

# Memorandum

**Date:** November 16, 2022

**To:** Levy County Board of County Commissioners

**From:** Wilbur Dean, County Coordinator; Nicolle Shalley, County Attorney; Andrew Carswell, County Engineer; Stacey Hectus, County Planning and Zoning Director and Jared Blanton, Finance Officer (“County Staff”)

**Re:** Regional Alternative Water Supply and Wastewater Projects – Cedar Key, Bronson, Otter Creek and Unincorporated Areas in Levy County (the “Project”) and proposed establishment of the Waccasassa Water and Wastewater Cooperative (the “Cooperative”)

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The purpose of this memorandum is to provide background information and preliminary issues and questions for the Board to consider when it begins to discuss and determine the extent of County involvement, if any, in the Project and in the Cooperative. The list of issues and questions identified below is not comprehensive and not entirely well organized, it is intended as a starting point for Board discussion. A project of this magnitude will necessarily evolve and develop and there will be many more issues and questions to consider. If the Board wishes to move forward with any level of participation in this Project and the Cooperative, it should consider identifying a County Project Manager and perhaps outside subject matter experts (engineering, legal, finance, utility planning/management) to participate in future discussions with the other Project parties and to more thoroughly evaluate the issues.

## **Background**

County Staff prepared this memorandum based on preliminary review and discussion of two documents provided by Commissioner John Meeks who has been following this Project at the Board’s direction: (1) A report titled “Phase 1: Regional Alternative Water Supply Feasibility – Cedar Key, Bronson, Otter Creek, and Unincorporated Areas in Levy County” and dated September 26, 2022, prepared for the Suwannee River Water Management District by Wetland Solutions, Inc. (the “Report”); and (2) A draft Interlocal Agreement relating to the Establishment of the Waccasassa Water and Wastewater Cooperative (the “Interlocal.”)

The Report explains that “this regional water supply feasibility study evaluated alternatives to address water supply and wastewater treatment needs for the City of Cedar Key, Town of Otter Creek, Town of Bronson, and unincorporated areas of Levy County including the communities of Rosewood and Sumner. Each of the communities addressed in this study have challenges associated with the water supply, wastewater treatment, or collection and distribution systems. These needs are identified in

the study both for the current condition and considering potential population growth.” See p. ES-1. The current need for the Project seems to be largely driven by environmental limitations/concerns and the utility needs of Cedar Key, in particular when tourist population is included.

The Report focuses on a “Study Area” for the Project that is the portion of the Suwannee River Water Management District within the Waccasassa River Basin in Levy County along a Project corridor that runs along State Road 24 from the Alachua County line (northeast of Bronson) to Cedar Key. See p. 2-3 for a map of the Study Area.

The Report identifies that the County currently operates two water treatment facilities associated with small developments, but only one of those (University Oaks) is within the Study Area. The Report states the County may be amenable to transferring the University Oaks water system to Bronson. See p. 25.

The Report evaluates two regional alternatives that could meet the needs of some or all of the communities in the Study Area and concludes that next steps include formation of a regional water cooperative and special district that can begin to advocate for and secure funding, development of a preliminary engineering report for the preferred alternative, and preparation of more detailed cost estimates. See p. ES-2.

Cost and funding for the Project is a major concern – as utility services must be affordable and reliable. It appears that a combination of many funding sources (e.g., grants, State and Federal funds and loans, taxes, special assessments, bonds, connection fees and utility rates) will be needed for a project of this magnitude. See p. 79 - 114

The Interlocal is a very preliminary draft agreement (pursuant to Section 163.01, F.S.) proposed to be between five governmental parties (Levy County, Bronson, Otter Creek, Cedar Key, and the Cedar Key Water and Sewer District) that creates a separate legal entity (the “Cooperative”) to acquire, own, improve, operate and maintain certain water and wastewater facilities. County Staff did not spend extensive time on review or revisions to the Interlocal, as that effort must be informed by Board direction concerning the nature and extent, if any, of County participation in the Cooperative and the Project.

### **Preliminary Questions/Issues for Board Consideration**

1. Will this Project serve only existing development – to get them off wells/septic systems and to replace/repair existing central utility systems owned by the governmental parties? Or will the Project be used to foster/serve additional growth and development within the Study Area? Is additional growth/development desired in Cedar Key? In Otter Creek? In Rosewood/Sumner or in other the unincorporated property within the Study Area? If additional development is appropriate in the unincorporated Study Area and could be served by the Project, should the County limit it through zoning – such as creating “nodes” within which desired uses (e.g., affordable workforce housing, a grocery store and other supportive commercial uses) are allowed?

