

KWA Subcommittee of FWICC Final Report

July 22, 2016

Original Subcommittee Questions

1. What are the updated construction costs and timetable for completion of KWA (have the original assumptions changed)?
2. What are Flint's financial and operating commitments to KWA?
3. What is driving the current water rates for Flint residents? How do they compare to other areas? What is the likely forecast for rates over the next five to ten years?
4. What are the options for Flint's transition to a new water source, including backup, and what will be the City's required capital and ongoing operating costs?

Key Takeaways

- Water Rates – Initial high-level water bill analysis completed which indicate that without action water rates could double within the next five years.
 - Close examination of cost drivers needed to identify areas of savings and efficiencies.
 - Bill credits have been applied and customer statements are up to date.
- Primary Water Source – The City has confirmed its commitment to KWA.
 - Flint is committed to pay \$7.0 million in annual debt payments for their share of KWA bonds.
 - Planning and financing for 36” connector line needed to connect the KWA pipeline to the Flint Water Treatment Plant is underway.
 - Decision needed within next 30 days for primary water treatment.
- Backup Water Supply – The City will need to select a backup water source.
 - Options include: On site storage at Flint Water Treatment Plant, Genesee County Drain Commission (GCDC) impoundment and/or treated water from GCDC or Great Lakes Water Authority (GLWA).
- Financial Stability - Address the underlying financial stability of the Flint water system.
 - Continue to work cooperatively with the City on cash flow forecasting, budgeting, and collection rates.

Updated KWA Construction Costs and Timeline

- With Flint's confirmed commitment to KWA, the remainder of the \$293 million in KWA bonds have been issued and the pipeline is complete.
- Under the current KWA rate structure, there is no fixed charge to Flint and the current commodity charge is \$2.50 per mcf.

Estimated KWA construction costs and completion dates:

	October 2012	March 2014	Current
In Service Date	January 2016	May 2016	July 2016
Construction Costs*	\$245 million	\$240 million	\$247 million

*KWA construction costs exclude water intake. The \$293 million in bond proceeds include funding of reserves and cost of issuance.

Flint Water Bill Analysis – Key Takeaways

- Average residential water bills in Flint have doubled since 2009.
 - Even at current levels, Flint's water rates do not cover costs.
- Without a change in basic operations or outside financial assistance, average bills could double within the next five years.
- The relatively high bills are largely due to funding both wholesale water purchases and maintaining a water treatment plant. Additional contributing factors include: transfers to the City's general fund, fixed system costs with a declining customer base, and the high proportion of non-revenue water.
 - Improvement of collection rates is a necessary component in controlling bill increases.

Additional Work Needed To Moderate Rate Increases

- Without action bills may increase from \$54 to \$110 over the next five years.
- Normal 4% annual increases would equate to an average bill in 2022 of \$65.50.
- What can be done?
 - Assess fixed and non-revenue costs related to infrastructure and distribution system
 - Engineering survey of distribution system
 - Adoption of best practices from peer systems, including staff levels
 - Collection rates
 - Explore low cost capital financing options
 - Transfers
 - Assess transfers to other City funds and align with peer group and best practices
 - Ensure high quality, lower cost Flint water supply

Water Bill Credits

- Flint successfully implemented a bill credit program for 65% of billed water usage since April 2014. Flint and Treasury worked together to complete audit of credits. So far, the State has reimbursed the City \$29.0 million for the bill credits running through February 2016.
- Since February, water credits have been applied to new billings including a flushing credit.
- Flint and Treasury working together on the audit and reimbursement plans as new credits are applied.
- Flint is working on protocol for credits applied to inactive accounts.

Flint's Water Options Going Forward

Three Key City Decisions

- KWA vs. Great Lakes Water Authority
 - City confirmed commitment to KWA
- Primary Water Treatment
 - Flint Water Treatment Plant (FWTP)
 - Regardless of decision, plant will always be used to distribute water
 - Expand GCDC treatment plant to deliver treated water to FWTP
- Backup Water Source
 - On site at FWTP, GCDC impoundment and/or treated water from GCDC or GLWA
 - Combination of backup supply with treated or raw water storage

