



CITY OF GROSSE POINTE WOODS
20025 Mack Plaza Drive
Grosse Pointe Woods, Michigan 48236-2397

(313) 343-2440
Fax (313) 343-2785

**NOTICE OF MEETING
AND
AGENDA**

COMMITTEE-OF-THE-WHOLE

Mayor Robert E. Novitke has called a meeting of the City Council, meeting as a Committee-of-the-Whole, for **Monday, April 14, 2014, at 7:30 p.m.** The meeting will be held in the Conference Room of the Municipal Building, 20025 Mack Plaza, Grosse Pointe Woods, MI 48236 and is accessible through the Municipal Court doors. In accordance with Public Act 267, the meeting is open to the public and the agenda items are as follows:

1. Call to Order
2. Roll Call
3. Acceptance of Agenda
4. DWSD FY 2014/15 Water and Sewage Rates and Charges A. Letter 04/08/14 – City of Detroit Water and Sewerage Department
5. Plante & Moran Auditing Services A. Letter 04/04/14 – Plante & Moran
6. Proposed FY 2014/15 Budget
7. New Business/Public Comment
8. Adjournment

Alfred Fincham
City Administrator

IN ACCORDANCE WITH PUBLIC ACT 267 (OPEN MEETINGS ACT)
POSTED AND COPIES GIVEN TO NEWSPAPERS

The City of Grosse Pointe Woods will provide necessary, reasonable auxiliary aids and services, such as signers for the hearing impaired, or audio tapes of printed materials being considered at the meeting to individuals with disabilities. All such requests must be made at least five days prior to a meeting. Individuals with disabilities requiring auxiliary aids or services should contact the City of Grosse Pointe Woods by writing or call the City Clerk's office, 20025 Mack Plaza, Grosse Pointe Woods, MI 48236 (313) 343-2440, Telecommunications Device for the Deaf (TDD) 313 343-9249, or e-mail the City Clerk at cityclk@gpwmn.us.

cc:
Council – 7
Berschback
Fincham
Hathaway

Rec. Secretary
Email Group
Media - Email
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File



April 8, 2014

Grosse Pointe Woods
City Clerk
20025 Mack Plaza
Grosse Pointe Woods, MI 48236

RECEIVED
APR - 8 2014
CITY OF GROSSE-PT. WOODS

RE: DWSD FY 2014/15 Water and Sewage Rates and Charges

On March 26, 2014, the Board of Water Commissioners approved water and sewage rates and charges for Fiscal Year 2014/15. These rate increases continue to incorporate our ongoing efforts to control expenses while providing quality water and sewage services.

These adopted rates, for Fiscal Year 2014/15, are the result of a 0.9% increase for water and a 2.2% decrease for sewage in our operating budgets. Capital related costs are anticipated to increase by 3.1% for water and 1.3% for sewage. The increases will fund infrastructure improvements and reduce future borrowing needs.

Similar to the current year, the Department is providing an average water rate increase to model contract customers where contract Exhibit B values have remained the same for FY 2013/14 and FY 2014/15. The same method is applied to customers under old contracts, where the demonstrated maximum day or peak hour demands have not increased in the summer of 2013. This subset of the wholesale customers has an increase of 5.3%. The increase for FY 2014/15 is being applied to both the volume rate and the monthly charge as compared to the existing rates and charges. The remainder of the wholesale water customers had individually determined rates reflective of Exhibit B changes. The Department would like to thank those customers that participated in the reopener process during the fall of 2013 and approved contracts prior to the determination of the FY 2014/15 rates.

The Department is pleased to announce the approval of rate simplification for sewage customers by the Board of Water Commissioners on November 27, 2013. This change is the culmination of a multi-year process working with our wholesale customers to resolve a number of issues. The new approach assigns a percentage share of the common-to-all cost categories for each customer, based on their historical average sewage flow. These percentage shares are applied to the total revenue requirements for a given cost category, to determine an individual customer share. In addition, beginning with FY 14/15, the total revenue requirements by customer will be recovered on a fixed monthly charge basis.

