

Sean O'Keefe

From: Scott Line <sline@linecapitalinvestments.com>
Sent: Wednesday, July 12, 2023 4:54 PM
To: m29.macfarlane@gmail.com; Sean O'Keefe; 'Thomas J. Wilkes'
Cc: 'Bud Beucher'
Subject: Town of Howey Wastewater Discussion

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Dear Martha, Sean and Tom,

I watched Monday night's Town Council meeting on Zoom, including the presentation by FGUA and the discussion on the CDD expanding its wastewater plant, and I was shocked and extremely disappointed with how poorly the Beucher family and the CDD were treated.

The Beucher family has been a proud member of the Town of Howey for over 60 years and we have supported the Town in every possible way. This includes the multiple times over the past 20 years when the Town asked the CDD to provide wastewater service to the Town.

As a reminder, the CDD was created in the early 2000's to provide wastewater service exclusively to the Mission Inn and its future residential development. The CDD had no intention or desire to service any areas outside of the Mission Inn. However, given the hot real estate market at such time, and recognizing that the Town did not have its own wastewater plant, the Town asked the CDD to be its wholesale provider for certain new developments planned within the Town's city limits, including, but not limited to, Venezia and the Reserve, and also certain new developments planned outside of the Town's city limits that the Town wanted to annex (it being a condition of the annexation that the Town could provide wastewater service). As a result, the Town and the CDD entered into a wholesale agreement for such developments whereby the developers (along with the Mission Inn) paid to build the wastewater plant, the developers received ownership of certain wastewater capacity in the plant, the CDD agreed to be the wholesale provider to the Town and the Town agreed to be the retail provider to the new homes.

In 2012, the Town and the CDD entered into an additional agreement to cover the Bouis Property (which is now Lake Hills PUD) and the Town and the CDD have entered into other agreements for the School Board, Boondocks, the Town's Utility Department and the Library.

In June of 2021, the Town approached the CDD and asked if the CDD could provide additional wastewater capacity to the Town so that the Town could serve the Drake Point development. At the same time, there were additional inquiries from other developers, which resulted in numerous conversations between the Town and the CDD about expanding the CDD's wastewater plant. Such discussions continued from June of 2021 until March of 2022 and included a joint effort between the Town and the CDD to create a master list of future developments, estimated number of new homes, and the timing of such developments. It also resulted in the drafting and negotiation of an amendment to the Town and the CDD's current Wholesale Agreement. The basis for all such discussions was that the developers would pay to expand the plant, the developers would own the additional capacity, the CDD would continue to be the wholesale provider to the Town, and the Town would be the retail provider to the new homes. This concept was consistent with how the plant was originally built. One key element of the expansion was that the CDD's engineer advised that the minimum size of any expansion would need to be 435,000 GDP (or the equivalent of 1,740 homes). The Town and the CDD held a meeting with all the developers in January of 2022 and shared this plan. All of this happened with the clear understanding that the Town wanted the CDD to provide additional wastewater service to the Town for these future developments.

Things changed in March of 2022 when the Town decided that it wanted to explore building its own wastewater plant. We learned of this by reading the Town's meeting minutes. It was only after I called Sean O'Keefe that he acknowledged that the Town was going down this path. The Town then later engaged FGUA to do a study on the Town building its own wastewater plant.

We have been surprised that no one from FGUA reached out to the CDD to discuss and evaluate the plan that was shared at the January 2022 meeting with the developers (i.e., that the developers would pay to expand the plant). It was our belief that a \$75K study would provide the Town and its residents with multiple options to consider from a cost, risk, and timing perspective.

In late May of 2023, Bud Beucher expressed such concerns to Martha and it resulted in Martha sharing that the Town was going to pursue obtaining grants to fund the construction of its own water and wastewater plants. We shared with Martha that if the Town could secure such grant money that it would get more "bang for its buck" (i.e., it would create and own more wastewater capacity) if it used such funds to expand the CDD's wastewater plant, as expanding an existing wastewater plant is much less expensive than buying land and building one from scratch. Martha asking Bud/me to provide a summary of how this option could potentially work. We sent this to Martha on June 2. We were surprised to see that our summary was included in the Town's July 10 meeting agenda package, as we did not request that it be shared or presented. We have no issue with Martha sharing the summary with the Town Council, as they should be aware of other options that exist (including the option discussed at the January 2022 developer meeting), but we agree that the Town Council members would have benefitted from having more time to review it.

