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Title: Proposed Agreement related to FY2017 Shared Services and Transition Costs True-up between the Detroit Water and Sewerage Department and the Great Lakes Water Authority

Sponsors: Nicolette Bateson

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Attachments: 1. FY 2017 True Up Cover Memo 6.6.2019.pdf, 2. 2 - FY17 Shared Services and Transition Costs True-Up Agreement 6.6.2019.pdf

Date	Ver.	Action By	Action	Result
6/12/2019	1	Board of Directors Workshop Meeting	Approved	Pass

Proposed Agreement related to FY2017 Shared Services and Transition Costs True-up between the Detroit Water and Sewerage Department and the Great Lakes Water Authority

Agenda of: June 12, 2019
Item No.: **2019-229**
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: Proposed Agreement related to 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 Party 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 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.