



April 24, 2013

The Honorable
Board of Water Commissioners
City of Detroit, Michigan

Dear Chairman Fausone and Commissioners:

Regarding: Director's Report – April 2013

During this last month, significant efforts have focused on establishing communication and coordination with MDEQ on our NPDES permit and ACO progress with the end of Federal Court oversight, moving PC-792 forward through consideration by the City, and reviewing and advancing the recommendations of our employee design teams in our Organizational Optimization effort. Additional details on these items is included herein.

We have continued to work on provisions for future water service to Flint. As previously reported, in March, the Flint City Council acted to affirm their interest in contracting with Karegondi Water Authority (KWA). Shortly thereafter, the Flint EFM also endorsed Flint's contract with KWA. On April 12th, the State Treasurer preauthorized the Flint EFM to move forward with a decision, but provided DWSD an opportunity to submit a final proposal by close of business April 15th. DWSD provided a final proposal which was rejected the following day. During a meeting convened by the Governor on April 19th, a process was laid out to bring the decision to closure by April 26th. The process included a more robust specification of objectives and requirements from Flint/Genesee County which DWSD used to submit a final proposal. That final proposal, submitted today, will be reviewed and discussed between the Flint and Detroit EFMs with their recommendation(s) to the State Treasurer yet this week. A summary form of DWSD's proposal to Flint is attached.

STAFF DEVELOPMENT

Educational efforts continue across the Department in support of staff who have or are seeking licenses through MDEQ. Continuing Education Credits (CECs) certified classes are being offered for staff by staff in Water Treatment (Ronald Hayes and Mathew Mangatt) and in Distribution (Kieyona Jackson). We are grateful to the dedicated efforts of these individuals to support DWSD employees in their ongoing development and in meeting requirements for maintaining licensing.



Nineteen (19) employees successfully completed the Microbiological Methods for Drinking Water Operators class on April 16, 2013 (by Mary Lynn Semegen), earning 0.6 CECs

ORGANIZATION OPTIMIZATION

Interviews have been completed for the selection of team members for the Water Works Park Pilot. The orientation workshops began this week, with an expected start date of May 6, 2013.

The Wastewater Pilot team members have been selected and will begin orientation workshops and training the week of May 6, 2013 for optimization of secondary treatment. The first week will focus on role and process definitions. Hands-on training will begin the week of May 13th. A meeting has been scheduled to identify and discuss specific concerns of the State's MDEQ staff.

The Administration and Finance team pilot in the Main Office Customer Service Center has selected volunteers for the pilot. Orientation for the pilot team members occurred on April 22, with training scheduled for May 13th with a "go live" date of May 20th. Equipment is on order to support the broader job design functions. The CIS upgrade scheduled for April 29th, will provide new functional capability that will assist the pilot. Installation of a payment kiosk at this location is scheduled for the first week of June.

West Yard had 45 volunteers who have been selected and notified of reassignment. Volunteers have come from several divisions other than M & R. Much of the equipment needed to support the effort is in place, the remaining is being readied. Five (5) employees are currently being trained on the mini excavator. training will continue until employees are able to operate equipment in a safe and efficient manner. Seven (7) employees have received CDL training and are ready to get their Temporary Instruction Permit, additional CDL training will continue next week. The project kick-off will begin on May 6, 2013.

There was an Appreciation Luncheon held for the Job Design Team Members on April 18, 2013, with about 76% participation. A survey on the Job Design Process was given and the results are being tabulated. Two sub-teams have been established: communication and job description review. Each of these teams is comprised of one volunteer representative from each of the 5 design teams. We anticipate that the communication team will meet once a week for the duration of the piloting process (until November 2014) to assure effective communication with staff throughout DWSD about our progress and discoveries as we pilot the new job designs throughout the Department. The first meeting for the communication team is scheduled for May 2, 2013. The job description review will be a shorter term process with a more intense meeting schedule. This team will work with HR to assure a consistent approach across the job descriptions and job progressions. This effort will conclude prior to contract negotiations being completed this summer.

The HR Payroll and IT Plan Workshop scheduled for April 23, 2013, has been rescheduled for May 6th (HR Payroll) and May 20th (IT Plan).



ACO and NPDES Compliance

Biosolids Dryer Facility

Staff gave a presentation on the Biosolids Dryer Facility to City Council's Public Health and Safety Committee yesterday, April 23rd. Council President Pro Tem Brown spoke very favorably about DWSD in general, as well as the process used to get this contract to this point. Councilmember Brenda Jones indicated she may submit some written questions on the contract, which DWSD will promptly respond to once received. This item will be back on the agenda before City Council's Public Health and Safety Committee next week.

