



OUC/City of Orlando Water Resources Management Optimization Study



Final Report



January 2006



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Date: January 18, 2006

Subject: Final Report - Orlando Utilities Commission/City of Orlando Water Resources Management Optimization Study

Mr. Ksionek;

CH2M HILL is pleased to submit the final report of the Water Resources Management Optimization Study completed for the Orlando Utilities Commission and the City of Orlando. CH2M HILL has provided 25 copies of this report to the Orlando Utilities Commission and 8 copies of the report to the City of Orlando Per request of the respective organizations.

Our report is comprised of the previously released executive summary, a description of our evaluation methodology, a summary of the analyses conducted for the study, Phases 1 and 2, and CH2H HILL's key findings, conclusions, and recommendations. A complete table of contents is provided on pages 2 and 3 of this report.

CH2M HILL has enjoyed working with the Orlando Utilities Commission and the City of Orlando on this important engagement. We would like to acknowledge the open cooperation and professionalism of OUC and City of Orlando management and staff who participated in this challenging and important study. CH2M HILL has enjoyed the opportunity to work with OUC and the City of Orlando and look forward to future engagements.



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Orlando Utilities Commission/City of Orlando
Water Resources Management Optimization Study



Executive Summary

As a result of Mayor Dyer's February 28, 2005 letter to the consolidation task force, the OUC Commission, at its March 29 meeting, directed the General Manager to undertake a study to examine the potential for consolidation of potable water, wastewater and reclaimed water services. OUC and the City agreed to retain CH2M HILL, a nationally recognized consulting firm with expertise in utility business practices, to conduct a water resources management optimization study. Over the past several months, CH2M HILL conducted the study in cooperation with OUC and City staff.

For purposes of this study, CH2M HILL relied on the insight of a team of nationally recognized utility management consultants with hands-on utility management and operations experience. Findings reflect this team's best professional judgments based on their experience, consideration of the results of other utility consolidations and detailed evaluations of OUC water and City wastewater staffing, operational and financial management practices.

Following analyses of financial and operations data, reviews of relevant statutes and charters, interviews with key OUC and City management personnel and consideration of industry experience, CH2M HILL developed a set of findings and recommendations which are summarized in this document.

Purpose and Scope of Study

The purpose of the study is to examine the potential for consolidation of OUC's potable water and the City's wastewater and reclaimed water services; and to recommend a business plan that will offer the most benefit to the citizens of Orlando and OUC customers.

Water resource management functions may be optimized through a number of institutional arrangements that foster interagency collaboration. However, any significant change in the current organization structure will involve substantial risks and challenges that may erode potential financial and level of service benefits. Accordingly, a fundamental premise of this optimization study is that potential consolidation benefits must be sufficiently substantial and unique to warrant the transactional costs, risks and upheaval associated with a consolidation.

This study focused on the savings and advantages that are specifically related to consolidation of the water and wastewater utility operations and excluded potential savings and advantages that could be realized independent of any type of consolidation.

Governance Options Evaluated

This study assessed the relative merits of the following governance options identified in Mayor Dyer's letter dated February 28, 2005 along with several variants of these options:

- Option 1: Transfer the City's wastewater operations (including reclaimed water) to OUC
- Option 2: Transfer OUC's water operations to the City

- Option 3: Establish a separate, Third-party organization to encompass all water-related operations of OUC and the City
- Option 4: Establish a separate, new organization to be operated under OUC (Hybrid of Option 1 and Option 3)

The governance options listed above were evaluated with respect to each other, as well as to the option of maintaining the “status quo”. Under the “status quo” option, wastewater and reclaimed water services would remain under the City and potable water services would remain under OUC.

Methodology

The study consisted of two phases. In Phase 1, an initial screening analysis of the options was conducted. The goal of Phase 1 was to identify one to three governance options that could be carried forward to Phase 2. In Phase 2, a detailed analysis and evaluation of the reduced list of governance options was conducted. The end result of Phases 1 and 2 is a recommendation of a preferred governance option.

Phase 1: Initial Conceptual Review of Governance Options

Phase 1 was initiated by a kick-off meeting with the Joint Guidance Committee (JGC), which consisted of the CH2M HILL project team plus senior management representatives from OUC and the City. At this meeting, CH2M HILL presented an initial list of potential governance options, presented criteria that would be used to evaluate the options and identified information that they would need to obtain from OUC and the City in order to conduct the analyses. CH2M HILL reviewed financial, operational, organizational and legal information provided by OUC and the City.

CH2M HILL conducted two internal workshops to collectively review, analyze and summarize information collected from both utilities. The CH2M HILL team evaluated each governance option at a conceptual, qualitative level against eight criteria that were defined at the kick-off meeting. Each option was also evaluated to see if there were any insurmountable obstacles to building a business case supporting the option.

Phase 1 culminated with a prioritization workshop with the JGC. At this workshop, CH2M HILL recommended the governance options that should be carried forward to Phase 2 for more detailed evaluation.

Phase 2: In-depth evaluation of remaining governance options

In Phase 2, a more in-depth analysis was conducted of the governance options carried forward from Phase 1. They were further analyzed and defined in terms of financial, organizational, operational and legal aspects.

CH2M HILL constructed a 20-year financial cash flow model for each utility so that projections of combined financial performance under the various governance options could be estimated. A base line set of assumptions was used in developing the preliminary set of projections for the water system and for the wastewater system. An analysis of the financial results under each of the governance options was prepared, which included potential costs and savings over time, along with changes in revenues, and was compared against the base line to ascertain differences in financial performance.

Two internal workshops were conducted with the CH2M HILL project team to further analyze the options in terms of financial, organizational, operational and legal aspects with respect to the eight evaluation criteria. The JGC participated in a financial workshop to review financial projections and legal implications of the governance options carried forward from Phase 1.

CH2M HILL interviewed key management personnel from both OUC and the City to gain insight into their thoughts about the best option for management of water resources. In some cases, interview leads of the respective organizations met alone with senior CH2M HILL staff; in other cases interview leads were accompanied by selected staff members. The City interview leads were Dykes Everett, Byron Brooks, Deborah Girard, Alan Oyler and Henry Dean and OUC interview leads were Ken Ksionek, Fred Haddad, John Hearn and Rick Coleman.

Near the conclusion of Phase 2, CH2M HILL conducted a final selection workshop with the JGC to present final recommendations. Phase 2 culminated with the production of this executive summary as well as a detailed final report, both of which summarize the results of Phases 1 and 2 of this study.

Phase 1 – Analysis/Results

Based on a high level review, CH2M HILL concluded that sufficient financial benefits, operational efficiencies and service level enhancements could potentially accrue to a consolidated water and wastewater operation in Orlando. Accordingly, the defined governance options were assessed at a high level employing eight evaluation criteria. These criteria were established at the outset of the study and are listed below:

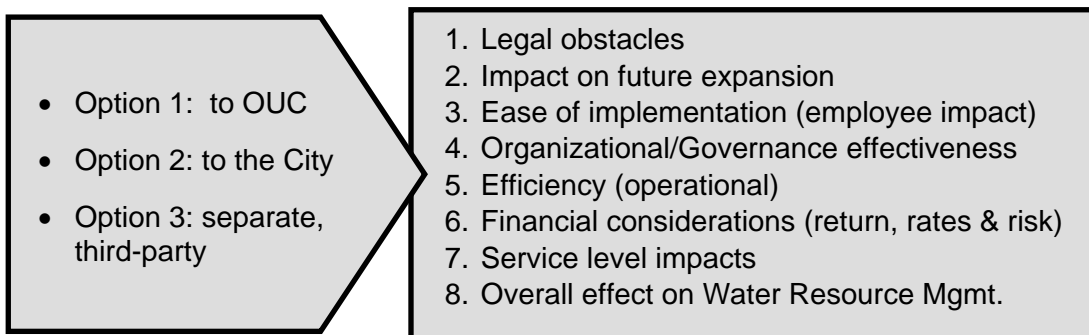
1. Legal obstacles
2. Impact on future expansion
3. Ease of implementation (including employee impact)
4. Organizational/Governance effectiveness
5. Efficiency (operational)
6. Financial considerations (return, rates & risk)
7. Service level impacts
8. Overall effect on water resource management

It was noted that the last three criteria would be approximately equivalent under any consolidation scenario. Therefore, the Phase I high level review was comprised of a qualitative evaluation relative to the first five criteria.

In summary, CH2M HILL concluded that some differences exist between the different options, but there were no insurmountable obstacles to any of the governance options under evaluation. At this point, it was believed that further examination of consolidation made sense based on the preliminary review, but a more detailed evaluation was warranted to quantify benefits. Based on the initial findings, the JGC elected to evaluate Option 1 (Wastewater to OUC), Option 2 (Water to the City) and Option 3 (Third-party entity) in more detail during Phase 2 of the study.

Phase 2 – Analysis/Results

The main focus of Phase 2 was to evaluate the three governance options in depth against the eight previously highlighted evaluation criteria.



Listed below is a summary of results by each evaluation criterion:

Legal obstacles

Legal constraints on consolidation imposed by federal, state and local laws were evaluated. In brief, each governance option considered would require changes to City ordinances. Option 1 (Wastewater to OUC) differed from Option 2 (Water to the City) and Option 3 (Third-party entity) in that Option 1 could likely be implemented without changes to the special acts governing the City of Orlando and OUC, and would not require approvals from federal regulators. Options 2 and 3 would likely require modification of the special acts governing the City of Orlando and OUC. It was noted that the City of Orlando holds clear eminent domain authority, while OUC's condemnation powers are presently exercised through the City.

These legal hurdles are relatively minor when compared with the additional requirements for implementation of Option 3 (Third-party entity). Opinions would be required from the U.S. Treasury Department regarding the governance structure of the new Third-party entity and regarding tax-exempt status of debt instruments under U.S. Treasury Regulations. In addition, if the Third-party entity were a not-for-profit corporation, more complex issues would need to be resolved with the U.S. Treasury Department and an opinion from the Florida Public Service Commission would be advisable regarding its jurisdiction over the new entity.

Impact on Future Expansion

Consolidation should have minimal impact on potential future expansion of retail or wholesale water or wastewater service by the City and OUC. It was noted that service areas for retail water may be limited by special acts. Also, amendments to service area agreements may be required for regional expansion. Only the creation of a Third-party not-for-profit corporation could create impediments to cooperative regional initiatives or regional expansion. The creation of a not-for-profit corporation would restrict the ability of the Florida legislature, the City of Orlando, or OUC to mandate regional coordination and cooperation through statutes or ordinances.

Ease of Implementation (including employee impact)

Each of the governance options would likely involve significant implementation challenges due to cultural, operational and governance issues. The direct implementation cost of consolidation over the first two years of implementation was estimated to range from \$0.675 million to \$1.125 million for the three options. Option 3 (Third-party entity) would be the most expensive to implement and is the most complex in terms of organizational, logistical and legal challenges.

Organizational Governance and Effectiveness

The differences between the governance options in terms of organizational governance relate to the relative merit of a singular focus on water resources and the different and potentially competing priorities of the governing organization. Option 3 (Third-party entity) would bring a singular focus on water resources with no competing priorities. Option 1 (Wastewater to OUC) would be subject to potentially competing electric utility management priorities and Option 2 (Water to the City) would be subject to multiple, potentially competing priorities of the City government. An advantage for Options 1 and 2 over Option 3 is that both OUC and the City are proven, effectively managed utility organizations, whereas a new entity would not have a proven track record.

Efficiency (operational)

Based on extensive experience with the management and operation of water and wastewater utilities, CH2M HILL found that both the City's wastewater operations and OUC's water operations are well managed, efficient and comparable to other high-performance utility organizations around the country. The condition of the plant facilities is industry leading. Staffing levels at the water treatment plants are minimal due to sophisticated automation. Monitoring systems associated with

wastewater lift stations and treatment facilities are excellent. Because both OUC's water and the City's wastewater operations are efficiently operated, potential operational cost savings resulting from consolidation are limited. In addition, consolidation of two different types of utilities, in this case water and wastewater, yields fewer operational cost saving opportunities than consolidating two utilities of the same type, such as water with water, or wastewater with wastewater.

Nevertheless, CH2M HILL identified some potential cost savings, primarily through staffing adjustments, which could accrue under any form of water/wastewater consolidation. These savings derive from the potential staff reductions from both utilities ranging from a low of 16 full-time equivalent positions for Option 3 (Third-party entity) to a high of 26 full time equivalent positions for Option 1 (Wastewater to OUC).

Financial Considerations (return, rates and risk)

The staff reductions discussed in the previous paragraph represent the vast majority of potential savings that may be realized through consolidation of water and wastewater utility operations. These staffing reductions translate to approximately 1 percent of the combined water and wastewater systems' revenue requirements. A key premise was that potential consolidation benefits must be sufficiently substantial and unique to warrant the transactional costs and upheaval of consolidation. In CH2M HILL's professional judgment, for financially-driven mergers to be considered desirable, it is reasonable to require projected savings in excess of 7 to 8 percent of system revenue requirements. In many other industries, financially driven mergers require a return of 15 to 20 percent. This level of savings ensures that gains will be made and projected savings will not be entirely eroded by transitioning challenges. Any consolidation or merger activity also involves direct costs associated with the implementation, along with other potential risks. These risks include potential losses of employee productivity, disruption of the organization and other unforeseen obstacles.

The implications of these potential savings were assessed by modeling the impacts on cash flows and thereby net income and system revenue requirements, of a consolidated operation. Calculations of changes to net income allow potential returns associated with consolidation to be assessed and variances of projected revenue requirements provide an indication of potential rate impacts. Using either of these performance metrics, the potential beneficial impacts of consolidation are limited relative to industry experience, even under the assumption that all potential savings will be realized.

Service Level Impacts

Service level improvements could result due to consolidation in areas such as service/extension request procedures, consolidated record keeping, common mapping systems and combined functionality of crews and technicians. Most of these benefits are difficult to quantify and do not vary significantly with the governance option selected.

Overall Effect on Water Resource Management

All of the governance options could aid in bringing an improved focus on the efficient use of all available resources to meet City and OUC service area water supply needs. Consolidation could allow for smoother integration of the respective water/wastewater group responsibilities. It was concluded that there were no major differences between governance options with respect to water resource management.

In the interviews with City and OUC senior management, it was frequently noted that a consolidation initiative could distract attention from pressing regional water resource management issues and complicate potential collaborative efforts with Orange County. All parties agreed that cooperation on water resource issues between OUC and the City was critically important and may be the most compelling benefit of consolidation.

Summary of Analyses: Evaluation Criteria vs. Governance Options

Some benefits do accrue, in terms of criteria evaluated, for all three of the governance options when compared to the status quo. Collectively, the differences between the three governance options are not significant. Although all three options are viable, the overall consolidation benefits are limited and not compelling. The most compelling potential benefits are in terms of service level improvements and overall effect on water resource management, most of which can be achieved without consolidation.

Key Findings/Conclusion

In summary:

- 1. No legal obstacles prohibit implementing any of the options evaluated for consolidation of water and wastewater utility functions.** However, limitations in local ordinances, state laws and federal regulations would need to be addressed before consolidation could proceed. The governance options evaluated may require significant changes to state law. When seeking changes to state law, there is always significant risk that the changes will fail to pass the Florida Legislature or that the changes will pass in a different form than that requested by OUC and the City
- 2. Both the City's wastewater operations and OUC's water operations are efficiently managed.** For example, OUC operates treatment plants through an industry-leading automation system that minimizes operations costs; City wastewater has similar capabilities for lift stations and wastewater treatment facilities. Over the last several years, the City has also accomplished operations cost reductions through staff optimization. Industry experience suggests that mergers are most beneficial when like utility functions are combined, such as water with water or wastewater with wastewater and/or individual utilities are plagued by prevailing operating inefficiencies. In this case, the two utilities provide different services relatively efficiently, limiting potential opportunities for cost savings.
- 3. Consolidation of the water and wastewater operations could result in potential cost savings of approximately 1 percent of the combined water and wastewater systems' revenue requirements.** This is well below cost savings typically achieved by mergers in other industries and well below the minimum recommended threshold of 7 to 8% for a merger where finances are a significant driver.
- 4. Considerable risks associated with a consolidation exist that may dilute potential savings.** These risks include potential loss of productivity of the work force and unforeseen obstacles. These risks tend to occur in varying degrees with all mergers or reorganizations. The degree to which these risk-related factors occur will have significant impact on the savings that may be realized for the 20-year period of this study.
- 5. Extensive collaboration between OUC's water utility management and the City's wastewater utility management is required to address current and prospective regional water resource management issues.** To effectively meet current and future water resource challenges these two utilities will need to work together collaboratively. There are historical examples of effective collaboration between the organizations and additional opportunities exist. Focusing on consolidation implementation could take away some of the focus that needs to be directed at water resource management issues.

CH2M HILL's industry experience and research suggests that successful consolidations of utility operations are typically characterized by:

- Opportunities to realize savings through sharing of personnel, facilities and equipment
- Potential service level improvements achieved through operating synergies
- Coordinated approach to water resource management.

After comparing the governance options and the current structure against the evaluation criteria, the potential consolidation of OUC's water operations and the City's wastewater operations holds little promise for significant benefits to be realized, largely because of the different focus of the two utilities, the relative efficiencies of both operations and the potential risks involved. The coordinated approach to water resource management that is needed can be more readily accomplished through collaboration rather than a change in organization structure. Accordingly, there is no compelling reason for a consolidation of these utilities at this time; however, this does not preclude the potential for future consolidation if changes in conditions so warrant.

Recommendations

CH2M HILL provides the following recommendations for the City and OUC to best manage water resources:

- 1. OUC's water operations and the City's wastewater operations are both well managed, effective organizations and should not be consolidated at this time due to the insufficiency of benefits relative to the potential risks involved.**
- 2. An interagency (City/OUC) water resource management committee should be established to facilitate collaboration between OUC and the City and to provide for more effective state agency interface. This committee should consist of high level staff, committed and empowered by the two organizations, to develop and monitor the implementation of structured, collaborative processes.**
- 3. A specific project or initiative should be defined to serve as a test case for employing the revised business practices contemplated for improved collaboration between OUC and City.**



FINAL REPORT

1.0 Introduction and Background

The City of Orlando (the City) owns and operates a wastewater collection and treatment utility and a reclaimed water distribution utility. Both utilities are part of the Wastewater Division, which is one of six divisions within the Public Works Department, which is one of eighteen departments within the City of Orlando government. The Wastewater Division operates and maintains facilities and provides related planning, engineering, project management, laboratory and billing services. (See Appendix A for City’s Wastewater Division Organization Chart.)

The Orlando Utilities Commission (OUC) operates a potable water supply, treatment and distribution utility. The Water Business Unit, which is 1 of 10 departments within the OUC organization, operates and maintains facilities and provides related planning, engineering, project management and laboratory services. (See Appendix B for OUC’s WBU Organization Chart.)

Many functional, operational, management, staffing, and technological similarities exist between OUC’s potable water utility and the City’s wastewater and reclaimed water utilities. Both OUC’s potable water utility and the City’s reclaimed water utilities supply water that is used to irrigate lawns and landscape areas. Both utilities include pressurized piping systems, metered services, water storage tanks, and pumping facilities. The wastewater utility also includes pressurized piping systems and pumping facilities as part of the wastewater collection system. All utilities include treatment facilities with some similarities in their mechanical, electrical, electronic and structural components. The staffs that operate, maintain, design, and manage all three utilities have similar educational and training backgrounds.

Thirty years ago, treated wastewater was not perceived to be a valuable resource. It was treated and then discharged into local water bodies and coastal waterways. When Florida adopted the “zero discharge” rule, wastewater was treated to a higher standard, creating reclaimed water. Reclaimed water is not clean enough to drink, but it is clean enough to irrigate golf courses and yards, and its use in this manner is not harmful to the environment. Today, with groundwater becoming harder to obtain, reclaimed water is a more valuable commodity.

Due to these water resource management challenges, increased collaboration between the two utilities will be required to meet the water resource needs of the region. One example of the needed collaboration is the recent 20-year Consumptive Use Permit obtained by OUC. Last year, OUC, with the cooperation of the City, obtained a 20-year Consumptive Use Permit from the St. Johns River Water Management District. The permit requires the use of reclaimed water instead of potable water to supply landscape irrigation needs. During negotiations with the District between October 2002 and May 2004, City staff pledged that reclaimed water would be made available so that OUC could comply with the permit conditions. The Consumptive Use Permit demonstrates the inseparable link between reclaimed water and potable water in today’s water resource environment. To gain the full benefit of the permit for customers and citizens, the City and OUC must forge a relationship to optimize potable water and reclaimed water services, either through bilateral agreements between the two entities or consolidation.

Consolidation of the two utility operations has been considered in the past. In the late 1990's, former OUC General Manager Bob Haven suggested to elected and administrative City officials that OUC either acquire or operate the wastewater and reclaimed water utilities under the umbrella of OUC. Similar suggestions were made as late as 2003. In both instances, the City decided not to pursue the suggestions. Recently, the City investigated the possibility of consolidating the three utilities under a not-for-profit corporation that would be controlled by the City. As part of these past efforts, concepts were developed and preliminary investigations were performed by internal staff and outside consultants.

As a result of Mayor Dyer's February 28, 2005 letter to the consolidation task force, the OUC Commission, at its March 29 meeting, directed the General Manager to undertake a study to examine the potential for consolidation of potable water, wastewater, and reclaimed water services. OUC and the City agreed to retain CH2M HILL, a nationally recognized consulting firm with expertise in utility business practices, to conduct a water resources management optimization study. Over the past several months, CH2M HILL has conducted the study in cooperation with OUC and City staff.

For purposes of this study, CH2M HILL relied on the insight of a team of nationally recognized utility management consultants with hands-on utility management and operations experience. (See Appendix C for CH2M HILL Project Team Organization Chart.) The findings presented in this report reflect this team's best professional judgments based on their experience, consideration of the results of other utility consolidations, and detailed evaluations of OUC water and City wastewater staffing, operational, and financial management practices.

Following analyses of financial and operations data, reviews of relevant statutes and charters, a series of interactive workshops, interviews with key OUC and City management personnel and consideration of industry experience, CH2M HILL developed a set of findings and recommendations that are detailed in this report.

2.0 Purpose and Scope of Study

The purpose of the optimization study was to examine several potential options for consolidation of OUC's potable water and the City's wastewater and reclaimed water services; and to recommend a business plan that would offer the most benefit to the citizens of Orlando and OUC customers. The study included the identification of a proposed organizational and operating structure that would maximize the economic potential for consolidation without compromising reliability. The study needed to be completed in the shortest time possible without comprising the quality of the finished product.

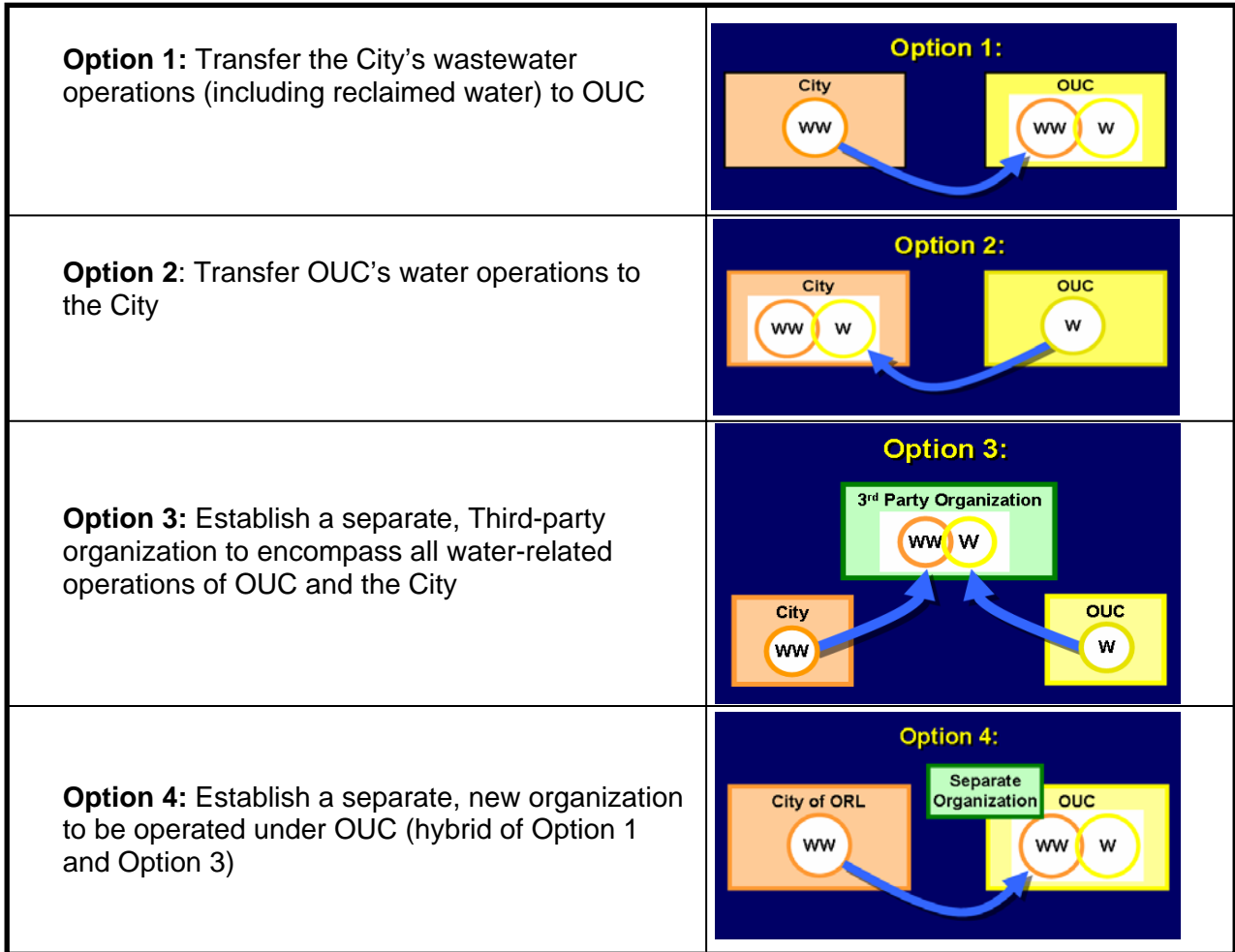
To determine the best option for the management of water resources, different governance options for the consolidation of water resources were identified. These options were evaluated with consistent criteria throughout the study.

Water resource management functions may be optimized through a number of institutional arrangements that foster interagency collaboration. However, any significant change in the current organizational structure will involve substantial risks and challenges that may erode potential financial and level of service benefits. For these reasons, a fundamental premise of this study was that potential consolidation benefits must be significantly substantial and unique to warrant the transactional costs, risks, and upheaval associated with a consolidation. In addition, this study focused on the savings and advantages that are specifically related to consolidation of the water and wastewater utility operations and excluded potential savings and advantages that could be realized independent of any type of consolidation.

3.0 Governance Options Evaluated

This optimization study assessed the relative merits of the four governance options, which were identified in Mayor Dyer’s February 28, 2005 letter, and several variants of these options. These four governance options are presented in Exhibit 1.

Exhibit 1



In addition, the CH2M HILL team considered other governance arrangements. These options were considered to be variants of the governance options listed above. Several variants of Option 3 were examined, which included:

- Private: A privately owned company providing water, wastewater, and reclaimed water. The company would be formed by buying assets from the City and OUC and in turn operating independently, outside of City or OUC control.
- Independent Special District: An agency created by a local government or an act of legislature that has a governing body that is fully independent in its operational and financial decision making. An independent special district is typically considered to be a separate independent governmental entity.
- Dependent Special District: An agency typically created by a local government with a governing body that is controlled by or is the same as the governmental body of the local government. Typically the financial and operational decision making of a dependent district is subject to

review or direct control by the “parent” local government. Frequently, a dependent district operates as a division or department within the parent local government.

- Not-for-Profit: A corporation that is created to operate and hold the water, wastewater, and reclaimed water assets. It would have a governing board elected by customers but would be subject to a level of control by the City.

Several variants for Option 4 were also evaluated. These variants differed based on the amount of control by both the City and OUC, the exact organizational structure that would be utilized, and the relationship this organization would have to an oversight or governing board. Overall, these variants did not differ significantly and were in essence analyzed as one.

The governance options were evaluated with respect to each other and to the option of maintaining the “status quo”. Under the “status quo” option, wastewater and reclaimed water services would remain under the City and potable water services would remain under OUC, with contractual arrangements between the two entities, as contemplated in OUC’s Consumptive Use Permit.

4.0 Methodology-Overview

In order to conduct a comprehensive investigation, the optimization study was conducted in two phases.

In Phase 1, a limited initial screening analysis of the governance options was conducted. In addition to the four original governance options, other options identified by OUC, the City, and the CH2M HILL project team were evaluated. Any options that did not comply with predetermined evaluation criteria or had insurmountable obstacles that would prohibit implementation were eliminated. Only those options that were deemed to be feasible and implementable were considered in Phase 2 of the study. The specific goal of Phase 1 was to identify one to three governance options that could be carried forward to Phase 2.

In Phase 2, a detailed analysis and evaluation of the reduced list of governance options was conducted. The end result of Phase 2 was a recommendation of a preferred governance option for the two utilities.

4.1 Phase 1 Methodology: Initial Conceptual Review of Governance Options

The approach to Phase 1 consisted of the following five main tasks:

- Project Kick-off Workshop and Scope Development
- Review Existing Information
- CH2M HILL Project Team Development Workshops
- Develop Business Case for Each Governance Option
- Phase 1 Prioritization and Selection Workshop with the Joint Guidance Committee (JGC)

4.1.1 Project Kick-off Workshop and Scope Development

The first task of Phase 1 included the Project Kick-off Workshop and the initial scope development for Phases 1 and 2 of the project.

CH2M HILL designed, led, and facilitated the 4-hour Kick-off Workshop conducted on May 3, 2005. This workshop was attended by members of the CH2M HILL project team along with the JGC. The JGC consisted of senior management representation from OUC and the City. The operational, financial, and legal functions for both OUC and the City were represented in the membership of the JGC. The JGC served as the main interface throughout all the workshops in the project. The membership of the JGC is listed below:

- Ken Ksionek, General Manager and Chief Executive Officer, OUC
- Fred Haddad, Vice President, Power Resources Business Unit, OUC
- John Hearn, Vice President Financial Services and Chief Financial Officer, OUC
- Rick Coleman, Director, Water Engineering and Technical Services, OUC
- Dykes Everett, City Attorney, City of Orlando
- Byron Brooks, Chief Administration Officer, City of Orlando
- Deborah Girard, Management, Budget, and Accounting Director, City of Orlando
- Alan Oyler, Public Works Director, City of Orlando
- David Sloan, Environmental Services Director, City of Orlando
- Raymond Elwell, Management, Budget, and Accounting Deputy Director, City of Orlando
- Mary Munsey, Assistant City Attorney, City of Orlando
- Kyle Shepard, Assistant City Attorney, City of Orlando

The purpose of this workshop was to define the objectives and goals of the project, define the responsibilities of CH2M HILL and the JGC, and have preliminary discussions on the tasks that would help formulate the project scope, approach, and plan.

The specific content and approach to this workshop are described as follows:

- After opening remarks, the four original governance options were presented and discussed. A list of drivers for the project was developed by the JGC, which included:
 - Getting value from existing wastewater assets of the City to support the City's general fund.
 - Defining the consolidation of water systems that would yield the greatest benefit (both regulatory/policy and financial).
 - Meeting future water needs of the community, citizens, and customers.
- A draft list of goals and objectives of the project were presented by CH2M HILL, and the JGC provided comments and edits. These edits were incorporated after the workshop. The resulting goals and objectives are as follows:
 - The overarching goal of the study is to examine the potential for consolidation of potable water, wastewater, and reclaimed water services and to recommend a business plan that will offer the most benefit to the citizens of Orlando and OUC customers.
 - Analyze and recommend an organizational and operating structure that maximizes the economic potential for operating both utilities without compromising reliability.
 - Focus Phases 1 and 2 on water resource management optimization and feasibility, not the value of assets at this time.
 - Evaluate all defined governance options against the status quo.
 - Identify other options for consideration, in addition to the original options proposed.
- A draft list of critical success factors of the project were presented by CH2M HILL, and the JGC provided comments and edits. These edits were incorporated after the workshop. The resulting critical success factors are listed as follows:
 - Open and managed communications within the project team.
 - No fixed positions or pre-determined solutions.
 - Consistent evaluation method for options.
 - Agreement on methodology/process used for the study.
 - Open sharing of information and participation by all.
 - Meeting the defined schedule and sticking to scope/budget.
 - Understanding the phases and not jumping ahead; sticking to the process.
- A draft of the roles and responsibilities for CH2M HILL, OUC, and the City were presented and refined by the JGC. The resulting responsibilities were incorporated into the scope document for the project. (See Appendix D for the Project Scope Document.)
- The project approach for Phases 1 and 2 was presented and refined by the JGC. The discussion pertained to the specific approach and work plan for the project, along with the schedule and deliverables. There was a discussion on other governance options that should be considered as well as an initial discussion on the evaluation criteria and decision methodology to be used for the project. Communication requirements for the project were developed and preliminary lists of information needed were presented.

Using the input gathered in the Project Kick-off Workshop and other information previously collected, CH2M HILL developed a detailed scope for the project. This project scope document included a detailed scope, schedule, and fee for Phases 1 and 2. A work breakdown structure (WBS) and an integrated schedule were produced for this time-sensitive, critical project. (See Appendix D for the Project Scope Document.)

4.1.2 Review Existing Information

To begin the execution of the project, CH2M HILL conducted an initial review of financial, operational, organizational, and legal information provided by OUC and the City. Once the information was obtained, it was sorted and distributed to the appropriate CH2M HILL functional leads. In some cases, a more detailed review of the information occurred in Phase 2.

The following bulleted lists provide an overview of the information received from OUC and the City that was reviewed in Phase 1. A complete list of all documents reviewed from OUC and the City is provided in Appendix E. (See Appendix E for Listing of Documents Reviewed.)

- Organization/Business Information
 - Annual Operations Budget.
 - 5-10 Year Capital Improvement Program.
 - Current and prior versions of Strategic Planning/Business Planning documents.
 - Description of roles of key staff and staffing levels.
 - Customer Service Plans designed to offer direction to staff.
 - Service area/systems overviews for both water and wastewater services.
 - Existing contracts for services between OUC and the City.
- Financial Information
 - Comprehensive Annual Financial Reports for last 3 years and, if developed, relevant Component Unit Financial Reports (Audit Reports).
 - Detailed operating budgets.
 - Recent financial plans, rate studies, and/or official statements for bond issues.
 - Current rates and fees schedules and related ordinances.
 - Customer and usage information and anticipated growth projections.
- Operational/Engineering Information
 - Organization charts, staffing levels, shift schedules for all facilities.
 - Union or employee agreements and detailed wage and compensation programs.
 - Budgeted and actual expenditures for the last 2 years for each facility and operation and maintenance functions.
 - Relevant permits (NPDES, DEP, sludge, etc.), administrative orders, and enforcement actions.

In addition, the legal consultant for the project, de la Parte & Gilbert, P.A., reviewed legal information relative to the four original governance options to discover any insurmountable obstacles from a legal perspective for any of the governance options. Additional legal issues associated with each governance option were examined in greater detail in Phase 2.

Also, in the latter part of Phase 1, CH2M HILL interviewed Gerry Hartman of Hartman Consulting Inc. on June 28, 2005. Mr. Hartman provided a history of his firm's involvement with the previous

consolidation study conducted by the City and an overview of the recommendations that were developed in the previous study. The specific questioning revolved around the following topics:

- Purpose and goals of the study.
- Analysis methods used.
- Governance options considered and how they were eliminated.
- How the final recommendation for a not-for-profit corporation was reached.
- Details on the Palm Bay Utilities Commission consolidation (used as a comparison).
- Details on the valuation techniques that were used.
- Details on the financial assumptions and calculations used.
- Review of the proposed organizational structure.

The confidential information provided in Mr. Hartman's interview was indirectly used in our study. It provided additional background information and confirmed information already obtained from other sources.

Although the review of the information listed in this task continued into Phase 2, the majority of the initial review was conducted early in Phase 1.

4.1.3 CH2M HILL Project Team Development Workshops

During Phase 1, the CH2M HILL project team conducted two full-day development workshops to collectively review, analyze, and summarize information collected from both utilities. The team worked on the current tasks of the project and prepared for upcoming workshops with the JGC. The workshops fostered a synergy that facilitated the collaboration of ideas in the most expedient and cost-effective manner. The two Phase 1 development workshops were the Information Review Workshop and the Business Case Development Workshop, which are described as follows:

- **Information Review Workshop.** The information review workshop was conducted in CH2M HILL's Atlanta office on June 7, 2005. This workshop occurred after the majority of the preliminary review of information had taken place. Listed below are the main topics and accomplishments of this workshop:
 - Reviewed the details of the project scope and process.
 - Discussed and summarized what had been learned to date from the review of information.
 - Reviewed information from Hartman Consulting Inc.
 - Developed an organized list of additional information needed from both OUC and the City.
 - Identified fatal flaws in any of the governance options at this point.
 - Identified additional governance options to be evaluated.
 - Finalized the evaluation criteria to be used throughout the study (see Section 5.1) and the decision-making process to be used in Phase 1.
 - Summarized actions and next steps that were identified in the workshop.

As a result of this workshop, the task leads began developing business cases for each option in terms of financial, organizational, operational, and legal aspects.

- **Business Case Development Workshop.** The Business Case Development Workshop was conducted in CH2M HILL's Atlanta office on June 22, 2005. This workshop took place between the initial development of the business cases and the Phase 1 Prioritization and Selection Workshop with the JGC, and was used to refine and guide the completion of the business case analyses. JGC members from both the City and OUC were asked to participate in the final 2

hours of this workshop. Listed below are the main topics and accomplishments of this workshop:

- Reviewed project status to date in terms of cost, percent complete, and deliverables.
- Developed a list of efficiencies and improvements that could be made in OUC’s water utility and the City’s wastewater utility without merging.
- Developed a list of benefits that could be obtained by merging, regardless of the option.
- Developed and finalized the content for the business case for each governance option using the defined evaluation criteria (see Section 5.1).
- Developed initial framework of the presentation for Phase 1 Prioritization and Selection Workshop with the JGC.
- Conducted summary comparison of the governance options identified to date.
- Presented and finalized components of financial model to be used in Phase 2 (with JGC representatives).
- Finalized the evaluation criteria to be used throughout the study (see Section 5.1) and the decision-making process to be used in Phase 2 (with JGC representatives).

4.1.4 Develop Business Case for Each Governance Option

Using the previously reviewed information and the discussions in CH2M HILL’s Information Review Workshop and Business Case Development Workshop, CH2M HILL built a business case for each governance option using the project’s evaluation criteria (see Section 5.1). The format supported the decision-making process defined for the project. To develop these business cases, the following information was considered for each governance option:

- Financial benefits
- Organizational advantages and disadvantages
- Operational advantages and disadvantages
- Service level impacts
- Potential implementation barriers
- Staffing implications
- Communication and stakeholder involvement imperatives
- Insurmountable legal obstacles

The business cases became the core content of the presentation material used in the Phase 1 Prioritization and Selection Workshop with the JGC and were the foundations of the recommendations and conclusions reached in Phase 1. Detailed information on these business cases is described further in Section 5.0 “Phase 1 – Analysis/Results”.

