Privatization of the Fort Knox Potable Water Utility

Hardin County Water District No. 1, Louisville Water Company, and CH2M HILL

July 9, 2012

Mr. Preston Pendley
Engineering Manager
Hardin County Water District No. 1

Mr. David Hackworth
Vice President
CH2M HILL, Inc.

Mr. Jim Smith
Director of Regionalization
Louisville Water Company
Stakeholders

- Fort Knox – Directorate of Public Works
- DLA – Defense Logistics Agency

Hardin County Water District No. 1
Jim Bruce, General Manager

- CH2M Hill
  David Hackworth, Louisville
  David Gray, Seattle

- Louisville Water Company
  Greg Heitzman, CEO
  Jim Smith
Louisville Water Company

- Chartered in 1854 as a municipal corporation, Louisville Water Company (LWC) provides retail and wholesale water service to over 850,000 people in Metro Louisville, and portions of Bullitt, Nelson, Oldham, Shelby and Spencer Counties.

- LWC is a nationally recognized utility with demonstrated technical, managerial and financial capacity in all areas of water utility operations.

- LWC is an industry leader in water quality and treatment research, infrastructure renewal, geographic information systems and customer satisfaction.
CH2M HILL

- Employee owned, with over 30,000 employees
- #1 ranking in ENR’s Top 200 Environmental Firms for five consecutive years
- #1 ranking in ENR’s 10 Firms Working for Federal Clients
- Owns and operates water and wastewater utilities at Fort Campbell (awarded 2003) and Fort Irwin (awarded 2004)
- Regional offices in Louisville, Nashville, Knoxville and Fort Campbell
Hardin Co. Water District No. 1

- Founded in 1952 under KRS 74, regulated by KY PSC
- Five Commissioners appointed by Hardin County Judge Executive
- General Manager supported by three departments – Operations, Engineering, and Finance and Accounting
- Over 10,000 water customers, and over 9,000 sewer customers
HCWD1 Utility Statistics

- 1952 – HCWD1 formed primarily to serve Radcliff
- 2005 – Awarded Privatization of Ft. Knox Sanitary and Storm Sewer Systems
- 2008 – Was given the City of Radcliff Sanitary Sewer
- 2012 – Awarded Privatization of Ft. Knox Potable Water System
- Revenues from $3.5M to 20.4M since 2004
HCWD1 Revenues 2004 - 2018
Fort Knox Garrison Command and Defense Logistics Agency

City of Fort Knox is called the Garrison:

- Led by Officer titled Garrison Commander (Mayor/Council)
- Second is a civilian titled Deputy Garrison Commander (City Manager)
- Six directorates, including Public Works

NOTE: Defense Logistics Agency (DLA), covers entire Army, not just FK, is tasked with Utility Privatization Contracts
Utility Privatization on Defense Installations

“Privatization allows installation commanders to focus on core defense missions and functions by relieving them of activities that can be done more efficiently and effectively by others.” – Department of Defense Guidance for Privatizing Defense Utility Systems

Continuing process at Fort Knox:

- 2001 – Electric – Nolin RECC
- 2005 – Sanitary and Storm – HCWD1
- Fort Knox still owns and DPW maintains natural gas
Timeline of Proposal

- **July, 2008**
  - Defense Logistics Agency (DLA) issues RFP
  - LWC and HCWD1 enter into Partnership Agreement to pursue contract
  - LWC and CH2M HILL enter into Agreement for Proposal Development including Rate Model
- **Oct 2008** – LWC & HCWD1 Submit Initial and Alternate proposals
- **2008 - 2011** – Iterations of Proposal (August 2010 and June 2011), Rate Model, Negotiation Messages
- **September 30, 2011** – Award of Contract to HCWD1 by DLA
4 Stage Proposal Process

- Stage 1 – Original Proposal (July – Oct 2008)
- Stage 2 – Revised Proposal (Aug 2010, June 2011)
- Stage 3 – Interview (not needed in this pursuit)
- Stage 4 – Negotiations (June – Sept 2011)

This process typically lasts three years
Proposal Contents

Four Volumes

- Technical Proposal (Base and Alternate)

- Past Performance
  Contains an overview of systems currently owned and operated by HCWD1 and LWC

- Contract Documentation Proposal
  Contains signed forms and documents that will become part of the overall contract upon award, such as the subcontracting plan, small business plan, FAR clauses, and demonstration of financial capabilities.

