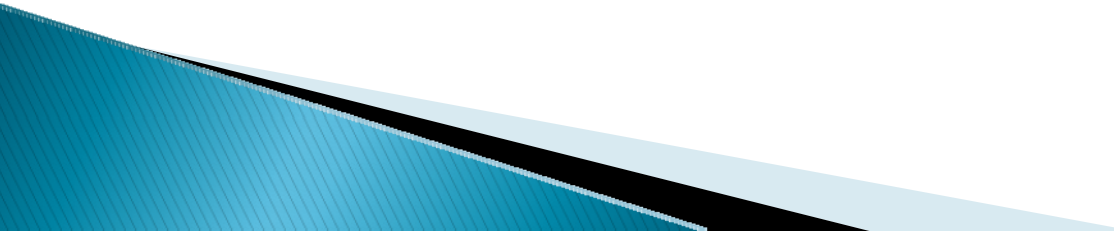


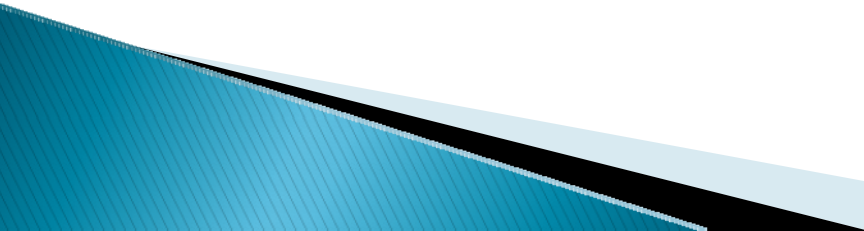
# Root Cause Committee

»» Proposal to Control our own  
destiny

# Need for a Proactive Solution

- ▶ The Cost of Inaction is not acceptable
  - ▶ Without control, who is looking out for our customer's best interests or the City's best interests
  - ▶ Long Term Compliance cannot be achieved without Financial Stability
- 

# Principles behind the RCC Proposal

- ▶ Achieve Short and Long Term Compliance
  - ▶ Maintain Detroit's ultimate ownership
  - ▶ Provide an ongoing and reliable revenue stream to Detroit's General Fund
  - ▶ Insulate DWSD and Customers from risks of Detroit's financial situation
  - ▶ Protect DWSD Assets from Bankruptcy Risk
  - ▶ Improve DWSD's credit rating, thereby reducing DWSD's borrowing costs
- 

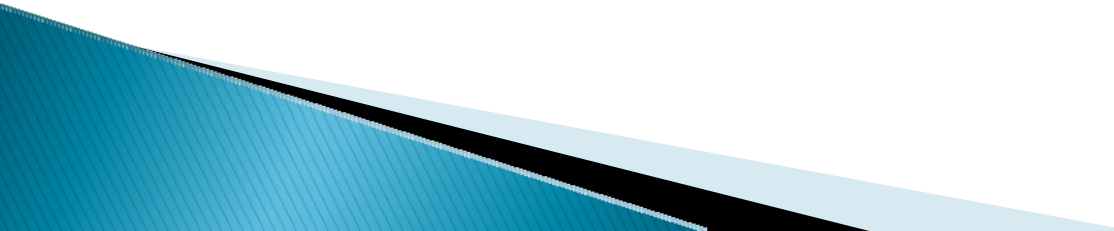
# RCC Research

- ▶ In making a recommendation, the Root Cause Committee reviewed several models from other communities including:
  - DC Water
  - New York Municipal Water Authority
  - The Citizens Energy Group (Indianapolis)
  - Lansing Board of Water and Light
  - Louisville Board of Water Works
  - Northeast Ohio Regional Sewer District

