

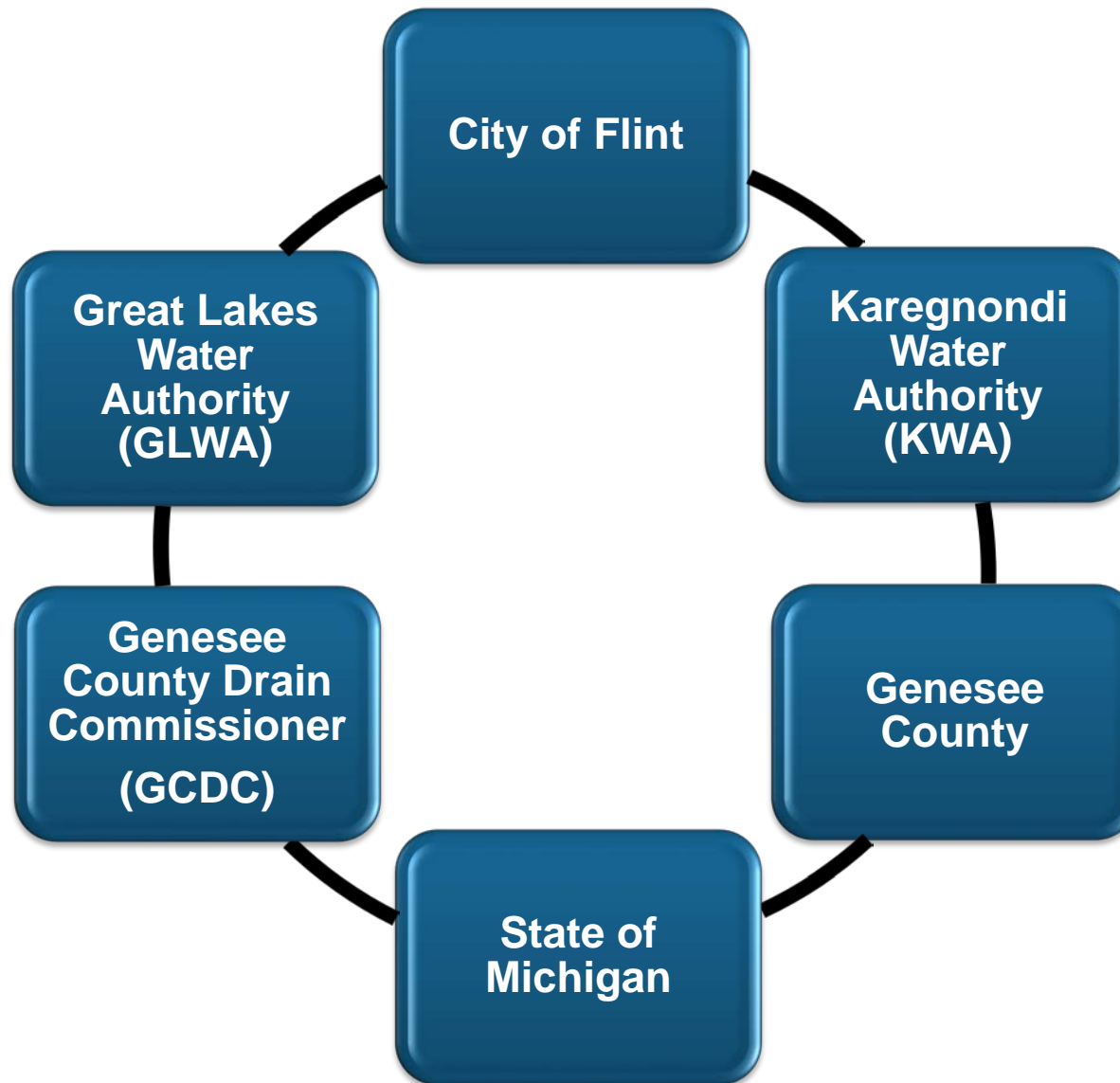
City of Flint Water Service

*Catalyst for a New Era of Regional Collaboration
Presentation to the GLWA Board of Directors
April 19, 2017*



Note: This is preliminary information subject to change and reflects the opinion only of the GLWA.