- Price Proposal (Base and Alternate)
Technical Proposal

Two proposals submitted in October 2008

- Base proposal followed requirements of RFP
- Alternate proposal offered 30% savings
  - Serve Fort Knox from LWC system and eliminate two existing water plants
  - Maintain existing assets beyond “design life”
- Government selected Base proposal
Technical Proposal Contents

- Service interruption and contingency plan
- O&M and quality management plan
- Initial system deficiency corrections and initial renewal and replacement plan
- Operational transition plan
- Financial strength
Price Proposal

- CH2M HILL developed the rate model used by the government.
- The RFP specified a rate mechanism for non-regulated utilities that the government prefers.
- A provision in the DESC manual allows HCWD₁, as a regulated utility, to submit any rate proposal that would be satisfactory to the Kentucky Public Service Commission.
- Our team submitted a pricing model that has a look and feel similar to the Government’s non-regulated rate specification but allows HCWD₁ to adjust rates based on Kentucky PSC approval process.
Price Proposal

- $8.9 million purchase price (Net book value)
- $1.5 million annual operation and maintenance costs
- $0.6 million transition costs
- $28.3 million initial system deficiency costs
- $65.9 million renewal and replacement for 50 years
- Pricing assumptions
Timeline of Award and Transition

- September 30, 2011 – Award of Contract to HCWD1 by DLA
- October 2011 - January 2012 – 4-month Transition Period
- January 2012 – LWC and HCWD1 execute LWC Operations Agreement
- January 27, 2012 – PSC Issues Order approving HCWD1 take over system
- February 1, 2012 – HCWD1 and LWC assume operations
Transition Period

- From September 30, 2011 to January 31, 2012
  - Purchasing (equipment, supplies, computers, etc.)
  - Negotiating office and shop space for Distribution staff
  - Draft various documents (Health and Safety Plan, Emergency Operations Plan, etc.)
  - Easement from USACE, Order from PSC, Transfer of PWSID from KDOW
  - Hire staff
    - HCWD₁ – Seven full-time positions
    - LWC – Four full time operators and one supervisor, with support (maintenance, electrician, etc) as needed
• Entire base is 109,000 acres
LWC Operations Contract

- LWC operates and maintains:
  - Two treatment plants – Muldraugh and Central
  - Raw Water facilities
    - West Point well field (near Ohio River)
    - McCracken Springs and Otter Creek Pump Station
  - Water quality sampling and reporting
    - Both Distribution and Treatment
Initial Operations – Muldraugh WTP

- Class 4 Treatment System
- Constructed in 1941
- Ground Water Plant
- Nominal Capacity – 7 MGD
- Conventional Treatment - coagulation (Alum), softening, sedimentation, disinfection (free chlorine), dual media, rapid sand filtration and fluoridation
- Raw water source – West Point well field along the Ohio River
Initial Operations – Muldraugh WTP
Initial Operations – Central WTP

- Class 4 Treatment System
- Constructed in 1937
- Surface Water Plant
- Nominal Capacity – 3.5 MGD
- Conventional Treatment – coagulation (Alum), softening, sedimentation, disinfection (free chlorine), dual media, rapid sand filtration and fluoridation
- Art deco architecture with appropriate elements
- Raw water sources
  - Otter Creek and McCracken Springs - Pump station in USACE reservoir on Otter Creek
  - Supplemental connection to the West Point well field
Initial Operations – Central WTP
Initial Operations – Distribution System

- Class 3 Distribution – 175 miles of mains
- Elevated storage
  - Eight tanks, built between 1935 and 1997
  - 3.5 MG storage
  - One pressure zone, all tanks have same overflow elevation. Most of system has static pressure of 55-75 psi.

- Fire Protection
  - Approximately 900 hydrants
  - Several hundred backflow prevention devices
Initial Operations – Distribution System
Initial System Deficiency Corrections (ISDC)

- Contract is fixed fee 50-year (not based on metered consumption)
- Additionally, a five-year surcharge is added for ISDC
  - Approved by PSC
- Total $28 million in projects across all areas of system
- Studies and modeling
- Storage improvements
- Control Valves, SCADA System and Master Flow Meters
- Water main and fire hydrant replacement
- Various structural improvements (painting, roofing, etc.)
HCWD1 Revenues 2004-2018

The graph shows the annual revenues of HCWD1 from 2004 to 2018. The revenues are categorized into different sources: FKW-C, FKW-O, RAS, FKS, and Water. The data is presented in a 3D bar chart with the y-axis representing annual revenues ranging from $1,500,000 to $21,500,000, and the x-axis representing the years from 2004 to 2018.
Small Business Contracting

Over 50-year contract, HCWD1 must utilize several categories of small business concerns

- Total goal is $22.5 million
- Veteran Owned Small Business
- Service Disabled VOSB
- Small Disadvantaged Business
- Women Owned Small Business
Initial Operations – Relationship Building

- Our contract administrators:
  - Contracting Officer (KO) with DLA
  - Contracting Officer Technical Representative (COTR)
- Development (Military Construction, or MILCON) occurs through various entities on base
- Different pace/environment than the County utilities
- Establishing relationships and lines of communication and achieving balance
  - Our own procedures and requirements to protect public health and meet regulations
  - Reality of demand for responsiveness, agility, flexibility
Privatization of the Ft. Knox Potable Water Utility

In summary:

- We are pleased to have this business opportunity
- We are extremely proud and respectful of the responsibility and role that we serve in support of our Soldiers

Thank you for your kind attention!

Are there any questions?