



DOWNRIVER UTILITY WASTEWATER AUTHORITY (DUWA)

COMMUNITY INFORMATIONAL MEETING

duwauthority.org

February 2, 2018 | 9am – 11:30am | Southgate Veterans Memorial Library

TODAY'S SPEAKERS

EVENT EMCEE



Jim Fausone
LEGAL



Dick Hinshon
HISTORY



Vyto Kaunelis
TECHNICAL



Beth Bialy
FINANCIAL



Patrick McCauley
LEGAL

TODAY'S AGENDA

- **Then to Now: Historical Overview**
 - Cost Savings Under DUWA Ownership
- **Technical Considerations**
 - Due Diligence
- **Financial Considerations**
 - Rate Impact
- **Legal Considerations**
 - DTA Action: Unanimity or Super Majority
 - Community Action: Owner versus Customer
 - Alternatives to Consider
- **Question, Answers, Discussion**
- **Next Steps**

DESIRED OUTCOME

- Engage DUWA's Board and their Stakeholders in an All-Hands Meeting
- Promote common understanding of DUWA's history and the transition
- Define Next Steps for community considerations

THEN TO NOW: HISTORICAL OVERVIEW



DICK HINSHON, P.E.
FORMER DUWA SECRETARY AND TECHNICAL ADVISOR

HEC

DOWNRIVER COMMUNITIES

Allen Park*

Belleville

Brownstown Township*

Ecorse

Dearborn Heights*

Lincoln Park

River Rouge

Riverview

Romulus*

Southgate

Taylor

Van Buren Township*

Wyandotte

DUWA & THE SYSTEM

- Wayne County began construction of the Downriver Sewage Disposal System (DSDS) in 1938 and has been adding to the Wyandotte Plant and the Interceptors ever since.
- The DSDS provides service to more than 350,000 people in 13 Communities.
- Communities have funded the system construction and operation through rates and taxes over time.