There is a learning curve for the Town Council members and residents who have not participated in the Town's and CDD's prior discussions and negotiations. Additionally, the development, construction, operation, and financing of a wastewater facility is complicated and therefore, it is important that those that have participated in such past conversations (and that have the important facts and information) share such conversations with their colleagues so that everyone is on the same page. With the benefit of such information, I would have hoped that certain Town Council members would have shown a higher level of professionalism before making public comments about the Beucher family and the CDD ---- "the greed of that group", "millionaire family", and comparing the CDD's business practices to the holocaust ---- that are not only offensive and insulting but border on defamation.

When such comments were made by certain Town Council members, I was extremely disappointed that none of you spoke up on behalf of the Beucher family and the CDD or shared the discussions we've had over the past 12 months. You could have pointed out that the CDD has not raised the wholesale rate it charges the Town in 16 years. It has stayed fixed at \$24/month per home. The CDD has the contractual right to increase the monthly wholesale rate by CPI every year or through a rate study, but the CDD has chosen not to. The Town and the residents have benefited from this. Is there any other product or service that hasn't gone up in price every year (or significantly up in the past 2 years)? The Council Members and the Town need to know all the facts. We noted that your consultant concluded that a market monthly rate should be \$55/month per home. Using a 15% standard discount for a wholesale rate, would result in the CDD charging the Town \$46.75/month per home, which is almost double what the CDD is currently charging. You also could have shared that the Beucher family has on multiple occasions sold some of its wastewater capacity to the Town so that the Town could tie in the Library, Boondocks, the Town's Utility Department and other businesses. This all happened with a simple phone call from John Earnest to Bud Beucher. The Beucher family did so to support the Town's growth and notwithstanding that the Beucher family needed such wastewater capacity for its own future residential development.

We deserved to be treated better and your silence allowed the narrative to shift from evaluating FGUA's report to certain Town Council members making disparaging comments about us. A more productive approach would have been for the Town Council members to focus on the FGUA report and ask the FGUA consultants more pointed questions, including:

1. How much land will be needed for the Town's wastewater plant? As a point of reference, the CDD's current wastewater plant sits on 26 acres.
2. Is the land cost included in the FGUA's Treatment System cost?
3. Do all cost estimates include hard and soft costs? In other words, do the numbers include construction costs along with architectural, engineering and other non-construction costs?
4. What are the site requirements for the wastewater plant and has the FGUA identified potential locations for the new wastewater plant? This directly impacts the cost estimates to run the transmission lines. Or, will the Town need to build two wastewater plants --- one on the North side of Town and the other on the South side of Town?
5. Will the location of the wastewater plant impact any existing or future residents, homes or commercial businesses?
6. How long will permitting and construction take? We have been told it could take 24 months to expand our plant. The Town's timeline is directly impacted by its ability and time necessary to secure grants, then it needs to acquire land and conduct its environmental and geotechnical studies, and then it needs to build the wastewater plant. That could take 5+ years.
7. Given the uncertain timeline for having the Town's wastewater plant built and operational, will the future developments mentioned in FGUA's report be prepared to wait versus cancelling their projects?
8. What is the minimum initial size of the Town's wastewater plant?
9. What will be the minimum expansion increments? This is something that the CDD has been trying to find a solution to for its own wastewater plant expansion and we hope to have options available in the near future that will allow for an expansion in increments less than 1,740 homes. It is important that the Town knows how it can expand its plant and the cost and timing. The Town would be making a false assumption to assume that it can customize its plant expansion to accommodate the size of each development that wants to tie in. In such case, the Town could be caught with either (i) not being able to expand its plant because there isn't enough developer interest or (ii) having to use its own money to fund the balance of the cost to expand the plant.
10. What will be the annual operating expenses once the plant is built and how many homes will need to be built and connected to the wastewater plant so that the wastewater plant can achieve a break-even financial performance? The Town needs to understand the potential financial impact to the Town and the residents if the housing market cools and no new homes get built.
11. Given that the FGUA's dollar figures are based on 2023 costs and that the wastewater plant would not be built for several years, what is the potential impact of inflation on the cost estimates in FGUA's report? Can the FGUA provide a cost sensitivity analysis.
12. The Town's new water plant will be built and operational well before the Town's new wastewater plant is completed. Given that the future developments can't move forward without water and wastewater, what is the estimated annual carrying costs for the new water treatment plant until the new wastewater plant is operational? And, what is the financial impact to the Town and the residents if the housing market cools and no new homes get built?
13. How much more money will the Town need to spend on consultants before they get the necessary information to make an educated business decision? After seeing FGUA's presentation, my initial reaction was that their report provided very little new information. Perhaps that is what was requested, as one Town Council member commented that the review was being conducted at a 30,000 foot level. But \$75K is a lot of money for a high-level report. Did FGUA's cost estimates include its \$75K consulting fee or is the \$75K fee an additional amount?
14. Based on the presentation we heard, we are concerned that the FGUA report included incorrect information and assumptions. If we are correct, then the financial obligations and costs to the existing and future residents would be much higher than what is shown in FGUA's report. It would be helpful if we could review the FGUA report and confirm that its information and assumptions are correct, including how it addresses the existing and future developments that are covered by the long term contracts between the CDD, Town and the developers.
15. Do the cost estimates include a construction contingency amount to cover unexpected costs? For any large construction projects, 5% to 10% of the total project cost is customarily added as a construction contingency.
16. What lessons can be learned from other municipalities/cities that have gone bankrupt after building their own utilities?

