



Bad Debt Recovery Credit Pending

Calculated Consistent with the Methodology
Established by the Bad Debt Recovery Methodology in
Board Resolution #2023-427

for

Future Bad Debt Recovery Credits Pending Certain
Conditions Precedent as
Adopted by the Board of Directors
November 16, 2023

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December 5, 2023

To Our Member Partners:

The purpose of this document is to provide you with talking points as it relates to the [Term Sheet](#) that was approved by the Great Lakes Water Authority (GLWA) Board of Directors on October 25, 2023 and subsequent action by the Board on November 16, 2023 that outlines a plan to provide reimbursement credits to Member Partners following the implementation of the Term Sheet.

Key Points Related to the Term Sheet

The Term Sheet outlines the framework for a settlement agreement between the city of Highland Park, the State of Michigan, and GLWA which encompasses several next steps. There are three main pillars to the Term Sheet that not only provide much needed assurances from Highland Park, but also support a fresh start in the GLWA-Highland Park-State of Michigan relationship:

- *Pillar 1:* Payment assurances from Highland Park (including entering into GLWA model contracts for water and sewer and agreeing to mandatory, expedited binding arbitration for all disputes);
- *Pillar 2:* Investment in capital improvements in the Highland Park and GLWA systems by the State (\$30M to GLWA -- \$25M previously appropriated for Wastewater Infrastructure projects and a new \$5M appropriation for water infrastructure projects);
- *Pillar 3:* The addition of metering to create confidence that Highland Park is being billed equitably for their use of the regional system.

Once the conditions precedent from the term sheet are met and the agreement is implemented, all litigation will be dismissed.

Direct Impact for Member Partners

While the pending resolution of these matters brings greater stability to the region, the settlement agreement did not provide specific funds to reimburse Member Partners for their contributions for prior bad debt expense. The GLWA Board of Directors did, however, at their meeting on November 16, 2023, unanimously approve a resolution that provides a plan to provide Highland Park bad debt recovery credits to reimburse first-tier member partners who had previously absorbed portions of the bad debt expense in their GLWA service charges. You can find that resolution [here](#).

A few key points about that resolution are below.

- **Timing:** The reimbursement plan is financially feasible after the Term Sheet is implemented. Although the depth and breadth of work required to satisfy the conditions precedent contained in the resolution and laid out in the settlement [Term Sheet](#) is significant, it is estimated that these bad debt recovery credits could be applied as early as the fourth quarter of the current GLWA fiscal year, which ends on June 30, 2024. The

exact amount of the credits will be determined closer to the actual date that credits will be applied.

- Of note, credits may not be applicable if a community has prior or current account delinquencies. In that case, those communities will be notified.
- Amount: The Board adopted resolution provides for water system Member Partners receiving 100 percent reimbursement of the amounts previously charged. Based upon limited funds available, first-tier sewer system Member Partners will be reimbursed approximately 45 percent of the amounts previously charged.
- Manner: The methodology for applying the credits will in a similar manner as that approved by the Board in June 2023, and that was applied to member Partner accounts in August 2023 for the \$1 million dollar payment received last year.

We will continue to provide updates as new information becomes available. As we do with all regional system issues that are multi-jurisdictional, GLWA will coordinate closely with Member Partners on the communications strategy going forward.

If you have overall questions about the bad debt credit recovery process, please contact Outreach@glwater.org.

Great Lakes Water Authority Board of Directors

General Certification

The undersigned hereby certifies that (i) the Resolution **2023-427** regarding **“Resolution Regarding Approval of Schedule of Member Partner Bad Debt Recovery Credits #2023-2 Totaling \$20,026,500 With Conditions Precedent Utilizing the Highland Park Bad Debt Recovery Credits Methodology”** attached hereto is a true and complete copy of the Resolution duly passed by the Great Lakes Water Authority Board of Directors at a meeting held on November 16, 2023 at which meeting a quorum was present and remained throughout, (ii) the original thereof is on file in the records of the Great Lakes Water Authority Board of Directors, (iii) the meeting was conducted, and public notice thereof was given, pursuant to and in full compliance with the Open Meetings Act (Act No. 267, Public Acts of Michigan, 1976, as amended); and (iv) Minutes of such meeting were kept and will be or have been made available as required thereby.

YES: Freman Hendrix, Brian Baker, Mark Miller, Gary A. Brown,
Jaye Quadrozzi, and John J. Zech

NO: None

ABSTAIN: None

EXCUSED: None

Dated: November 16, 2023



By: Rechanda L. Willis
Title: Executive Board Assistant

Resolution Regarding Approval of Schedule of Member Partner Bad Debt Recovery Credits #2023-2 Totaling \$20,026,500 With Conditions Precedent Utilizing the Highland Park Bad Debt Recovery Credits Methodology

Agenda of: November 16, 2023

Item No.: **2023-427**

Amount: \$20,026,500.00

TO: The Honorable
Board of Directors
Great Lakes Water Authority

FROM: Suzanne R. Coffey, P.E.
Chief Executive Officer
Great Lakes Water Authority

DATE: October 25, 2023

RE: Resolution Regarding Approval of Schedule of Member Partner Bad Debt Recovery Credits #2023-2 Totaling \$20,026,500 With Conditions Precedent Utilizing the Highland Park Bad Debt Recovery Credits Methodology

MOTION

Upon recommendation of Nicolette N. Bateson, Chief Financial Officer & Treasurer, the Board of Directors (Board) of the Great Lakes Water Authority (GLWA), adopts Resolution #2023-427 to:

- 1. Approve the Schedule of Member Partner Bad Debt Recovery Credits #2023-2 totaling \$20,026,500 with \$5,026,500 for the water system and \$15,000,000 for the sewer system with conditions precedent utilizing the Highland Park Bad Debt Recovery Credits Methodology;**