Collaboration Partners

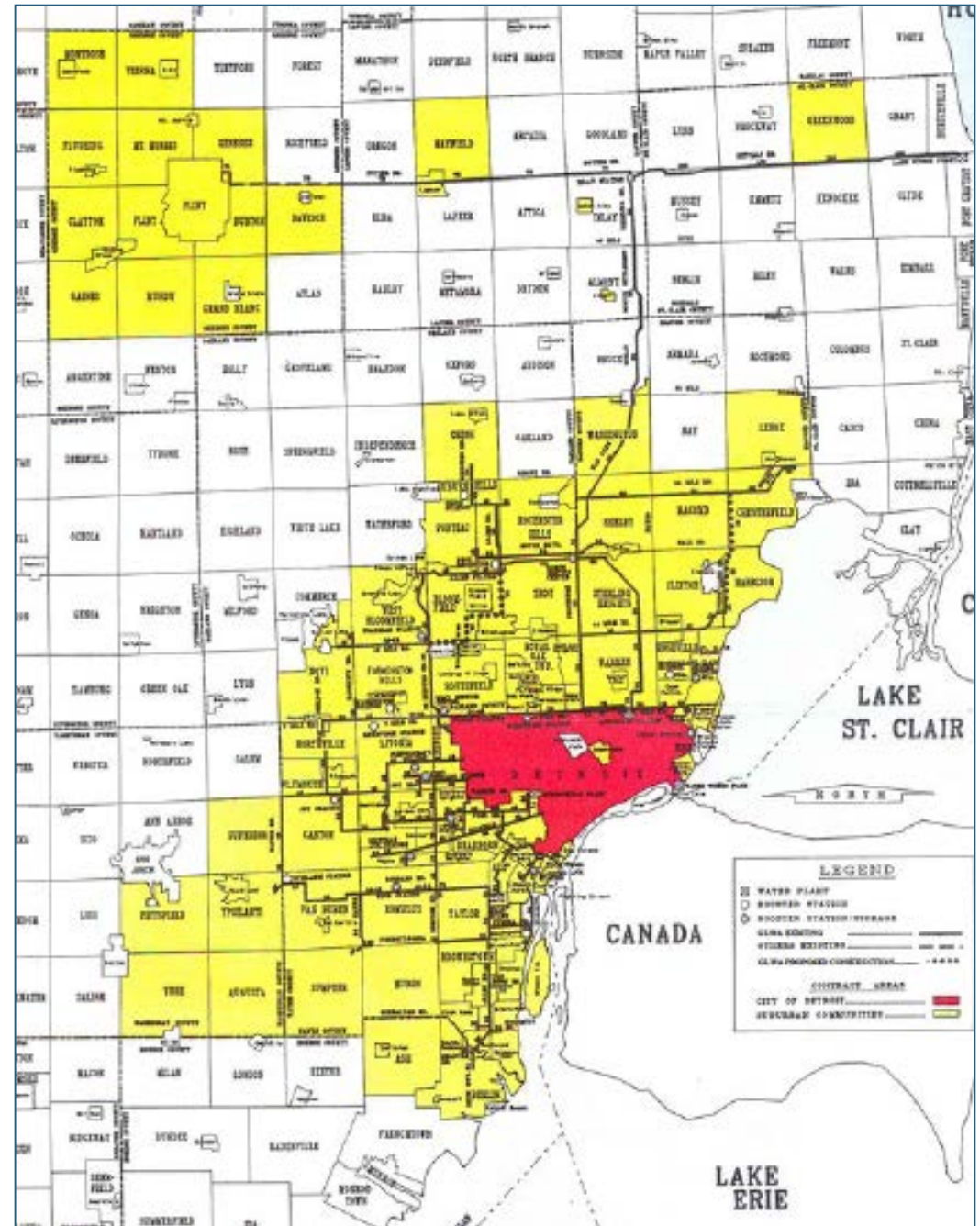


Objectives Set – Objectives Met

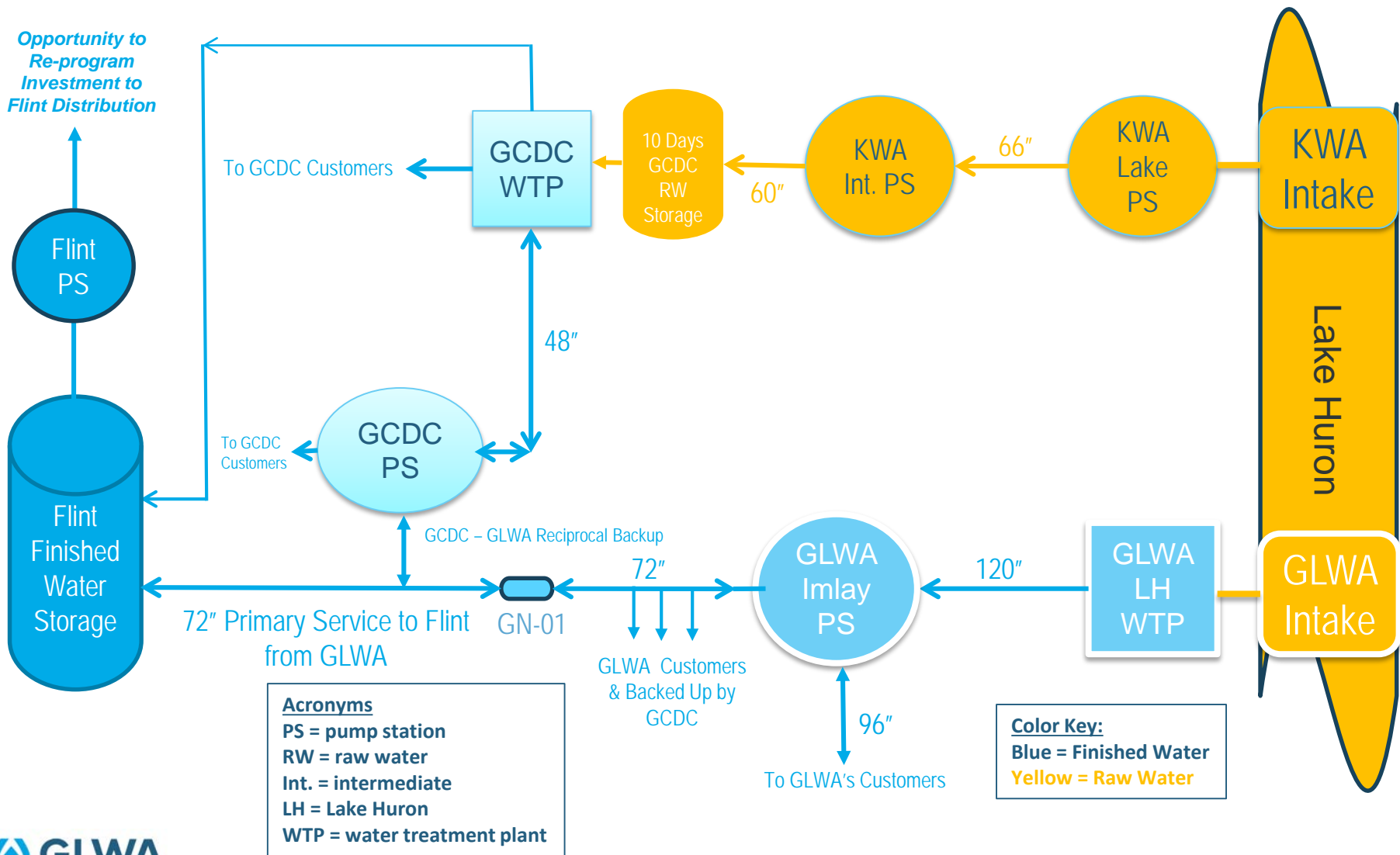
- ✓ Establish a framework for Environmental Protection Agency/Flint deadline of April 19, 2017
- ✓ Stabilize source of supply approach for Flint that is high quality, safe, reliable, and cost-effective
- ✓ Optimize the use of available federal and state funding for capital investment for Flint's existing infrastructure rather than build additional redundant systems
- ✓ Establish reciprocal back-up water service network for the city of Flint, GCDC, and GLWA's Lapeer County area customers served by the existing 72" main with minimal investment – Leveraging the existing investments of all parties
- ✓ Control the cost of water service for all parties through long-term contractual and mutually beneficial commitments
- ✓ Assure that prior and future financial plans are preserved or improved through collaborative and transparent analysis
- ✓ Establish mutual contractual collaboration which clarifies payment security for stakeholders
- ✓ Establish a solid foundation for a new era of regional collaboration to support the state of Michigan's economy, infrastructure needs, and best in class water service delivery

Outcomes

- Improved Service & Controlled Cost for ALL
- A regional collaboration that spans nearly 40% of the State of Michigan's population



The Proposal: A Regional Water Network Provides Mutual Water Service Backup with Minimal Capital Requirement



Flint, GLWA, GCDC & KWA Customers

Flint

- Stabilize source of treated quality water
- 30-year known water supply solution from GLWA (up to 5% blended water from GCDC) based on model contract
- GLWA model contract cost savings in year 1+ (approximately \$1.8 million)
- GLWA credit of approx. \$7 million annually of KWA debt service for raw water rights at end of first 30-year contract
- Focused capital outlay for Flint local system
- Back-up service supply
- Flint participation in WRAP
- Ownership of 72" water main returned

