

TOWN COUNCIL WORK SESSION ON WASTEWATER PLANT
JANUARY 5, 2009
7:00 P.M.

TOWN COUNCIL MEMBERS PRESENT:

Kathyanne Runniger
Kris LaMontagne
Travis Bradley

Fletcher Fosque
George Miles
Maphis Oswald

OTHERS PRESENT:

Bruce Paone, Mayor
Sandy Manter, Interim Town Mgr.
Bill Bagwell
Jeff Barrett
Dick Cole
Lynne Fowler
Valena Gibb
John Hrusovsky
Annie Jones
Tom Neilson

Karen R. Simpson, Admin. Asst.
Bryan Horton, Plant Manager
Dave Lumgair
Haydon Rochester
Jane & Dean Savannah
Alan Silverman
Carol Vaughn, E.S. News
Shirley Zamora
Charlie Landis

- I. Mayor Paone called the work session to order at 7:00 p.m.
- II. Presentation by Citizens WWTP Task Force. Jeff Barrett introduced Alan Silverman (hereinafter "SILVERMAN") to make a presentation for the Citizens Wastewater Treatment Plant Task Force. SILVERMAN gave a series of comparative cases that he ended up combining into one. He corrected some figures from the August budget presentation, some of the UCC figures from their October presentation and from a December CDM memo re utility costs and chemical usage. The July basis for the billable flows and revenues was adjusted for the actual information through November 2008 from Sandy Manter, the Interim Town Manager (hereinafter "MANTER"). All customers are charged the same rates. The conclusions reached are as follows: 1) If nothing is done, in FY 2009-10 there will be a deficit of between \$200K and \$400K, or even more; 2) The Task Force had previously

calculated that the new plant will be operating at only 25-35% of the nameplate capacity. In looking at the average annual

population growth rate, it would take 35 years at 2% growth to reach 50-75% capacity and 25 years at 3% growth rate, therefore, the plant is oversized. As previously stated by the UCC, Accomack County will not be interested in the new plant at our rates, therefore; 3) Town funds will be sucked in to a wastewater treatment plant "black hole", and would require an additional 20-40% increase in sewer rates beyond the already proposed 17% sewer increases for three years or equivalent taxation, or default, without a major course change and/or bailout. SILVERMAN showed a spreadsheet depicting figures for 2010 to close the gap of a \$400K deficit: \$52 increase from FY 06-07 for a 5000 gpd user, \$288 increase for a "typical" household 250 gpd user and a \$14.51 increase in the rate per 1000 gal. over 15,000 gal. usage. SILVERMAN suggested reducing the capital burden by scaling back the plant and pursuing loan reduction or forgiveness.

SILVERMAN presented a spreadsheet delineating the cases from yearly operating cost constant of \$1,017,634 to the best possible outcome shortfall (-185,910) and the worse outcome shortfall (-451,642), including business shortfall/surplus, revenue adjustments and adjusted shortfall. SILVERMAN proceeded to explain the spreadsheet line by line explaining the adjustments. MANTER clarified that the figures given the Task Force were billings based on the calendar year, not actual revenue. The 2% growth figure was discussed. There has never been more than about 50,000 people on the Eastern Shore of Virginia. SILVERMAN feels that even if the 2% growth factor is met, the plant is still oversized. To recap and put things on a common footing basis, using Town figures, except for the \$106,224 figure for potential new users, the best case scenario would be a shortfall of \$248,410, not including potential new users. The worse case scenario would be a shortfall of \$451,643, not including potential new users. Tom Neilson advised that the \$106,224 figure could be cut in half because three new users were on line, thereby changing the shortfall figures to \$198,410 and \$401,643 respectively.

The alternatives available to the Town at this point, besides doing nothing, are to scale back on the plan (direct CDM to evaluate scaleback and report in detail), seek adjustments to grants and loans with scaleback and seek stable revenue flows at attractive prices. SILVERMAN suggested engaging a CPA to check his analyses and request a report. Verification can also be gotten from CDM by asking them to evaluate the scaleback and exploring changes in scope, then report-

ing to the Town. The Task Force found no other way to close the gap without raising rates higher or taxes. It should cost \$150 hr. for a design review and \$60 hr. for a resident project manager. Come up with a pricing strategy in order to draw businesses to the Town.