2. Acknowledge that the following actions (collectively the “Conditions Precedent”), which provide indirect budget relief, are conditions precedent that must occur prior to the funding, application, and distribution of the credits:
 - a. Execution of the implementation agreements as described in the October 18, 2023 Term Sheet (attached) between the City of Highland Park, Great Lakes Water Authority, and the State of Michigan (“Term Sheet”) including the successful implementation of the all-receipts trust;
 - b. Appropriation by State of Michigan of “a \$5M grant for work to be conducted by GLWA on drinking water infrastructure” referenced in section 2.c. of the Term Sheet.”;
 - c. Release by the State of Michigan and transfer to GLWA of “the \$25M sewer infrastructure grant funds previously allocated in the FY 2023 budget to GLWA on or before December 31, 2023”;
 - d. Payment of “\$241,418.75 cash bond deposited by HP [Highland Park] with the U.S. District Court Clerk [which] shall be released to GLWA from E.D. Mich. Case No. 16-cv-13840”
3. Request that staff report to the Board of Directors when conditions precedent are met to seek approval to apply credits totaling \$20,026,500 as outlined in the above methodology and related Schedule of Member Partner Bad Debt Recovery Credits #2023-2 no sooner than the fourth quarter of FY24;
4. Provide contingent funding for credits to Member Partners subject to the conditions precedent in the FY 2024 First Quarter Budget Amendments of \$5,026,500 for the water system and \$15,000,000 for the sewer system;
5. Authorize staff to deposit the \$241,418.75 cash bond to the sewer system deposited by Highland Park with the U.S. District Court Clerk related to E.D. Mich. Case No. 16-cv-13840; and
6. Authorize the Chief Executive Officer to take such other action as may be necessary to accomplish the intent of this vote.

BACKGROUND

In accordance with contractual terms for service and related court orders, Member Partner communities are explicitly responsible for funding certain bad debt expense. Over an extended period, Member Partner communities have been charged for bad debt expense related to partial non-payment by the City of Highland Park. Simultaneously, litigation with Highland Park and the State of Michigan has occurred as it relates to water, sewer, and industrial waste control service charges.

Recently, developments in a confidential mediation process between the City of Highland Park, the Great Lakes Water Authority (GLWA) and the State of Michigan resulted in the parties entering into the attached Term Sheet. The Term Sheet includes the following excerpted provisions which are most pertinent to the release of funds to GLWA to fund Member Partner bad debt expense recovery credits.

- Item #1 - “The Great Lakes Water Authority (GLWA), the City of Highland Park (HP), and the State of Michigan (SOM) shall enter into a settlement agreement by January 15, 2024 that incorporates the basic terms set forth below including mutually agreeable release language.”
- Item #2c – “The SOM shall: Release the \$25M sewer infrastructure grant funds previously allocated in the FY 2023 budget to GLWA on or before December 31, 2023 and appropriate a \$5M grant for work to be conducted by GLWA on drinking water infrastructure.”
- Item #4i – “HP will enter into contracts based on GLWA’s model contract by January 15, 2024 covering the period of January 1, 2014 to December 31, 2044 for water and sewer services. ...
 - i. The settlement agreement and contracts shall require all amounts paid for HP water, sewer (including industrial waste control) and stormwater services be placed into a trust in which the trustee pays GLWA and any remaining amounts to HP on the same date.”
- Item #9 – “Upon effectuation of the settlement agreement, its attachments and related documents, including initial funding consistent with this agreement and after receipt by the trustee of one month of HP’s water and sewer receipts and distribution of one month’s payment of funds to GLWA under Paragraph 4.i, all litigation between GLWA, Detroit Water and Sewerage Department (DWSD), HP, or SOM shall be dismissed ...”
- Item #10 – “The \$241,418.75 cash bond deposited by HP with the U.S. District Court Clerk shall be released to GLWA from E.D. Mich. Case No. 16-cv-13840.”

- Item #13 – “This term sheet is conditional and dependent upon (a) final approval of terms by the Governor, (b) appropriation of funds from the legislature to the extent necessary, and (c) approval by the governing bodies of GLWA, and any other necessary party on or before October 26, 2023. “

JUSTIFICATION

History of Bad Debt Expense & Member Partners Charges

The 2011 federal court *Order to Incorporate Rate Settlements into Wastewater Contracts and Dismiss All Prior Rate Settlements*, requires then Detroit Water & Sewerage Department and now GLWA to allocate the bad debt expense in its sewer charges. The 2011 Order also identifies the allocation of bad debt expense by customer class. Under the 2011 Order, bad debt expense recovery from “wholesale contract customers” must be recovered from that same customer class. The status of bad debt expense is discussed every year during charges rollout meetings and several years ago, the cost was shown as a line item of the charge calculation sheet. A similar approach has been applied to water charges. From a utility sector charge setting perspective, bad debt expense is an operating cost that should be accounted for in charges and it is therefore not uncommon. The larger issue for GLWA and its Member Partner communities is that it had likely not envisioned that an unpaid account would reach \$54 million. As we look to bring closure to the past with the recent Term Sheet of October 18, 2023, a more wholistic approach is warranted to balance the financial burden.

Highland Park Accounts Receivable as of June 30, 2023 and Member Partner Interests

For the water system, as of June 30, 2023, the Highland Park accounts receivable balance (all amounts rounded for discussion purposes), is \$12 million. Of that amount, all Member Partner communities, including suburban wholesale and DWSD, were charged \$5 million of bad debt expense and GLWA has absorbed \$7 million. Member Partner communities are interested to know if there is a way that they can be made fully or partially whole given the recently agreed upon Term Sheet. The entire amount contributed by Member Partners, in an exact amount is \$5,026,500 (which is \$5,152,500 previously charged less the one-time credit of \$126,000 based upon a specific payment made by Highland Park on June 9, 2023).

For the sewer system, as of June 30, 2023, the Highland Park accounts receivable balance (all amounts rounded for discussion purposes), is \$41 million. Of that amount, suburban wholesale Member Partner Communities were charged \$35 million of bad debt expense and GLWA has absorbed \$6 million. Member Partner communities are interested to know if there is a way that they can be made fully or partially whole given the recently agreed upon Term Sheet. The entire amount contributed by Member Partners, in an exact amount, is \$34,782,400 (which is \$35,656,400 previously charged

less the one-time credit of \$874,000 based upon a specific payment made by Highland Park on June 9, 2023).

