



Financial Services Audit Committee Communication

Date: April 23, 2021

To: Great Lakes Water Authority Audit Committee

From: Nicolette Bateson, Chief Financial Officer & Treasurer

Re: Proposed Amendment to GLWA Contract CS-195 effective July 1, 2021 with
The Foster Group

Background: See attached draft Great Lakes Water Authority (GLWA) Board action item letter.

Analysis: See attached draft GLWA Board action item letter.

Proposed Action: Recommend that the Great Lakes Water Authority Board approve a Proposed Amendment to GLWA Contract CS-195 effective July 1, 2021 with The Foster Group for Annual Financial Management Consulting at a not-to-exceed amount of \$950,000 for a two-year contract, and for task order Bond Transaction System Consultant Services not-to-exceed \$550,000.



Board of Directors
735 Randolph Street, Suite 1900
Detroit, Michigan 48226
(313) 224-4785

..Title

Proposed Amendment to GLWA Contract CS-195 effective July 1, 2021 with The Foster Group for Annual Financial Management Consulting at a not-to-exceed amount of \$950,000 for a two-year contract, and for task order Bond Transaction System Consultant Services not-to-exceed \$550,000

..Body

Agenda of: April 28, 2021

Item No.: **2021-_____**

Amount: N/A

TO: The Honorable
Board of Directors
Great Lakes Water Authority

FROM: Sue F. McCormick
Chief Executive Officer
Great Lakes Water Authority

DATE: April 28, 2021

RE: Proposed Amendment to GLWA Contract CS-195 effective July 1, 2021 with The Foster Group for Annual Financial Management Consulting at a not-to-exceed amount of \$950,000 for a two-year contract, and for task order Bond Transaction System Consultant Services not-to-exceed \$550,000

MOTION

Upon recommendation of Nicolette Bateson, Chief Financial Officer/Treasurer, the Great Lakes Water Authority Board authorizes the Chief Executive Officer (CEO) to **enter into Contract No. CS-195 effective July 1, 2021 with The Foster Group for Annual Financial Management Consulting at a not-to-exceed amount of \$950,000 for a two-year contract, and for task order Bond Transaction System Consultant Services not-to-exceed \$550,000**, and also authorizes the CEO to take such other action as may be necessary to accomplish the intent of this vote.

BACKGROUND

The current fixed fee, fixed cost contract with The Foster Group expires June 30, 2021. The Foster Group provides critical services including:

- ✓ Member Partner outreach,
- ✓ Annual cost of service study,
- ✓ Highly technical as needed analysis,
- ✓ Charge methodology strategic services to support Planning Group efforts,
- ✓ Financial management coordination and assistance for GLWA and DWSD,
- ✓ Resource for General Counsel, and
- ✓ Long-term financial planning support to the Great Lakes Water Authority (GLWA).

In addition to core tasks, there are several open GLWA initiatives that depend on The Foster Group's services. These are outlined in the attached proposal from The Foster Group. Most notably, is the comprehensive review of the water charges methodology.

This proposed procurement is considered a specialized procurement as defined by the GLWA Procurement Policy as *"a procurement in which there may be multiple sources of supply, but one Vendor possesses the unique ability or capability to meet the particular requirements of the Solicitation and/or where a unique expertise is provided by a Vendor that is unattainable in the market in a competitive environment"*.

JUSTIFICATION

The GLWA Board is being asked to consider a renewal of The Foster Group contract at this time to carry forward these critical tasks without disruption. For that reason, The Foster Group has been asked to provide a detailed proposal (attached) for the next two years. The proposal expands further on many of the key initiatives noted above.

The proposed fee is a fixed annual fee paid on a pro-rata monthly lump sum basis which includes all expenses. In GLWA's form of contract, either party can initiate the discussion to modify to the scope of services and related fees.

Based on the level of monthly reporting of tasks completed, The Foster Group contract provides a good value to GLWA. This is supported by analysis by GLWA for competitive pricing secured from two recent procurements that draw upon a similar level of expertise. In addition, the proposed Annual Financial Management contract fee reflects a 5% reduction from the current annual fee and a 25% reduction from the annual fee charged in FY 2018, which was the first year of CS-195.

It should be noted that GLWA has transitioned some of the work in-house which was previously performed by The Foster Group – and will continue to do so to the extent possible. Given the expert level of service provided, however, it is envisioned that future state beyond this two-year time period will rely upon separate procurements for charges consulting, system consultant services for bond transactions, and possible strategic financial consulting services as the compensation level for this expertise provides a recruitment challenge.

BUDGET IMPACT

The proposed Foster Group contract amendment is divided equally between the Financial Planning & Analysis Group FP&A (Contractual Professional Services line 5910-884113.000-617903-WS7900) and the Public Finance Group (Public Finance Consulting Services 5910-884141.000-617903-WS7900) in the Financial Services Area.

COMMITTEE REVIEW

The Audit Committee is reviewing this matter at its meeting on April 23, 2021.

SHARED SERVICES IMPACT

The extent to which DWSD will utilize The Foster Group's services is undetermined. If required by the SRF program for a transaction, the fees would be a pass-through cost based on the attached proposal and at the same rate as prior years. DWSD also pays a pro rata share of fees for revenue bonds on their behalf. This is also a pass-through cost. There is no charge for services related to financial coordination between the two entities.

