

Program Cost Update

Cost Estimate Updated

An updated cost estimate for the project is being finalized to establish an overall program budget, help both cities with their ongoing financial planning, and set a benchmark for future cost estimates developed during the design phase of the project.

The original estimate from the 2007 Carollo Report was \$135M in 2006, escalated to \$200M to account for inflation. That estimate was developed to assist both communities in determining Partnership viability compared to other options for supplying future water needs and was based on a conceptual level of design.

The updated cost estimate of \$230M to \$240M is based on current understanding of facilities conditions, field conditions and pipeline construction needs. Recent in-depth engineering evaluations and investigations including geotechnical surveys, condition assessments of building facilities and systems, and a water treatment technology Business Case Evaluation, provided the information needed to more accurately estimate the cost of the project.

Even with this additional information, the latest cost estimate is still preliminary and will be fine tuned over the next few weeks. The most current cost information will be discussed at the Oversight Committee meeting and subsequent City Council meetings. The good news is that Lake Oswego and Tigard Water Service Area drinking water customers will continue to save millions of dollars by sharing costs to jointly improve and operate Lake Oswego's water system.

Increased Understanding of Design and Construction Needs Affect Estimate

Several factors account for the bulk of the increased program estimate: water treatment technology and reliability improvements, program construction mitigation, inclusion of a construction contingency, and Waluga Reservoir upsizing. Of all these factors, the water treatment plant improvements represent the largest change in costs from the original feasibility estimate.

Next Steps

The cost estimate for the program and each project will be updated during the design phase, scheduled to run from mid-2011 to mid-2013. The accuracy range will narrow as design proceeds. Design phase estimates are used to evaluate design decisions and ultimately provide a basis to compare construction bids. Factors that impact design estimates include level of design completed, owner performance requirements, equipment and materials preferences and pricing and bidding climate. The current economic downturn provides an opportunity for cost savings for the Partnership.

Although a more accurate estimate will be available in the future, both City Councils need a cost estimate now to develop financial plans for funding the improvements. Rate increases are proposed by both cities to pay their share of costs for the project. Tigard is already in the process of updating their financial plan and rates. The Tigard City Council will consider rate increases in November 2010. Lake Oswego City Council will consider rate increases in December 2010.

Cost allocations between Lake Oswego and Tigard are also being evaluated based on information gained from recent engineering evaluations and investigations and improved design understanding. That work is underway and results will be shared with the Oversight Committee and City Councils when available.

Water treatment technology and reliability improvements not accounted for in 2006 estimate:

- ✓ Ozone treatment
- ✓ Emergency backup power supply
- ✓ New electrical service infrastructure
- ✓ New chemical storage building, maintenance and administration building and electrical buildings.

Summary

Why do we have a new cost estimate?

The updated cost estimate for the program was developed to establish an overall program budget, help both cities with their ongoing financial planning, and set a benchmark for evaluation of future cost estimates developed during the design phase of the project.

Why has the estimate increased?

Recent in-depth engineering evaluations and investigations provided the information needed to more accurately estimate the cost of the project. Additional improvements to the water treatment plant, many to update aging systems to comply with code requirements, represent the largest change in costs from the original feasibility estimate.

When will the two cities set rates?

Water system financial plans in both cities will determine water rates and fees necessary to pay for the Partnership. The Tigard City Council will consider rate increases in November 2010. Lake Oswego City Council will consider rate increases in December 2010.

When will still more accurate cost estimates be available?

Cost estimates for the project will be updated during the design phase, likely in early 2012.

Will the project still save money for Lake Oswego and Tigard?

With or without the Tigard partnership, Lake Oswego's water system needs immediate, major upgrades and expansion. The partnership approach allows Lake Oswego to share with Tigard the costs for water system improvements and ongoing maintenance thanks to a larger customer base over which all Partnership capital and operating costs will be spread. For Tigard, system ownership in partnership with Lake Oswego continues to offer long-term savings over a renewed contract with Portland.