



GREAT LAKES WATER AUTHORITY

December 17, 2015

The Honorable
Board of Directors
Great Lakes Water Authority

Dear Chairman Daddow and Directors:

Regarding: Interim CEO's Report – December, 2015

The Board action today acknowledges the last of the actions necessary for the January 1, 2016 effective date upon which GLWA will assume operations of the regional water and sewer systems are completed as provided for in the lease agreements. All systems are go.

Since the November report, significant actions have occurred; 100% of the wholesale customer service contracts are now assigned to GLWA, regulatory approvals were received from MDEQ, the bondholder consent process concluded with significant favorable margin over the 51% goal (67%) and the bond refunding transaction resulted in cashflow savings of \$38.2 million.

Staff efforts continued to assure transition on January 1 is successful. As shared services schedules for the transition were being finalized, preparation of the operational protocols that describe the interaction between GLWA and DWSD after January 1, 2016 were being developed with agreement reached on those critical to day one. Communication with staff and providers to assure timely benefits standup, effective payroll processing, etc. has been ongoing through the month. A myriad of Finance related activities are ongoing and are detailed later in the report. Due to significant efforts over the last month, we will be starting the year with a greater number of GLWA employees covered under the terms of current labor contracts and opportunity for continued labor management dialogue.

GLWA has now completed its first year. The focus of the year has been to assure the terms of MOU executed by the principals was honored through the leases and service agreement, and then to assure all of the conditions precedent to the effective date were met. You have accomplished all that was laid before you. It has been my pleasure to work with you as your Interim CEO in those endeavors.

There are many thanks to go around for those that assisted us in these efforts. At the risk of missing someone, the list is general and I ask that people see themselves in this acknowledgement. Our customers, the incredible volunteers, the staff of DWSD and other partnering organizations, the consultants, the advisors, MDEQ, the non-profits and yes, the attorneys. I don't know how we would have gotten here without you. Lastly, a shout out to our investors, who know a good credit when you see one. We won't disappoint.



PLANNING SERVICES AREA

Asset Management and CIP Group

In the last month, the Preliminary GLWA Capital Improvement Plans (CIP) for the water and sewer systems for FY 2017-FY 2021 were presented to various customer outreach groups. Key projects were highlighted along with discussion of how staff are beginning to utilize an asset management approach to the consideration of project prioritization. Customer comments are being received through the month of December. It is anticipated that the CIPs will be presented to Board committee(s) early in January followed by introduction to the full Board later in the month.

A Request for Expression of Interest (RFEI) was posted to the Michigan Intergovernmental Trade Network yesterday for Program Management Services associated with evaluation and improvement to the CIP process as a whole. The RFEI-type solicitation for these services has several purposes:

- To make potentially interested parties aware of GLWA's interest and intent to establish defined program management functions;
- To identify those entities interested in the GLWA program management opportunity;
- To obtain basic information on potential respondents' qualifications and concepts for program delivery; and
- To solicit input on the forthcoming program management services that will assist in the preparation of a Request for Proposal or Request for Qualifications.

The schedule for the solicitation allows for a series of opportunities to provide respondents information through a pre-submittal meeting and a written question and answer process. This will occur through the remainder of December and into January with the formal submittals due January 8, 2016.

Systems Planning Group

The Wastewater Master Plan Steering Committee continues to meet monthly with its latest meeting having been held yesterday. There is a clear focus on regional water quality, operations and other opportunities to collaborate. The framework for the consultant selection is nearly complete. It is expected that two RFEIs for the initiative will be advertised in January. One will have a focus on the modeling effort that is needed and the other will be the primary master plan consultant. These two efforts will proceed in parallel over the next two to three years. A subcommittee has been formed to develop the solicitation documents for both elements.