What Options Does GLWA Have to Ease the Prior Bad Debt Expense Burden?

The nature of all public utility finances is that the entire cost of operations and capital improvements are borne by the customers. And those costs are largely fixed in nature. Public utilities use break-even budgeting; there is no “profit.” If the fixed cost system has a shortfall in year one, that shortfall directly or indirectly is reflected in future charges – largely because there are less funds carried forward for the capital improvement needs in subsequent years. Barring the availability of other resources, this results in higher charges requests in subsequent years.

Within the past month, there were two concurrent efforts underway which we would like to discuss as a wholistic view of the Member Partner credit requests from availability of other available resources.

Starting with the term sheet itself. First, there will be approximately \$250,000 for past legal fees which was agreed upon to be released to GLWA and would be recorded in an operating account. That is a straightforward decision to tag those funds for member partner credits. Second, there is also the potential \$5 million water infrastructure grant (pending legislative approval) and the \$25 million sewer infrastructure grant (pending release by the State and aligning project costs with federal requirements). These grants are great news for the system overall, but appropriately have spending restrictions and are to be used for capital improvements, not operating expenses, as well as carry a myriad of other restrictions. Also, since they are capital in nature, and will be paid on a reimbursement basis that may extend over a year, they cannot be tagged for Member Partner credits. Our challenge in leveraging how the economic benefit of these grants over a period of time and with restricted uses, can be used for providing charge relief. Understanding timing and cashflow are at the center of evaluating the request.

Turning to the other concurrent matter which is the analysis and preparation of the first quarter FY 2024 budget amendments. The downside is that we are continuing to see intense budget pressure as discussed in great detail at the GLWA Board Workshop on September 13, 2023. Attached is a synopsis of the budget status for the fiscal year that began on July 1, 2023. Note the following related to that attached table.

Water System – Negative FY 2024 Q1 proposed amendment of \$18 million due to \$4 million water revenue shortfall (wet weather in summer months), \$10 million in increased operating expenses (chemicals, utilities and the change in funding source from Improvement & Extension to Operations & Maintenance for the Workday implementation and other services that cannot be capitalized), and \$3 million net of other items with the most significant being increased debt service

due to new money transaction this fall to keep pace with the water system improvements underway.

We do have good news on forecasted investment earnings as our investment manager continues to optimize the portfolio with an \$8 million positive variance.

The net of the \$18 million negative variance and the \$8 million uptick in investment earnings meant that the FY 2024 Q1 budget amendment would be a decrease to the Improvement & Extension (I&E) Fund for future capital improvements by \$10 million. Instead, we propose to tag the \$5,000,000 of unrestricted positive investment earnings in FY 2024 along with \$26,500 in other operating funds to credit Member Partners based on the previously approved “Highland Park Bad Debt Recovery Credits Methodology.” While it means that we would further decrease the I&E contribution this year, the receipt of the grant would make up for it in the future. This is of course, dependent upon the actions of all parties to carry out the tasks outlined in the term sheet. It should be noted that the sum of \$5,026,500 would fully reimburse water system Member Partners.

Sewer System – Negative FY 2024 Q1 proposed amendment of \$15 million are due to a \$14 million increase in operating expenses (chemicals, utilities, repairs & maintenance contracts, and the change in funding source from Improvement & Extension to Operations & Maintenance for the Workday implementation and other services that cannot be capitalized), and \$1 million net of other items with the most significant being increased debt service due to new money transaction this fall to keep pace with the sewer system improvements underway.

We did have good news on investment earnings as our investment manager continues to optimize the portfolio with an \$9 million positive variance.

The net of the \$15 million negative variance and the \$9 million uptick in investment earnings meant that the FY 2024 Q1 budget amendment would be a decrease to the Improvement & Extension (I&E) Fund for future capital improvements by \$6 million. Instead, we propose to tag the \$9 million of the positive unrestricted investment earnings in FY 2024 to credit Member Partners based on the previously approved “Highland Park Bad Debt Recovery Credits Methodology”. In addition, given that the economic benefit of the grant of \$25 Million will accrue to the entire system, we have been asked if there is a way to recognize that 60% of the revenue comes from the suburban customer class – which was charged for bad debt expense. This results in a request of \$15 million (60% multiplied by \$25 million) for a credit to Member Partners. While it means that we would further decrease the I&E contribution by \$6 million this year, the receipt of the grant would make up for it in the future. Bottom line would be \$15 million tagged for suburban wholesale

Member Partner credits. This is also, of course, dependent upon the actions of all parties to carry out the tasks outlined in the term sheet.

Highland Park Bad Debt Recovery Credits Methodology

On June 28, 2023, the Board of Directors adopted a methodology for credit allocation among Member Partners ([File #2023-234](#)). The overall allocation is 87.4% Sewer System and 12.6% Water System based on a proportional share of what was included in previous years' charges for services to first-tier Member Partners. Attached is a schedule which identifies a percentage for each Member Partner community and their relative share based on the discussion above.

BUDGET IMPACT

The financial impact on the budget is outlined above. In summary, it is reduction to the I&E Fund contribution in FY 2024 with a corresponding increase in construction fund capital grant revenue that spans potentially FY 2024 and subsequent years, *pending completion of the conditions precedent*.

Water System FY 2024 – I&E contribution reduced by \$5,026,500 for Member Partner Credits with timing of future \$5 million capital grant for the construction fund at a future date.

Sewer System - I&E contribution reduced by \$15 million (representing 60% suburban wholesale class allocation) for Member Partner Credits with timing of future \$25 million capital grant for the construction fund at a future date.

In terms of timing, it is proposed that this proposal be reflected in the FY 2024 Q1 Budget Amendments. Timing of the credits applied is dependent upon a number of actions, including the establishment of an all receipts trust and 30 days to ensure that the overall agreements are working as intended. There are complexities to the Term Sheet, but it should be reasonably expected that credits could occur in late FY 2024 Q3 or early Q4.

COMMITTEE REVIEW

This matter was presented at the November 9, 2023 Audit Committee with a unanimous recommendation to move the items to the full Board of Directors for discussion at its meeting on November 16, 2023.

