Gary Fern

From: Tom Frederick [tfrederick@rivanna.org]
Sent: Friday, April 14, 2006 8:54 AM
To: 'Mueller, Judy'
Cc: 'O'Connell, Gary'; Gary Fern; Michael Gaffney ; Robert W. Tucker Jr.; Lonnie Wood
Subject: RE: The big Question

It will depend on how the individual projects are phased. We know the first phase of the Ragged Mountain Dam has to come first due to Dam Safety issues. We also know the Observatory WTP is in need of major repairs and the pump station between Ragged Mountain and Observatory must be replaced within the next 5-7 years. Then there is the new SFRR to RMR pipeline itself.

We've modeled the option of constructing the pipeline between 2011 and 2013, and the option of waiting until 2016 to 2018. If we wait until 2016 (10 years from now) to start constructing the pipeline but start in 2008 to build up cash reserves, the impact of the Community Water Supply project on wholesale rates is about 6.25% per year for FY 08, 09, and 10, then drops to around 5% per year for FY11, 12, and 13, then continues to increase beyond FY 13 but at smaller increments of less than 5% per year until about 2025.

If we advance the pipeline construction to 2011-13, the impact on rates are much more dramatic. The forecast for this scenario is a 10% increase in wholesale rates every year from FY 08 until FY 13, then around 8% per year in 2014 and 2015. Under this scenario, the rates are high enough by 2015 to sustain the debt service for Community Water Supply through the entire planning period. In other words, to build the pipeline in 2011 requires that we "front" all the rate increases for community water supply in the first 10 years of the 50 year plan.

I DO NOT PLAN TO GET INTO THIS DISCUSSION NEXT TUESDAY, which is why you don't see any of this in the presentation. First, the timing is bad for a deep discussion of this just before an election. Second, I want to discuss the implications of these two scenarios with board members 2 on 2 so we are together on how we want to present this information to the public. From a financial standpoint, it makes a lot of sense to slowly build up cash reserves for the pipeline, which in itself is nearly one-third the cost of the entire 50-year plan. But I anticipate there will be some loud voices in this community that will call for the pipeline to be built almost immediately.

I know you already know this, but I like to remind everyone with whom I share rate forecast analysis results that the forecast is only as good as the forecasting assumptions, and no one has a perfect crystal ball. In our model we are using 3% per year for inflation, 6% per annum for interest rate on revenue bonds, 4% per annum for interest earned on investment of reserves, 30-year equal annual P&I on debt service for new bonds, and assuming (except for inflation) that Gannett Fleming's estimates hold. Also, the forecasted increases in wholesale rate above are ONLY for the water supply improvements and do not take into account further increases that might be needed for increased operating costs or other capital projects. Last, forecasting out 10 to 15 years is very difficult at best. If the cost of construction keeps escalating like we've seen lately or oil spirals out-of-control again, these assumptions won't hold. Then again, if that were to happen, it would affect everything else government does as well.

Let me know if there are further questions.

From: Mueller, Judy [mailto:mueller@charlottesville.org]
Sent: Thursday, April 13, 2006 4:37 PM
To: tfrederick@rivanna.org
Cc: O'Connell, Gary
Subject: The big Question

What does $130.5 million mean to our wholesale rate ?

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