

January 29, 2014

MEMORANDUM FOR ESVA PUBLIC SERVICE AUTHORITY BOARD MEMBERS:

I would like to thank those Board Members who came to the county offices last evening for the scheduled meeting, as well as those who had intended to come but could not due to road conditions. Also, thank you to Katie and Janice who stayed for the meeting. I thought it important to not cancel the meeting, despite the incoming weather, given the action taken by the BoS on Monday, January 27. Unfortunately, we did not have a quorum to convene the meeting but I have had a chance to talk with most of you. I am writing to you now because travel plans prevent me from attending both the February and March meetings.

I am resigning as Chairman effective today. As Vice Chairman, Mr. Holland will assume these responsibilities until a new Chairman is elected. I believe our mission is important and encourage all of you to consider a leadership position, with the following caution.

I discussed the BoS action with Chairman LeMond yesterday. He indicated that the "perceived conflict of interest" was due to my close association (part time employee) with the Town of Cape Charles. I find this curious in that the PSA charter, specified in the ordinances adopted by all the participating localities, contains no prohibition of elected officials, appointed officials or employees serving as a Board Member. This is also true of our bylaws in relation to serving as an officer or on a committee. Any resident of Northampton County serving on the Board in any capacity (whether elected, appointed, an employee of a locality, or otherwise), and the localities they represent, may be affected either positively or negatively by actions taken by the Board. Conflict of interest for all?

The second thing I find curious is the way the BoS chose to effect a change of leadership. A simple phone call would have achieved the same thing. No matter who is Chairman, the facts and figures associated with the project now under consideration will not appreciably change. All available information has been provided to the BoS in presentations, briefings and correspondence for more than a year. So, despite public statements, are they really sending a message that they do not support it?

The PSA Board needs to have complete clarity on this. Otherwise, we will be wasting our time and tax money in a futile attempt to support two of the four goals in the BoS Five Year Strategic Plan – Economic Development and Infrastructure. The BoS has agreed to hold a joint session with the PSA Board. I look forward to a frank and forthright discussion.

Attached are some additional thoughts on these matters.



Bob Panek

Cc: Executive Director, BoS, Mayor Sullivan, Town Council

January 29, 2014

Proposed Southern Node, Commercial Phase 1 Wastewater Project

1. Some have proposed a more limited project to serve only those existing businesses that want service with a stand-alone treatment system.

Comment. This is certainly possible but there are several drawbacks:

- A. It would do little to support Goals #2 and 3 of the BoS Five Year Strategic Plan. No infrastructure would be in place to support a significant amount of future economic development in the area.
 - B. It would not utilize existing capacity available from recent capital investment; i.e. the new Cape Charles WWTP. This plant was funded with an \$8 million State grant, a \$6 million Federal grant, and a \$5 million State subsidized (zero interest) loan. Every Northampton County tax payer has contributed to these grants and the loan subsidy. Why make an additional capital investment when paying for service from Cape Charles would take advantage of funds already invested?
 - C. Implementation of a stand-alone system would make it more difficult to attract grant funding for future service area expansion, e.g. Cheriton (maybe that is the objective of some). Both Federal and State funding agencies have made it very clear that their preference is for regional systems that create economies of scale from the capital investment being made.
 - D. A stand-alone system would employ underground dispersal of the effluent (mass drain field) in the prime recharge area for our aquifer.
2. Some have proposed utilizing the Bayview waste water treatment system instead of the Cape Charles WWTP.

Comment. Again, this is possible and has an advantage over No. 1, above, in that it would at least minimally take advantage of an existing capital investment. Additionally, it could allow for future service area expansion if designed properly. However, it does have the following drawbacks:

- A. The Bayview system utilizes septic tanks, minimally treats the liquid component of the waste water, and disperses the effluent underground. The treatment process would require extensive upgrade and expansion to handle the proposed service district. No engineering study and cost estimate has been prepared for this option.
- B. It is unlikely that Federal and State funding agencies would be amenable to investing in future upgrades to this system for expansion beyond the proposed service area when existing capacity already exists at Cape Charles.
- C. An upgraded and expanded Bayview system would still employ underground dispersal of the effluent above the aquifer.

