

James Fausone Presentation Questions

Roger Lundberg

Q. Cost Allocation-what does "Align with Industry Standards" mean?

The professional trade group that services public water and sewer utilities publish a Manual of Practice that can be used for comparison.

Why are the wholesales rates so different?

Each customer has unique characteristics.

What are the key factors in determining allocation?

Water usage: annual volume, Maximum Day, and Peak Hour. Physical parameters: distance and elevation.

Why is Northville so different from Northville Twp.?

The City of Northville has a much lower ratio between Peak Hour and average flow than Northville Township. Their storage tanks effectively serve a larger portion of the community.

How would Northville Twp. lower its rate to be more in line with other communities?

Reduce Peak Hour usage.

How is Revenue Received allocated to communities?

Revenue Requirements are allocated to each community by DWSD using the key factors identified above.

If revenues continue to go up, irrespective of volume, why would fixed cost go up as a %? Why can't revenue requirements to (sic) down if usage goes down?

Revenue to DWSD has dropped substantially as usage went down. Many costs (e.g. capital costs, which are typically spread over 30 years) are fixed, so revenue requirements do not drop substantially with lower usage. Using a fixed cost component partially mitigates the loss of revenue due to drop in usage.

Cleveland has 2/3 the size served and half the usage. Detroit has 5 x operating budget. Where is the economy of scale?

Comparison between systems is complex. For example, all DWSD capital costs are included in the rates, whereas some systems recover capital costs through property taxes. Prior comparisons of DWSD to other major cities have shown favorable results.

Neal Greenfield, 18061 Blue Heron Pte. Dr.

Q. With labor costs being driven down by reducing employment from 2200 to 1300, how do you justify Fixed Cost portion increasing from 40%-60%?

The cost reduction measures have reduced DWSD revenue requirements below the budgeted values. However, since the usage has declined, actual revenue generated has been significantly below budgeted values. The increase in the fixed cost portion will help to minimize the difference between budgeted and actual revenue.

Steve Sundberg

Q. 8-9% savings since 2011, why isn't this reflected in our bill?

The reduction in water usage has offset other savings.

Vic Leo

Q. How much of the annual budget is allocated to reducing debt? Actual and %?

The total budget for the DWSD Water System for FY 16 is \$403.8 million. The debt service budget is \$183.1 million, or 45%.

William Berry, 16420 Cypress Court

Q. Several months ago there was a lot of news about a large percentage of people who were not paying their water bills. What is the current status?

Most of the publicity is about the retail customers within the City of Detroit. It should be recognized that non-payment by customers within Detroit only affects other customers within the City of Detroit. DWSD has increased enforcement to reduce the number of customers that are in arrears. The program has been successful and is continuing.

Howard Rundell, Northville

Q. Cleveland, Grand Rapids, Milwaukee charge their highest rate zone 80%,60%,30% respectively than their lowest rate zone. How can Detroit charge 900% more than the lowest rate zone? Pairing water rates to a zone's average income is blatant redistribution of wealth. So, we are penalized for water conservation?

The system statistics have shown that the systems are not comparable. Therefore, using the statistics from a non-comparable system is not expected to yield good information.

The rate methodology is based on the parameters of water usage (3 parameters), distance and elevation. Income is not considered in the methodology.

Many customers are used to thinking that the cost of service is directly proportional to water usage. This is incorrect when considering the large changes in usage patterns that occurred in the recent major recession and in considering the cost

of the regional system. There is no penalty for conservation, but the expectation for proportional savings may be unrealistic.

Q. Scope of bonded indebtedness, has it been considered?

Yes, the cost of capital is financed with revenue bonds and the annual bond payments are included in the revenue requirements.

Q. You said 90% of the costs to get the water to us are fixed, does that mean if all customers used no water that DWSD would still need to collect 90% of the costs?

Yes, this would be true for short durations, since personnel costs and bond payments would continue. For more realistic changes in usage, the recently completed Water Master Plan has identified closure of one water treatment plant as the appropriate action. A program of water transmission main improvements is required to accommodate the shift in supply from the other plants.

Q. Why did you not show Novi in your usage vs anticipated water use? Did you show Northville?

The largest customers were shown on the graphic. The data is provided below.

Q. Can you tell us how much water Novi, Farmington, FH anticipated use in gallons not % and compare this to Northville and Northville Twp.?

The following data is for FY15. It is consistent with the trends shown in the longer-term comparison in the presentation.

<i>Community</i>	<i>Anticipated Usage (Mcf)</i>	<i>Actual Usage (Mcf)</i>
<i>Northville Twp.</i>	<i>172,000</i>	<i>121,329</i>
<i>Northville</i>	<i>35,000</i>	<i>31,492</i>
<i>Novi</i>	<i>310,000</i>	<i>245,382</i>
<i>Farmington Hills</i>	<i>430,000</i>	<i>358,010</i>
<i>Farmington</i>	<i>55,000</i>	<i>42,777</i>

Q. Global system with local add on assets (water towers). What type of positive management could possibly come from such a sort (sic) sited (sic) system?

The wholesale customers requested that DWSD allow them to manage their demands through appropriate measures. DWSD agreed to allow them to do so when the model contracts were created about 10 years ago.

Q. Who will handle future sludge handling and how will we see costs controlled when outsourced?

For the wastewater system, DWSD has contracted with New England Fertilizer Company to build, operate, and maintain facilities to receive and process a significant percentage of the bio-solids. The contract will result in significant savings for DWSD and the customers. The contract has terms that govern the amount of increases allowed for general inflation and for specific utility costs.

Q. Where is Northville in the contracts renewal cycle (3-5 years)?

Northville Township updated the contractual flows last year and the typical re-opener would be in 5 years. It is expected that Northville Township will request an early re-opener this year.