



Financial Services Audit Committee Communication

Date: June 21, 2019

To: Great Lakes Water Authority Audit Committee

From: Alicia Haskin, Management Professional – Intergovernmental Relations

Re: FY 2017 Shared Services True-Up Completion

Background: The Great Lakes Water Authority (GLWA) and the Detroit Water and Sewerage Department (DWSD) are parties to a Shared Services Agreement (the Agreement) dated December 1, 2015. This agreement provides the framework for shared services for the efficient operation of both entities.

On a monthly basis, an invoice is prepared based on an agreed upon annual budget. While the intent is for the monthly invoice to represent actual costs, the reality is that the timing of certain vendor invoices and accumulation of internal charges requires a “true-up” process. That being said, the intent is to condense the true-up timeline each fiscal year.

The Shared Service Agreement (Section 5.1) states that:

“Each invoice, whether for Services provided regularly or “as-needed,” shall itemize the costs and charges by Services provided under each Service Delivery Schedule and shall provide sufficient detail to the Subscribing Party to identify the Services performed and the basis for the charges. A Performing Party may only charge the Service Costs for Services provided.”

In addition, the parties have come to realize that an exact itemization generates a level of detailed analysis that is not cost effective to produce. The data and experience garnered from the first three years of the program are leading a more efficient method of calculating costs while staying true to the intent of Section 5.1 above.

Analysis: The Fiscal Year 2017 (FY 2017) Shared Services True-Up has been finalized. GLWA and DWSD teams have reviewed all costs for each Shared Service and an agreement has been reached.

Per the Agreement each team prepared a true-up analysis to calculate the proposed billings. For those Shared Services where there were differences, an amount was

negotiated to settle on a billing that was reasonable based on the documentation available and agreeable to by both parties.

In addition to the Shared Services outlined in the Agreement, there have been transition costs that continue. These are costs that were not stated in the Agreement, but the costs are shared by both entities. The DWSD and GLWA teams have reviewed all transition costs and have also come to an agreement.

There were two shared services where information was not available for either DWSD or GLWA from the City of Detroit when the exchange of true up information occurred. Attempts to obtain this information remain unanswered. The two services are DoIT-001 – Financial Information Services and DoIT-002 – Radios. For the FY 2016 true-up (6 months) this information was also not available. As part of the FY 2016 true-up GLWA paid DWSD \$75,000 for each service. If information becomes available for FY 2017, GLWA will pay the appropriate costs associated for these two shared services. Every attempt will be made to see if this matter can be resolved with the FY 2018 true-up in process.

In Summary:

GLWA Provider True-Up Billings \$12,455,776

DWSD Provider True-Up Billings \$3,644,780

The following are the details of the Provider billing proposals, the Subscriber proposals and the final agreement to the actual true-up costs.

GLWA as the Provider:

GLWA Provider Shared Service Description	GLWA Total Billings to DWSD	DWSD Disputes- Increase/ (Decrease)	Adjusted billing
OPS-002 Miss Dig	\$ 18,122	\$ (18,122)	\$ 0
OPS-004 Water Quality	208,117		\$ 208,117
OPS-005 Security	2,692,014	(2,857)	\$ 2,689,157
OPS-005 Security Training	7,990		\$ 7,990
OPS-006 Facilities	4,337	(4,337)	\$ (0)
OPS-008 Systems Control Center	955,850	(223,812)	\$ 732,038
ITS-001 Retail AMR	387,408	(5,685)	\$ 381,722
ITS-002 Customer Service Tech Suite	41,179	(7,074)	\$ 34,105
ITS-003 See Click Fix	200,789	(5,685)	\$ 195,104
ITS-004 WAM	1,473,943	(1,563)	\$ 1,472,379
ITS-005 Mobile Work Force	320,994	(3,980)	\$ 317,015
ITS-006 ESRI-GIS	1,201,056	(3,411)	\$ 1,197,645
ITS-007 DADS	94,754	(2,843)	\$ 91,911
ITS-008 TIBCO	122,874	(2,274)	\$ 120,599
ITS-009 IT Infrastructure	3,678,906	(294,935)	\$ 3,383,971
PRO-001 Application Analyst	-		\$ -
LS-001-A Joint Litigation and Defense, LS-001-B Environment, LS-002 Environment, LS-003 Contract Drafting	8,043		\$ 8,043
Subtotals	\$ 11,416,375	\$ (576,579)	\$ 10,839,797
Other items to bill not a defined shared service code			
DWSD-R Staff Training by GLWA	\$ 14,395	\$ (627)	\$ 13,768
Bank Fees	907,832		\$ 907,832
Lakeshore Invoices	676,875		\$ 676,875
Public Finance	19,121	(1,615)	\$ 17,506
Subtotal	1,618,222	(2,242)	\$ 1,615,980
Grand Total	\$ 13,034,597	\$ (578,821)	\$ 12,455,776