SHARED SERVICES IMPACT

This item does not impact the shared services agreement between GLWA and DWSD.

Table 1 - Water System proposed budget amendments and tagging of funds for credits

Water System	FY 2024 Board Adopted Budget	Total 1st Quarter FY 2024 Amendments	FY 2024 Amended Budget	FY 2024 Activity Thru 8/31/2023
Revenues				
Suburban Wholesale Customer Charges	\$ 340,540,600	\$ (4,000,000)	\$ 336,540,600	\$ 61,756,600
Less: Bad Debt Expense	-	-	-	-
Less: Pending Bad Debt Recovery Credit	-	(5,026,500)	(5,026,500)	-
Retail Service Charges	25,537,200	-	25,537,200	4,256,200
Investment Earnings	4,061,700	8,000,000	12,061,700	2,352,800
Other Revenues	175,000	265,000	440,000	236,100
Total Revenues	\$ 370,314,500	\$ (761,500)	\$ 369,553,000	\$ 68,601,700
Revenue Requirements				
Operations & Maintenance Expense	\$ 152,906,400	\$ 10,194,100	\$ 163,100,500	\$ 25,161,400
General Retirement System Legacy Pension	-	-	-	-
Debt Service	159,482,800	3,872,800	163,355,600	26,932,500
General Retirement System Accelerated Pension	3,395,500	(1,890,000)	1,505,500	565,900
Extraordinary Repair & Replacement Deposit	-	-	-	-
Water Residential Assistance Program Contribution	1,851,600	-	1,851,600	308,600
Regional System Lease	22,500,000	-	22,500,000	3,750,000
DWSD Budget Shortfall Pending	-	-	-	-
Receiving Fund Working Capital Requirement	-	1,500,000	1,500,000	-
Improvement & Extension Fund Transfer Pending	30,178,200	(14,438,400)	15,739,800	5,029,700
Total Revenue Requirements	\$ 370,314,500	\$ (761,500)	\$ 369,553,000	\$ 61,748,100
Net Actual to Date	\$ -	\$ -	\$ -	\$ 6,853,600
<i>Regional System Debt Service Coverage Ratio</i>				
- With Credits	1.36	(0.10)	1.26	
- Without Credits	1.36	(0.07)	1.29	

Table 2 - Sewer System proposed budget amendments and tagging of funds for credits

Sewer System	FY 2024 Board Adopted Budget	Total 1st Quarter FY 2024 Amendments	FY 2024 Amended Budget	FY 2024 Activity Thru 8/31/2023
Revenues				
Suburban Wholesale Customer Charges	\$ 282,687,600	\$ -	\$ 282,687,600	\$ 47,142,400
Less: Bad Debt Expense	-	-	-	-
Less: Pending Bad Debt Recovery Credit	-	(15,000,000)	(15,000,000)	-
Retail Service Charges	196,569,600	-	196,569,600	32,761,600
Industrial Waste Control Charges	8,584,200	-	8,584,200	1,437,400
Pollutant Surcharges	5,328,300	-	5,328,300	554,800
Investment Earnings	7,057,300	9,000,000	16,057,300	3,236,300
Other Revenues	400,000	317,000	717,000	362,000
Total Revenues	\$ 500,627,000	\$ (5,683,000)	\$ 494,944,000	\$ 85,494,500
Revenue Requirements				
Operations & Maintenance Expense	\$ 205,643,700	\$ 14,484,700	\$ 220,128,400	\$ 34,669,500
General Retirement System Legacy Pension	-	-	-	-
Debt Service	228,328,300	3,836,900	232,165,200	38,705,900
General Retirement System Accelerated Pension	6,479,300	(3,382,500)	3,096,800	1,079,900
Extraordinary Repair & Replacement Deposit	-	-	-	-
Water Residential Assistance Program Contribution	2,503,100	-	2,503,100	417,200
Regional System Lease	27,500,000	-	27,500,000	4,583,300
DWSD Budget Shortfall Pending	-	-	-	-
Improvement & Extension Fund Transfer Pending	30,172,600	(20,622,100)	9,550,500	5,028,800
Total Revenue Requirements	\$ 500,627,000	\$ (5,683,000)	\$ 494,944,000	\$ 84,484,600
Net Actual to Date	\$ -	\$ -	\$ -	\$ 1,009,900
<i>Regional System Debt Service Coverage Ratio</i>				
- With Credits	1.29	(0.11)	1.18	
- Without Credits	1.29	(0.04)	1.25	



Judicial Resource Services PC

Facilitation - Mediation

28800 8 Mile Road, Suite 111
Farmington Hills, MI 48336

T: 248-888-9922
F: 248-888-9955

James J. Rashid
Circuit Judge, Retired

www.JRSADR.com
Dates@JRSADR.com

MEDIATION COMMUNICATION

Term Sheet– 10/18/2023

1. The Great Lakes Water Authority (GLWA), the City of Highland Park (HP), and the State of Michigan (SOM) shall enter into a settlement agreement by January 15, 2024 that incorporates the basic terms set forth below including mutually agreeable release language. The various documents referenced and necessary to effectuate this term sheet shall be attached, signed, and incorporated as a part of that agreement by that date. In addition, the Department of Environment, Great Lakes and Energy (EGLE) will either amend or replace its July 28, 2017 Administrative Consent Order (ACO) by January 15, 2024 to incorporate the terms set forth below that are specific to HP.
2. The SOM shall:
 - a. Pay for the reasonable and necessary cost to install water master meter(s) on water lines and sufficient temporary meters to estimate the sewage flow produced by HP. Metro Consulting (Metro) will be responsible for conducting the necessary work to install the meters. EGLE shall oversee that work pursuant to its regulatory authority. Metro will submit a proposal(s) to EGLE for this work, which will include the number and placement location of those meters in accordance with the provisions below. Metro will consult with GLWA in preparing the proposal(s). EGLE must approve in writing any proposal before installation of meters or implementation begins. In addition:
 - i. The water master meter(s) and temporary sewage metering devices will be installed subject to GLWA's specifications.
 - ii. The water master meter(s) shall be installed at all open points of connection between HP and GLWA.
 - iii. Upon transfer, GLWA will own, operate, and maintain the water master meter(s). HP shall be responsible for the cost of maintaining and operating the sewer meters.
 - iv. HP and GLWA shall agree to a third party and procedures to maintain and operate the sewer meters including the sharing of data produced by the meters. If the parties cannot agree to a third party or the procedures associated with operation, SOM shall identify the third party and prescribe the procedures.
 - v. HP shall have the same access to the Wholesale Automated Meter Reading (WAMR) system and Greater Detroit Regional Sewer System (GDRSS) data for the installed HP water and sewer meters as all other customer communities served by GLWA.