GLWA

- Flint becomes a contract customer for first time in 17+ years
- 30-year Flint contract customer relationship (FY 2018 net revenue of \$4.1 million) benefits all customer communities
- Interim treated water service model contract with GCDC
- 30-year reciprocal back-up water supply with GCDC
- No write-off of decommissioned assets and avoided cost of new chlorination facilities
- Defined payment terms
- Licensed use of KWA raw water previously purchased by Flint
- Guaranteed use of 72" water main to service Flint AND emergency back-up to other GLWA customers

KWA

- Preserves existing debt security
- Add Trust account for debt payments
- Ongoing source of payments
- Operating cost recovery preserved with GCDC/KWA*

GCDC

- Contract customer pricing for interim GLWA service retroactive to 1/1/2017
- Short-term GLWA full service water supply cost reduction of \$4 million on an annual basis
- Proceeds from sale of 72" water main for capital costs
- Debt payments via Trust account
- Mutually established equivalent provider/supplier back-up water service changes for GCDC/GLWA when either is provider or supplier
- Operating cost recovery preserved (*GCDC/KWA FY 2018 approx. \$1.1 million)

Genesee County

- Preserves existing debt security
- Add Trust account for debt payments
- Ongoing source of payments

State of Michigan

Water Residential Assistance Program (WRAP)


As a long-term model contract customer, the residents of Flint are eligible to participate in GLWA's WRAP

1. WRAP is the first sustainable water assistance program in Michigan which launched in March 2016
2. Depending on the participation level selected by the city of Flint, WRAP can assist qualified households within the city of Flint with:
 - a) Assistance up to \$300 per year in the form of \$25 monthly bill credits as long as client continues to pay all current charges
 - b) Up to \$700 in arrearage assistance to be paid 50% (up to \$350) after six months in the program, and 50% (up to \$350) after one year. Enrollees are eligible for a second year arrearage assistance totaling \$700
 - c) One-time home water audit for households above 120% of average usage
 - d) Home repairs up to \$1,000 per household to fix minor plumbing issues leading to high usage and/or minor lead replacement assistance
3. Initial funding was \$4.5 million for Fiscal Year 2016 and \$4.7 million for Fiscal Year 2017, which will provide assistance to nearly 5,000 households in Southeast Michigan each year
4. WRAP funds are currently allocated in proportion to the total budgeted water and sewer revenue requirements by County
5. More information on eligibility and other WRAP details can be found at:

www.glwater.org/wholesale-customers/water-residential-affordability-program-wrap/



Statement of Principles Signed on April 18, 2017



CITY OF FLINT

Statement of Principles
Long Term Water Delivery to the City of Flint

Dr. Karen W. Weaver
Mayor


The below represents a statement of the structure for a set of inter-related transactions that will comprise an overall agreement resulting in primary and backup water for the City of Flint and system improvements for all parties. The signatories agree to work in good faith to promptly agree to the necessary legal documents (in the form of an overall master agreement with each individual agreement as an exhibit to that master agreement). They further agree to use their best efforts to secure all authorization or approvals required by the entity's policies, ordinances, and governing law for those agreements from all governing bodies necessary to put these agreements into effect as soon as is practicable.


1. The Great Lakes Water Authority (GLWA) will provide long-term wholesale finished water services to Flint, with pricing for the services that treats Flint similarly to all other GLWA wholesale model contract customers, including access to Water Residential Assistance Program funds to assist low-income customers. GLWA will receive the right that Flint has to purchase raw water through the Keweenaw Water Authority (KWA) and credit Flint in like amount to the debt paid during the contract period.
2. Certain trust arrangements will be put in place for ease of flow of funds from Flint to GLWA and the KWA in normal operation. Additionally, in the event Flint does not fully meet its obligations to the KWA, the Genesee County Drain Commission (GCDC), and GLWA, an alternative trust will come into operation. That trust would receive all Flint customer collections and ensure a flow of funds to meet obligations to the KWA, GCDC, and GLWA. Additionally, Flint will provide a customer security deposit of \$3.75M with GLWA, for no less than two years and no greater than six years (as long as timely payments are made and agreed upon performance objectives met). KWA has a conditional right to access the customer security deposit under certain circumstances.
3. GLWA will provide short-term wholesale finished water services to the GCDC until the GCDC water treatment plant is operational and servicing GCDC's customers, with pricing for the services that treats GCDC similarly to all other GLWA wholesale model contract customers.
4. GLWA and the GCDC will provide one another with reciprocal backup water services. The price for backup water services will be established through an agreed upon detailed pricing methodology in the contract and it will be the same for both parties.
5. The State of Michigan (State), through its Department of Environmental Quality (DEQ), will provide a grant in an amount of \$7.5M to the GCDC for installing a 42-inch transmission main parallel to the existing 72-inch transmission main that currently supplies treated water from the GLWA to GCDC customers and Flint. This will allow GCDC to supply treated water from its new water treatment plant to its customers on or after October 2017. The 72-inch transmission line will be returned to Flint's ownership.
6. The State will provide assistance, in compliance with all existing laws, to GCDC, Flint and the KWA in obtaining refinancing of the 2016 KWA bond issue and in completing the approval process for the GCDC to use its water treatment plant.


