From: Stibitz, Brom (Treasury)
Sent: Thursday, April 18, 2013 5:59 PM
To: Dillon, Andy (Treasury); Roberts, John (GOV); Stibitz, Brom (Treasury); Saxton, Thomas (Treasury); Muchmore, Dennis (GOV)
Subject: KWA Background Materials
Attachments: KWA SUMMARY FOR GOVERNOR Version I 04-18-13.pdf; KWA and City of Flint.pdf; Dillon KWA.PDF; UPDATED FLINT DWSD KWA ASSESSMENT Version VIII 02-21-13.pdf; TYJT Recommendaton DWSD vs Flint.pdf

Follow Up Flag: Follow up
Flag Status: Flagged

Additional reading material, per your request.

Attached:

1) 2 page summary put together today by Office of Fiscal Responsibility Staff, "KWA SUMMARY FOR GOVERNOR…"
2) Final Offer from DWSD, "KWA and City of Flint.pdf"
3) Letter from Ed Kurtz, declining DWSD offer, "Dillon KWA.PDF"

   And if you are really into reading more…

4) Office of Fiscal Responsibility Analysis of Situation (from February), "UPDATED FLINT DWSD KWA ASSESSMENT…"
5) One pager from Tucker Young Jackson Tull (from March), "TYJT Recommendation…"

Finally, some comments from DEQ staff after the 4/15 offer from DWSD:

Comment 1:

From a capacity standpoint, supplying KWA is completely feasible under either proposal with no adverse impact to the rest of the DWSD supply network. The proposal lists KWAs contracted max day demand at 40.6 mgd, the design and rated capacity of the Lake Huron Plant is 400 mgd. The DWSD service area average and max day are about 650 and 950 mgd; the other four water plants combined have a rated capacity of over 1100 mgd.

I don't know the details of the cost analysis other than what has been reported by DWSD. It is my understanding that over the 30 year pay back period that <u>full service</u> water provided from DWSD would be more a lot more expensive than what KWA has projected if they separate. Several intermediate proposals of varying cost estimates have been presented without success. KWA was issued a permit last fall for constructing an intake (independent of DWSDs) and I think the plan is to start construction as early as this fall. Then a treatment plant would be constructed to treat the water. Flint has a water plant that draws raw water from the Flint River, but the plan would be to purchase raw water from the KWA intake and treat at their plant, using the River as a backup source. KWA has estimated a project cost of $274 million, DWSD estimated the project cost at $375 million; but I don't know exactly what the scope of work was for those estimates so I'm not sure that it's an apples to apples comparison.

Overall, besides the know impacts to DWSD for loss of revenue and increased cost to the rest of the system users to cover fixed cost, debt, etc., there could be other systems revisiting their proposals to separate. Grosse Ile and a few surrounding communities had looked into forming a water authority and building a plant to serve them; Grosse Pointe Park had submitted incomplete plans a few years back to build their own microfiltration plant. At one point, Grosse Pointe Shores was considering a study to see if they could re-work the Grosse Pointe Farms network to purchase water from them rather than DWSD through GP Woods.

Comment 2:

A response at this point may be moot as Flint and Genesee Co. already held a press conference yesterday rejecting the DWSD offer.

It is also unclear whether DWSD provided its offer directly to Flint and Genesee Co. by the deadline in Treasurer Dillon's letter. However, Flint and Genesee Co. still took the offer under consideration.

Our office concurs with both Flint and Genesee Co. that the offers provided by DWSD were incomplete.

Of the two scenarios provided by DWSD it appeared that only Scenario 2 was listed as potentially being more cost effective. However, this scenario did not address the following:

1. The DWSD scenarios are based on 40 MGD of service capacity. However, the KWA project is providing 60 MGD of initial capacity with potential expansion to 75 MGD in the future. Therefore, in order for a more direct comparison the DWSD scenario would need to increase capacity to 60 MGD, which would increase fixed rate commodity costs as well as the capital costs for the Huron Plant that DWSD was planning to allocate to Flint and Genesee Co., presumably by as much as 50%.

2. DWSD proposals cover a 30 year period to 2042, but fail to recognize that after this period bond payments for the KWA project will be complete and result in a significant reduction in costs for the KWA option.

3. While DWSD indicates that Flint and Genesee Co. would be given "broadened representation", it remains unclear exactly what this means in terms of actual control in the decision making process.

4. This scenario continues to rely on a single transmission system and would require the City of Flint to maintain its WTP for emergency purposes and these costs do not appear to be included. In addition, use of the Flint WTP as an emergency backup would leave Genesee Co. without an adequate backup supply to meet their 30 year needs.

Again, without DWSD providing the specific details of these proposals, it is difficult to provide a true comparative analysis, and as such Flint and Genesee Co. appear to be justified in their rejection of these proposals.

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