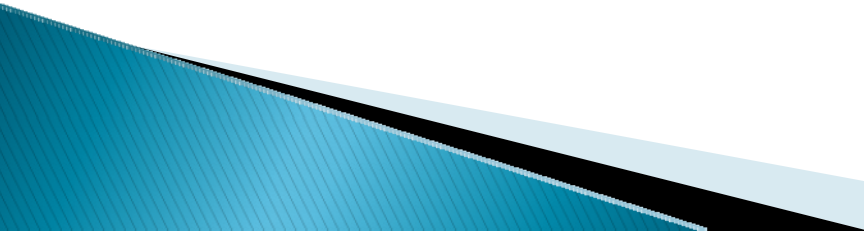
# DWSD Due Diligence

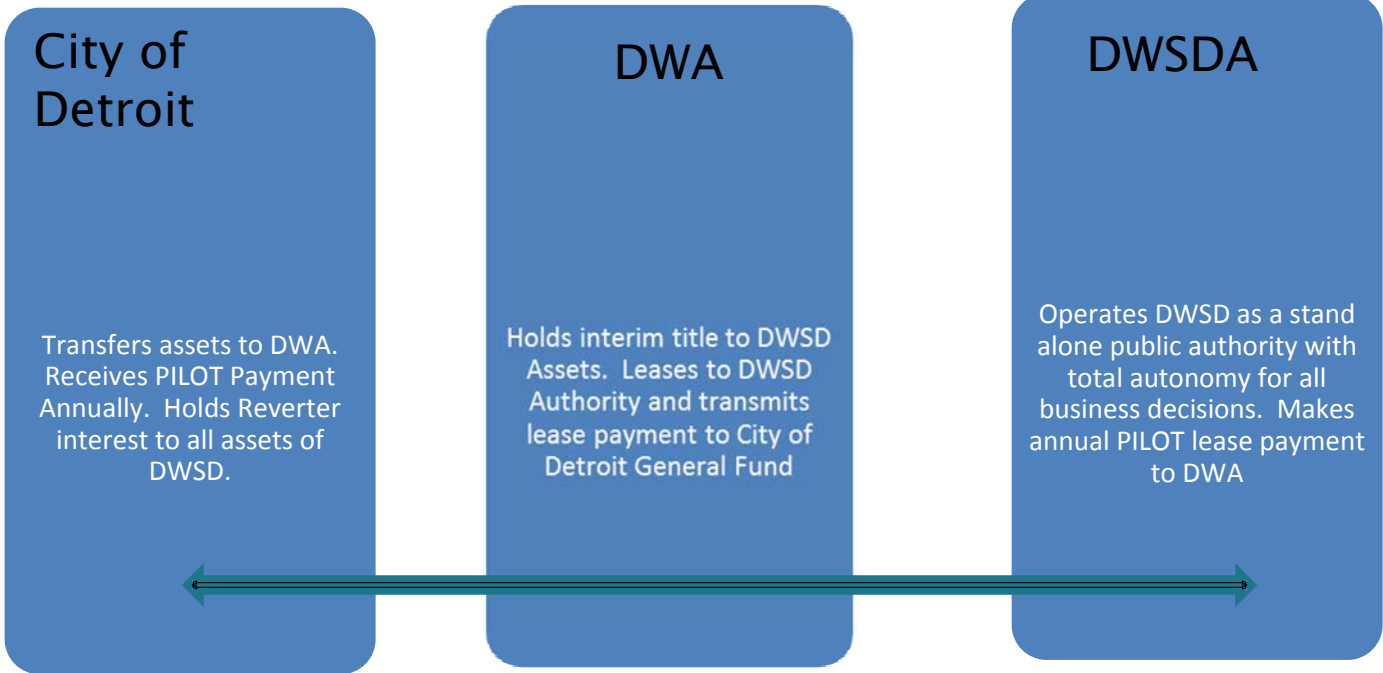
- ▶ In drafting the recommendation, DWSD has consulted with numerous experts and outside Counsel including:
  - Mike McGee – Bond, Municipal, and Public Authority expertise
  - Ricardo Kilpatrick – Bankruptcy expertise
  - Bob Franzinger & Mark Jacobs – DWSD counsel on the Federal Court case
  - Attorneys for the customer communities
  - Goldman Sachs – Underwriter expertise

# Why Now?

- ▶ DWSD cannot maintain compliance without financial stability. Various DWSD contractors are expressing concerns with our ability to pay, impacting compliance efforts (Dryer contract, Lime Chloride, Tellers, etc.)
  - ▶ Easier to control the outcome through a stipulated order of dismissal in court than to rely on the Legislative Process
  - ▶ Time is not on our side
- 