THEN



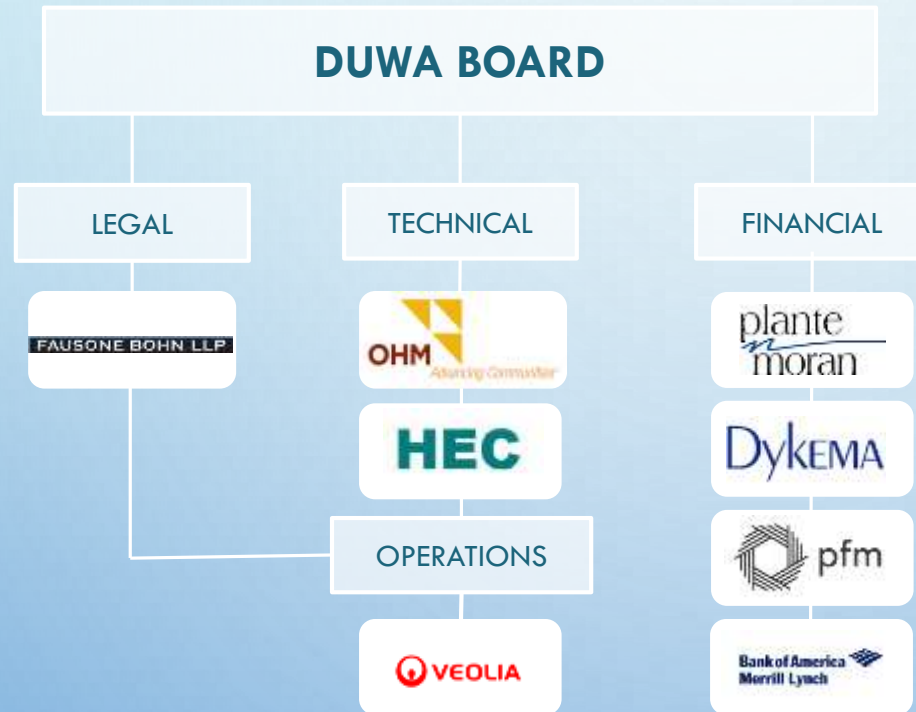
NOW



EVENTS THAT LED TO THE CREATION OF A UTILITY AUTHORITY

- 1962: Approval of 50-Year Service Agreement between Wayne Co. and Downriver Communities
- 1987: U.S.EPA sues Wayne Co. alleging unlawful pollution of the Detroit River by the System
 - County successfully petitions Court to add all 13 Communities as Co-Defendants
- 1994: Entered Consent Judgment (required >\$250M in Capital Improvements)
- 2001: Communities & County create Joint Management Committee
- 2005: Terminated Consent Judgment after completion of all required projects
- 2010: Communities create DUWA to:
 - Negotiate a new Service Agreement with Wayne County, or
 - Acquire the System from Wayne County

DUWA'S TEAM OF ADVISORS



Fausone Bohn, LLP

General Legal

OHM Advisors

System Manager and Technical Advisor

Hinshon Environmental Consulting

Historical Advisor / October 2017

Plante Moran

General Finance Advisor

Dykema

Bond Counsel

PFM

Municipal Finance Advisor

Bank America Merrill Lynch

Underwriters

Veolia

[Anticipated] Contract Operator

WHAT WE HAVE ACCOMPLISHED

- 2014:
 - DUWA & the County agree on 20-year Service Agreement, which was revoked before taking effect
- 2015:
 - DUWA issued a RFP & selected Veolia as Contract Operator
- 2016:
 - DUWA issued “Letter Of Intent” to purchase the System for \$57.5 million
- 2017:
 - Veolia completed a comprehensive Due Diligence evaluation of the DSDS
 - Communities unanimously approved the Service Agreement and the accompanying Sewer Use Regulations
 - DUWA obtained NDPES Permit; included provisions for wet weather flow blending & asset management
 - DUWA hired a System Manager (OHM Advisors) and obtained Court approval to preserve the Judgment Levy financing structure

THE FUTURE: FROM ADVISORY BOARD TO ASSET OWNER

As the Owner of the System, DUWA must undertake several actions, including:

- Approve the DTA to allow the Authority to acquire the System
- Sell the Revenue Bond to generate cash for the purchase
- Negotiate & execute a contract with Veolia to O&M the System for the Authority
- Transfer existing debt obligations currently held by Wayne County
 - Except for the Judgment Levy debt which, by Court Order, will remain on the County books
- Adopt the rates and charges to cover the cost of running the System
- Begin collecting revenue directly from the Communities, and manage those funds
- Assume responsibility for compliance with all NPDES Permit requirements
- Oversee Veolia's work with regard to O&M of the System

VEOLIA: DUWA'S CONTRACT OPERATOR

- DUWA selected Veolia as the entity to operate the DSDS based on a comprehensive, well written proposal which included substantial cost savings on staff, power, chemicals and sludge disposal
- Veolia has significant experience nationally and globally operating major public utilities, and the company has a wealth of knowledge that will benefit the System
- Veolia may bring in staff from other facilities but will attempt to retain as many current Wayne Co personnel as possible to ease the transition and retain operational expertise
- Because it is the largest contract operations firm in the world, it is reasonable to expect a certain amount of bureaucracy and procedural conformity in how it operates the Downriver System
- Preliminary discussions between DUWA and Veolia have focused on the development of a 20 year contract to ensure maximum cost savings for the Authority

TECHNICAL CONSIDERATIONS



VYTO KAUNELIS, P.E.
DUWA SYSTEM MANAGER



DSDS ASSETS CHOSEN FOR INCLUSION

- ASSETS (DTA Art II, 2.1 (ii))
 - Downriver Wastewater Treatment Facility: 38 acres, 30+ buildings
 - 7 Interceptors – 63 miles
 - Downriver Tunnel System
 - Equipment including: pumps, inventory, rain gauges, etc.
- Acquiring ~\$38M in reserves