While this option has disadvantages, it may need to be investigated if Cape Charles is unwilling to provide treatment services. There would certainly be savings in building a force main to Bayview instead of Cape Charles. It remains to be seen whether these savings would offset the cost of upgrading and expanding the Bayview treatment process. Additional operation and maintenance

costs would also be incurred, duplicating to a great extent those of the Cape Charles WWTP. It is useful to note that the analysis of alternatives in the original Southern Node Preliminary Engineering Report indicated that the life cycle cost of building a stand-alone system, which essentially would result by upgrading and expanding Bayview, was more than utilizing the Cape Charles WWTP.

3. Why hasn't Cape Charles committed to providing treatment services?

Comment: The Town Council is considering three issues:

A. How will business growth along US 13 affect in-Town businesses?

I have a personal view on this, but don't think it is appropriate to convey it as a PSA Board Member. However, I have two observations related to this issue. First, business growth will likely occur along US 13 in any case (about 80 parcels currently zoned for commercial), albeit providing waste water service would likely accelerate it. It makes no difference whether Cape Charles provides the service or the PSA invests in a dedicated treatment system. Second, the Town and County Planning Commissions have been meeting to attempt to form a common view concerning the type of commercial development that would be appropriate in that area.

B. How will providing service to the new area impact the capacity of the WWTP?

The plant has a capacity of 250,000 average gallons per day (gpd). The currently utilized average is 150,000 gpd, leaving 100,000 gpd available. An Equivalent Residential Connection (ERC) for Cape Charles is 125 gpd. This is the common denominator for calculating the effect of new connections on capacity. Thus, the remaining plant capacity equates to about 800 ERCs. The estimated flow from the proposed service area is between 15,000 and 20,000 gpd. Using the higher number, this would equate to 160 ERCs leaving 640 available for other growth. The average number of new connections in Cape Charles over the last ten years is 30 per year, with far fewer in recent years. If that average is regained, it would take over 20 years to utilize all the capacity of the plant.

C. How would we pay for expansion of the WWTP when capacity is reached, and shouldn't we charge the PSA to connect to the plant to compensate for the capacity utilized?

I think it is reasonable for the PSA to pay a wholesale connection charge, but not a retail charge calculated on the basis of each business to be connected. This ought to be negotiated between the PSA and the Town. A few things to put this in perspective:

- i. A rough estimate to double the capacity (500,000 gpd) is \$5 million. An incremental expansion to around 350,000 gpd would cost far less.
- ii. The 640 remaining ERCs would generate about \$4.2 million in connection charges to be reserved for plant expansion.
- iii. When existing plant capacity is reached the cost sharing requirement for expansion associated with annexed property is triggered under the Annexation Agreement. The amount would need to be negotiated.
- iv. Cape Charles would earn about \$100,000 per year providing services to the PSA for existing businesses (160 ERCs). About 70% of this (\$70,000) would contribute to covering the fixed costs of operating and maintaining the WWTP. That is a \$1.4 million improvement to the bottom line over the 20 year horizon. Some of this could be dedicated to plant expansion.

- v. The additional 640 ERCs, about 50% more than now, would generate a significant amount of additional usage fees. Much of this would also contribute to covering fixed costs, and some amount could be used for plant expansion.
- vi. An additional 640 ERCs also means that the tax base has expanded. Assuming a conservative estimate of \$300,000 per building, at the current tax rate about \$500,000 more per year in real property tax would be generated. Some of this could be used for expansion.

In summary, volume and economy of scale are critical aspects of the equation. I recommend that the Town Council negotiate an agreement to provide services to the PSA. If Council is unwilling to do so, there is no benefit in remaining a member of the Authority and the Town should withdraw.

4. Why should Cape Charles benefit by making \$100,000 per year and reducing rates to their customers?

Comment: If the proposed project is implemented, the PSA will need to provide treatment services either by building and operating a dedicated plant or purchasing services from the Town. As discussed above there are advantages in utilizing the Cape Charles WWTP, a facility which Northampton County taxpayers have already contributed to building. Yes, lower rates for Cape Charles residents and businesses will be the result. What is wrong with that? Achieving economies of scale has always been an objective of regionalization and is recognized in the earliest project team deliberations.

It is time to dispense with the "us versus them" attitude. Regionalization has been done with success all over the country. The BoS and Town Council need to decide how they would like to shape the future. Does the BoS support their strategic plan? Do they want economic development (can't wave a magic wand) that will benefit all citizens in Northampton County, including the Towns? Does the Town Council want to ameliorate the relatively high waste water rates? Do they want to benefit from the potential increased tax base in the County? Where are we going to get the money for the other two BoS strategic goals – Education and Health Care? It is time to decide.