The share calculations will remain constant for fiscal years 2014/15, 2015/16 and 2016/17. After this initial period, the Rates Work Group (a cross-functional team of DWSD staff and customers) will review the shares to determine if the methodology for determining shares should be revised. The Rates Work Group will review any requests for interim share changes. For FY 2014/15, the wholesale sewage customer class



revenue requirements are increasing on average by 2.8%. Due to the setting of initial shares for FY 2014/15, there is variability around this average amongst the customers. This variability between customers should be minimized in the following two fiscal years since shares are not anticipated to materially change. More information on rate simplification is provided in the enclosed brochure "DWSD Rolls Out Simplified Rate System for Sewer Services" or in a video on the home page of www.dwsd.org.

The Industrial Waste Control and surcharge rates reflect an increase of approximately 2.2% over the existing rates.

The Detroit Water and Sewerage Department (DWSD) continues to extend its thanks to the efforts of both the Water Technical Advisory Committee and the Wastewater Steering Committee. The Board of Water Commissioners and the Department value their continuing recommendations and participation.

If you are a wholesale water customer under an old contract, the Department would like to offer you the opportunity to negotiate a new model contract. Currently, the majority of our wholesale water customers are under the water model contract. The model contracts offer customers many advantages compared to the old contracts. Please feel free to contact us to obtain more information.

The FY 2014/15 rates and charges applicable to you are indicated on the enclosed document. These rates and charges are effective on all bills rendered by the Detroit Water and Sewerage Department as of August 1, 2014. They will apply to flows and/or usage beginning July 1, 2014.

It continues to be our pleasure to provide you these services. If you have any questions regarding the upcoming changes in rates and charges, or other related matters in this letter, please contact Raphael Chirolla of the Financial Planning Division – Rates Section at (313) 964-9202.

Sincerely yours,

Sue F. McCormick
Director

Enclosures

**APPROVED FISCAL YEAR 2014-2015
WATER RATES**

Community: **Grosse Pt. Woods**

Recommended Fixed Monthly Charge (a)	<table border="1"><tr><td>\$53,795</td></tr></table>	\$53,795
\$53,795		

Recommended Consumption Rate (b)	per Mcf	<table border="1"><tr><td>\$6.56</td></tr></table>	\$6.56
\$6.56			

(a) Applied every month, irrespective of amount of water purchased.

(b) Applied to metered water purchases.

**APPROVED FISCAL YEAR 2014 - 15
SUBURBAN SEWAGE RATES**

Community: Grosse Pointe Woods

Servicing Authority: N.E. Wayne County District

	<u>User Charge</u> \$	<u>Capital Portion</u> \$	<u>Total Charge</u> \$
<u>Industrial Specific Charges</u>			
Industrial Surcharge Rates, Per Excess Pound			
1. Biochemical Oxygen Demand (BOD) in excess of 275 mg/l	0.309	0.193	0.502
2. Total Suspended Solids (TSS) in excess of 350 mg/l	0.301	0.208	0.509
3. Phosphorus (P) in excess of 12 mg/l	4.701	2.807	7.508
4. Fats, Oils, & Grease (FOG) in excess of 100 mg/l	0.221	0.262	0.483

Industrial Waste Control Charge, per month:

Non-Residential
Meter Size

5/8"	8.23	0.81	9.04
3/4"	12.35	1.21	13.56
1"	20.58	2.02	22.60
1-1/2"	45.27	4.45	49.72
2"	65.84	6.48	72.32
3"	119.34	11.74	131.08
4"	164.60	16.20	180.80
6"	246.90	24.30	271.20
8"	411.50	40.50	452.00
10"	576.10	56.70	632.80
12"	658.40	64.80	723.20
14"	823.00	81.00	904.00
16"	987.60	97.20	1,084.80
18"	1,152.20	113.40	1,265.60
20"	1,316.80	129.60	1,446.40
24"	1,481.40	145.80	1,627.20
30"	1,646.00	162.00	1,808.00
36"	1,810.60	178.20	1,988.80
48"	1,975.20	194.40	2,169.60



DWSD ROLLS OUT SIMPLIFIED RATE SYSTEM FOR SEWER SERVICES

After years of wrestling with a court-mandated, complex and labor-intensive system to determine each wholesale customer's revenue requirement – that is, its share of the cost of operating the sewer system, the Detroit Water and Sewerage Department (DWSD) and its wholesale customers have announced a new method they say is simple, fair and predictable.