4.1.5 Phase 1 Prioritization and Selection Workshop with the JGC

Phase 1 culminated with a Prioritization and Selection Workshop with the JGC. CH2M HILL led and facilitated this workshop on July 8, 2005. At this workshop, CH2M HILL recommended the governance options that should be carried forward to Phase 2 for a more detailed evaluation. Questions from the JGC were answered and comments and suggestions were considered. Listed below are the main topics and accomplishments of this workshop:

- Reviewed the approach used in Phase 1 to reach the conclusions.
- Defined the benefits that could be obtained with or without consolidation.
- Defined the benefits that could be obtained with consolidation, regardless of the governance option.

- Evaluated the business case for each of the governance options.
- Presented the conclusions and recommendations for Phase 1, which included the three governance options to be carried forward to Phase 2.
- Answered specific questions and recorded comments in response to the conclusions and recommendations presented.
- Defined the necessary steps to initiate Phase 2.

The details of these findings, conclusions, and recommendations are presented in narrative form in Section 5.0 “Phase 1 – Analysis/Results”

4.2 Phase 2 Methodology: In-depth Evaluation of Remaining Governance Options

Building on the information and review in Phase 1, CH2M HILL conducted additional, more detailed review and analysis of the financial, operational, organizational, and legal information provided by OUC and the City for the governance options carried forward from Phase 1. The approach to Phase 2 consisted of the following seven main tasks:

- Additional Information Review and Analysis
- Financial Analysis of Remaining Governance Options
- CH2M HILL Project Team Development Workshops
- Financial and Legal Analysis Workshop with the JGC
- Detailed Definition of Each Governance Option and Finalize Evaluation
- Phase 2 Prioritization and Selection Workshop with the JGC
- Final Report Preparation

4.2.1 Additional Information Review and Analysis

In this task, CH2M HILL conducted a more thorough review and analysis of the financial, operational, organizational, and legal information provided during Phase 1 for the three governance options carried forward to Phase 2 and reviewed and analyzed new information provided by OUC and the City. The following bulleted lists provide an overview of some of the additional information from OUC and the City that was reviewed in Phase 2. A complete list of all documents reviewed in Phases 1 and 2 is provided in Appendix E. (See Appendix E for Listing of Documents Reviewed.)

- Organization/Business Information
 - Key work approaches/processes to determine areas of compatibility and areas of difference.
 - Personnel compensation information to identify differences in employee salaries.
 - Shared service (overhead) charges from departments outside the utilities.
 - Developer extension policies.
- Financial Information
 - Current assumptions regarding future costs and revenues, usage and system growth, and rates.
 - Policies regarding rate adjustments, fund balances, debt service coverage ratios required by bond covenants, and other financial performance metrics.
 - Other detailed information for developing cost savings estimates and changes in revenues.

- Operational/Engineering Information
 - Job descriptions for all utility personnel.
 - Cost and type of fringe benefit packages, including retirement programs.
 - Operations overview for major facilities operated by OUC and the City.
- Legal Implications Information
 - City of Orlando and Orange County ordinances
 - Florida statutes and special acts
 - Federal statutes, regulations and decisions
 - Florida judicial and administrative decisions
 - Contracts and other legal instruments

In addition to reviewing documented information, CH2M HILL conducted interviews of JGC senior management personnel from both OUC and the City, previously listed in Section 4.1.1 of this report, to gain insight into their perspectives on the best option for management of water resources. These interviews took place during the latter part of Phase 2, prior to the Phase 2 Prioritization and Selection Workshop. In some cases, interview leads of the respective organizations met alone with CH2M HILL staff; in other cases, interview leads were accompanied by selected staff members. The interview leads for OUC and the City are listed below in Exhibit 2.

Exhibit 2

OUC	City of Orlando
Ken Ksionek	Dykes Everett
Fred Haddad	Byron Brooks
John Hearn	Deborah Girard
Rick Coleman	Alan Oyler
	Henry Dean

The specific topics for these interviews varied by interviewee, but listed below are some of the common discussion areas:

- General views on progress to date with the project.
- General views of the three remaining governance options.
- Relative importance of evaluation criteria being used in the project.
- Financial conclusions reached to date.
- Past and current financial drivers for potential consolidation.
- Additional modifications needed to the financial analysis.
- Current political environment as it relates to governance options.
- Geographical location and interfaces between different facilities.
- Various questions regarding the interface of the utility with other departments.
- Shared services allocations for other departments supporting the utilities.
- Initial reactions to a preview of potential study recommendations.

The information provided in these interviews supplemented the analysis conducted, and in several instances, provided new information to support the final conclusions and recommendations of the study.

The review and analyses of the additional information continued throughout Phase 2, but the majority of this review took place early in Phase 2.

4.2.2 Financial Analysis of Remaining Governance Options

For this task, CH2M HILL constructed a 20-year cash flow model for each utility so that projections of combined financial performance under the various governance options could be estimated. A base line set of assumptions was used to develop preliminary projections for the water and wastewater systems. An analysis of the financial results for each governance option was prepared, reflecting potential costs and savings over time, along with changes in revenues. These results were then compared with the base line to ascertain potential differences in financial performance associated with each potential governance option.

These financial projections used assumptions about the number of customers, system usage, costs, revenues, fund balances, and selected financial performance measures. Many of these assumptions applied to the financial projections for the status quo, as well as each of the governance options. These assumptions included:

- Line item wastewater operating cost increases ranging from 2.0 -3.5%.
- Wastewater customer growth rates of 1.8% annually through 2008, declining to 0.8% for 2009-2013, and then 0.3% after 2014.
- Total water system operating expenses were forecast to generally increase by between 1.9 - 3.2% annually, except in 2007, 2012, and 2013, when larger increases in operating expenses were anticipated.
- Annual rate of growth in water system customers ranged from 1.4 – 1.8% annually over the study period.

Anticipated impacts of planned capital improvements, changes in operating costs, system growth and usage and any associated impacts on fund balances, financial performance, or rates unrelated to the governance options, were held constant for the status quo and all of the governance options. Pro Forma income and balance sheet statements were developed for each governance option. Appendix F of this report presents summaries of the financial projections, including income statements, balance sheets, and revenue requirement projections under the status quo and each of the governance options for the 20-year projection period.

The 20-year cash flow model was designed with an assumptions/summary of results sheet that allowed for the real time analysis of the impacts of changing assumptions on the financial performance of each utility. Graphical displays were used to simplify the interpretation of the results. The model also featured pop-up dialog boxes and slide bar adjustors to facilitate the sensitivity analyses.

A pro forma analysis of the financial results under each of the governance options was prepared, given specific assumptions regarding potential costs and savings over time associated with each of these structural options, and changes in revenues. Specifically, the analysis considered potential efficiencies in utility operations and revenue enhancements that would result from combining these utilities. Potential improvements in service levels associated with the proposed governance options were qualitatively described, but not quantified in terms of financial implications.

The financial analysis assumed that any rate adjustments assumed under the status quo option would also be adopted under each of the governance options. It further assumed that any capital improvements and the funding of those improvements would be consistent between the status quo

and each of the governance options. As a result, any differences in financial results under each of the options will not be due to differences in assumed rates, capital improvement plans or their funding. The resulting changes in utility revenue requirements and net income over the 20-year forecast period are due to differences in merger costs, resulting changes in efficiencies due to the consolidation, and the potential refinancing of the utilities' currently outstanding debt.

An additional activity for this task was to conduct separate meetings with the financial staff of OUC and the City on August 8, 2005. These meetings focused on the accurate completion of the 20-year financial cash-flow model. Specifically, the discussion topics of the meeting were as follows:

- 20-year financial cash-flow model methodology.
- Specific questions relating to financial information previously provided.
- Historical trends and assumptions used in the financial projections.
- Format of financial projection tables and graphics and the discussion of specific issues relating to those projections.
- Identification of additional data needed to meet the requirements of the model.

As a result of these meetings, both the City and OUC provided additional data that were used to complete the financial model and help develop the final conclusions and recommendations of the study.

4.2.3 CH2M HILL Project Team Development Workshops

During Phase 2, the CH2M HILL project team conducted two full-day workshops to analyze further the governance options in terms of financial, organizational, operational, and legal aspects with respect to the eight evaluation criteria (see Section 5.1). The team worked on the current tasks of the project and developed the preliminary material for the upcoming JGC workshops. The two development workshops for Phase 2 were the Financial and Legal Analysis Workshop and the Finalize Options and Recommendation Workshop, which are described as follows:

- **Financial and Legal Analysis Workshop.** The Financial and Legal Analysis Workshop was conducted at CH2M HILL's Charlotte office on July 28, 2005. This workshop occurred after the majority of the financial analysis for the governance options was complete and prior to the Financial and Legal Analysis Workshop with the JGC. Listed below are the main topics and accomplishments of this workshop:
 - Reviewed Phase 2 scope requirements.
 - Determined logistical and scheduling requirements for upcoming workshops and interviews.
 - Developed targeted interview list for Phase 2.
 - Presented and summarized conclusions reached from the additional analyses of the three remaining governance options.
 - Reviewed and analyzed the results to date of the financial modeling for the three governance options.
 - Developed list of additional financial information needed to complete the modeling and prepared for upcoming financial model review meetings with OUC and City financial staff.
 - Reviewed the legal requirements for the three remaining governance options and associated implications for Phase 2.
 - Summarized actions and next steps that were identified in the workshop.

The conclusions from this workshop, along with additional review of information and the financial model review meetings with OUC and City financial staff, served as the basis for the development of the presentation material used in the Financial and Legal Analysis Workshop with the JGC.

- **Finalize Options and Recommendation Workshop.** The Finalize Options and Recommendation Workshop was conducted in CH2M HILL's Orlando office on September 21, 2005. This workshop took place during the time frame in which the detailed definition of each governance option was being created and prior to the Phase 2 Prioritization and Selection Workshop with the JGC. JGC members from both the City and OUC were asked to participate in the final 2 hours of this workshop. Listed below are the main topics and accomplishments of this workshop:
 - Reviewed project status to date in terms of cost, percent complete, and deliverables.
 - Debriefed and summarized interviews that were conducted with OUC and City management staff.
 - Developed the final outline and format for the executive summary and final report for this study.
 - Finalized the detailed definition for the three remaining governance options.
 - Refined and finalized the conclusions and recommendations to be presented at the Phase 2 Prioritization and Selection Workshop with the JGC.
 - Developed initial draft of presentation material for the Phase 2 Prioritization and Selection Workshop with the JGC.
 - Reviewed the format of the final report, determined logistical requirements leading up to the final workshop, and asked questions of the JGC representatives.

The conclusions from this workshop along with the additional definitions of the governance options served as the basis for the presentation material used in the Phase 2 Prioritization and Selection Workshop with the JGC.

4.2.4 Financial and Legal Analysis Workshop with the JGC

CH2M HILL led and facilitated a Financial and Legal Analysis Workshop on August 30, 2005 in Orlando, Florida. At this workshop, CH2M HILL presented financial projections and legal implications of the three governance options that were carried forward from Phase 1. Questions from the JGC were answered and comments and suggestions were considered. Listed below are the main topics and accomplishments of this workshop:

- Reviewed the project status and progress to date.
- Reviewed and finalized the assumptions used to develop the financial projections.
- Provided overview of the financial model.
- Presented financial projections and findings to date for each of the governance options.
- Using the financial model, developed and reviewed different financial scenarios based on input and questions from the JGC.
- Presented and reviewed the legal implications of the three governance options.
- Confirmed the remaining steps and actions to complete Phase 2 of this study.

The input gathered and the conclusions reached in this workshop were used to complete the detailed definition of each governance option and to prepare the final financial and legal conclusions of the study.

4.2.5 Detailed Definition of Each Governance Option and Finalize Evaluation

As a result of the information review in Phases 1 and 2 and the workshops conducted throughout the study, CH2M HILL developed the final details for each governance option so that a decision could be made regarding the final three governance options. The details developed for each of the governance options is described further in Section 6.0 “Phase 2 – Analysis/Results”. The details aligned with the eight evaluation criteria used throughout the project (see Section 5.1), were key contributors to the decision-making process used in the study, and facilitated the presentation of the final recommendations.

Also during this task, the final evaluation of the governance options was conducted and final recommendations and conclusions were created by CH2M HILL. The presentation material for the Phase 2 Prioritization and Selection Workshop was also created as part of this task.

4.2.6 Phase 2 Prioritization and Selection Workshop with the JGC

Near the conclusion of Phase 2, CH2M HILL led and facilitated a final Prioritization and Selection Workshop with the JGC to present the final recommendations and conclusions of the study. This workshop was conducted on October 6, 2005, in Orlando, Florida. The remaining three governance options were presented, along with key supporting organizational, financial, operational, and legal information. Questions from the JGC were answered and comments and suggestions were considered. Listed below are the main topics and accomplishments of this workshop:

- Presented a review of the final findings and conclusions for the three remaining governance options against each of the eight evaluation criteria (see Section 5.1).
- Summarized these findings and conclusions.
- Presented the final recommendations for the study.
- Developed the approach forward for the development and release of this final report.

These findings, conclusions, and recommendations are presented in narrative form in Section 6.0 “Phase 2 – Analysis/Results”.

4.2.7 Final Report Preparation

Phase 2 of the study culminated with the production of an executive summary and this final report, both of which address the results of Phases 1 and 2 of this study.

The 7-page executive summary was developed to summarize CH2M HILL’s findings and recommendations for the study. Edits and comments from both OUC and City staff were incorporated before the final release of this document.

Following the development of the executive summary, this final report was prepared to document the cumulative results of Phases 1 and 2. This document and its associated appendices were delivered in both electronic and hard copy format, based on the defined requirements of the project.

5.0 Phase 1 – Analysis/Results

In Phase 1, a limited initial screening analysis of the governance options was conducted. All identified options were evaluated. Those that did not comply with predetermined evaluation criteria or had insurmountable obstacles that would prohibit implementation were eliminated. The specific goal of Phase 1 was to identify one to three governance options that could be carried forward to Phase 2 for additional analysis and evaluation.

The high-level review of information and the results of the different workshops contributed to the findings and conclusions reached in Phase 1, which are discussed later in this report.

5.1 Evaluation Criteria

At the outset of the study, eight evaluation criteria were established to provide a consistent process for analyzing the governance options. These criteria were proposed in the Project Kick-off Workshop and later refined in the Information Review Workshop. These criteria were used at a high level during Phase 1 and used in a more detailed fashion in Phase 2. These evaluation criteria are as follows:

1. **Legal Obstacles:** What future legal obstacles or complexities for implementation of each governance option? For Phase 1, this was limited to the evaluation of whether there were any insurmountable obstacles.
2. **Impact on Future Expansion:** Would any of the governance options limit the ability to expand from within or combine with other regional utilities in the future?
3. **Ease of Implementation:** How difficult and costly will each governance option be to implement, not only in financial terms but also in terms of potential disruption of processes impacting customer service, or employee and community relations.
4. **Organizational/Governance Effectiveness:** What are the relative advantages and disadvantages of the alternative organizational structures to deliver utility services and steward regional water resources?
5. **Efficiency (Operational):** What operational efficiencies would be gained as a result of a consolidation using a given governance option?
6. **Financial Considerations:** What effect would each governance option have on the overall return on investment in utility assets that would accrue to the City and OUC, and what are the financial risks associated with these returns?
7. **Service Level Impacts:** What effect will each of the governance options have on the service levels for both OUC and City customers?
8. **Overall Effect on Water Resource Management:** What effect will each of the governance options have on the ability to more effectively manage the water resources for the region?

Each criterion, represented by its questions, was applied to each governance option. The governance options were then evaluated with respect to each other, as well as to the option of maintaining the “status quo”. Under the “status quo” option, wastewater and reclaimed water services would remain under the City and potable water services would remain under OUC, with contractual arrangements between the two entities as contemplated in OUC’s Consumptive Use Permit.

5.2 Potential Benefits without Consolidation

From the outset and throughout the study, CH2M HILL distinguished benefits that could be gained without consolidating the two utility systems and benefits that would be realized as a direct result of consolidation. This approach allowed for a clear analysis of the merits of consolidation. Notably, though individual utilities may always strive to make improvements, CH2M HILL concluded during Phase 1 that both OUC's water operations and the City's wastewater operations were well managed, with few opportunities for additional gains. This assumption was further confirmed in the more detailed analysis conducted in Phase 2.

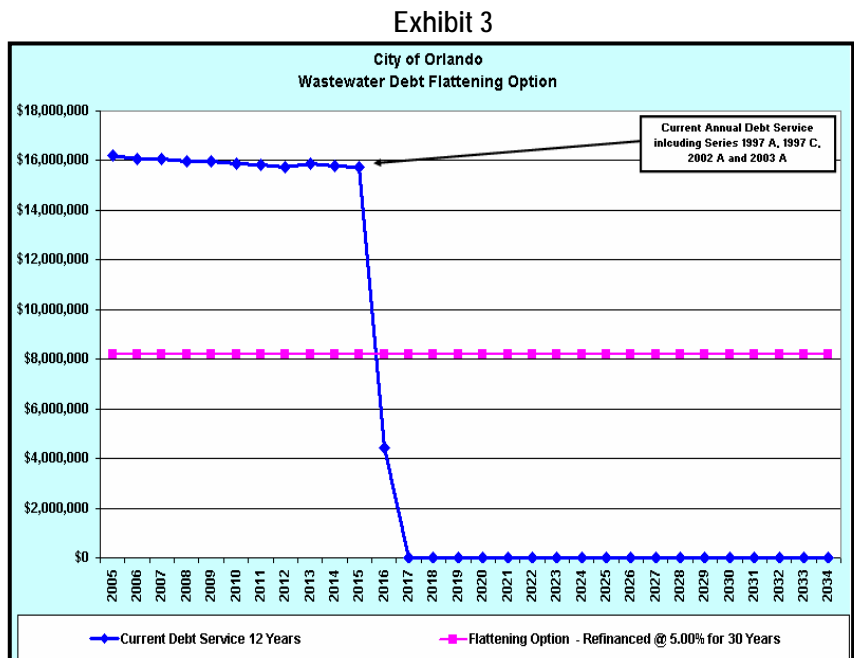
To examine and distinguish the potential benefits that may be available independent of consolidation, CH2M HILL focused on the operating efficiencies that could be realized without consolidation and the opportunities for improved debt management.

Although not specifically quantified during Phase 1, CH2M HILL identified the following potential improvements to operating efficiencies that could be obtained by both OUC and the City or by either utility without consolidation:

- Enhancements to purchasing and procurement methods, procedures, and practices, resulting in improvements to cost and lead time.
- Opportunities to outsource non-core tasks.
- Sharing resources and contracting between the water and wastewater labs.
- Continued enhancement of plant capacities to meet future demands.
- Optimization of variable cost.
- Improved asset management to minimize life cycle costs.

It should be noted that although these potential improvements to operating efficiencies could be obtained without consolidating the two utilities, these improvements are not particularly significant, reflecting the finding that both utilities are currently operating efficiently.

Debt restructuring could also be used to realize financial benefits without consolidating the two utilities. Debt leveling benefits are not as significant for OUC's debt as it is for the City's debt; due to the fact the City's debt is more front-loaded. Note in Exhibit 3, the wastewater system's existing annual debt service payments amount to about \$16 million annually till 2015, and then are fully retired in 2016. By refinancing this debt, payments could be reduced to \$8 million annually, but the payments would then extend through 2034. Thus, while refinancing this debt could lower payments over the next 10 years, it would increase the payments over the subsequent 20 years.



Throughout the study, CH2M HILL attempted to isolate these benefits from those of consolidating the two utilities, though implementation of some of these measures could be facilitated by a consolidation.

5.3 Potential Benefits of a Consolidation

Having isolated the benefits that could be realized without consolidating the utilities and using a blank sheet approach, CH2M HILL identified the potential benefits that could be realized by consolidating, irrespective of the governance option chosen.

To begin this evaluation, CH2M HILL considered the following principles, which are considered to be key attributes of successful mergers:

- Enhancements are made to the levels/quality of service.
- An efficient, functional organizational model is created.
- Return on assets, reduced costs of operation, and improved overall financial position is achieved.
- A positive impact for employees is achieved.
- An enhanced process for planning for the future is established.
- An improved process for system upgrade and expansion is created.
- Improved reliability and redundancy of systems are realized.

To identify the benefits that could be achieved through consolidation, CH2M HILL formulated a response to the following question:

“Can a business case be built for the consolidation of OUC’s water operations with City of Orlando’s wastewater operations?”

The business case was developed by reference to four of the eight evaluation criteria previously established. Listed below are some of the potential benefits of a consolidation categorized by these evaluation criteria:

- Financial Considerations:
 - Improved debt management resulting in:
 - Stronger credit, due to the larger combined operation
 - Ability to use different financing instruments
 - Flexibility in the ability to restructure the combined debt
 - Enhanced procurement methods and the ability to coordinate construction programs.
 - Consistency in methodologies used to determine rates and manage finances.
 - Cost savings from administrative/operational efficiency gains.
- Operational efficiency improvement that could be quantified:
 - Water distribution and wastewater collection efficiencies through optimization of job assignments, cross training for water and wastewater tasks, and improved deployment of field service functions optimized based on geography and task.

- Administration economies of scale could be achieved in support functions such as budget and finance, communications, human resources, engineering, purchasing and plan review.
- Combined maintenance yards and activities.
- Combined laboratory operations for water and wastewater requirements.
- Combined SCADA/IT/software with one central, integrated system.
- Integrated/enhanced asset management.
- Service level improvement, some of which are difficult to quantify:
 - Efficiency gains in providing developer/homeowner connections through:
 - A one-stop shop for all developer and homeowner needs regarding water issues.
 - An improved and expedited process for plan review and field inspections.
 - Regulatory Efficiencies due to the fact that regulators would be working with a single utility.
 - Streamlined policies and procedures resulting in a lesser requirement for administrative support.
 - Consolidated record keeping and mapping.
 - A broader scope of operations resulting in more career opportunities for employees.
 - Ability to manage the full cycle of water resources issues with a single entity.
- Full life cycle water resource management:
 - The ability to resourcefully manage the mix of different water products and applications.
 - Consistent and complimentary rate design for potable water, wastewater, and reclaimed water that provide clear price signals, ensure financial integrity, and promote water resource efficiency.
 - Greater ability to meet future demands of Consumptive Use Permit requirements

Based on these preliminary findings, using a blank sheet approach and without the more detailed analysis of Phase 2, CH2M HILL concluded that a consolidation of water and wastewater could offer benefits to the citizens of Orlando and OUC customers.

The next step was to perform a preliminary analysis of the governance options under consideration in order to determine the recommendation as to which of the options would be carried forward into Phase 2.

5.4 Analysis of Different Governance Structures

Based on the previous conclusion that there was significant availability of potential benefits associated with consolidation, CH2M HILL proceeded to answer the following question:

“What is the best organizational structure for a merged utility?”

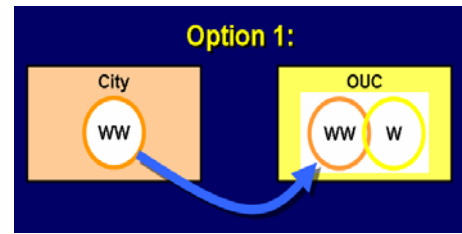
To conduct this analysis, CH2M HILL concentrated on five of the eight evaluation criteria: Legal Obstacles, Impact on Future Expansion, Ease of Implementation, Organizational/Governance Effectiveness, and Financial Considerations. These criteria were selected because they would reveal differences between the governance options. The objective of the Phase 1 analysis was to evaluate the differences in the options. The remaining three criteria—Efficiency (Operational), Service Level Impacts, and Overall Effect on Water Resource Management—were not considered because a limited evaluation using these criteria would show only minimal differences between the governance options.

The initial analysis began by providing a brief characterization of each of the four governance options and the variations on these options. Some of the key attributes of each option are follows:

5.4.1 Option 1: Wastewater to OUC

This option would result in the transfer of the City’s wastewater operations to an established utility structure with a long-term focus. Due to the transfer into an existing standalone utility, this option would provide some additional economies of scale in selected administrative and field areas. A singular focus on water resource issues would be challenged due to potential competing priorities of the electric business. It would also allow electric, water, and wastewater bond issues to be combined.

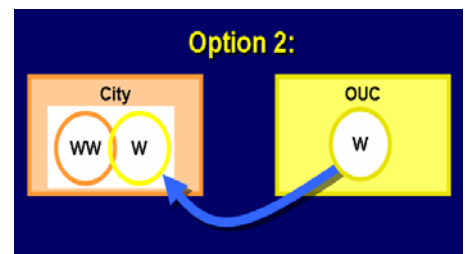
Exhibit 4



5.4.2 Option 2: Water to the City

This option would result in the transfer of OUC’s water operations to an established utility to operate the combined systems. Some efficiency could be gained due to the association with the stormwater utility of the City. It would facilitate decisions that are consistent with the City’s annexation policies. It could present some limitations to financial flexibility due to the City’s enterprise fund structure. The potential exists for competition with the multiple priorities of the City and this option would also not provide a singular focus on water resource issues.

Exhibit 5



5.4.3 Option 3: Third-party Entity

This option would establish a separate, Third-party organization that has a singular focus on water resource issues. It would present some implementation challenges because a new organization would need to be formed without embedded support. However, the ease of cultural integration may be a benefit because it would minimize the perception of “winner” and “loser”. There may be some initial limitations on debt management that could result in a lower credit rating in the short term.

Exhibit 6



5.4.4 Option 3: Variations Considered

Several variations of Option 3 were considered during the initial analysis. These variations accounted for factors such as the composition and relationship to City and OUC boards, the amount of services that could be contracted back with the City or OUC versus a complete divestiture, and implementation requirements. Specifically, private, public authorities (independent and dependent), and a not-for-profit corporation were examined.

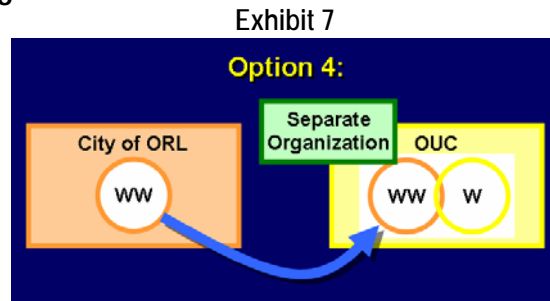
One objective of Phase 1 was to eliminate any options that had insurmountable obstacles. It was determined early in Phase 1 that a private Third-party organization faced insurmountable obstacles and it was eliminated from further discussion. The reasons for the elimination of the private Third-party organization included:

- Potential for a significant reduction in current utility service levels.
- Significant challenges would exist for the development of the privatization contract.

- A loss of local control by the City could seriously impact facility improvements.
- Complications of coordination with City’s annexation/development policies.
- The lack of tax-exempt capital financing could limit or eliminate the cost savings from the consolidation.
- Ability to expand regionally in the future would be complicated.

5.4.5 Option 4: Hybrid of Option 1 and Option 3

This option would establish a separate, new organization operated under OUC, which would provide the embedded support of an existing utility. This option would be able to capitalize on the strength of the current OUC credit rating and provide some flexibility in debt management options. This option also would have some competing priorities with OUC’s electric business or would most likely have a complex governance structure in order to focus solely on water resource issues.



5.4.6 Option 4: Variations Considered

Several variations of Option 4 were considered during the initial analysis in Phase 1. These variations accounted for factors such as the amount of control that both OUC and the City would have over the governance structure that was formed, the specific management structure that would be formed, and the positioning of a board that would oversee the combined water utility. None of these variations were eliminated in Phase 1 because no insurmountable obstacles existed and the variations did not differ significantly.

5.5 Evaluation of the Governance Options by Five Evaluation Criteria

Each of the four basic governance options was evaluated using five of the eight evaluation criteria used throughout the study. As previously mentioned, three of the criteria were not assessed in the initial analysis in Phase 1 because there would be little difference between the governance options for these criteria. Key points by criteria for each of the four governance options include:

5.5.1 Legal Obstacles

From a legal perspective, no insurmountable obstacles exist for any of the four governance options. Although the options would have some challenging legal issues such as changes to the special acts governing the City of Orlando and OUC and the requirements for opinions from the U.S. Treasury Department, none of the issues would prohibit an option from being implemented.

5.5.2 Impact on Future Expansion

The need for detailed evaluation of each of the options in terms of this criterion was recognized and deferred to Phase 2.

5.5.3 Ease of Implementation

All four original governance options were expected to involve significant implementation challenges due to cultural, operational, governance, and legal issues. Option 3 (Third-party Entity) appeared to be the most complex to implement, but it had the advantage over the other options of providing the opportunity to design a new organizational structure without being limited by an established structure with a history. Option 1 (Wastewater to OUC) and Option 2 (Water to the City) would be

easier to implement than Option 3. Option 4 (Hybrid under OUC) would be slightly more difficult to implement than Options 1 or 2 but easier to implement than Option 3. Although the exact costs were not determined during Phase 1, it was noted that salary adjustments would need to be made in Options 1, 2, and 4 for transferring employees.

5.5.4 Organizational/Governance Effectiveness

In the initial analysis, the differences in organizational effectiveness of the governance options were mainly related to the relative merit of a singular water resources focus and the different levels of priorities within the governing organization. Only Option 3 (Third-party Entity) would provide a singular focus on water resources. Option 1 (Wastewater to OUC) and Option 4 (Hybrid under OUC) would result in organizations subject to the competing priorities of the electric utility business. Option 2 (Water to the City) would result in an organization subject to the multiple priorities of City government. Options 1, 2 and 4 have the advantage over Option 3 of being consolidated with a proven utility provider.

5.5.5 Financial Considerations

The financial advantages and disadvantages of the governance options primarily relate to the level of security provided by the respective merged organization to bond holders, potential economies that could be obtained by being associated with a larger organization, and established precedents for making payments to the City. Exhibit 8 summarizes these advantages and disadvantages in tabular form.

Exhibit 8 shows that Option 3 (Third-party Entity) would have an advantage in that its financial transactions would reflect a singular focus on water resource management. At the same time, this option would have a disadvantage in that it would not have the credit history or backing of a larger organization which could lead to less availability of credit and higher borrowing costs than some of the other options being considered.

Exhibit 8

Option	Advantages	Disadvantages
Option 1) Wastewater to OUC	<ul style="list-style-type: none"> • Established precedent for payments to City • Economies of scale and combined debt issues with electric system 	<ul style="list-style-type: none"> • Loss of option to use G.O. Bond financing for WW improvements • Precedents for payments to City may limit future options
Option 2) Water to the City	<ul style="list-style-type: none"> • Potential G.O. backing of City 	<ul style="list-style-type: none"> • Potential limitations on flexibility of payments to City of Orlando General Fund due to enterprise fund structure
Option 3) Third-party Entity	<ul style="list-style-type: none"> • Financial transactions not influenced by, or subservient to, other organizational imperatives 	<ul style="list-style-type: none"> • Credit challenges associated with new, less substantial (than City or OUC) entity
Option 4) Hybrid under OUC	<ul style="list-style-type: none"> • Established precedent for payments to City • Economies of scale and combined debt issues with electric system 	<ul style="list-style-type: none"> • Potential confusion/concern in capital markets dependent on structure established

5.6 Summary of Conclusions from Phase 1

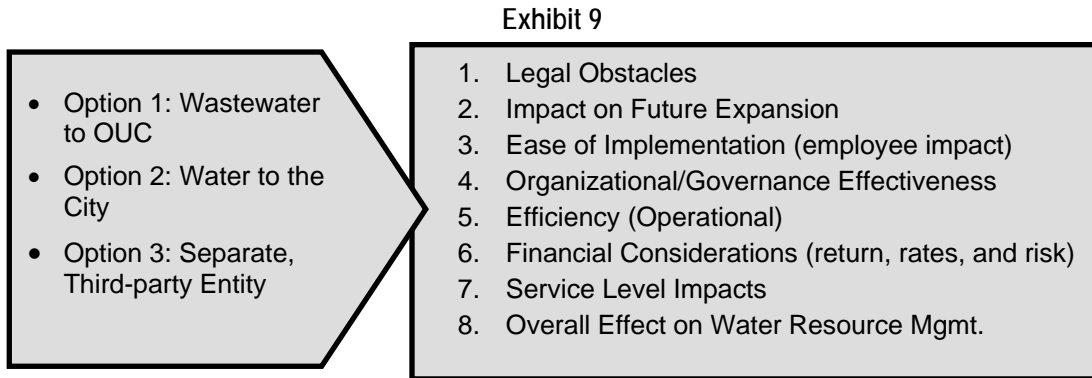
The conclusions reached during Phase 1 are summarized as follows:

- To properly evaluate the merits of consolidation for each governance option, it was important to first identify the benefits that could accrue without consolidating the two utilities. The potential improvements to operating efficiencies and debt management were not particularly significant primarily because the utilities are already relatively efficient and deliver different services.
- Important financial benefits, operational efficiency improvements, and service efficiencies may be realized under any of the governance options; thus, an investigation of the options for consolidation was warranted in Phase 2.
- Total privatization (a variant of the Third-party option) was assumed to not convey sufficient sustained financial returns on City assets or assure adequate control and stewardship of water resources. The private Third-party organization was eliminated early in Phase 1.
- The specific conclusions relating to the evaluation criteria were as follows:
 - When evaluating the organizational/governance effectiveness, Option 3 (Third-party Entity) was the most favorable option.
 - Option 1 (Wastewater to OUC) and Option 2 (Water to the City) would be the easiest governance options to implement.
 - When looking at preliminary financial considerations, the most favorable options were Option 1 (Wastewater to OUC) and Option 4 (Hybrid to OUC).
 - Differences between the four governance options require more detailed evaluation in Phase 2 with respect to five of the criteria: Legal Obstacles, Impact of Future Expansion, Operational Efficiency, Service Level Impacts, and Overall Effect on Water Resource Management.

CH2M HILL concluded that some differences exist between the options, but there were no insurmountable obstacles to any of the governance options under evaluation. Therefore, further examination of consolidation was warranted. Based on the initial findings, the JGC elected to evaluate Option 1 (Wastewater to OUC), Option 2 (Water to the City) and Option 3 (Third-party Entity) in more detail during Phase 2 of the study. Option 4 (Hybrid under OUC) was eliminated from further consideration.

6.0 Phase 2 – Analysis/Results

In Phase 2 of the study, the three remaining governance options were evaluated in depth against the eight evaluation criteria (see Section 5.1). The analysis and conclusions for each evaluation criteria is discussed in this section.



6.1 Legal Obstacles

Legal constraints on consolidation imposed by federal, state, and local laws were evaluated. In brief, each governance option would require changes to City ordinances. Option 1 (Wastewater to OUC) differed from Option 2 (Water to the City) and Option 3 (Third-party Entity) in that it could likely be implemented without changes to the special acts governing the City and OUC and would not require approval from federal regulators. Options 2 and 3 would likely require modification of the special acts governing the City of Orlando and OUC. It was noted that the City holds clear eminent domain authority, while OUC's condemnation powers are presently exercised through the City. These legal hurdles are relatively minor when compared with the additional requirements for implementation of Option 3 (Third-party Entity). Opinions would be required from the U.S. Treasury Department regarding the governance structure of the new Third-party entity and tax-exempt status of debt instruments under U.S. Treasury Department regulations. In addition, if the Third-party entity were a not-for-profit corporation, more complex issues would need to be resolved with the U.S. Treasury Department and an opinion from the Florida Public Service Commission regarding its jurisdiction over the new entity would be advisable. The details of this analysis follow:

Any transfer or sale of utility assets between public entities such as OUC and the City requires both the buyer and seller to follow a statutorily defined process for the transfer or sale of water or wastewater utility systems. OUC and the City would be required to comply with these requirements, which are found in Florida Statutes Section 180.301 and Section 189.423. Accordingly, OUC and the City would each be required to hold a public hearing to review and approve the sale or transfer of the water or wastewater system to determine if the transaction is in the public interest. The City and OUC would be required to consider the following:

- Most recent available income and expense statement for the utility.
- Most recent available balance sheet for the utility.
- Statement of the existing rate base of the utility.
- Physical condition of the utility's facilities.
- Reasonableness of the transaction.
- Impacts of the transaction on utility customers, both positive and negative.

- Any additional investment required.
- Alternatives to the transaction.
- Ability of the purchaser to provide and maintain high-quality and cost-effective utility service.

The statutory requirements do not place significant limitations on the ability of the City or OUC to sell or transfer water, wastewater, or reclaimed water systems other than requiring the sale or transfer to be in the public interest.

The governance options considered could also require changes to special laws passed by the Florida Legislature. Passage of special laws (also referred to as local acts) is governed by Article III of the Florida Constitution, general law, and the rules and procedures of the Florida House and Senate. A local hearing must be held on the proposed special law and notice must be published in a newspaper of general circulation at least 30 days before the bill is filed. By tradition of the Florida Legislature, the local hearing must be held by the local legislative delegation. Any local bill amending the special acts governing the City or OUC would have to be heard by the Orange County Legislative Delegation. Any proposed special law must be approved by the local county delegation before the bill can be filed and considered by the Florida Legislature.

6.1.2 Legal Issues Raised by Option 1

A transfer of wastewater and reclaimed water assets and operations is allowable under general law authorizing local government utility operations by municipalities, including the City of Orlando (See Part II of Ch. 166, Fla. Stat.). In addition, a special act of the Florida Legislature authorizes OUC to operate the City’s wastewater system with approval of the City Commission, and a City ordinance authorizes OUC to operate the City’s reclaimed water system.

Section 32.1.1(b) of the City Code of Ordinances provides that “the City Council may designate the Orlando Utilities Commission, or other contract operator, to administer the reclaimed water program, in whole or in part.” This ordinance clearly authorizes OUC to assume operation of the reclaimed water system without further action other than approval by the City Council.

In 1947, the Florida Legislature authorized OUC to operate the City’s sewer system as directed by the City Council.

That the Utilities Commission of the City of Orlando, in the County of Orange, shall have power, with the consent of the governing body of the City of Orlando...to perform any other duties or acts in the management, control and operation of such sewer system of said City, upon such terms and conditions as shall be agreed upon between said Utilities Commission and the governing body of the City of Orlando.

See Laws of Fla. Ch. 24758, §1 (1947).

6.1.3 Legal Issues Raised by Option 2

The transfer of the operations and assets of the water system serving the City from OUC to the City is limited by special act of the Florida Legislature. OUC was established by the Florida Legislature in 1923 as an independent statutory commission within the municipal government of Orlando. It was vested with full authority over the management and control of the City’s water and electric utilities, and the Florida Legislature assigned OUC full control over all employees connected with the City’s electric and water facilities in 1955.

The City’s Charter recognizes that the Mayor and the City Council have no control over OUC. Chapter 2, Section 3 of the City Charter grants the Mayor the executive powers of the City, but specifically excludes OUC from the Mayor’s sphere of control.

The Mayor-Commissioner shall be the executive officer of the City of Orlando and possess all the powers and duties incident thereto and shall be charged with the enforcement of all the ordinances and laws thereof.... provided, however, that nothing in this section shall in any manner abridge the rights, powers, duties and privileges of the Orlando Utilities Commission.

Laws of Fla., Ch. 10976, § 3 (1925) (emphasis added).

The City's Charter also recognizes in Chapter 2, Section 4, that the City Council has no control over OUC:

The Council shall have the power to change or abolish all offices heretofore existing in said City and to establish such offices . . . as may seem desirable, provided, however, that this shall not authorize the changing or abolishing of . . . the Orlando Utilities Commission, or to in anywise affect same as now constituted unless specifically provided for herein....

Laws of Fla., Ch. 10976, § 2 (1925) (emphasis added).