Page 1 of 2
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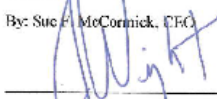
7. Flint will build a new supply connection from the end of the GCDC service system north of Flint to the Flint water system to provide a backup water supply. Flint intends to utilize WIDN funding to complete this project.


Signed by:


City of Flint
By: Dr. Karen W. Weaver, Mayor


KWA
By: John O'Brien, Deputy CFO


GLWA
By: Sue F. McCormick, CFO


GCDC-WWS
By: Jeffrey Wright, Drain Commissioner


State of Michigan
By: Keith Creagh, Director

Page 2 of 2

Next Steps

1. **Statement of Principles:** Signed April 18, 2017
2. **30-day public comment period**
3. **Drafting and execution of the Master Agreement**

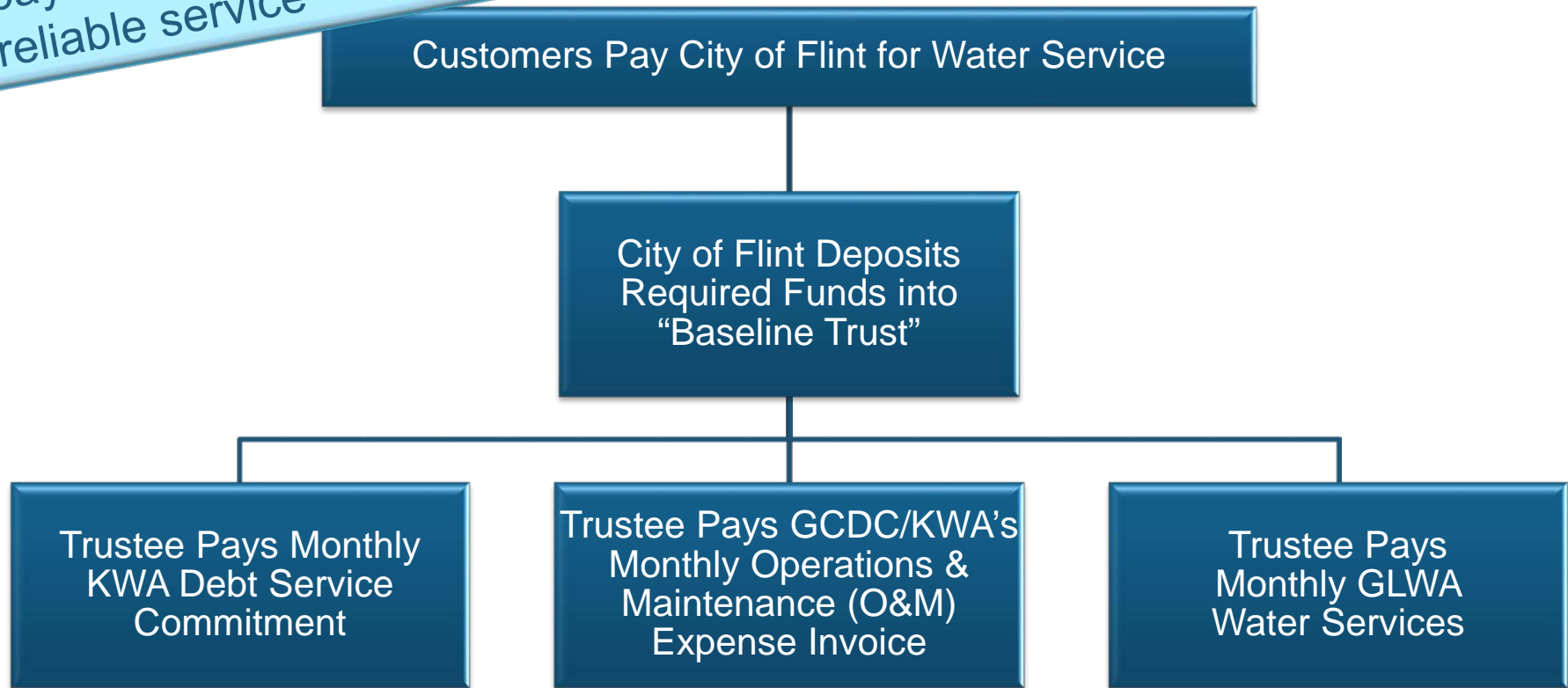
Master Agreement: Regional Cooperation = Regional Benefit

