

Dear Town Council Members:

The Town Council has an important decision to make on the future of its Wastewater Service given that this would be the largest capital project in the Town's ninety-eight year history.

The next step in this evaluation is the Town Council's workshop on December 12, 2023 to discuss Wastewater Alternative Plans and a ten-page document has been prepared by the Town for such workshop. Such document sets forth 4 options --- one of which is Privately-Owned Plant (CDD) option.

We were not notified of the meeting or given the opportunity to review the information in the document on the Privately-Owned Plant (CDD) option.

After receiving and reviewing a copy of the document yesterday (Sunday, Dec 10), we wanted to provide the Town Council with accurate and up to date information on the CDD option. Please see below.

1. Failing to include all Options offered by the CDD (see page 4 of the Town's Document). The Town's document sets forth the option where the Town pays to acquire 870K of capacity from the CDD. The Town's document fails to address the other option that has been discussed with the Town over the past several years, which is that the Developers (and not the Town) would pay to expand the CDD's wastewater plant and the CDD would pay the Town a franchise fee to serve the Town's residents. This is the same structure that was used by the Town and the CDD for the Venezia, Talichet, The Reserve, and Lake Hills. It is also the same structure that was discussed with Mayor MacFarlane and Mr. O'Keefe in 2021 and also at the Town's Developer Meeting in January of 2022. Such option would require zero capital from the Town, the Town would generate significant revenues each year (more than \$900,000) and the Town's operating costs would be limited to maintaining the pipes (which have 40-year useful lives) and lift stations, and the resulting profit could be used to fund the Town's other initiatives. To make it 100% clear, please see the Attachment "A" which lays out the 2 options with the CDD.
2. Operating Costs -A (see page 6 of the Town's Document). The Town's document states that it will cost the Town \$1.4 million a year in operating and maintenance costs if it goes with the CDD option. We don't know where the Town got this number (as we were not consulted), but it makes no sense. As I mentioned in the above paragraph, the Town's operating expenses are limited to maintaining the pipes and lift stations. To point out how inaccurate the \$1.4 million number is the CDD's current operating costs to run its entire Wastewater Plant and Water Plant are approximately \$417,000/year and that covers electricity, sludge pumping, chemicals, insurance, etc.... If the \$1.4

million was meant to reflect the wholesale rate paid by the Town to the CDD, then we would recommend a separate line item/category for this, as a uninformed reader would assume that the \$1.4 million is the cost of the Town's staffing costs under the CDD option. The Town would have no staffing costs (or other costs other than maintenance of the pipes and lift stations) under the CDD option. But, the Town would have such costs if they build and operate their own plant and as discussed in the next paragraph, it is important that such costs be identified and shared with the Town Council and the residents.

3. Operating Costs -B (see page 6 of the Town's Document). One of the biggest shortcomings in the Town's document is its failure to identify the annual operating and maintenance costs for the three other options. We don't understand how the Town Council or its residents can make an informed decision without knowing what the annual operating and maintenance costs will be for each option. The Town would be better to delay the meeting until it could provide this information. In our experience, the operating and maintenance costs for a wastewater plant do not go down, but rather go up every year and a significant amount of the costs are fixed costs regardless of how many (or few) homes are connected to the wastewater plant. The residents deserve to see the whole picture of what the different options will generate from a revenue, cost and (hopefully) a profit. If not, the Town and the residents could find themselves having to support a money-losing business. At a minimum, the Town should include a 5-year financial projection and do a best, worst and probable case scenarios to take into account the uncertainty of the real estate market and developer interest.
4. Estimated Construction Costs/Cost of Treatment (see page 5 of the Town's Document). The Town's estimate of \$12,000,000 for an 850K gpd plant is lower than what our consultants are telling us a new wastewater plant costs in today's market. DAVCO's estimate works out to be \$14 per 1,000 gallons and our consultants tell us that costs are in the range of \$15 to \$20 per 1,000 gallons. We acknowledge not having seen the DAVCO estimate, but we would encourage a peer review of such estimate. Additionally, the Town should confirm that DAVCO's costs include a contingency (we recommend 10% - 15%), design and other soft costs, land cost at market price (\$50K for 14.5 acres is well under market), and also a cost inflation factor.
5. Expansion (see pages 4 and 8 of the Town's Document). The document states that the CDD's plant's minimum expansion is 435K gpd and that the maximum expansion is 870K gpd. The minimum expansion number is actually lower and the maximum expansion number is actually higher. The 435K is a number that we previously shared with the Town, but we have been working with our consultants to identify different ways to provide additional capacity, including through expansion, utilization of un-used capacity, and/or re-rating the plant. The net result of such evaluations is that (i) we believe we have 200k-300K gpd of immediately available capacity in the plant without having to do a major expansion and (ii) for any expansion, the minimum would be 182K gpd and not 435K gpd. With respect to the maximum, as we have previously shared with the Town,

the plant can be expanded from its current 870K gpd to 2.61 million gpd. That would allow for an additional 6,960 new homes. The CDD can do so because it operates on 26 acres. Has the Town's consultant advised if the Town can expand its proposed 850K gpd plant given that its site is only 14.5 acres?