The Florida Supreme Court has interpreted OUC's governing statutes to vest in OUC exclusive control of the City's electric and water utility systems. City of Orlando v. Evans, 182 So. 264, 66 (Fla. 1938). The Florida Supreme Court held that the special acts governing OUC supersede any general laws to the contrary, including general laws providing for municipal acquisition, ownership, operation, and control of utilities, such as Chapters 166 and 180, Florida Statutes. Id. at 268.

OUC's independent control and operation of the electric and water systems was reinforced in 1984 by the Fifth District Court of Appeal in Gaines v. City of Orlando, 450 So. 2d 1174 (Fla. 5th DCA 1984). The Gaines Court found that OUC's governance can be amended only by a special act of the Florida Legislature. OUC's governing legislation is not part of the City Charter, and it cannot be amended by act of the City Council or through a referendum of the electors of the City. Gaines, 450 So.2d at 1182.

Generally the charter of a municipal government can be amended in two ways: 1) by special act of the Florida Legislature, or 2) by referendum of the electors of the municipality under the Municipal Home Rule Powers Act. See Fla. Stat., Ch. 166, Part I. However, the special acts governing OUC are not part of the City of Orlando's charter. The Fifth District Court of Appeal found in Gaines:

In this case the Legislature gave the OUC exclusive authority to manage, operate and build electric utilities plants in Orange and Brevard Counties by special statutes. These are not part of the City's Charter. Any amendment to the City's Charter which purports to diminish or take away the OUC's powers over the utilities would necessarily be in conflict with those state laws.

This situation was created by state law and can only be changed by state law.

Gaines, 450 So.2d at 1182 (emphasis added). Considering this case law, OUC's governance can be changed only through a special act of the Florida Legislature.

6.1.4 Legal Issues Raised by Option 3

Option 3 (Third-party Entity) presents various legal issues that depend on how the third-party entity is structured. Some of these obstacles could be significant. Generally, governance structures fall into three broad categories: 1) independent special district, 2) dependent special district, and 3) not-for-profit corporation.

An independent special district would be an agency created by the City and/or OUC that would operate without direct organizational or financial control by the City or OUC. A dependent special

district would be an agency directly controlled by the governing board of the parent entity. In the scenarios considered, a dependent district would house both the water and wastewater utility services and be managed by the City Council or the OUC Commission. A dependent district could be operated much like a department or division within the City or OUC.

Each of the three types of third-party entities presents legal issues that need to be addressed, but none of these obstacles would be insurmountable if sufficient resources were available. In each case, amendments to the special acts governing control of the water utility assets and operations would likely be advised. As the Fifth District Court of Appeal held in Gaines, control of the water system can be changed only by act of the Florida Legislature.

The legal issues raised by the creation of an independent district or a dependent district created within the City would be similar to the issues discussed under Option 2 (Water to the City). The legal issues raised by creation of a dependent district under OUC would be similar to the issues discussed under Option 1 (Wastewater to OUC).

The creation of a not-for-profit corporation by the City and/or OUC to operate and hold the water and wastewater utility assets would raise the most significant legal issues. Three such issues would need to be addressed: 1) will the new entity have access to tax exempt financing?; 2) if utility assets are sold to the third-party entity, is the use of the proceeds limited?, and 3) will the new entity be subject to the jurisdiction of the Public Service Commission (PSC)?. These issues are analyzed below.

(1) For the not-for-profit organization to issue tax-exempt bonds, it must be a “political subdivision” or operate “on behalf of” a political subdivision.

There is a significant issue as to whether the not-for-profit entity can pay the City or OUC using the proceeds from tax exempt bonds. Section 103 of the Internal Revenue Service (IRS) Code provides that, with certain exceptions, interest on obligations of a state or local governmental unit is not included in gross income. The IRS has issued several revenue rulings holding that obligations issued by not-for-profit corporations on behalf of a governmental unit will be considered obligations of a governmental entity and therefore qualify as tax exempt, if certain conditions are met. Revenue Ruling 63-20 provides that a not-for-profit corporation will be considered to have issued obligations “on behalf of” a political subdivision if each of the following requirements are met: (1) the corporation is engaged in activities that are essentially public in nature; (2) the corporation is not organized for profit; (3) the corporate income does not inure to any private person; (4) the state or a political subdivision thereof has a beneficial interest in the corporation while the indebtedness remains outstanding, and it must obtain full legal title to the property of the corporation with respect to which the indebtedness was incurred upon retirement of such indebtedness; and (5) the corporation must have been approved by the state or a political subdivision thereof, either of which must also have approved the specific obligations issued by the corporation.

Subsequent to Revenue Ruling 63-20, the IRS issued a revenue procedure that sets forth the circumstances under which the IRS will issue an advance ruling that obligations used by a corporation will be considered obligations of a local governmental unit. Section 3 of Revenue Procedure 82-26 sets forth six requirements and explains how these requirements are met. The requirements are similar to those in Revenue Ruling 63-20, but greater detail is provided on how to satisfy the requirements. If the decision is made to continue pursuing this option, an advance ruling should be sought from the IRS.

Revenue Procedure 82-26 states that the “beneficial interest” requirement will be met if:

1. (a) The governmental unit has exclusive beneficial possession and use of a portion of the financed property equal to ninety-five percent (95 percent) or more of the fair rental value of the financed property for the life of the obligations; or

(b) The nonprofit corporation has exclusive beneficial possession and use of a portion of the financed property equivalent to ninety-five percent (95 percent) or more of its fair rental value for the life of the obligations; and the governmental unit (A) appoints or approves the appointment of at least eighty percent (80 percent) of the members of the governing board of the corporation; and (B) has the power to remove any member of the governing board and appoint a successor. However, if the Articles of Incorporation provide that ex officio representatives of the governmental unit constitute all or part of the governing board, then the above requirements do not apply; or

(c) The governmental unit has the right at any time to obtain unencumbered fee title and exclusive possession of the property financed and any additions to that property by (1) placing into escrow an amount that will be sufficient to defease the obligations; and (2) paying reasonable costs incident to the defeasance. Before it defeases the obligations, the governmental unit may not agree or be obligated to convey any interest in the property to any person for any period extending beyond or beginning after the unit defeases the obligation. In addition, the unit may not agree or be obligated to convey a fee interest in the property to any person who was a "user" of the property, under the Code before the defeasance within 90 days after the unit defeases the obligations. The corporation must immediately cancel all encumbrances on the property, including leases and management contracts; and

2. In the event the nonprofit corporation defaults in its payments under the obligations, the governmental unit has an exclusive option to purchase the property for the amount of the outstanding indebtedness and accrued interest to the date of default.

The fifth requirement under Revenue Procedure 82-26 requires the governmental unit to obtain full legal title to the property upon retirement of the indebtedness. This requirement will be met if:

1. The obligations are issued on behalf of no more than one governmental unit and title will vest solely on that unit when the obligations are discharged; and
2. All of the original proceeds and investment of the proceeds of the obligations are used to provide tangible real or tangible personal property. Proceeds are considered to provide tangible property if they are (a) used to finance costs that a taxpayer must charge to the property's capital amount, may elect to charge to the property's capital amount instead of deduction, or may elect to deduct instead of charging to the property's capital account, or (b) used to fund a reasonably required reserve fund; and
3. The governmental unit obtains upon discharge of the obligations, unencumbered fee title and exclusive possession and use of the property financed, including any additions to the property, without demand or further actions on its part. Thus, any leases, management contracts and other similar encumbrances must terminate upon discharge of the obligations; and
4. Before the obligations are issued, the governmental unit adopts a resolution stating that it will accept title to the property financed by the obligations, including any additions to that property, when the obligations are discharged; and
5. The financing documents provide that any other obligations issued by the nonprofit corporation relating to the property will be discharged no later than the latest maturity date of the original obligations; and
6. The proceeds of fire or other casualty insurance policies received in connection with damage to the property will be used to reconstruct the property or be remitted to the governmental unit; and

7. A reasonable estimate of the fair market value of the property (a) on the latest maturity date of the obligation is equal to at least 20 percent of the original cost of the property financed by the obligation, without regard to any increase or decrease for inflation or deflation; and
8. A reasonable estimate of the remaining useful life of the property (b) on the latest maturity date of the obligations is the longer of one (1) year twenty percent (20 percent) of the originally estimated useful life of the property financed; or if (a) and (b) are not met, the nonprofit corporation must be required to replace the property and the replacement meets the requirements of (a) and (b).

The sixth requirement of Revenue Procedure 82-26 requires the governmental unit to approve both the not-for-profit corporation and the specific obligations to be issued by the corporation. This requirement will be met if the governmental unit adopts a resolution approving the purposes and activities of the corporation and the specific obligations to be issued within 1 year prior to the issuance of the obligations.

(2) If the not-for-profit entity is a “related party,” use of the proceeds of the sale may be limited to refunding existing bonds.

If OUC and the City are “related parties” of the new not-for-profit entity, then their use of bond proceeds for non-water or sewer purposes would be limited. Under IRS regulations, proceeds from bonds issued to purchase the water, sewer, and reclaimed water systems could be used only to defease the City’s and OUC’s water and sewer bonds.

For the City and OUC to not be considered “related parties” of the new not-for-profit entity, the new entity will need to be independent from both the City and OUC. Title 26 Code of Federal Regulations Section 1.150-1 defines when the City and OUC would be considered related to the new not-for-profit entity. This U.S. Treasury Department regulation provides that entities are related when they are part of a “controlled group.” A controlled group is defined as follows:

- (e) Controlled group means a group of entities controlled directly or indirectly by the same entity or group of entities within the meaning of this paragraph (e).
- (1) Direct control. The determination of direct control is made on the basis of all the relevant facts and circumstances. One entity or group of entities (the controlling entity) generally controls another entity or group of entities (the controlled entity) for purposes of this paragraph if the controlling entity possesses either of the following rights or powers and the rights or powers are discretionary and non-ministerial--
 - (i) The right or power both to approve and to remove without cause a controlling portion of the governing body of the controlled entity; or
 - (ii) The right or power to require the use of funds or assets of the controlled entity for any purpose of the controlling entity.
 - (2) Indirect control. If a controlling entity controls a controlled entity under the test in paragraph (e)(1) of this section, then the controlling entity also controls all entities controlled, directly or indirectly, by the controlled entity or entities.
 - (3) Exception for general purpose governmental entities. An entity is not a controlled entity under this paragraph (e) if the entity possesses substantial taxing, eminent domain, and police powers. For example, a city possessing substantial amounts of each of these sovereign powers is not a controlled entity of the state.

The issue of scope of the “related entities” was discussed in a Private Letter Ruling by the IRS concerning a reorganization of local government utility systems. In that ruling, the IRS cited the following as a significant basis for its finding that bonds issued by the new entity would not be considered a refunding:

The Authority has the power to acquire and operate the Systems without oversight, input or approval from the City. The Authority has the following rights: to acquire and operate any type of utility asset; to borrow money, grant mortgages and other liens to secure its obligations; to enter into contracts relating to its activities; to condemn property through the exercise of the power of eminent domain; and to fix, charge and collect fees and other charges for the use of, or in connection with, the Systems or facilities, without the necessity of review or approval by the City, any other municipality, the State or any commission or authority of the foregoing (except rate increases are subject to the same limitation that existed for the Division). In addition, the City has no power under State law to require the Authority to use its funds or assets for any particular purpose, to cause the dissolution of the Authority, or to review the Authority's books, other than the general right granted to all persons under State law. The City is, however, entitled to the assets of the Authority upon dissolution. Unlike the Division, the Authority is not required to provide free water to the Authority, however, the Authority provides free water to the City's fire hydrants because it is impractical to meter this water. The Authority must make in lieu of tax payments to the City and to any other jurisdiction in which it operates as is required of all utilities under State law.

IRS Private Letter Ruling 200230039 (emphasis added).

(3) The utility systems must be owned, operated, managed, or controlled by government to avoid PSC regulation.

Ownership by a private not-for-profit corporation raises the issue of regulation by the PSC. Section 367.022, Florida Statutes, provides for various exemptions from regulation. The most relevant exemption is in Section 367.022(2), which reads as follows:

Systems owned, operated, managed, or controlled by governmental authorities, including water or wastewater facilities operated by private firms under water or wastewater facility privatization contracts as defined in Section 153.91, and nonprofit corporations formed for the purpose of acting on behalf of a political subdivision with respect to water or wastewater facility.

Prior to 1990, Section 367.022(2) provided exemptions only for "systems, owned, or systems of which the rates and charges are controlled by governmental authorities." Section 367.022(2) Fla. Stat. (1989). After this amendment, it appears that control over rates by a governmental authority is not sufficient, in of itself, to qualify for this exemption.

Water and wastewater facility privatization contracts are defined in Section 153.91(1), as follows:

"Wastewater facility privatization contract" means a written agreement, or one or more related written agreements, between a private firm and one or more public entities, which provides for the operation, maintenance, repair, management and administration, or any combination thereof, of a wastewater facility for a term of more than 5 years, but not more than 40 years in duration, and which may also provide for the planning, design, construction, improvement, acquisition, financing, ownership, sale and leasing, or any combination thereof, of the wastewater facility.

A private firm for purposes of this exemption is defined in Section 153.91(4), Florida Statute as:

"Private firm" means any privately or publicly held business entity qualified to do business in Florida having the financial capacity and technical, administrative, and regulatory experience and expertise necessary to enable it to carry out the obligations specified in a wastewater facility privatization contract.

The exemption based on control by a governmental entity could be problematic because it requires ownership, operation, management or control by a governmental authority. Attempting to have the system "managed" or "controlled," even though it is not owned or operated by the City or OUC,

may be possible, as is highlighted by the wastewater facility privatization provisions in Part II, Chapter 153 cited in the exemption. Additional investigation is appropriate to determine how these requirements for the exemptions would impact the organization of the not-for-profit entity and how these requirements are interpreted by the PSC.

The only PSC order discovered in Phase II that applies this provision to systems not owned by a governmental authority, but operated by a governmental entity, found that a privately owned utility for which the City of Kissimmee was a court-appointed receiver was exempt. In exempting this utility, the PSC order notes that the receivership court order expressly provides that Kissimmee is required to operate, manage, and control the utility. In re: Petition for exemption from Florida Public Service Commission regulation as a utility by City of Kissimmee as Receiver for Kings Point Utilities, Inc. in Osceola County. 91 FPSC 10:226, dated November 14, 1991.

6.2 Impact on Future Expansion

Consolidation of the two utility operations will have minimal impact on potential future expansion of retail or wholesale water and wastewater service by the City and OUC. There are no organizational limitations on the provision of wholesale water by OUC or the provision of retail wastewater service by the City. Retail water service by OUC is broadly limited to areas within Orange County by special acts of the Florida Legislature. The three governance options evaluated in Phase 2 would not impose any additional limitations on retail or wholesale water or wastewater service by the City and OUC.

The City and OUC have agreed to limitations on retail water, wastewater, and reclaimed water service in a series of service area agreements with Orange County. These agreements define unincorporated and incorporated areas of Orange County where OUC has responsibility to provide retail water service and the City has responsibility to provide wastewater service. These agreements place more direct limitations on future expansion of water and wastewater service by the City, OUC, or a consolidated entity than any utility governance changes that would result from the governance options considered in this study.

The three governance options considered in Phase II did not raise any governance, management, or operation issues that would impact the ability of the City or OUC to expand water or wastewater services. Only the creation of a third-party not-for-profit corporation could create impediments to future expansion or cooperative regional initiatives, and then only to the extent that OUC, the City, or another governmental entity sought to mandate future expansion, interagency collaboration, or regional consolidation. It should be noted that the creation of a not-for-profit corporation would restrict the ability of the Florida Legislature, the City of Orlando, or OUC to mandate regional coordination and cooperation through statutes or ordinances.

As noted in the previous discussion of legal obstacles, the creation of a not-for-profit corporation would likely result in the creation of an entity that is not directly operated or controlled by the City or OUC. The not-for-profit corporation would likely have the discretion to determine independently whether to expand services or participate in regional coordination or collaborations. Service areas could be defined through franchise agreements or service area agreements, but the City, OUC, or other governmental entities could not mandate that the not-for-profit corporation expand service or participate in cooperative efforts or regional collaborations without the consent of the board of directors of the not-for-profit corporation.

6.3 Ease of Implementation

Each of the remaining governance options would likely involve significant implementation challenges due to cultural, operational, legal and governance issues; would have different

implementation costs; and would be subject to several risk factors. Some of the different advantages and disadvantages with respect to implementation are discussed below.

6.3.1 Option 1: Wastewater to OUC – Advantages and Disadvantages

From an implementation standpoint, an advantage of transferring wastewater operations to OUC would be the merger into a proven, well-operated water utility. Also, OUC has an organizational structure that is already set up to provide multiple utilities, including electric, to a variety of customers, which would help address some of the complex decisions regarding personnel and procedures that would need to be made in a consolidation of this type.

A disadvantage would be the significant effort involved in leveling the difference in salaries for comparable positions. Also, there may be less ability to coordinate effectively on City initiatives during the implementation. Because of the existing structure and positions in place for multiple utilities, the opportunity for completely designing the new organization from a blank sheet perspective may be limited.

6.3.2 Option 2: Water to the City – Advantages and Disadvantages

An advantage of transferring water operations to the City would be the merger into a proven, well-operated water utility, which would help address some of the complex decisions regarding personnel and procedures that would need to be made in a consolidation of this type. This governance option would also more readily allow for coordination on City initiatives during the implementation.

A disadvantage is that a special act by the Florida Legislature may be necessary, which would add some complexity. Also, a significant effort would be involved to level the difference in salaries for comparable positions for City and OUC staff. Because of the existing City structure and positions in place, the opportunity for completely designing the new organization from a blank sheet perspective may be limited.

6.3.3 Option 3: Third-party Entity – Advantages and Disadvantages

The most significant advantage for a third-party entity is the opportunity for unfettered design of the new organizational structure, typically one of the most daunting challenges of consolidation. This option would facilitate changes to business processes that would help ensure achievement of potential efficiency and customer service gains.

This option presents the most complex legal, organizational, and logistical challenges. Because this is a new organization, new procedures and policies must be created or merged, which requires significant time and effort. As a consequence, this option is likely to require the most time to affect implementation and most likely have to be accomplished in interim phases.

6.3.4 Implementation Costs

One indication of the complexity of any implementation is the associated costs to execute. Direct implementation costs over the initial 2 years of consolidation were estimated to range from \$0.675 million to \$1.125 million for the three options. These costs were developed by estimating external consulting fees and legal fees. These estimates were based on CH2M HILL's experiences with other consolidation implementations. A significant majority of these costs would be expected to occur in the 18 months after the decision to consolidate is made and would be incurred relatively evenly over that time period. Thus, the first year would encompass approximately two-thirds of the cost and the second year would encompass one-third of the costs. The internal costs associated with the labor of both OUC and City personnel expended working on consolidation issues were not included in this estimate but were expected to be similar for all three of the governance options. These costs were later subtracted from the subsequent financial analysis to determine the overall

savings of the three governance options. The specific estimates in thousands of dollars for the three governance options are listed in the following table:

(In thousands)	Year 1 Consulting Costs	Year 1 Legal Costs	Year Subtotal	Year 2 Consulting Costs	Year 2 Legal Costs	Year 2 Subtotal	TOTAL
Option 1 Wastewater to OUC	\$335	\$117	\$452	\$165	\$58	\$223	\$675
Option 2 Water to the City	\$335	\$168	\$503	\$165	\$83	\$248	\$750
Option 3 Third-party Entity	\$536	\$218	\$754	\$264	\$107	\$371	\$1,125

6.3.5 Implementation Risk Factors

Also considered in the evaluation of the ease of implementation were the risk factors associated with consolidation. These risks are generally present and occur to certain degrees with any consolidation effort of two or more organizations. If they occur, these risk factors have cost implications that affect the projected savings realized for a consolidation. In the financial analysis under each governance options, the potential effect of these risk factors was considered. The potential risk factors are as follows:

Loss of productivity by employees: During any consolidation, there is some loss of employee productivity due to required meetings, discussions, and communications as well as requirements to affect a multitude of logistical arrangements. Employees spend time discussing implications of the consolidation (personally and professionally), learning new business processes, and adapting to inherent cultural changes. Also, some employees may be dissatisfied with decisions made, which may impede productivity.

Loss of productivity for organizational processes: Related to the loss of employee productivity is the loss of productivity of key processes. For successful consolidation efforts, this effect is short term, but may nevertheless have a significant impact on the organization’s financial performance and efficiency during that time period.

Employee resignations: Most consolidations result in employee resignations, often by some considered important to the organization. Time is spent with the resigning employees and in recruiting and hiring replacements. It can take a significant amount of time to replace some employees. In addition, extra time is spent orienting the new employee to the organization and their role. This lost time can greatly affect the success of the consolidation.

Salary adjustments: When two organizations are consolidated, salaries of employees who have comparable positions often need adjustment. Limited differences in salary levels exist between City and OUC personnel. Significant time and attention would be required to level these salaries. This factor would be a significant issue for Option 1 (Wastewater to OUC) and Option 2 (Water to the City) but less significant for Option 3 (Third-party Entity) because a new salary structure could be more easily instituted.

Estimation accuracy: Another risk is the accuracy of the estimates for the projected costs that will incur or the savings from consolidating. Underestimating projected costs or overestimating projected savings could greatly effect the anticipated financial outcomes of the consolidation could be comprised.

Unforeseen obstacles: No matter how well an implementation plan for a consolidation is thought out and developed, obstacles and difficulties can occur that either complicate or prolong an implementation.

“Taking the eye off the ball”: One overall risk factor not specifically covered by any other risk factor is the risk that the organization loses focus on its core mission.

In summary, the three governance options evaluated in Phase 2 would present significant challenges and obstacles. Option 3 (Third-party Entity) would require the most complex and costly implementation. However, Option 3 would have the advantage of providing an opportunity to design a new organizational structure that would be unfettered by existing organizational constraints. The implementation requirements of Option 1 (Wastewater to OUC) and Option 2 (Water to the City) would be near equal in terms of simplicity and cost and would be significantly easier to implement than Option 3.

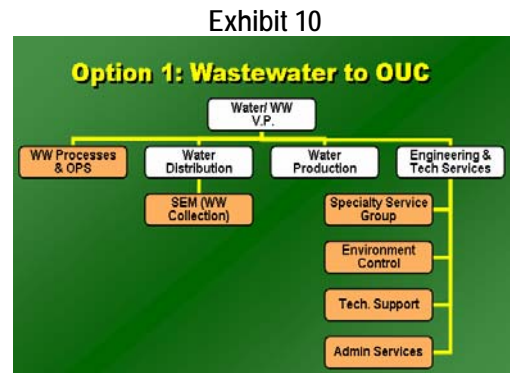
6.4 Organizational/Governance Effectiveness

In terms of organizational effectiveness, the differences between the governance options were mainly related to the relative merit of a singular focus on water resources and the different and potentially competing priorities of the governing organization. The more detailed analysis conducted in Phase 2 affirmed the preliminary conclusions reached in Phase 1 regarding organizational effectiveness.

To further analyze the potential effectiveness of the organizations in Phase 2, a rough cut of the new consolidated organizational structures was developed for each of the governance options. For Option 1 (Wastewater to OUC) and Option 2 (Water to the City), it was assumed that the existing organization receiving parts of the other organization would dictate the new structure of the consolidated organization. For Option 3 (Third-party Entity), it was assumed that a blank sheet approach could be taken for the organizational design. Potential staff counts were made for each of the major departments. These staffing levels are described further in Section 6.5 “Operating Efficiencies”. A graphic and brief description of these potential organizational structures follows.

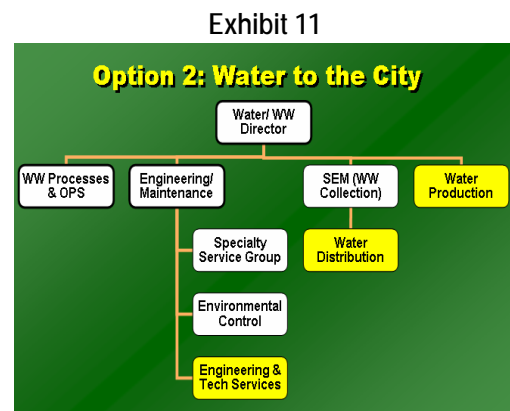
Option 1: Wastewater to OUC

In Exhibit 10, the white boxes represent the existing OUC Water Business Unit Structure. The orange boxes represent existing departments from the City’s Wastewater Division that would be merged with the OUC structure. These City departments would not necessarily continue as currently set up; the graphic is more an indication of how personnel from that department would be aligned.



Option 2: Water to the City

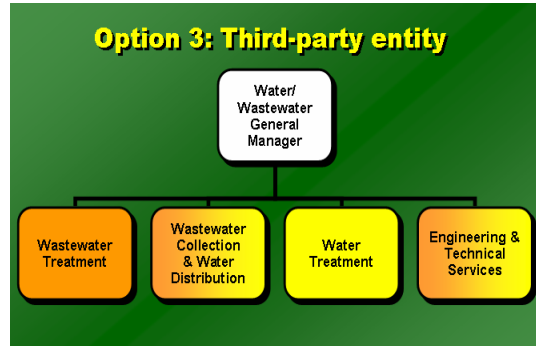
In Exhibit 11, the white boxes represent the existing Wastewater Division of the City. The yellow boxes represent the existing departments in OUC’s Water Business Unit that would be merged with the City Wastewater Division structure. Within the major departments, additional restructuring would most likely be necessary and would be more extensive than shown in the diagram.



Option 3: Third-Party Entity

For the third-party entity, the approach involved using a clean slate to design the organization without regard to any existing structures. The orange box in the graphic indicates a department that would consist primarily of current City Wastewater Division staff. The yellow box indicates a department that would consist primarily of current OUC Water Business Unit staff. The combined orange and yellow boxes indicate departments that would consist of both City and OUC personnel.

Exhibit 12



The analysis of the potential organizational structures contributed to the more in-depth analysis of organizational effectiveness. Listed below are some of the advantages and disadvantages in terms of organizational effectiveness between the governance options:

6.4.1 Option 1: Wastewater to OUC – Advantages and Disadvantages

As noted previously, from an organizational effectiveness standpoint, an advantage of transferring wastewater operations to OUC would be the merger into a proven, well-operated water utility. Also, OUC has an organizational structure already set up to provide multiple utilities, including electric, to a variety of customers. Thus, they have experience with administering multiple utilities within their business structure. An additional advantage is that this organization would be reporting to a governing board with a long-term perspective on providing utilities.

From an organizational perspective, a disadvantage would be that this new consolidated organization would lack a singular focus on water resource issues. The electric business would remain the largest portion of OUC's business and there would be competing priorities with the electric business.

6.4.2 Option 2: Water to the City – Advantages and Disadvantages

From an organizational effectiveness standpoint, an advantage of transferring water operations to the City would be the merger into a proven, well operated water utility. An additional benefit is that only this option provides the ability to coordinate directly with the City's Stormwater Utility, which could lead to additional water resource management benefits. Note that as a boundary condition for this study, movement of the City's Stormwater Utility was not considered due to its close interaction with the City's Streets Department.

From an organizational perspective, a disadvantage would be that this new consolidated organization would lack a singular focus on water resource issues. This organization would report to a board that addresses the multiple, competing priorities of the City and has a more short-term focus.

6.4.3 Option 3: Third-party Entity – Advantages and Disadvantages

From an organizational effectiveness standpoint, an advantage of creating a separate, third-party entity would be the opportunity to create an organization with a singular priority on water resource issues. It is assumed this structure would report to a governing board whose sole focus would be on long-term water resource issues.

A disadvantage for organizational effectiveness relates to the complexities of implementation. This option would also require the most time to implement, and would most likely occur in phases that would also hinder short term effectiveness.

In summary, Option 3 (Third-party Entity) would bring a singular focus on water resources, with no competing priorities. Option 1 (Wastewater to OUC) would be subject to potentially competing electric utility management priorities and Option 2 (Water to the City) would be subject to multiple, potentially competing priorities of the City government. An advantage for Options 1 and 2 over Option 3 is that both OUC and the City are proven, effectively managed utility organizations, whereas a new entity would not have a proven track record.

6.5 Operating Efficiencies

Based on its extensive experience with the management and operation of water and wastewater utilities, CH2M HILL found the condition of both the water and wastewater plant facilities to be industry leading. Staffing levels at the water treatment plants are minimal due to sophisticated automation. Monitoring systems associated with wastewater lift stations and treatment facilities are excellent. Because both OUC's water and the City's wastewater operations are efficiently operated, potential operational cost savings resulting from consolidation are limited. In addition, consolidation of two different types of utilities, in this case water and wastewater, yields fewer operational cost saving opportunities than consolidating two utilities of the same type, such as water with water, or wastewater with wastewater.

Nevertheless, CH2M HILL identified some potential cost savings, primarily through staffing adjustments in the areas of wastewater collection and water distribution, which could accrue under any form of water/wastewater consolidation. These savings derive from potential staff reductions across both utilities ranging from a low of 16 full-time equivalent positions for Option 3 (Third-party entity) to a high of 26 full time equivalent positions for Option 1 (Wastewater to OUC).

While CH2M HILL found the operations of both OUC water and City of Orlando wastewater to be well run, efficient, and compare favorably to other well run utilities, some operational efficiencies can be realized. Some of them could be realized only with consolidation, some internal within each organization, and some may be realized with collaboration between agencies. This potential collaborative approach was not delved into in great detail at this point in the review, but was recognized as a source of potential benefits to consumers of the services of OUC and the City.

In the case of the savings internal to each organization and the savings that require a collaborative approach, the staff of both organizations will need to proactively identify and implement these opportunities.

6.5.1 Establishing Optimum Staffing Levels

Listed below are the findings of the Phase 2 analysis related to optimum staffing levels.

- Level of field staff could be reduced with innovative geographic assignments. With the development of a more compact service area for any field crew, the response time (often referred to as "windshield" time) could be reduced. For example, staff may be currently operating from one of two centers, with one-half of the service area addressed by each. Establishment of four centers in four quadrants of the service area could result in the reduction of non-productive driving time to job sites. This option could be accomplished with or without consolidation.
- Level of staff could be reduced by cross training and assigning both water and wastewater functions to the same field unit. Under such an arrangement, each crew would be equipped to address a broad base of problems in water and wastewater, such as main line leaks, water service leaks, wastewater service line blockages, and system overflows. This option would be much more complex to implement if the two organizations remained separate.

- The after-hours call center for emergency response could be handled by one person and/or group for all field utility units and co-located with the plant's control center. Both of these measures could be implemented with or without consolidation of the utilities.
- Increased productivity of staff (some of these options could be more easily realized with governance options other than the status quo):
 - Cross training plant, well, and lift station mechanics would allow any of the staff to work on a variety of equipment. Under a non-consolidation scenario, some portions of this suggestion could be implemented, with the mechanics assigned to the wastewater operation and the staff assigned to water operations having broadened assignments.
 - Cross training the operators of water and wastewater plants.
 - Adopting a minimal staffing philosophy at wastewater plants, using water plant staff as an example.
- Blending the water distribution system and the wastewater collection system operations could gain efficiencies, with crews being equipped to respond to a broader base of issues. Combining the appropriate maintenance yards and activities could reduce response times, resulting in improved customer service.
- Under any governance option, the engineering staff could effectively support both water and wastewater operations, including design, plan review, field engineering and inspections.
- Increased levels of staff combined with increased capabilities of staff could result in the opportunity for a more comprehensive in-house training program for job skill development, as well as support certification requirements of the utilities.
- Similar to field forces blending operations, a combined customer service function could result in improved efficiencies by addressing water and wastewater during common calls.

6.5.2 Financial Efficiencies

Listed below are the findings of the Phase 2 analysis related to other financial efficiencies.

- Combined financial reporting adds level of efficiency to monitoring finances.
- Variable cost optimization due to efficiencies of operating a larger system.
- Bond financing, combined revenue streams have the potential of qualifying for better borrowing rates.

6.5.3 Other Areas of Potential Savings

Listed below are the findings of the Phase 2 analysis related to other areas of potential savings, most of which are difficult to quantify directly.

- GIS mapping could be accomplished effectively with multiple utilities, resulting in more complete mapping records for all utilities involved, with or without consolidation.
- Large, specialized equipment could be used effectively by more than one utility. For example, a low-boy trailer and large track excavator might not be used on a daily basis by a single utility and could be scheduled for joint use by more than one agency.
- Combined warehousing operations could add efficiency in two major ways: 1) overall efficiency could be greater using a single system of materials management, rather than parallel systems for each utility, and 2) because some materials are jointly used by both utilities, economies of scale could be realized by more efficient stocking levels.

- A single work order system for both utilities, including field conveyance forces, plants, and engineering, would be more effective and could be more economical to operate.
- Improved purchasing program, based on larger system, could result in:
 - Savings on chemicals common to water and wastewater operations.
 - Savings on administrative/ clerical supplies.
- Outsourcing non-core tasks would allow staff to concentrate on the primary aspects of utility operation:
 - Building maintenance
 - Yard maintenance
 - Fleet maintenance
- Develop a program to combine appropriate activities of water and wastewater labs, with considerations for merging with other environmentally oriented labs in the region.
- Broadened asset management opportunities based on larger base of assets.
- Blending water and wastewater operations would provide greater flexibility in job assignments and the potential for a workforce with broader skills and greater career opportunities. This, in turn, enables more effective succession planning to assure that long term staffing needs are addressed.

Some economies of scale could be realized in several administrative areas, including:

- Budget/Finance
- Marketing and Communications
- Human Resources
- Engineering
- Purchasing
- Plan Review
- Legal
- Information Technology
- Office Services
- Security
- Risk Management
- Facilities

In some instances, these support services are provided by a function other than the utility, such as the City providing human resource support. In each consolidation scenario, consideration was given to how this type of support would be maintained; in most cases, likely via a contract arrangement. Providing these services in Option 3 (Third-party Entity) could result in some incremental costs that Options 1 and 2 do not have. The study identified a potential reduction of 14 full-time equivalents in these types of shared services but did not include the associated potential savings, since such savings are typically not realized, with staff being assigned to other duties.

Similar to the consideration for blending other operations, a combined SCADA/IT/software support function could provide a higher level of high-tech support than either utility could provide alone.

Customer Communications could be effectively merged, resulting in blended field support for both water and sewer, better response to customer concerns, and the potential for a more effective and visible printed and web-based customer newsletter to convey pertinent information.

6.6 Financial Considerations (Return, Rates, and Risk)

The financial analysis of the consolidation of the water, wastewater, and reclaimed water systems estimated the cost savings that would accrue from consolidation in comparison to the systems' continuing to operate as separate entities. Many of the operational impacts from consolidation are expected to translate to financial results. For example, the ease of implementation and legal obstacles to merging the operations will likely impact the cost of implementing the governance options. Similarly, merging the utilities will induce efficiencies that will directly affect ongoing costs.

For this analysis, the estimated impact of certain consolidation changes on the financial performance of the utilities has been estimated. However, the impact of changes such as the impact on water resources management, organizational/governance effectiveness, and impact on future expansions are much less clear and difficult to reliably quantify from a financial and/or time perspective. CH2M HILL has not attempted to quantify these financial impacts, but qualitatively described them.

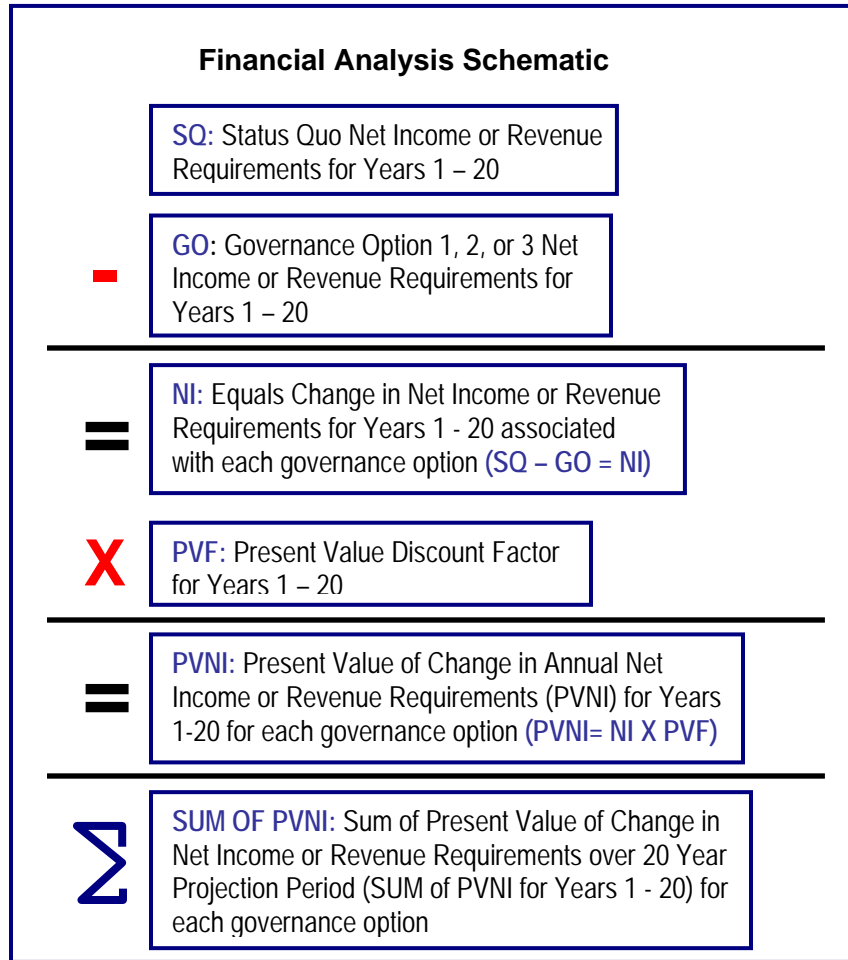
The financial analysis estimated the financial benefits of consolidation by estimating the impacts of merging operations on the rate revenue requirements of each utility and their combined net income. The benefits identified herein, are limited to those that would accrue due to consolidation. It specifically excludes benefits that could be achieved by the utilities without merging their operations. While not directly addressed, potential opportunities for cost savings that could be achieved with or without the consolidation are discussed. In addition, the potential savings and improved financial results attributed to consolidating these systems needs to be considered in light of the potential costs, risks, and disruption of normal operations that could accompany any change in the current organizational structure of these utilities.

6.6.1 Overview of Financial Analysis

The financial analysis compares the projected financial results of consolidating the utilities over a 20-year period with the projected financial results under their current independent organizational structures. Assuming consolidation of the utilities and under the status quo option, anticipated revenues and expenditures were incorporated into a cash flow model of the utilities. The model was designed to provide pro forma income statements and projected revenue requirements for each utility and for their combined operations for a 20-year projection period. The projected benefits from consolidating these systems are estimated based on the difference in the projected financial results between their current independent structures and those anticipated under consolidation. The differences between projected revenue requirements and net income are compared using present value analysis.

Present value analysis discounts future costs and revenues to reflect the "time value of money". The time value of money reflects the preference for receiving a dollar today as opposed to receiving it in a year or several years; as the dollar received today could be invested and earn a return and thus would be worth more than a dollar in the future. In addition, inflation will reduce the amount of goods and services that could be purchased with a dollar in the future. Present value analysis estimates the current value of a projected stream of costs or revenues over a period of time. This allows the comparison of the financial results in terms of a single figure that reflects the current value of projected costs and revenues associated with each option. Exhibit 13 presents a schematic of the financial analysis.

Exhibit 13



The option with the highest present value of additional net income and highest present value of savings in revenue requirements is the preferred option from a financial perspective.