Master Agreement Supports Cooperation – Statement of Principles outlines next steps for a Master Agreement encompassing coordinated agreements among the partners

1. **Flint & GLWA:** 30-Year Water Services Agreement
2. **GCDC & GLWA:** 30-Year Reciprocal Back-Up Services Contract
3. **GLWA, KWA, & Flint:** Payments Trust
4. **Flint, KWA, & GLWA:** Addendum to KWA – Flint Raw Water Contract
5. **State, Flint, & GCDC:** 72” Main Transfer
6. **State & GCDC:** 42” Main Agreement
7. **State & Flint:** GCDC North 36” Main Agreement

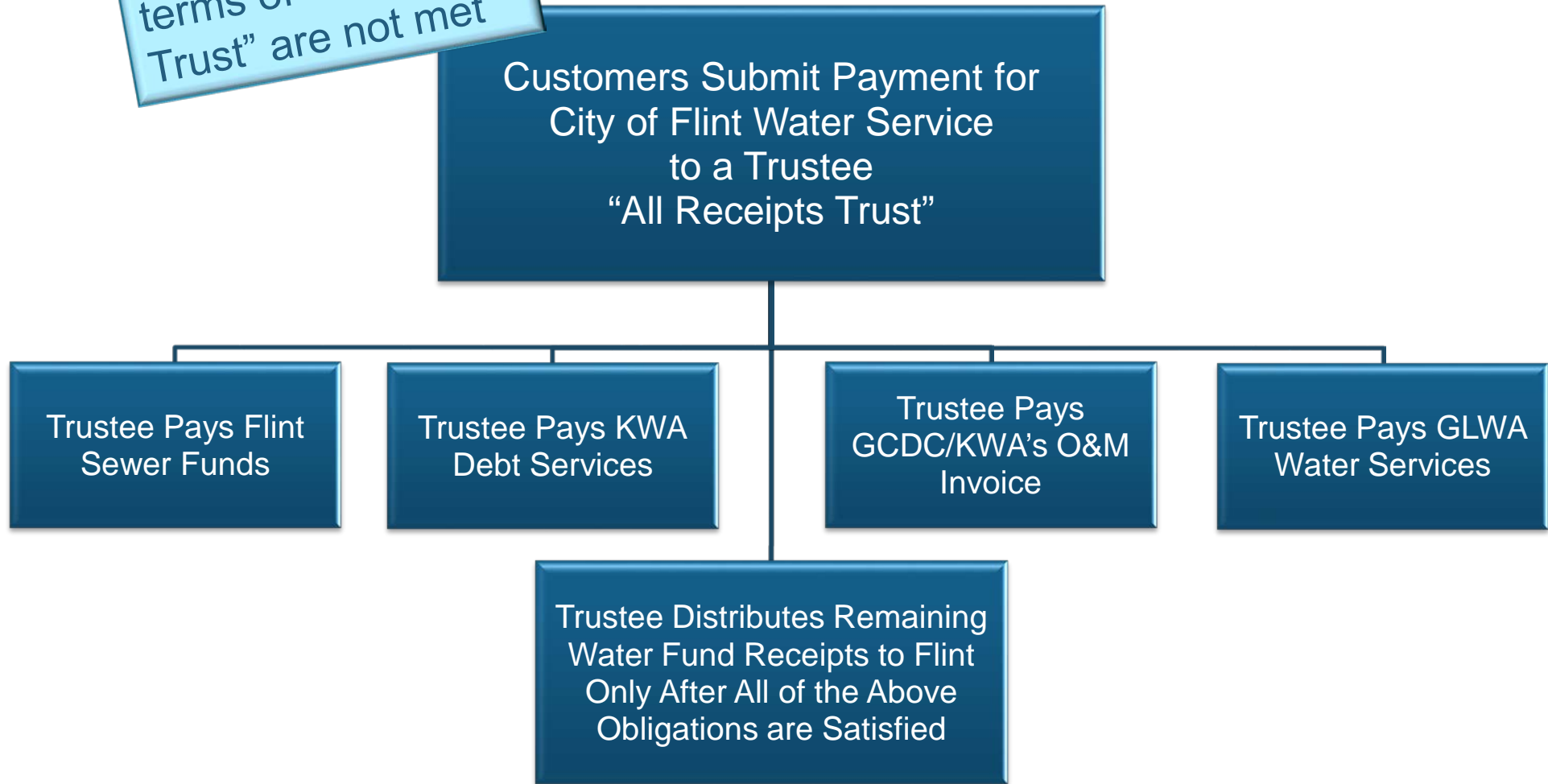
Baseline Trust Defines Payment Arrangements