DWSD as Provider:

DWSD/City of Detroit Provider Shared Service Description	DWSD Total Billings to GLWA	GLWA Disputes- Increase/ (Decrease)	Adjusted billing
OPS-001 Fleet	\$ 1,205,739	\$ (210,785)	\$ 994,954
OPS-002 Miss Dig	52,233	(6,384)	\$ 45,849
OPS-003 As Needed Field Services	66,644	(45,091)	\$ 21,553
OPS-006 Facilities	2,220,936	(101,886)	\$ 2,119,049
DoIT-001 Financial Information Services *	-		\$ -
DoIT-002 Radios *	-		\$ -
DoIT-003 Customer Service Technology Suite	65,601		\$ 65,601
Subtotals	\$ 3,611,152	\$ (364,146)	\$ 3,247,006
Other items to bill not a defined shared service code			
Fuel	\$ 72,300		\$ 72,300
WAM Invoices	230,532		\$ 230,532
DWSD Help Desk Staff FY17		94,941	\$ 94,941
			\$ -
Subtotal	302,832	94,941	\$ 397,773
Grand Total	\$ 3,913,985	\$ (269,205)	\$ 3,644,780

Proposed Action: The GLWA Audit Committee recommends that the Great Lakes Water Authority Board approve the payment of the FY 2017 Shared Services True Up.

FY 2017 SHARED SERVICES AND TRANSITION COSTS TRUE-UP AGREEMENT

THIS Fiscal Year 2017 (FY 2017) SHARED SERVICES AND TRANSITION COSTS TRUE-UP AGREEMENT (“Agreement”) entered into on _____, 2019, by and between the DETROIT WATER AND SEWERAGE DEPARTMENT (“DWSD”), a department of the City of Detroit (the “City”), and the GREAT LAKES WATER AUTHORITY (“GLWA”) and, a municipal authority and public body corporate organized and existing under and pursuant to the provisions of Act No. 233, Public Acts of Michigan, 1955, as amended (“Act 233”) (DWSD and GLWA together are the “Parties”).

WITNESSETH:

WHEREAS, the City owns a Water Supply System (the “Water System”) and a Sewage Disposal System (the “Sewer System”); and

WHEREAS, the City and GLWA entered into a Shared Services Agreement (the “SSA”) dated as of December 1, 2015 relating to the provision of services by the City to the GLWA with respect to the Regional Water System and the Regional Sewer System, and the provision of services by the GLWA to the City with respect to the operation and management of the Detroit Local Water Facilities and the Detroit Local Sewer Facilities for a term that runs concurrently with the Regional Water Supply System Lease, dated June 12, 2015 (as Schedules have been amended, the “Water Lease”), and (ii) the Regional Sewage Disposal System Lease, dated June 12, 2015 (as Schedules have been amended, the “Sewer Lease” and together with the Water Lease, the “Leases”). The Leases have an initial term of forty (40) years; and

WHEREAS, pursuant to the SSA and for FY 2017, GLWA provided specific Services to the DWSD and DWSD provided specific Services to GLWA (“Shared Services”), which are reflected in Schedule A to this Agreement; and

WHEREAS, for FY 2017, there were transition costs incurred by both Parties that were not captured in the Schedules attached to the SSA, which are reflected in Schedule B to this Agreement; and

WHEREAS, for FY 2017, DWSD’s Chief Financial Officer and GLWA’s Chief Financial Officer negotiated a settlement of these Shared Services and transition costs; and

WHEREAS, for FY 2017, the Parties seek to true-up the amounts owed between them for any and all, known and unknown, Shared Services and transition costs, which are reflected in Schedule A and B.

In consideration for the mutual agreements described herein, the Parties agree to the following settlement of FY 2017 Shared Services and transition costs as described below:

1. Within 30 days of execution of this agreement, DWSD shall pay GLWA \$12,455,776 and GLWA shall pay DWSD \$3,664,780 as the true-up of all FY 2017 Shared Services and transition costs performed by the Parties.

2. Said monetary payment represents a reviewed and agreed upon settlement between the Parties and fully resolves any and all of the Parties, known and unknown Shared Services and transition costs for FY 2017 with the exception of DoIT-001 – Financial Information Services and DoIT-002 - Radios. If these two Shared Services are billed to DWSD by the City of Detroit GLWA agrees to pay appropriate associated costs.
3. The Parties expressly agree that they cannot demand payment for any other FY 2017 Shared Services and transition costs with the exception of DoIT-001 – Financial Information Services and DoIT-002 - Radios. If these two Shared Services are billed to DWSD by the City of Detroit GLWA agrees to pay appropriate associated costs.
4. The Parties mutually agree that this Agreement supersedes any and all requirements under Article 5 of the SSA regarding invoices, payment terms and invoice disputes for FY 2017.
5. The Parties mutually agree that this Agreement does not impact in any way the Parties’ rights and obligations under the SSA for any other Fiscal Year.