We fully recognize that the Town has the sole right to decide how to manage its future growth, including its water and wastewater services. The CDD can be part of such conversation if the Town wants. Or, if the Town wants to go down a different path, that is completely fine with the CDD. With that said, the Town's residents deserve to know all the different options available so that they can make an informed decision. This includes the option that was discussed at the January 2022 developer meeting whereby the developers would pay to expand the CDD's plant. This includes the option that was shared with Martha whereby the Town's grant money would pay to expand the CDD's plant. This includes other potential options that none of us are currently aware of. It would be very helpful if the Town could prepare a matrix showing the different options available, including the cost, time, pros/cons, return on investment, and risk.

In my opinion, the best option for the Town and the CDD is the option that was presented at the January 2022 developer meeting. Such option places the financial burden of expanding the wastewater plant on the developers (who can later recoup such costs from their homebuyers), the CDD continues to be the wholesale provider to the Town and the Town continues to be the retail provider to the new developments/residents. And, as mentioned above, we believe that the minimum expansion size for the CDD's wastewater plant can be lowered from 1,740 homes, which will provide much more flexibility to support developments of different sizes.

It is important for the Town Council members to know that the option presented at the January 2022 developer meeting would generate significant annual cash to the Town with no capital outlay or risk. To illustrate, the CDD currently charges the Town \$24/month per home and the Town passes such cost on to each homeowner. On top of that, the Town charges its residents a \$22 per month per home wastewater collection infrastructure fee. So, the residents pay \$46/month, the Town remits \$24/month to the CDD and the Town retains \$22/month. The Town utilizes the \$22/month per home to cover any repair or maintenance costs on the sewer lines and lift stations should they be necessary. Sewer lines have useful lives that are measured in decades and lift stations are covered by warranties for a certain time period (and there is the ability to transfer such responsibilities to the developers or HOA's). The net is that the \$22/month per home is generally all profit to the Town. If you scale that to 1,000 new homes, then the Town would generate \$22,000/month in revenue, which is equal to \$264,000 per year. If the Town increases such amount to \$30/month, the Town would generate \$30,000/month in revenue, which is equal to \$360,000 per year. Such money could support many of the Town's capital projects, salary increases, new parks and it could even support the borrowing of several million dollars to help the existing residents transition from septic to sewer. Given the foregoing, it would be political malpractice on the Town Council's part to ignore looking at this option.

We will leave it to the Town and its residents to decide if they want to have any further discussions with the CDD.

Please share this letter with the other Town Council members and we also request that you provide us with a copy of the FGUA report.

Sincerely,

Scott Line

Member (Sewer & Water Plant Investments, LLC, owner of the wastewater plant)