

Orr's alternative: Privatize or sell Detroit water department

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Detroit — With multi-county negotiations stalled to create an expanded regional water authority, Emergency Manager Kevyn Orr is exploring Plan B — privatize operation of the Detroit Water and Sewer Department or sell it outright.

“I do think we’re at a crossroads now having had this discussion for decades about DWSD,” Orr told The Detroit News in an interview Tuesday. “We’re going to run on parallel tracks. We’re not walking away from the creation of an authority. We’re going to start looking at other alternatives as well.”

Miller Buckfire, the city’s investment banking consultant, is studying alternatives. The move comes as cooperation over a long-sought regional authority is becoming mired in wrangling over costs and long-term [financial](#)

[responsibility](#), imperiling the city’s efforts to convert the department into a cash generator under its historic Chapter 9 bankruptcy.

Time is running short, with just a month to go until a crucial bankruptcy hearing on details of Orr’s debt-adjustment plan to be sent to creditors. Orr said a private company with expertise operating large-scale water and sewer utilities, such as New Jersey-based American Water Works Co. Inc., could save money and give bond investors “greater confidence in the operation of the department.”

Privatizing operations of the city water department, which serves roughly 4 million people across southeast Michigan, or selling the system outright would enable the counties to sidestep political repercussions of assuming more financial responsibility for the sprawling, under-capitalized water system. So would maintaining it as a city department.

Creation of a regional Great Lakes Water Authority remains Orr’s preferred option. But the talks with representatives of Oakland and Macomb counties, particularly, are encountering multiple obstacles: some \$1.5 billion in operating losses over the past seven years; more than \$500 million in abandoned projects, and more than \$500 million to terminate bad debt; \$142.5 million in unpaid water bills; and fears that an authority’s dismal credit rating would make it difficult to issue bonds.

County negotiators complain of counterproposals being summarily dismissed. Could the regional authority seize a portion of Detroit’s state revenue sharing to compensate for unpaid water bills in the city? No, Orr said, because that would imperil a critical revenue stream for Mayor Mike Duggan. Could the state use its strong credit rating to lower credit costs for the water authority? No, because it would be perceived as saddling the state with Detroit’s debt.

“By and large, this hasn’t been a negotiation,” said Robert Daddow, deputy county executive for Oakland County. “It’s been a stampede to an end point. We’ve been stuck in first gear for a long time because everything we put on the table gets rejected.”

The stakes are high. Orr’s restructuring plan envisions a regional authority with representatives of Detroit, Wayne, Oakland and Macomb counties. He proposes the counties make annual lease payments of \$47

million over 40 years, bolstering their financial responsibility for an asset that would continue to be owned by the city.

But it's not that simple, negotiators say. With the system in need of billions in capital [improvements](#)

[↗](#), the counties are concerned their ratepayers will be asked to finance upgrades to a system they do not own. They worry rates could be increased further to bolster revenue for the cash-strapped city, and that suburban ratepayers would be expected to subsidize — or “backstop,” in water talks parlance — those who do not pay their bills.

“I do not understand why that becomes our obligation,” said Macomb County Executive Mark Hackel. “What did we do wrong, the ratepayers in southeast Michigan, but pay (our) water bills? We didn't take any risks. Why should we be held accountable for that?”

County negotiators also fret the city department could move to levy what are called “Payments in Lieu of Taxes,” or PILOTS, on suburban counties to raise revenue that otherwise would come from negotiated lease payments. Asked whether PILOTS could be imposed by U.S. Bankruptcy Judge Steven Rhodes, Orr demurred.

Monetizing the city's water department is crucial to getting Rhodes' approval of the reorganization plan because it provides a guaranteed revenue stream. “One way or the other,” said Jim McTevia, a Bingham Farms corporate turnaround specialist, “you can bet your life that Orr is going to monetize that asset because that's a critical component of his plan of adjustment.”

Selling the city water system to a private buyer, the second of Orr's Plan B options, is unlikely. Orr called the probability “very low” even as he said the city would “explore what the potential price would be if we were to take it to an outright sale” — a prospect sure to elicit furious political pushback.

Still, Syncora Guarantee, one of the city's more aggressive bond insurers facing multi-million dollar losses from Orr's proposed cuts, has argued in court papers that Detroit needs more time to negotiate a water department deal with the counties or find a private buyer to maximize recoveries of what creditors are owed.

“While such a transaction has the potential to result in a better deal for the city and its creditors, at the very least, providing the city with time to explore this deal would [improve](#)

[↗](#) the city's negotiating leverage with the suburbs,” Syncora attorney Ryan Blaine Bennett wrote in a Feb. 28 court filing.

Privatizing the operations of the city's water department is emerging as a viable option. The city would retain ownership of the asset. Suburban customers theoretically would be insulated from the obligations of more direct control. And an outside contractor like American Water, as Orr suggested, would bring specialized management expertise and technical know-how.

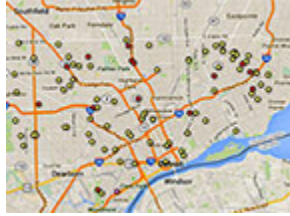
“Wonderful,” Daddow said, referring to the city contracting with a private operator to run its water system. “A lot of advantages to doing that. We actually offered that as a suggestion and it was rejected last fall. Perhaps a reset through an operator is the way to go.”



Orr

- **Police: Man, woman die in Detroit hit-and-run**

Detroit — Authorities say two pedestrians were killed Friday night on the city's west side after being struck by a car that drove away.



This month-by-month map identifies the locations of Detroit's deadliest crimes, as reported by the Detroit police. Click a location for details on the crime.