IN WITNESS WHEREOF, the DETROIT WATER AND SEWERAGE DEPARTMENT and the GREAT LAKES WATER AUTHORITY have executed this Agreement by their duly authorized officers as of the day and year first above written.

DETROIT WATER AND SEWERAGE DEPARTMENT

By: _____

Its: Director

GREAT LAKES WATER AUTHORITY

By: _____

Its: Chief Executive Officer

Schedule A - Shared Services

GLWA Provider Shared Service Description	GLWA Total Billings to DWSD	DWSD/City of Detroit Provider Shared Service Description	DWSD Total Billings to GLWA
OPS-002 Miss Dig	\$ -	OPS-001 Fleet	\$ 994,954
OPS-004 Water Quality	208,117	OPS-002 Miss Dig	45,849
OPS-005 Security	2,689,157	OPS-003 As Needed Field Services	21,553
OPS-005 Security Training	7,990	OPS-006 Facilities	2,119,049
OPS-006 Facilities	-	DoIT-001 Financial Information Services	-
OPS-008 Systems Control Center	732,038	DoIT-002 Radios	-
ITS-001 Retail AMR	381,722	DoIT-003 Customer Service Technology Suite	65,601
ITS-002 Customer Service Tech Suite	34,105		-
ITS-003 See Click Fix	195,104		-
ITS-004 WAM	1,472,379		-
ITS-005 Mobile Work Force	317,015		-
ITS-006 ESRI-GIS	1,197,645		-
ITS-007 DADS	91,911		-
ITS-008 TIBCO	120,599		-
ITS-009 IT Infrastructure	3,383,971		-
PRO-001 Application Analyst	-		-
LS-001-A Joint Litigation and Defense, LS-001-B Environment, LS-002 Environment, LS-003 Contract Drafting	8,043		-
Subtotals	\$ 10,839,797	Subtotals	\$ 3,247,006

Schedule B - Transition Costs

Other items to bill not a defined shared service code		Other items to bill not a defined shared service code	
DWSD-R Staff Training by GLWA	\$ 13,768	Fuel	\$ 72,300
Bank Fees	907,832	WAM Invoices	230,532
Lakeshore Invoices	676,875	DWSD Help Desk Staff FY17	94,941
Public Finance	17,506		
Subtotal	1,615,980	Subtotal	397,773
Grand Total	\$ 12,455,776	Grand Total	\$ 3,644,780

..Title

Approval of FY2017 Shared Services and Transition Costs True-up between the Detroit Water and Sewerage Department and the Great Lakes Water Authority

..Body

Agenda of: June 12, 2019

Item No.: **2019-XXX**

Amount: N/A

TO: The Honorable
Board of Directors
Great Lakes Water Authority

FROM: Alicia Haskin
Public Finance Management Professional – Intergovernmental Relations
Great Lakes Water Authority

DATE: May 20, 2019

RE: Approval of FY2017 Shared Services and Transition Costs True-up between the Detroit Water and Sewerage Department and the Great Lakes Water Authority

MOTION

Upon recommendation of Nicolette Bateson, Chief Financial Officer (CFO)/Treasurer and Randal M. Brown, General Counsel, the Board of Directors (Board) of the Great Lakes Water Authority (GLWA):

- 1) Authorizes GLWA's Chief Executive Officer (CEO), CFO and General Counsel to finalize, and the CEO execute on behalf of the GLWA, the FY2017 Shared Services and Transition Costs True-Up Agreement between the Detroit Water and Sewerage Department (DWSD) and the GLWA;**
- 2) GLWA and DWSD shall create at a minimum four (4) binders, including the FY2017 Shared Services and Transition Costs True-Up Agreement and**

supporting documentation. The binders shall be retained by both parties' CFOs and General Counsel and kept in their permanent storage; and

3) Authorizes the CEO to take such other action as may be necessary to accomplish the intent of this vote.

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 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 DWSD. In the course of operations, GLWA and DWSD determined that it would be in their mutual interest to provide certain services to each other. These services are provided pursuant to the Shared Services Agreement. Further, there were transition costs associated with the bifurcation.

The GLWA and DWSD have reviewed the costs for each Shared Service and Transition Costs and have come to a proposed agreement for the twelve months of provided Services. The final step for settlement of FY2017 is to secure GLWA Board and DWSD approval and for DWSD and GLWA to pay the amounts due to each other 30 days after execution of the "FY 2017 Shared Services and Transition Costs True-Up Agreement."