The Customer Outreach program continues to hold regular meetings. The most notable customer comments came from the rates work groups where both the sewer and water rate methodologies have been discussed. On the sewer side, the City of Detroit has requested a reconsideration of the 83/17 CSO allocation as well as the overall rate methodology. Additionally wholesale customers have been discussing a reconsideration of the wholesale allocation of the 17% portion of the overall CSO program. On the water side, the distance and elevation factors of the rate method have received considerable discussion related to the repurposing of the Northeast Water Treatment Plant.



PLANNING SERVICES AREA (continued)

The Systems Planning Area staff have also been deeply involved in the finalization of the shared services schedules for the transition as well as the preparation of the operational protocols that describe the interaction between GLWA and DWSD after January 1, 2016.

System Analytics Group

The Leadership Team of the Energy Management Program has begun meeting. Additionally specific projects related to energy conservation have been added to the preliminary CIP.

WATER OPERATIONS

Northeast's Laboratory received the Certificate of Excellence from Environmental Resources Associates (ERA) for participating in the proficiency testing for WS-231. Their laboratory has been recognized as a Laboratory of Excellence for achieving 100% acceptable data in this study. This achievement is a demonstration of the superior quality of their laboratory in evaluation of the Heterotrophic Plate Count, Inorganics, MicrobE™ (Coliforms), Residual Chlorine, and Turbidity standards.

Northeast Water Treatment Plant recently isolated and dewatered their East Raw Water Tunnel in preparation for the leak inspection and condition assessment under CS-1490, Task 28 contract. NTH Consultants, LTD completed the West tunnel inspection on November 20th, and their initial report indicates that the tunnel is in good condition.

DTE performed their annual electrical line inspection on November 20th. This service is performed to circumvent major power disruptions to the plant; especially during the winter months

The inspection of the Belle Isle intake and tunnel inspection at Water Works Park started December 9th under contract CS-1623. The scope of work includes divers and cameras entering the intake and tunnels leading to Water Works Park to inspect the conditions and identify the future needs for repairs. This diving inspection affects the Northeast and Springwells Water Treatment Plants. During the diving activities, all three (3) plants shut down their Low Lift Pumps for six hours during late night operation.

A meeting was held with Wayne State University (WSU) representatives to discuss and provide updates on the pilot plant projects. There are three (3) projects that have been considered by Wayne State representatives:

1. Optimizing Endocrine Disrupting Chemicals (EDCs) a project that was started in the summer of 2015.
2. Methodology Testing for Microscopic Organisms, this project is expected to begin early 2016.
3. An energy monitoring project is being proposed and is slated to start in the early part of 2016.



WATER OPERATIONS (continued)

Wayne State University (WSU) has received a grant from the Urban Watershed Environmental Research Group that will be utilized to purchase equipment for the pilot plant. They are proposing to install an analyzer to monitor algae, in addition to performing maintenance on the Huron to Erie drinking water monitoring analyzers.

In the near future, WSU is also proposing to meet with employees from Water and Wastewater to present the projects that they are doing.

Lake Huron Water Treatment Plant completed their charitable food drive and delivered turkeys and non-perishable foods to Fort Gratiot Middle School on November 23rd.

Field Services

The construction of the Contract No. WS-681, 42" Parallel Transmission Main along 24 Mile Road is in progress with no obstacles, 99% of the pipe has been installed with 66% of the contract time elapsed.

Contract No. WS-684A, 36" Transmission Main Replacement along Telegraph Road has been re-bid and is being procured.

Due to the mild weather, there have been less water main breaks for this season. Maintenance and Repair has shifted its priority to reducing the backlog of blocked and broken catch basins by more personnel to complete repairs. We are mobilizing ten (10) crews per day that are dedicated to repairing the broken catch basins, averaging the completion of eight (8) basins per day. The reduction of the blocked and broken catch basins will reduce the amount of flooding streets in the City of Detroit.

WASTEWATER OPERATIONS

The Biosolids Drying Facility started performance demonstration testing on three (3) trains concurrently: 1, 3, and 4, DWSD has been in negotiations with New England Fertilizer Company (NEFCO) regarding the best method to address the capacity throughput and contractual issues.

