



Financial Services Audit Committee Communication

Date: April 20, 2018

To: Great Lakes Water Authority Audit Committee

From: Nicolette Bateson, CPA, Chief Financial Officer/Treasurer

Re: Memorandum of Understanding Term Sheet Implementation

Background: The concept of formation of a regional water authority arose as a part of the City of Detroit's Chapter 9 Bankruptcy. The formation of the Great Lakes Water Authority (GLWA) was discussed during mediation proceedings held as a part of the bankruptcy case. On June, 12, 2015, the City of Detroit and GLWA entered into a Regional Water Supply Lease, a Regional Sewage Disposal Lease (collectively the "Leases") and a Water and Sewer Services Agreement ("WSSA"). On January 1, 2016, the Leases and WSSA became effective and govern the relationship between GLWA and the Detroit Water & Sewerage Department (DWSD).

In the course of operations, GLWA and DWSD determined that it would be in their mutual interest to clarify certain matters pertaining to the operation of the Leases and WSSA and began discussions regarding creation of a memorandum of understanding (MOU) to accomplish that goal. This led to the drafting of a Term Sheet, and ultimately an MOU, with the intent to (a) provide clarification of specific sections of the Leases, WSSA and Master Bond Ordinance (MBO), (b) make adjustments contemplated by the Leases and the WSSA and (c) address the liquidation of specific liabilities.

On April 3, 2018 the Board of Directors for the Great Lakes Water Authority approved a Memorandum of Understanding Term Sheet. On April 4, 2018, the Board of Water Commissioners for the DWSD approved the same agreement.

Attached is the executed MOU Term Sheet and a communication from the Chief Executive Officer to the member partner community.

Analysis: The execution of the Term Sheet set four key activities into motion which are in various stages of implementation. Presently that includes:

1. Making adjustments to GLWA's books and records to record the financial impact of the lease and updating the draft FY 2017 financial statements.

2. Audit of the above transactions to complete the FY 2017 financial report by GLWA's auditor.
3. Revisions to the proposed budget for FY 2019+ based upon the terms of the agreement.
4. Drafting the final MOU agreement.

Proposed Action: Receive and file report.