Projects

Major construction projects continue at the Wastewater Treatment Plant. Complex I Belt Filter Press Replacement remains on schedule, the permit to install for the air emissions upgrades to the incinerator was submitted and is administratively complete and the pre-bid tour for the rehabilitation of Pump Station I has been held. For the month of March, CIP expenditures were \$8,741,763 dollars.

NPDES Permit

The first meeting with MDEQ has been held regarding implementation activities of the new NPDES permit. Monthly meetings/conference calls are being scheduled to assure ongoing communication across the various new provisions of the permit. The June meeting will be held at the plant with a tour of the facility as part of the agenda.

Evaluation of the CS-1522 (Green Infrastructure) proposals remains on schedule and completion of negotiations is targeted for the end of May.

Renewable Operating Permit

The draft Renewable Operating Permit (air emissions equivalent to the NPDES permit) has been received and comments on the draft are being compiled. No major changes will be required; however, it may be cost effective to add some additional automated monitoring.

WATER SUPPLY

Staff is working diligently to finalize preparations to ensure Water Supply Operations is ready for peak season. There are four (4) pumps critical (2) at Northeast Water Plant and (2) at Schoolcraft Booster Station that are currently being repaired, and are expected to be returned to service by the end of May to meet peak demand. Basin cleaning at the Water Treatment plants has been delayed due to the significant rainfall this month. We anticipate completion of this effort by the end of May as well.



City of Detroit Update

I am pleased to report that DWSD has developed a very positive working relationship with the City's Emergency Financial Manager, Mr. Kevyn Orr. To date, Mr. Orr has been very receptive to DWSD's operational issues, and has been very willing to engage on those issues as appropriate. Mr. Orr has been particularly engaged on the customer issues related to Flint and KWA, and his input and involvement has been greatly appreciated.

Labor Update

In the past month, DWSD has held a negotiation session with the Senior Accountants, Analysts, and Appraisers Association (SAAA) and the union should be responding later this week to request follow-up dates.

We have also received a recent ULP charge filed on behalf of AFSCME Locals 207, 2920, and 2394 related to the City of Detroit's imposition of the CET on unions that did not sign contracts with DWSD. This charge is very unusual in that a Tentative Agreement was reached with all three unions last month, and one of the three unions ratified a new Collective Bargaining Agreement that waived all claims related to the City's imposition of the CET.

Federal Court Litigation

As the Board of Water Commissioners is aware, Judge Cox dismissed the thirty-six year old federal case on March 27, 2013 after finding that DWSD had achieved sustainable compliance with the Clean Water Act. On April 8, 2013, we received a ruling from the Sixth Circuit Court of Appeals in which the Court of Appeals reversed Judge Cox and remanded the case back to the District Court on the limited issue of his denial of the right of AFSCME Local 207's and SAAA's motions to intervene. Interestingly, the majority decision of the Court of Appeals noted that Judge Cox would not need to re-open the factual record in the case in order to address the Unions' motion to intervene. To date, DWSD has not been made aware of any scheduling orders related to the Sixth Circuit's reversal and remand of the case.

Stormwater Charges

There have been a few recent media reports related to DWSD's Stormwater charges for retail customers. With that in mind, I wanted to provide the Board with some history surrounding this charge, and an outline of how the Department intends to proceed with the review of customer concerns. The initial report that was prepared to note the need for developing a separate stormwater charge was prepared for DWSD back in 1977. According to our records, we can identify stormwater charges dating back to 1985, though the charges may, in fact, have started prior to that date. We are in the process of auditing stormwater billing and have identified a number of customers who should be receiving stormwater charges that are not being properly billed.



Stormwater Charges (continued)

The reasons for customers not being billed varies widely, therefore, the resolution of the billing disputes for the various customers may also require different approaches.

DWSD intends to review all of the various reasons why customers have not been properly billed for stormwater charges in the past, and develop a recommended approach for resolving each type of situation, including addressing the issue of back-billing for unrecovered charges. Moving forward, DWSD recognizes that future stormwater charges are within the revenue requirement for the retail class of customers that has already been approved by the Board of Water Commissioners, and will be subject to City Council's approval of retail rates over the next month.

Information Technology

I am pleased to announce that DWSD has hired Mr. Dan Rainey as its Chief Information Officer. Mr. Rainey was selected as the recommended candidate after a lengthy and thorough interview process in which DWSD reviewed over forty resumes and interviewed ten candidates. Mr. Rainey comes to the Department with a strong history of IT management and leadership, recently helping the City of Ann Arbor to receive a Number One Digital City Award in 2012. I want to particularly thank Commissioner Kenoyer for his time and effort participating in the interview process. Please join me in welcoming Mr. Rainey to DWSD.

LEGAL

The following new lawsuits were received:

Green v City of Detroit. Wayne Circuit action alleging injury due to Plaintiff's tripping over a DWSD installation in the public right-of-way.