Judicial Resource Services PC

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James J. Rashid
Circuit Judge, Retired

28800 8 Mile Road, Suite 111
Farmington Hills, MI 48336

T: 248-888-9922
F: 248-888-9955

www.JRSADR.com
Dates@JRSADR.com

- vi. HP shall have the right to annually inspect the water master meter(s) and sewer meters upon request.
 - vii. Unless otherwise agreed by the parties, the water master meter(s) and sewage metering devices for HP shall be installed within one year of the execution of the settlement agreement and accompanying documents. HP shall provide full access to meter locations to complete the work timely.
- b. Pay for work necessary to complete water main and service line replacement efforts within the boundaries of HP. EGLE shall have responsibility for determining the necessary work, including conducting or supervising this work.
- c. Release the \$25M sewer infrastructure grant funds previously allocated in the FY 2023 budget to GLWA on or before December 31, 2023 and appropriate a \$5M grant for work to be conducted by GLWA on drinking water infrastructure.
3. HP shall continue to retain Metro to operate HP's water and sewer operations, which includes all billing, collections, maintenance, and improvements. If for any reason, Metro ceases to be HP's operator, then subject to SOM's approval, HP will retain another entity to conduct these operations. Subject to all terms and conditions of the settlement agreement and the contract between GLWA and HP, beginning January 1, 2024 and on a going forward basis, HP shall pay the full amount of GLWA's monthly charges pursuant to the terms of any contract between GLWA and HP.
4. HP will enter into contracts based on GLWA's model contract by January 15, 2024 covering the period of January 1, 2014 to December 31, 2044 for water and sewer services.
- i. The settlement agreement and contracts shall require all amounts paid for HP water, sewer (including industrial waste control) and stormwater services be placed into a trust in which the trustee pays GLWA and any remaining amounts to HP on the same date. Any grants or loans from SOM to HP for infrastructure projects shall not be part of or included in the trust.
 - ii. Except to enforce the conditions of this term sheet and the settlement agreement, to the extent that any future disputes arise between HP and GLWA over water and sewer services, which the parties are unable to resolve within 30-days' notice of that dispute, HP and GLWA agree to resolve such disputes through expedited mandatory arbitration pursuant to Michigan statute and court rule that shall be binding upon them. For a charge or billing dispute, the trustee must place in escrow the amount in dispute.



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James J. Rashid
Circuit Judge, Retired

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Farmington Hills, MI 48336

T: 248-888-9922
F: 248-888-9955

www.JRSADR.com
Dates@JRSADR.com

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- iii. Once the master water meter(s) is installed, HP shall be treated as part of the master metered customer class.
 - iv. For five years commencing on the date of this agreement, the model water contract will allow for Highland Park's max day and peak hour water volume demand to be updated annually as Highland Park continues to "dry up" its system by replacing water mains and lead service lines, or completing other infrastructure improvements that would impact Highland Park's water demand requirements.
5. HP and EGLE will either revise the current ACO or replace it with a new one to incorporate the terms set forth in this term sheet that are specific to HP. That ACO shall remain effective and in effect until January 1, 2044 after which it may be terminated if HP has met all of its terms.
6. Until metering data can be used to project water and sewer charges:
- a. For services provided until December 31, 2023, HP will continue to pay or the trustee will pay on HP's behalf 65% of any and all amounts received by HP in payment of bills for water and wastewater treatment services.
 - b. Effective January 1, 2024, subject to and conditioned upon execution by all parties of the settlement agreement by January 15, 2024, GLWA will reduce HP's water charges based on reductions in usage volume due to documented repairs of leaks up to 25 percent of its current water usage.
 - c. Effective January 1, 2024, subject to and conditioned upon execution by all parties of the settlement agreement by January 15, 2024, GLWA will also provide a settlement credit of \$60,000 per month to HP on its sewage charges until June 30, 2024 subject to the following:
 - i. HP may fully participate in GLWA's share and charge process for FY 2025.
 - ii. Beginning July 1, 2024, HP shall receive the lesser of (A) the current FY 2024 sewage charges and credit or (B) the new FY 2025 share and resulting charges.
 - iii. This settlement credit will terminate no later than June 30, 2025.
7. Once 12 months of quality metering data is available to project estimated annual water and sewer flows, GLWA charges to HP shall be based on that data and future data.
8. HP shall increase its water and sewer rates by adopting an interim amended budget no later than December 2023, for the period of January 1, 2024 to June 30, 2024. For all subsequent fiscal years, Metro shall annually retain an independent rate analyst, subject to the approval of the SOM, to calculate necessary adjustments in its water



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and sewer rates to ensure that the budget for HP's water and sewer operations is sufficient to ensure payment of all GLWA charges and all overhead, maintenance, and operational costs associated with its water and sewer operations. The analyst will recommend necessary rates changes to HP and HP shall annually adjust its water and sewer rates in accordance with the recommendations of the rate analyst.

