Great Lakes Water Authority /
Detroit Water and Sewerage Department
Implementation Planning Program Management Office

To: Great Lakes Water Authority Board
From: Eric Rothstein, GLWA Planning Program Manager
Date: June 1, 2015
Subject: GLWA / DWSD Five Year Financial Forecast – Cash Basis Report

Provided in the attached report is the independent accountant's report on the feasibility of the payments contemplated in the Memorandum of Understanding (MOU) entered into on September 9, 2014 by the Incorporating Municipalities of the Great Lakes Water Authority. The report was prepared by Plante Moran and benefitted from the collaborative engagement of an advisory group consisting of representatives of the Incorporating Municipalities. The report's fundamental conclusion is quoted below:

> ***"The forecast indicates that the expected operating parameters should result in sufficient cash flow in the system to enable the system to support cash outflows for the $50 million lease payment, the $45.4 million pension reimbursement ($31.9 million GLWA stand-alone), and the approximately $4.5 million WRAP program, and to do so within the 4% revenue requirement increase limitation."***

This conclusion affirms the prior evaluation of projected cash-flows overseen by the Finance Working Group, assembled by U.S District Judge Sean F. Cox, that faciliatated execution of the MOU. In addition, Plante Moran's analyses address other salient issues of importance for future decision making. In particular:

- GLWA Stand Alone analyses affirm the feasibility of payments with separate operation of the regional facilities by GLWA and local facilities by the City of Detroit.
- The project advisory group set out two alternative scenarios to test the assumptions underlying the base case using both Optimistic and Pessimist financial scenarios:
  - The Optimistic scenario indicates noteworthy upside potential: revenue requirement increases may be eliminated entirely and GLWA's fund balances could improve by more than $140 million over the 5-year forecast period.
  - Under the Pessimistic scenario, the GLWA will still have the ability to operate as envisioned and pay Detroit the $50 million annual operating lease – though the GLWA fund balances would decline to just over $120 million.

All of these scenarios underscore the critical importance of resolute financial management of both the regional and local systems. Outside of GLWA's control, and not evaluated in Plante Moran's modeling, are potential consequences of events like adverse weather or unforeseen regulatory mandates. Similarly, Plante Moran did not evaluate stronger economic recovery than the modest assumptions of the Optimistic scenario.

This report reflects the project team's extraordinary effort, advisory group guidance, and outstanding support of DWSD staff and The Foster Group who provided input data and model development insights.

xc: GLWA Lease Feasibility Modeling Advisory Group
Judge Sean F. Cox, U.S. Federal District Court, Eastern District of Michigan