

Executive Summary

Tinker AFB Utility Municipalization

The MWH Guernsey Consultant team has completed work on the proposals to the Federal government for the municipalization of the Tinker AFB water and wastewater utility systems. The team has produced three sets of proposal documents as described below:

1. Proposal for the water system, base proposal
2. Proposal for the wastewater system, base proposal
3. Proposal for the water system, alternate proposal

Water System Proposal – Base and Alternate - The base proposal for the water system assumes that OCWUT will continue to operate the existing 23 groundwater wells at Tinker for the duration of the 50 year proposed contract. The alternate proposal for the water system assumes that City water will be used to supply Tinker AFB after some needed capital improvements are completed. This would allow Tinker to be served entirely by City water which would allow decommissioning of all the wells unless the Government desires to keep a few wells on-line for backup supply.

Wastewater System – Base - The base proposal for the wastewater system assumes that 45 of the total 51 domestic sewer lift stations at Tinker AFB will be removed and new gravity sewers will be installed to convey the flow by gravity to the existing sewer collection system.

Objectives – The following objectives were identified as keys for success for OCWUT and their ratepayers:

1. Minimize the number of new full time OCWUT employees to operate and maintain the Tinker systems.
2. Minimize the impact of the Tinker acquisition on the existing OCWUT ratepayers.
3. Retain Tinker AFB as a strong employer and key economic engine of the community.

Capital Upgrades – One way to reduce the number of staff needed to operate the system is to reduce the infrastructure that requires repetitive operations and maintenance activities. Tinker AFB has 23 water wells and 51 domestic sewer lift stations that require daily maintenance. To reduce staffing levels it was decided to provide an alternate proposal to eliminate most or all of the wells and to propose to eliminate 45 of the domestic sewer lift stations by constructing new gravity sewers. These capital improvements are called capital upgrades and are described below:

- Eliminating 45 of the domestic sewer lift stations will be achieved by constructing new sewers from the buildings served by the lift stations and conveying the flow by gravity to the existing sewer collection system. A new deep sewer interceptor will be constructed to convey the flow to the City collection system on the west side of the runways. On the east side of the runways more minor changes will be made to Tinker’s infrastructure to allow use of an existing OCWUT pump station and force main conveyance system.

- Eliminating most of the 23 groundwater wells will be achieved by adding some new pipes and booster pumps to the water distribution system and serving the base with City water through the existing connections.
- Instrumentation and control improvements will be installed to automate the operations of the water and wastewater utility systems at Tinker.

Initial System Deficiency Corrections (ISDCs) – In addition to the capital upgrades that are proposed to reduce staffing and decrease operations and maintenance costs at Tinker, the government has identified some system deficiencies that will need to be addressed in the first 5 years of the contract. These capital improvements are called Initial System Deficiency Corrections (ISDCs) and include improvements to both the water and wastewater systems.