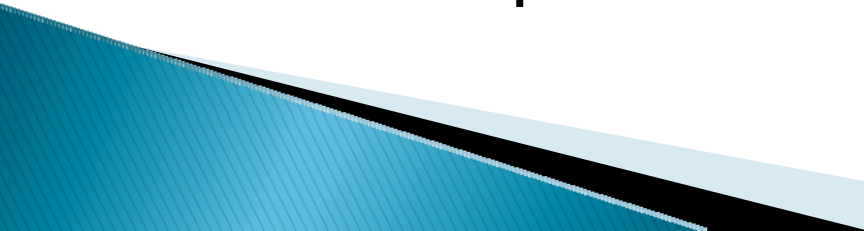
# The Proposal

- ▶ DWSD is set up as an independent public authority with the same governing board and composition as the current BOWC. [DWSDA]
  - ▶ A second public authority is established called the Detroit Water Authority [DWA] to lease the existing Assets to the DWSDA
  - ▶ The DWSDA pays a PILOT to the DWA, flowing directly to the City of Detroit's General Fund
  - ▶ Estimated payment of \$35–\$50 million annually
- 

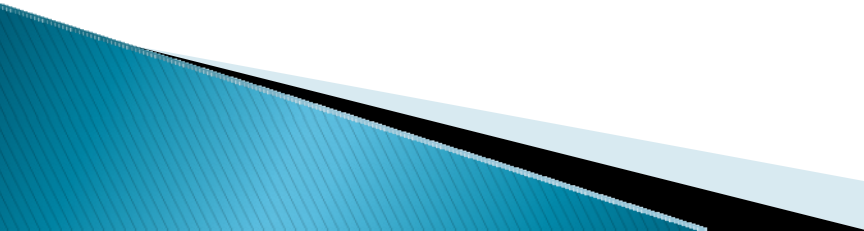




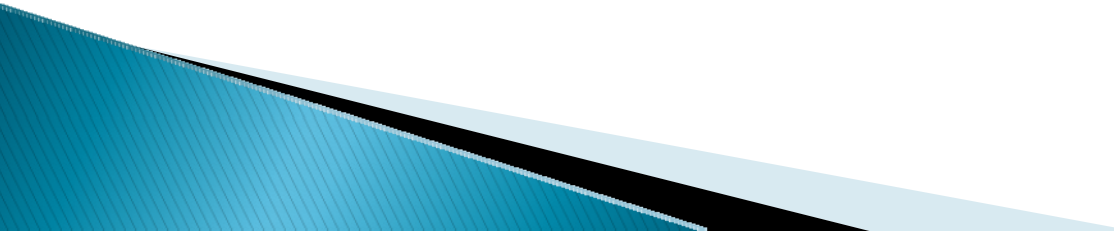
# Next Level of Detail

- ▶ Final calculation of PILOT will take some time (appraiser, Miller Buckfire, etc.), but minimum would be established at \$50 million
  - ▶ Order to require Adoption of DWA and DWSDA by-laws by date certain (9 months)
  - ▶ Order to require transfer of assets thereafter
  - ▶ DWSDA would have 100% operational and legal autonomy
  - ▶ DWSD would maintain the existing DWSD leadership team that is making progress
- 

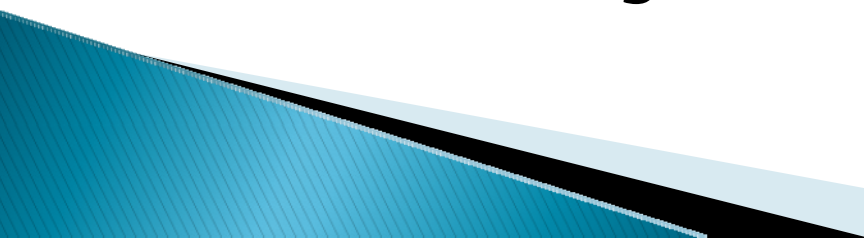
# City of Detroit Retains Ownership

- ▶ City transfers the land to the DWA
  - ▶ DWA leases property to DWSDA by Capital Lease
  - ▶ Term of Capital Lease is tied to bonded indebtedness
  - ▶ City of Detroit holds a springing reverter interest in the land if:
    - DWSDA misses a payment
    - DWSDA fails to operate as a public utility
    - Platinum Award needed to vest reverter interest
- 

