

October 30, 2009

### **Town of Cape Charles Press Release**

An advertisement entitled “\$70 vs \$34” appeared in the October 28, 2009 Eastern Shore News. It alleges that the Town has never allowed Webtide to make a full disclosure of their proposal, claims lower usage and hook-up fees, and expresses environmental concerns.

This advertisement contains much misinformation concerning the Webtide wastewater system proposal and the Town’s plan:

- The Town held numerous public forums on the proposal and made available to the public all information that was releasable. In contrast, Webtide withheld from public release some of the more troubling aspects of their proposal during the Council’s period of consideration.
- The Town has projected future usage fees based on conservative assumptions. These estimates are likely to improve over time. In contrast, the advertised Webtide usage fee is based on extraordinarily optimistic assumptions concerning the availability of grants to reduce the debt service and a significant expansion of the service area outside the Town. These estimates are likely to significantly deteriorate.
- The Town has established connection charges to provide the necessary facilities to accommodate the 750,000 gallons per day capacity projected to be needed over the next 30 years. We have no knowledge of how the advertised Webtide connection charge was calculated.
- The Town is now building a state-of-the-art membrane bio-reactor wastewater treatment plant, approved by the Department of Environmental Quality, which will produce extremely high quality effluent. It is designed to meet or do better than the new, very stringent nitrogen and phosphorous discharge limits.

Additional information on each of these matters is provided below.

#### **Availability of Information to the Public**

The Webtide proposal, as well as the previous work done by Webster Investors, has been addressed in numerous public sessions, including the Town’s reasons for rejecting it. This included Council Meetings, Work Sessions and a Public Information Session on the following dates: Nov. 13, 2008, Jan. 22, 2009, Feb. 7, 2009, Jun. 2, 2009 and Sep. 21, 2009. The proposal was made in two volumes. Volume 2 was designated by Webtide as proprietary and not releasable to the public, even after the Town argued that it should be available for public scrutiny. Webtide made Volume 2 available only after the Town rejected the proposal. The Town made all releasable information available to the public at all times.

#### **Usage Fees**

The usage fee discussion, \$70 vs. \$34, is misleading. The Town has always conservatively projected future user fees on a “worst case” basis. Webtide, and prior to that Webster Investors, has always based their calculations on overly optimistic assumptions which yield unrealistic projected user fees.

The sewer usage fee contains two cost components – operation and maintenance of the system and debt service related to the capital investment in the system. Once you know these two elements, the monthly fee is determined by the number of new hook-ups available to off set debt service with facility fee payments and the number of projected customers.

The average monthly fee for Cape Charles customers is about \$38 for 3,000 gallons usage. This includes debt service on the existing wastewater treatment plant. We have projected two debt service scenarios for the new plant, assuming we will need to borrow about \$6-6.5 million after application of \$12.5 million of approved grants (about 68% of project costs):

1. At current market rates, the annual debt service would be about \$400,000 and would add about \$28 to the current average monthly bill, for a total of \$66.
2. However, we have applied for a zero interest loan from the Virginia Clean Water Revolving Loan Fund and are fairly confident that this will be approved. Under this scenario, the annual debt service would be less than \$250,000 per year and would add about \$15 to the monthly bill, for a total of \$53.

Again, the above calculations are “worst case” and don’t include facility fee payments from new hook-ups or significant growth in our customer base of about 1,200. Improvements in these two assumptions would lower the projected monthly fee. Additional grant funding would also lower the fee. In this regard, the State Water Control Board has designated the Cape Charles project in the second priority tier to receive additional Federal stimulus (American Recovery and Reinvestment Act) funding should it become available. We also project that the operating cost of the new plant will be somewhat higher. This is difficult to accurately estimate at this time, but could add several dollars to the monthly fee. These projections have consistently been made available in public meetings, most recently in the Council meetings of September 10 and 24, 2009.