9. Upon effectuation of the settlement agreement, its attachments and related documents, including initial funding consistent with this agreement and after receipt by the trustee of one month of HP's water and sewer receipts and distribution of one month's payment of funds to GLWA under Paragraph 4.i, all litigation between GLWA, Detroit Water and Sewerage Department (DWSD), HP, or SOM shall be dismissed with prejudice according to the following:
 - a. The judgment entered in Wayne County Circuit Court Case No. 2014-001974-CK shall be released or deemed satisfied, and HP shall dismiss its pending appeal from that action (COA Case No. 367193). The court shall retain jurisdiction to enforce the terms of the settlement agreement, which will be entered by the court as a consent judgment.
 - b. HP and GLWA shall submit a proposed stipulated order of dismissal of Wayne County Circuit Court Case No. 20-011589.
 - c. HP shall dismiss its appeal (COA Case No. 362416) from Wayne County Circuit Court Case No. 22-004754-CB and shall release and waive any further challenge to GLWA's rules that were the subject of that action.
 - d. GLWA and SOM shall submit a stipulated order of dismissal of Court of Claims Case No. 2021-000151.
 - e. HP and SOM will submit a proposed stipulated order of dismissal in Court of Claims Case No. 19-000129-MZ.
 - f. HP and GLWA shall submit a proposed stipulated order setting aside the Amended Consent Judgment dated June 18, 1996 in E.D. Mich. Case No. 92-CV7677-DT and 94-CV-73135-DT
10. The \$241,418.75 cash bond deposited by HP with the U.S. District Court Clerk shall be released to GLWA from E.D. Mich. Case No. 16-cv-13840.
11. Upon approval of this term sheet by HP, SOM, and GLWA, not later than October 23, 2023, GLWA and HP shall submit a signed copy of the term sheet to, and submit a request for, a stipulated Stay of the October 24, 2023, Status Conference and all further proceedings in Judge Joseph's Case No. 14-001974 and all appellate proceedings from that case, Case COA Docket No. 367193, until January 15, 2024.
12. Upon execution and approval of this term sheet by HP, SOM, and GLWA, not later than October 27, 2023, GLWA and HP shall submit:



Judicial Resource Services PC
Facilitation - Mediation

James J. Rashid
Circuit Judge, Retired

28800 8 Mile Road, Suite 111
Farmington Hills, MI 48336

T: 248-888-9922
F: 248-888-9955

www.JRSADR.com
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- a. a signed copy of the term sheet to, and submit a request for, a stipulated Stay of the November 2, 2023, Status conference and all further proceedings in Judge Berry's Case No 20-011589 until January 15, 2024.
 - b. a signed copy of the term sheet to, and submit a request for, a stipulated Stay of Petition for Rehearing in Banc in 6th circuit case no. 22-1288, until January 15, 2024.
 - c. Stipulate to a stay of all proceedings in HP's appeal (COA Case No. 362416) from Wayne County Circuit Court Case No. 22-004754-CB.
13. This term sheet is conditional and dependent upon (a) final approval of terms by the Governor, (b) appropriation of funds from the legislature to the extent necessary, and (c) approval by the governing bodies of GLWA, and any other necessary party on or before October 26, 2023.

City of Highland Park:

Shirley M. Dell
Mayor
10/19/2023

Dated:

Brenda Green
City Clerk
10/19/23

State of Michigan:

[Signature]
Dated: 10/19/23

Great Lakes Water Authority:

Suzanne R. Coffey
Chief Executive Officer
10/20/2023

Dated:

Highland Park Bad Debt Synopsis
Allocation of Potential Subsequent Recovery Credit to **Water and Sewer** Member Partners

	(1)	(2)	(3)	(4)	(5)
	Cumulative Amount in Charges thru FY 2022 <i>(a)</i>	Relative Share of Highland Park Bad Debt <u>Debt</u>	Initial Recovery Credit <u>Credit</u> <i>(b)</i>	Pending Subsequent Recovery Credit <u>Credit</u> <i>(c)</i>	Total Recovery Credit <u>Credit</u> <i>(3) + (4)</i>
<u>Water Charges</u>					
Macomb	\$1,127,700	21.9%	\$27,400	\$1,100,300	\$1,127,700
Oakland	1,471,900	28.6%	36,100	1,435,800	1,471,900
Wayne (<i>excl. Detroit</i>)	1,516,100	29.4%	36,900	1,479,200	1,516,100
Other	394,600	7.7%	9,700	384,900	394,600
Detroit	642,200	12.5%	15,900	626,300	642,200
Total	\$5,152,500	100.0%	\$126,000	\$5,026,500	\$5,152,500
<u>Sewer Charges</u>					
Macomb (<i>d</i>)	\$8,565,900	24.0%	\$209,900	\$3,603,500	\$3,813,500
Oakland (<i>e</i>)	14,419,900	40.4%	353,500	6,066,200	6,419,600
Wayne (<i>excl. Detroit</i>)	12,670,600	35.5%	310,600	5,330,300	5,640,900
Other	<i>NA</i>	<i>NA</i>	<i>NA</i>	<i>NA</i>	<i>NA</i>
Detroit	<i>NA</i>	<i>NA</i>	<i>NA</i>	<i>NA</i>	<i>NA</i>
Total	\$35,656,400	100.0%	\$874,000	\$15,000,000	\$15,874,000
<u>Combined Water and Sewer Charges</u>					
Macomb (<i>d</i>)	\$9,693,600	23.8%	\$237,300	\$4,703,800	\$4,941,200
Oakland (<i>e</i>)	15,891,800	38.9%	389,600	7,502,000	7,891,500
Wayne (<i>excl. Detroit</i>)	14,186,700	34.8%	347,500	6,809,500	7,157,000
Other	394,600	1.0%	9,700	384,900	394,600
Detroit	642,200	1.6%	15,900	626,300	642,200
Total	\$40,808,900	100.0%	\$1,000,000	\$20,026,500	\$21,026,500
Industrial Waste Control *			0	0	0
			\$1,000,000	\$20,026,500	\$21,026,500

* Highland Park IWC Bad Debt was not directly included in charges to any customer

(a) Reflects different historical time frames for Water and Sewer Charges.

(b) Allocation of initial \$1 million combined Water / Sewer recovery payment credited in August 2023.

(c) Potential credit to be issued pending effectuation of conditions precedent.