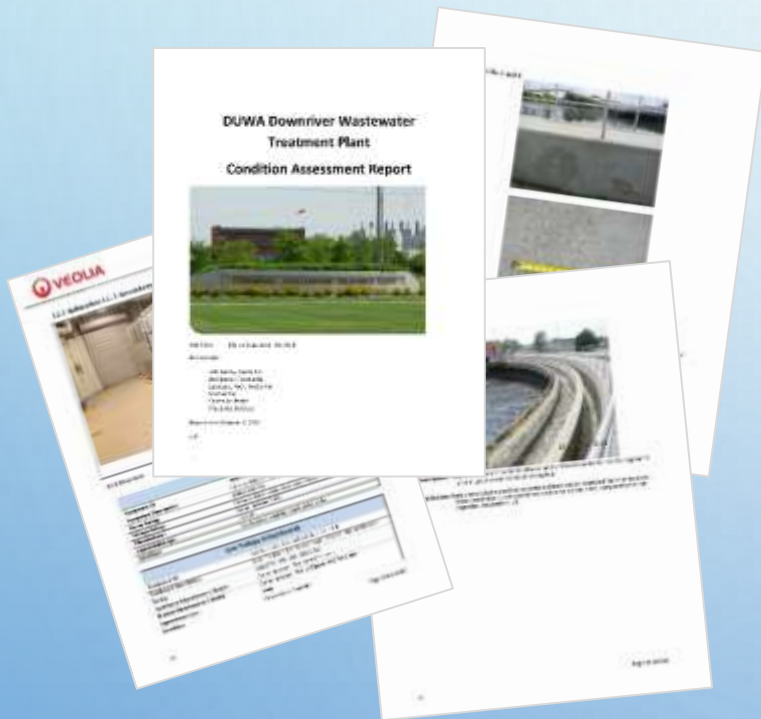
ASSETS CHOSEN FOR EXCLUSION

- ‘RELATED FACILITIES.’ WAYNE COUNTY PROVIDES O&M.
 - Southgate-Wyandotte Facilities (Pumping Stations, CSO RTB, Control Structure)
 - Taylor Equalization Basin (ECPAD)
 - River Rouge CSO Facility



ASSET CONDITION: WHAT WE KNOW

DUE DILIGENCE: WHAT WE WILL KNOW



- Wastewater Treatment Facility
 - Condition Assessment in Oct. 2016
 - Process Equipment, Electrical, Chemical Feed
 - Findings: Good repair for its age
 - Capital Improvements are underway
- Interceptors
 - 2% of system historically assessed
 - 3% remaining to be assessed before closing

CAPITAL IMPROVEMENTS UNDERWAY

“Looks better than when the Asset Management walkthrough was completed”

- Projects Recently Completed or Underway:
 - Solids Complex Renovation
 - Secondary/Headworks/Lab Improvements
- Staff have demonstrated competence, dedication, and pride.



NPDES Permit Transition

- National Pollutant Discharge Elimination System Permit (NPDES)
 - Permit applies to Downriver Wastewater Treatment Facility
- Wayne County is permit holder until Closure
- [Limited] Asset Management Plan due April 2018
 - Veolia assisting with preparation as future Contract Operator
- Decision re: Selection of Final Blending Alternatives for Implementation due September 2018
 - Wayne County working with their Engineer (HRC) for development
 - HRC will remain engaged on effort under DUWA ownership

RESOLVING OUR “AS IS” DATA GAPS

- Real Estate
 - Collecting Easements
 - Performing Boundary Survey
 - Performing Phase I/II ESA and BEA
- Completing Additional Inspections on Interceptors and Appurtenances

REMAINING TECHNICAL ASPECTS FOR SYSTEM TRANSFER

- Complete Remaining Due Diligence
 - Interceptor Assessment (3%)
 - Boundary Survey of Wastewater Treatment Facility
 - Phase I/II Environmental Site Assessment & Baseline Environmental Assessment
- Obtain Industrial Pretreatment Program Approval from MDEQ
- Coordinate with Wayne County for NPDES Submittals
 - Blending Report
 - Asset Management Plan
- Implement decentralization of SCADA
- Veolia to establish contracts with vendors, suppliers, etc.
- Execute Contract with Veolia

FINANCIAL CONSIDERATIONS



BETH BIALY

DUWA FINANCIAL ADVISOR



TRANSFER OF DSDS

DOWNRIVER: Regional water authority is legally created

By Peter Hall | 10/10/2017 | 10:00am

3 4 5 6 7

The Downriver Utility Wastewater Authority is now a legal entity.