Jeff Barrett offered the option of social equity grant money. We have the highest water/sewer bills in Virginia and are the fifth poorest County in the state. We need

more grant money. The Governor would like to get rid of the problem where a community cannot meet its bond obligations. An infrastructure project would stimulate employment. We need to take advantage of all of the money that will be offered by the State in this regard. Our "shovel-ready" project is very advantageous to receiving grant money. With the grant money, the debt structure can be paid down enough to lower water/sewer rates. Mr. Barrett suggested sending MANTER to Richmond with an engineer and spreadsheets as soon as possible.

III. Town Manager's Report. From an administrative point of view, MANTER looked primarily at the finances and operating costs for any possible budget cuts or operating savings and to verify the numbers being used. A 5+ page memorandum regarding this analysis was given to Council. The unaudited actual revenue for FY 07/08 is \$502,404, which is \$20,000 over what was projected. The first stage of the plant project cost \$14,501,570, with an anticipated completion date of February 2010. The letter from Galway Bay's attorney advised that there would be project delay costs, a cancellation fee, change order costs and costs relating to already ordered equipment and supplies. A dollar figure was not given. There would probably be engineering costs relating to any change. None of these costs would be eligible for grant dollars. The Town would have to pay for these costs either through a loan or cash reserves. There were two line items for "collection Repair/Plant Maintenance" and "Plant Repair/Maintenance" at approximately \$37,000 each. The latter seems to be a duplication. As plant will be new and under warranty, this figure can probably be cut down to \$10-15,000 for the next 2-3 years. This brings total reductions to annual operating costs to approximately \$119,000 for FY 09-10 and \$84,000 for FY 10/11.

The most expensive loan for the wastewater plant is the Rural Development loan of \$2,398,000 @ 2.75%. Plant construction costs would have to be reduced by \$2,398,000, in order to reduce that debt service by \$99,593 for a year. In order to get another \$100,000 reduction in debt service, the Water Quality Improvement Fund interest-free loan would have to be reduced by just over \$2 million. Thus, to reduce the annual debt service by \$201,229, plant construction

costs would have to be reduced by \$4,430,725. The Town currently has about \$535,000 in cash reserves, and will probably add approximately \$200,000 to this from an excess of wastewater revenue over costs. A source for additional revenue could be accepting effluent from septic system pump outs. Providing pump out treatment here would potentially generate additional revenue for us and create cost savings that the septic companies could pass on to customers. Discussion followed. We are on the list for another \$287,000 STAG grant. Federal economic stimulus money should be gone after also.

Councilwoman Oswald voiced that Council needs to address the whole rate structure – need to graduate the rate system to attract users. Councilman Fosque suggested working toward erasing the deficit, rather than discussing something we have no

control over. He asked Council that if we could make the plant work with the current rate increases scheduled, is that acceptable? Will Council be happy if we can reduce the deficit by some means and keep the plant running with the scheduled rate increases? His goal is to make the plant work with currently scheduled rate increases and not have a deficit. There are several ways to reduce the deficit -- reduce some aspects of the plant (internal design), find new customers, go to Richmond, work an agreement with the County. The agreed upon steps to follow at this point in time are:

1. Meet with Galway Bay and CDM re plant cost reductions/change orders.
2. Go to Richmond, and possibly Washington, D.C., to find some money.
3. Find new customers to hook up to our plant.
4. Look into an agreement with Accomack County to hook up.
5. Research more grants, including STAG grant.

SILVERMAN interjected that we should be able to get likeable answers if we ask the right questions. Do we really need three (3) rather than two (2) bioreactors? How can it be downscaled? Smaller pumps? Scale back on some of the controls? Bryan Horton suggested generating a list of the questions to be answered by Galway and CDM. Mr. Barrett thought that validating the Task Force numbers with an accountant with a written report in return would help MANTER in her search for funding in Richmond. Councilman Bradley commented that we need to do everything we can to get in line for infrastructure dollars. Councilwoman Oswald thanked the Task Force for working so diligently on this matter.

MANTER asked for clarification regarding the status of the treatment plant construction project. She asked Council to clarify that Council's intention is that we should be proceeding with the construction, as proposed, and that we are looking to make cost cuts where we can, but we are not talking about halting construction. Councilwoman Oswald stated that "we never were"

Mayor Paone adjourned the work session at 9:20 p.m.

Sandy Manter
Interim Town Manager

Bruce Paone
Mayor