“It balances simplicity with fairness and equity, while increasing the efficiency of the cost allocation process,” stated Bill Wolfson, DWSD Chief Operating and Compliance Officer/General Counsel, in describing the new approach.

The DWSD is one of the largest water and sewer utilities in the United States. DWSD provides wastewater services to about 3 million people in a 946-square-mile area that encompasses 35 percent of Michigan's population and includes the City of Detroit and 76 neighboring communities.

DWSD and its 16 wholesale customers, known as Tier 1 customers, collaborated to develop a simplified method to set each Tier 1 customer's revenue requirements and meet two objectives:

- Balance simplicity with fairness.
- Provide stability in revenue requirements from year to year for DWSD and its Tier 1 customers.

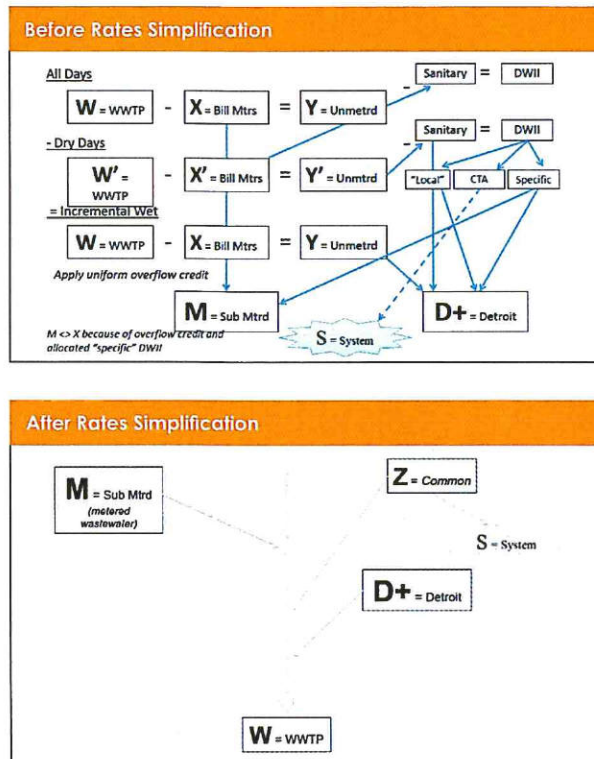
The new method will be effective in July 2014 for the FY 2014/15 rates. Where the old method used lagging indicators to retroactively adjust a customer's share of sewer system costs a year or more after actual usage, the new simplified method allocates cost based on each customer's historical use of the system. Each customer's share of system costs is set for three years (FY 2015/2016/2017).

Three components of flow

The flow measured and analyzed to determine each wholesale customer's share is made of three components that factor into the rates charged:

- *Sanitary flow* or any water containing human fecal waste sent through the system to the treatment plant.
- *Stormwater flow* or the water generated during rain or snowmelt.
- *Inflow and infiltration* or water that enters into the system through broken pipes, defective joints or illicit connections, such as sump pumps, roof drains and yard drains.

The ratio of solids-to-liquids in the sewage flow is measured and determines what DWSD calls the “strength of flow.” The stronger the flow, the more costly it is to treat. A higher strength of flow results in a higher rate.



Challenges posed by the historic approach

Because bills to Tier 1 customers were determined largely by flows, which vary based on climatic conditions, they could fluctuate greatly, depending on whether it had been a wet or dry year. Unlike the varying sewer revenue that resulted from this approach, most of DWSD's expenses are fixed. Staffing, energy and bond payments costs remain relatively stable, from year to year, regardless of rainfall. In a dry year, not enough revenue would be collected and in a wet year, too much. This variation in bills to the Tier 1 customers and revenue to DWSD caused problems for both its planning and managing finances.

The Look Back process

Because actual costs and revenues differed from projected costs and revenues, some Tier 1 customers may have paid too much and others not enough based on actual flows and costs for a past year. This led to an effort to "true up" each customer's share after the fact. The true up process was known as the Look Back and attempted to calculate a precise cost attributable to each Tier 1 customer's use of the system.