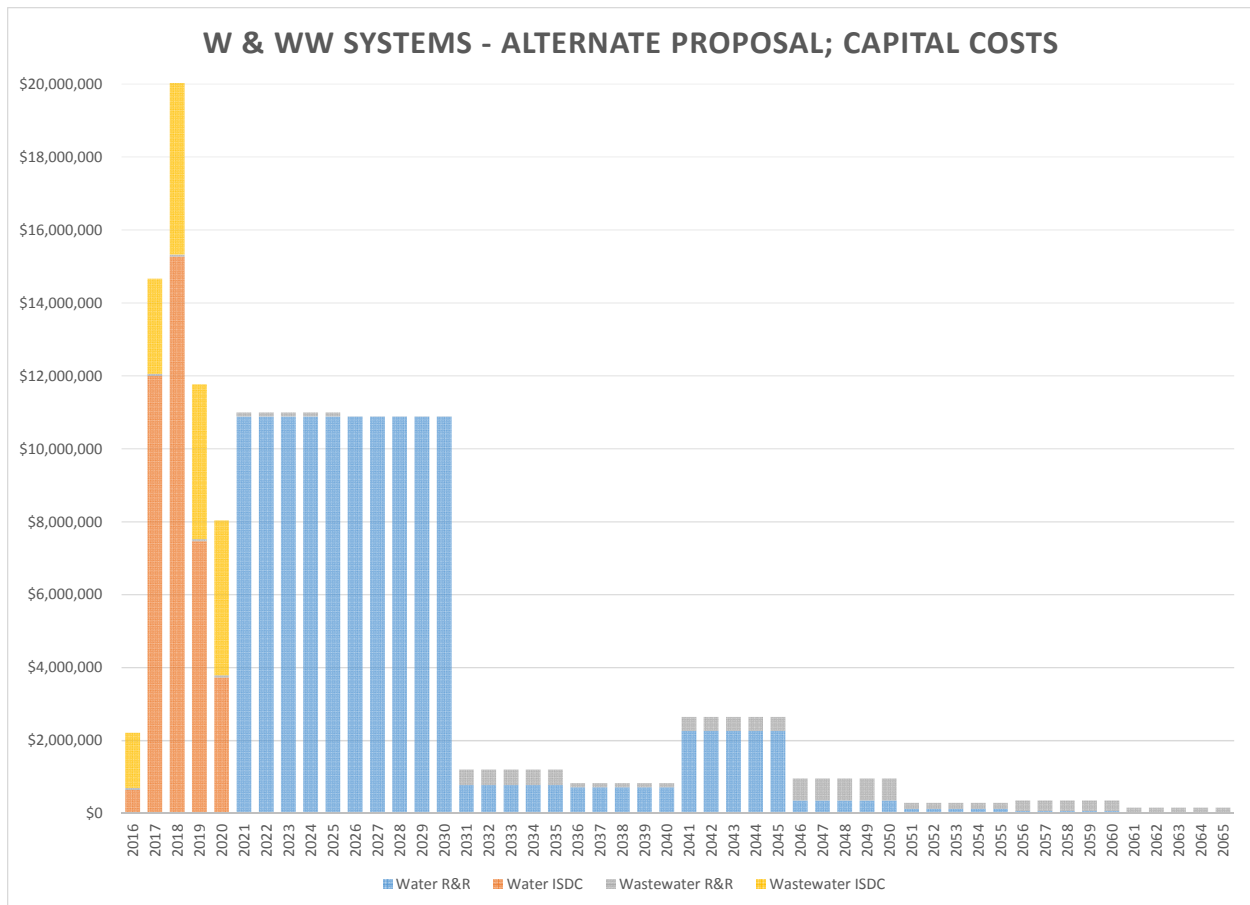
Renewals and Replacements – Most of the existing water and sewer infrastructure at Tinker has reached the end of its useful life and will need to be replaced within the first 15 years of the contract. A series of renewal and replacement projects will be required to replace the old infrastructure at Tinker and will take approximately 10 years to complete. The renewal and replacement projects will be completed after the capital upgrades and initial system deficiency corrections are completed.

Total Proposed Capital Expenditures – The graph on the next page depicts the proposed capital expenditures for the 50-year contract term for the Wastewater (Base) and Water (Alternate) proposals. There is heavy capital outlay required for the first 15 years; after that point the systems will have been largely recapitalized and will require little additional investment.

Rates – OCWUT is proposing a “Regulated Tariff” pricing model which is based upon the cost to serve Tinker AFB. The other alternative offered by the Federal government – “Firm-Fixed Price with Economic Price Adjustment” – is based upon firm prices adjusted over time by an index which is not preferred from a risk management perspective. OCWUT will record its actual cost to serve Tinker using standard utility accounting practices and consistent with its proposals. On an as-needed basis (but ideally no more frequently than annually) OCWUT will review its revenue requirements to serve Tinker; if a revenue deficiency is identified, OCWUT will work together with Tinker to develop new rates to be adopted by the Trust.

In addition to recovery through rates, OCWUT may have the opportunity to recover costs by pursuing a contract modification action with the Federal government; however, the preferred approach for most situations will be to recover costs through rates.

Fair Market Value – The Congressional legislation that enables this contract requires that the Federal government receive “Fair Market Value” for its utility systems. Fair Market Value is a sum to be negotiated by the parties. The MWH Guernsey Consultant team has worked with OCWUT to identify reasonable and supportable strategies to significantly reduce the proposed Fair Market Value. Whatever Fair Market Value is agreed to during negotiations will be paid to (and recovered from) Tinker in a series of offsetting credits and debits such that no cash changes hands.



Standards – The Federal government has a desire to raise the standards of their water and wastewater infrastructure to the standards used by industry. They are also asking OCWUT to propose efficiencies that could be achieved by their adopting OCWUT approaches to operating and maintaining utility infrastructure. As a result, OCWUT will propose to have the following standards followed at Tinker AFB to improve the efficiency of system operations:

- City Construction Standards
- City Ordinances (as applicable)
- OCWUT Purchasing policies and procedures
- OCWUT Development policies and procedures
- OKC Fire Code as a minimum requirement (additional Tinker Fire Department requirements will be adhered to as needed)
- OCWUT Water Conservation practices

Risk Management – The solicitation requires OCWUT to purchase the existing water and wastewater assets and operate the utilities for a period of 50 years. The solicitation includes some provisions and requirements that are not fully understood at this time and may have an impact on the costs required

for compliance. The approach taken in the proposal has been to make assumptions about how OCWUT will work to comply with the requirements.