6.6.2 System Revenue Requirements

A utility’s revenue requirement is the amount of revenue that needs to be generated by the utility from rates and other sources of income to cover its projected costs and other financial commitments, thereby providing funds for system improvements and a return to its owners. A significant difference exists in the methods used by the City to determine the revenue requirements for the combined wastewater and reclaimed water system and by OUC to determine the revenue requirements for the potable water system. These differences have a significant impact on the projected financial results from their operations.

The City determines the revenue requirements for the wastewater and reclaimed water system using what is commonly referred to in rate-making as the “cash basis” or “cash needs basis”. The cash basis is commonly used by publicly owned utilities and resembles the basis that is used to determine the annual budgets for other City departments and divisions. Publicly owned utilities are generally not directly concerned with providing a return to their owners but rather with covering all of the utility’s annual cash needs and other financial commitments, such as debt service coverage requirements. Under the cash basis, a utility’s revenue requirements consist of annual operating costs, debt service requirements, normal capital outlays funded from current rate revenues, and taxes, payments in lieu of taxes, and/or transfers to the local government general fund.

OUC determines the revenue requirements for the water system using the “utility basis”. The focus of the determination of the revenue requirements under the utility basis is the return to the owners on their investment in the system. The utility basis is generally required for utilities that are regulated by a state public service or utilities commission. A utility’s revenue requirements under the utility basis consist of operating expenses and taxes, payments in lieu of taxes, and/or transfers to City general fund, depreciation expense, and an allowed return on the utility’s rate base. The rate base is the estimated investment in the utility. The allowed return on the rate base is an amount calculated by applying an allowed percentage rate of return to the total investment in the system. Exhibit 14 compares the revenue requirements under the cash and utility bases.

Exhibit 14

Comparison of Cash and Utility Basis Revenue Requirements	
Cash Basis	Utility Basis
Operating Expenses	Operating Expenses
Taxes or Payments in Lieu of Taxes	Taxes or Payments in Lieu of Taxes
Debt Service Requirements	Depreciation
Normal Capital Outlays	Return on Rate Base

6.6.3 Presentation of Financial Results

While not directly impacting the findings or results of the study, it is important to note that the City and OUC present their respective financial results differently. The City presents its financial reports for the wastewater and reclaimed water systems with revenues as positive figures and expenses as negative numbers. The financial results for the OUC water system are just the reverse, with revenues presented as negative numbers and expenses as positive numbers. In the presentation of the results of this analysis, CH2M HILL has endeavored to follow the practices of the respective utilities. Therefore, for the financial results for the wastewater and reclaimed water systems, the revenues are shown as positive numbers and expenses as negative numbers. For the water system, revenues are shown as negative numbers and expenses as positive numbers. For combined results for the water, wastewater, and reclaimed water systems, revenues are shown as positive numbers and expenses as negative numbers.

6.6.4 Assumptions

The financial analysis was based on a number of assumptions regarding future system growth, costs, revenues, capital investments, rates, and fees collected by the utilities. The following paragraphs summarize some of the key assumptions of this analysis.

Projected financial pro formas for the OUC water system and the City’s wastewater and reclaimed water systems were provided by the respective organizations. The financial projections for OUC’s water system were for a 10-year period through 2015. The City’s projections for the wastewater and reclaimed water systems were for a 5-year period through 2010. These financial projections included numerous assumptions regarding system growth, water consumption and wastewater flows, operating expenses, planned capital outlays and financing, cost escalations, rate and fee adjustments, and target financial performance measures. It was assumed that these projections and their underlying assumptions were reasonable and would provide financial results that would be acceptable to each utility’s respective decision makers.

After providing the initial financial projections, the City provided a schedule of capital outlays for improvements to the wastewater and reclaimed water system that revised the projected expenditures for the initial 5-year projection period, as well as provided planned outlays for the remainder of the 20-year projection period. As a result, CH2M HILL revised the financial projections that were originally provided by the City to accommodate the revised capital improvement program. Exhibit 15 provides the assumed capital outlays for the wastewater system. Appendix G shows the projected annual capital outlays and the debt funding of those improvements with their associated annual debt service payments.

Exhibit 15

Wastewater System Capital Improvement Plan					
Year	Total CIP 2005 Dollars	Inflation Adjusted Total	Year	Total CIP 2005 Dollars	Inflation Adjusted Total
2008	15,087,500	16,633,969	2017	8,837,500	15,115,124
2009	8,087,500	9,362,292	2018	8,087,500	14,523,988
2010	37,587,500	45,687,841	2019	8,087,500	15,250,187
2011	48,087,500	61,373,190	2020	13,087,500	25,912,355
2012	44,087,500	59,081,467	2021	14,887,500	30,950,043
2013	8,837,500	12,435,250	2022	24,387,500	53,234,854
2014	8,087,500	11,948,921	2023	40,387,500	92,568,890
2015	13,087,500	20,303,008	2024	24,887,500	59,894,736
2016	8,087,500	13,173,685	2025	38,887,500	98,266,776
			TOTAL	372,575,000	655,716,576

CH2M HILL extended the projections provided by the City and OUC to provide a 20-year projection (through 2025) for each utility. In many respects, this involved applying the assumptions that underlie the projections provided by the City and OUC for their 5-year or 10-year projection periods through the remainder of the 20-year projection period used in this analysis. Exhibit 16 summarizes many of the key assumptions incorporated into the financial projections.

Exhibit 16

Summary of Assumptions	
Wastewater System Assumptions	Value
Operating Expense Annual Escalation Factors (escalated from FY2004 Actuals)	
- Salaries, Wages, and Employee Benefits	3.5%
- Contractual Services, Materials, and Supplies	2.0%
- Depreciation, Insurance, and Other Expenses	2.0%
Customer Annual Growth Rate	
- Through 2008	1.8%
- 2009-2013	0.8%
- 2014+	0.3%
Non Rate Revenues	
- Income on investments held constant at FY 2004 levels	
- Transfers in/out held constant at FY 2004 levels	
Water System Assumptions	
Operating Expenses	
- FY 2006 - 2025 (Varies Annually)	1.9 - 3.2%
- Except FY 2007	10.1%
- Except FY 2012	3.7%
- Except FY 2013	6.5%
Customer Annual Growth Rate	
- Fluctuates Annually	1.4 - 1.8%

Exhibit 16 shows that the rate of growth forecasted for the wastewater service area varies from the forecast for the water service area, reflecting the differences in these service areas.

As noted, it was assumed that the projected rate and fee adjustments underlying the financial projections would be acceptable to their respective decision makers. It was further assumed that these rate and fee adjustments would also be adopted if the utilities were consolidated. As a result of these assumptions, the projected revenues of the utilities over the 20-year projection period are the same under each governance option as well as the status quo option.

Projected expenditures for system improvements under the status quo option are also assumed to apply to each of the governance options. Similarly, the financing of those improvements, whether from retained earnings, debt financing, or current revenue was also assumed to be the same for all of the options.

Due to the revenues, planned capital improvements, and financing of the planned improvements being held constant under all of the options, the financial impacts of consolidation would not be due to differences in assumptions regarding the timing or size of rate increases or due to differences in schedules or cost of planned improvements or their financing. Rather, the financial impacts are wholly attributable to differences in estimated operating costs, including costs associated with consolidation.

It was assumed for the purposes of this analysis that the cost of implementing the consolidation of the utilities would be incurred over a 2-year period, with consolidation beginning in FY 2006. Similarly, the savings would build up over a 3-year period before being fully realized. The value of these savings was further assumed to increase by 2.5 percent annually after Year 3.

In calculating changes in salaries and wages, an average annual labor cost of \$68,400 per FTE, including fringe benefits, was assumed. It is recognized that there is a difference in the average labor cost per employee between OUC and the City. It was therefore assumed for purposes of this analysis that labor rates for City employees would be increased by 2 percent under any of the governance options.

The financial model provided by OUC assumed a return on its rate base for determining the wastewater system's annual revenue requirements of about 7 percent. It was assumed that the water utility would be managed for the term of this analysis to provide this same annual rate of return on its rate base throughout the study period.

As discussed above, the City used a cash basis to determine the annual revenue requirements for the wastewater and reclaimed water systems. As such, the rates are designed to generate just enough revenue to cover the utility's cash needs. While this may result in limited available funds for other uses, it does not have a significant impact on the findings of this analysis related to the savings associated with consolidation.

This analysis does not address uses of net income or available revenues over and above what is presumed to be used for capital improvements.

The analysis presented herein, does not address impacts on OUC's electric system of separating the water system from it, or the impacts on City government finances of extracting the City's wastewater and reclaimed water system.

6.6.5 Financial Implications Related to the Other Evaluation Criteria

The consolidation of the water, wastewater, and reclaimed water systems would have significant impacts on numerous aspects of the management and operations of these utilities. For this analysis, we have accessed these impacts using eight criteria. This section qualitatively describes the relationship between the projected financial results and these criteria.

The **legal analysis** identified a number of legal obstacles that would require varying levels of effort to overcome if the decision were to be made to consolidate. However, these obstacles primarily relate to implementing the new ownership structure and are not expected to have a significant impact on ongoing operation or management of the utilities. As such, the financial impacts of these obstacles will be confined to initial implementation costs. Given that the obstacles needing to be overcome vary between the governance options, the costs will vary between the governance options. Estimates of the legal costs to implement each of the governance options were incorporated into the financial analysis.

The **impact on future expansions** relates to the expansion of the utilities into new areas, as well as the potential for merging with another regional water or wastewater service provider. Consolidation of the utilities is expected to have minimal impact on the potential future expansion of the water or wastewater service areas into new areas. Formation of a third-party not-for-profit corporation is the only organizational structure that could create obstacles to consolidating the water and wastewater systems with other regional water and wastewater systems. As the not-for-profit corporation is just one of several third-party organizational structures that could be developed, CH2M HILL has not incorporated any additional costs associated with a third-party organization in the financial analysis.

Ease of implementation refers to the level of effort and cost of implementing a consolidated utility ownership and management structure. Some of the implementation costs were captured in the legal obstacle analysis. As such, the implementation costs included in this part of the analysis relate solely to the management and staff time of outside consultants that would be used to separate the utilities from their existing ownership structures (if needed) and to combine the accounting, human resources, and other administrative and management functions of the utilities. CH2M HILL developed estimates of these costs for the financial analysis that range from \$675,000 to \$1,125,000 over a 2-year implementation period. These costs varied by governance option.

Organizational and Governance Effectiveness relates to the organization's priorities and focus on water resources issues. There is little doubt that having a singular focus on water resources issues versus functioning as part of a larger organization that may have complementary or competing priorities will impact the costs and possibly revenues of the water, wastewater, and reclaimed water systems. However, the specific nature of these impacts is largely indeterminate as they will depend on the issues being addressed, the dynamics of the entities involved, and many other factors. For this reason, CH2M HILL has not included any estimated financial impacts associated with Organizational/Governance Effectiveness impacts of consolidation in the financial analysis.

The operational efficiency analysis identified a number of potential areas in which costs could be saved under the governance options. These include staffing, reductions in interfacing/coordination requirements, shared services (primarily administrative services), and other operational savings. The direct staffing reductions and interface/coordination requirements are expected to reduce staffing requirements relative to the status quo by between 16 and 26 positions, depending on the governance option. While shared services offer an additional potential savings in staffing of up to 14 positions, CH2M HILL's experience with other utility consolidations suggests that these savings are often not realized or only accrue over an extended period of time. For this reason, the shared services cost savings have not been included in the financial analysis. Other operational efficiencies include additional field operation centers, which could reduce travel time to work sites and have the flexibility to address both water and wastewater needs by one crew. The analysis of these other operational efficiencies indicated that these potential savings are minimal, for example, less than \$500,000 annually.

Consolidating the utilities should provide resources that lead to improvements in **levels of service** at the same cost, providing the current level of service at a reduced cost, or both. To the extent the consolidating utilities can provide the same or higher level of service at a reduced cost, these savings should be captured in the efficiency gains discussed above. To the extent that the utilities can provide a higher level of service at the same cost, this will not necessarily result in any change in the financial results of operating the utilities, even though it may provide a financial benefit to developers and/or customers of the utility.

Consolidation of the water, wastewater, and reclaimed water systems would help ensure a focus on making efficient use of available resources to meet the regions water resources needs and integration of each utilities' responsibilities toward that common goal. This should lead to some efficiencies and possibly help promote development of new sources of revenue. There are no major differences between the governance options in terms of their **effect on the water resources management**. Some of the efficiency gains are described below. Other financial impacts associated with water resources management are more speculative in nature and have not been incorporated into the financial cost and revenue estimates.

6.6.6 Other Financial Considerations

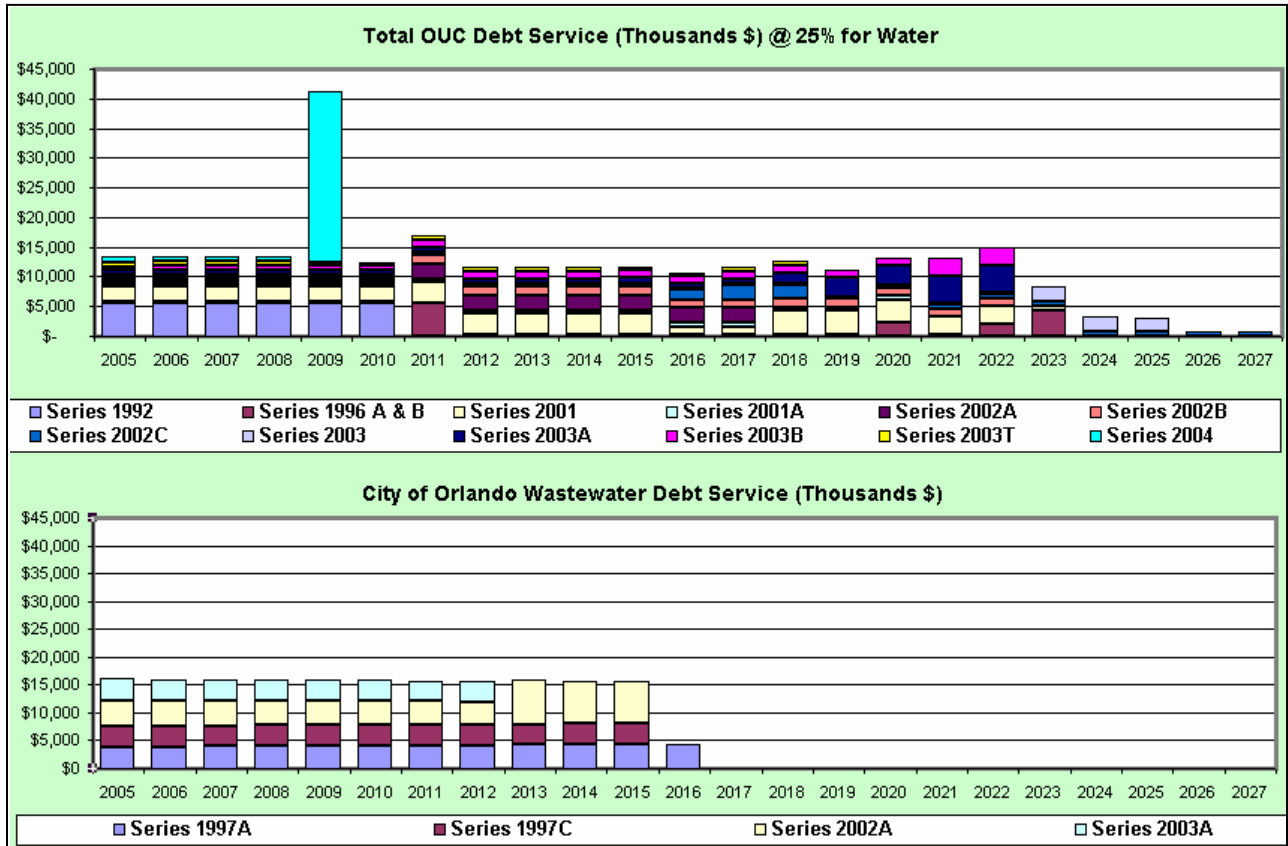
A financial opportunity that is unrelated to the impacts associated with the criteria discussed above is the potential for refinancing each utility's outstanding debt. Doing so could reschedule their planned debt service payments and thereby affect the utility's annual revenue requirements over the 20-year projection period. Extending the debt repayment period would reduce the present value of the utility's projected net income by incurring additional interest expense over the extended period of time and increase the utility's revenue requirements in the years into which the debt payments are extended.

The potential for refinancing OUC's water system debt or the City's outstanding wastewater and reclaimed water system debt is an option that is conceptually available to either utility without consolidation. However, the options for refinancing OUC's debt may be limited because OUC's debt is combined debt of the water and electric utilities. Similarly, the City's options for refinancing its debt may be limited by virtue of having previously refinanced its outstanding debt. The refinancing of the utilities' outstanding debt is included in the financial analysis, as it may be necessary for the utilities' to refinance this debt should they be consolidated.

Without knowing when consolidation would take place or the prevailing interest rates at that time, no change was assumed in interest rates on the utilities' bonds due to market conditions should they be refinanced. However, it was assumed a quarter point interest rate penalty would be associated with the act of refinancing the utilities' outstanding bonds. Furthermore, if a new third-party entity were formed, it was assumed that the lack of a credit history for this new organization would result in additional interest cost equal to a 50 basis point penalty.

For the purposes of this analysis, it was assumed that 25 percent of OUC’s total annual debt service payments were allocable to the water system. Exhibit 17 graphically presents the water and wastewater system’s currently outstanding annual debt service repayment schedules. The exhibit shows that while the water system has debt scheduled for repayment through 2027, all of the wastewater system’s debt is scheduled for repayment by 2016.

Exhibit 17



6.6.7 Projected Financial Results

Exhibit 18 summarizes the expected impacts on water and wastewater system finances that are incorporated into the financial analysis due to:

- Implementation costs, including legal costs, and
- Efficiency (staffing, interface/coordination requirements, other operational savings).

The implementation costs are assumed to be incurred over a 2-year period beginning in 2006. The analysis shows that the implementation costs are highest under Option 3 (Third-party Entity). The costs were least under Option 1 (Wastewater to OUC), and only slightly higher under Option 2 (Water to the City), due to the expense of changing the current state limitations on the City’s ownership of the City’s water system.

The projected consolidation cost savings are forecasted to be fully realized over a 3-year period. Option 1 (Wastewater to OUC) is projected to result in the greatest savings, followed closely by Option 2 (Water to the City). Savings for Option 3 are significantly less. It is assumed the savings achieved in Year 3, for all options, will increase by 2.5 percent annually over the projection period.

The combined effect of the implementation costs and consolidation cost savings is also presented in Exhibit 18. The exhibit shows a projected net savings under Option 1 (Wastewater to OUC) increasing from \$440,000 in 2006 to \$1.87 million in FY 2008. Option 2 (Water to the City) shows a net savings of \$287,000 in FY 2006 increasing to \$1.65 million in FY 2008. Option 3 (Third-party Entity) shows an increase in combined system costs in FY 2006, but a net savings of \$1.15 million in FY 2008. For a more detailed breakdown of cost savings beyond year 2008, see Appendix H.

Exhibit 18

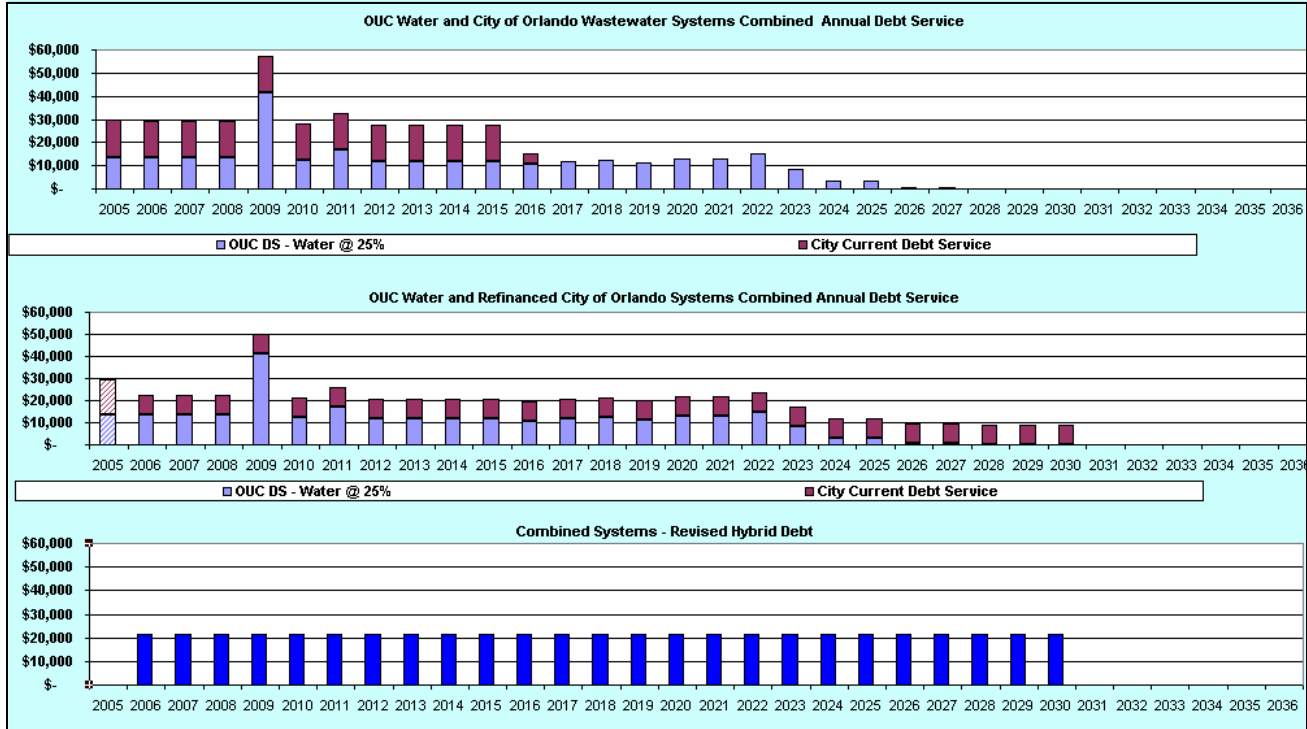
Projected Implementation Costs and Consolidation Cost Savings			
FY Ending September 30			
	Option 1: Wastewater to OUC	Option 2: Water to the City	Option 3: Third-party Entity
Implementation Costs			
2006	\$450,000	\$500,000	\$750,000
2007	\$225,000	\$250,000	\$375,000
Direct Cost Savings			
2006	\$890,000	\$787,000	\$548,000
2007	\$1,824,000	\$1,614,000	\$1,123,000
2008	\$1,870,000	\$1,654,000	\$1,151,000
Net Cost Savings			
2006	\$440,000	\$287,000	-\$202,000
2007	\$1,599,000	\$1,364,000	\$748,000
2008	\$1,870,000	\$1,654,000	\$1,151,000
Note: Consolidation of the utilities is assumed to begin in FY 2006.			

These cost savings and expenses do not include any shared expense cost savings, which could amount to \$0.952 million in 2006. These savings were not included in the financial analysis, as they often do not materialize. These savings would not vary between the governance options.

The graphic previously presented in Exhibit 17 shows the current debt repayment schedule for the water and wastewater systems. The exhibit shows that the water system's annual debt service is relatively level over most of the projection period, except for FY 2009, when a large principal repayment is due. It is assumed that this debt will be refinanced with a one time payment. All of the wastewater system's existing debt is scheduled to be retired by FY 2016. The wastewater system anticipates additional debt issues would be financed by new debt issues during this time frame. The debt analysis looks at the impact of refinancing only the utilities' existing debt, not rescheduling any proposed debt issues.

Exhibit 19 summarizes the impacts on the water and wastewater system debt repayment schedules due to restructuring of the water and/or wastewater system's outstanding debt. Restructuring the wastewater system's debt has a more significant impact on the annual debt service payments, due to the extension of its current debt repayment schedule from 2016 to 2025. Refinancing both the water and wastewater systems' debt could result in a uniform annual debt payment of \$21.2 million over the 20-year period.

Exhibit 19



The impacts of the other criteria on the system’s financial results, as described above, were not included in the financial analysis.

The estimated cost savings and revenue impacts of merging the operations, as described above, are incorporated into the financial model that estimates the financial results on the combined operations in terms of the present value of net income from operations and resulting impacts on the utility’s available revenue over the 20-year projection period. The focus of the analysis is only on the impacts that could be obtained by combining the utilities’ operations and management. The analysis does not consider cost savings or revenue impacts that could be obtained without consolidation, with the exception of the debt restructuring discussed above.

6.6.8 Status Quo Projections

Assuming that the systems remain independent, the projected impact of consolidation on the net income of the water system and the wastewater and reclaimed water systems for the 20-year projection period is summarized in Exhibits 20 and 21, respectively. Exhibit 20 shows that the water system is projected to generate combined operating revenues and non-operating income of \$55.0 million in FY 2006 to \$93.2 million in FY 2025. Combined operating expenditures and non-operating expenses, including property taxes, revenue-based payments to the City, and depreciation and amortization expenses, are projected to increase from \$52.9 million in FY 2006 to \$86.5 million in FY 2025. Income before contributions is forecasted to increase from \$2.6 million in FY 2006 to \$6.7 million by FY 2025.

Exhibit 21 shows that the wastewater and reclaimed water system is projected to generate operating revenues of \$43.4 million in FY 2006. These revenues are projected to increase each year, amounting to \$84.5 million in FY 2025. Operating expenses over this same period are projected to increase from \$54.6 million in FY 2006 to \$77.6 million in FY 2025. Non-operating revenues and expenses, which include income on investments, impact fee revenues, interest expense, and dividend to the City general fund, fluctuate annually but generally decline and

become a net expense as the revenues from impact fees decline and as the wastewater system issues additional debt to finance planned improvements.

Exhibit 20

Water System Projected Revenues and Expenses (Dollars in thousands)							
Years Ended September 30							
Year	Total operating revenues	Total operations and maintenance expenses	Total other expenses	Total operating expenses	Total non-operating income	Total non-operating expenses	Water Income/(Loss)
2006	\$53.60	\$29.39	\$11.511	\$40.91	\$1.43	\$12	\$2.588
2007	\$57.74	\$32.89	\$12.11	\$45.00	\$1.58	\$12	\$2.799
2008	\$59.42	\$33.71	\$12.75	\$46.46	\$1.49	\$11	\$3.141
2009	\$60.05	\$34.35	\$13.04	\$47.38	\$1.53	\$11	\$3.340
2010	\$61.06	\$34.84	\$13.46	\$48.30	\$1.61	\$11	\$3.660
2011	\$62.88	\$35.59	\$14.12	\$49.71	\$1.99	\$11	\$4.005
2012	\$65.81	\$36.09	\$15.46	\$51.55	\$1.72	\$12	\$4.382
2013	\$69.77	\$38.21	\$16.66	\$54.87	\$1.51	\$12	\$4.777
2014	\$70.78	\$38.71	\$17.44	\$56.16	\$1.51	\$11	\$5.217
2015	\$71.48	\$39.43	\$17.88	\$57.31	\$1.52	\$10	\$5.639
2016	\$73.03	\$40.23	\$18.78	\$59.01	\$1.58	\$10	\$5.743
2017	\$74.88	\$41.05	\$19.73	\$60.77	\$1.64	\$10	\$6.073
2018	\$76.72	\$41.88	\$20.72	\$62.60	\$1.71	\$10	\$6.314
2019	\$78.68	\$42.73	\$21.77	\$64.50	\$1.78	\$9	\$6.575
2020	\$80.64	\$43.60	\$22.87	\$66.46	\$1.86	\$9	\$6.764
2021	\$82.57	\$44.48	\$24.02	\$68.50	\$1.94	\$9	\$6.832
2022	\$84.72	\$45.38	\$25.23	\$70.62	\$2.04	\$9	\$7.029
2023	\$86.64	\$46.31	\$26.51	\$72.81	\$2.14	\$9	\$6.904
2024	\$88.68	\$47.25	\$27.85	\$75.09	\$2.26	\$9	\$6.798
2025	\$90.82	\$48.21	\$29.25	\$77.46	\$2.38	\$9	\$6.702

Exhibit 21

Wastewater System Projected Revenues and Expenses (Dollars in thousands)					
Years Ended September 30					
Year	Total Operating Revenues	Total Operating Expenses	Operating Income (Loss)	Total Non-Operating Revenues (Expenses)	Wastewater Income (Loss)
2006	\$43,424	\$54,616	-\$11,191	\$11,631	\$439
2007	\$45,489	\$55,953	-\$10,464	\$12,087	\$1,622
2008	\$47,638	\$56,915	-\$9,276	\$12,273	\$2,997
2009	\$49,457	\$57,904	-\$8,447	\$6,965	-\$1,482
2010	\$51,342	\$58,922	-\$7,580	\$5,489	-\$2,092
2011	\$54,312	\$59,970	-\$5,658	\$3,318	-\$2,341
2012	\$57,452	\$61,048	-\$3,596	\$1,365	-\$2,231
2013	\$60,773	\$62,158	-\$1,385	\$1,868	\$483
2014	\$63,970	\$63,300	\$670	-\$1,059	-\$389
2015	\$67,337	\$64,476	\$2,861	-\$1,018	\$1,843
2016	\$68,555	\$65,686	\$2,869	-\$859	\$2,010
2017	\$69,794	\$66,932	\$2,863	-\$637	\$2,226
2018	\$71,056	\$68,214	\$2,842	-\$404	\$2,437
2019	\$72,340	\$69,534	\$2,805	-\$161	\$2,645
2020	\$73,646	\$70,787	\$2,859	\$94	\$2,954
2021	\$75,704	\$72,072	\$3,632	\$26	\$3,657
2022	\$77,820	\$73,392	\$4,428	-\$1,356	\$3,072
2023	\$79,994	\$74,747	\$5,247	-\$4,647	\$600
2024	\$82,229	\$76,138	\$6,092	-\$6,218	-\$126
2025	\$84,527	\$77,566	\$6,961	-\$9,640	-\$2,679

The combined net income of the water, wastewater, and reclaimed water systems are projected to increase from \$34.3 million in FY 2006 to \$52.4 million in FY 2025, assuming no consolidation of their operations.

In Appendix I, a summary is presented for the rate revenue requirements for the OUC water system. The analysis shows the total water system revenue requirements increase from \$58.95 million in FY 2006 to \$105.19 million in FY 2025.

In Appendix J, a summary is presented for the projected revenue requirements for the City's wastewater and reclaimed water system. The total revenue requirement for the wastewater and reclaimed water system is estimated at \$55.6 million in FY 2006. The total system revenue requirements increase to \$105.1 million in FY 2025.

Underlying these status quo projections are assumptions regarding anticipated rate adjustments needed to achieve the projected financial results. Exhibit 22 summarizes the assumed adjustments to the water and wastewater utilities' rates. As discussed in the list of assumptions, these rate adjustments are also assumed to be implemented under all of the governance options.

Exhibit 22

Projected Rate Adjustments		
Fiscal Year	Water Rate Adjustment	Wastewater Rate Adjustment
FY 2006	6.2%	3.0%
FY 2007	1.3%	3.0%
FY 2008	-0.7%	3.0%
FY 2009	-0.2%	3.0%
FY 2010	1.2%	3.0%
FY 2011	2.9%	5.0%
FY 2012	4.3%	5.0%
FY 2013	-0.4%	5.0%
FY 2014	-0.8%	5.0%
FY 2015	0.3%	5.0%
FY 2016	0.7%	1.5%
FY 2017	0.7%	1.5%
FY 2018	0.8%	1.5%
FY 2019	0.8%	1.5%
FY 2020	0.7%	1.5%
FY 2021	0.9%	2.5%
FY 2022	0.6%	2.5%
FY 2023	0.7%	2.5%
FY 2024	1.0%	2.5%
FY 2025	0.0%	2.5%

6.6.9 Projected Savings Associated With Governance Options

The selection of one of the three remaining governance options would affect the projected savings associated with consolidating the water, wastewater, and reclaimed water systems. The following discussion presents the effect that each governance option has on the resulting projected financial results for the consolidated systems.

Exhibit 23 graphically compares the projected net present value of the projected net income under the status quo option with the net present value of each of the combined systems over the 20-year projection period. The exhibit shows that Option 1 (Wastewater to OUC) is forecasted to result in a net increase in net income compared with the status quo of \$21.8 million over the 20-year forecast period. The increase in the present value of net income is \$18.8 million under Option 2 (Water to the City) and \$11.7 million under Option 3 (Third-party Entity).

Exhibit 23

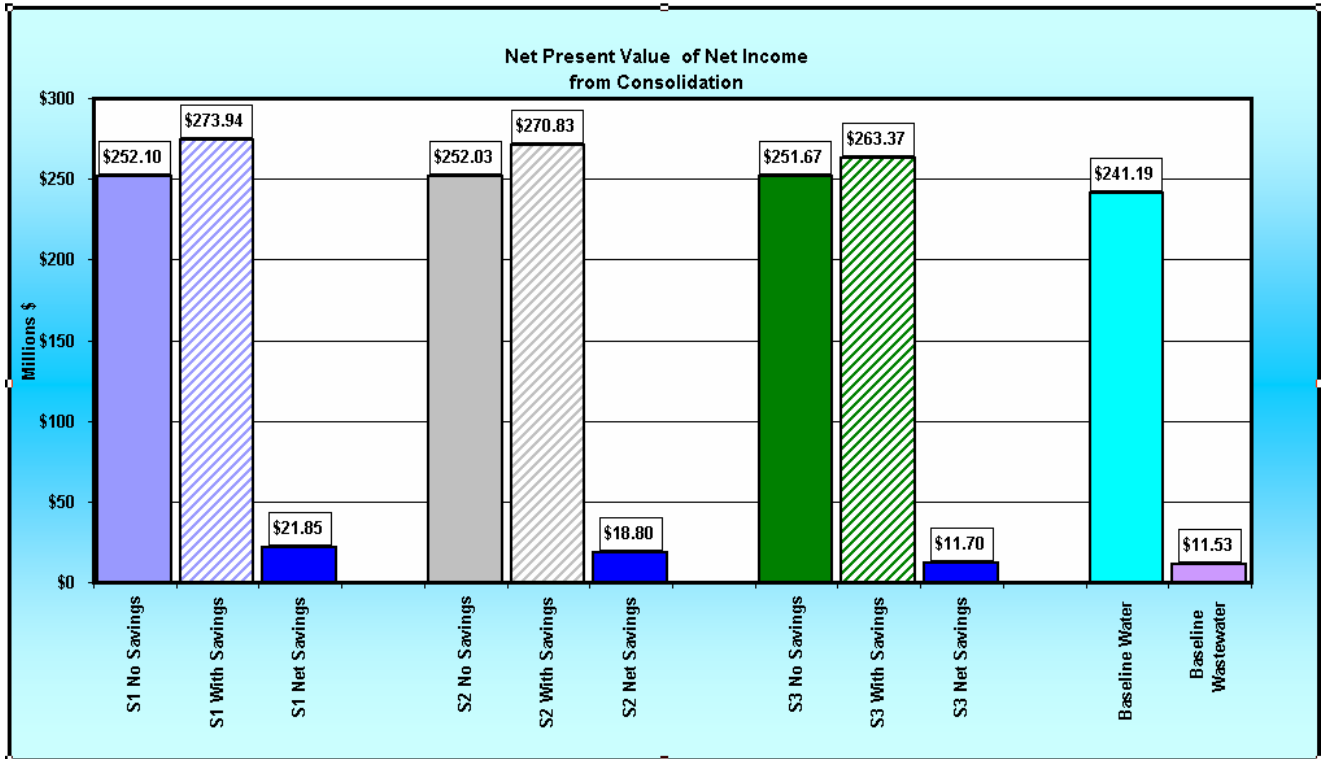


Exhibit 24 shows the projected annual utility revenue requirements over the 20-year projection period under each option and Exhibit 25 shows the net present value of those annual revenue requirements. The exhibits show that the net present value of the annual revenue requirements under the status quo option amounts to \$1,441 million over the 20-year projection period. The net present value of the annual revenue requirement of Option 1 (Wastewater to OUC) over the 20-year period is \$1,395 million. Options 2 and 3 have similar net present values of \$1,410 million and \$1,387 million, respectively. Option 3 (Third-party Entity) has the lowest net present value of projected revenue requirements due to the refinancing of the debt, which defers planned debt service payments. The resulting overall savings in revenue requirements due to consolidation is in the range of .8 to 1.5 percent of the total combined system revenue requirements. This is well below cost savings typically achieved by mergers in other industries and well below the minimum recommended threshold of 7 to 8 percent for a merger where finances are a significant driver.