Local commissioners have approved the articles of incorporation for the utility authority. The legal documents will be published and filed with the state as required by law.

The communities in the West Park, Belleville, Downriver Township, Oak Brook Heights, Evans, West Chester, Riverline, Riverline, Southgate, Taylor, Van Buren Township and Wyandotte.

It is expected that the authority will be established in May, after which the member communities will meet to elect officials.

The authority is expected to take on long-term needs for sewage treatment and removal.

Wayne County, Mich. | 10/10/2017 | 10:00am

Wayne County to sell wastewater treatment facility for \$57.5 million

Money will bolster county's finances, shift control to 13 suburban communities

By Susan Scott

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Wayne County tentatively agreed Wednesday to sell the state's second-largest wastewater treatment facility for \$57.5 million, money that will bolster the county's finances and shift control to 13 suburban communities.

After selling the Downriver Sewage Disposal System, Wayne County will use the money to fund the county's pension system and free up cash for other county projects and services, county Executive Warren Evans said.

The sale to the **Downriver Utility Wastewater Authority** must be approved by Wayne County commissioners.

- \$57,500,000 Negotiated Transfer Price
 - Loosely tied to DSDS Pension & OPEB Liabilities
 - Also assume DSDS SRF capital debt
- \$54M paid at closing + \$3.5M paid 5 years after closing
- Acquiring ~\$38M in reserves

5-YR FINANCIAL PROJECTIONS

- Yes – acquisition can be “Rate Neutral” (i.e. projected operations savings will be sufficient to cover anticipated debt service payments on Revenue Bond to purchase the System from Wayne County). Hinshon & Plante Moran analyses 2016-17
- Over last 10 years annual rate increases have been as high as 5.52%
- The 5-yr Projection forecasts rate increases between 1.42% - 6.08% (average <4%)



COST IMPLICATIONS

- Financial projections factor in:
 - Deferred maintenance
 - Personnel costs with depleted staff
 - Pension & Health Care costs looming
 - Transactional Costs
 - System Improvements

SYSTEM RESERVES

The reserves that have been built up at the County will transfer to DUWA:

- General O&M \$15,000,000
- Community receivables \$ 7,000,000
- Industrial Pretreatment Program \$ 5,600,000
- Capital reserves \$ 7,300,000
- Non-judgment levy debt reserves \$ 3,700,000

DOWNRIVER SYSTEM COSTS

All Downriver System Costs are paid by customer communities regardless of ownership.

- Who makes decisions?
- How efficiently are improvements made?

REVENUE BOND PROCESS

COMPLETE

- STEP 1 – Approve Service Agreement
- STEP 2 – Adopt Reimbursement Resolution
- STEP 3 – Select Underwriter
- STEP 4 – Obtain Indicative Rating
- STEP 5 – Adopt Master Bond Ordinance
- STEP 6 – Adopt Notice of Intent Resolution

To provide the communities some assurance that bonds will be able to be sold

NEXT STEPS

- STEP 7 – Prepare Offering Documents
- STEP 8 – Obtain Bond Rating
- STEP 9 – Negotiate Substitution Consents
- STEP 10 – Adopt Bond Authorizing Resolution
- STEP 11 – Offer Publically Offered Bond
- STEP 12 – Execute Bond Purchase Agreement
- STEP 13 - Close

LEGAL CONSIDERATIONS



JIM FAUSONE
DUWA ATTORNEY

FAUSONE BOHN, LLP
ATTORNEYS AT LAW



PATRICK McCAULEY
DUWA LEGAL
COMMITTEE REPRESENTATIVE

■ ■ ■ GASIOREK MORGAN GRECO
■ ■ McCAULEY & KOTZIAN P.C.
ATTORNEYS AND COUNSELORS

WHAT ARE OUR LIABILITIES, RISKS & EXPOSURE

- LIABILITIES (DTA Art II, 2.1 (iii))
 - NPDES Permit Compliance
 - Accounts Payable
 - Contracts
 - Lawsuits
 - Existing Environmental Conditions
 - Except Employees, Legacy Costs, Judgement Levy

