



Tri-City Advisory Committee

Funding Interim Capacity Improvements at the Tri-City Wastewater Treatment Plant

January 22, 2008

Background

- On October 16th, two rate scenarios were presented to the Tri-City Advisory Committee:
 - “Stand Alone”
 - “Capacity Buy Back”
- The “Capacity Buy Back” case produced a 30 year rate profile that was more affordable than the “Stand Alone” case.
- The Committee requested Staff analyze the rate impacts of having TCSD directly finance (and own) the interim capacity improvements, and charge CCSD No. 1 for the usage of the assets.

Assumptions For This Analysis

➤ **TCS D Assumptions:**

- \$59.9m in interim capacity costs are bonded in 2008-09 by TCS D (4.98%, 20 yr revenue bonds). This results in an annual debt service stream of \$5.1m.
- CCSD No. 1 pays:
 - 100% of this debt service from 2008-09 to 2013-14
 - 50% of this debt service from 2014-15 to 2023-24
 - 0% of this debt service in the years after that
 - Additional 20% of the applicable debt service in each year to meet the coverage requirement for that debt service
 - Ground lease starting in 2008-09 at \$5 per sq. ft. based on 1.5 acres (~\$327k, growing with inflation thereafter and decreasing in lock step with the above debt service payment schedule)
- No more buy back costs charged to TCS D in 2014-15 and 2024-25
- TCS D still responsible for system CIP that directly benefits TCS D customers in the future

Assumptions For This Analysis - Continued

➤ **CCSD No. 1 Assumptions:**

- Debt service, coverage, and ground lease payments to TCSD are treated as operating expenses for rate making purposes
- Capacity buy back by TCSD in 2014-15 and 2024-25 are not included. Payments noted above to TCSD are reduced instead
- The CCSD No. 1 planning case that was used for this analysis assumed the following:
 - A new WWTP is sited at the Three Creeks site in 2014-15
 - Kellogg is kept in service throughout the forecast
 - The “low cost” scenario was used for the CIP
- The new plant CIP is reduced by \$59.9 million to reflect TCSD is funding the interim capacity improvements