The plant received the final results on the MACT (emissions upgrade) emissions testing for incineration units 9 and 10. The laboratory results confirmed that all criteria for MACT were well below the regulatory requirements.

Wastewater Operations Group remains in compliance with National Pollutant Discharge Elimination System (NPDES) permit limits.

FINANCE

The key activity this month in the Financial Services Group was achieving bondholder consent and a successful refunding.



FINANCE (continued)

Account Setup for GLWA, DWSD-R and Underway

This is a significant task that spans DWSD Finance and IT, as well as City of Detroit Finance, Budget, and IT, the DWSD WAM team, the Ceridian/Ultipro teams, and the City's Oracle Fusion team (Ernst & Young and AST). Progress is being made in the account set-up for the GLWA and DWSD-R general ledgers for January 1, 2016 within the existing Oracle EBS ("DRMS") despite several delays related to City staff availability and gaining access to the test environments. The DWSD Financial Planning & Analysis team has proven their adaptability in modifying the workplan with the target continuing to be to load the budget into the production environment before year-end.

FY2016 Budget Bifurcation

The GLWA budget was approved on December 9, 2015.

Other Stand-up Activities

All other matters related to stand-up are underway. As we proceed toward year-end, the Materials & Logistics team is working on the relocation of staff and inventory to achieve a clean cut-off as of January 1, 2016. The Treasury team is working on the transition tasks to achieve compliance with the bond ordinance as well as defining the business process and accounting for incoming cash receipts for two entities as of January 1, 2016. The Finance team is working on procedures to assure clean cut-off of accounts payable at calendar year end between three budgets (GLWA, DWSD, and DWSD-R) while continuing to make progress on the 2015 fiscal year-end audit. All members of the FSG are also engaged in the implementation of Oracle Fusion for GLWA, DWSD-R and BS&A).

INFORMATION TECHNOLOGY

Sandy Jurek has joined DWSD's ITS leadership team as Enterprise Applications Manager, overseeing the Geographic Information System, web technologies, enterprise document management and business intelligence teams. Sandy most recently served as Macomb County's Chief Information Officer. Sandy will be transitioning to GLWA on January 1st.

Bifurcation Day One Update:

- Office 365 went live on December 7th for GLWA users, who are now accessing their email via Outlook 2013 client or Office 365 webmail.
- DWSD-R users were migrated to the City's email system during the same weekend. Zimbra is now in an archive only state and will be shut down shortly after the New Year.



INFORMATION TECHNOLOGY (continued)

- The Ceridian Dayforce Go-Live was on December 7th. As part of that effort, the team completed configuration, testing and implementation of the Dayforce Touch time clocks for use with existing security badges. Completed manager training at five (5) locations on the operation of the Dayforce application with over 50 managers attending the two (2) training courses and completed technical application training December 7 and 8th. To-date, over 225 Employees have logged in to Dayforce and 77 have set up and entered direct deposit information.
- Completed requirements definition for the new GLWA website through interviews with most Executive staff and through interviews with a number of other key staff at DWSD. Completed the website organization structure design (i.e., sitemap) for the new website on the Development Environment, and copied over key website data from both the current GLWA website and from the DWSD website.

The Applications Team are working with Ben Clark of Great Lakes Environmental Finance Center to coordinate proposed enhancements to the Improve Detroit (SeeClickFix) application. The intent is to improve the citizen experience when reporting water-related issues. Proposed enhancements include: handling duplicate submissions, tying assets to service requests and introducing image search as a way of matching issues with DWSD assets.

The Applications Team began the installation and configuration of the hardware needed to implement the BS&A Billing Module. This module will be the first of several BS&A modules encompassing the overall system implementation, and will be used for billing suburban customers.

Completed several Fire Hydrant Program initiatives including:

- A system usage analysis after the implementation of a new consolidated service area map, showing an 88% reduction in duplicate hydrant creation during inspections.
- A hydrant part inventory analysis to determine costs for maintaining 30, 60 and 90 days fire hydrant parts inventory.