Shared Services

Section 5.1 of the Shared Services Agreement ("SSA") addresses invoices, in pertinent part, it states (emphasis added in bold):

Article 5.1 Invoices. The Parties shall engage, and share the costs of, a third-party to analyze the actual Service Costs ("Cost Analysis") of providing the City Services and the Authority Services for Fiscal Year 2015-2016 and each subsequent Fiscal Year. **If, based on this Cost Analysis: (a) the costs paid by a Subscribing Party¹ were greater than the costs of providing the Services, the Providing Party shall pay an amount equal to such cost variance to the Subscribing Party in the next Fiscal Year or as otherwise agreed to by the Parties; and (b) the costs paid by a**

¹ Subscribing Party means the Party that is receiving a Service from a Performing Party in supporting the transition of a Subscribing Party to transition to a new Service provider

Subscribing Party were less than the costs of providing the Services, the Subscribing Party shall pay an amount equal to such cost variance to the Providing Party in the next Fiscal Year or as otherwise agreed to by the parties...

Each invoice, whether for Services provided regularly or “as needed”, shall itemize the costs and charges by Services provided under each Service Delivery Schedule, and shall provide sufficient detail to the Subscribing Party to identify the Services performed and the basis for the charges. A Performing Party may only charge the Service Cost for Services provided. Neither Party may set-off any amount it owes to the Party on account of any amounts it may be owed by such party. Contract, material and other applicable Service Costs shall be billed at the contractual rates or third-party charges therefor.

The application of Section 5.1 has resulted in monthly estimated billings in accordance with the calculations from the SSA. The actual calculated Service Costs based upon a Cost Analysis have been agreed to by the Parties.

To date, payments have not yet been exchanged for FY 2017. It has been agreed to by both Parties to expedite the processing of the settlement by having both parties pay the amounts due to each other 30 days after execution of the “FY 2017 Shared Services and Transition Costs True-Up Agreement.”. The payments and acceptance of these payments will be considered as satisfaction of payment by both Parties. This is not deemed a set-off of other costs as noted in the SSA.

Per the SSA, the Parties, individually, prepared a true-up analysis to calculate the Service Costs. For those Services where there were differences, an amount was negotiated to settle on a Service Costs.

Transition Costs

In addition to the Shared Services outlined in the SSA, there have been transition costs associated with the stand-up of the Regional and Local System. The Parties have reviewed the transition costs for FY2017. Of the transition costs, the most significant are the Bank Fees (\$907,832) and the payment of Lakeshore Invoices (\$676,875). The Lakeshore contracts were assigned by the City to GLWA pursuant to Schedule E of the Regional Water Supply and Sewerage Disposal Leases between the City and GLWA (the “Leases”). However, Lakeshore had work to complete on the Local System after the stand-up. As such, DWSD needs to reimburse GLWA for Lakeshore’s work on the Local System. A breakdown of these and other transitions costs are attached.

In summary:

GLWA Provider True-Up Billings to DWSD \$12,455,776

DWSD Provider True-Up Billings to GLWA \$3,644,780

A “Schedule of True Up Billings” is attached in the “FY 2017 Shared Services and Transition Costs True-Up Agreement”, this schedule provides the details of the Performing Party’s Service Costs and the proposed agreement to the actual true-up costs.

Since the proposed agreement deviates from the monthly process outlined in the SSA and the Parties’ transition costs are also being resolved, it is recommended that GLWA’s Board approve the proposed agreement.

It should be noted that there were two shared services where information was not available for either DWSD or GLWA from the City of Detroit when the exchange of true up information occurred. Attempts to obtain this information remain unanswered. The two services are DoIT-001 – Financial Information Services and DoIT-002 – Radios. For the FY 2016 true-up (6 months) this information was also not available. As part of the FY 2016 true-up GLWA paid DWSD \$75,000 for each service. If information becomes available for FY 2017, GLWA will pay the appropriate costs associated for these two shared services. Every attempt will be made to see if this matter can be resolved with the FY 2018 true-up in process.

JUSTIFICATION

The GLWA and DWSD administrations wish to finalize the FY 2017 shared service and transition costs.

BUDGET IMPACT

The budget impact of the FY 2017 Shared Services and Transition Costs True-Up Agreement is outlined in the attached memorandum and supporting documentation. The FY 2017 Shared Services and Transition Costs True-Up Agreement does not adversely impact GLWA’s ability to perform its current and proposed financial plan.

COMMITTEE REVIEW

This item will be presented to the Audit Committee at its special meeting on June 12, 2019.

SHARED SERVICES IMPACT

This item brings closure to the shared services and transition costs for FY 2017.