Exhibit 24

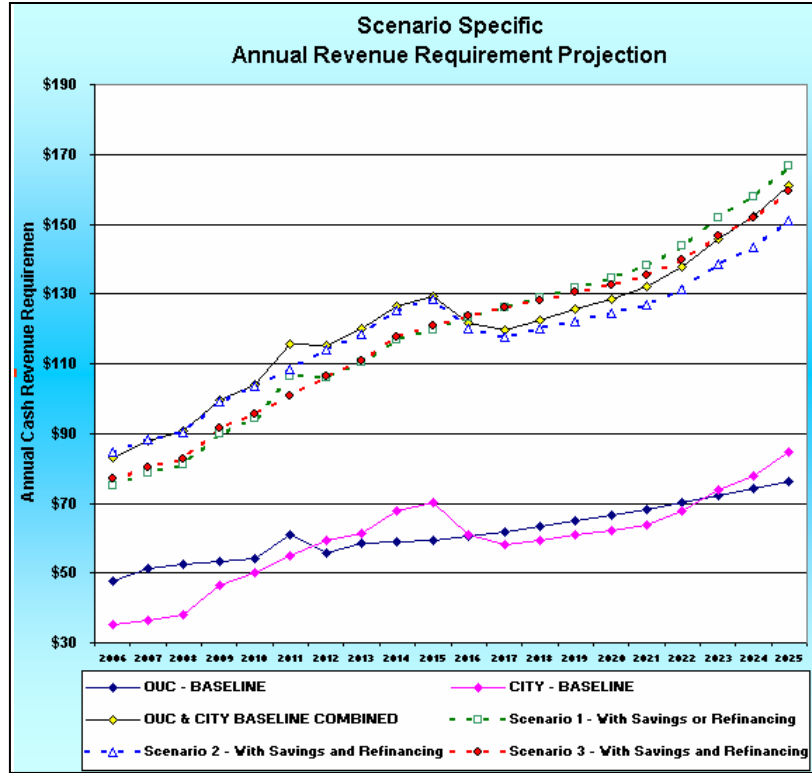
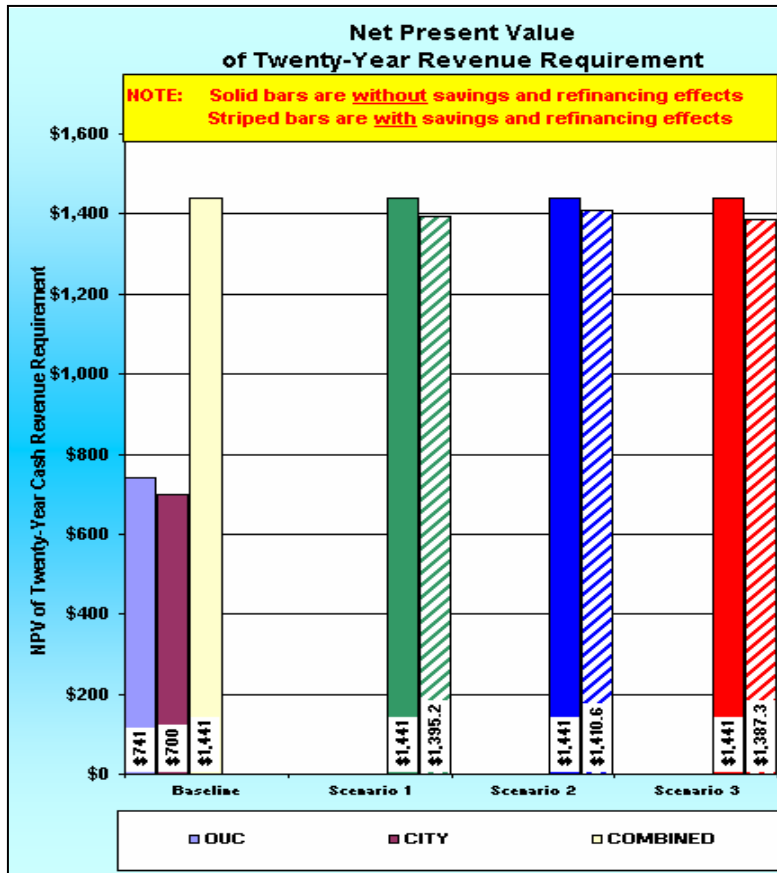


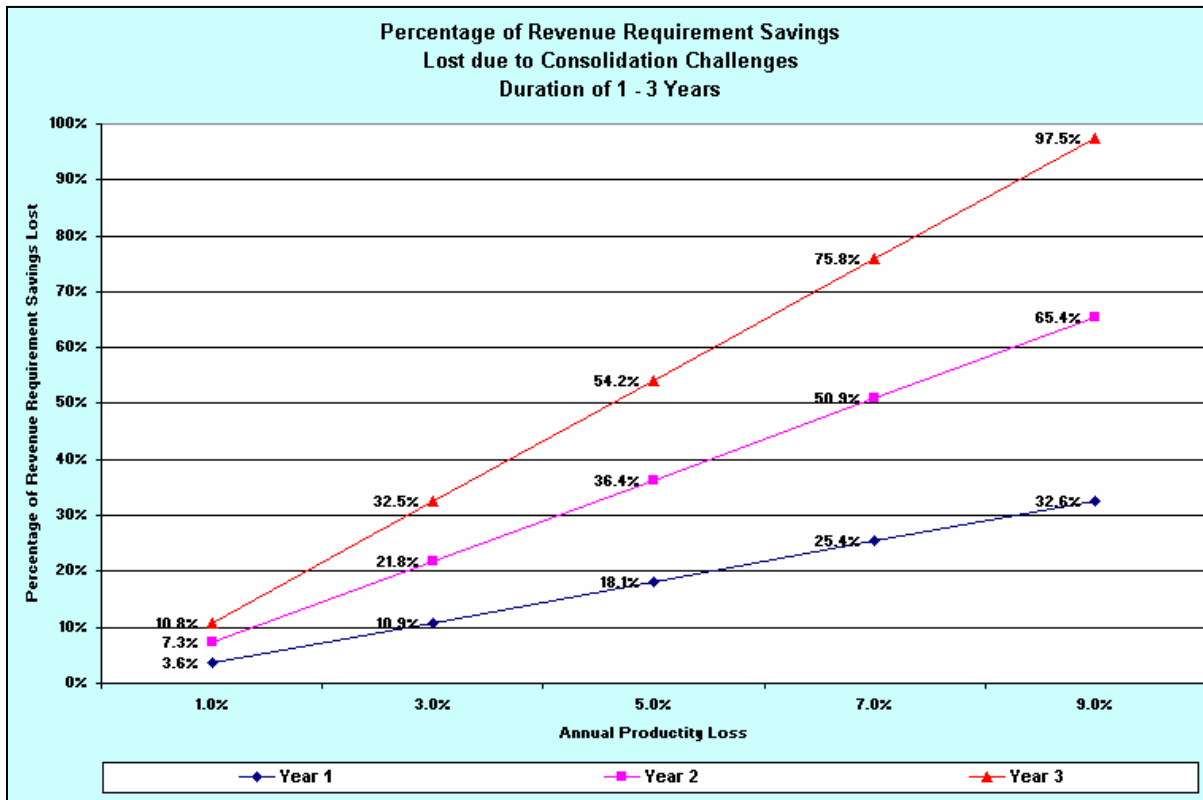
Exhibit 25



6.6.10 Potential Productivity Losses Due to Restructuring

As mentioned in the introduction to Section 6.0, the potential savings and improved financial results attributed to consolidating these systems need to be considered in light of the potential costs, risks, and disruption of normal operations that could accompany any change in the current organizational structure of the utilities. Exhibit 26 presents a projection of the impact that losses in productivity, ranging from 1 to 9 percent with a duration between 1 to 3 years, could have on the overall net present value of the projected savings from consolidation. The chart shows that a 9 percent loss in productivity due to a change in organizational structure with a duration of 1 year would cause a 32.6 percent reduction in the net present value of the savings in revenue requirements. If this productivity loss persisted for 2 years, the utilities would lose 65.4 percent of the forecasted savings. If the productivity loss lasted for 3 years, 97.5 percent of the forecasted cost savings would evaporate, in essence eliminating the projected savings for the 20 year period.

Exhibit 26



6.7 Service Level Impacts

Consolidation could result in service level improvements in areas such as service/extension request procedures, consolidated record keeping, common mapping systems, and combined functionality of crews and technicians. Most of these benefits are difficult to quantify and do not vary significantly with the governance option evaluated.

Some of the potential service level improvements are summarized as follows:

- Efficiencies could be achieved with developer and individual homeowners seeking extensions or service connections by establishing a combined operation for project setup, plan review, and field inspections. A goal of many in the utility industry is to create a “one-stop shop” for those seeking new services. Merging the water and wastewater operations would create the optimum

conditions for establishing such a program. The basic advantages of the “one-stop shop” could be realized without consolidation; though it would be more difficult to accomplish.

- Combined policies and procedures would result in better understanding by customers of how those processes apply to them and result in more reasonable expectation of compliance.
- Consolidated record keeping and mapping among the impacted utilities would result in more efficient development, retention, and retrieval of documents required to deliver basic customer service functions.
- A broader base of operations, including water, wastewater, and reclaimed water, would result in the opportunity for more intense cross training, and in turn, better, faster service for customers. It would also lead to more opportunities for employees to learn and improve their performance.
- Smaller areas of responsibilities could result in faster responses to customers’ needs.
- Better, more efficient customer communication could be accomplished with a consolidated customer service function, but it can also be realized with two separate, individual organizations.

While these service level impacts could be achieved under any of the governance options, it would take more concentrated effort under the governance options than under the status quo option. All of the governance options lend themselves to the potential for enhanced public service. In considering the governance options, Option 3 (Third-party Entity) would provide slightly more flexibility in developing an enhanced customer service function relative to either Option 1 (Wastewater to OUC) or Option 2 (Water to the City), because the third-party entity would not be influenced by existing policies, procedures, and processes of an established organization.

6.8 Overall Effect on Water Resource Management

Water resource management is one of the most important issues facing the City and OUC. The City and OUC worked cooperatively with the SJRWMD to develop the conditions for the current OUC Consumptive Use Permit. This permit allows OUC to draw water from the Floridian Aquifer to meet water use demands for the OUC service area for the next 20 years. The conditions of this permit require the City to provide reclaimed water to customers in the southeast area of the OUC service area and provide reclaimed water to the western area of Orange County. Therefore, OUC and the City must work closely together to accomplish the permit’s requirements.

Consolidation could help the City and OUC focus on meeting the water resource requirements. Consolidation could also allow for smoother integration of the respective water/wastewater group responsibilities. With respect to the governance options, there are no major differences between the options for water resource management. From a water resource management perspective, Option 3 (Third-party Entity) may be slightly better, because it would have a singular focus on water resource issues and a governing board whose sole focus would be on long-term water resource issues.

Although there may be some advantages for Water Resource Management due to consolidation, there is a concern that a consolidation initiative would distract attention from the current pressing requirements of the Consumptive Use Permit. All parties agreed that cooperation on water resource issues between OUC and the City was critically important and could be accomplished without consolidation, although consolidation could provide some benefit in this area.

6.9 Summary of Analyses: Evaluation Criteria vs. Governance Options

In terms of the criteria evaluated, some benefits accrue for all three of the governance options when compared to the status quo. Collectively, the differences between the three governance options are not significant.

Exhibit 27 shows a graphical depiction of the comparison of each evaluation criteria against the three governance options in relation to the status quo. Summary statements for each evaluation criteria, comparing each of the governance options to the status quo, are also provided.

Exhibit 27

- **Legal Obstacles:** The legal hurdles are relatively minor except for the potential, additional requirements of Option 3 (Third-party Entity).
- **Impact on Future Expansion:** Only Option 3 (Third-party Entity), specifically a not-for-profit corporation, could create impediments to future expansion or cooperative regional initiatives.
- **Ease of Implementation:** All three of the governance options would likely involve significant implementation challenges with Option 3 (Third-party Entity) being the most difficult implementation.

	Status Quo	Option #1 WW to OUC	Option #2 Water to City	Option #3 3 rd Party Entity
Legal Obstacles	●	●	●	●
Impact on Future Expansion	●	●	●	●
Ease of Implementation	●	●	●	●
Organizational / Governance Effectiveness	●	●	●	●
Efficiency (Operational)	●	●	●	●
Financial Considerations	●	●	●	●
Service Level Impacts	●	●	●	●
Water Resource Management	●	●	●	●

- **Organizational/Governance Effectiveness:** Option 3 (Third-party Entity) would bring an improved, singular focus on water resources with no competing priorities.
- **Efficiency (operational):** The relatively minor gains in efficiencies, some of which could be gained without consolidation, are not compelling for any of the governance options when compared to the status quo.
- **Financial Considerations:** The overall financial savings, when considering the potential risk factors, are not compelling for any of the governance options when compared to the status quo.
- **Service Level Impacts:** Improvements in service could be gained by all three of the governance options when compared to the status quo. These improvements do not vary significantly with each governance option and some of these improvements could be realized without consolidation.
- **Overall Effect on Water Resource Management:** All of the governance options could potentially bring improved focus on water resource management when compared to the status quo, but this focus can be gained without consolidation.

Although all three options are viable, the overall consolidation benefits are limited and not compelling. The most compelling potential benefits are in terms of service level improvements and overall effect on water resource management, most of which can be achieved without consolidation.

7.0 Key Findings and Conclusions

In summary, the key findings and conclusions of the study are as follows.

No legal obstacles prohibit implementing any of the options evaluated for consolidation of water and wastewater utility functions. However, limitations in local ordinances, state laws, and federal regulations would need to be addressed before consolidation could proceed. The governance options that were evaluated may require significant changes to state law. Whenever seeking changes to state law, there is a significant risk that the changes will fail to pass the Florida Legislature or that the changes will pass in a form different than that requested by OUC and the City.

Both the City's wastewater operations and OUC's water operations are efficiently managed. For example, OUC operates treatment plants through an industry-leading automation system that minimizes operations costs; City wastewater has similar capabilities for lift stations and wastewater treatment facilities. Over the last several years, the City has also accomplished operation cost reductions through staff optimization. Industry experience suggests that mergers are most beneficial when like utility functions are combined, such as water with water or wastewater with wastewater, and/or individual utilities are plagued by prevailing operating inefficiencies. In this case, the two utilities provide different services relatively efficiently, limiting potential opportunities for cost savings.

Consolidation of the water and wastewater operations could result in potential cost savings of approximately 1 percent of the combined water and wastewater systems' revenue requirements. This is well below cost savings typically achieved by mergers in other industries and well below the minimum recommended threshold of 7 to 8 percent for a merger where finances are a significant driver.

Considerable risks associated with a consolidation exist that may dilute potential savings. These risks include the potential loss of productivity of the work force and unforeseen obstacles. These risks occur in varying degrees with all mergers or reorganizations. The degree to which these risks occur will impact the savings that may be realized for the 20-year period of this study.

Extensive collaboration between OUC's water utility management and the City's wastewater utility management is required to address current and prospective regional water resource management issues. To effectively meet current and future water resource challenges, these two utilities will need to work together collaboratively. There are historical examples of effective collaboration between the organizations and additional opportunities exist. Focusing on consolidation implementation could take away some of the focus that needs to be directed at water resource management issues.

CH2M HILL's industry experience and research suggests that successful consolidations of utility operations are typically characterized by:

- Opportunities to realize savings through the sharing of personnel, facilities, and equipment.
- Potential service level improvements achieved through operating synergies.
- Coordinated approach to water resource management.

After comparing the governance options and the current structure against the evaluation criteria, the potential consolidation of OUC's water operations and the City's wastewater operations holds little promise for the realization of significant benefits, largely because of the different focus of the two utilities, the relative efficiencies of both operations, and the potential risks involved. The coordinated approach to water resource management that is needed can be more readily accomplished through collaboration rather than a change in organizational structure. Accordingly, no compelling reason for a consolidation of these utilities exists at this time; however, this does not preclude the potential for future consolidation if changes in conditions warrant it.

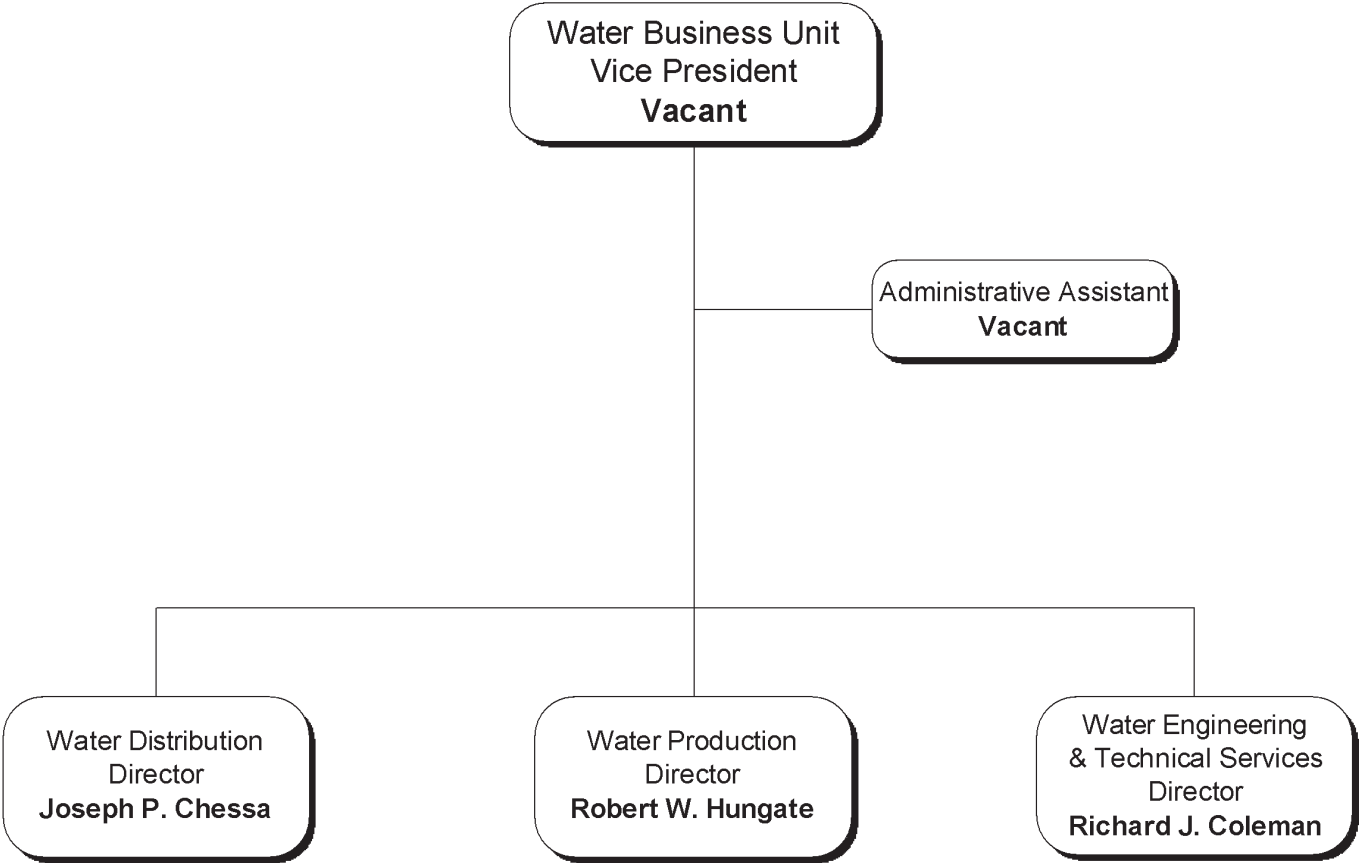
8.0 Recommendations

CH2M HILL provided the following recommendations for the City and OUC to best manage water resources:

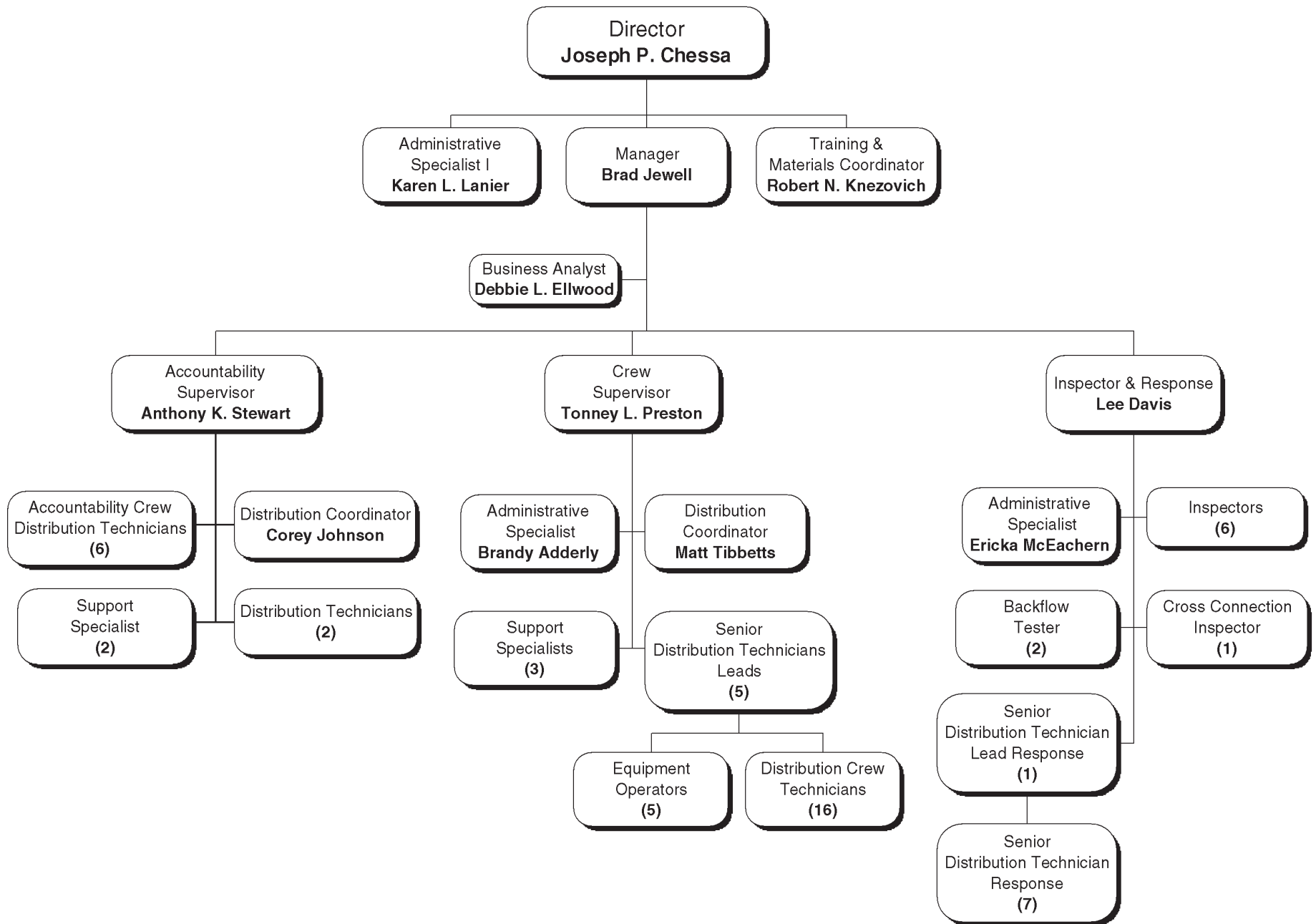
- 1) **OUC's water operations and the City's wastewater operations are both well managed, effective organizations and should not be consolidated at this time**, due to the insufficiency of benefits relative to the potential risks involved.
- 2) **An interagency water resource management committee, consisting of OUC and City personnel, should be established** to facilitate collaboration between OUC and the City and to provide for more effective state agency interface. This committee should consist of high level staff, committed and empowered by the two organizations, to develop and monitor the implementation of structured, collaborative processes. The committee members should have clearly defined responsibilities and they should closely adhere to predefined decision making processes for the committee.
- 3) **A specific project or initiative should be defined to serve as a test case** for the interagency water resource management committee. This test case would serve as a pilot for employing the revised business practices contemplated for improved collaboration between OUC and City.

APPENDICES

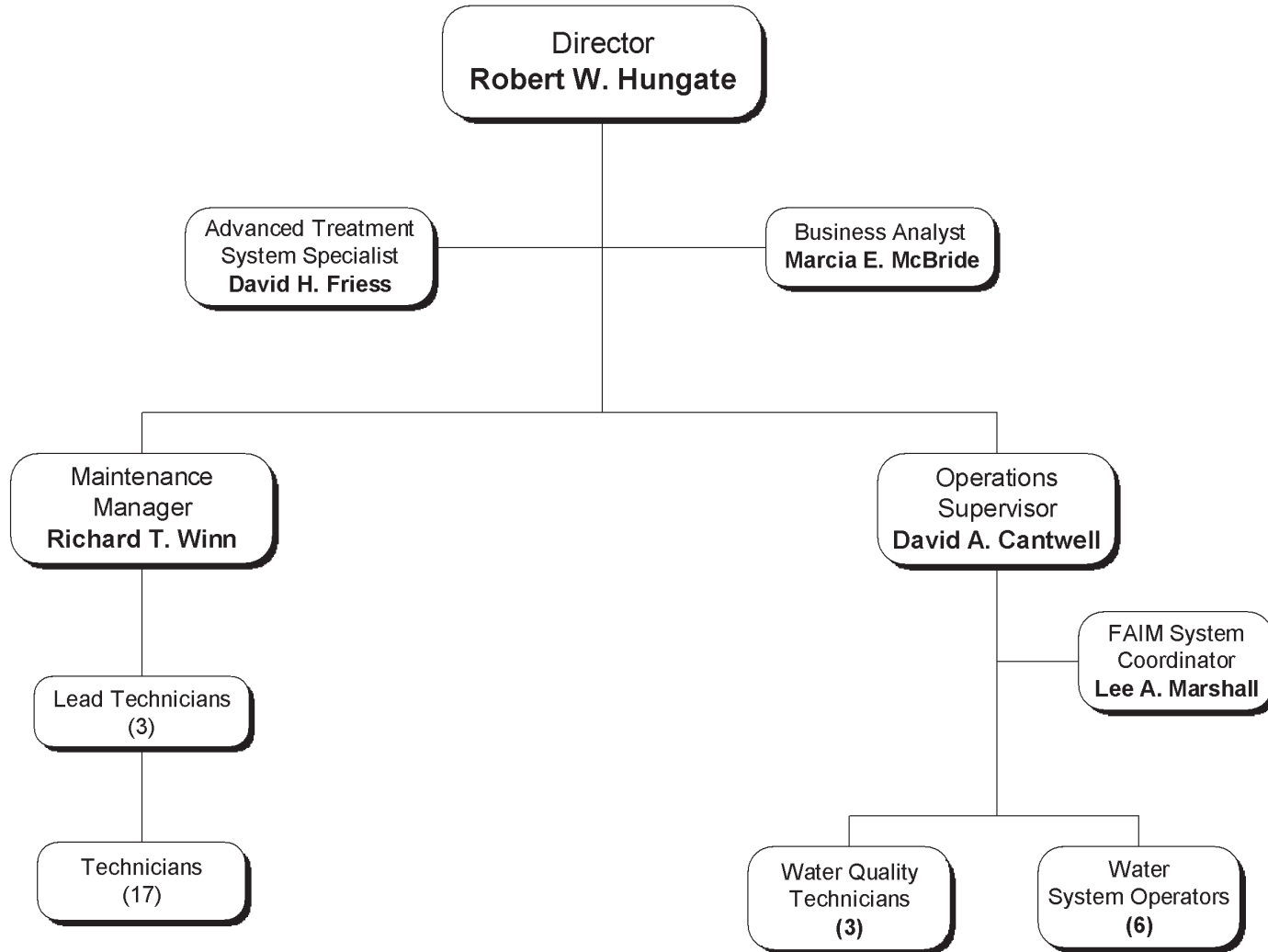
Water Business Unit



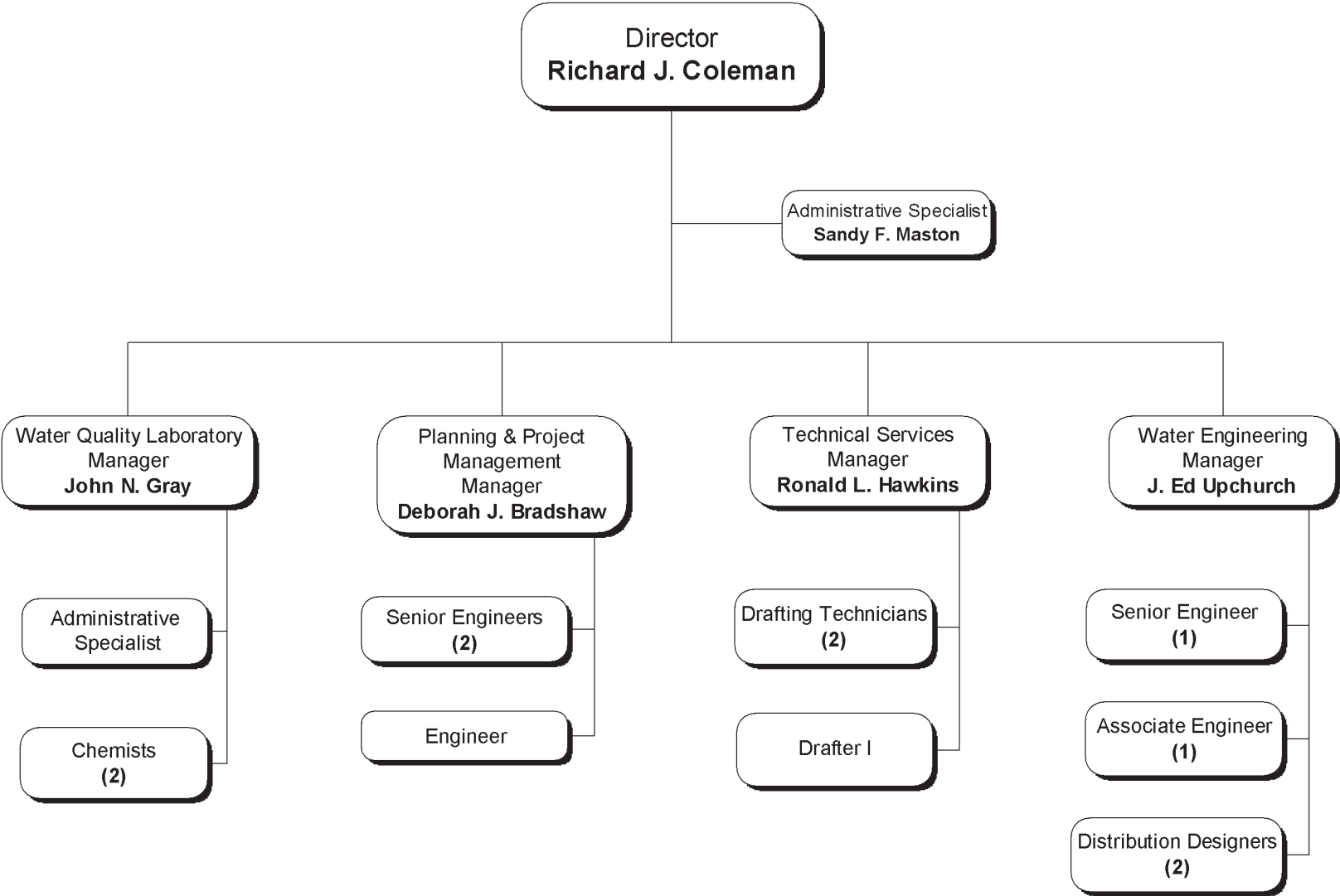
Water Distribution



Water Production

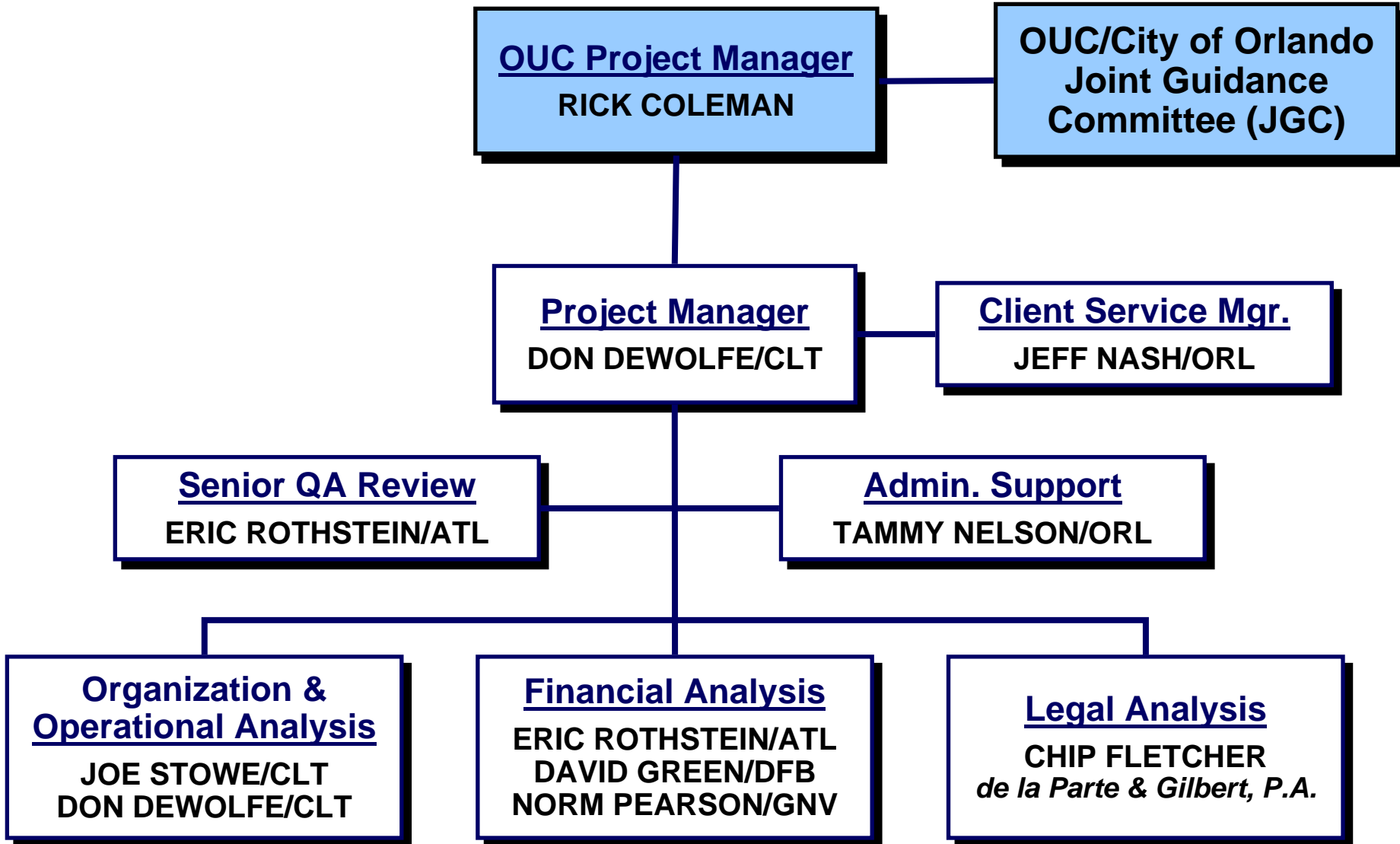


Water Engineering & Technical Services





OUC/City of Orlando WRM Optimization Study CH2M HILL Project Team Structure



Agreement 5-05

Orlando Utilities Commission/City of Orlando Water Resource Management Optimization Study

Introduction/Purpose

In accordance with Mayor Dyer’s letter dated February 28, 2005 and action by the OUC Commission on March 29, 2005, the Orlando Utilities Commission (OUC) has requested that CH2M HILL perform a detailed evaluation of the potential for optimizing OUC potable water, City of Orlando (City) wastewater and City reclaimed water services. The overarching goal of the study is “to examine the potential for consolidation of potable water, wastewater and reclaimed water services; and to recommend a business plan that will offer the most benefit to the citizens of Orlando and OUC customers.” To achieve this goal, the study will be conducted in three phases.

Detailed Scope

In Phase 1, an initial screening analysis will be conducted for the five potential structure options defined in Mayor Dyer’s letter (dated February 28, 2005) along with other structural options defined by OUC, the City, or the CH2M HILL project team. The end result for Phase 1 will be the identification of one to three structure options that will be carried forward to Phase 2 for additional analysis and evaluation

In Phase 2, a detailed analysis of the reduced list of structure options will be conducted. The end result of Phase 2, preceded by the work in Phase 1, will be the recommendation of a preferred structure option that will be presented to the OUC and the City commissions.

In Phase 3, if the parties chose to proceed, the necessary due diligence for the recommended structure option from Phase 2 will be performed. A detailed implementation plan for the recommended structure option will also be created. Once the recommended structure option along with its financial model, and the implementation plan are endorsed, the implementation of the recommended structure option will commence.

This scope presents the work tasks, schedule and associated costs for Phase 1 and Phase 2. The work tasks, schedule, and associated costs for Phase 3 are not included in this scope. They will be produced once Phase 1 and Phase 2 has been completed.

Phase 1: Initial Analysis of Structure Options

In Phase 1, a conceptual analysis of the initial structure options along with others identified by OUC, the City, and CH2M HILL will be conducted. The structure options to be considered include:

1. City transfers wastewater and reclaimed water operations to OUC

2. OUC transfers water operations to the City
3. A separate, not-for-profit organization be formed to encompass all water operations for OUC and the City (previously investigated by the City)
4. Similar to #3, a new organization be formed but operated under OUC
5. Base Case, "As-Is" option

Each of these structure options will be evaluated against the base case. The Base Case is defined as follows: keep wastewater and reclaimed water services under the City and potable water services under OUC, with contractual arrangements between the two entities as contemplated in OUC's consumptive use permit.

The end result of Phase 1 is the identification of one to three structure options that will be carried forward to Phase 2 for additional analysis and evaluation. The seven primary tasks that will be used to complete Phase 1 are described below.

Task 1.1 – Project Kick-off Meeting

A kick-off meeting with the Joint Guidance Committee (JGC) for the project will be designed, led and facilitated by CH2M HILL. The JGC will consist of management representation from OUC and the City. This committee will also participate in several workshops during the course of the project as defined in other tasks of this scope.

Drafts of relevant meeting topics will be developed in advance of the kick-off meeting. As a result of discussions in the meeting, suggested edits and additions from the JGC will be incorporated into a final version of meeting notes and into the project scope document.

The objectives of the kick-off meeting will be to:

- Define drivers, goals, objectives, and critical success factors for the project.
- Define roles and responsibilities for OUC, City, and CH2M HILL.
- Develop Phase 1 & 2 project approach (tasks, schedule, and deliverables).
- Consider other structural options to include in initial analysis of Phase 1.
- Conduct preliminary discussion of evaluation criteria and decision methodology.
- Define communication requirements.

The results of this meeting will be documented in the form of meeting notes and will be used as a guide for the conduct of the project.

(Note that Task 1.1 – Project Kick-off Meeting was completed on May 3, 2005)

Task 1.2 – Develop Scope, Schedule, and Fee for Phase 1 and Phase 2

A project scope, schedule, and fee for both Phase 1 and Phase 2 of this project will be developed by CH2M HILL. The scope will include descriptions of tasks for each of the phases, along with their associated fees. A detailed Work Breakdown Structure (WBS) and an integrated schedule will be produced for this time-sensitive, critical project. The costs for the project will be developed in alignment with CH2M HILL's existing Joint Service Agreement with OUC.

(Note this scope document is the deliverable of Task 1.2)

Task 1.3 – Review Existing Information

CH2M HILL will conduct an initial review of existing information to begin the analysis of the five initial structure options. It is anticipated by OUC that the currently available financial and operating data will be sufficient to complete the Phase 1 analysis. OUC has already provided to CH2M HILL a large portion of the relevant existing information. This information will be sorted and distributed to the appropriate CH2M HILL functional leads. CH2M HILL will structure its project team into three main functions: 1) Organization/Business, 2) Financial, and 3) Operational/Engineering.

At a minimum, it is expected the following information will be collected for OUC's water system, and the City's wastewater and reclaimed water systems during Task 1.3 for each functional area:

Organization/Business

- Annual Operations Budget and 5-10 year Capital Improvement Program for both OUC and the City.
- Current and prior versions of Strategic Planning/Business Planning documents that address vision, mission, critical success factors, department and division goals, description of roles of key staff, etc for both organizations.
- Customer Service plans designed to offer direction to staff associated with both water and wastewater activities.
- Service area/systems overviews for both water and wastewater services.
- Existing contracts for services between OUC and the City.

Financial

- Comprehensive Annual Financial Reports for last 3 years and, if developed, relevant Component Unit Financial Reports (Audit Reports)
- Operating budgets.
- Recent financial plans, rate studies, and/or official statements for bond issues.
- Current rates and fees schedules and related ordinances.
- Customer and usage information and anticipated growth projections.
- Information relating specifically to costs/revenues that would be directly affected by changes in organizational structure.
- Planned capital improvements for plants and systems upgrades for both water and wastewater utilities.

Operational/Engineering

- Organization charts, staffing levels, shift schedules for all facilities and O&M functions.
- Union or employee agreements and detailed wage and compensation programs for OUC and the City.
- Budgeted and actual expenditures for the last 2 years for each facility and O&M functions.
- Copies of all permits (NPDES, DEP, sludge, etc.) Copy of all administrative orders, and enforcement actions

Working with Edward de la Parte, each option will be evaluated in Phase 1 to identify any insurmountable obstacles from a legal perspective. Additional legal issues associated with each of the structure options will be examined during the course of the study, primarily during Phase 2.

Task 1.3 will be completed when CH2M functional leads have sorted and reviewed the information provided. During Phase 1, CH2M HILL may request additional information or interviews with key personnel from OUC or the City, but such requests are expected to be minimal in Phase 1.

Task 1.4 – CH2M Project Team Development Workshops

During Phase 1, the CH2M HILL project team will participate in two development workshops. In these workshops, the CH2M HILL's core project team will be brought together for a full day to work on the current tasks of the project and to prepare for upcoming workshops with the JGC. This method has proven to facilitate synergy and collaboration of ideas in the most expedient and cost-effective manner. These development workshops most likely will be conducted in CH2M HILL's Atlanta or Charlotte offices to minimize travel expenses.

The two development workshops for Phase 1 are:

- 1) Information Review Workshop
- 2) Business Case Development Workshop

Information Review Workshop

This workshop will take place after Task 1.3 is complete. Meeting notes from this workshop will be developed and much of this information will be used in subsequent tasks of Phase 1.