DEFINITIVE TRANSFER AGREEMENT

- DTA approval is under review by the Legal Committee and Board
- County shall cooperate with DUWA Post-Closing (DTA 5.1 A)
- County selling “as is” without reps and warranties (DTA 8.1 A (iii))
- No obligation to hire County employees (DTA Art XII)
- County Transaction costs NTE \$1.5M (DTA Art XV)
- Wayne County CEO & Commissioners must approve

LEGAL COMMITTEE REVIEW OF DTA

AUGUST 2016

- Legal Committee began review of DTA

NOVEMBER 2017

- Wayne County's draft DTA forwarded to Legal Committee
 - Subject of extensive discussion at a Legal Committee meeting in late November
 - Generated comments that were included in the next DTA draft sent back to Wayne County.

DECEMBER 2017

- December 7 - Revised draft DTA, comments by Legal Committee
- December 13 - Final DTA sent to the Legal Committee

JANUARY 2018

- January 30- Legal Comments – No substantive objections to DTA.

ADVANTAGES & LIMITATIONS TO THE DEAL

- ADVANTAGES

- Veolia as the Contract Operator
 - Large organization specializing in this type of work
 - Stable and competitive wages attract Top Talent
 - Economy of scale = Better purchase pricing for goods
- Decision making DUWA Owners (Yours and Local)
- Builds on peer relationships (with communities, not the County)

- LIMITATIONS

- Financing
- Future cost implications
- Managing the system

RISK MANAGE YOUR OWN ASSETS



Romulus Sink Hole

- Basement Flooding Litigation/Claims
 - Basement Floods with Wayne County not responsive to local issues
 - Five lawsuits + circle back to Wayne County
 - Unhealthy relationship. Re: flooding
- Basement Flooding
 - How to address it proactively
- Capital cost allocations

YOUR CHOICE: OWNER OR CUSTOMER

- Will the Communities be better off in the future if the County owns and runs the system or if they own it?
- County has stated if deal does not close:
 - Private Operator will be hired and costs passed along, and
 - Pension & Health Care costs for retirees will be factored into the rates