TFG
THE FOSTER GROUP

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April 21, 2021

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. 3 to CS-195, and covers consulting services during GLWA FY 2021. 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 2021 services in this category (under Amendment No. 3 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 2021 are the same as those in FYs 2019 and 2020, and reflect 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.

Over the past two years and 9 months under the current funding level, the reduction in our level of effort on this category compared to prior years 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:

- Address unanticipated, extended review of, and adjustments to, originally proposed annual budget, cost of service, and service charge recommendations;
- Explore and establish potential modifications to the wastewater and water charge methodologies;
 - ***The review of the wastewater charge methodology, and the development of the modified methodology and SHARES via the outreach work groups (including the leadership role the “Think Tank”) and related activities required significantly more consulting assistance than originally anticipated when the original scope of the current engagement was established.***
- Support continued development of internal tools and processes designed to facilitate transition of financial analysis tasks to internal resources;
- 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 2022 will focus on:

- Participation in the Water Charge Methodology review via the customer outreach process;
 - ***It is likely that this review will require a similar, if not expanded, level of effort as the recently completed for the Wastewater Charge Methodology review.***
- 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 2023.
 - ***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 “charges 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 also 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. The funding in this category has been completely extinguished.

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 2022 and FY 2023

The intent of this proposal is to establish a mechanism to provide funding for continued consulting services through FY 2023. As noted above, as GLWA continues to mature and develop additional internal financial planning and management resources, the organization’s need for our services will continue to 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 2023 and FY 2024 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 35 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, the Wastewater Analytics Task Force, 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 continued implementation of the new, simplified Wastewater Charge Methodology, assistance with development and implementation of the next version of the Long Term CSO Control Plan, and continued leadership role in discussions on wastewater financial and charge matters with Member Partner representatives.
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, ongoing development and presentation of material illustrating the Authority's financial planning, cost allocation and service charge practices, and continued leadership role in discussions on water financial and charge matters with Member Partner representatives
 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 2022 and 2023, to support development of the FY 2023 and FY 2024 water and sewer charges. As such, we suggest a contract start date of July 1, 2021 and a contract termination date of June 30, 2023.

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 below.

Annual Financial Management Consulting

Under CS-195, fees for Annual Financial Management Consulting services during the four years covered by the contract totaled \$2,125,000. Annual fees were \$625,000 for FY 2018 and were reduced to \$500,000 for FY 2019 recognizing 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 been initiated – it has not materialized at the same pace anticipated when the original agreement for CS-195 was established. We did not seek to return the annual fee to the original FY 2018 level and maintained it for FYs 2020 and 2021. The level of consulting services requested of THE FOSTER GROUP by the Authority has continued to exceed that envisioned when the funding for CS-195 was established. Having said that, the original annual fee included estimated direct expense related to travel and meeting attendance – and with the Authority’s commitment (in the short term) to virtual meetings certain efficiencies have been realized. We remain committed to the desired transition, and have established an estimated level of consulting services that maintains the existing annual fee for proposed services provided during FY 2022 and FY 2023, while recognizing the potential savings mentioned above. We propose to continue to invoice for these services in fixed monthly amounts.

<u>Item</u>	<u>Fee Estimate</u>
Annual Financial Management Consulting – FY 2022	\$475,000
Annual Financial Management Consulting – FY 2023	<u>\$475,000</u>
Total – Financial Management Consulting	\$950,000

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. CS-195 originally contained funding for \$15,000 per transaction for financings issued through the State of Michigan Municipal Financing Authority (“MFA”), such as SRF transactions. Last month we submitted a proposal to address two additional SRF transactions planned during FY 2021 that not covered by CS-195. In that proposal we identified that, due to efficiencies we’ve been able to establish via concurrent financial consulting services, we are able to propose a lower “per transaction” fee of \$12,500 for such services. We are prepared to honor that fee per transaction in this proposal for FY 2022 and FY 2023.

We are aware that GLWA is exploring additional capital financing vehicles that may be made available via various programs partially sponsored by the Federal and State governments. While it is difficult to envision the level of “System Consultant” services that may be required to support such transactions, it is likely that securing these transactions will require a level of effort that is somewhere between “open market” revenue bond transactions and traditional MFA transactions. As noted below, we suggest establishing an allowance for such transactions

in the amount of \$100,000 for the duration of this proposed contract = subject to review and adjustment as developments require.

Any such services in this category 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.

Again, it is difficult to fully anticipate the number and type of transactions that may occur during FY 2022 and FY 2023. The fee estimate below is based on our understanding of the current debt issuance plan for GLWA, which includes:

- Issuance of two (one Water, one Sewer) new money revenue bond transactions during FY 2023. Totaling \$200,000;
- Issuance of 11 SRF transactions during FY 2022, totaling 137,500;
- An allowance for 9 SRF transactions during FY 2023, totaling 112,500;
- An allowance of \$100,000 for other transactions that may emerge from new financing vehicles.

Item

System Consultant Services

Fee Estimate

\$550,000

Of course if the Authority's current plans regarding debt issuance change, the estimated fees would change as well.

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