TFG
THE FOSTER GROUP

P.O. BOX 26282
LEAWOOD, KS 66225
TEL: (913) 345-1410
FAX: (913) 345-1640

THE FOSTER GROUP, LLC
BART FOSTER, PRESIDENT
CELL: (913) 530-6240
BFOSTER@FOSTERGROUPLLC.COM

May 13, 2019

Ms. Nicolette Bateson
Chief Financial Officer
Great Lakes Water Authority
735 Randolph Street
Detroit, Michigan 48226

Dear Ms. Bateson:

In accordance with your direction, we have prepared this brief summary report regarding the status of the business consulting services being provided to GLWA by THE FOSTER GROUP via GLWA Contract CS-195, and to outline a possible work plan for such services in the coming years. Our current engagement is funded by Amendment No. 1 to CS-195, and covers consulting services during GLWA FY 2019. Services under this contract are separated into two major categories: Annual Financial Management Consulting, designed to support annual budget development, cost of service analysis, charge setting, support of GLWA's customer outreach program, and related activities; and System Consultant Services, designed to support the Authority's issuance of revenue bonds and related financing instruments. The discussion that follows addresses consulting services for both of these categories.

Annual Financial Management Consulting

Fees for FY 2019 services in this category (under Amendment No. 1 to CS-195) are fixed at $500,000. We note that annual fees for these services have been gradually reduced over the past several years, and totaled $750,000 as recently as FY 2016. The fees for FY 2019 represent a 20% reduction from FY 2018. The reduction in consulting fees has coincided with the Authority's development of internal resources to perform many of the services previously provided under predecessor consulting contracts. This transition has been strategic, and is ongoing.

Through the first 10 months of FY 2019, the reduction in our level of effort on this category compared to FY 2018 has not matched the comparable level of fee reduction. We continue to streamline activities related to budget development and accounting review tasks, and more of the analyses and tasks that we traditionally conducted in prior years are now being executed by GLWA financial staff. In this respect the anticipated level of transition is being successfully executed. However, the GLWA "transition mode" continues to evolve and other areas of requested assistance under this engagement have grown and are requiring unprecedented and unanticipated levels of consulting effort. A small sample of these assignments include extraordinary levels of consultation designed to:

- Develop and execute a supplemental MOU to implement the Lease(s) between GLWA and the City of Detroit;
- Negotiate water service agreements with Flint and Genesee County, an occurrence that seemed virtually impossible when our consulting agreement was negotiated;
- Negotiate a proposed amendment to the wastewater service agreements with OMID reflecting a potential new service arrangement regarding the Northeast Sewer Pump Station;
- Explore and establish potential modifications to the wastewater and water charge methodologies;
- Provide continued leadership and support of the GLWA customer outreach program, which continues to evolve during the transition.

While progress is being made on several of these initiatives, we respectfully suggest that much work remains to establish a steady state GLWA organization. Further, we humbly submit that that our consulting assistance is essential to achieving this goal. While much has been accomplished, much work remains. We envision that our continuing consulting assistance in the upcoming GLWA FY 2020 will focus on:

- Finalization of several of the "in flight" initiatives above;
- Continued assistance in standing up the GLWA finance organization as it incorporates new programs and systems;
- Continued leadership and support of the GLWA customer outreach program, specifically related to the efforts to review cost of service allocation and charge methodologies;
- Preparation of revenue requirements, cost of service allocations, and charge development studies for FY 2021.
    - ***This is the core element of our engagement, but as noted above, does not begin to constitute the full nature of our services.***

In short, we are not engaged as a "rate consultant" to GLWA. Rather, the services we have provided in recent years have focused on serving as a valued business advisor on multiple fronts. We believe that the Authority would be well served by continuing this relationship, while continuing to focus the structure of our arrangement towards more strategic services, and away from the detailed tasks conducted in prior years. The hallmark of our practice has always been that we provide more value delivering our consulting services than the cost of the associated fees. We pride ourselves on always accomplishing this objective, and we are not interested in pursuing engagements that don't fit that premise.

System Consultant Services

Fees for services in this category are funded from the transactions they are designed to support, and are not formally included in the change order funding level in the contract. The contract currently contains a "not to exceed" fee per transaction of $100,000 per revenue bond

transaction and $15,000 per transaction for financings issued through the State of Michigan Municipal Financing Authority, such as SRF transactions. Amendment No. 1 to CS-195 limits annual funding in this category to $305,000.