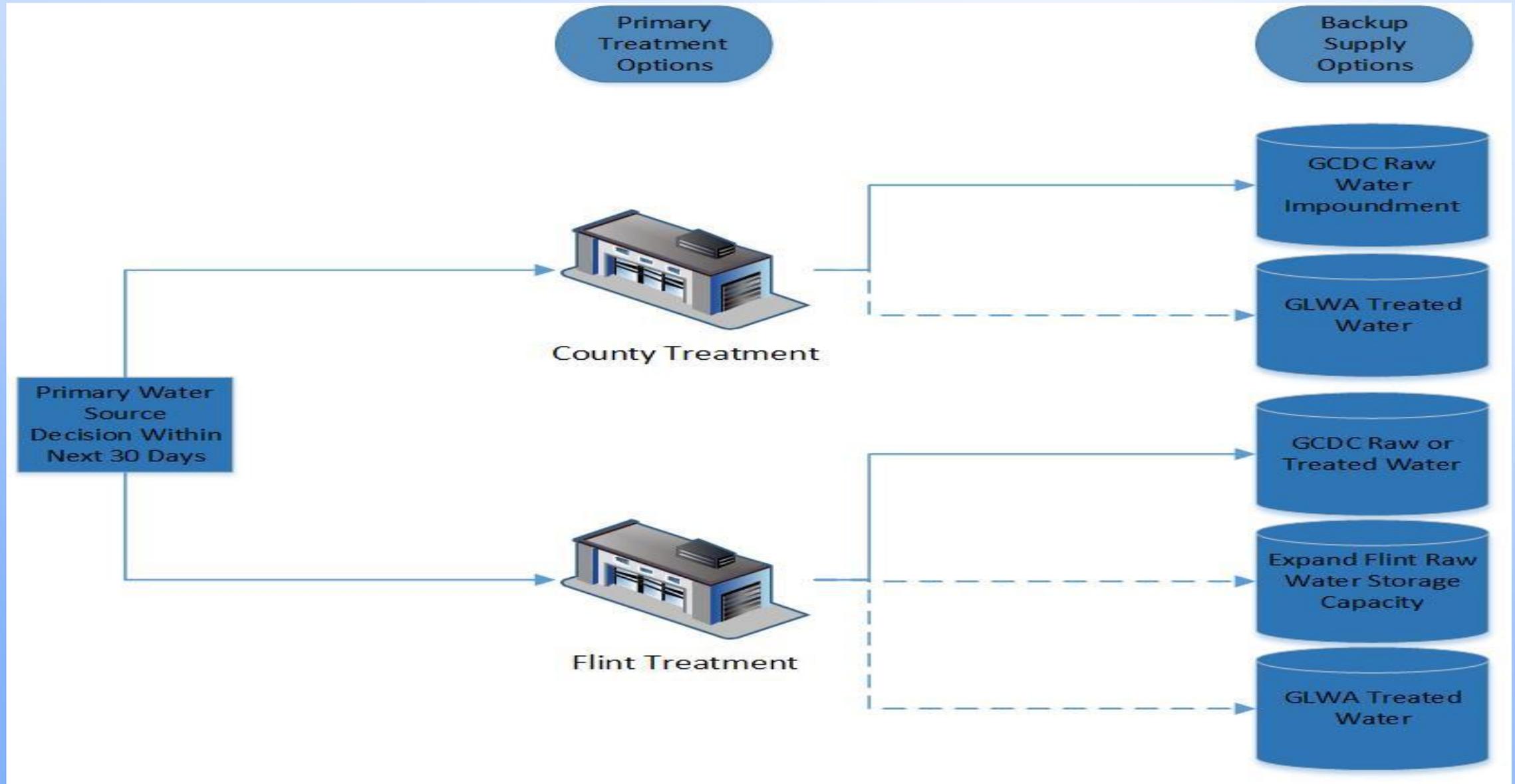
Primary Water Treatment Options

- Flint Water Treatment Plant
 - No significant additional upfront capital necessary
 - Overall higher operating costs
 - Older facility may require more long-term capital investment
- GCDC Water Treatment
 - Expansion could take 24-36 months for design and construction
 - Minimum approximate cost of \$30 million to accommodate Flint's needs
 - Flint will have lower annual operating and maintenance costs (minimum of \$2.0 million a year)
- Decision needs to be made within next 30 days to allow for planning and construction over the next 24-36 months for primary and backup facilities.

Backup Water Supply Options

- Raw Water Impoundment (14 day supply)
 - Flint impoundment would require approximately \$25 million of capital
 - GCDC impoundment would require approximately \$19 million of capital
- Treated Water Storage
 - In Flint would provide 3-5 days of water
 - No additional capital required
- Treated Water Backup
 - GCDC
 - GLWA
- Combination of storage and backup treated water

Primary and Backup Decision



Next Steps

- Work with all parties to moderate increases of Flint water bills.
 - Low cost capital options for system improvements
 - Operating efficiencies
- Make optimal decisions for Flint residents regarding primary and backup water sources.
- Continue to support the financial health of the Flint water and sewer system.
- We recommend that the FWICC roll the tasks of the KWA Subcommittee into the work of the Water Infrastructure Committee for better coordination and planning on critical infrastructure needs.