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Title: Approval of FY2016 Shared Services and Transition Costs True-up between the Detroit Water and Sewerage Department and the Great Lakes Water Authority

Sponsors: Nicolette Bateson

Indexes: Finance

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Attachments: 1. Shared Services and Transition Costs True-Up Agreement 6.15.pdf

Date	Ver.	Action By	Action	Result
6/20/2018	1	Board of Directors	Approved	Pass

Approval of FY2016 Shared Services and Transition Costs True-up between the Detroit Water and Sewerage Department and the Great Lakes Water Authority

Agenda of: June 20, 2018
Item No.: **2018-809**
Amount: See background

TO: The Honorable
Board of Directors
Great Lakes Water Authority

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

DATE: June 20, 2018

RE: Approval of FY2016 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 FY2016 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 FY2016 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 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 six months of provided Services. The final step for settlement of FY2016 is to secure GLWA Board and DWSD 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 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. 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 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	\$7,547,379

A "Schedule of True Up Billings" is attached in the "FY2016 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 and DWSD's BOWC approve the proposed agreement.

JUSTIFICATION

The GLWA and DWSD administrations wish to finalize the FY2016 shared service and transition costs.

BUDGET IMPACT

The budget impact of the FY2016 Shared Services and Transition Costs True-Up Agreement is outlined in the attached memorandum and supporting documentation. The FY2016 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 was presented to the Audit Committee at its regular meeting on June 15, 2018. The Audit Committee received and filed this report and moved to forward it to the full Board of Directors for consideration.

SHARED SERVICES IMPACT

This item brings closure to the shared services and transition costs for FY2016 between GLWA and DWSD.