



# SANTA ROSA COUNTY ENGINEERING DEPARTMENT

ROGER BLAYLOCK, P.E.  
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6051 Old Bagdad Highway, Suite 300 | Milton, Florida 32583

## MEMORANDUM

To: Tony Gomillion, County Administrator

From: Roger A. Blaylock, P.E. County Engineer

A handwritten signature in blue ink, appearing to read "Roger", is written over the printed name of Roger A. Blaylock.

Date: September 14, 2016

Re: Holley Navarre Water System letter

### Background:

Santa Rosa County received attached correspondence from Holley Navarre Water System (HNWS) re: incorporation of Navarre Beach into their Holley Navarre Water System. County engineering staff and Navarre Beach staff met with HNWS to discuss a potential transfer and future effluent disposal on the peninsula.

### Discussion:

The HNWS letter addresses two separate and distinct issues, one is the transfer of water and sewer utility operations and the other is effluent disposal at the proposed Rapid Rate Infiltration Basins (RIB) on Eglin Property (Santa Rosa County Regional Reuse Program). Santa Rosa County remains committed to teaming with HNWS and South Santa Rosa Utilities (SSRU) to develop the Eglin RIB project as a long-term solution for effluent disposal on the peninsula. These two initiatives should be addressed individually for the following reasons:

- The NBU wastewater treatment facility (WWTF) has been successful in meeting the effluent discharge requirements at its current effluent disposal location in Santa Rosa Sound for the past 50 years. While the need to route the NBU effluent to the RIBs is not immediate as indicated above, the County's ultimate goal is to remove the NBU discharge from Santa Rosa Sound in anticipation of future regulatory changes and continued growth in the south end of the county.
- HNWS is currently pursuing other effluent disposal alternatives, so the degree of participation by HNWS in the RIB project is unknown at this time. The extent of participation by HNWS and related cost sharing in the RIB project significantly affects the cost burden to NBU, which affects the financial analysis on the transferring of utilities presented in Table 2 of the HNWS letter.

With respect to the transfer of water and wastewater utilities, the economics of the potential transfer would need to be advantageous for both HNWS and NBU, and that the County should not subsidize either HNWS or the NBU franchise. Also, transferring the utilities to HNWS should not negatively affect the reliability and quality of water and wastewater service or inhibit the growth and development on Navarre Beach. The following are concerns:

- Although not explicitly stated in the letter, the financial analysis appears to assume that if the utilities were transferred to HNWS, the WWTF would be abandoned in place and the raw sewage would be pumped directly to the HNWS WWTF. The financial analysis does not appear to include the cost for demolishing and abandoning the existing WWTF, designing and constructing the new raw sewage pump station, or modifications to the collection system to route the flows to the new pump station.

