



## Financial Services Audit Committee Communication

**Date:** June 17, 2024

**To:** Great Lakes Water Authority Audit Committee

**From:** Nicolette N. Bateson, CPA, Chief Financial Officer & Treasurer

**Re:** Report on Status of Conditions Precedent Related to Bad Debt Recovery Credit

**Background:** A comprehensive settlement agreement between the State of Michigan, the City of Highland Park and GLWA has now been approved and executed by all parties and resolves many years of litigation between the Detroit Water & Sewerage Department, then the Great Lakes Water Authority, and Highland Park. This follows an October 2023 Term Sheet which outlined the terms of the global resolution.

In addition to settlement discussions, consideration was given to how this settlement would impact other Member Partner communities – particularly those that funded some of the bad debt expense in previous years. At its November 16, 2023 meeting, the Board approved Resolution No. 2023-427 “Resolution Regarding Approval of Schedule of Member Partner Bad Debt Recovery Credits #2023-2 Totaling \$20,026,500 with Conditions Precedent Utilizing the Highland Park Bad Debt Recovery Credits Methodology.” The Highland Park Bad Debt Recovery Credit Methodology provides for credit allocation among Member Partner communities of the Authority related to the settlement of the litigation between Highland Park and the Authority as discussed herein. Resolution 2023-427 authorized payment of Member Partner Bad Debt Recovery Credits totaling \$20,026,500 (\$5,026,500 for the Water System and \$15,000,000 for the Sewer System), conditioned upon satisfaction of certain conditions precedent necessary to effectuate the Term Sheet. It was expected that credits were to be provided no sooner than the fourth quarter of Fiscal Year 2024. A copy of a report that includes items from the Board action is posted on the GLWA [website](#) (also attached) and also follows this report.

**Analysis:** Key actions to date indicate that staff will likely be in a position to recommend that the GLWA Board of Directors authorize the application of the credits to June 2024 services at the Board meeting on June 26, 2024. This will reduce the amount due from Member Partners for payments due after July 1, 2024.

- We received notice that, on June 14, 2024, a payment will be disbursed to the GLWA for the \$5 million water system capital grant from the State of Michigan.
- The capital grant from the State of Michigan to GLWA for the \$25 million sewer system grant has been received.
- The settlement agreement, new water and sewer contracts for Highland Park, and a trust agreement between Highland Park and US Bank as trustee are in place. Transfers appear to be deposited in the trust account as agreed upon and the initial distribution from the trustee to GLWA for services provided to the city of Highland Park has been made also as agreed upon.
- The FY 2024 second quarter budget amendments included the commitment of funding for the Member Partner credits pending the cash collections to fund the budget commitments. As we approach the end of the year, the cash management plan has been designed to allow for the temporary decrease in collections in the first quarter of FY 2025 as a result of the credits.
- In early calendar year 2022, some Member Partners withheld payment as a means of expressing their frustration with the unresolved matter. The Charges & Outreach Modeling manager has been in communication with each of those communities with all but one paying in full or committing to payment by the June 26<sup>th</sup> Board meeting. The remaining community is presently consulting internally and is expected to reply next week.
- The Financial Services Area team, General Counsel personnel, and outside counsel are coordinating a few remaining details.

**Proposed Action:** Receive and file report.