At the end of each rate year, staffers and consultants would attempt to balance the revenues DWSD had collected with actual expenses. Any shortages or overages would be reallocated back to the customer through a Look Back Adjustment. Tier 1 customers could receive a credit or a charge, in future years, after DWSD technical staffers and consultants analyzed metered flows and other data for each customer.

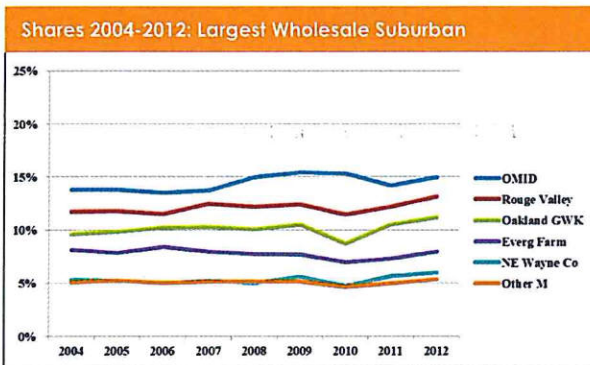
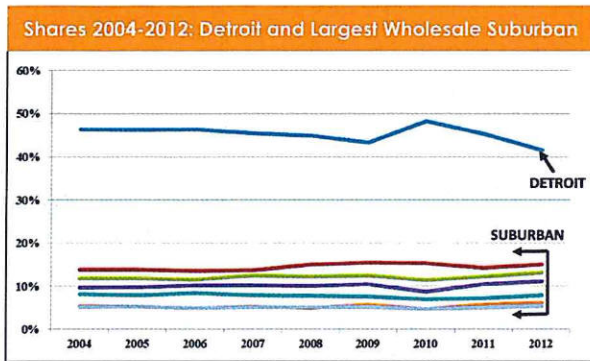
Over time, this process became extremely complex and time consuming, and created difficulties for customers. Tier 1 customers began to realize that the complexity did not really provide a better estimate of each customer's share.

"It took a tremendous level of effort to get it done and at the end, it created difficulties that DWSD and our customers were having to manage," said DWSD Director Sue McCormick, commenting about the Look Back process.

Flows vary but relative shares remain consistent

DWSD and its Tier 1 customers took a fresh look. "We found that individual customer volume as a percent of the entire system was relatively stable over the last ten years," said Craig Hupp, legal consultant for Macomb County. This was true even though some Tier 1 customers had seen significant changes in land use and demographics and the complexity of the cost allocation formulas had increased.

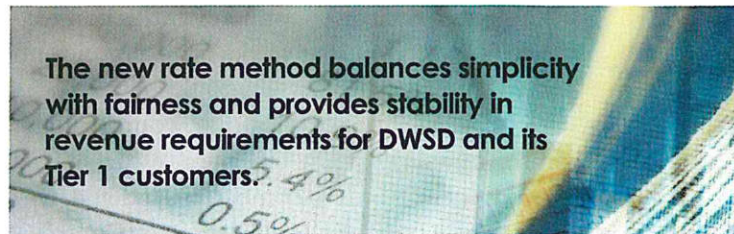
The group working on sewer rate simplification had an "Aha!" moment. If shares are stable over time, why go through the effort each year to calculate shares at the start of each rate year and double check those shares each year in the Look Back? Why not just average the shares for a few prior years and use that average to set shares going forward – with a process to double-check shares every few years to make sure the historical averages had not changed?



New rates based on historic shares of cost, billed monthly, and effective for a three-year period

Under the new simplified structure, each customer's share of total sewer system costs is based on its historical average share of the costs to operate and maintain the system. Over a period of months, DWSD and its customers reviewed information about shares in prior years and agreed on percentages representative of each customer's appropriate share of sewer system costs. These shares are called Base Shares. The first Rate Period is three years beginning FY 2014/15. Each customer's Base Share will not be changed during this period. At the end of the three-year period, DWSD and its customers will review the Base Shares to determine if changes are needed.