(b) Includes 60% of Sewer amounts for the Oakland Macomb Interceptor Drain District

(c) Includes 40% of Sewer amounts for the Oakland Macomb Interceptor Drain District

Highland Park Bad Debt Synopsis

Table 1 - Allocation of Pending Subsequent Recovery Credit to **Water** Member Partners

	(1)	(2)	(3)	(4)	(5)
	Cumulative Amount in Charges FY 2019 thru FY 2022 <i>(a)</i>	Relative Share of Highland Park Bad Debt <i>(b)</i>	Initial Recovery Credit <i>(b)</i>	Pending Subsequent Recovery Credit <i>(c)</i>	Total Recovery Credit <i>(3) + (4)</i>
1 Allen Park	\$33,900	0.66%	\$800	\$33,100	\$33,900
2 Almont Village	3,300	0.06%	100	3,200	3,300
3 Ash Township	11,700	0.23%	300	11,400	11,700
4 Belleville	4,300	0.08%	100	4,200	4,300
5 Berlin Township	10,600	0.21%	300	10,300	10,600
6 Brownstown Township	52,500	1.02%	1,300	51,200	52,500
7 Bruce Township	3,900	0.08%	100	3,800	3,900
8 Burtchville Township	4,700	0.09%	100	4,600	4,700
9 Canton Township	147,400	2.86%	3,600	143,800	147,400
10 Center Line	6,500	0.13%	200	6,300	6,500
11 Chesterfield Township	59,900	1.16%	1,500	58,400	59,900
12 Clinton Township	112,000	2.17%	2,700	109,300	112,000
13 Commerce Township	52,300	1.02%	1,300	51,000	52,300
14 Dearborn	159,100	3.09%	3,900	155,200	159,100
15 Dearborn Heights	52,600	1.02%	1,300	51,300	52,600
16 Eastpointe	21,900	0.43%	500	21,400	21,900
17 Ecorse	21,500	0.42%	500	21,000	21,500
18 Farmington	14,700	0.29%	400	14,300	14,700
19 Farmington Hills	129,600	2.52%	3,200	126,400	129,600
20 Ferndale	14,300	0.28%	300	14,000	14,300
21 Flat Rock	19,500	0.38%	500	19,000	19,500
22 Flint *	162,600	3.16%	4,000	158,600	162,600
23 Fraser	17,500	0.34%	400	17,100	17,500
24 Garden City	24,400	0.47%	600	23,800	24,400
25 Gibraltar	5,400	0.10%	100	5,300	5,400
26 Greenwood Township (DTE)	7,700	0.15%	200	7,500	7,700
27 Grosse Ile Township	16,900	0.33%	400	16,500	16,900
28 Grosse Pt. Park	20,900	0.41%	500	20,400	20,900
29 Grosse Pt. Shores	9,400	0.18%	200	9,200	9,400
30 Grosse Pt. Woods	20,200	0.39%	500	19,700	20,200
31 Hamtramck	10,600	0.21%	300	10,300	10,600
32 Harper Woods	12,200	0.24%	300	11,900	12,200
33 Harrison Township	22,200	0.43%	500	21,700	22,200
34 Hazel Park	10,300	0.20%	300	10,000	10,300
35 Highland Park <i>(d)</i>	0	0.00%	0	0	0
36 Huron Township	21,300	0.41%	500	20,800	21,300
37 Imlay City	19,500	0.38%	500	19,000	19,500
38 Imlay Township (Single User)	100	0.00%	0	100	100

TFG

Highland Park Bad Debt Synopsis

Table 1 - Allocation of Pending Subsequent Recovery Credit to **Water** Member Partners

	(1)	(2)	(3)	(4)	(5)
	Cumulative Amount in Charges FY 2019 thru <u>FY 2022</u>	Relative Share of Highland Park Bad <u>Debt</u>	Initial Recovery <u>Credit</u>	Pending Subsequent Recovery <u>Credit</u>	Total Recovery <u>Credit</u>
	(a)		(b)	(c)	(3) + (4)
39 Inkster	20,400	0.40%	500	19,900	20,400
40 Keego Harbor	4,300	0.08%	100	4,200	4,300
41 Lapeer	21,900	0.43%	500	21,400	21,900
42 Lenox Township	4,000	0.08%	100	3,900	4,000
43 Lincoln Park	32,000	0.62%	800	31,200	32,000
44 Livonia	177,500	3.44%	4,300	173,200	177,500
45 Macomb Township	177,700	3.45%	4,300	173,400	177,700
46 Madison Heights	28,200	0.55%	700	27,500	28,200
47 Mayfield Township (KAMAX)	500	0.01%	0	500	500
48 Melvindale	9,200	0.18%	200	9,000	9,200
49 New Haven, Village of	5,700	0.11%	100	5,600	5,700
50 NOCWA	326,400	6.33%	8,000	318,400	326,400
51 Northville	11,800	0.23%	300	11,500	11,800
52 Northville Township	81,900	1.59%	2,000	79,900	81,900
53 Novi	131,200	2.55%	3,200	128,000	131,200
54 Oak Park	19,800	0.38%	500	19,300	19,800
55 Oakland GWK Drain District	1,000	0.02%	0	1,000	1,000
56 Plymouth	15,400	0.30%	400	15,000	15,400
57 Plymouth Township	65,000	1.26%	1,600	63,400	65,000
58 Redford Township	45,700	0.89%	1,100	44,600	45,700
59 River Rouge	9,800	0.19%	200	9,600	9,800
60 Riverview	12,400	0.24%	300	12,100	12,400
61 Rockwood	4,100	0.08%	100	4,000	4,100
62 Romeo	3,600	0.07%	100	3,500	3,600
63 Romulus	58,600	1.14%	1,400	57,200	58,600
64 Roseville	37,900	0.74%	900	37,000	37,900
65 Royal Oak Township	3,000	0.06%	100	2,900	3,000
66 Shelby Township	204,300	3.97%	5,000	199,300	204,300
67 SOCWA	335,500	6.51%	8,200	327,300	335,500
68 South Rockwood	1,600	0.03%	0	1,600	1,600
69 Southgate	32,100	0.62%	800	31,300	32,100
70 St. Clair Shores	43,200	0.84%	1,100	42,100	43,200
71 Sterling Heights	218,300	4.24%	5,300	213,000	218,300
72 Sumpter Township	9,600	0.19%	200	9,400	9,600
73 Sylvan Lake	3,400	0.07%	100	3,300	3,400
74 Taylor	67,000	1.30%	1,600	65,400	67,000
75 Trenton	25,800	0.50%	600	25,200	25,800
76 Troy	197,700	3.84%	4,800	192,900	197,700