The objectives of this workshop will be to:

- Share initial findings from each functional area, based on the review in Task 1.3.
- Develop combined listing of key findings from initial review.
- Identify list of additional information needed. For each information item, determine if it is needed: 1) before the end of Phase 1 (prior to Task 1.6), or 2) for Phase 2.
- Identify list of targeted interviews. As in the bullet above, will identify when those are needed.
- Determine the critical attributes that will be used in the review of the structure options.
- Determine if there are other structural options that CH2M HILL would like to recommend for inclusion in the initial evaluation.
- Develop/finalize list of evaluation criteria used to evaluate each option. It is acknowledged that these criteria have to encompass, but will not be limited to, considerations for the financial return on the City-owned assets by any of the consolidation options.
- Develop decision-making process to be used for the study.
- If possible, determine if there are any insurmountable obstacles for any of the initial structural options that have been proposed.

Business Case Development Workshop

This workshop will take place during the Task 1.5 and prior to the Prioritization/ Selection Workshop with the JGC described in Task 1.6. Representatives from the City and OUC will be asked to participate in a portion of this meeting, which will be held in CH2M HILL's Atlanta office. Meeting notes developed from this workshop will be used as the basis for presentation material for the Prioritization/Selection Workshop in Task 1.6.

The objectives of this workshop will be to:

- Develop business case format.
- Evaluate each structure option against critical attributes list.
- Begin to populate business case components for each structure option using the base case, as defined above, as a reference for comparison.
- Determine if there are insurmountable obstacles.
- Complete initial evaluation of structure options against previously established evaluation criteria.
- Identify additional information or interviews needed to complete business case, to complete evaluation against criteria, or to complete consensus-based decision process.
- Begin preparation for Prioritization/Selection Workshop, Task 1.6.

Task 1.5 – Develop Business Case for Each Structure Option

In this task, CH2M HILL will build the business case information for each of the original structure options along with any additional options that have been identified. To build these business cases, CH2M HILL expects some additional information will be gathered and several targeted interviews will be conducted. Using the information gathered in Task 1.3, the information gathered in both the CH2M Information Review Workshop, along with the additional information and interviewing in this task, CH2M HILL will build the business case for each structure.

Although the business case format will be developed in the CH2M Business Case Development Workshop, we expect this format to include high-level information such as:

- Organizational advantages and disadvantages
- Financial benefits
- Operational advantages and disadvantages
- Service level impacts
- Potential implementation barriers
- Staffing implications
- Communication and stakeholder involvement imperatives
- Insurmountable obstacles (if identified – including legal)

The business case information will be formatted in such a way that it aligns with the evaluation criteria used in the study. As a result the information can be readily used in the support of the defined decision-making process for the project.

Note that the previously defined CH2M Business Case Development Workshop (Task 1.4) will be conducted in the front end of the time dedicated for this task as indicated in the schedule presented for this scope.

Task 1.6 – Prioritization/Selection Workshop with Joint Guidance Committee

CH2M HILL will lead and facilitate a Prioritization/Selection Workshop with the JGC. CH2M HILL project team members will be present, along with the members of the JGC from OUC and the City, for this 4-hour workshop.

Each of the previously defined structure options will be presented in a business case format. The evaluation criteria will be applied to each structure option in accordance with the prescribed decision-making process. As a result of this workshop, the number of structure options will be reduced. One to three options are expected to be carried forward to Phase 2 of the study.

CH2M HILL will develop the agenda and prepare necessary presentation materials and information to be used in this workshop. These items will be distributed to the JGC at least 72 hours in advance of the workshop. Meeting notes from this workshop will be prepared and distributed to the JGC.

The specific objectives of this workshop will be to:

- Review key business case information for each structure option, including any insurmountable obstacles if they are identified.
- Define/endorse the one to three structure options that will be carried forward to Phase 2.
- Define/endorse evaluation criteria and decision-making process to be used in Phase 2
- Determine communication needs (e.g. Commissions briefing) prior to moving to Phase 2.
- Define other steps needed prior to moving to Phase 2.

Task 1.7 – Technical Memorandum

CH2M HILL will produce a brief technical memorandum which will include the supporting data and information that directly contributed to the decisions reached in Phase 1 and specifically for the selected one to three structure options. A final report will be produced for both Phase 1 and Phase 2 at the conclusion of Phase 2. Producing the final report for both phases at the end of Phase 2 will accelerate the schedule and help meet the time limitations of this project.

Optional: CH2M HILL expects that at the conclusion of Phase 1, we will be asked to conduct a stakeholder briefing on the results of Phase 1. If requested, CH2M HILL will develop presentation materials and information needed to conduct the briefing. CH2M HILL will participate in the briefing in a role as directed by the JGC. This briefing is considered optional but estimates for the costs of conducting this briefing are included in our fee estimate for Task 1.7

Phase 2: Detailed Organizational and Financial Analysis of Final Structure Options

In Phase 2, a detailed organizational and financial analysis will be conducted for the one to three structure options carried forward from Phase 1. The one to three structure options will be further analyzed and defined in terms of financial, organizational, and operational aspects. Any associated legal implications will also be examined for each of the structure options. For purposes of this scope and associated schedule and fee, it has been assumed that three structure options will be carried forward into this phase.

The end result of Phase 2 will be the identification of the recommended structure option that will be presented to the OUC and the City commissions. For the recommended structure option, several financial scenarios may be presented. The final decision on the financial structure to be implemented is anticipated to be considered a policy decision. The selected structure option will be carried forward to Phase 3 where the necessary due diligence will be performed and a detailed implementation plan created. The eight primary tasks that will be used to complete Phase 2 are listed below

Task 2.1 – Additional Information Review and Analysis

Building on the information that was collected and compiled and used in the Phase 1 analysis, CH2M HILL will conduct an in-depth analysis of information associated with the remaining three structure options. CH2M HILL will use existing information, newly created analysis, additional information requests and interviews to complete the necessary work for this task.

At a minimum, it is anticipated the following information will be reviewed during Task 2.1 for each functional area. Whenever practical, access to electronic records of listed information will be provided to facilitate consultant review. It is also anticipated the legal implications of the three structure options will be reviewed in greater detail during Phase 2.

Organization/Business Functions

- Continued review and in-depth study of material list developed in Task 1.3.
- High-level review of key work approaches/processes used by both OUC and the City to determine areas of compatibility and areas of difference.
- Review personnel compensation information to identify significant differences in employee salary and benefits considerations.
- Review of developer extension policies for both OUC and the City.
- Develop preliminary list of documents that would be necessary for transfer in any of the merged utility scenarios.

Financial Functions:

Data will be collected to refine the estimates of the cost of implementing each of the options, as well as any anticipated cost savings or changes in revenues associated with each of the options. Additional information that will be collected may include:

- Base case assumptions regarding future costs and revenues, usage, and system growth, and rates.
- Implementation costs for each of the structural options.
- Financing assumptions for system acquisition.
- Timing of anticipated expenditures and utility mergers.
- Policies regarding rate adjustments, fund balances, target coverage ratios required by bond covenants and other financial indicators.
- Detailed information for developing cost savings estimates and changes in revenues.

Operational/Engineering Functions:

- Detailed wage and compensation summary including employee information.
- Cost and type of fringe benefit packages including retirement programs.
- High-level review of operations for major facilities operated by both OUC and the City.

Legal Implications Review

During Phase 2, the three remaining structure options will be evaluated to determine the legal implications associated with the implementation of that option. The CH2M HILL project team will work closely with Ed de la Parte to conduct this review. The significant issues that are defined will be forwarded to the City's Office of Legal Affairs for review, and then included in the detailed definition of each structure option.

Task 2.2 – Financial Analysis of remaining structure options

A pro-forma cash flow model of the operations of each of the utilities will be prepared that will be used to develop projections of each system's financial performance. These projections will include number of customers, system usage, costs, revenues, rates, fund balances, typical user bills, and selected financial performance measures. A base line set of assumptions will be used in developing the preliminary set of projections for the water system and for the wastewater and reclaimed water systems, against which the financial results under each of the structural options will be compared. Anticipated impacts of planned improvements, changes in operating costs, system growth and usage and any associated impacts on fund balances, financial performance, or rates unrelated to the structural scenarios, will be separately identified and isolated from the impacts of the structural options being analyzed. Pro Forma income and balance sheet statements will be developed for each organizational structure.

The model will be designed with an assumptions/summary of results sheet that will allow the real time analysis of the impacts of changing assumptions on the financial performance of each

utility. Graphical displays will also be used to simplify the interpretation of the results. The model will also feature pop-up dialog boxes and slide bar adjusters for the sensitivity analysis.

A pro forma analysis of the financial results under each of the structural options will be prepared, given specific assumptions regarding potential costs and savings over time associated with each of these structural options, and changes in revenues. Specifically, the analysis will consider potential efficiencies in utility operations and revenue enhancements that may be facilitated by combining these systems. Potential improvements in service levels associated with the proposed structural options will be qualitatively described, but not quantified.

An analysis will then be prepared that will evaluate the amount that potentially could be expended under the structural options for acquisition of utility assets. The analysis will provide projections of cash flows and financial statements for the systems under each of the organizational structural options, identify projected rate and bill impacts, and highlight alternative payment options for asset acquisition. For consideration of asset acquisition options, available revenues after meeting other financial commitments under each of the organizational structures and acquisition financing plans will be capitalized to determine the maximum amount that could be expended for acquiring these systems under the assumed rates. Alternatively, the analysis will consider potential changes in the magnitude of any transfers to the City's General Fund.

Task 2.3 – CH2M Project Team Development Workshops

During Phase 2, the CH2M HILL project team will participate in two development workshops. These workshops will have the same format as the development workshops described in Task 1.4. CH2M HILL also expects that these development workshops will be conducted in CH2M HILL's Atlanta or Charlotte office to minimize travel expenses.

The two development workshops for Phase 2 are:

- 1) Financial Analysis Workshop
- 2) Finalize Options and Recommendation Workshop

Financial Analysis Workshop

This workshop will take place after Task 2.2 is complete and prior to the Financial Analysis Workshop with the JGC described in Task 2.4. Meeting notes from this workshop will be developed and much of this information will be used as the basis for presentation material for the Financial Analysis Workshop in Task 2.4.

The objectives of this workshop will be to:

- Share findings from detailed review of each functional area, based on the review in Task 2.1 and previous review in Phase 1.
- Develop combined listing of key findings from the detailed review of the three remaining structure options.
- Review/evaluate financial model created in Task 2.2.
- Determine links between key organizational and operational issues with financial data.
- Review legal considerations for the three structure options.

- Determine financial scenarios and issues for the three structure options.
- Identify any additional information or interviews required at this point in project.
- Begin to develop detailed definition of each of the structure option.
- Prepare for the Financial Analysis Workshop with the JGC (Task 2.4).

Finalize Options and Recommendation Workshop

This workshop will take place during the work of Task 2.5 and prior to the Prioritization/ Selection Workshop with the JGC described in Task 2.6. Meeting notes from this workshop will be developed and much of this information will be used as the basis for presentation material for the Prioritization/Selection Workshop in Task 2.6.

The objectives of this workshop will be to:

- Finalize detailed definition for the three structure options.
- Perform final analysis of each structure option against the previously developed evaluation criteria.
- Perform additional steps in accordance with the decision-making process defined for the project.
- Prepare the final support information for each of the structure options.
- Prepare the financial scenarios associated with each of the structure options.
- Begin preparation for Prioritization/Selection Workshop, Task 2.6.

Task 2.4 – Financial Analysis Workshop with Joint Guidance Committee

CH2M HILL will lead and facilitate a Financial Analysis Workshop with the JGC. CH2M HILL project team members will be present along with the members of the JGC from OUC and the City for this 6-hour workshop.

CH2M HILL will develop the agenda and prepare necessary presentation materials and information to be used in this workshop. Meeting notes from this workshop will be prepared and distributed to the JGC.

The specific objectives of this workshop will be to:

- Review and finalize base case financial analysis assumptions
- Review findings to date
- Review/discuss general status of each of the structure options
- Review/discuss the development of more detailed definition of each structure option
- Review/discuss legal considerations for each structure option
- Review Financial Model format and flexibility to evaluate sensitivity to changes in specific assumptions
- Review results of financial scenarios developed for each structure option
- Review/confirm remaining tasks in the project and specifically the decision-making process

Task 2.5 – Develop Detailed Definition of each Structure Option and finalize evaluation

As a result of the initial information review provided for in Task 1.3, expanded upon during Task 2.1, and further developed as a part of the interview process and the internal and external workshops, CH2M HILL will develop the needed details for each structure option such that an informed decision can be made from the final three structure options. The detail will be built from an organizational/operational and financial perspective. This detail will be a key contributor to the decision-making process and will facilitate the solution that best meets the needs of both OUC and the City.

Specifically for the financial aspects of the study, the detail will be based on the guidance provided during the financial analysis workshop, the financial analyses prepared in Task 2.2 and refined in Task 2.3. This information will be further refined to reflect any changes in assumptions, changes in conceptual plans for how the structural options would be implemented, and revisions in the schedule, costs, cost savings associated with each of the structural options, and revenues identified by the JGC. A revised financial analysis of each option will be prepared as well as revised estimates of the amount that could potentially be provided for acquisition of the utilities under the current or anticipated rates.

Also, during this task, the final evaluation by CH2M HILL of the structure options will be conducted in accordance with the defined decision-making process of the project. Final supporting information will be formulated in alignment with the evaluation criteria for the project.

Task 2.6 – Prioritization/Selection Workshop with Joint Guidance Committee

CH2M HILL will lead and facilitate the Phase 2 Prioritization/Selection Workshop with the JGC. The CH2M HILL project team members will be present along with the members of the JGC from OUC and the City for this 4-hour workshop.

The remaining three structure options will be presented along with all key supporting organizational, financial, and operational information. The recommended structure option will be determined in accordance with the decision-making process for the project. As a result of this workshop, the three structure options will be narrowed to the recommended option that may be carried forward to Phase 3 of the project.

CH2M HILL will develop the agenda and prepare necessary presentation materials and information to be used in this workshop. Meeting notes from this workshop will be prepared and distributed to the JGC.

The specific objectives of this workshop will be to:

- Review key business case information for each structure option, including any insurmountable obstacles, if they are defined.
- Apply the previously determined decision-making process using the evaluation criteria for each of the three structure options.
- Define/endorse structure options that will be presented to both commissions.
- Determine/prepare contents for presentations to commissions (Task 2.7).

- Develop communication plan related to Study recommendations
- Define other steps needed prior to moving to Phase 3.

Task 2.7 – Presentation to Commissions

CH2M HILL expects that a joint presentation to the commissions of OUC and the City will be necessary. This presentation will occur after the Phase 2 Prioritization/Selection Workshop (Task 2.6). The date of the presentation will be within days of the October 15, 2005 date stated in Mayor Dyer's Letter (dated February 28, 2005). CH2M HILL will develop the presentation materials, graphics and information needed to conduct this presentation. The recommended structure option will be presented along with an overview of the background information that supported that decision. It is expected that CH2M HILL will lead that presentation, unless otherwise directed by the JGC.

Task 2.8 – Final Report Phase 1 and Phase 2

A Final Report will be prepared summarizing the results of Phase 1 and Phase 2. The final report will summarize the information developed for each of the tasks for the process used in Phase 1 and Phase 2 for this study. This final report will be submitted 3 weeks after the presentation to Commissions (Task 2.7) is conducted.

The draft final report will be transmitted to JGC in electronic format (Microsoft™ Word®). Following the receipt of comments on the draft Final Report from the JGC, the final report addressing those comments will be prepared. A total of eight copies of the final report will be provided; the final report will also be transmitted to OUC and the City in pdf format.

Compensation

Compensation to complete this scope of services will be a labor multiplier of 2.70 applied to actual labor costs for hours worked on the project, plus other direct costs. The total fees for Phase 1 and Phase 2 of the project will not exceed \$ 314,486 without prior written authorization from OUC.

Project charges will be billed monthly. Table 2 presents the cost breakdown for Phase 1 and Phase 2 at the task level.

TABLE 2
Cost Breakdown by Task

Task Descriptions	Labor Hours	Labor Costs	Expenses	Total
1.1 – Project Kick-off Meeting	76	\$12,673	\$1,822	\$14,495
1.2 – Develop Scope, Schedule, & Fee for Phase 1 and 2	114	\$19,503	\$155	\$19,658
1.3 – Review Existing Information	128	\$20,106	\$265	\$20,371
1.4 – CH2M Project Team Development Workshops	98	\$15,956	\$3,492	\$19,448
1.5 – Develop Business Case for Each Structure Option	108	\$16,949	\$241	\$17,191
1.6 – Prioritization/Selection Workshop with JGC	108	\$17,297	\$2,985	\$20,283
1.7 – Technical Memorandum	122	\$17,377	\$2,021	\$19,398
Phase 1 Subtotal	754	\$119,861	\$10,982	\$130,843
2.1 – Additional Information Review and Analysis	150	\$23,055	\$1,766	\$24,821
2.2 – Financial Analysis of remaining structure options	168	\$22,198	\$685	\$22,883
2.3 – CH2M Project Team Development Workshops	102	\$16,655	\$3,497	\$20,152
2.4 – Financial Analysis Workshop with JGC	108	\$16,474	\$3,032	\$19,506
2.5 – Develop Detailed Definition of each Structure Option and finalize evaluation	162	\$24,280	\$1,855	\$26,135
2.6 – Prioritization/Selection Workshop with JGC	100	\$15,742	\$2,976	\$18,718
2.7 – Presentations to Commissions	118	\$16,907	\$1,960	\$18,867
2.8 – Final Report Phase 1 and Phase 2	208	\$32,087	4473	\$32,560
Phase 2 Subtotal	1,116	\$167,399	\$16,244	\$183,643
Totals	1,870	\$287,260	\$27,226	\$314,486

Task Order Assumptions

Listed below are the key assumptions that have been used in developing the work task, schedule, and fee for this scope.

1. All workshops will be conducted in the 2-week time frame depicted in the project schedule depicted in this scope.
2. OUC and the City will provide all available relevant information requested by CH2M HILL.
3. To the extent possible, OUC and the City will provide documents to CH2M HILL in original formats (i.e. MS-Word, MS-Excel, etc.) to expedite the analysis of information.
4. All interview requests for OUC and City personnel by CH2M HILL will be granted in a reasonable time frame consistent with the project schedule.
5. All members of the JGC will be in attendance for the JGC Workshop in Phase 1 and the two JGC Workshops in Phase 2.
6. For purpose of this scope, CH2M HILL has assumed that three structure options will be carried forward from Phase 1 to Phase 2.
7. All reviews of submittals to OUC and the City will be conducted in a timely manner within the timeframes noted in the schedule.
8. A portion of the detailed Phase 2 analysis will begin during Phase 1, as indicated by the Project Schedule, in order to meet the schedule requirements of this project.

APPENDIX E – Documents Reviewed

OUC/City of Orlando Consolidation Study Documents Reviewed

PHASE 1

ORL Financial Data

- ORL 5-Year WW Projection 2005-2009.xls
- ORL Annual Financial Report 1997.pdf
- ORL Annual Financial Report 1998.pdf
- ORL Annual Financial Report 1999.pdf
- ORL Annual Financial Report 2000.pdf
- ORL Annual Financial Report 2001.pdf
- ORL Annual Financial Report 2002.pdf
- ORL Annual Financial Report 2003.pdf
- ORL Annual Financial Report 2004.pdf
- ORL Annual Pension Fund Report 2004.pdf
- ORL Annual Report 2004-2005.pdf
- ORL B&V Sewer Rate and Impact Fee Study 2004.pdf
- ORL Comparison Rates to Nearby Communities RSF.pdf
- ORL Complete WW Bonds Disclosure 1997.pdf
- ORL Complete WW Bonds Disclosure 1998.pdf
- ORL Complete WW Bonds Disclosure 1999.pdf
- ORL Complete WW Bonds Disclosure 2000.pdf
- ORL Complete WW Bonds Disclosure 2001.pdf
- ORL Complete WW Bonds Disclosure 2002.pdf
- ORL Complete WW Bonds Disclosure 2003.pdf
- ORL Complete WW Bonds Disclosure 2004.pdf
- ORL Consolidated Balance Sheet 11-2004.pdf
- ORL Fiscal Years 2003-2005 Sewer Charges.xls
- ORL Project Master List - CIP.xls
- ORL Rates and Charges for Reclaimed Water 2002.pdf
- ORL Statement of Net Assets Proprietary Funds 09-2004.pdf
- ORL Transfers to OUC.xls
- ORL Unbudgeted Capital Improvement Projects 2005+.pdf
- ORL Wastewater Cash and Cash Equivalents 11-2004.pdf
- ORL WW Budget and actuals for FY 2005-2006.xls
- ORL WW Residential Rates effective 10-01-04.doc
- ORL WW Wholesale Rates 2005.doc

APPENDIX E – Documents Reviewed

ORL Operations

- ORL Schedule Operation Crews - RTE 2 & 3.xls
- ORL Schedule-Conserv II OPS 05-15-05.xls
- ORL Schedule-Conserv II OPS 05-29-05.xls
- ORL Schedule-Conserv II OPS 07-03-05 with Maintenance.xls
- ORL Schedule-Iron Bridge OPS 05-23-05.xls
- ORL Schedule-Iron Bridge OPS Shift Pick.doc
- ORL Schedule-Lab 05-22-05.xls
- ORL Schedule-Lab 05-29-05.xls
- ORL Schedule-Lab 06-05-05.xls
- ORL Schedule-Lab 06-12-05.xls
- ORL Schedule-Lift Station Maintenance.doc
- ORL Schedule-Lift Station OPS 01-05-05.xls
- ORL Schedule-Operation Crews - RTE 1 05-29 to 06-25-05.xls
- ORL Service Area Map-Iron Bridge Reuse.pdf
- ORL Service Area Map-ORL WW & OUC Water Boundaries.pdf
- ORL Service Area Map-WW & Reclaim 05-2005.pdf
- ORL WW Facilities Plan 2002.pdf
- ORL WW Facility Description Conserv 1.doc
- ORL WW Facility Description Conserv 2.doc
- ORL WW Facility Description Iron Bridge.doc
- ORL WW Iron Bridge Fact Sheet 02.pdf

ORL Ordinances

- ORL Ordinance - Regulation of Reclaimed Water Use.doc
- ORL Ordinance - Regulation of Sewer Use and Rates.doc

ORL Organization

- ORL Organization Chart - WW Division Mgmt.ppt
- ORL Organization Chart - WW Division-All 12-2004.doc
- ORL Personnel Measures-WW Admin.doc
- ORL Personnel Measures-WW Conserv I WRF Maintenance.doc
- ORL Personnel Measures-WW Conserv II WRF Operations.doc
- ORL Personnel Measures-WW ConservII Operations.doc
- ORL Personnel Measures-WW ConservII WRF Maintenance.doc
- ORL Personnel Measures-WW Customer Service.pdf
- ORL Personnel Measures-WW IAG Instrumentation.doc
- ORL Personnel Measures-WW IAG Specialty Electric-Controls.doc
- ORL Personnel Measures-WW IAG Systems.doc
- ORL Personnel Measures-WW Iron Bridge Lab.doc
- ORL Personnel Measures-WW Iron Bridge Maintenance.doc
- ORL Personnel Measures-WW Iron Bridge Operations.doc
- ORL Personnel Measures-WW Lift Stations Maintenance.doc
- ORL Personnel Measures-WW Lift Stations Operations.doc

APPENDIX E – Documents Reviewed

- ORL Personnel Measures-WW Sewer Billing.doc
- ORL Personnel Measures-WW Sewer System Maintenance.doc
- ORL Personnel Measures-WW Tech Support.doc
- ORL Policy-Exempt Classifications and Benefits.doc
- ORL Policy-Holidays.doc
- ORL Policy-Military Leave.doc
- ORL Policy-Pay Plans Admin and Maint.doc
- ORL Policy-Personal Leave.doc
- ORL Policy-Reimbursement of Education.doc
- ORL Policy-Work Week and Overtime.doc
- ORL Resumes - Key Management Personnel.doc
- ORL Strategic Plan-WW Division 12-2004.doc
- ORL Union Article 21 Benefits 022105.doc
- ORL Union Agreement-Laborers 2003-2006.pdf
- ORL Union Agreement-Service Employees 2004-2007.pdf
- ORL Union Article 32 Pay plans 022105.doc

ORL Permit & Agreements

- ORL Iron Bridge Major Users Reuse.pdf
- ORL Iron Bridge Permit Notice#2.pdf
- ORL Iron Bridge Residual Annual Summary.pdf
- ORL Iron Bridge Residuals DMR correction.pdf
- ORL Letter-Iron Bridge Dichloromomethane Changes.pdf
- ORL Permit-FDEP for Conserve I.pdf
- ORL Permit-FDEP for Conserve II.pdf
- ORL Permit-FDEP for Iron bridge 2002.pdf
- ORL Permit-NPDES for Iron Bridge.pdf
- ORL-Orange County WW Territorial Agreement 02-21-1994.pdf

OUC Financial Data

- OUC 2004 Annual Report.pdf
- OUC 2004 Audited Financial Report.pdf
- OUC 2004 Fin Info & Stat Report.pdf
- OUC Adjustments to Net Income 1998-2005.pdf
- OUC Budget Book Final 2004.pdf
- OUC Cashbook including compensation plan 2005.pdf
- OUC Master Plan-Exec Summary & Capital Costing.pdf
- OUC Master Plan-Water Quality Phase 3.pdf
- OUC Operating Budget and Capital Plan 2002.pdf
- OUC Operating Budget and Capital Plan 2003.pdf
- OUC Statement of Operations Detail-Electric 08-31-2004.pdf
- OUC Statement of Operations Detail-Water 08-31-2004.pdf
- OUC Utility Plant Dollars in Millions 2003-2004.pdf
- OUC Water Business Unit Statistical Report 2003.rtf
- OUC Water Forecast Sales and Customers 2006-2025.xls

APPENDIX E – Documents Reviewed

OUC Operations

- OUC Water Distribution Overview.doc
- OUC Water Production Assignments.xls
- OUC Water Production Diagram.bmp
- OUC Water Production Network.pdf
- OUC Water Production O&M Data.xls
- OUC Water Production Schedule 2005.xls
- OUC Water Production Training.htm
- OUC Water System General Info.htm

OUC Organization

- OUC Charter.htm
- OUC Management Positions Salary Range.pdf
- OUC Manual-Administrative Policies.pdf
- OUC Manual-Residential Customer Service.pdf
- OUC Organization Chart-Water Distribution.ppt
- OUC Organization Chart-Water Production.JPG
- OUC Organization Charts 2003-2004.pdf
- OUC Pay Policies.pdf

OUC Permit & Agreements

- OUC Consumptive Use Permit SJRWMD 05-11-2004.pdf
- OUC Consumptive Use Permit Application 02-2003.pdf
- OUC Consumptive Use Permit SJRWMD Revised 11-11-2003.pdf
- OUC-ORL Agreement Between ORL & OUC 2000.pdf
- OUC-ORL Reclaimed Water Agreement Between ORL & OUC.pdf

Previous Studies

- CH2M 1998 Report ORL WW Bureau Evaluation.pdf
- Hartman Final Report 2004.pdf
- Hartman Pro-forma for NFP Option 2004.pdf
- JAX New Water and Sewer Expansion Authority.pdf
- Joint Study Commission- WW & Water Services for ORL & Orange County 1982.pdf
- Palm Bay-Information Summary of Not-for-profit.pdf
- Port St Joe Florida WW Service 1997.pdf

Relevant News Articles

- ORL Current Budget Crises - Misc Info.pdf
- ORL Dyer & OUC move with caution on water study.pdf
- ORL Editorial - Why Stop, Look at County too.pdf
- ORL Editorial on Water consolidation.pdf
- ORL Management of our Water Resources-Dyer 2005.pdf
- ORL Municipal Power Grabs Report.pdf
- ORL Policy & Goals Statements for WRM 2004.pdf
- ORL State of the City Address 2005.pdf

APPENDIX E – Documents Reviewed

Statutes & Legal

- 2004 Florida Statutes-Chapter 367.pdf
- 2004 Florida Statutes-Chapter 373.pdf
- 2004 Florida Statutes-Chapter 403.pdf
- 2004 Florida Statutes.pdf
- Bond Ruling referred to in memo 2004.pdf
- General Bond Resolution.pdf
- IRS Revenue Ruling 2004.pdf

PHASE 2:

ORL Financial Data

- ORL 20-year CIP Projection by facility.xls
- ORL 20-year CIP projection.xls
- ORL Contract Services & Other Expenses 2000-2001.xls
- ORL Other Income Comparison 2003-2004.htm
- ORL Public Works Staffing Table.xls
- ORL Reclaimed Water 5-year projection.xls
- ORL SRF Debt Service - 3 pending.htm
- ORL Summary of Historical WW Operations 2000-2004.xls
- ORL Wastewater History by Program.pdf

OUC Financial Data

- OUC 2004 Audited Financial Statement.pdf
- OUC 2004 Financial Info and Stat Report.pdf
- OUC Adopted 2006-2010 Budget Captions.doc
- OUC Adopted 2006-2010 Budget.xls
- OUC Adopted Budget Message.doc
- OUC Adopted Budget Policy.doc
- OUC Basis for allocation of shared services.tif
- OUC Cash Reserve Funds 2005.xls
- OUC Debt Management Policy-Final.doc
- OUC New Front Section Proposed Budget Book 2006-2007.xls
- OUC Revenue & Expense Category Descriptions.doc
- OUC Revenue Refunding Bonds Series 2004.pdf
- OUC Salary Information.xls
- OUC Shared Allocation Budget 2004 input.xls
- OUC Table of Contents Adopted Budget.xls
- OUC Unit Dept Detail & Summary Draft 2006.xls
- OUC Water Balance Sheet 09-2000.pdf
- OUC Water Balance Sheet 09-2001.pdf
- OUC Water Balance Sheet 09-2002.pdf
- OUC Water Balance Sheet 09-2003.pdf
- OUC Water Balance Sheet 09-2004.pdf

APPENDIX E – Documents Reviewed

- OUC Water Consolidated Statement.xls
- OUC Water Financial Statement 09-2000.pdf
- OUC Water Financial Statement 09-2001.pdf
- OUC Water Financial Statement 09-2002.pdf
- OUC Water Financial Statement 09-2003.pdf
- OUC Water Financial Statement 09-2004.pdf
- OUC Water Forecast sales and customers02006-2025.xls
- OUC Water jobs average salaries 092705.xls

Legal Authorities Referenced

Ordinances

- City of Orlando Code of Ordinances
- Orange County Code of Ordinances

Florida Statutes

- Ch. 180, Fla. Stat.
- Ch. 189, Fla. Stat.
- Part I, Ch. 166, Fla. Stat.
- Part III, Ch. 153, Fla. Stat.
- Sec. 367.022, Fla. Stat.
- Sec. 153.91, Fla. Stat.

Florida Special Acts

- Laws of Fla., Ch. 6381 (1911)
- Laws of Fla., Ch. 6739 (1913)
- Laws of Fla., Ch. 7678 (1917)
- Laws of Fla., Ch. 9038 (1921)
- Laws of Fla., Ch. 9861 (1923)
- Laws of Fla., Ch. 9862 (1923)
- Laws of Fla., Ch. 10968 (1925)
- Laws of Fla., Ch. 10976 (1925)
- Laws of Fla., Ch. 13198 (1927)
- Laws of Fla., Ch. 15390 (1931)
- Laws of Fla., Ch. 15391 (1931)
- Laws of Fla., Ch. 15393 (1931)
- Laws of Fla., Ch. 15693 (1931)
- Laws of Fla., Ch. 24758 (1947)
- Laws of Fla., Ch. 31075 (1955)
- Laws of Fla., Ch. 31076 (1955)
- Laws of Fla., Ch. 31077 (1955)
- Laws of Fla., Ch. 31078 (1955)
- Laws of Fla., Ch. 31080 (1955)
- Laws of Fla., Ch. 31092 (1955)
- Laws of Fla., Ch. 80-560 (1980)
- Laws of Fla., Ch. 82-343 (1982)
- Laws of Fla., Ch. 82-415 (1982)

APPENDIX E – Documents Reviewed

- Laws of Fla., Ch. 86-421 (1986)
- Laws of Fla., Ch. 97-334 (1997)

Federal Statutes, Regulations and Decisions

- Sec. 103 of the Internal Revenue Code
- Title 26 Code of Fed. Reg. Sec. 1.150-1
- Internal Revenue Service Revenue Ruling 63-20
- Internal Revenue Service Revenue Procedure 82-26
- Internal Revenue Service Private Letter Ruling 9125029 (March 26, 1991)
- Internal Revenue Service Private Letter Ruling 2845073 (Aug. 13, 1982)
- Internal Revenue Service Private Letter Ruling 8751010 (September 11, 1987)
- Internal Revenue Service Private Letter Ruling 200230039

Florida Judicial and Administrative Decisions

- City of Orlando v. Evans, 182 So. 264 (Fla. 1938)
- Ferguson v. McDonald, 63 So. 915 (Fla. 1913)
- Gaines v. City of Orlando, 450 So.2d 1174 (Fla. 5th DCA 1984)
- City of Kissimmee v. Florida Department of Environmental Protection, 743 So.2d 770 (Fla. 5th DCA 2000)
- In re: Petition for Exemption from Florida Public Service Commission Regulation as a Utility by City of Kissimmee as Receiver for Kings Point Utilities, Inc. in Osceola County, 91 FPSC 10:226, dated November 14, 1991

Contracts and Other Legal Instruments

- Agreement Between Orange County and the Orlando Utilities Commission (Sept. 2, 1975)
- Agreement Between Orange County and the City of Orlando With Regard to the Easterly 201 Facilities Plan (June 5, 1979)
- Amendment to Agreement Between Orange County and the Orlando Utilities Commission (May 12, 1977)
- Amendment to Intergovernmental Agreement Between Orange County and the City of Orlando (Aug. 18, 1980)
- Amended and Restated Orlando Utilities Commission/Orange County Water Service Territorial Agreement (May 4, 1994)
- City of Orlando/Orange County Intergovernmental Agreement (Dec. 21, 1976)
- City of Orlando/Orange County Intergovernmental Agreement (Dec. 12, 1977)
- City of Orlando/Orange County Wastewater Service Territorial Agreement (May 4, 1994)
- DEP Wastewater Facility Permit FL010814-002-DW1P (Oct. 14, 1999)
- First Amendment to the City of Orlando/Orange County Wastewater Service Territorial Agreement (May 7, 2003)
- Interagency Agreement Between SJRWMD and SFWMD Regarding CUP 3159 (May 2004)
- Orange County Wastewater Operation Permit D000-01 (Feb. 16, 2000)
- Second Amendment to City of Orlando/Orange County Wastewater Service Territorial Agreement (Jan. 28, 2004)
- Settlement Agreement By and Between OUC, Orange County, SJRWMD and SFWMD (April 2004)
- Agreement Between the City of Orlando and Laborers' International Union of North America Local 678, October 1, 2003 through September 30, 2006
- Agreement Between the City of Orlando and Service Employees International Union Local 8, October 1, 2004 through September 30, 2007

APPENDIX F1: Source - OUC Financial Annual Financial Statistics Report 2004

OUC WATER REVENUES & EXPENSES (Dollars in thousands)

Years Ended September 30

FROM SALES FORECAST

Customer Growth	1.52%	1.39%	1.36%	1.47%	1.53%	1.56%	1.57%	1.64%	1.74%	1.74%	1.79%	1.79%	1.73%	1.69%	1.66%	1.63%	1.59%	1.55%	1.52%	1.46%	0.36%
Increases in Rates	0.00%	6.17%	1.27%	-0.67%	-0.16%	1.20%	2.91%	4.33%	-0.43%	-0.84%	0.32%	0.71%	0.69%	0.81%	0.79%	0.70%	0.94%	0.61%	0.71%	1.04%	0.00%

Compound

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Rate	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Operating revenues																																	
From Corporate Model														53,595	57,737	59,416	60,052	61,056	62,884	65,810	69,766	70,779	71,481	73,027	74,879	76,725	78,675	80,639	82,571	84,720	86,642	88,678	90,821
Residential	13,107	12,877	14,530	15,696	18,551	23,266	25,083	21,224	22,658	23,148	25,173	0.067	26,871																				
Commercial	5,250	5,367	5,710	6,196	7,433	9,420	10,253	8,897	9,708	10,930	11,497	0.082	12,434																				
Industrial	1,387	1,052	1,106	1,289	1,394	1,804	1,568	1,160	1,327	1,484	1,453	0.005	1,460																				
Irrigation	2,867	2,480	3,444	3,861	4,959	6,933	7,815	5,699	5,861	7,786	9,131	0.123	10,252																				
Fire protection	595	608	625	710	784	915	1,055	1,050	1,076	1,225	1,306	0.082	1,413																				
Service fees	801	841	921	801	695	579	502	514	548	896	1,098	0.032	1,133																				
Resale (Wholesale) and other	188	171	210	189	236	229	353	269	676	835	741	0.147	850																				
Total operating revenues	24,195	23,396	26,546	28,742	34,052	43,146	46,629	38,813	41,854	46,304	50,399	0.076	54,413	53,595	57,737	59,416	60,052	61,056	62,884	65,810	69,766	70,779	71,481	73,027	74,879	76,725	78,675	80,639	82,571	84,720	86,642	88,678	90,821
OPS & maintenance expenses																																	
Production	4,862	5,277	5,690	6,361	7,174	8,061	8,533	8,458	8,763	9,306	10,028	0.075	10,781	11,739	13,000	13,070	13,161	13,421	13,739	14,149	15,303	15,408	15,770	16,046	16,327	16,613	16,903	17,199	17,500	17,806	18,118	18,435	18,758
Distribution	2,011	2,095	2,122	2,192	2,334	2,266	2,646	2,420	2,972	3,380	3,992	0.071	4,275	4,655	5,155	5,183	5,219	5,322	5,448	5,611	6,068	6,110	6,254	6,363	6,475	6,588	6,703	6,821	6,940	7,061	7,185	7,311	7,439
Storm recovery costs-2	-	-	-	-	-	-	-	-	-	-	147	0.000		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Customer service	3,039	2,836	3,017	2,492	4,062	5,353	6,163	4,173	4,260	4,479	5,003	0.051	5,259	6,869	8,042	8,398	8,197	8,512	8,487	8,207	8,563	8,719	8,719	8,915	9,116	9,321	9,531	9,745	9,964	10,188	10,418	10,652	10,892
General & administrative	4,025	3,525	3,592	3,527	3,294	3,153	3,738	5,632	6,651	6,316	5,702	0.035	5,904	6,131	6,689	7,058	7,770	7,580	7,918	8,121	8,274	8,475	8,689	8,906	9,129	9,357	9,591	9,831	10,077	10,328	10,587	10,851	11,123
Total OPS & maintenance expenses	13,937	13,733	14,421	14,572	16,864	18,833	21,080	20,683	22,646	23,481	24,872	0.060	26,219	29,394	32,886	33,709	34,347	34,835	35,592	36,088	38,208	38,712	39,432	40,231	41,046	41,879	42,728	43,596	44,481	45,385	46,307	47,249	48,211
Other expenses																																	
Property Tax	22	21	21	11	10	11	14	15	22	49	51	0.088	55	265	278	288	300	312	323	334	346	354	342	352	362	372	383	394	405	417	429	441	454
Revenue based payments to City of ORL	632	636	695	779	905	1,057	1,226	1,168	1,130	1,280	1,362	0.080	1,471	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation & Amortization-3	3,745	3,967	3,894	4,060	6,831	9,886	11,948	11,850	10,380	11,201	11,972	0.123	13,447	11,246	11,832	12,458	12,736	13,151	13,792	15,126	16,318	17,089	17,537	18,429	19,366	20,351	21,385	22,473	23,616	24,816	26,078	27,404	28,798
Total other expenses	4,399	4,624	4,610	4,850	7,746	10,954	13,188	13,033	11,532	12,530	13,385	0.118	14,974	11,511	12,110	12,746	13,036	13,463	14,115	15,460	16,664	17,443	17,879	18,781	19,728	20,723	21,769	22,867	24,021	25,233	26,507	27,846	29,252
Total operating expenses	18,336	18,357	19,031	19,422	24,610	29,787	34,268	33,716	34,178	36,011	38,257	0.076	26,231	40,905	44,996	46,455	47,383	48,298	49,707	51,548	54,872	56,155	57,311	59,011	60,774	62,602	64,497	66,463	68,502	70,618	72,815	75,095	77,463
Non-operating income																																	
Interest income	2,792	1,955	1,585	1,571	1,833	2,144	3,416	2,932	145	181	755	???	755	815	960	977	1,011	1,085	1,464	1,193	969	972	978	1,029	1,086	1,147	1,215	1,289	1,370	1,460	1,558	1,665	1,783
Gain (Loss) on Investments	-	-	-	187	186	(195)	224	29	15	(3)	(83)	???	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-operating income	396	437	521	523	209	266	293	794	838	326	488		548	611	615	513	517	522	526	531	536	541	546	551	555	560	565	569	574	580	585	590	595
Total non-operating income	3,188	2,392	2,106	2,281	2,228	2,215	3,933	3,755	998	504	1,160		1,303	1,426	1,575	1,490	1,528	1,607	1,990	1,724	1,505	1,513	1,524	1,580	1,641	1,707	1,780	1,859	1,945	2,039	2,142	2,255	2,378
Non-operating expenses																																	
Bond interest and other related expenses	3,206	4,015	6,962	8,623	9,980	11,784	12,550	13,808	10,928	11,660	12,449		8,385	11,528	11,517	11,310	10,857	10,705	11,162	11,604	11,622	10,920	10,055	9,852	9,673	9,517	9,383	9,271	9,181	9,113	9,066	9,039	9,034
Other interest and non-operating expenses	-	1,184	89	34	51	2	(99)	-	-	-	-		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total non-operating expenses	3,206	5,199	7,051	8,657	10,031	11,786	12,451	13,808	10,928	11,660	12,449		8,385	11,528	11,517	11,310	10,857	10,705	11,162	11,604	11,622	10,920	10,055	9,852	9,673	9,517	9,383	9,271	9,181	9,113	9,066	9,039	9,034
Water Income/(Loss) before Contributions	5,841	2,232	2,570	2,944	1,639	3,788	3,843	(4,956)	(2,254)	(863)	853		6,139	2,588	2,799	3,141	3,340	3,660	4,005	4,382	4,777	5,217	5,639	5,743	6,073	6,314	6,575	6,764	6,832	7,029	6,904	6,798	6,702
Contributions in aid of construction (CIAC)	3,569	3,152	2,368	4,953	5,924	7,140	7,680	6,385	8,177	8,301	12,022	0.12913	12,022	13,497	12,007	12,306	12,629	13,322	13,693	13,838	14,386	15,127	15,095	15,301	15,511	15,723	15,938	16,156	16,377	16,600	16,827	17,058	17,291