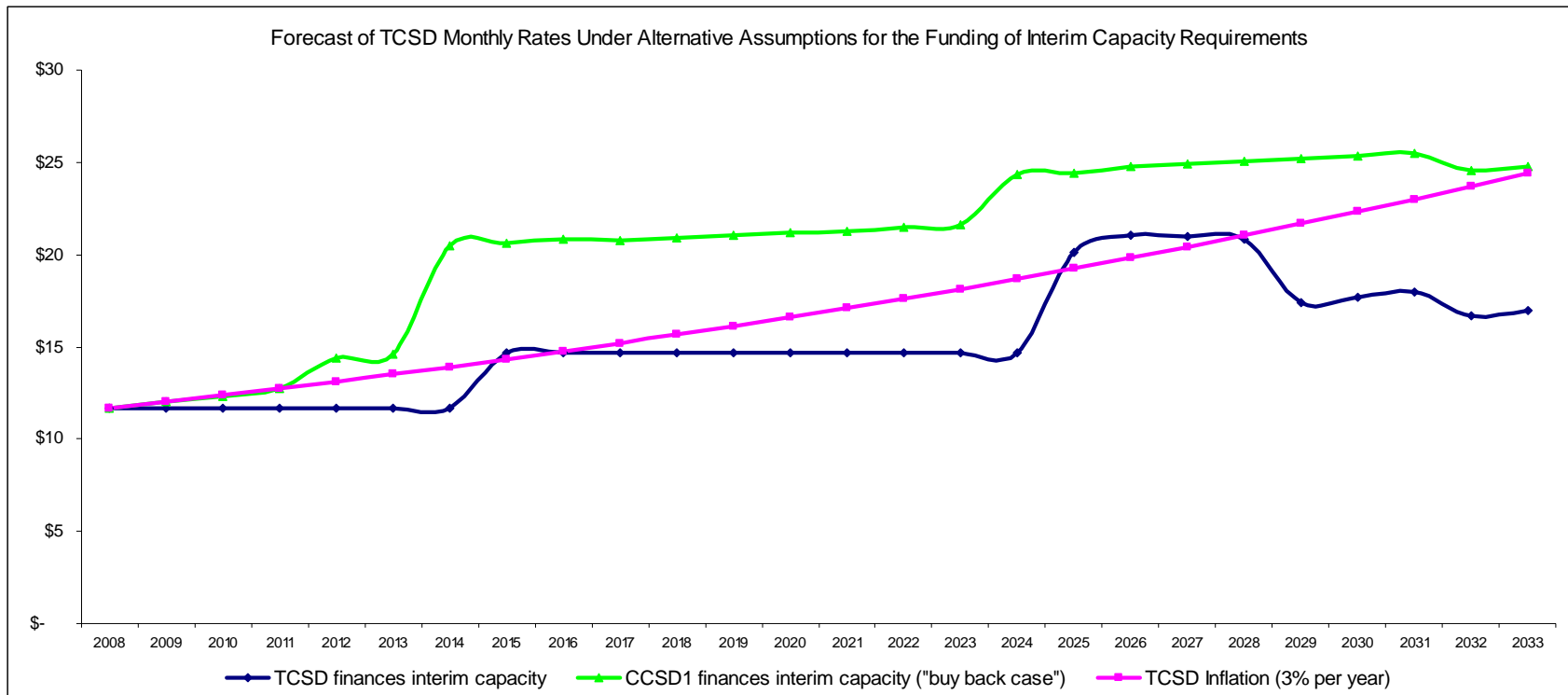
Fiscal Implications for TCSD

- The payments from CCSD No.1 in excess of the cost to finance the interim capacity (i.e., 20% coverage and ground lease) allows TCSD to keep rates flat for 5 years.
- This extra cash flow allows TCSD to buy down its future capital needs. Total future TCSD-only CIP is \$45.5 million; The forecast indicates TCSD would only have to borrow \$16.8m to fully fund improvements.

Cost in FY 2008	Construction Fiscal Year	Project	Future Cost Total
		Biosolids Processing/Handling	-
2,450,000	2011	Digester 1	2,836,181
4,450,000	2012	Digester 1	5,409,003
2,450,000	2024	Digester 2	5,348,043
2,940,000	2025	Digester 2	6,738,534
1,510,000	2026	Digester 2	3,633,995
1,770,000	2010	Dewatering/truck loading	1,951,425
5,595,000	2011	Dewatering/truck loading	6,476,912
5,970,000	2012	Dewatering/truck loading	7,256,572
		Other WWTP Improvements	-
455,000	2016	Administration building	672,242
1,045,000	2017	Administration building	1,621,138
330,000	2018	Shops	537,535
670,000	2019	Shops	1,145,927
330,000	2020	Laboratory	592,633
670,000	2021	Laboratory	1,263,385
\$30,635,000			\$45,483,525



Rate Profile for TCSD



- TCSD rates flat (i.e., \$11.65 per EDU) until 2012-13
- Rate spikes in 2014-15 and 2024-25 to reflect the “exit” of CCSD No. 1
- Rates drop sharply in 2027-28 due to the retirement of the Interim capacity 20-year bonds