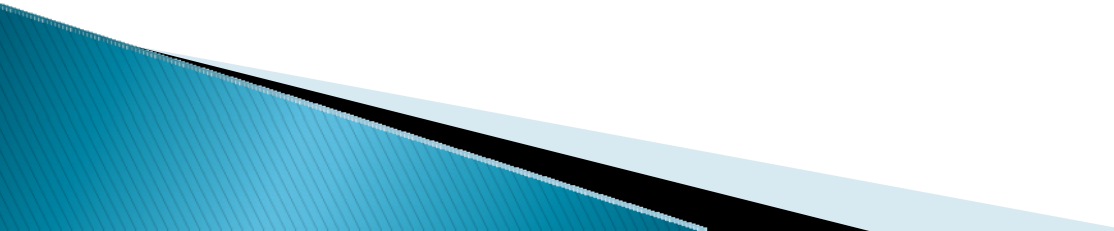
# Detroit Appoints Rate Consultant

- ▶ Annually, the City of Detroit shall provide the name of an individual or entity to serve as a customer advocate on behalf of the Detroit Retail Customers
  - ▶ DWSDA contracts with the advisor annually in accordance with Procurement Policy.
  - ▶ DWSD should be arbitrator of disputes between the billing classes, not seen as a sole advocate for Detroit customers
- 

# Business Case for Customers

- ▶ DWSD has received several bond rating downgrades over the past two years as a result of our connection to the City and the City's perceived risk of bankruptcy
  - ▶ Solving those risks saves money on future bond transactions & refinancings
  - ▶ Could equal \$50 million annually by year 10 with only a 75 basis point improvement
  - ▶ Also prevents the risks for customers of future downgrades tied to Detroit's credit
- 

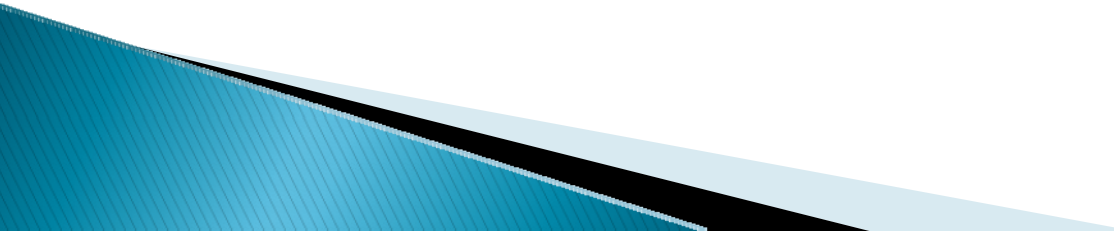
# Detroit Financial Flexibility

- ▶ This new revenue stream would be unrestricted cash flow for the City of Detroit
  - ▶ Could be monetized (Indianapolis) to provide up front cash, or could be an on-going revenue stream
  - ▶ Initial dollar amount converted to % of revenues, so that annual revenue stream could increase over time.
- 

# Detroit Business Case

- ▶ Maintains City Ownership
- ▶ Significant annual revenue stream to City
- ▶ Reduces Detroit's Long Term Liability by roughly 50%
  - \$6 billion debt
  - DWSD's share of OPEB and UAAL
- ▶ Can improve cost of capital for Customers
- ▶ Control our own destiny
- ▶ With an EM, Council and Mayor may lose existing oversight over DWSD anyway

# Risks?

- ▶ Unanimous support needed for Stipulated order including: RCC, BOWC, Detroit, Wayne, Oakland, Macomb, State of Michigan (MDEQ, Governor, Treasurer, Attorney General), possibly EPA, EFM?
  - ▶ Convince the Court that it has the Legal Authority to order this
  - ▶ Convince the Court that this is necessary to achieve long-term compliance
- 

# Questions?

Comments?