Also, staff continues to monitor fire hydrant repairs/replacements, parts inventory levels, and hydrant truck up-time.

DWSD's IT Security and Risk Management team implemented AT&T's Security Event Threat Analysis (SETA) collector and is now gathering data and performing threat analysis against the DWSD network. The system will notify DWSD ITS personnel in the event of a cyber-attack or suspicious network activity.

DWSD's IT Security and Risk Management team, in conjunction with our AT&T cyber security partners, has drafted a cyber security incident response plan to be presented for adoption by the DWSD IT Leadership Board (ITLB) during the first meeting in 2016.



INFORMATION TECHNOLOGY (continued)

This plan will be used in the event of a cyber security incident (i.e., a computer virus outbreak, website attack, or other cyber hacking event) to manage the DWSD response, contain the fallout of the incident, collect forensic evidence, and restore service.

The Infrastructure team is making excellent progress on the AT&T network replacement. All of DWSD's core sites are complete, and staff is conducting day and night migrations at DWSD's 59 remaining remote and pressure sites. The substantial completion date is scheduled for January 15, 2016 with the exception of Imlay City Pump Station, which will need a dedicated 41 mile infrastructure build.

LEGAL

The Interim General Counsel's December Report is attached to this Interim CEO's report.

TRAINING AND STAFF DEVELOPMENT

Balvinder Sehgal, Water Works Park Plant Manager, attended the web-based seminar on Evaluation of Ozone and Granulated Activated Carbon (GAC) Treatment on Cyanotoxins on Tuesday, November 10th. This presentation described cyanotoxin occurrences and current regulations; whereas, the learning objectives identified available treatment options, benefits, and capabilities of ozone treatment to recognize the value of performance testing in planning for and designing GAC treatment systems and the elements and features of GAC treatment systems that impact cost, performance and practicality.

Several Water Operations managers successfully completed the Homeland Security Critical Asset Risk Management Course offered November 17-18, 2015 at Water Works Park. This course was conducted by a team from Texas A&M Engineering's Extension Service under the direction of Federal Emergency Management Agency (FEMA). The course taught students how to conduct site specific critical infrastructure risk and vulnerability assessments. Classroom presentations and group discussions were followed by a field exercise at a DWSD facility, and mock tabletop scenarios involved human, natural and technological disasters. Risks for each scenario were identified, vulnerabilities were assessed, consequences estimated, and mitigation steps were developed for each scenario which was then presented to the class.

Respectfully submitted,

Sue F. McCormick
Interim CEO

SFM/dlr
Attachments (1)



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Interim General Counsel – December, 2015

Interim General Counsel worked on the following matters:

1) Contract matters

Contracts reviewed as to form: Interim General Counsel reviewed 22 contracts as to form and execution.

Contracts drafted or revised: Interim General Counsel drafted or revised 15 contracts.

Wholesale Customer Contracts

- A) Negotiations have been completed with Novi, Warren, Lincoln Park, NOCWA, Mayfield Township, Imlay City, Lapeer, Chesterfield Township, and SOCWA.
- B) Wholesale Customer Contract assignments from DWSD to GLWA is complete.
- C) Interim General Counsel has reviewed a draft letter for DWSD vendors whose contracts will be assigned to the GLWA.
- D) Interim General Counsel is working Procurement to review and revise standard Terms and Conditions for GLWA Purchase Orders.
- E) Interim General Counsel was to facilitate resolution of remaining issues regarding PC-772 and closeout Change Order.
- F) Interim General Counsel has prepared a contract for Miller Canfield related to the Lease Negotiations.
- G) Interim General Counsel is working with the City of Romulus for a 48 inch main installation in coordination with work they are doing on Wick Road.
- H) Interim General Counsel is working and meeting weekly with the Finance Group to support the Finance transformation efforts.