Customer and other stakeholder payments protected to secure reliable service



If Needed, Trust May be Expanded

Only effective if terms of "Baseline Trust" are not met



Anticipated Considerations for Each Partner



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City of Flint

1. Safe, reliable water service; no further switching of primary water source
2. 30-year, cost effective water supply solution from GLWA
 - a) Based on GLWA Water Model Contract
 - b) As a GLWA Model Contract wholesale water customer, Flint would save approximately \$1.8 million compared to non-contract charges
 - c) In consideration for the transfer of raw water rights with KWA, Flint will receive contract rights credits (approximately \$7 million per year) which will off-set debt service payments made to KWA
3. Over \$100 million of federal funds identified to improve Flint's water treatment plant and storage facility could be redirected to fund years of deferred water distribution system capital investment
 - a) Flint's water treatment plant becomes pumping station and provides storage to reduce Flint's local system operating costs
 - b) Future opportunity to reduce cost of water purchased in its operating budget by directing capital funds to reduce sources of water loss
4. Eligibility for Flint households to participate in GLWA's WRAP (Water Residential Assistance Program)
5. Ownership of 72" water main is returned to Flint
6. Flint may participate in the GLWA Technical Advisory Committee for the term of the contract

Great Lakes Water Authority

- 1. Flint becomes a long-term contract customer for the first time in 17 years**
- 2. 30-year Flint Model Contract benefits all GLWA customer communities:**
 - a) Approximately \$4.1 million of annual net revenues in FY 2018
 - b) Revenue stability
- 3. Increased security for Flint payments to GLWA:**
 - a) Security Deposit Account
 - b) Trust accounts set up for deposit of Flint monthly GLWA payments
- 4. Support expanded regional collaboration to strengthen the state of Michigan's infrastructure network and improve reliability for GLWA customers by optimized use of existing infrastructure**

(continued)

Great Lakes Water Authority *(continued)*

5. **GLWA entitled to use of Flint's previously purchase raw water capacity with KWA which avoids:**
 - a) Cost of new chlorination facilities along GLWA 72" water main – approximately \$8.5 million
 - b) Additional annual O&M costs of chlorination facilities - \$150,000
 - c) Material write-off and cost of decommissioning GLWA assets while addressing a long-standing redundancy concern for our customer communities in this region
6. **Use of the 72" main to provide service to Flint, as well as emergency back-up to other GLWA customers**
7. **A 30-year reciprocal back-up water supply contract between GCDC and GLWA**
 - a) GLWA will continue to supply finished water to GCDC on a full-service basis until GCDC's water plant is operational and delivering water to its customers, which is estimated to be October 1, 2017. GLWA charges for this service treats GCDC as all other GLWA wholesale model contract customers are treated, and will be retroactive from January 1, 2017
 - b) GCDC will provide a daily supply of finished water to GLWA not to exceed 5% of Flint's daily flow requirements, estimated at 0.5 MGD. It is necessary to keep the 24/36" line fresh in the event emergency back-up services are required
 - c) GLWA and GCDC will provide one another with reciprocal back-up water services for use during periods of planned maintenance, system repairs, system outages, loss of power supply, contamination, or for other mutually agreed upon reasons