We submit that our consulting assistance in this category has been an essential contribution to GLWA's remarkably successful inaugural bond sales over the past two years. We believe we are well situated to continue provide these services in a manner that adds remarkable value to future transactions.

Proposal for FY 2020 and FY 2021

The intent of this proposal is to establish a mechanism to provide funding for continued consulting services through FY 2021. As noted above, as GLWA matures and continues to develop additional internal financial planning and management resources, the organization's need for our services will naturally wane. The proposed scope of services set forth herein continues to recognize that strategic transition. The work plan outlined in this proposal is designed to provide consulting services in support of:

- Financial planning, monitoring, cost of service studies, and charge development activities in support of the FY 2021 and FY 2022 Budgets, Financial Plans, cost of service allocations, and development of supporting wholesale service charges;
- Related implementation assistance, including consultation on GLWA/DWSD coordination matters;
- Support of GLWA's customer outreach program, including provision of leadership positions on several work groups of the GLWA One Water Partnership Agreement;
- System Consultant services in support of GLWA's issuance of revenue bonds and related financing vehicles.

The basic scope of services summarized herein has been crafted with the understanding that they be similar in nature to those set forth in CS-195 and prior agreements.

Based on our experience with studies of a similar nature for GLWA and other major municipal clients, and several conversations with key representatives of the GLWA leadership team, we have developed a detailed work plan for the proposed consulting services. This work plan is designed to result in comprehensive, high quality consulting services and deliverables. We are uniquely qualified to provide the services desired by GLWA, having been directly involved with the organization's annual financial planning process for the last 33 years.

Executive Summary Work Plan

Six general categories of analyses are necessary to carry out the objectives of the annual financial management and charge design consulting services, as summarized by the task descriptions below. In addition, we have included two customer outreach tasks – one for Water and one for Sewer. Finally, we have provided a task to support System Consultant services on an as needed basis. We are prepared to provide a more detailed work plan for these services as necessary.

1. **Operating and Capital Budget Development -** THE FOSTER GROUP will assist GLWA in the development of operating budgets and capital improvement programs, including analyses to incorporate DWSD retail budget and capital improvement programs, and to present budgetary information in a manner suitable for discussions with stakeholders.
2. **Review of Accounting Records -** THE FOSTER GROUP will perform detailed analytical reviews of GLWA's accounting records, to facilitate development of financial plans, cost of service allocations and charge designs, and to provide interpretive commentary on the overall adequacy and accuracy of the statements.
3. **Design of Financing Plans -** THE FOSTER GROUP will develop alternative 10-year operating and capital financing plans for the water and sewer utilities, strategize with Authority management on the most appropriate depiction, and formalize such analyses as the "plan of record" for the Authority.
4. **Cost of Service Allocations -** THE FOSTER GROUP will allocate the annual cost of providing utility service to individual customers and customer classes. This element will include detailed reviews of new technical data gathered to indicate relative use of the water and sewer systems, application of industry standards and agreed upon methodologies, and incorporation of new initiatives being discussed at various stakeholder work groups. This element will include updates of demands placed on the water system by individual customer communities and classes, and updates of relative customer wastewater contributions and other technical data to compute "SHAREs".
5. **Charge Design -** THE FOSTER GROUP will design schedules of water and sewer service charges that recover the total annual revenue requirements from utility customers in an equitable, defensible manner and in accordance with applicable policies, statutes, regulations, and agreements.
6. **Implementation Assistance -** THE FOSTER GROUP will assist GLWA in its preparation of all material necessary to implement the proposed water and sewer charges, and to carry out and monitor GLWA's financial plans. This assistance will include development of notification material, drafting of ordinances and other documents, and presentations to interested stakeholders at the Authority's direction. This task will also include ongoing monitoring throughout the year to address charge related issues that arise, including briefing sessions with GLWA management and attendance of Board meetings, workshops, and subcommittee meetings, and support of interagency meetings with DWSD representatives and related stakeholders.
7. **Sewer Customer Outreach Program Support -** THE FOSTER GROUP will assist the Authority in the Sewer Customer Outreach activities by attending and presenting materials on behalf of the Authority at several committees and work groups, including the One Water Partnership, the Wastewater Charges Work Group, etc. THE FOSTER GROUP has been a vital resource to the success of this initiative and the individual work groups, and it is anticipated that the committees and work groups will continue to function in their current forms. Key elements of this task are anticipated to include strategic consultation regarding the Wastewater Master Plan update, assistance with development and implementation of the next version of the Long Term CSO Control Plan (including development of NPDES Permit modifications), and continued leadership role in discussions on wastewater charge methodologies, including efforts to further implement "rate simplification".