- The costs assume only one forcemain would be constructed across the sound to convey the raw sewage from the proposed raw sewage pump station to the HNWS WWTF. The current NBU WWTF and effluent disposal systems incorporate system reliability through redundancy to ensure continuous wastewater service to Navarre Beach customers. Recent experiences in the area from the failure of a subaqueous pipe has shown it is very difficult and time consuming to repair which could put the customers of Navarre Beach out of service for an extended period. Any projected costs for conveying flow across the sound should also include dual (redundant) forcemains or some other system reliability measures.
- The current treatment capacity of the NBU WWTF is 1.2 million gallons per day (mgd). In order to allow for continued and controlled growth of Navarre Beach, HNWS would need to provide reserve treatment and disposal capacity for this flowrate. The treatment capacity of the HNWS WWTF is 2.99 mgd, which currently receives an average influent flow of approximately 1.4 mgd. The combined flow of 1.4 mgd and the required reserve capacity of 1.2 mgd would equate to 2.6 mgd, or approximately 75% of the current capacity. In order to maintain growth in the HNWS and Navarre Beach service areas, it appears HNWS would need to immediately expand the treatment capacity of the HNWS WWTF. The financial analysis did not appear to address the financial impact this would have on HNWS or NBU customers.
- Does HNWS maintain sufficient financial reserves to re-construct NBU infrastructure after a Hurricane Opal, Ivan or Dennis event? It is unclear if HNWS is eligible for FEMA funds for a declared disaster.
- Will HNWS ensure that the growth and operation of the utilities will be consistent with the County's growth and planning goals on Navarre Beach?
- Currently, the NBU staff supplements other County functions on Navarre Beach, such as general supervision, beach maintenance, beach sweeping, etc. The County would incur additional costs to maintain the County-wide services on Navarre Beach if the utilities were transferred to HNWS.
- NBU currently has a financial reserve of \$2.4 million and a remaining debt of approximately \$3 million on an existing 2006 revenue bond that will be retired in approximately 5 years. The existing WWTF was upgraded in 2006, and no additional upgrades are anticipated at this time except for routine replacement and maintenance of equipment and infrastructure. At this time only nominal increases in water and sewer rates are anticipated to account for inflation and the cost of collection system infrastructure to accommodate future growth. The NBU franchise has historically produced a positive cash flow, which is anticipated to continue into the future.
- NB wastewater treatment plant available sewer capacity is valued at over \$15.5 million based on the existing operating permit, current tap fee cost, and current number of customers/influent flowrate. Value of existing buildings and infrastructure has not been estimated at this time.

Several private firms have indicated an interest to provide contract operations for any portion or all of the utility services including billing and collections. Billing and collections and audit services are currently contracted/funded through SRC Finance. Several municipalities (Crestview, Mary Esther) have contracted the operation and maintenance of their wastewater treatment plant with a private firm. The remaining utility functions, water distribution, wastewater collection, billing and collections are performed with city Public Works personnel. NBU operation does not lend itself to partial contract operations due to its limited customer base and unique method of service delivery. NB water/wastewater operators are required to perform: meter reading, meter installs, cutoffs and re-connects, repair water and sewer lines, lift station and water well checks in addition to operating and maintaining the physical treatment plants and equipment. They also maintain all equipment and grounds of the utility system. NB Utility personnel support all non-utility activities on the beach. Eliminating wastewater treatment operations or pieces of the operation will not significantly reduce personnel due to multi-tasking and small number of operators and trainees.

Finding:

Navarre Beach Utilities Service Delivery options:

1. Continue current utility system operations. No significant budget change.
2. Transfer/sell existing utility system and infrastructure to another utility company or private entity. Contract compliance by County Engineering. Budget impact unclear.
3. Contract all current utility operations with another utility company or private entity. Contract compliance by County Engineering. Budget impact to be determined after receipt of proposals and contract negotiations.

## Contract Operations for Navarre Beach Water & Wastewater Utilities

Advantages	Disadvantages
Contractor can retain existing staff as selected by Owner, although due to cross training, standard work processes, support from nearby operations, and other efficiencies, Contractor can typically perform the same scope of work with less staff.	The staff will most likely be reduced, and the accrual of County retirement benefits for the retained staff will cease. Losing existing staff could result in loss of detailed knowledge of existing infrastructure and operations.
Owner maintains complete control and direction of the utility, including control of utility rates and ensuring the growth of the utility is consistent with the growth plan for Navarre Beach. The level of involvement in the day to day operation is left up to the Owner. Typically, project manager schedules weekly or biweekly meetings with Owner. At a minimum, monthly and annual performance reports are submitted.	Unless included in the scope of work, the County will need to provide backup assistance to beach maintenance operations with other County or contract resources.
Contractor has a greater depth of in-house resources to quickly respond to damage caused by natural disasters and other catastrophic events.	With a reduced staff, the response time to repair and maintenance issues could be reduced.
Contractor can expand scope of services to include meter reading, billing, maintenance of beach facilities, etc. if requested by the Owner.	Unless included in the scope of work, the County would still need personnel and other resources to operate the four lift stations in the industrial park and airport.
Owner has a predictable annual cost over the life of the contract.	County will still need to maintain presence on Navarre Beach (lighting, pier, repairs, public relations, etc.)
Contractor is responsible for permit compliance and monitoring regulatory changes.	County remains responsible party for permit compliance, may transfer responsibility to contractor through contract.
Contractor is responsible for maintaining proper licensing, continuing education, and career growth of staff.	
Contractor is responsible for the preventative maintenance of assets. Computerized maintenance management systems and standardized asset management approaches reduce long-term equipment costs.	
Personnel issues are addressed by Contractor, although Owner can approve new hires.	
Contractor is responsible for health and safety at the project site.	
A contractor can bring worldwide best practices and lessons learned to a local community.	