Peterson v State of Michigan, et al. Wayne Circuit action alleging criminal conspiracy and trespass regarding the provision of services to Plaintiff's property.

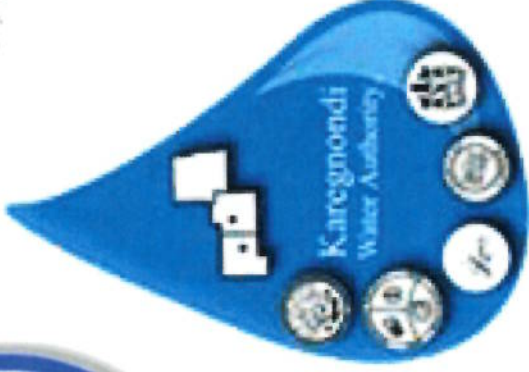
PC- 773 "Consolidated Process Control Systems Upgrade." The proposed contract was finalized and processed.

9125 W. Jefferson continued preparations for closing and due diligence on the property.

Respectfully submitted,

Sue F. McCormick
Director

SFM:dlr
Attachments



A Public/Public Partnership to Provide Water Service to Flint/KWA

*Submitted by City of Detroit Water & Sewerage Department
April 24, 2013*

Water Service Process

- April 22, 2013 – Flint Emergency Financial Manager (EFM) provides specifications to DWSD
- April 24, 2013 – DWSD submits proposal to Flint EFM
- April 25, 2013 – Flint/Detroit EFMs confer
- April 26, 2013 – Target date for decision

Water Service Objectives

Flint and Genesee County's Objectives

1. Be a system owner, not a user
2. Reduce cost
3. Stabilize rates for the long term
4. Obtain service redundancy
5. Maintain water quality standards

1. Be a system owner, not a user

This proposal provides for:

- A. A partnership with DWSD for a capacity share in the Lake Huron Water Treatment Plant
- B. A Lake Huron System operating committee to control facility investment and O&M costs
- C. Introduction to modifying current DWSD's governance structure to provide board representation for Flint/Genesee County

2. Reduce Cost

This proposal provides for:

- A. Water Supply costs based solely on Lake Huron System
- B. Eliminating the distance and elevation factor
- C. A **fixed** monthly charge for allocated capital revenue requirements
- D. A **commodity charge** to recover annual O&M expenses based on actual water purchases
- E. A **fixed** monthly charge for “emergency standby” capital costs to accommodate reliability from other DWSD assets

2. Reduce Cost (continued)

The proposal provides for significant cost reduction over the life of the contract when compared to both the current DWSD rate structure and the KWA Scenario.

	Current Rate Structure	Proposed Rate Structure	Variance	% Variance
2015	25.55	14.18	(11.37)	-45%
2020	32.14	17.55	(14.59)	-45%
2025	40.44	22.00	(18.44)	-46%
2030	50.87	27.59	(23.29)	-46%
2035	64.00	34.82	(29.18)	-46%
2040	80.53	44.48	(36.05)	-45%

The proposal results in immediate and continuing reduction in DWSD rates of 45%.

	KWA Scenario	DWSD Proposal	Variance
DWSD Purchased Water	0.00	14.97	14.97
KWA Operating and Capital Costs	43.94	0.00	(43.94)
Flint/GCDC Op. and Capital Costs	64.15	50.74	(13.41)
TOTAL	108.09	65.71	(42.38)

The proposal is less costly than the KWA Scenario throughout the contract. Total savings to the Flint region are over \$900 million.

3. Stabilize rates for the long term

This proposal provides for:

- A. No increase in the Lake Huron System fixed capital monthly charge for the life of the contract unless new capital investment incurred
- B. No capital invested is made unless recommended by a new Lake Huron Operating Committee (proposed to have two Flint representatives and two DWSD representatives).
- C. An independent audit of the Lake Huron System costs can be requested annually

3. Stabilize rates for the long term (continued)

- D. No increase in capital and standby costs as long as purchased capacity requirement is constant
- E. If increased capacity requested through contract re-opener process (permissive to Flint), change in costs based on new allocated share

3. Stabilize rates for the long term

(continued)

- F. Initial contract based on purchasing capacity rights of 40 MGD in the Lake Huron Facility
- G. Contract reopener every five years to accommodate potential growth of KWA region

4. Obtain Service Redundancy

This proposal provides for:

- A. Redundant supply provided by DWSD at the Imlay City Pump Station
- B. KWA constructs redundant transmission (from the Imlay pump station West to Baxter/Potter or other)
- C. Existing investment in Flint water treatment plant continues to be utilized