APPENDIX F2 - CITY OF ORLANDO, FLORIDA: STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS (In thousands
FOR THE YEAR ENDED SEPTEMBER 30

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
Bills	69,933	72,255	73,573	74,892	76,210	76,869	77,528	78,188	78,847	79,506	79,770	80,033	80,297	80,561	80,824	81,088	81,352	81,615	81,879	82,143	82,407	82,670
New Bills	0.5274	2,322	1,318	1,318	1,318	659	659	659	659	659	264	264	264	264	264	264	264	264	264	264	264	264
TOTAL ERCs	132,609	137,012	139,512	142,012	144,512	145,762	147,012	148,262	149,512	150,762	151,262	151,762	152,262	152,762	153,262	153,762	154,262	154,762	155,262	155,762	156,262	156,762
Customer Growth	3.32%	1.82%	1.79%	1.76%	0.86%	0.86%	0.85%	0.84%	0.84%	0.33%	0.33%	0.33%	0.33%	0.33%	0.33%	0.33%	0.32%	0.32%	0.32%	0.32%	0.32%	0.32%
Increases in Rates	0.00%	3.00%	3.00%	3.00%	3.00%	3.00%	5.00%	5.00%	5.00%	5.00%	5.00%	1.50%	1.50%	1.50%	1.50%	1.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%

City of Orlando Wastewater System	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
Operating Revenues		-1.73%	-0.80%	-0.21%	3.61%	0.12%																						
User Charges	38,809	38,136	37,829	37,751	39,113	39,159	40,459	42,433	44,489	46,631	48,445	50,326	53,292	56,428	59,745	62,941	66,306	67,522	68,760	70,020	71,302	72,607	74,664	76,777	78,950	81,184	83,480	
Fees	171	684	339	378	586	509	445	453	461	469	473	477	481	485	489	491	492	494	496	497	499	500	502	504	505	507	509	
Other	229	261	220	405	1,577	7,169	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	
Total Operating Revenues	39,208	39,081	38,388	38,535	41,276	46,836	41,442	43,424	45,489	47,638	49,457	51,342	54,312	57,452	60,773	63,970	67,337	68,555	69,794	71,056	72,340	73,646	75,704	77,820	79,994	82,229	84,527	
Operating Expense Cost Escalation Factors																												
Salaries, Wages and Employee Benefits		ANNUAL CHANGE (Salary Wages & Benefits) -->						3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Contractual Services, Materials and Supplies		ANNUAL CHANGE (Contractual Services) ----->						2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	
Depreciation Expense		ANNUAL CHANGE (Insurance Costs) ----->						3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Insurance and Other Expenses		ANNUAL CHANGE (Depreciation Expense) ----->						2.00%	2.00%	2.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
Salaries, Wages and Employee Benefits	10,402	10,256	10,476	11,813	11,896	12,749	13,195	13,657	14,135	14,630	15,142	15,672	16,221	16,788	17,376	17,984	18,613	19,265	19,939	20,637	21,359	22,000	22,660	23,340	24,040	24,761	25,504	
Contractual Services, Materials and Supplies	15,893	16,729	19,200	18,499	17,871	16,113	16,435	16,764	17,099	17,441	17,790	18,146	18,508	18,879	19,256	19,641	20,034	20,435	20,844	21,260	21,686	22,119	22,562	23,013	23,473	23,943	24,421	
Depreciation Expense	19,956	19,881	20,233	19,419	19,384	19,375	19,762	20,157	20,561	20,561	20,561	20,561	20,561	20,561	20,561	20,561	20,561	20,561	20,561	20,561	20,561	20,561	20,561	20,561	20,561	20,561	20,561	
Insurance and Other Expenses	2,096	2,183	2,254	1,672	3,401	3,805	3,920	4,037	4,158	4,283	4,412	4,544	4,680	4,821	4,965	5,114	5,268	5,426	5,588	5,756	5,929	6,107	6,290	6,478	6,673	6,873	7,079	
Total Operating Expenses	48,347	49,050	52,163	51,403	52,551	52,042	53,312	54,616	55,953	56,915	57,904	58,922	59,970	61,048	62,158	63,300	64,476	65,686	66,932	68,214	69,534	70,787	72,072	73,392	74,747	76,138	77,566	
Operating Income (Loss)	(9,138)	(9,968)	(13,774)	(12,869)	(11,275)	(5,206)	(11,870)	(11,191)	(10,464)	(9,276)	(8,447)	(7,580)	(6,658)	(3,596)	(1,385)	670	2,861	2,869	2,863	2,842	2,805	2,859	3,632	4,428	5,247	6,092	6,961	
Non-Operating Revenues (Expenses)		ANNUAL CHANGE (Income on Investments) --						0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Income on Investments	5,125	9,713	12,113	6,098	4,839	2,541	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738
Impact Fees	20,058	12,112	8,875	9,543	7,398	10,213	10,192	11,250	11,250	11,250	5,625	5,625	5,625	5,625	5,625	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250
Interest Expense	(10,286)	(9,350)	(8,627)	(7,724)	(7,101)	(5,306)	(6,128)	(6,358)	(5,901)	(5,715)	(5,398)	(6,875)	(9,046)	(10,998)	(10,495)	(10,047)	(10,006)	(9,847)	(9,625)	(9,392)	(9,149)	(8,894)	(8,963)	(10,344)	(13,636)	(15,206)	(18,628)	
City WW DIVIDEND to City General Fund	-	-	-	-	-	-	(3,134)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Gain (Loss) on Sale of Capital Assets	30	(389)	(7)	(1,733)	(56)	(10)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Non-Operating Revenues (Expenses)	14,926	12,087	12,354	6,184	5,080	7,439	7,668	11,631	12,087	12,273	6,965	5,489	3,318	1,365	1,868	(1,059)	(1,018)	(859)	(637)	(404)	(161)	94	26	(1,356)	(4,647)	(6,218)	(9,640)	
Income (Loss) Before Contributions and Transfers	5,788	2,118	(1,420)	(6,684)	(6,196)	2,233	(4,202)	439	1,622	2,997	(1,482)	(2,092)	(2,341)	(2,231)	483	(389)	1,843	2,010	2,226	2,437	2,645	2,954	3,657	3,072	600	(126)	(2,679)	
Capital Contributions = (physical CIAC)	243	272	368	1,879	5,007	6,890	2,443	2,697	2,697	2,697	1,348	1,348	1,348	1,348	1,348	539	539	539	539	539	539	539	539	539	539	539	539	
Transfers In	13	4,183	895	177	164	-	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	
Transfers (Out)	(957)	(5,074)	(2,233)	(526)	(2,709)	(919)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	
Subtotal	(702)	(619)	(970)	1,531	2,462	5,971	1,460	1,714	1,714	1,714	365	365	365	365	365	(444)	(444)	(444)	(444)	(444)	(444)	(444)	(444)	(444)	(444)	(444)	(444)	
Wastewater Change in Net Assets	5,086	1,500	(2,390)	(5,154)	(3,734)	8,204	(2,742)	2,153	3,336	4,710	(1,117)	(1,726)	(1,975)	(1,866)	848	(833)	1,399	1,566	1,782	1,994	2,201	2,510	3,214	2,628	156	(570)	(3,123)	
Net Assets - Beginning	314,640	319,726	321,226	318,835	313,682	309,948	318,153	315,411	317,564	320,900	325,610	324,493	322,767	320,791	318,926	319,774	318,941	320,340	321,905	323,687	325,680	327,881	330,391	333,605	336,233	336,389	335,818	
Net Assets - Ending	319,726	321,226	318,835	313,682	309,948	318,153	315,411	317,564	320,900	325,610	324,493	322,767	320,791	318,926	319,774	318,941	320,340	321,905	323,687	325,680	327,881	330,391	333,605	336,233	336,389	335,818	332,696	

APPENDIX F3 - SOURCES AND USES OF FUNDS (COMBINED)
CONSOLIDATED BALANCE SHEET (in millions)

ASSETS	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
WATER - TOTAL UTILITY PLANT	432.99	459.87	477.46	495.83	522.91	555.23	592.25	631.90	652.60	668.38	684.97	721.51	760.17	801.44	845.53	892.65	943.06	997.01	1,054.80	1,116.72	1,183.12
WATER - TOTAL ACCUMULATED DEPRECIATION	101.99	113.00	124.58	136.78	149.25	162.13	175.64	190.47	206.48	223.26	240.47	262.01	285.49	311.07	338.94	369.31	402.40	438.45	477.74	520.54	567.18
WATER - NET UTILITY PLANT	331.00	346.87	352.88	359.05	373.66	393.10	416.61	441.43	446.12	445.12	444.50	459.50	474.68	490.37	506.59	523.35	540.66	558.56	577.06	596.18	615.94
WASTEWATER - TOTAL UTILITY PLANT	628.75	651.47	651.47	657.00	660.74	700.80	756.55	810.00	816.81	826.51	844.57	855.49	855.49	855.49	855.49	855.49	862.21	895.53	967.83	1,007.09	1,084.36
WASTEWATER - TOTAL ACCUMULATED DEPRECIATION	349.02	369.18	389.74	410.30	430.86	451.42	471.98	492.54	513.10	533.66	554.22	574.78	595.34	615.90	636.47	657.03	677.59	698.15	718.71	739.27	759.83
WASTEWATER - NET UTILITY PLANT	279.74	282.29	261.73	246.70	229.88	249.38	284.57	317.46	303.71	292.85	290.34	280.71	260.15	239.59	219.03	198.46	184.62	197.38	249.12	267.82	324.53
WATER - TOTAL CURRENT ASSETS	21.50	21.34	21.61	21.68	21.74	21.83	21.93	22.05	22.30	22.36	22.47	22.52	22.63	22.74	22.85	22.96	23.08	23.20	23.32	23.45	23.58
WATER - TOTAL RESTRICTED FUNDS	26.82	27.79	28.04	28.32	28.38	28.47	34.44	27.78	27.97	28.13	28.36	28.73	29.12	29.52	29.94	30.36	30.80	31.25	31.71	32.19	32.68
WATER - TOTAL OTHER ASSETS	8.84	9.16	9.55	9.98	10.45	10.95	11.46	12.00	12.56	13.15	13.77	14.44	15.16	15.94	16.78	17.68	18.67	19.72	20.87	22.10	23.43
WATER - TOTAL ASSETS	388.16	405.16	412.08	419.03	434.23	454.36	484.44	503.27	508.95	508.77	509.10	525.19	541.59	558.57	576.15	594.35	613.21	632.73	652.96	673.92	695.63
WASTEWATER - TOTAL CURRENT ASSETS	69.23	75.08	81.82	93.78	100.26	135.06	181.37	224.73	231.29	238.68	253.71	271.33	283.54	295.73	307.90	320.10	333.02	368.03	432.61	467.64	534.40
WASTEWATER - TOTAL RESTRICTED FUNDS	45.48	46.98	48.72	51.83	53.51	62.59	74.68	86.00	87.70	89.63	93.55	98.15	101.34	104.52	107.70	110.88	114.25	123.40	140.27	149.41	166.85
WASTEWATER - TOTAL OTHER ASSETS	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78
WASTEWATER - TOTAL ASSETS	395.22	405.13	393.05	393.09	384.43	447.81	541.40	628.97	623.49	621.94	638.39	650.98	645.81	640.62	635.40	630.23	632.67	689.59	822.78	885.66	1,026.56
COMBINED TOTAL ASSETS	783.38	810.29	805.13	812.13	818.65	902.17	1,025.84	1,132.24	1,132.44	1,130.71	1,147.49	1,176.17	1,187.40	1,199.19	1,211.55	1,224.58	1,245.88	1,322.32	1,475.74	1,559.58	1,722.19

LIABILITIES	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
WATER - TOTAL CAPITAL	372.14	380.42	387.22	394.08	400.95	408.24	415.58	416.99	425.48	434.52	443.36	459.01	474.99	491.60	508.86	526.72	545.12	564.08	583.43	603.10	623.22
WATER - TOTAL CURRENT LIAB - RESTRICTED	4.81	5.31	5.20	5.09	4.75	4.40	4.13	3.87	3.69	3.51	3.31	3.20	3.08	2.97	2.87	2.77	2.67	2.58	2.48	2.40	2.31
WATER - TOTAL CURRENT LIAB - UNRESTRICTED	2.04	2.04	2.04	2.04	2.04	2.04	2.04	2.04	2.04	2.04	2.04	2.04	2.04	2.04	2.04	2.04	2.04	2.04	2.04	2.04	2.04
WATER - TOTAL OTHER LIABILITIES	9.17	17.40	17.62	17.82	26.50	39.69	62.70	80.38	77.75	68.71	60.39	61.05	61.77	62.55	63.39	64.30	65.28	66.34	67.48	68.72	70.05
WATER - TOTAL LIABILITIES AND ASSETS	388.16	405.16	412.08	419.03	434.23	454.35	484.44	503.27	508.95	508.77	509.10	525.30	541.89	559.17	577.16	595.82	615.11	635.03	655.43	676.25	697.62
WASTEWATER - TOTAL CAPITAL	240.40	237.50	231.20	238.92	201.67	219.19	269.49	362.39	363.29	360.61	395.28	432.06	436.24	436.15	436.23	429.75	403.76	391.66	488.13	478.76	624.86
WASTEWATER - TOTAL CURRENT LIAB - RESTRICTED	16.05	15.92	15.92	16.22	16.45	19.01	22.56	25.99	26.57	27.14	28.30	17.70	13.27	13.27	13.27	13.27	13.71	15.88	20.58	23.13	28.16
WASTEWATER - TOTAL CURRENT LIAB - UNRESTRICTED	10.21	12.14	12.60	13.12	14.17	15.53	16.98	18.03	19.02	20.19	9.72	5.48	5.68	5.89	6.11	6.44	7.18	8.56	9.50	11.06	11.54
WASTEWATER - TOTAL OTHER LIABILITIES	128.57	146.87	140.26	131.40	158.34	199.92	237.84	227.67	219.34	218.37	209.10	199.39	193.91	188.23	182.34	182.96	209.84	274.95	305.66	373.43	362.37
WASTEWATER - TOTAL LIABILITIES AND ASSETS	395.22	412.43	399.98	399.66	390.63	453.65	546.87	634.08	628.23	626.32	642.41	654.63	649.09	643.54	637.95	632.42	634.49	691.05	823.87	886.39	1,026.93
COMBINED - TOTAL LIABILITIES AND ASSETS	783.38	817.58	812.06	818.69	824.86	908.00	1,031.31	1,137.35	1,137.18	1,135.09	1,151.50	1,179.92	1,190.98	1,202.71	1,215.11	1,228.24	1,249.60	1,326.08	1,479.30	1,562.64	1,724.54

APPENDIX F4 - Savings for Option 1 (Wastewater to OUC)

(Dollars in thousands)

Source - OUC & City REV & EXP Worksheets

Years Ended September 30

WATER Operating Revenues	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenues Projected by Corporate Model		53,595	57,737	59,416	60,052	61,056	62,884	65,810	69,766	70,779	71,481	73,027	74,879	76,725	78,675	80,639	82,571	84,720	86,642	88,678	90,821
2005 Revenues	54,413	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total WATER Operating Revenues	54,413	53,595	57,737	59,416	60,052	61,056	62,884	65,810	69,766	70,779	71,481	73,027	74,879	76,725	78,675	80,639	82,571	84,720	86,642	88,678	90,821
WASTEWATER Operating Revenues	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
User Charges	40,459	42,433	44,489	46,631	48,445	50,326	53,292	56,428	59,745	62,941	66,306	67,522	68,760	70,020	71,302	72,607	74,664	76,777	78,950	81,184	83,480
Fees	445	453	461	469	473	477	481	485	489	491	492	494	496	497	499	500	502	504	505	507	509
Other	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538
Total WASTEWATER Operating Revenues	41,442	43,424	45,489	47,638	49,457	51,342	54,312	57,452	60,773	63,970	67,337	68,555	69,794	71,056	72,340	73,646	75,704	77,820	79,994	82,229	84,527
Combined WATER & WW Operating Revenues	95,855	97,019	103,226	107,054	109,509	112,398	117,196	123,262	130,539	134,749	138,818	141,582	144,674	147,781	151,015	154,285	158,275	162,540	166,636	170,907	175,347

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total WATER Operations and Maintenance Expenses	(26,219)	(29,394)	(32,886)	(33,709)	(34,347)	(34,835)	(35,592)	(36,088)	(38,208)	(38,712)	(39,432)	(40,231)	(41,046)	(41,879)	(42,728)	(43,596)	(44,481)	(45,385)	(46,307)	(47,249)	(48,211)
Total WASTEWATER Operations and Maintenance Expenses	(33,550)	(34,731)	(35,675)	(36,647)	(37,646)	(38,675)	(39,734)	(40,823)	(41,945)	(43,099)	(44,287)	(45,511)	(46,770)	(48,066)	(49,401)	(50,666)	(51,965)	(53,298)	(54,667)	(56,072)	(57,515)
Consolidation Cost Savings - Shared Services - Scenario Independent	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Consolidation Cost Savings - Scenario Specific Salaries & Benefits	0	890	1,824	1,870	1,917	1,965	2,014	2,064	2,116	2,169	2,223	2,278	2,335	2,394	2,454	2,515	2,578	2,642	2,708	2,776	2,846
Combined Water & Wastewater Operations & Maintenance Expenses	(59,769)	(63,235)	(66,737)	(68,485)	(70,076)	(71,545)	(73,312)	(74,847)	(78,037)	(79,642)	(81,497)	(83,463)	(85,481)	(87,551)	(89,675)	(91,747)	(93,868)	(96,041)	(98,266)	(100,545)	(102,880)
Subtotal Operational Revenues Less Operation Expenses	36,086	33,784	36,489	38,569	39,432	40,853	43,884	48,415	52,502	55,106	57,321	58,119	59,193	60,230	61,340	62,539	64,407	66,499	68,370	70,362	72,467
Subtotal WATER - Other Expenses	(14,863)	(11,511)	(12,110)	(12,746)	(13,036)	(13,463)	(14,115)	(15,460)	(16,664)	(17,443)	(17,879)	(18,781)	(19,728)	(20,723)	(21,769)	(22,867)	(24,021)	(25,233)	(26,507)	(27,846)	(29,252)
Subtotal WATER Non-Operating Income	1,303	1,426	1,575	1,490	1,528	1,607	1,990	1,724	1,505	1,513	1,524	1,580	1,641	1,707	1,780	1,859	1,945	2,039	2,142	2,255	2,378
Subtotal WATER Total Non-Operating Expenses	(8,385)	(11,528)	(11,517)	(11,310)	(10,857)	(10,705)	(11,162)	(11,604)	(11,622)	(10,920)	(10,055)	(9,852)	(9,673)	(9,517)	(9,383)	(9,271)	(9,181)	(9,113)	(9,066)	(9,039)	(9,034)
Subtotal Other Water Expenses and Income	(21,945)	(21,613)	(22,052)	(22,566)	(22,365)	(22,561)	(23,287)	(25,340)	(26,781)	(26,850)	(26,410)	(27,053)	(27,760)	(28,533)	(29,372)	(30,280)	(31,257)	(32,307)	(33,431)	(34,630)	(35,908)
Subtotal WASTEWATER - Other Expenses	(19,762)	(20,157)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)
Subtotal WASTEWATER - Non-Operating Income	16,930	17,988	17,988	17,988	12,363	12,363	12,363	12,363	12,363	8,988	8,988	8,988	8,988	8,988	8,988	8,988	8,988	8,988	8,988	8,988	8,988
Subtotal WASTEWATER - Non-Operating Transfers	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)
Subtotal WASTEWATER Non-Operating Expenses	(9,262)	(6,358)	(5,901)	(5,715)	(5,398)	(6,875)	(9,046)	(10,998)	(10,495)	(10,047)	(10,006)	(9,847)	(9,625)	(9,392)	(9,149)	(8,894)	(8,963)	(10,344)	(13,636)	(15,206)	(18,628)
Subtotal Other Wastewater Expenses and Income	(13,077)	(9,510)	(9,457)	(9,271)	(14,578)	(16,055)	(18,226)	(20,179)	(19,676)	(22,603)	(22,562)	(22,403)	(22,181)	(21,948)	(21,705)	(21,450)	(21,518)	(22,900)	(26,191)	(27,762)	(31,184)
Combined WATER & WASTEWATER Total Other Expenses & Income	(35,022)	(31,123)	(31,509)	(31,837)	(36,943)	(38,616)	(41,513)	(45,519)	(46,457)	(49,453)	(48,972)	(49,456)	(49,941)	(50,481)	(51,076)	(51,729)	(52,776)	(55,207)	(59,622)	(62,392)	(67,092)
Implementation Expense		(450)	(225)	0																	
W & WW Income/(Loss) Before Contributions Including W & WW Dep. Exp.	34,274	33,614	37,147	39,750	35,785	35,948	36,723	38,583	42,923	43,303	46,447	47,652	49,178	50,660	52,209	53,843	55,807	56,670	55,387	55,935	54,734
W & WW Income/(Loss) Before Contributions Net of W & WW Dep. Exp.	1,064	2,211	4,755	6,732	2,489	2,236	2,371	2,896	6,045	5,654	8,349	8,663	9,252	9,749	10,263	10,810	11,631	11,293	8,748	7,970	5,375
WATER Contributions In Aid of Construction (CIAC)	12,022	13,497	12,007	12,306	12,629	13,322	13,693	13,838	14,386	15,127	15,095	15,301	15,511	15,723	15,938	16,156	16,377	16,600	16,827	17,058	17,291
WASTEWATER Capital Contributions	2,443	2,697	2,697	2,697	1,348	1,348	1,348	1,348	1,348	539	539	539	539	539	539	539	539	539	539	539	539
Water & Wastewater Income/(Loss) After Contributions Net of Water and Wastewater Dep.	15,530	18,405	19,459	21,735	16,466	16,907	17,412	18,083	21,779	21,320	23,984	24,503	25,302	26,011	26,740	27,505	28,547	28,433	26,115	25,567	23,205
Dividend Payment	(1)	(1,398)	(1,113)	(1,277)	(1,394)	(1,581)	(1,782)	(2,001)	(2,232)	(2,483)	(2,699)	(2,751)	(2,937)	(3,071)	(3,217)	(3,320)	(3,350)	(3,457)	(3,372)	(3,298)	(3,234)
W & WW Income/(Loss) After Contributions Net of W & WW Dep. Exp.	15,528	17,007	18,346	20,457	15,072	15,326	15,630	16,082	19,547	18,837	21,284	21,753	22,365	22,940	23,523	24,185	25,197	24,975	22,743	22,268	19,971

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Combined With Savings	34,274	33,614	37,147	39,750	35,785	35,948	36,723	38,583	42,923	43,303	46,447	47,652	49,178	50,660	52,209	53,843	55,807	56,670	55,387	55,935	54,734
Combined Without Savings	34,274	32,998	35,606	38,173	34,171	34,297	35,034	36,854	41,155	41,494	44,596	45,759	47,242	48,679	50,183	51,768	53,683	54,494	53,159	53,654	52,398
Savings of Consilidation	0	617	1,542	1,577	1,614	1,651	1,689	1,728	1,768	1,809	1,851	1,893	1,937	1,981	2,027	2,075	2,125	2,176	2,228	2,281	2,335

APPENDIX F5 - OPTION 1 (Wastewater to OUC) REVENUE REQUIREMENTS WITH SAVINGS AND REFINANCING

(Dollars in thousands)

Revenue Requirement		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
OUC	Operations and maintenance expenses	29.394	32.886	33.709	34.347	34.835	35.592	36.088	38.208	38.712	39.432	40.231	41.046	41.879	42.728	43.596	44.481	45.385	46.307	47.249	48.211
OUC	Property Tax	0.265	0.278	0.288	0.300	0.312	0.323	0.334	0.346	0.354	0.342	0.352	0.362	0.372	0.383	0.394	0.405	0.417	0.429	0.441	0.454
OUC	Depreciation & Amortization-3	11.246	11.832	12.458	12.736	13.151	13.792	15.126	16.318	17.089	17.537	18.429	19.366	20.351	21.385	22.473	23.616	24.816	26.078	27.404	28.798
OUC	Supplemental Transfer to City (6%)	1.473	1.500	1.588	1.617	1.649	1.681	1.715	1.749	1.787	1.824	1.862	1.902	1.941	1.980	2.020	2.060	2.101	2.142	2.184	2.220
OUC	Subtotal	42.378	46.496	48.043	49.000	49.947	51.388	53.263	56.621	57.942	59.135	60.874	62.676	64.542	66.477	68.482	70.562	72.719	74.957	77.279	79.682
CITY	Salaries, Wages and Employee Benefits	13.657	14.135	14.630	15.142	15.672	16.221	16.788	17.376	17.984	18.613	19.265	19.939	20.637	21.359	22.000	22.660	23.340	24.040	24.761	25.504
CITY	Consolidated Equitable Labor Adjustment Expense	0.273	0.283	0.293	0.303	0.313	0.324	0.336	0.348	0.360	0.372	0.385	0.399	0.413	0.427	0.440	0.453	0.467	0.481	0.495	0.510
CITY	Contractual Services, Materials and Supplies	16.764	17.099	17.441	17.790	18.146	18.508	18.879	19.256	19.641	20.034	20.435	20.844	21.260	21.686	22.119	22.562	23.013	23.473	23.943	24.421
CITY	Depreciation Expense	20.157	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561
CITY	Insurance and Other Expenses	4.037	4.158	4.283	4.412	4.544	4.680	4.821	4.965	5.114	5.268	5.426	5.588	5.756	5.929	6.107	6.290	6.478	6.673	6.873	7.079
CITY	Subtotal	54.889	56.236	57.207	58.207	59.235	60.294	61.384	62.505	63.660	64.848	66.071	67.330	68.627	69.961	71.227	72.525	73.859	75.228	76.633	78.076
COMBINED	Subtotal	97.267	102.732	105.250	107.207	109.182	111.682	114.647	119.126	121.602	123.983	126.945	130.006	133.169	136.438	139.709	143.087	146.578	150.184	153.911	157.758
OUC	Other Income	(1.426)	(1.575)	(1.490)	(1.528)	(1.607)	(1.990)	(1.724)	(1.505)	(1.513)	(1.524)	(1.580)	(1.641)	(1.707)	(1.780)	(1.859)	(1.945)	(2.039)	(2.142)	(2.255)	(2.378)
CITY	Other Income & Expenses																				
CITY	Income on Investments	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738
CITY	Impact Fees	11.250	11.250	11.250	5.625	5.625	5.625	5.625	5.625	2.250	2.250	2.250	2.250	2.250	2.250	2.250	2.250	2.250	2.250	2.250	2.250
CITY	City WW DIVIDEND to City General Fund	(3.231)	(3.388)	(3.551)	(3.721)	(3.865)	(4.013)	(4.248)	(4.496)	(4.759)	(5.011)	(5.277)	(5.573)	(5.471)	(5.571)	(5.672)	(5.776)	(5.938)	(6.105)	(6.277)	(6.454)
CITY	Gain (Loss) on Sale of Capital Assets	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
CITY	Subtotal	(14.757)	(14.600)	(14.437)	(8.642)	(8.499)	(8.350)	(8.115)	(7.867)	(4.230)	(3.977)	(3.711)	(3.615)	(3.517)	(3.417)	(3.316)	(3.213)	(3.050)	(2.883)	(2.711)	(2.535)
CITY	Contributions and Transfers																				
CITY	Capital Contributions = (physical CIAC)	2.697	2.697	2.697	1.348	1.348	1.348	1.348	1.348	0.539	0.539	0.539	0.539	0.539	0.539	0.539	0.539	0.539	0.539	0.539	0.539
CITY	Transfers In	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086
CITY	Transfers (Out)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)
CITY	Subtotal	(1.714)	(1.714)	(1.714)	(0.365)	(0.365)	(0.365)	(0.365)	(0.365)	0.444	0.444	0.444	0.444	0.444	0.444	0.444	0.444	0.444	0.444	0.444	0.444
COMBINED	Subtotal	(17.896)	(17.889)	(17.641)	(10.536)	(10.471)	(10.705)	(10.204)	(9.737)	(5.299)	(5.057)	(4.847)	(4.812)	(4.780)	(4.753)	(4.731)	(4.714)	(4.645)	(4.581)	(4.522)	(4.469)

SAVINGS/CONSOLIDATION EXPENSES		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Scenario Specific and Independent Operational Savings	(0.617)	(1.542)	(1.577)	(1.614)	(1.651)	(1.689)	(1.728)	(1.768)	(1.809)	(1.851)	(1.893)	(1.937)	(1.981)	(2.027)	(2.075)	(2.125)	(2.176)	(2.228)	(2.281)	(2.335)
	Scenario Specific Implementation Costs	0.450	0.225	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
COMBINED	Subtotal	(0.167)	(1.317)	(1.577)	(1.614)	(1.651)	(1.689)	(1.728)	(1.768)	(1.809)	(1.851)	(1.893)	(1.937)	(1.981)	(2.027)	(2.075)	(2.125)	(2.176)	(2.228)	(2.281)	(2.335)
	Debt Service																				
COMBINED	Combined Debt Service Refinance	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
OUC	Refinanced Debt Service Requirement	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
OUC	JR LTD Retirement	6.468	6.818	7.215	7.612	8.061	14.289	7.901	8.269	8.611	9.026	9.716	10.459	11.258	12.119	13.045	14.043	15.116	16.272	17.516	18.855
OUC	SR LTD Retirement	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
OUC	Interest on JR LTD	10.684	10.487	10.270	9.581	8.881	8.414	7.815	7.467	7.102	6.724	6.388	6.069	5.766	5.478	5.204	4.944	4.697	4.462	4.239	4.027
OUC	Interest on SR LTD	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523
OUC	Interest on STD/Commercial Paper	0.178	0.364	0.374	0.610	1.158	2.082	3.123	3.489	3.152	2.665	2.798	2.938	3.085	3.239	3.401	3.571	3.750	3.937	4.134	4.341
OUC	Loc/Handl, Pay Fee,SWAP & Other	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143
OUC	Cash Requirement - Debt Service	17.996	18.335	18.525	18.469	18.766	25.451	19.505	19.891	19.531	19.081	19.568	20.132	20.775	21.502	22.317	23.224	24.229	25.338	26.555	27.889
CITY	Refinanced New Debt Service Expense	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
CITY	Baseline Interest Expense	6.358	5.901	5.715	5.398	6.875	9.046	10.998	10.495	10.047	10.006	9.847	9.625	9.392	9.149	8.894	8.963	10.344	13.636	15.206	18.628
CITY	Baseline Principal Expense	11.060	11.519	12.008	12.550	13.632	15.016	16.491	17.573	18.597	19.796	9.355	5.147	5.380	5.624	5.879	6.247	7.033	8.444	9.428	11.033
CITY	Cash Debt Service Requirement	17.417	17.421	17.723	17.947	20.506	24.062	27.489	28.069	28.644	29.802	19.202	14.772	14.772	14.772	14.772	15.209	17.377	22.080	24.634	29.661
COMBINED	Subtotal	35.413	35.756	36.248	36.416	39.272	49.513	46.994	47.960	48.175	48.883	38.771	34.904	35.547	36.274	37.089	38.433	41.606	47.418	51.190	57.550
COMBINED	Gross Revenue Requirement	114.617	119.282	122.280	131.474	136.333	148.801	149.708	155.581	162.669	165.959	158.976	158.162	161.955	165.933	169.992	174.682	181.362	190.793	198.298	208.504
COMBINED	Cash Requirement From Rates	83.213	86.889	89.261	98.177	102.621	114.448	114.021	118.702	125.019	127.861	119.986	118.236	121.044	123.987	126.959	130.506	135.985	144.154	150.333	159.145
OUC	BOOKED RETAIL REVENUE	53.595	57.737	59.416	60.052	61.056	62.884	65.810	69.766	70.779	71.481	73.027	74.879	76.725	78.675	80.639	82.571	84.720	86.642	88.678	90.821
CITY	Projected Rate Revenues	43.424	45.489	47.638	49.457	51.342	54.312	57.452	60.773	63.970	67.337	68.555	69.794	71.056	72.340	73.646	75.704	77.820	79.994	82.229	84.527
COMBINED	Subtotal	97.019	103.226	107.054																	

APPENDIX F6 - Savings for Option 2 (Water to the City)

(Dollars in thousands)

Source - OUC & City REV & EXP Worksheets

Years Ending September 30

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
WASTEWATER Operating Revenues																						
User Charges	40,459	42,433	44,489	46,631	48,445	50,326	53,292	56,428	59,745	62,941	66,306	67,522	68,760	70,020	71,302	72,607	74,664	76,777	78,950	81,184	83,480	
Fees	445	453	461	469	473	477	481	485	489	491	492	494	496	497	499	500	502	504	505	507	509	
Other	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	
Total Wastewater Operating Revenues	41,442	43,424	45,489	47,638	49,457	51,342	54,312	57,452	60,773	63,970	67,337	68,555	69,794	71,056	72,340	73,646	75,704	77,820	79,994	82,229	84,527	
WATER Operating Revenues																						
From Corporate Model	0	53,595	57,737	59,416	60,052	61,056	62,884	65,810	69,766	70,779	71,481	73,027	74,879	76,725	78,675	80,639	82,571	84,720	86,642	88,678	90,821	
2005 Revenues	54,413	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Total Water Operating Revenues	54,413	53,595	57,737	59,416	60,052	61,056	62,884	65,810	69,766	70,779	71,481	73,027	74,879	76,725	78,675	80,639	82,571	84,720	86,642	88,678	90,821	
Total Combined WW and Water Operating Revenues	95,855	97,019	103,226	107,054	109,509	112,398	117,196	123,262	130,539	134,749	138,818	141,582	144,674	147,781	151,015	154,285	158,275	162,540	166,636	170,907	175,347	

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total WASTEWATER Operations and Maintenance Expenses	(53,312)	(54,889)	(56,236)	(57,207)	(58,207)	(59,235)	(60,294)	(61,384)	(62,505)	(63,660)	(64,848)	(66,071)	(67,330)	(68,627)	(69,961)	(71,227)	(72,525)	(73,859)	(75,228)	(76,633)	(78,076)
Total WATER Operations and Maintenance Expenses	(39,666)	(40,640)	(44,718)	(46,167)	(47,083)	(47,986)	(49,384)	(51,214)	(54,526)	(55,801)	(56,969)	(58,660)	(60,412)	(62,229)	(64,114)	(66,068)	(68,097)	(70,201)	(72,386)	(74,654)	(77,009)
Consolidation Cost Savings - Shared Services - Scenario Independent	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Consolidation Cost Savings - Scenario Specific Salaries & Benefits	0	787	1,614	1,654	1,696	1,738	1,781	1,826	1,872	1,918	1,966	2,016	2,066	2,118	2,171	2,225	2,280	2,337	2,396	2,456	2,517
Combined Water & Wastewater Total Operations & Maintenance Expenses	(92,979)	(94,741)	(99,340)	(101,720)	(103,594)	(105,483)	(107,897)	(110,772)	(115,160)	(117,542)	(119,851)	(122,715)	(125,677)	(128,738)	(131,905)	(135,070)	(138,342)	(141,723)	(145,217)	(148,831)	(152,567)
Operating Income (Loss)	2,877	2,278	3,886	5,334	5,914	6,914	9,299	12,490	15,379	17,206	18,967	18,867	18,997	19,042	19,110	19,215	19,933	20,817	21,418	22,076	22,780
Total WASTEWATER Non-Operating Revenues (Expenses)	7,668	11,631	12,087	12,273	6,965	5,489	3,318	1,365	1,868	(1,059)	(1,018)	(859)	(637)	(404)	(161)	94	26	(1,356)	(4,647)	(6,218)	(9,640)
Total WATER Other Non-Operating Expenses	(1,415)	(265)	(278)	(288)	(300)	(312)	(323)	(334)	(346)	(354)	(342)	(352)	(362)	(372)	(383)	(394)	(405)	(417)	(429)	(441)	(454)
Total WATER Non-Operating Income	1,303	1,426	1,575	1,490	1,528	1,607	1,990	1,724	1,505	1,513	1,524	1,580	1,641	1,707	1,780	1,859	1,945	2,039	2,142	2,255	2,378
Total WASTEWATER Non-Operating Expenses	(8,385)	(11,528)	(11,517)	(11,310)	(10,857)	(10,705)	(11,162)	(11,604)	(11,622)	(10,920)	(10,055)	(9,852)	(9,673)	(9,517)	(9,383)	(9,271)	(9,181)	(9,113)	(9,066)	(9,039)	(9,034)
Income (Loss) Before Contributions and Transfers	13,482	15,211	13,721	14,020	12,994	13,687	14,058	14,203	14,751	14,683	14,651	14,857	15,067	15,279	15,494	15,712	15,933	16,157	16,383	16,614	16,847
Implementation Expense		-500	-250																		
Change in Net Assets	15,530	18,252	19,223	21,519	16,245	16,680	17,180	17,845	21,535	21,070	23,727	24,240	25,033	25,735	26,457	27,214	28,250	28,128	25,802	25,246	22,877