8. **Water Customer Outreach Program Support -** THE FOSTER GROUP will assist the Authority in the Water Customer Outreach activities by continuing to play a key membership role in the One Water Partnership and all of its work groups, including the Analytical Work Group, the Water Charges Work Group, etc. THE FOSTER GROUP was critical to the vision, development, and implementation of the model contract and the associated water charge platform. It is envisioned that subsequent efforts will focus on the planned comprehensive review of the water charge methodology, strategic planning with respect to consultation on studies being conducted to evaluate units of service, and ongoing development and presentation of material illustrating the Authority's financial planning, cost allocation and service charge practices.
9. **System Consultant Services -** THE FOSTER GROUP will serve as the Authority's System Consultant to support its issuance of revenue bonds and related financing instruments. These services have traditionally consisted of two separate levels of consulting based on the type of transaction. For "regular" revenue bonds issued to finance capital improvements and/or refinance outstanding revenue bonds, we have been engaged to provide a financial feasibility report, complete with updated five-year financial projections, certification of compliance with the Additional Bonds Test, and related implementation assistance. On other occasions, including support of issuance of Junior Lien Bonds through the State Revolving Fund, our services have been limited to certification of compliance with the Additional Bonds Test and related, less comprehensive analytical assistance. We suggest maintaining the same arrangement, as noted in the Proposed Fee section below.

Schedule

At your direction, the work plan outlined in this proposal is designed to provide for consulting services for GLWA Fiscal Years 2020 and 2021, to support development of the FY 2021 and FY 2022 water and sewer charges. As such, we suggest a contract start date of July 1, 2019 and a contract termination date of June 30, 2021.

Resources

In addition to members, employees, and contract employees, THE FOSTER GROUP maintains cooperative arrangements with several other professional service firms, large and small, to facilitate effective delivery of a wide variety of specialized consultative services. These entities are available to provide additional technical assistance on a subcontract basis, as needed.

Proposed Fees

Our proposed fees for the consulting services set forth herein are summarized in the table below.

Annual Financial Management Consulting

Under CS-195, fees for Annual Financial Management Consulting services during the two years covered by the contract totaled $1,125,000. Annual fees were $625,000 for FY 2018 and $500,000 for FY 2019, reflecting the anticipated strategic transition away from consulting services provided by THE FOSTER GROUP. While the transition, and the accompanying gradual reduction in requested consulting services, has occurred – it has not materialized at the same pace anticipated when the original agreement for CS-195 was established. We are

inclined to suggest that returning to the FY 2018 fee level would be appropriate. However, we remain committed to the desired transition, and have established an estimated level of consulting services that maintains the FY 2019 fee for proposed services provided during FY 2020 and FY 2021. We propose to continue to invoice for these services in fixed monthly amounts.

Item	Fee Estimate
Annual Financial Management Consulting – FY 2020	$500,000
Annual Financial Management Consulting – FY 2021	$500,000
Total – Financial Management Consulting	**$1,000,000**

System Consultant Services – Related to Specific Bond Transactions

We suggest that fees for services in this category be consistent with our current agreement. The contract currently contains a "not to exceed" fee per transaction of $100,000 per revenue bond transaction and $15,000 per transaction for financings issued through the State of Michigan Municipal Financing Authority, such as SRF transactions. Any such services will only be initiated and invoices will only be produced at the direction of GLWA via separate task order for each transaction, as transactions are identified and specific services are requested, along with agreed upon fees for each task. We note that fees for these consulting services are funded via issuance expenses of the specific transactions, and not through normal operating expense budgets.

Item	Fee Estimate
System Consultant Services – FY 2020	$305,000
System Consultant Services – FY 2021	$305,000
Total – System Consultant Services	**$610,000**

We sincerely appreciate this opportunity to be of continued service to the Authority. If you have any questions regarding this matter, please do not hesitate to contact me.

Very truly yours,

THE FOSTER GROUP

Bart Foster
President