RIGHTS & RESPONSIBILITIES

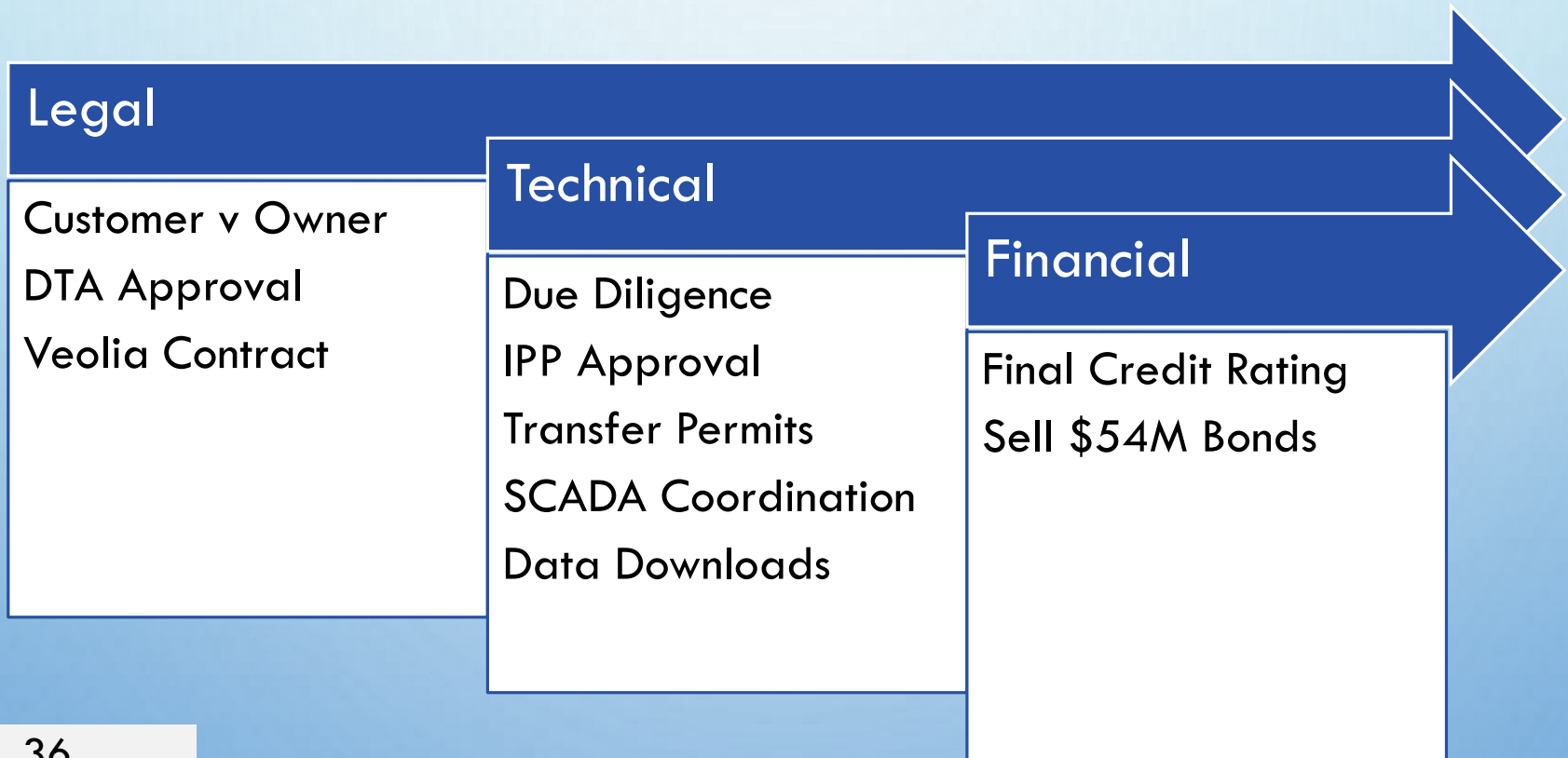
Owner

- Convey & Treat Wastewater From The Service Area
- Operate And Maintain Facilities
- Manage The Utility (Including Staff)
- Comply With Regulatory Requirements
- Make Bond Payments On Existing Debts
- Set Rates & Collect Revenue

Customer

- Ensure Flow Conveyed To System Does Not Exceed MAFLs
- Pay Rates, Possibly Higher Rates For Non-Owner Communities

MILESTONES TO CLOSING



ABILITY TO TERMINATE THE DEAL

- Basis to terminate Agreement pre-Closing (DTA 17.1):
 - Default (failure to meet pre-condition)
 - Financing “Not Acceptable” to Authority
 - Failure to obtain 66% weighted municipal votes
 - Title insurance acceptable (CTA 6.1 A.X.)

FEBRUARY BOARD MEETING ACTION

ACTION FOR MOTION: DOES THE DUWA BOARD RECOMMEND THE DTA TO THE MUNICIPALITIES?

- Unique transaction
 - County never planned to sell
(lack records & divisible ops)
- County financial status and loss of op staff
 - Price setting lengthy negotiations
 - Letter of Intent signed
- “Deal Warts” – records, as is, no reps, etc.
 - Major driver - control of own destiny

MESSAGE FROM CHAIRMAN SOLLARS



BREAK TIME

RETURN BY 11:00 AM

OPEN FORUM



QUESTIONS, ANSWERS, DISCUSSION

Next Steps

- 2/8 DUWA Board Meeting agenda items:
 - Action on DTA
 - Advance to Communities for Consideration?
 - Consider Ownership versus remaining a Customer
 - Board Discussion on DTA approval process
 - Unanimity or Super Majority