Sorry for the delayed response; in addition to the holidays we also moved our office. We are just getting things organized.

Below is my response to your questions. Please review and let me know if you have any questions.

Additionally, as we discussed at the presentation. We will wait to hear back from you regarding the January 10th meeting with Flint and what adjustments will be needed to the schedule. However, we will begin drafting the report.

Dave

From: Cline, Richard (Treasury) [mailto:cliner1@michigan.gov]
Sent: Friday, December 28, 2012 2:13 PM
To: David Guastella
Cc: Byrne, Randall (TREASURY)
Subject: Draft Flint Supply Assessment.Questions
Importance: High

Dave,

Good afternoon. I hope you had a good holiday and are planning on a good New Year.

Thanks for the presentation information. Just to follow-up, it appears that no additional presentation on the 15th is being asked for. Should that change, I will let you know.

I have some additional questions I want to clarify with you. Some of these are just internal questions we have and want to make sure we are interpreting your presentation information correctly. I have highlighted my specific questions for clarity.

- You should have received a copy of a letter from DWSD to Flint dated December 21st. As I review the options that they provide Flint, I note some differences with what you outlined as the DWSD options for Flint. **Have you taken these changes into account? If not, what is the impact these "latest" proposals will have?**

Yes, we did receive a copy from the Director dated, December 21st. The proposals appear to be similar to what we presented for the 18 MGD maximum day customer from P&B and from Imlay. However, the attached exhibits referenced were not attached for us to review the specific rates.

Overall, I have some broad, "strategic" questions:

- Anticipating a return of future growth to the City, **what is the maximum MGD DWSD could provide to Flint? What about KWA?** The overall question is whether either entity could provide more water to Flint than is anticipated if they needed to.

Regarding the KWA, we do not have specifics on the route and profile so we can't do a hydraulic analysis to determine the additional capacity that could be provided by their proposed system. However, prior hydraulic analyses of the existing 72-inch main has shown that in excess of 90 MGD can be supplied to Flint by DWSD.

- On the flip-side, if decline continues in Flint, **what happens if Flint needs less water than projected? What would that do to the financial projections?**

Regarding both proposals we need to know the volume of water purchased to do a reasonable estimate. With regards to KWA, since the percentage of the water supplied would be reduced, we would need to confirm that their capital investment obligation would be reduced accordingly based on Flint's percentage of the total volume.

- **Given Flint's current financial situation, did you analyze the City's ability to actually sell bonds to make any of these improvements?**

As we indicated in our presentation, this is a concern. It has been assumed that the KWA bonds would be backed by Genesee County; however, Flint would still need to bond for the improvements at their WTP.

- It appears that the overall expenditures required to cover any of the outlined options are going to require water rates to rise almost annually. **Has there been any analysis on what rates might look like and/or what the capacity of the public to pay these rates might be?**

We were not requested to analyze the capacity of the public to pay the water rates, so I can't respond to that question. However, we did include the rate increase in all of our scenarios. It is shown on our spreadsheets as, "Escalation/Inflation Rate."

Specifically:

- **What is the total cost for Flint to buy the 72" line from DWSD?** I see a capital cost on that option of \$4.7-million. **Does that include the 72" line?** Related to this, **do we know what the projected lifespan of that line is? What would the replacement cost be?** A question we are having is whether Flint would have the financial and/or operational ability to maintain this line. Also, **I am unsure, once you account for O&M costs and bond payments, if there is enough overall benefit to Flint owning that line is if they remain with DWSD.**

The \$4.7M shown is for the purchase of the 72-inch line. It is the best estimate DWSD has provided so far, but the actual cost would be dependent on negotiations between DWSD and Flint. The bond payments are included in our analysis. DWSD has also offered to "role" the cost into the annual Flint water rate. Our analysis did indicate that the Imlay option was less expensive than for most of the other options.

The pipe itself is a pre-stressed concrete cylinder pipe (PCCP) that has excellent life expectancy. Assuming that the water main was installed in the late 60's I would suspect that the life expectancy to be beyond the planning period we analyzed.

- It appears to me that the O&M costs for the Flint Water Plant are very high. **If Flint were to continue to buy water from DWSD, other than for a back-up, is there any reason they could not avoid those costs by mothballing the plant and having DWSD provide 100% finished water to them?**

The issue has been related to MDEQ requiring that Flint have a backup supply in case their service is interrupted by a loss of the 72-inch main. Flint is supplied off a single line and that is why the redundancy is required.

- Regarding KWA, perhaps I missed this explanation, but **why are the options for KWA for 12 MGD as opposed to the option for 18 MGD?**

The 12 MGD is the daily average. KWA has indicated that their system can provide the maximum day demand to Flint as well.

- **Is there any financial sense for Flint to close its plant and KWA builds theirs bigger to accommodate them?**

That option was not investigated and we do not know the associated cost of the Genesee County plant. However, each community was pointing to an inter-agency agreement that would allow them each to provide a backup supply to the other. That would not be possible with just one plant.

- Regarding your spreadsheet for the KWA Proposal 2, I note that it appears you are using numbers (\$7.758-million) from Proposal 1 in calculating some of the capital costs. **Is this correct?**