**Acquisition of Navarre Beach Utilities by Holley Navarre Water System (comparison assumes complete ownership of utility by HNWS and the demolition of the existing WWTF)**

Advantages	Disadvantages
County is no longer responsible for meeting WWTF effluent limits or potable water regulations.	HNWS plans to abandon existing WWTF and pump raw sewage across the sound to their WWTF. The current WWTF and effluent disposal systems incorporate the reliability and redundancy to ensure continuous wastewater service to the customers. An additional, parallel pipe, or other means of redundancy, would need to be installed across the sound at significant cost to NB customers.
There may be economies of scale with combining utilities (e.g., billing & accounting) that could theoretically translate to lower operating costs, as implied in the March 15, 2016 letter from HNWS.	The County would no longer retain ownership and ensure the growth and operation of the utilities will be consistent with the County's growth and planning goals on Navarre Beach.
The County would no longer be responsible for future upgrades to infrastructure due to capacity needs, age, or regulatory changes.	The County and beach customers would no longer have control of the rates or special assessments. At this time, only nominal increases in water and sewer rates are anticipated to account for inflation and the cost of collection system infrastructure to accommodate future growth. The NBU franchise has historically produced a positive cash flow, which is anticipated to continue.
	Based on the March 15, 2016 letter from HNWS, it does not appear that HNWS will compensate the County for the value of the existing infrastructure (WWTF, lift stations, pipes, wells, storage tanks, etc.) or assume any of the debt from the existing bond or value of remaining capacity (taps).
	The County would no longer have control over the quality of the water distributed to customers.
	HNWS will most likely reduce staff, and the accrual of County retirement benefits for the retained staff will cease.
	The County would no longer have control over the schedule for rebuilding water and wastewater infrastructure after a storm event and tropical storm. The County would most likely rebuild the infrastructure quicker because of the tax revenues the beach generates.
	Unless included in the scope of work, the County would still need personnel and other resources to operate the four lift stations in the industrial park and airport.
	The County would need to ensure that they have reserve capacity at the HNWS WWTF, which would require an immediate upgrade of their WWTF and most likely an increase in rates to cover the debt service.
	The County will need to provide backup assistance to beach maintenance operations with other County or contract resources.

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**HOLLEY-NAVARRE WATER SYSTEM, Inc.**

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PHONE: (850) 939-2427 · FAX (850) 939-9541

March 15, 2016

Mr. Tony Gomillion  
County Administrator  
Santa Rosa County  
6495 Caroline Street, Suite M  
Milton, FL 32570

RE: Incorporation of Navarre Beach into Holley Navarre Water System

Dear Mr. Gomillion:

As a follow up to our meeting and discussion of November 16, 2015, we would like to take the opportunity to provide additional detail with regards to the potential transfer of the Navarre Beach water and wastewater systems to Holley Navarre Water System (HNWS). Based upon the meeting, we have performed some additional due diligence and offer the following information.

The process to combine the utilities would be a significant effort by both HNWS and Santa Rosa County. There will be many issues that will need to be debated and resolved. We recognize that during the course of the discussions it may be decided that the combination of the utilities does not make sense. Prior to taking the next steps in the process in earnest and either party incurring the significant expense this endeavor may entail, we would like to outline some of the items that are concerns or expectations that HNWS would have.