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Combined With Savings	15,530	18,252	19,223	21,519	16,245	16,680	17,180	17,845	21,535	21,070	23,727	24,240	25,033	25,735	26,457	27,214	28,250	28,128	25,802	25,246	22,877
Combined Without Savings	15,530	17,738	17,892	20,157	14,852	15,256	15,723	16,354	20,011	19,511	22,133	22,610	23,365	24,030	24,714	25,430	26,422	26,257	23,887	23,286	20,870
Consolidation Cost Savings	0	514	1,331	1,362	1,393	1,425	1,457	1,490	1,524	1,559	1,594	1,630	1,667	1,705	1,743	1,785	1,827	1,871	1,915	1,961	2,007

APPENDIX F7 - OPTION 2 (Water to the City) REVENUE REQUIREMENTS WITH SAVINGS AND REFINANCING

(Dollars in thousands)

Revenue Requirement		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
OUC	Operations and maintenance expenses	29.394	32.886	33.709	34.347	34.835	35.592	36.088	38.208	38.712	39.432	40.231	41.046	41.879	42.728	43.596	44.481	45.385	46.307	47.249	48.211
OUC	Property Tax	0.265	0.278	0.288	0.300	0.312	0.323	0.334	0.346	0.354	0.342	0.352	0.362	0.372	0.383	0.394	0.405	0.417	0.429	0.441	0.454
OUC	Depreciation & Amortization-3	11.246	11.832	12.458	12.736	13.151	13.792	15.126	16.318	17.089	17.537	18.429	19.366	20.351	21.385	22.473	23.616	24.816	26.078	27.404	28.798
OUC	Supplemental Transfer to City (6%)	1.473	1.500	1.588	1.617	1.649	1.681	1.715	1.749	1.787	1.824	1.862	1.902	1.941	1.980	2.020	2.060	2.101	2.142	2.184	2.220
OUC	Subtotal	42.378	46.496	48.043	49.000	49.947	51.388	53.263	56.621	57.942	59.135	60.874	62.676	64.542	66.477	68.482	70.562	72.719	74.957	77.279	79.682
CITY	Salaries, Wages and Employee Benefits	13.657	14.135	14.630	15.142	15.672	16.221	16.788	17.376	17.984	18.613	19.265	19.939	20.637	21.359	22.000	22.660	23.340	24.040	24.761	25.504
	Consolidated Equitable Labor Adjustment Expense (CITY)	0.273	0.283	0.293	0.303	0.313	0.324	0.336	0.348	0.360	0.372	0.385	0.399	0.413	0.427	0.440	0.453	0.467	0.481	0.495	0.510
CITY	Contractual Services, Materials and Supplies	16.764	17.099	17.441	17.790	18.146	18.508	18.879	19.256	19.641	20.034	20.435	20.844	21.260	21.686	22.119	22.562	23.013	23.473	23.943	24.421
CITY	Depreciation Expense	20.157	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561
CITY	Insurance and Other Expenses	4.037	4.158	4.283	4.412	4.544	4.680	4.821	4.965	5.114	5.268	5.426	5.588	5.756	5.929	6.107	6.290	6.478	6.673	6.873	7.079
CITY	Subtotal	54.889	56.236	57.207	58.207	59.235	60.294	61.384	62.505	63.660	64.848	66.071	67.330	68.627	69.961	71.227	72.525	73.859	75.228	76.633	78.076
COMBINED	Subtotal	97.267	102.732	105.250	107.207	109.182	111.682	114.647	119.126	121.602	123.983	126.945	130.006	133.169	136.438	139.709	143.087	146.578	150.184	153.911	157.758
OUC	Other Income	(1.426)	(1.575)	(1.490)	(1.528)	(1.607)	(1.990)	(1.724)	(1.505)	(1.513)	(1.524)	(1.580)	(1.641)	(1.707)	(1.780)	(1.859)	(1.945)	(2.039)	(2.142)	(2.255)	(2.378)
CITY	Other Income & Expenses																				
CITY	Income on Investments	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738
CITY	Impact Fees	11.250	11.250	11.250	5.625	5.625	5.625	5.625	5.625	2.250	2.250	2.250	2.250	2.250	2.250	2.250	2.250	2.250	2.250	2.250	2.250
CITY	City WW DIVIDEND to City General Fund	(3.231)	(3.388)	(3.551)	(3.721)	(3.865)	(4.013)	(4.248)	(4.496)	(4.759)	(5.011)	(5.277)	(5.573)	(5.871)	(6.171)	(6.472)	(6.776)	(7.083)	(7.393)	(7.707)	(8.024)
CITY	Gain (Loss) on Sale of Capital Assets	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
CITY	Subtotal	(14.757)	(14.600)	(14.437)	(8.642)	(8.499)	(8.350)	(8.115)	(7.867)	(4.230)	(3.977)	(3.711)	(3.615)	(3.517)	(3.417)	(3.316)	(3.213)	(3.050)	(2.883)	(2.711)	(2.535)
CITY	Contributions and Transfers																				
CITY	Capital Contributions = (physical CIAC)	2.697	2.697	2.697	1.348	1.348	1.348	1.348	1.348	0.539	0.539	0.539	0.539	0.539	0.539	0.539	0.539	0.539	0.539	0.539	0.539
CITY	Transfers In	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086
CITY	Transfers (Out)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)
CITY	Subtotal	(1.714)	(1.714)	(1.714)	(0.365)	(0.365)	(0.365)	(0.365)	(0.365)	0.444	0.444	0.444	0.444	0.444	0.444	0.444	0.444	0.444	0.444	0.444	0.444
COMBINED	Subtotal	(17.896)	(17.889)	(17.641)	(10.536)	(10.471)	(10.705)	(10.204)	(9.737)	(5.299)	(5.057)	(4.847)	(4.812)	(4.780)	(4.753)	(4.731)	(4.714)	(4.645)	(4.581)	(4.522)	(4.469)

SAVINGS/CONSOLIDATION EXPENSES		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Scenario Specific and Independent Operational Savings	(0.514)	(1.331)	(1.362)	(1.393)	(1.425)	(1.457)	(1.490)	(1.524)	(1.559)	(1.594)	(1.630)	(1.667)	(1.705)	(1.743)	(1.785)	(1.827)	(1.871)	(1.915)	(1.961)	(2.007)
	Scenario Specific Set Up Costs	0.500	0.250	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
COMBINED	Subtotal	(0.014)	(1.081)	(1.362)	(1.393)	(1.425)	(1.457)	(1.490)	(1.524)	(1.559)	(1.594)	(1.630)	(1.667)	(1.705)	(1.743)	(1.785)	(1.827)	(1.871)	(1.915)	(1.961)	(2.007)
	Debt Service																				
COMBINED	Combined Debt Service Refinance	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
OUC	Refinanced Debt Service Requirement	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
OUC	-JR LTD Retirement	6.468	6.818	7.215	7.612	8.061	14.289	7.901	8.269	8.611	9.026	9.716	10.459	11.258	12.119	13.045	14.043	15.116	16.272	17.516	18.855
OUC	-SR LTD Retirement	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
OUC	-Interest on JR LTD	10.684	10.487	10.270	9.581	8.881	8.414	7.815	7.467	7.102	6.724	6.388	6.069	5.766	5.478	5.204	4.944	4.697	4.462	4.239	4.027
OUC	-Interest on SR LTD	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523
OUC	-Interest on STD/Commercial Paper	0.178	0.364	0.374	0.610	1.158	2.082	3.123	3.489	3.152	2.665	2.798	2.938	3.085	3.239	3.401	3.571	3.750	3.937	4.134	4.341
OUC	Loc/Handl, Pay Fee, SWAP & Other	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143
OUC	Cash Requirement - Debt Service	17.996	18.335	18.525	18.469	18.766	25.451	19.505	19.891	19.531	19.081	19.568	20.132	20.775	21.502	22.317	23.224	24.229	25.338	26.555	27.889
CITY	Refinanced New Debt Service Expense	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
CITY	Baseline Interest Expense	6.358	5.901	5.715	5.398	6.875	9.046	10.998	10.495	10.047	10.006	9.847	9.625	9.392	9.149	8.894	8.963	10.344	13.636	15.206	18.628
CITY	Baseline Principal Expense	11.060	11.519	12.008	12.550	13.632	15.016	16.491	17.573	18.597	19.796	9.355	5.147	5.380	5.624	5.879	6.247	7.033	8.444	9.428	11.033
CITY	Cash Debt Service Requirement	17.417	17.421	17.723	17.947	20.506	24.062	27.489	28.069	28.644	29.802	19.202	14.772	14.772	14.772	14.772	15.209	17.377	22.080	24.634	29.661
COMBINED	Subtotal	35.413	35.756	36.248	36.416	39.272	49.513	46.994	47.960	48.175	48.883	38.771	34.904	35.547	36.274	37.089	38.433	41.606	47.418	51.190	57.550
COMBINED	Gross Revenue Requirement	114.769	119.517	122.496	131.695	136.559	149.033	149.946	155.825	162.919	166.215	159.238	158.432	162.232	166.216	170.282	174.980	181.667	191.105	198.618	208.832
			0.041	0.025	0.075	0.037	0.091	0.006	0.039	0.046	0.210	(0.042)	(0.005)	0.024	0.025	0.024	0.028	0.038	0.052	0.039	0.051
COMBINED	Cash Requirement From Rates	83.366	87.125	89.477	98.398	102.848	114.680	114.259	118.946	125.269	128.117	120.249	118.505	121.320	124.270	127.249	130.803	136.290	144.466	150.653	159.473
OUC	BOOKED RETAIL REVENUE	53.595	57.737	59.416	60.052	61.056	62.884	65.810	69.766	70.779	71.481	73.027	74.879	76.725	78.675	80.639	82.571	84.720	86.642	88.678	90.821

APPENDIX F8 - Savings for Option 3 (Third-party Entity)

(Dollars in thousands)

Source - OUC & City REV & EXP Worksheets

Years Ended September 30

WATER Operating Revenues	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenues Projected by Corporate Model		53,595	57,737	59,416	60,052	61,056	62,884	65,810	69,766	70,779	71,481	73,027	74,879	76,725	78,675	80,639	82,571	84,720	86,642	88,678	90,821
2005 Revenues	54,413	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total WATER Operating Revenues-1	54,413	53,595	57,737	59,416	60,052	61,056	62,884	65,810	69,766	70,779	71,481	73,027	74,879	76,725	78,675	80,639	82,571	84,720	86,642	88,678	90,821
WASTEWATER Operating Revenues	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
User Charges	40,459	42,433	44,489	46,631	48,445	50,326	53,292	56,428	59,745	62,941	66,306	67,522	68,760	70,020	71,302	72,607	74,664	76,777	78,950	81,184	83,480
Fees	445	453	461	469	473	477	481	485	489	491	492	494	496	497	499	500	502	504	505	507	509
Other	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538
Total WASTEWATER Operating Revenues-1	41,442	43,424	45,489	47,638	49,457	51,342	54,312	57,452	60,773	63,970	67,337	68,555	69,794	71,056	72,340	73,646	75,704	77,820	79,994	82,229	84,527
Combined WATER & WW Operating Revenues	95,855	97,019	103,226	107,054	109,509	112,398	117,196	123,262	130,539	134,749	138,818	141,582	144,674	147,781	151,015	154,285	158,275	162,540	166,636	170,907	175,347

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total WATER Operations and Maintenance Expenses	(26,219)	(29,394)	(32,886)	(33,709)	(34,347)	(34,835)	(35,592)	(36,088)	(38,208)	(38,712)	(39,432)	(40,231)	(41,046)	(41,879)	(42,728)	(43,596)	(44,481)	(45,385)	(46,307)	(47,249)	(48,211)
Total WASTEWATER Operations and Maintenance Expenses	(33,550)	(34,731)	(35,675)	(36,647)	(37,646)	(38,675)	(39,734)	(40,823)	(41,945)	(43,099)	(44,287)	(45,511)	(46,770)	(48,066)	(49,401)	(50,666)	(51,965)	(53,298)	(54,667)	(56,072)	(57,515)
Consolidation Cost Savings - Shared Services - Scenario Independent	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Consolidation Cost Savings - Scenario Specific Salaries & Benefits	0	548	1,123	1,151	1,180	1,209	1,239	1,270	1,302	1,335	1,368	1,402	1,437	1,473	1,510	1,548	1,586	1,626	1,667	1,708	1,751
Combined Water & Wastewater Operations & Maintenance Expenses	(59,769)	(63,578)	(67,438)	(69,205)	(70,814)	(72,301)	(74,086)	(75,641)	(78,851)	(80,477)	(82,351)	(84,339)	(86,379)	(88,472)	(90,619)	(92,714)	(94,859)	(97,057)	(99,308)	(101,613)	(103,975)
Subtotal Operational Revenues Less Operation Expenses	36,086	33,442	35,787	37,849	38,695	40,097	43,109	47,621	51,688	54,272	56,466	57,242	58,295	59,309	60,396	61,571	63,415	65,483	67,328	69,294	71,373
Subtotal WATER - Other Expenses	(14,863)	(11,511)	(12,110)	(12,746)	(13,036)	(13,463)	(14,115)	(15,460)	(16,664)	(17,443)	(17,879)	(18,781)	(19,728)	(20,723)	(21,769)	(22,867)	(24,021)	(25,233)	(26,507)	(27,846)	(29,252)
Subtotal WATER Non-Operating Income	1,303	1,426	1,575	1,490	1,528	1,607	1,990	1,724	1,505	1,513	1,524	1,580	1,641	1,707	1,780	1,859	1,945	2,039	2,142	2,255	2,378
Subtotal WATER Total Non-Operating Expenses	(8,385)	(11,528)	(11,517)	(11,310)	(10,857)	(10,705)	(11,162)	(11,604)	(11,622)	(10,920)	(10,055)	(9,852)	(9,673)	(9,517)	(9,383)	(9,271)	(9,181)	(9,113)	(9,066)	(9,039)	(9,034)
Subtotal Other WATER Expenses and Income	(21,945)	(21,613)	(22,052)	(22,566)	(22,365)	(22,561)	(23,287)	(25,340)	(26,781)	(26,850)	(26,410)	(27,053)	(27,760)	(28,533)	(29,372)	(30,280)	(31,257)	(32,307)	(33,431)	(34,630)	(35,908)
Subtotal WASTEWATER - Other Expenses	(19,762)	(20,157)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)	(20,561)
Subtotal WASTEWATER - Non-Operating Income	16,930	17,988	17,988	17,988	12,363	12,363	12,363	12,363	12,363	8,988	8,988	8,988	8,988	8,988	8,988	8,988	8,988	8,988	8,988	8,988	8,988
Subtotal WASTEWATER - Non-Operating Transfers	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)	(983)
Subtotal WASTEWATER Non-Operating Expenses	(9,262)	(6,358)	(5,901)	(5,715)	(5,398)	(6,875)	(9,046)	(10,998)	(10,495)	(10,047)	(10,006)	(9,847)	(9,625)	(9,392)	(9,149)	(8,894)	(8,963)	(10,344)	(13,636)	(15,206)	(18,628)
Subtotal Other WASTEWATER Expenses and Income	(13,077)	(9,510)	(9,457)	(9,271)	(14,578)	(16,055)	(18,226)	(20,179)	(19,676)	(22,603)	(22,562)	(22,403)	(22,181)	(21,948)	(21,705)	(21,450)	(21,518)	(22,900)	(26,191)	(27,762)	(31,184)
Implementation Expense		(750)	(375)																		
Subtotal Total Other Expenses & Income	(35,022)	(31,873)	(31,884)	(31,837)	(36,943)	(38,616)	(41,513)	(45,519)	(46,457)	(49,453)	(48,972)	(49,456)	(49,941)	(50,481)	(51,076)	(51,729)	(52,776)	(55,207)	(59,622)	(62,392)	(67,092)
W & WW Income/(Loss) Before Contributions Including W & WW Depreciation Expense	34,274	32,972	36,296	39,031	35,048	35,192	35,949	37,789	42,110	42,469	45,592	46,776	48,280	49,739	51,265	52,876	54,816	55,653	54,345	54,867	53,639
W & WW Income/(Loss) Before Contributions Net of W & WW Depreciation Expense	1,064	1,569	3,903	6,013	1,751	1,481	1,596	2,102	5,231	4,820	7,494	7,786	8,354	8,828	9,319	9,842	10,640	10,276	7,706	6,902	4,281
WATER Contributions In Aid of Construction (CIAC)	12,022	13,497	12,007	12,306	12,629	13,322	13,693	13,838	14,386	15,127	15,095	15,301	15,511	15,723	15,938	16,156	16,377	16,600	16,827	17,058	17,291
WASTEWATER Capital Contributions	2,443	2,697	2,697	2,697	1,348	1,348	1,348	1,348	1,348	539	539	539	539	539	539	539	539	539	539	539	539
W & WW Income/(Loss) After Contributions Net of W & WW Depreciation Expense	15,530	17,763	18,607	21,016	15,729	16,151	16,638	17,289	20,966	20,486	23,129	23,627	24,404	25,090	25,796	26,537	27,556	27,416	25,073	24,499	22,111

APPENDIX F9 - OPTION 3 (Third-party Entity) REVENUE REQUIREMENTS WITH SAVINGS AND REFINANCING

(Dollars in thousands)

REVENUE REQUIREMENT		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
OUC	Operations and maintenance expenses	29.394	32.886	33.709	34.347	34.835	35.592	36.088	38.208	38.712	39.432	40.231	41.046	41.879	42.728	43.596	44.481	45.385	46.307	47.249	48.211
OUC	Property Tax	0.265	0.278	0.288	0.300	0.312	0.323	0.334	0.346	0.354	0.342	0.352	0.362	0.372	0.383	0.394	0.405	0.417	0.429	0.441	0.454
OUC	Depreciation & Amortization-3	11.246	11.832	12.458	12.736	13.151	13.792	15.126	16.318	17.089	17.537	18.429	19.366	20.351	21.385	22.473	23.616	24.816	26.078	27.404	28.798
OUC	Supplemental Transfer to City (6%)	1.473	1.500	1.588	1.617	1.649	1.681	1.715	1.749	1.787	1.824	1.862	1.902	1.941	1.980	2.020	2.060	2.101	2.142	2.184	2.220
OUC	Subtotal	42.378	46.496	48.043	49.000	49.947	51.388	53.263	56.621	57.942	59.135	60.874	62.676	64.542	66.477	68.482	70.562	72.719	74.957	77.279	79.682
CITY	Salaries, Wages and Employee Benefits	13.657	14.135	14.630	15.142	15.672	16.221	16.788	17.376	17.984	18.613	19.265	19.939	20.637	21.359	22.000	22.660	23.340	24.040	24.761	25.504
CITY	Consolidated Equitable Labor Adjustment Expense (CITY)	0.273	0.283	0.293	0.303	0.313	0.324	0.336	0.348	0.360	0.372	0.385	0.399	0.413	0.427	0.440	0.453	0.467	0.481	0.495	0.510
CITY	Contractual Services, Materials and Supplies	16.764	17.099	17.441	17.790	18.146	18.508	18.879	19.256	19.641	20.034	20.435	20.844	21.260	21.686	22.119	22.562	23.013	23.473	23.943	24.421
CITY	Depreciation Expense	20.157	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561	20.561
CITY	Insurance and Other Expenses	4.037	4.158	4.283	4.412	4.544	4.680	4.821	4.965	5.114	5.268	5.426	5.588	5.756	5.929	6.107	6.290	6.478	6.673	6.873	7.079
CITY	Subtotal	54.889	56.236	57.207	58.207	59.235	60.294	61.384	62.505	63.660	64.848	66.071	67.330	68.627	69.961	71.227	72.525	73.859	75.228	76.633	78.076
COMBINED	Subtotal	97.267	102.732	105.250	107.207	109.182	111.682	114.647	119.126	121.602	123.983	126.945	130.006	133.169	136.438	139.709	143.087	146.578	150.184	153.911	157.758
OUC	Other Income	(1.426)	(1.575)	(1.490)	(1.528)	(1.607)	(1.990)	(1.724)	(1.505)	(1.513)	(1.524)	(1.580)	(1.641)	(1.707)	(1.780)	(1.859)	(1.945)	(2.039)	(2.142)	(2.255)	(2.378)
CITY	Other Income & Expenses																				
CITY	Income on Investments	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738	6.738
CITY	Impact Fees	11.250	11.250	11.250	5.625	5.625	5.625	5.625	5.625	2.250	2.250	2.250	2.250	2.250	2.250	2.250	2.250	2.250	2.250	2.250	2.250
CITY	City WW DIVIDEND to City General Fund	(3.231)	(3.388)	(3.551)	(3.721)	(3.865)	(4.013)	(4.248)	(4.496)	(4.759)	(5.011)	(5.277)	(5.533)	(5.771)	(5.971)	(6.132)	(6.255)	(6.338)	(6.381)	(6.385)	(6.344)
CITY	Gain (Loss) on Sale of Capital Assets	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
CITY	Subtotal	(14.757)	(14.600)	(14.437)	(8.642)	(8.499)	(8.350)	(8.115)	(7.867)	(4.230)	(3.977)	(3.711)	(3.615)	(3.517)	(3.417)	(3.316)	(3.213)	(3.050)	(2.883)	(2.711)	(2.535)
CITY	Contributions and Transfers																				
CITY	Capital Contributions = (physical CIAC)	2.697	2.697	2.697	1.348	1.348	1.348	1.348	1.348	0.539	0.539	0.539	0.539	0.539	0.539	0.539	0.539	0.539	0.539	0.539	0.539
CITY	Transfers In	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086	1.086
CITY	Transfers (Out)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)	(2.070)
CITY	Subtotal	(1.714)	(1.714)	(1.714)	(0.365)	(0.365)	(0.365)	(0.365)	(0.365)	0.444	0.444	0.444	0.444	0.444	0.444	0.444	0.444	0.444	0.444	0.444	0.444
COMBINED	Subtotal	(17.896)	(17.889)	(17.641)	(10.536)	(10.471)	(10.705)	(10.204)	(9.737)	(5.299)	(5.057)	(4.847)	(4.812)	(4.780)	(4.753)	(4.731)	(4.714)	(4.645)	(4.581)	(4.522)	(4.469)

SAVINGS/CONSOLIDATION EXPENSES		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Scenario Specific and Independent Operational Savings	(0.275)	(0.840)	(0.858)	(0.877)	(0.896)	(0.915)	(0.935)	(0.955)	(0.975)	(0.996)	(1.017)	(1.038)	(1.060)	(1.083)	(1.108)	(1.133)	(1.159)	(1.186)	(1.213)	(1.241)
	Scenario Specific Set Up Costs	0.750	0.375	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
COMBINED	Subtotal	0.475	(0.465)	(0.858)	(0.877)	(0.896)	(0.915)	(0.935)	(0.955)	(0.975)	(0.996)	(1.017)	(1.038)	(1.060)	(1.083)	(1.108)	(1.133)	(1.159)	(1.186)	(1.213)	(1.241)
	Debt Service																				
COMBINED	Combined Debt Service Refinance	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
OUC	Refinanced Debt Service Requirement	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
OUC	-JR LTD Retirement	6.468	6.818	7.215	7.612	8.061	14.289	7.901	8.269	8.611	9.026	9.716	10.459	11.258	12.119	13.045	14.043	15.116	16.272	17.516	18.855
OUC	-SR LTD Retirement	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
OUC	-Interest on JR LTD	10.684	10.487	10.270	9.581	8.881	8.414	7.815	7.467	7.102	6.724	6.388	6.069	5.766	5.478	5.204	4.944	4.697	4.462	4.239	4.027
OUC	-Interest on SR LTD	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523	0.523
OUC	-Interest on STD/Commercial Paper	0.178	0.364	0.374	0.610	1.158	2.082	3.123	3.489	3.152	2.665	2.798	2.938	3.085	3.239	3.401	3.571	3.750	3.937	4.134	4.341
OUC	Loc/Handl, Pay Fee, SWAP & Other	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143	0.143
OUC	Cash Requirement - Debt Service	17.996	18.335	18.525	18.469	18.766	25.451	19.505	19.891	19.531	19.081	19.568	20.132	20.775	21.502	22.317	23.224	24.229	25.338	26.555	27.889
CITY	Refinanced New Debt Service Expense	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
CITY	Baseline Interest Expense	6.358	5.901	5.715	5.398	6.875	9.046	10.998	10.495	10.047	10.006	9.847	9.625	9.392	9.149	8.894	8.963	10.344	13.636	15.206	18.628
CITY	Baseline Principal Expense	11.060	11.519	12.008	12.550	13.632	15.016	16.491	17.573	18.597	19.796	9.355	5.147	5.380	5.624	5.879	6.247	7.033	8.444	9.428	11.033
CITY	Cash Debt Service Requirement	17.417	17.421	17.723	17.947	20.506	24.062	27.489	28.069	28.644	29.802	19.202	14.772	14.772	14.772	14.772	15.209	17.377	22.080	24.634	29.661
COMBINED	Subtotal	35.413	35.756	36.248	36.416	39.272	49.513	46.994	47.960	48.175	48.883	38.771	34.904	35.547	36.274	37.089	38.433	41.606	47.418	51.190	57.550
COMBINED	Gross Revenue Requirement	115.259	120.134	122.999	132.211	137.088	149.575	150.502	156.394	163.503	166.814	159.852	159.060	162.876	166.877	170.960	175.674	182.379	191.834	199.366	209.598
			0.042	0.024	0.075	0.037	0.091	0.006	0.039	0.045	0.020	(0.042)	(0.005)	0.024	0.025	0.024	0.028	0.038	0.052	0.039	0.051
COMBINED	Cash Requirement From Rates	83.855	87.741	89.981	98.914	103.377	115.222	114.815	119.516	125.853	128.716	120.863	119.134	121.965	124.931	127.926	131.497	137.002	145.195	151.401	160.239
OUC	BOOKED RETAIL REVENUE	53.595	57.737	59.416	60.052	61.056	62.884	65.810	69.766	70.779	71.481	73.027	74.879	76.725	78.675	80.639	82.571	84.720	86.642	88.678	90.821
CITY	Projected Rate Revenues	43.424	45.489	47.638	49.457	51.342	54.312	57.452	60.773	63.970</											

APPENDIX G1 - City's CIP backup information (in thousands)

Source obtained 9/9/2005

City of Orlando CIP

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	TOTAL
Conserv I	5,350	350	350	350	350	350	350	350	350	350	350	350	350	350	350	7,350	350	350	18,300
Conserv II	1,700	1,700	19,200	14,200	16,700	1,700	1,700	6,700	1,700	1,700	1,700	1,700	1,700	3,500	6,500	15,500	11,000	20,000	128,600
Iron Bridge	3,100	1,100	13,100	8,600	2,100	1,850	1,100	1,100	1,100	1,850	1,100	1,100	6,100	6,100	12,600	12,600	8,600	13,600	96,800
Collection	3,938	3,938	3,938	3,938	3,938	3,938	3,938	3,938	3,938	3,938	3,938	3,938	3,938	3,938	3,938	3,938	3,938	3,938	70,875
Special	1,000	1,000	1,000	21,000	21,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	58,000
Yearly totals	15,088	8,088	37,588	48,088	44,088	8,838	8,088	13,088	8,088	8,838	8,088	8,088	13,088	14,888	24,388	40,388	24,888	38,888	372,575
Inflation Adjusted Total	16,634	9,362	45,688	61,373	59,081	12,435	11,949	20,303	13,174	15,115	14,524	15,250	25,912	30,950	53,235	92,569	59,895	98,267	655,717
Projected Income	11,100	5,625	5,625	5,625	5,625	5,625	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250	
Freed Up Debt Service	-	-	-	-	-	-	-	-	-	16,000	16,320	16,646	16,979	17,319	17,665	18,019	18,379	18,747	
Total Available	11,100	5,625	5,625	5,625	5,625	5,625	2,250	2,250	2,250	18,250	18,570	18,896	19,229	19,569	19,915	20,269	20,629	20,997	222,299
Annual Need	(5,534)	(3,737)	(40,063)	(55,748)	(53,456)	(6,810)	(9,699)	(18,053)	(10,924)	3,135	4,046	3,646	(6,683)	(11,381)	(33,320)	(72,300)	(39,266)	(77,270)	
	(5,534)	(3,737)	(40,063)	(55,748)	(53,456)	(6,810)	(9,699)	(18,053)	(10,924)	0	0	0	(6,683)	(11,381)	(33,320)	(72,300)	(39,266)	(77,270)	
Net Project Borrowing Need	(5,534)	(3,737)	(40,063)	(55,748)	(53,456)	(6,810)	(9,699)	(18,053)	(10,924)	0	3,198	7,388	4,572	(6,717)	(33,320)	(72,300)	(39,266)	(77,270)	
Borrowing (Bond) Amount	5,534	3,737	40,063	55,748	53,456	6,810	9,699	18,053	10,924	0	0	0	0	6,717	33,320	72,300	39,266	77,270	
EOY Leftover Cash w int	-	-	-	-	-	-	-	-	-	3,198	7,388	11,255	4,664	0	0	0	0	0	
Bond Debt Service Payment	360	243	2,606	3,626	3,477	443	631	1,174	711	0	0	0	0	437	2,167	4,703	2,554	5,027	
Cumm Bond DS Payment	360	603	3,209	6,836	10,313	10,756	11,387	12,561	13,272	13,272	13,272	13,272	13,272	13,709	15,877	20,580	23,134	28,161	

Short Term Interest - **2.00%**
 Bond Interest - **5.00%**
 Term - **30.00%**

APPENDIX G2 - City's CIP backup information (in thousands)

City of Orlando Wastewater and Reuse Operations - Projected Capital Improvement Program

	Term	30.00
\$228.08	Interest Rate	5.00%

NPV of DS for Projects through 2026	
NPV	\$408,384,115

Year	INPUT Future CIP Projects	Additional Payment Burden	New Debt Service Cummulative Additional Payment Burden
2005	\$0	\$0	\$0
2006	\$0	\$0	\$0
2007	\$0	\$0	\$0
2008	\$5,533,969	\$359,993	\$359,993
2009	\$3,737,292	\$243,116	\$603,109
2010	\$40,062,841	\$2,606,145	\$3,209,254
2011	\$55,748,190	\$3,626,500	\$6,835,754
2012	\$53,456,467	\$3,477,420	\$10,313,174
2013	\$6,810,250	\$443,017	\$10,756,190
2014	\$9,698,921	\$630,929	\$11,387,119
2015	\$18,053,008	\$1,174,374	\$12,561,493
2016	\$10,923,685	\$710,601	\$13,272,094
2017	\$0	\$0	\$13,272,094
2018	\$0	\$0	\$13,272,094
2019	\$0	\$0	\$13,272,094
2020	\$0	\$0	\$13,272,094
2021	\$6,717,346	\$436,973	\$13,709,067
2022	\$33,319,561	\$2,167,485	\$15,876,553
2023	\$72,300,291	\$4,703,238	\$20,579,790
2024	\$39,265,765	\$2,554,294	\$23,134,085
2025	\$77,270,226	\$5,026,539	\$28,160,624

Year	Total Existing Debt Service	Projected Additional Capital Debt Service	Total Projected & Existing Debt Service
2005	\$16,053,285	\$0	\$16,053,285
2006	\$17,417,186	\$0	\$17,417,186
2007	\$17,420,751	\$0	\$17,420,751
2008	\$17,363,114	\$359,993	\$17,723,107
2009	\$17,344,257	\$603,109	\$17,947,366
2010	\$17,297,150	\$3,209,254	\$20,506,404
2011	\$17,225,951	\$6,835,754	\$24,061,705
2012	\$17,175,656	\$10,313,174	\$27,488,830
2013	\$17,312,593	\$10,756,190	\$28,068,783
2014	\$17,256,690	\$11,387,119	\$28,643,809
2015	\$17,240,954	\$12,561,493	\$29,802,447
2016	\$5,930,294	\$13,272,094	\$19,202,388
2017		\$13,272,094	\$13,272,094
2018		\$13,272,094	\$13,272,094
2019		\$13,272,094	\$13,272,094
2020		\$13,272,094	\$13,272,094
2021		\$13,709,067	\$13,709,067
2022		\$15,876,553	\$15,876,553
2023		\$20,579,790	\$20,579,790
2024		\$23,134,085	\$23,134,085
2025		\$28,160,624	\$28,160,624

APPENDIX I: Revenue Requirements for OUC Water System (Dollars in Thousands)
Years Ending September 30

OUC Base Case

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Operations and maintenance expenses	29,394	32,886	33,709	34,347	34,835	35,592	36,088	38,208	38,712	39,432	40,231	41,046	41,879	42,728	43,596	44,481	45,385	46,307	47,249	48,211
Property Tax	265	278	288	300	312	323	334	346	354	342	352	362	372	383	394	405	417	429	441	454
Depreciation & Amortization	11,246	11,832	12,458	12,736	13,151	13,792	15,126	16,318	17,089	17,537	18,429	19,366	20,351	21,385	22,473	23,616	24,816	26,078	27,404	28,798
Supplemental Transfer to City (6%)	1,473	1,500	1,588	1,617	1,649	1,681	1,715	1,749	1,787	1,824	1,862	1,902	1,941	1,980	2,020	2,060	2,101	2,142	2,184	2,220
Subtotal	42,378	46,496	48,043	49,000	49,947	51,388	53,263	56,621	57,942	59,135	60,874	62,676	64,542	66,477	68,482	70,562	72,719	74,957	77,279	79,682
Other Income	-1,426	-1,575	-1,490	-1,528	-1,607	-1,990	-1,724	-1,505	-1,513	-1,524	-1,580	-1,641	-1,707	-1,780	-1,859	-1,945	-2,039	-2,142	-2,255	-2,378
Subtotal	40,952	44,921	46,553	47,472	48,340	49,398	51,539	55,116	56,429	57,611	59,294	61,035	62,835	64,697	66,624	68,617	70,679	72,814	75,024	77,304
JR LTD Retirement	6,468	6,818	7,215	7,612	8,061	14,289	7,901	8,269	8,611	9,026	9,716	10,459	11,258	12,119	13,045	14,043	15,116	16,272	17,516	18,855
SR LTD Retirement	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest on JR LTD	10,684	10,487	10,270	9,581	8,881	8,414	7,815	7,467	7,102	6,724	6,388	6,069	5,766	5,478	5,204	4,944	4,697	4,462	4,239	4,027
Interest on SR LTD	523	523	523	523	523	523	523	523	523	523	523	523	523	523	523	523	523	523	523	523
Interest on STD/Commercial Paper	178	364	374	610	1,158	2,082	3,123	3,489	3,152	2,665	2,798	2,938	3,085	3,239	3,401	3,571	3,750	3,937	4,134	4,341
Loc/Handl, Pay Fee, SWAP & Other	143	143	143	143	143	143	143	143	143	143	143	143	143	143	143	143	143	143	143	143
Cash Requirement - Debt Service	17,996	18,335	18,525	18,469	18,766	25,451	19,505	19,891	19,531	19,081	19,568	20,132	20,775	21,502	22,317	23,224	24,229	25,338	26,555	27,889
Gross Revenue Requirement	58,948	63,256	65,078	65,941	67,106	74,849	71,044	75,007	75,960	76,692	78,862	81,167	83,610	86,199	88,940	91,841	94,909	98,152	101,579	105,193
Percentage Increase		7.31%	2.88%	1.33%	1.77%	11.54%	-5.08%	5.58%	1.27%	0.96%	2.83%	2.92%	3.01%	3.10%	3.18%	3.26%	3.34%	3.42%	3.49%	3.56%

APPENDIX J: Revenue Requirements for City's Wastewater System (Dollars in Thousands)
FY Ending September 30

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Salaries, Wages and Employee Benefits	13,657	14,135	14,630	15,142	15,672	16,221	16,788	17,376	17,984	18,613	19,265	19,939	20,637	21,359	22,000	22,660	23,340	24,040	24,761	25,504
Contractual Services, Materials and Supplies	16,764	17,099	17,441	17,790	18,146	18,508	18,879	19,256	19,641	20,034	20,435	20,844	21,260	21,686	22,119	22,562	23,013	23,473	23,943	24,421
Depreciation Expense	20,157	20,561	20,561	20,561	20,561	20,561	20,561	20,561	20,561	20,561	20,561	20,561	20,561	20,561	20,561	20,561	20,561	20,561	20,561	20,561
Insurance and Other Expenses	4,037	4,158	4,283	4,412	4,544	4,680	4,821	4,965	5,114	5,268	5,426	5,588	5,756	5,929	6,107	6,290	6,478	6,673	6,873	7,079
Subtotal	54,616	55,953	56,915	57,904	58,922	59,970	61,048	62,158	63,300	64,476	65,686	66,932	68,214	69,534	70,787	72,072	73,392	74,747	76,138	77,566
Other Income & Expenses																				
Income on Investments	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738	6,738
Impact Fees	11,250	11,250	11,250	5,625	5,625	5,625	5,625	5,625	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250
City WW Dividend to City General Fund	(3,231)	(3,388)	(3,551)	(3,721)	(3,865)	(4,013)	(4,248)	(4,496)	(4,759)	(5,011)	(5,277)	(5,373)	(5,471)	(5,571)	(5,672)	(5,776)	(5,938)	(6,105)	(6,277)	(6,454)
Gain (Loss) on Sale of Capital Assets																				
Subtotal	(14,757)	(14,600)	(14,437)	(8,642)	(8,499)	(8,350)	(8,115)	(7,867)	(4,230)	(3,977)	(3,711)	(3,615)	(3,517)	(3,417)	(3,316)	(3,213)	(3,050)	(2,883)	(2,711)	(2,535)
Contributions and Transfers																				
Capital Contributions = (physical CIAC)	2,697	2,697	2,697	1,348	1,348	1,348	1,348	1,348	539	539	539	539	539	539	539	539	539	539	539	539
Transfers In	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086
Transfers (Out)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)	(2,070)
Subtotal	(1,714)	(1,714)	(1,714)	(365)	(365)	(365)	(365)	(365)	444	444	444	444	444	444	444	444	444	444	444	444
Debt Service																				
Interest Expense	6,358	5,901	5,715	5,398	6,875	9,046	10,998	10,495	10,047	10,006	9,847	9,625	9,392	9,149	8,894	8,963	10,344	13,636	15,206	18,628
Principal Expense	11,060	11,519	12,008	12,550	13,632	15,016	16,491	17,573	18,597	19,796	9,355	5,147	5,380	5,624	5,879	6,247	7,033	8,444	9,428	11,033
Cash Debt Service Requirement	17,417	17,421	17,723	17,947	20,506	24,062	27,489	28,069	28,644	29,802	19,202	14,772	14,772	14,772	14,772	15,209	17,377	22,080	24,634	29,661
Gross Revenue Requirement	55,562	57,060	58,487	66,844	70,565	75,317	80,057	81,994	88,158	90,745	81,621	78,533	79,913	81,333	82,687	84,513	88,163	94,388	98,505	105,136