Great Lakes Water Authority *(continued)*

Summary of Projected FY 2018 Charges to Flint

	Existing Charges	Current Proposal (b)	Variance	% Variance	<u>(b) Current Proposal Allocated to Recipient</u>		
					GLWA	KWA	KWA / GCDC
<u>Flint Demand Assumptions</u>							
1 Annual Water Sales - Mcf	615,000	615,000	0	0.0%			
2 Average Daily Sales - mgd	12.60	12.60	0.00	0.0%			
3 Max Day Demand - mgd	15.00	15.00	0.00	0.0%			
4 Peak Hour Demand - mgd	15.00	15.00	0.00	0.0%			
5 Max Day Peaking Factor	1.19	1.19	0.00	0.0%			
6 Peak Hour Peaking Factor	1.19	1.19	0.00	0.0%			
7 Sales via GCDC Treatment	0	24,400	24,400	NA			
8 Net Sales via GLWA Treatment	615,000	590,600	(24,400)	-4.0%			
9 Annualized Revenue Req't - Direct GLWA Service	14,068,700	11,129,900	(2,938,800)	-20.9%	11,129,900		
10 Fixed Monthly Charge	693,200	556,400	(136,800)	-19.7%			
11 Commodity Charge - \$/Mcf	9.35	7.54	(1.81)	-19.4%			
12 KWA Debt Service	7,000,000	7,000,000	0	0.0%		7,000,000	
13 Contract Rights Credit	0	(7,000,000)	(7,000,000)	NA	(7,000,000)		
14 KWA/GCDC Pass Thru Water Costs (a)	0	1,108,700	1,108,700	NA	0	0	1,108,700
15 Adj Annualized Flint Revenue Requirement	21,068,700	12,238,600	(8,830,100)	-41.9%	4,129,900	7,000,000	1,108,700
					33.7%	57.2%	9.1%

<u>(a) KWA/GCDC Pass Thru Water Costs</u>	<u>Units</u>	<u>Charge</u>	<u>Annual Cost</u>
Fixed Capacity Reservation - mgd	1.50	203,000	304,500
Commodity Charges - Mcf	24,400	32.96	804,200
Total			1,108,700

Genesee County Drain Commissioner

1. Preserves existing security to Genesee County bondholders
2. Improves reliability of service to GCDC customers through reciprocal back-up
3. Sale of the 72" water main section purchased by GCDC from Flint and use of those proceeds to support construction of replacement water mains necessary to serve GCDC customers
4. MDEQ grant in an amount of \$7.5 million for installing a 42" transmission main parallel to the existing 72" transmission main that currently supplies treated water from the GLWA to GCDC customers and Flint
5. A 30-year reciprocal backup water supply contract between GCDC and GLWA
 - a) GLWA will provide short-term wholesale finished water services to GCDC until the GCDC WTP is operational and delivering water to its customers. GLWA charges for this service treats GCDC as all other GLWA wholesale model contract customers are treated and will be retroactive from January 1, 2017
 - b) GLWA short-term service is expected to go through October 1, 2017, or as otherwise requested
 - c) Estimated annual cost reduction of almost \$4 million compared to non-contract customer charges retroactive to January 1, 2017, upon execution of final documents
 - d) GCDC will provide a daily supply of finished water to GLWA not to exceed 5% of Flint's daily flow requirements as required by EPA (estimated at 0.5 MGD) which is necessary to keep the 24/36" line fresh in the event emergency backup services are required
 - e) GLWA and GCDC will provide one another with reciprocal backup water services for use during periods of planned maintenance, system repairs, system outages, loss of power supply, contamination, or for other mutually agreed upon reasons
 - f) GCDC may participate in the GLWA Technical Advisory Committee for the term of the contract

Karegnondi Water Authority

1. Preserves existing security to KWA bondholders:
 - a) Flint's obligation to make Capacity Fee and Debt Fund fee payments (\$7 million) would be preserved, as these fees under the Raw Water Contract are linked to debt service payments under the Financing Contracts
 - b) Any lien rights existing under the Raw Water Contract for payment of these fees would also be preserved
2. Increased security for Flint debt service payments to KWA:
 - a) Trusts accounts for deposit of Flint monthly payments
 - b) Access to Security Deposit Account, provided that KWA has exhausted its other remedies
3. Operating cost recovery preserved - Estimated \$1.1 million of combined annual O&M revenues for GCDC and KWA services
4. Neutral impact on future KWA system marketing opportunities

Genesee County

1. Preserves existing security to its bondholders
2. Ongoing source of payments for Genesee County backed bonds
 - a) GCDC charges recover debt service on existing bonds issued through Genesee County with its Limited Tax General Obligation Pledge
 - b) Estimated \$1.1 million of combined annual O&M revenues for GCDC and KWA services from Flint
3. Trust accounts for payment of Flint's obligations to GCDC and KWA

State of Michigan

1. Safe, reliable, long-term, cost-effective solutions for City of Flint constituents
2. Fostering regional cooperation
3. Optimize infrastructure investment



GLWA

Great Lakes Water Authority

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