Each Tier 1 wholesale customer's revenue requirement will be established by multiplying sewer system costs attributable to Tier 1 customers by the customer's Base Share. That revenue requirement will be billed in 12 equal installments unless the customer makes special arrangements with DWSD.

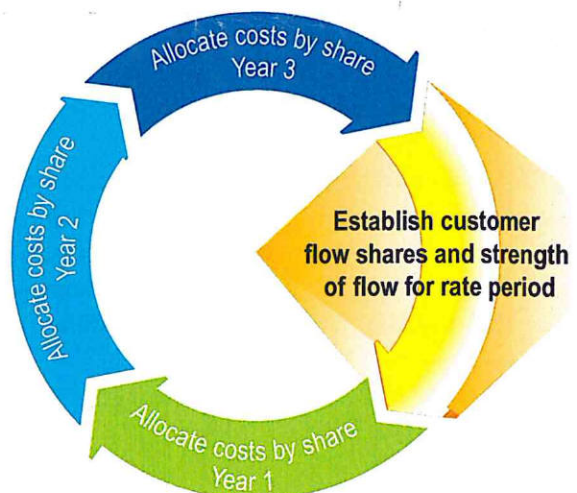


During the three-year period, customers that have major changes in their systems – such as increasing the area served by their system or eliminating significant flows into their system, can request a review and adjustment of their Base Share.

Who's behind the new rate methodology?

The new simple rate plan was created through a joint effort between DWSD and their customers. Three groups participated in reviewing data, analyzing flows and developing the new methodology:

- *Look Back Committee*, made up of first tier customers, DWSD staff and experts in finance, law and utility rate systems.
- *Flow Balance Task Force*, a group of technical consultants representing wholesale customers, DWSD and Detroit retail customers.
- *DWSD Board of Water Commissioners*, a seven-member board that oversees operations, management and major contracts. The Board includes four members from the City of Detroit, and one member each from Macomb, Oakland and Wayne counties.



"This was a concerted group effort to come up with a solution that works for everyone and delivers greater rate stability to the sewer system," said Director McCormick, commenting on the outcome of the three-year effort. "The commitment from Macomb, Oakland and Wayne counties by their staff and consultants in this effort has been commendable. It will continue to be a joint effort to make sure that everyone is confident that we have equity."

Stability for DWSD and local government finance

For DWSD, the new method of establishing revenue requirements promises sustainability through steady revenue and cash flow. For customers, it brings equity, stability and predictability.

"The monthly sewer billings will significantly improve DWSD cash flow projections while providing customers with a known, flat monthly billing. This will make it easier to track and plan for the needs of the system," explained Nickie Bateson, DWSD's Chief Financial Officer.

Besides simplicity, revenue predictability is one of the premier benefits of the new rate method. Customers can better predict their sewer bills for the next three years and plan accordingly.

Customer outreach to explain new rates

The new approach to setting revenue requirements goes into effect for DWSD's 16 Tier 1 customers in July 2014 for the FY 2014/15 rates. Several Tier 1 systems operated by Macomb, Oakland and Wayne counties have their own retail customers, 64 suburban communities.

DWSD has and continues to perform extensive outreach, contacting every customer to make sure that they understand that the rate system will be changing, the specifics of how it will change, and the advantages of the new method of determining rates.

"There isn't anything that we can't solve by working together."

Sue McCormick
DWSD Director



Looking ahead: continuous improvement

The collaboration and continuous improvement efforts are just beginning, commented Director McCormick.

Simplifying the rate structure was a huge first accomplishment for the collaborative team. McCormick said the outcome of this effort has given her even more confidence in the ability of the combined work group to make tremendous strides for DWSD and its customers in the future.

SIMPLIFIED RATE SYSTEM GLOSSARY

Base Share: The portion of common-to-all sewer system costs assigned to a wholesale customer in the rate method. It is based on a customer's historical average share of the costs to operate and maintain the system.

Inflow and Infiltration (I&I): Stormwater and groundwater that enter sewer pipes through off-set joints, cracks, leaky manholes and/or footing drain connections.

Look Back Adjustment: An adjustment performed at the end of the rate year to balance sewer revenues collected with actual expenditures and actual flows. This resulted in a credit or charge to the City of Detroit and each wholesale customer.

