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Late Backup

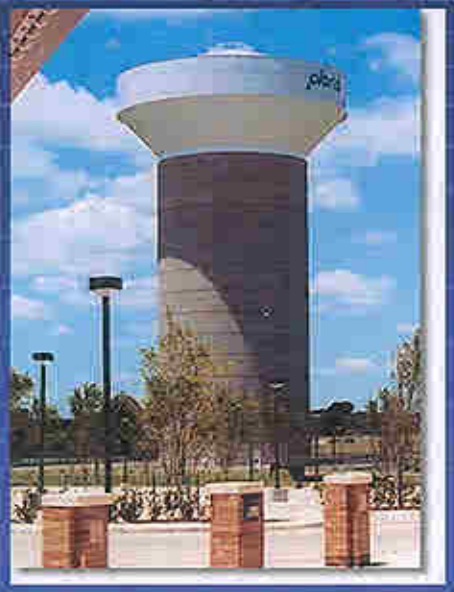
City Council Update
Water Reclamation Initiative
(51st Street Elevated Water Tower)

Recycling water to preserve our drinking water supply

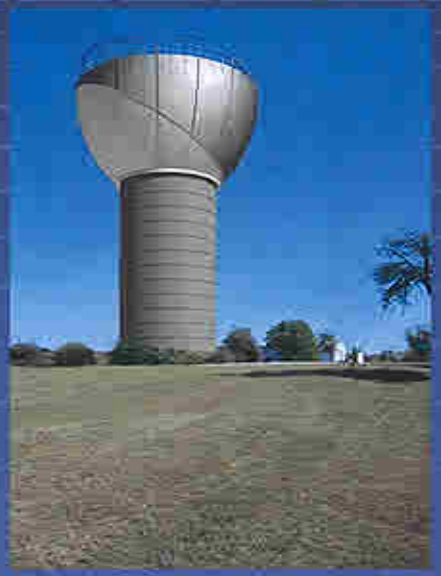
February 14, 2008

Background – 51st Street Tower

- Two tanks designed and bid: Enhanced Composite and Lattice Style



Original Proposal



Enhanced Composite Tank

Lattice Style Tank

Bid Results

- Lattice Style Tank
  - $15,942,000 – CB&I, non-compliant with DSMBR goals
- Enhanced Composite Style Tank
  - $6,815,700 – Phoenix, did not have required experience
  - $7,934,364 – Landmark
  - $7,946,000 – CB&I
  - $9,239,000 – Caldwell

Previous Council Appearance

- On 01/31/08, provided a project update and status of bids received on 51st Street Tank
- Council had several questions:
  - Economies of scale (lower per unit cost)
  - Lattice-style tank impact on rates
  - Impact of higher reclaimed water rates on water conservation

Economies of Scale

- Could future tank costs be reduced if the lattice-style tank serves as a pattern for future reclaimed water tanks?
  - Per Engineer, some extra costs included in bid that could disappear in future tanks
  - Because of competitive bidding extra cost savings is not likely to be large, compared to total cost
  - Only two of remaining six tanks are of the same volume and approximate height allowing economies of scale
  - Tank construction is spread out over a long period of time (~30 years) reducing benefits of economy of scale

Rate Impacts

- Reclaimed water rate set below cost to encourage growth of the system.
- Several reclaimed water customers have long term contractually set rates based on infrastructure contributions.
- FY 06-07 reclaimed revenues – $253,000
- Debt service on additional $8 million to build lattice style tank– $540,000 per year (based on 30 year bond at 5%)
- Current/obligated reclaimed investment – $28 million
- Next 30 year reclaimed investment of $174 million for a total of $202 million not counting additional dollars for tank design aesthetics ($56M @ $8M per tank).

Rate Impacts

- Current Rates (per thousand gallons)
  - Non-Contract Reclaimed Water Rate – $0.98
  - Average Commercial Potable Water Rate – $3.92
- Rate Impact of One Lattice-Style Tank:
  - Reclaimed Water (per thousand gallons)
    - Mueller Customers Only – additional $3.37 (344%) for a total of $4.35 per thousand gallons.
    - All Current Non-Contract Customers – additional $1.49 (152%) for a total of $2.47 per thousand gallons
  - Avg. Monthly Combined Water & Wastewater Bill
    - If Paid by All 200,000 Current AWU Customers
      – additional $0.12 (0.2%)

Conservation Impacts

- Higher reclaimed water rates likely to deter potential reclaimed customers from connecting.
- University of Texas (UT) example:
  - Expected to use up to 600 million gallons of reclaimed water annually
  - UT has invested significantly in "purple pipe" in anticipation of using reclaimed water.
  - 51st Street project is a key feature in bringing reclaimed water to UT.
  - UT would be a key stakeholder affected by a large reclaimed water rate increase given its financial planning based on lower rates.

Next Steps

- Options:
  - Approve RCAs on today's agenda for enhanced composite tank.
  - Alternatively, rebid lattice and composite tank
    - Rebidding may introduce additional changes to cost structure

?? Questions ??