TFG

Highland Park Bad Debt Synopsis

Table 1 - Allocation of Pending Subsequent Recovery Credit to **Water** Member Partners

	(1)	(2)	(3)	(4)	(5)
	Cumulative Amount in Charges FY 2019 thru <u>FY 2022</u>	Relative Share of Highland Park Bad <u>Debt</u>	Initial Recovery <u>Credit</u>	Pending Subsequent Recovery <u>Credit</u>	Total Recovery <u>Credit</u>
	(a)		(b)	(c)	(3) + (4)
77 Utica	8,100	0.16%	200	7,900	8,100
78 Van Buren Township	48,700	0.95%	1,200	47,500	48,700
79 Walled Lake	12,200	0.24%	300	11,900	12,200
80 Warren	148,200	2.88%	3,600	144,600	148,200
81 Washington Township	32,800	0.64%	800	32,000	32,800
82 Wayne	43,500	0.84%	1,100	42,400	43,500
83 West Bloomfield Township	151,800	2.95%	3,700	148,100	151,800
84 Westland	89,300	1.73%	2,200	87,100	89,300
85 Wixom	36,200	0.70%	900	35,300	36,200
86 Woodhaven	24,200	0.47%	600	23,600	24,200
87 Ypsilanti Comm Util Auth	150,400	2.92%	3,700	146,700	150,400
88 Total Suburban Wholesale	4,510,300	87.54%	110,100	4,400,200	4,510,300
89 Detroit	642,200	12.46%	15,900	626,300	642,200
90 TOTAL	\$5,152,500	100.00%	\$126,000	\$5,026,500	\$5,152,500
<u>Summary by County</u>					
Macomb	\$1,127,700	21.89%	\$27,400	\$1,100,300	\$1,127,700
Oakland	1,471,900	28.57%	36,100	1,435,800	1,471,900
Wayne (excl. Detroit)	1,516,100	29.42%	36,900	1,479,200	1,516,100
Other	394,600	7.66%	9,700	384,900	394,600
Detroit	642,200	12.46%	15,900	626,300	642,200
Total	\$5,152,500	100.00%	\$126,000	\$5,026,500	\$5,152,500

(a) Based on amounts allocated in approved charges. Does not reflect impacts of variances in actual purchased volumes.

(b) Allocation of initial \$1 million combined Water / Sewer recovery payment credited in August 2023.

(c) Potential credit to be issued pending effectuation of conditions precedent.

(d) Highland Park is NOT allocated responsibility for, NOR charged, an amount related to the Water debt they create - as they have never made a payment.

Highland Park Bad Debt Synopsis

Table 2 - Allocation of Pending Subsequent Recovery Credit to **Sewer** Member Partners

	(1)	(2)	(3)	(4)	(5)
	Cumulative Amount in Charges FY 2008 thru <u>FY 2022</u>	Relative Share of Highland Park Bad <u>Debt</u>	Initial Recovery <u>Credit</u>	Pending Subsequent Recovery <u>Credit</u>	Total Recovery <u>Credit</u>
	<u>(a)</u>		<u>(b)</u>	<u>(c)</u>	<u>(3) + (4)</u>
1 OMID	\$8,281,000	23.22%	\$202,900	\$3,483,700	\$3,686,600
2 Rouge Valley	7,420,000	20.81%	181,900	3,121,500	\$3,303,400
3 Oakland GWK	6,495,000	18.22%	159,200	2,732,300	\$2,891,500
4 Evergreen Farmington	4,459,200	12.51%	109,300	1,875,900	\$1,985,200
5 SE Macomb San Dist	3,471,100	9.73%	85,100	1,460,200	\$1,545,300
6 Dearborn	2,769,000	7.77%	67,900	1,164,900	\$1,232,800
7 Grosse Pointe Farms	368,300	1.03%	9,000	154,900	\$163,900
8 Grosse Pointe Park	241,300	0.68%	5,900	101,500	\$107,400
9 Melvindale	192,600	0.54%	4,700	81,000	\$85,700
10 Farmington	153,300	0.43%	3,800	64,500	\$68,300
11 Center Line	126,200	0.35%	3,100	53,100	\$56,200
12 Allen Park	98,200	0.28%	2,400	41,300	\$43,700
13 Highland Park (d)	753,700	2.11%	18,500	317,100	\$335,600
14 Hamtramck	616,200	1.73%	15,100	259,200	\$274,300
15 Grosse Pointe	145,500	0.41%	3,600	61,200	\$64,800
16 Harper Woods	37,500	0.11%	900	15,800	\$16,700
17 Redford Township	24,300	0.07%	600	10,200	\$10,800
18 Wayne County #3	4,000	0.01%	100	1,700	\$1,800
19 Total	\$35,656,400	100.00%	\$874,000	\$15,000,000	\$15,874,000
<u>Summary by County</u>					
Macomb	\$8,565,900	24.02%	\$209,900	\$3,603,500	\$3,813,500
Oakland	14,419,900	40.44%	353,500	6,066,200	6,419,600
Wayne (excl. Detroit)	12,670,600	35.54%	310,600	5,330,300	5,640,900
Other	NA	NA	NA	NA	NA
Detroit	NA	NA	NA	NA	NA
Total	\$35,656,400	100.00%	\$874,000	\$15,000,000	\$15,874,000

(a) Based on amounts allocated in approved charges. Does not reflect impacts of variances in actual contributed wastewater volumes.

(b) Allocation of initial \$1 million combined Water / Sewer recovery payment credited in August 2023.

(c) Potential credit to be issued pending effectuation of conditions precedent.

(d) Yes, Highland Park is allocated responsibility for, and charged, an amount related to the Sewer bad debt they create - reflecting the partial payments they have made.