The economics of the acquisition must make sense for the members of HNWS and the County. The members of HNWS cannot be asked to subsidize the cost of operations for the beach system. While we would anticipate some normalization of rates over a longer time frame, an immediate decrease in rates is not anticipated. All parties should understand that, without combining the systems, beach residents face rate increases due to effluent disposal challenges and supply of water. Because the system is isolated on the beach, there are inherent risks and costs with regards to its operations that should be borne by the beach residents.

To that end we have performed some preliminary budgeting and cost estimating. Table 1 represents our current projection of costs and potential rate increase related to the disposal of wastewater effluent via the Eglin project that the County has been working on for some time. All of the costs shown were developed by our engineers or the engineers working for Santa Rosa County. The first column represents the cost to Navarre Beach if it is forced to construct the project with no other assistance. The result is that the beach residents face a rate increase in excess of 63%. The rate increase shown is calculated based upon current revenue and includes no debt coverage or conservatism so the required increase would most likely be higher. The second column indicates the cost that would be borne by HNWS if it is to construct the project by itself. The result is a required rate increase to our customers in excess of 11%. The third column shows that, by combining the utilities, we believe that we can hold the beach rates at their current levels for the immediate future and reduce the burden upon HNWS customers as well.

In order for this transaction to work, there would need to be, in the very short term, a significant savings in operations and maintenance costs regarding beach system operations. In order to determine what cost savings might be realized by HNWS if it combines with the Navarre Beach system, we have completed a simple analysis of the beach financial statements. Table 2 represents our efforts. The net operating profit/loss information for years 2012 through 2015 is taken from the published audit information relating to the income statement. We have corrected the income statement profit/loss to actual cash by adjusting for depreciation, debt payments, capital improvements, and franchise fee refunds. As you can see, the actual net cash flow varies from a surplus of approximately \$190,000 to a deficit of \$329,000.

The projected forward cash flow column of Table 2 represents our current estimation of costs if the utilities are absorbed by HNWS. It forecasts a significant savings on an annual basis. This significant savings can be used to pay for the portion of the Table 1 debt payments that should be borne by the Navarre Beach users, leaving a small positive cash flow.

It should be noted that the information in both tables is preliminary and subject to change based upon a more diligent and in depth review of the financial data and evaluation of the existing Navarre Beach infrastructure.

Based upon our financial analysis, the beach system must be transferred unencumbered. It appears that the beach system holds a significant cash reserved account that could be used to pay off the current bond issue if Santa Rosa County were relieved of the necessity to maintain reserves.

There are some highly qualified and dedicated Santa Rosa County employees that operate and maintain the beach system. While HNWS is always in search of highly qualified employees, we are unsure if we have the financial ability to absorb these employees or even if they would wish to join our utility. HNWS asks the County to work

with it to insure that no current employee is left unemployed as part of this effort. We have assumed that we would most likely take the operations staff and that the administrative, billing, and accounting staff would remain with Santa Rosa County.

At this point, it is entirely too early to speculate on the mechanics of the combination of the two utilities; however, HNWS would expect Santa Rosa County to assist in the formation of a Utility Authority governed by HNWS locally should we determine that an authority would be the appropriate means of combining the systems.

As part of any system combination, we would expect Santa Rosa County to relinquish its rights to all existing work product relating to the Eglin disposal system and cooperate in the finalization of all necessary permits and or leases related to the use of the property on Eglin. Santa Rosa County has spent significant time and money on this effort and we would not expect to have to duplicate any efforts.

HNWS appreciates the County facilitating a meeting with its engineers on the Eglin project regarding costs and status of the project. Based upon discussion during that meeting, we would request that the County have its engineer contact the appropriate Eglin parties to review the status of the proposed land lease. This is a critical issue for both HNWS and the County and could significantly affect the economics of combining the utilities. As HNWS is contemplating taking up the Eglin project, it will pay for the engineers time associated with the work and is willing to execute an agreement to that end. We believe it is important that issue continue to be coordinated by the County for the time being.