Now, let’s take a look at the advertised Webtide monthly fee of \$34. This projected fee is based on certain assumptions concerning the customer base and availability of grants to drive down debt service:

1. Webtide’s calculations are based on about 1,700 customers, an increase of about 500 (almost 42%) over our current 1,200. This increase is predicated on serving the Town of Cheriton and some surrounding areas of Northampton County. Cape Charles has always been interested in working with our neighbors to find a regional solution. However, the Town’s primary responsibility, both under the Virginia Constitution and the Town Charter, is to its citizens. While there have been many discussions, the other localities have not taken any of the necessary steps towards implementation of a regional solution such as creation of a service authority, passage of necessary ordinances, land acquisition, regulatory approvals or funding commitments. Cape Charles has no authority to compel them to do so. Without this occurring, the customer base remains at about 1,200 and the advertised rate of \$34 would increase to over \$48.
2. Webtide’s calculations are based on a presumption of at least 95% grant funding of a project of about \$24-27 million, depending on whether Cape Charles sunk costs are included. An important note here – this does not include the cost of the needed sewer collection systems in Cheriton and Northampton County. This would add another \$6 million or so, for a total project cost of over \$30 million. Webtide assumes that these collection systems would be 100% grant funded and has therefore excluded any of these costs from their debt service and

usage fee calculation. This assumption could prove to be problematic. This matter aside, the grant funding assumption on the balance of the project is highly speculative. The typical USDA Rural Development funding mix is 30% grant and 70% loan. Given the availability of some Federal stimulus funding and other potential grants, the grant vs. loan mix might be better. The Webtide debt service calculations change markedly if one assumes a more realistic, and still very favorable, grant coverage of 70% (a bit higher than the 68% now realized by Cape Charles). The resulting debt service would be 6 times higher, and would add about \$30 to the monthly bill. So, the average bill for 1,200 customers would be \$78 (\$48 + \$30). This would worsen further if the 100% grant funding for the sewer collection systems did not materialize.

### **Connection Charges**

It is impossible to do a similar comparison for new connection charges since we have no knowledge of how Webtide's proposed charge has been calculated. The current Cape Charles wastewater facility fee of \$13,150 represents the present value calculation of providing facilities capable of treating 750,000 gallons per day to service 5,700 connections over the next 30 years, including effluent reuse infrastructure. Similarly, we have no knowledge of how Webtide calculated "\$40,000 for new commercial hookups." Certainly, it could be that high, higher or lower. The commercial facility fee formula is detailed in the Town Code, and is dependent on projected water use by type of facility – office, restaurant, hotel, retail store, etc.

### **Environmental Concerns**

The new Cape Charles wastewater treatment plant will be a state-of-the art membrane bio-reactor facility. In recognition of the new nutrient discharge limits, our ecologically sensitive environment, and the eventual need for water reuse, the plant has been designed to produce extremely high quality effluent. The ultra-filtration system is capable of virus removal and the nutrient removal process should better the state requirement to achieve 4 mg/l nitrogen and 0.3 mg/l phosphorous concentration. The Department of Environmental Quality (DEQ) has approved the design and issued a Certificate to Construct. Additionally, the project has undergone a rigorous Environmental Assessment which has been reviewed and approved by the following state agencies: DEQ – Construction Assistance, DEQ – Waste, DEQ – Air, DEQ – Water, the Department of Conservation and Recreation, the Department of Historic Resources, the Department of Transportation and the Marine Resources Commission. The proposed Webtide plant has been through none of these regulatory processes.

### **Summary**

In summary, the advertisement underscores a stark contrast in approaches. The Cape Charles projection is considered "worst case" and likely to improve somewhat. This is indicative of the seriousness of purpose the Town has consistently demonstrated in this effort. The Webtide projection is considered "best case" and likely to deteriorate substantially. This is indicative of Webtide's continuous attempts to sell their project.

Cape Charles has completed and paid for the engineering, obtained the necessary regulatory approvals, has funding in place, and has awarded a construction contract for the new plant. The Town would face enormous risks, including the certain loss of \$4.5 million Federal stimulus funding, by abandoning the current project in favor of a plan that is not designed, has not been through the

public hearing process in any of the affected localities, is not approved by the regulatory agency, and is not funded.

The costs of both projects continue to be estimates until return costs are in. However, we have considerably more confidence in our estimates since the Cape Charles project is much further along. Because of the foregoing considerations, we would anticipate that the usage fee projections would converge and the Webtide fee would ultimately be higher, unless very unlikely prerequisites related to grant coverage and customer base are fulfilled. In this regard, it should also be noted that the Cape Charles plant could service areas outside the Town boundaries, thus increasing the customer base beyond the growth anticipated within Town. In fact, the Virginia Secretary of Natural Resources indicated in the public Work Session on September 21, 2009 that this is the only practical approach to a regional system given the schedule and funding constraints. We continue to work with Cheriton and Northampton County to that end.

We do not know who placed the advertisement. If it was Webtide or a proxy, no further discussion would be useful. If it was placed by a Cape Charles citizen, the Mayor and Council encourage you to stop by the Town Hall to discuss the matter further with the Town staff.