



Memorandum

To: Sue McCormick, Great Lakes Water Authority, CEO
Gary Brown, Detroit Water and Sewerage Department, Director

From: Alicia Haskin, Public Finance Management Professional
– Intergovernmental Relations

CC: Nicolette Bateson, Great Lakes Water Authority CFO and Treasurer
Tom Naughton, Detroit Water and Sewerage Department, CFO

Date: June 13, 2018

RE: Shared Services and Transition Costs Fiscal Year 2016 True-up

The Fiscal Year 2016 (FY2016) Shared Services and Transition Costs have been finalized. The Great Lakes Water Authority (“GLWA”) and Detroit Water and Sewerage Department (“DWSD”) (collectively the “Parties”) have reviewed all costs for each Shared Service and transition costs and have come to a proposed agreement for the six months of provided Services. The final step for the settlement of FY2016 is to secure GLWA Board and Board of Water Commissioners (BOWC) approval and for DWSD and GLWA to pay the amounts due to each other by June 30, 2018.

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. For Fiscal Year 2015-2016, the City shall pay the Authority \$4,707,608 for all Authority Services (including “as-needed” Services) and the Authority shall pay the City \$2,179,506 for all City Services (including “as-needed” Services), each in equal monthly installments. Such installments received by the Authority shall be deposited into the Authority Regional Operation and Maintenance Account of the Operation and Maintenance Fund established in the master bond ordinances for each of the Systems...

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 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. 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 by June 30, 2018. 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 FY2016. Of the transition costs, the most significant are the Employee Termination Payouts (\$5,699,000) and the payment of Lakeshore Invoices (\$1,291,699). The Employee Payouts were contemplated in the Regional Water Supply and Sewerage Disposal Leases between the City and GLWA (the “Leases”). See Sections 4.1 and 1.1(k)(i)—the definition of City Residual Costs. Pursuant to the Leases, GLWA was obligated to reimburse the City for these costs. As it relates to the Lakeshore invoices, the City assigned the Lakeshore contracts to GLWA pursuant to Schedule E of Leases. However, Lakeshore had work to complete on the Local System after the stand-up. As such, DWSD needs to reimburse

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.

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 \$8,093,032

DWSD Provider True-Up Billings to GLWA \$7,548,000

The following is the "Schedule of True Up Billings" which provide 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 and DWSD's BOWC approve the proposed agreement.

Schedule of True Up Billings			
Shared Services			
GLWA Provider		DWSD Provider	
Shared Service Description	Billings to DWSD	Shared Service Description	Billings to GLWA
OPS-002 Miss Dig	\$109,338	OPS-001 Fleet	\$471,000
OPS-004 Water Quality	112,085	OPS-002 Miss Dig	15,000
OPS-005 Security	1,142,217	OPS-003 As Needed Field Services	140,000
OPS-005 Security Training	4,732	OPS-006 Facilities	688,000
OPS-006 Facilities	58,234	DoIT-001 Financial Information Services	75,000
OPS-008 Systems Control Center	620,000	DoIT-002 Radios	75,000
ITS-001 Retail AMR	355,962	DoIT-003 Customer Service Technology Suite	22,000
ITS-002 Customer Service Tech Suite	59,208	OCFO-001 Support for Financial Services	-
ITS-003 See Click Fix	91,988		
ITS-004 WAM	577,009		
ITS-005 Mobile Work Force	140,940		

ITS-006 ESRI-GIS	666,402		
ITS-007 DADS	54,081		
ITS-008 TIBCO	95,372		
ITS-009 IT Infrastructure	2,001,645		
PRO-001 Application Analyst	19,700		
LS-001-A Joint Litigation and Defense, LS-001-B Environment, LS-002 Environment, LS-003 Contract Drafting	73,586		
Subtotal	\$6,182,500		\$1,486,000
Transition Costs			
DWSD-R Staff Training by GLWA	\$2,325	Fuel	\$35,000
DWSD-R Bills paid by GLWA	186,346	Employee Termination Payouts	5,699,000
Bank Fees	373,831	WAM Invoices	328,000
P-Card	29,742		
Lakeshore Invoices	1,291,699		
Public Finance	26,590		
Subtotal	\$1,910,533		\$6,062,000
Grand Total	\$8,093,032		\$7,548,000