5. Maintain water quality standards

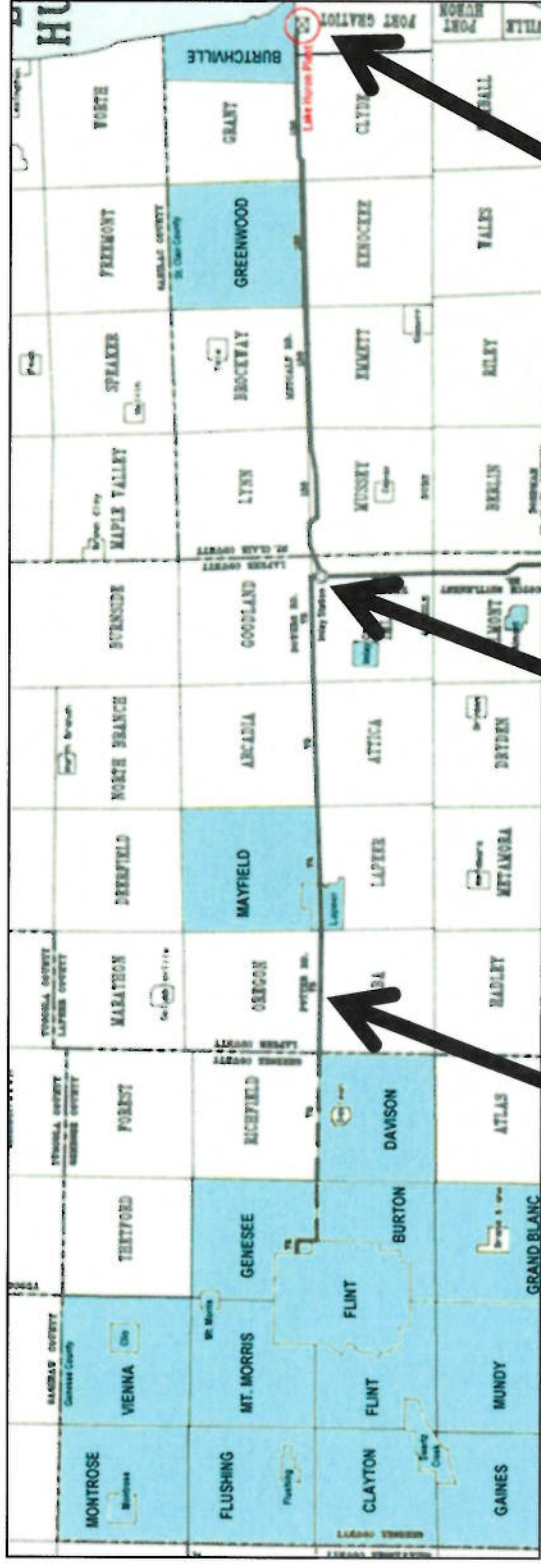
This proposal provides for:

- A. Ongoing access to DWSD's water which meets or surpasses all federal and state standards for quality and safety
- B. Meets pressure requirements requested in Flint/Genesee County proposal specifications
- C. As a partner, Genesee County will have DWSD's experience and customer community resources to ensure water quality standards

“Lake Huron System” Defined

- ✓ The Lake Huron Water Treatment Plant and related structures (intake, etc.)
- ✓ The 120" water main from the Lake Huron Plant to the Imlay City Pumping Station
- ✓ The Imlay City Pumping Station and related structures (reservoir, etc.)
- ✓ The 72" main from the Imlay City Pumping Station to the connection to Flint at Baxter/Potter Road

Lake Huron System Map



Lake Huron Plant

Inlay City Pump Station

Baxter/Potter Connection

LEGEND

- ☒ WATER PLANT
- BOOSTER STATION
- ⊙ BOOSTER STATION / STORAGE
- D.W.S.D. EXISTING
- OTHERS EXISTING
- D.W.S.D. PROPOSED CONSTRUCTION.....

Rate History – Past & Future

Flint/DWSD Rate Adjustments, Ten Year History		
Fiscal Year	Unit Cost Rate	% Change
2004	\$ 11.06	
2005	10.24	-7.4%
2006	10.56	3.1%
2007	11.09	5.0%
2008	11.35	2.3%
2009	13.07	15.2%
2010	14.32	9.6%
2011	15.85	10.7%
2012	17.53	10.6%
2013	19.12	9.1%
2014	20.39	6.6%
Ten Year Geometric Average		6.31%

Future
✓ Fixed capital costs
✓ Fixed emergency standby costs
✓ Commodity charge based on allocated share of Lake Huron System
✓ Voice in capital and O&M cost levels
✓ Ability to audit cost detail

Next Steps

- This presentation highlights key points of proposal presented April 24, 2013. See proposal for complete explanation.
- Proposal review process – DWSD welcomes opportunity to address questions and clarifications