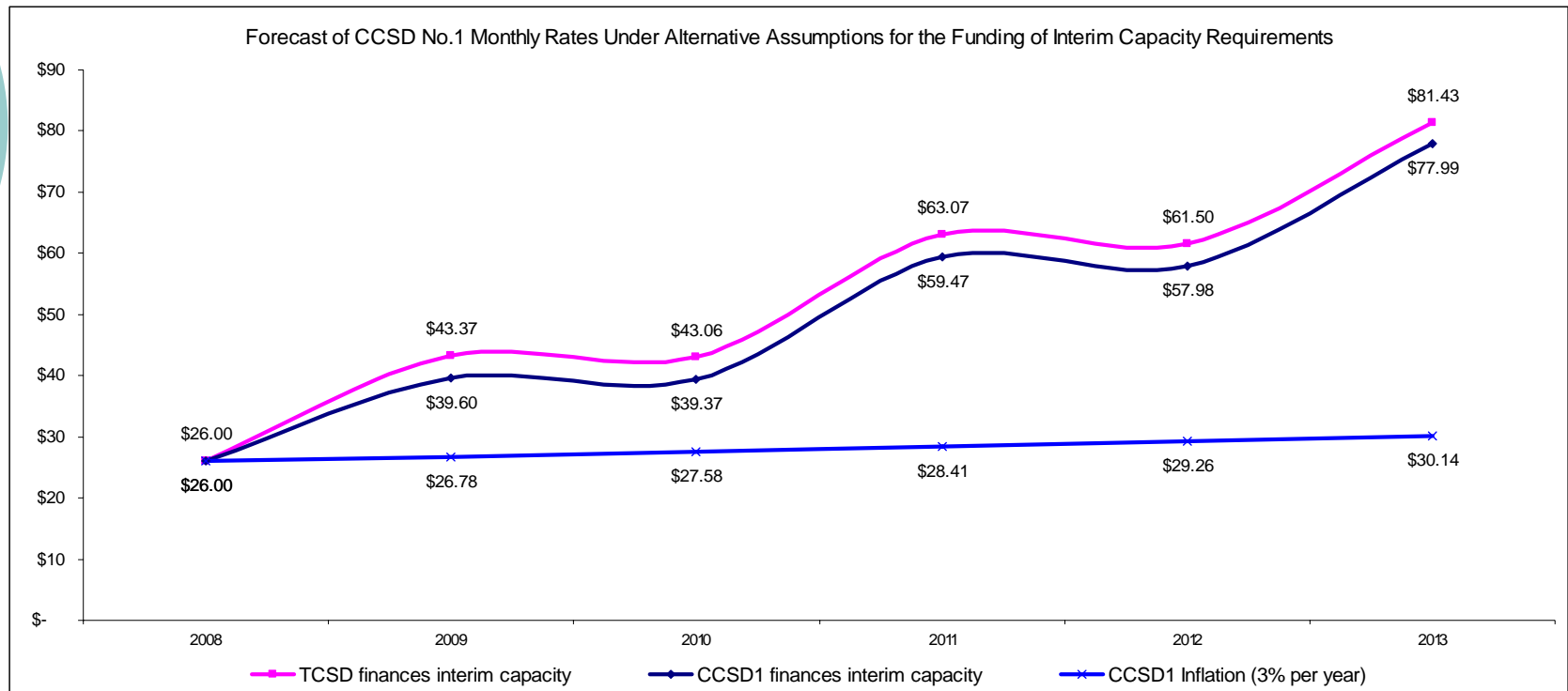




Fiscal Implications for CCSD No. 1

- Cash payments to TCSD result in increased revenue requirements (higher rates) vs. the New Plant case previously considered
- More cost effective for CCSD No. 1 to finance interim capacity improvements vs. TCSD

Rate Profile for CCSD no. 1 – New Plant, Keep Kellogg



- In all forecast years, it is more cost effective to have CCSD no. 1 finance and own the interim capacity improvements
- Siting a new WWTP at the Three Creeks site and keep Kellogg in service is financially unfeasible. Having TCSD being the “banker” of the interim capacity improvements only adds to the unfeasibility.



Conclusions

- Modeling clearly indicates that TCSD would financially benefit by funding the interim capacity improvements; to the detriment of CCSD no. 1
- An interim capacity funding plan should be the most cost effective plan for both districts

Questions/Comments