Revenue Requirement: The amount of revenue that must be generated from sewer rates to pay for expenses to operate and maintain the sewerage collection system and wastewater treatment plant. Each customer's revenue requirement is established by multiplying sewer system costs attributable to Tier 1 customers by the customer's Base Share.

Sanitary Flow: Wastewater from homes, businesses and industry including water used for bathing, laundry, dish washing, flushing toilets and in manufacturing processes.

Stormwater Flow: Flow from rain storms and snow melt that enters sanitary sewers as part of inflow and infiltration. Stormwater also enters the sewer system through combined sewers that transport both stormwater and sewage and are used in the communities that send flows the Detroit Wastewater Treatment Plant.

Strength of Flow: The ratio of solids-to-liquids in sewage flow. Inflow and infiltration and stormwater flows are less polluted than sanitary flows and therefore less costly to treat.

Tier 1 Customers: Wholesale wastewater customers that have direct contracts with DWSD. There are 16 Tier 1 customers including Macomb, Oakland and Wayne Counties. These wholesale customers offer retail service to their constituent communities.



April 4, 2014

To the Honorable Mayor and
Members of the City Council:

We are sending you this letter in connection with our audit contract letter which is for the year ended June 30, 2014. We value our relationship with the City and look forward to the opportunity to continue to serve as the auditor for the City of Grosse Pointe Woods. Over the past several years we have spent hundreds of hours with the City learning its operations, assisting with various accounting standards, and other needs. This extension will allow us to continue to build on this foundation and further help the City in years to come.

As City Council is no doubt aware via many informational outlets such as Plante Moran, the Governmental Accounting Standards Board (GASB) has issued multiple new Pension Reporting GASB's which will ultimately significantly modify the presentation of underfunded Pension (not OPEB fund yet) on the City's Comprehensive Financial Report.

Many in governmental accounting feel that these are the most significant changes in governmental accounting since GASB 34 which nearly retooled the entire financial statement. Make no doubt about it; the proper implementation of these GASBs over the next two years (GASB 67 this year and GASB 68 for fiscal 2015) will be a primary point of focus by your assigned CAFR reviewer this year. A missed interpretation of these new rules would seemingly jeopardize the receipt of the Certificate of Achievement in Financial Reporting by the GFOA. We are fully aware that Grosse Pointe Woods currently holds the record from the most consecutive successful certificates in Michigan, and we do not plan to see that falter under our audit watch.

To successfully implement these new GASBs will take a multi-year approach of activity coordinated between your pension boards, actuary, accounting and the Committee of the Whole. The entire process should take just over two years to complete and will result in an additional liability for unfunded pensions on the full-accrual government-wide statements. This is likely to be a large liability, so all parties have to make sure that it is correct.

As indicated above, the implementation of these new reporting standards are multi-year in basis. To ensure a smooth transition, we are asking for City Council to extend the terms of our current year audit contract through Fiscal 2016. This would provide us with the control necessary to ensure a smooth transition and to spread the costs associated with implementation (much of which is up-front foundation setting time) over an extended period.

To the Honorable Mayor and
Members of the City Council
City of Grosse Pointe Woods

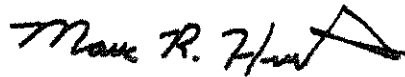
April 4, 2014

At Council's pleasure we are happy to provide services under either of the following two options:

Option 1 - Extend our standard audit fee by 2% each year for Fiscal 2015 and 2016 providing us with the opportunity to spread the GASB 67 and GASB 68 hours over a three year period. These GASB 67 and 68 costs would be in addition to the 2% fee increase in an amount not to exceed \$3,000 annually.

Option 2 - Complete the audit for fiscal 2014 under the final year of our contract for our stated fee plus the GASB 67 and GASB 68 consulting time to date, which is likely to range between an additional \$6,000 and \$10,000. (Our firm has been conducting many trainings in this area and we know first-hand that not all governmental accounting firms or actuary firms are viewing this matter the same - unfortunately).

Sincerely,

A handwritten signature in black ink, appearing to read "Mark R. Hurst", with a stylized flourish at the end.

Mark R. Hurst, CPA
Partner