6. Reclaimed Water (see pages 4 and 8 of the Town's Document). The Document states that no reclaim would be available. That statement is consistent with what the Town and the CDD's current agreement provides. But, we are open to revisiting this for new developments, as we understand it is an important issue for the Town. We would need to bring the St. Johns Water Management District into the discussion.
7. Cost of Sewage Collection System (see page 5 of the Town's Document). For the Town option, the Document advises that the costs for lift stations and pipes will be developer paid. Has the Town evaluated whether the location of its new plant will make it too expensive for developers to afford the cost of running pipes and installing lift stations? If the Town's plant is on the south side, how does it serve developments on the north side and vice versa? Conceptually, we agree that the developers should pay for the pipes and lift stations but if it is too expensive the developers will avoid the Howey market.
8. Estimated Revenues (see page 7 of the Town's Document). We don't know the assumptions used for determining the current annual customer rate or wastewater improvement fees, but it is our assumption that the customer rate includes the wholesale rate plus the Town's markup/profit. We note that you are using \$4,000 for the CDD's impact fee. The CDD's current impact fee is \$4,250.

It is important to note that the CDD's two Options differ significantly from the other three options available because the Town would generate revenue (and profits) from the CDD. As you can see on Attachment "A", the revenue to the Town under the current arrangement would be over \$900,000/year and the majority of that would be profit to the Town. As suggested above, we recommend that the Town provide a comparison of the revenues, expenses and profits under each wastewater option that is under consideration.

9. Degree of Town Management Control (see page 8 of the Town's Document). The document states that the degree of town management control would be "minimal" for the CDD option. We disagree. We believe that the relationship would be the same as the Town would have with Groveland, which would be "partial." As in the CDD and Town's current contract, the Town sets its rates, the Town collects the money, the Town can shut off a customer if they don't pay, and the Town determines who comes into the plant. We are not sure what more the Town wants to control.

It is our hope that the Town Council receives this letter in the spirit which it is intended --- that is, to make sure that the Town Council and the residents make an informed decision based on

facts. We recognize that there is momentum within the Town Council for the Town to own and operate its own wastewater plant. However, given the costs and risk of building and operating a plant, we believe that pursuing an option with the CDD is a better option --- with the best option being where the developers pay to expand the plant and the CDD pays the Town a royalty (i.e., Option A-1 on the Attachment). We also believe that the \$12 million spent on a wastewater plant could be better used to fund the Town's other wants and needs, including new and improved parks, a library expansion, a new Police Station, and road improvements.

It is our recommendation that the Town and the CDD hold a meeting in the very near future and see if a mutually acceptable agreement can be reached. It may also be helpful if the Town and CDD could bring in a neutral third party to help the parties agree on the terms and conditions of such agreement. Please let us know if that is a path that the Town Council is agreeable to.

In the interim, please let us know if you have any questions on the above or if there is anything we can provide that would assist the Town in evaluating its Wastewater alternatives.

Sincerely,

Scott Line

On behalf of Sewer & Water Plant Investments, LLC (the owner of the wastewater plant and landlord under Lease Agreement with Central Lake CDD)

[see Attachment "A" on the following page]

ATTACHMENT "A"

	Private – CDD Option A-1	Private – CDD Option A-2
Cost of Treatment Plant/Capacity Reservation	\$0 (developer paid)	\$14.79M for 870K GPD (3,480 ERUs). Current ERU price is \$4,250.
Cost of Sewage Collection System	\$0 (developer paid)	\$0 (developer paid)
Cost of Reclaim Distribution System	\$0 (developer paid)	\$0 (developer paid)
Land Acquisition	\$0	\$0
Total Cost of Plant Capacity	\$0	\$14.79M for 870K GPD
Revenue to the Town	<ul style="list-style-type: none"> - Currently, CDD charges the Town \$24/month and the Town charges the residents \$46/month, which generates a profit to the Town of \$22/month per home. - If a rate study is conducted, Town's rate is 85% of CDD's retail rate, which implies a 15% royalty paid by the CDD to the Town on every home. - As an example, based on the current \$24/month rate (which the Town generates a \$22/month profit) the 3,480 new homes would generate \$76,560/month and \$918,720/year in revenue to the Town. 	<ul style="list-style-type: none"> - Currently, CDD charges the Town \$24/month and the Town charges the residents \$46/month, which generates a profit to the Town of \$22/month per home. - If a rate study is conducted, Town's rate is 85% of CDD's retail rate, which implies a 15% royalty paid by the CDD to the Town on every home. - As an example, based on the current \$24/month rate (which the Town generates a \$22/month profit) the 3,480 new homes would generate \$76,560/month and \$918,720/year in revenue to the Town.

