of rain in Metro Detroit over a five-hour span. Thousands of residents in Detroit, Dearborn and Dearborn Height as well as sections of the Grosse Pointe communities experienced basement backups, and some roadways flooded.

President Joe Biden granted Governor Whitmer's request for a major disaster declaration for the state. Federal Emergency Management Agency (FEMA) disaster assistance teams have made door-to-door visits in several cities to register affected residents for potential aid.

On July 7, a strong line of thunderstorms with high winds struck parts of Oakland Macomb counties. Some areas saw 60 mph wind gusts; at one point, more than 100,000 people across Michigan lost power.

Rainfall in mid-July also flooded several areas in the region. Detroit Metro Airport recorded 2.20 inches of rainfall on July 16, breaking the daily precipitation record.

The next weekend, July 24-25, brought tornadoes in White Lake, Armada and Armada Township. Port Austin was also struck with a twister that weekend as well as in June.

All of this flooding has caused great problems in Detroit, with FEMA being involved, and GLWA calling for an investigation into power shortages at two pumping stations, the following are the most recent DWSD statements regarding this flooding:

- DWSD's statements have been reported in numerous media outlets, at City Council meetings (most recently the September 14, 2021 meeting), and Board of Water Commissioners meetings. We have also attended numerous community meetings to answer citizens' questions. The flooding of June 25 and 26, 2021 was the result of historic rainfalls that exceeded system capacity, pump station failures at two facilities operated by the Great Lakes Water Authority and/or potentially clogged or collapsed local and regional sewer lines.
- DWSD has not set up a reserve in case they are faced to payout on claims, as the amount is undetermined at this time. We have begun the process of forwarding all claims to a third-party entity, Mackinaw Administrators, who will load all claims into a database and clean the data for duplicate claims. Once we know how many claims have been made, we will compare the locations with the results of our field investigations and the independent investigation for the Great Lakes Water Authority Board to determine if/where there are areas of the City for which DWSD may be liable for damage. At that point, we will set a reserve for paying out claims.
- GLWA is responsible for any and all repairs/replacement at the pump stations pursuant to the Lease and Water & Sewer Services Agreement.
- The long-term solution is separating stormwaters from the sanitary sewers.

This is a very expensive task. Some people estimate it would cost \$17 billion in the State of Michigan, \$8 billion alone in the City of Detroit.

- A short-term fix is to have back-flow preventers installed, which basically has a door that will let water out, but shuts, so if there is flooding from the City system, it doesn't come into your system. These valves have been required for a while under code for newer homes with basements, but many older homes do not have them.
- DWSD and the Mayor are looking into a program to help citizens with older homes to get them installed.
- DWSD has provided residents with cleaning supplies.
- DWSD encourages customers who experienced flooding to apply with FEMA and follow the appeal process if they were denied assistance, and if denied, to reapply. FEMA may not cover all expenses incurred from the flooding, but may assist with a new furnace if required.

As recently as October 5, 2021, the newly appointed Interim CEO of GLWA, stated that she believes it will take anywhere from \$5 billion to \$20 billion to shore up the regional infrastructure enough to prevent heavy storms from flooding basements in metro Detroit.

Other recent remarks by GLWA are posted on the new [2021 Flooding Events webpage](#) they have created on www.glwater.org. Scroll down to REPORTS/PRESENTATIONS. The page is a one-stop-shop for all information related to the rain events by GLWA.

SEMCOG Water Infrastructure Seminars:

On August 16, 2021, Southeast Michigan Council of Governments (SEMCOG) hosted a Water Infrastructure seminar with the following topics:

- \$3.4 billion annual investment needed for water infrastructure in the region;
- Regional initiatives to support strategic investments;
- Future rainfall estimates and considerations for infrastructure;
- Panel discussion about immediate and future strategies.
- Stormwater utility (SB 593) legislation and how it could benefit communities.

The first bullet states that \$3.4 billion annually is needed for regional infrastructure in the future. SEMCOG will be lobbying for federal dollars, but DWSD still needs perhaps hundreds of millions, or perhaps billions of dollars, for infrastructure.

SEMCOG is hosting another Seminar on these topics later this month.

DWSD Water and Sewer Upgrades:

DWSD Infrastructure Needs include:

- Lead service line replacement;
- Rebuilding very old water and sewer lines;
- Cleaning sewer lines throughout the City;
- Installation of back-flow preventers.

DWSD statements regarding infrastructure needs in the City:

- We are working aggressively to identify any and all grants, loans, and funds through the state and federal governments to help pay for these needed improvements. We confer with the City's federal lobbyist on a weekly basis to stay abreast of federal legislation drafted and/or before congress that will provide much needed infrastructure funds for all of the needs identified above.
- Infrastructure needs are reviewed on a regular basis, and DWSD is committed to working with the City and other stakeholders to prioritize the use of federal and state funding. Our goal at all times to is to keep our rates affordable and increases as low as possible.
- DWSD invested \$200 million in the last two years in water and sewer upgrades after announcing the capital improvement program in June 2019. DWSD has finalized the largest number of miles for water main replacement and sewer lining to date as well as the largest, single project in DWSD's history that will cost an estimated \$38 million. Not only is DWSD

continuing to recruit field services technicians and engineers, it will also share initiatives to engage Detroit residents and black-owned contractors in the capital projects.

- The city of Detroit has aging water and sewer infrastructure. Rather than continue the decades-long method of solely using water main breaks and basement backups to determine where and when to replace or line water main and sewer pipes, respectively, DWSD is assessing the condition of the pipes, valves and other assets using cameras and other equipment to gather data. These condition assessments are used to determine emergency repairs as well as necessary upgrades.
- DWSD is leveraging the \$50 million annual lease payment for the regional water and sewer systems operated by the GLWA since 2016, and using funds from improved operational efficiencies. We are also seeking state and federal dollars to accelerate these infrastructure upgrades. We are also working with Guidehouse, the City's consultant, our federal lobbying firm, and in-house staff who work on this, as well.

Attachment

**Cc: Gary A. Brown, Director, DWSD
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