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Interim General Counsel – December, 2015

2) Subpoenas / Information Requests:

Interim General Counsel received 18 subpoenas/ information requests and responded to 17 subpoenas/ information requests.

3) New Cases:

A) Bruce Smith – Trip and fall Claim. Interim General Counsel received and is investigating this claim.

4) Cases Closed:

A) Bormans v DWSD: This case involves a challenge to DWSD's bills for a commercial property in Detroit by the seller, and a request to perform the property transfer by the buyer. The parties have resolved their differences and a settlement has been placed on the record until a final Order of Dismissal.

B) Alten Homes v DWSD: DWSD and Plaintiffs entered into a stipulation to dismiss this case without prejudice, and Plaintiff will request an administrative hearing.

5) LaSalle v DWSD. The court has approved the class action settlement in this case and notice to class members will be mailed on January 15, 2016.

6) Maclean v DWSD. This week Interim General Counsel will file a Motion for Summary Disposition in a property damage case based on governmental immunity as well as for judgment in DWSD favor of approximately \$12K unpaid water bills owed by Plaintiffs.

7) St. Martins Cooperative v DWSD: St. Martins Cooperative v DWSD: DWSD's expert and Plaintiff's expert are continuing and agreed to review the charges to narrow the issues in need of resolution. A hearing is scheduled in January, 2016.

8) DWSD v Highland Park: Highland Park has filed its appellate brief and DWSD is preparing its response.



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Interim General Counsel – December, 2015

- 9) Michigan Warehouse v DWSD: This case involves a class action headless challenge to DWSD's drainage fees. DWSD has removed the case to Federal District Court and filed a Motion to Dismiss the Complaint. Plaintiffs filed a Motion to Sever and Remand the State.
- 10) Law Claims. On December 15, 2015, the Court heard the motions at the conclusion of that argument, Plaintiff offered to dismiss his Federal Equal Protection claim and re-file the case in state court. DWSD is considering this offer.
- 11) Tax Liens: Interim General Counsel is working with the Wayne County Treasurer and various City Departments to remove tax liens placed on DWSD properties in error.
- 12) Drainage Issues: Interim General Counsel worked with the drainage steering team to formulate strategy on these issues.
- 13) US v Detroit, et al: The court has issued three orders that address the remaining issues in the case.

On December 14, 2015, Judge Cox entered a Stipulated Order Regarding Labor Mandates in United States v City of Detroit, et al. This Order brings to a close the mediation process which continued for the past several weeks, all objections and appeals filed by AFSCME, as well as several MERC proceedings. In addition to agreeing on this Order, three Memorandums of Agreement (MOAs) were fully executed today: a MOA between AFSCME, TEAMSTERS and MBTC related to the Field Services Technician, a MOA between AFSCME and MBTC related to the Electrical and Instrument Technician Classification finalized during the mediation, and a MOA between AFSCME and MBTC related to the Maintenance Technician classification. A challenge between AFSCME and IUOE related to the Plant Technician and Office Support Specialist classifications has been referred to MERC for expedited resolution.

On December 15, 2015, Judge Cox entered an Order proposed by the City and DWSD through a Joint Motion. This Order allows the eventual reintegration of DWSD into the City's central services following the effective date of the GLWA Leases so long as compliance is maintained. The Order also removes the requirement for suburban representation on the Board of Water Commissioners and requires dismissal of the City's appeals in this case.



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Also on December 15, 2015, the Court issued an Opinion and Order on the Motion for Indicative Ruling. In this Order, the Court recounts the recent history of the case in some detail, including SAAAs lack of participation in the case following remand. While SAAA retains a right of appeal, it is not clear what, if any, further action they will take in this case.

- 14) MFA Financing: General Counsel for DWSD and Interim General Counsel for GLWA prepared opinions necessary for this transaction.
- 15) In re: City of Detroit: Several DWSD vendors were subject to actions to recover “preference payments” filed by the City’s Law Department. We have discovered that some of these actions may have been filed in error and have referred those matters to the City for resolution.