These assumptions will serve as “protective language” to protect OCWUT during the period between when the proposals are submitted and when OCWUT has an opportunity to perform a series of “System Characterization Studies” that will be completed during the initial two years of the contract.

System Characterization Studies – The purpose of the System Characterization Studies will be to perform the necessary due diligence and confirm the impact of the solicitation requirements. The protective language and studies will also provide an opportunity for OCWUT to manage their risk and revise their forward pricing to assure full compensation for all work needed to provide utility services at Tinker and meet the requirements of the solicitation.

- OCWUT will need to maintain water system pressures that appear to be excessive in certain areas of the base to meet fire flow requirements. Areas where the service requirements appear to be excessive will be investigated during the transition phase to determine the impacts and associated costs of these service requirements.
- The solicitation references numerous federal acquisition regulations (FAR) clauses which may impact how OCWUT will be able to contract for services at Tinker AFB. These FAR requirements will be investigated during the next phase of the project (the transition phase) to determine the impacts and associated costs with meeting these FAR requirements.

Service Requirements – OCWUT will need to meet service requirements that specify how long they need to respond to urgent, emergency, or routine service requests. The staffing plan has been developed to meet these response times. The strategy for staffing at Tinker will be to have a small crew posted on-site at Tinker during normal working hours and that crew will be available to respond to service requests and then call-in off base resources from the main OCWUT workforce on an as-needed basis to complete urgent, emergency, and routine service work orders.

Specialized Services – OCWUT will also keep permanent staffing to a minimum by employing specialized subcontractors to complete services that require specialized experience and equipment. Examples of these specialized services are the cleaning and televising of sewer pipes and routine service callouts to maintain service laterals at Tinker.

Consultant Services - Another element of the plan that will reduce the number of full time OCWUT staff needed to comply with the Tinker requirements will be to employ the use of consultant services to complete certain activities at Tinker. The consultant services include the completion of the following tasks during the transition phase and the performance phases of the contract:

Transition Phase Consultant Services

- Engineering and Construction Engagement and Pre-Qualification
- Assistance During Transition
- Develop Procedures, Training Programs, and Compliance Plans for Employee Needs

- Perform System Characterization Studies (Studies that are needed to define the scope and cost of early capital upgrade projects and to confirm assumptions made in the proposal)
- Prepare Initial ISDC and Capital Upgrades Plan
- Develop Federal Contract Compliance Plan

Performance Phase Consultant Services

- Perform System Characterization Studies (Studies to define the renewal and replacement projects and evaluate capacity issues for existing and future flows)
- Prepare Annual Plans - Preparation and Submittal of Annual 5-Year Capital Plans
- Site Engineering
- Federal Contract Compliance Assistance
- Management of the Construction and Start-up of ISDC's, Renewal and Replacement, and Capital Upgrade Projects
- Perform Periodic Studies

Summary – OCWUT has prepared a proposal to the Government to own and operate the water and wastewater systems at Tinker AFB for a period of 50 years. Shown below are the features of this municipalization project:

- The benefit to the community is that by providing the capital and operational needs of Tinker, OCWUT will be greatly assisting a key employer and economic engine for the region; there will also be a great opportunity for local firms to benefit from the large capital infusion required at Tinker.
- Local consultants and contractors will perform the work necessary to implement the needed capital upgrades and renewals and replacements at Tinker AFB.
- The proposal contains protective language and the necessary studies and due diligence to better define the level of effort for future work, thereby minimizing the risk of cost impacts to the rate payers of Oklahoma City.
- Cost of service principles will be used to adjust forward pricing based upon actual cost experience at Tinker and as adjusted for known future requirements.
- New staff needed to operate and maintain the water and wastewater utility systems at Tinker have been minimized using efficiency strategies – capital upgrades are proposed to reduce labor-intensive work, and use of existing off-base labor resources on an as-needed basis has reduced the need for permanent hires on-base.
- The new City Utilities Department personnel strength required will be dependent upon the federal government's selection of the water base or alternate proposal, subsequent negotiations, and findings of the to be completed System Characterization Studies. It is anticipated that a budget amendment will be presented to OCWUT and Council, respectively, to provide for the additional personnel and funding, after approval of the agreement between the parties.