2. What infrastructure will be owned/run by the Cooperative (e.g., wells, treatment and main lines)? How will allocations of capacity (the water available for sale and wastewater treatment) be divided among the parties in the Cooperative? How will voting power be assigned?
3. What infrastructure will be owned by the individual parties in the Cooperative (e.g., distribution and collection lines)?
4. Does the County want to be in the water distribution/wastewater collection business? Why, or why not? If the County desires to be in the utility business, will the County form a water and sewer district or will it be a County Department? Either way, does the County have (or believe it can attract and retain) adequate staff to run these utility systems? What has been the County's experience with the two utility systems that it presently operates? Is the Board comfortable mandating connection in areas that can be served by the central Water and Wastewater System? Is the Board comfortable with setting utility rates to cover the costs?
5. Alternatively, if the County does not want to be in the water distribution/wastewater collection business (except for the County's existing Manatee Utilities system which is not located in the Study Area), will the County transfer the University Oaks system to Bronson? Who would serve the unincorporated Rosewood/Sumner areas – the report mentions the potential for the Cedar Key Water and Sewer District to expand its service area to serve those communities? Would the County limit development? Could the Cooperative itself be in the distribution business?
6. If the County does not want to be in the water/wastewater business, why would it participate in the Cooperative? Even if County participation is minimal (such as assisting with lobbying and fundraising efforts), what County staff would be assigned to work with the Cooperative and keep the Board informed?
7. The Report estimates the costs to construct a regional water/wastewater treatment system and main line from Bronson to Cedar Key at around \$102 million, the costs for water distribution and wastewater collection to residences is estimated at around \$107 million and no estimate is yet provided for the on-going maintenance and operations costs for either the regional system or the distribution/collection systems. The magnitude of this Project is significantly larger than any capital project in the County in recent history. Participating in this Project can reasonably be expected to alter the County both operationally and administratively, as such, many points should be carefully considered:
  - a. What happens if sufficient funds are not available from grants to construct the Project? The Project becomes less self-sustainable if the County takes on debt service cost for capital needed for the Project. If grants do not cover 100% of the real property (land and utility lines and stations) and equipment (pumps, etc) and the County must fund the

- capital Project itself, whether directly or through debt, that will significantly alter all County operational and capital planning discussions for 4-5 year horizons. What are the exit options for the parties to the Cooperative?
- b. Even if, best case, the initial construction of the regional Project and perhaps the local (distribution and collection) capital components can be funded with grant money and/or bonds and loans, is it realistic to expect a rural water utility (with this amount of infrastructure relative to population served) to sustain its operations on rates alone without either direct assessments or a transfer subsidy? Water utilities are not generally money makers. A search for publicly traded power utilities yields many household names, while a search for publicly traded water utilities yields only a few that provide services (for a profit) to public/private utilities.
  - c. The County should plan for operations and maintenance costs to be collected through rates and/or subsidized by the individual parties to the Cooperative. Just as the County now subsidizes operations at its two existing water utilities with roughly \$100,000 per year, which represents roughly 50-60% of non-grant covered recurring operations. How large will the subsidy be for this operation if the County is a full participant? If none of the municipalities have the ability to provide necessary support/subsidy, will this system ultimately become a County obligation?
  - d. If these utility operations could be a break-even venture, can the parties find private-public partnership options to operate the system after the capital infusion from grants. If no private companies are interested in a system with subsidized start up, that may inform our analysis.
8. The Study focuses on the need for the Project in terms of environmental benefits and existing poor water quality and often government must take on projects that are not money makers and do not “pay for themselves” but that serve necessary public purposes. Examples include public safety, court proceedings, constructing and maintaining roads and parks and land conservation. Often things are generally requested or expected by the residents. Is this Project being requested by the residents? Residents in the municipalities or in the unincorporated areas? Are residents along the Project route amenable to mandatory connection to a central water and wastewater system? And they amenable to abandoning existing wells and septic systems? Are they willing and able to pay the rates that must be established to make the water and wastewater service sustainable?