HNWS understands that representation of the beach residents on a governing board would be expected by both beach residents and Santa Rosa County. HNWS would expect that representation would be consistent with the concerns expressed above.

We look forward to discussing these issues with you further. Should you have any questions or concerns, please let us know.

Sincerely,



**Billy J. Sublett**

**Executive Director**

(850) 485-2643 Cell

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[www.bsublett@hnws-fl.com](mailto:www.bsublett@hnws-fl.com)

CC: Phil Phillips, Municipal Engineering Services, Inc.  
John Daniel, Beggs and Lane Attorneys and Councillors at Law

**Attachments:**

Table 1, Infrastructure Improvements Required to Serve Navarre Beach  
Table 2, Current and Proposed Navarre Beach Income and Cash Flow  
Notes

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**TABLE 1**  
**INFRASTRUCTURE IMPROVEMENTS REQUIRED TO SERVE NAVARRE BEACH**  
 (Analysis assumes that the construction of the Eglin RIB project is used to provide long term solution for both HNWS and Navarre Beach reuse capacity issues)

	Navarre Beach Solo Project	HNWS Solo Project	(Combined Utilities)		
			Total Improvement Costs	Navarre Beach Portion	HNWS Portion
WWTP Abandonment (1)	\$0.00	N/A	\$0.00	\$0.00	\$0.00
Santa Rosa Sound Crossing (1)	\$3,500,000.00	N/A	\$3,500,000.00	\$3,500,000.00	\$0.00
Highway 87 LS Upgrade (2)	N/A	\$600,000.00	\$600,000.00	\$120,000.00	\$480,000.00
20" Force Main Improvement (2)	N/A	\$750,000.00	\$750,000.00	\$150,000.00	\$600,000.00
Eglin Reuse Main (3)	\$11,000,000.00	\$9,000,000.00	\$9,000,000.00	\$3,130,434.78	\$5,869,565.22
Eglin Phase I RIB Construction (3)	\$2,000,000.00	\$2,000,000.00	\$2,000,000.00	\$695,652.17	\$1,304,347.83
<b>Total Capital Improvements</b>	\$16,500,000.00	\$12,350,000.00	\$15,850,000.00	\$7,596,086.96	\$8,253,913.04
Finance Term (years)	20	20	20	20	20
Finance Cost (% annual)	4.00%	4.00%	4.00%	4.00%	4.00%
Annual Payment	(\$1,214,098.88)	(\$908,734.62)	(\$1,166,270.74)	(\$558,933.37)	(\$607,337.37)
Forecasted Rate Increase to NB (5)	63.90%			0.00%	
Forecasted Rate Increase to HNWS (6)		11.36%			7.59%

Eglin Transmission Main and RIB Cost Allocation			
	HNWS (mgd)	Navarre Beach (mgd)	Total (mgd)
Capacity Required (4)	1.5	0.8	2.3
Allocation of Costs as % of Total	65.22%	34.78%	100.00%

- (1) This cost is allocated 100% to Navarre Beach users. It is assumed to be left in place and to be \$0 for conservatism.
- (2) This cost is allocated 80% to HNWS, 20% to Navarre Beach.
- (3) This cost is allocated per the calculation above.
- (4) Alocated by current known projections.
- (5) Based upon projected future revenue from Table 1.
- (6) Based upon \$8.0 million annual revenue.

**TABLE 2**  
**Current and Proposed Navarre Beach Income and Cash Flow**

11-Jan-16

Account	Projected Forward CASH FLOW	Notes	2015	2014	2013	2012
			ACTUAL ACCOUNTING - NOT CASH FLOW			
401-3436001 401-NB WATER/SEWER RE	1,900,000.00	1	1,911,877.00	1,863,431.00	1,769,924.00	1,650,209.99
401-3436002 401-NB WATER/SEWER LA	0.00	2	14,520.00	15,088.00	19,407.00	21,867.72
401-3436003 401-NB WATER CONNECTI	0.00	2	164,700.00	30,500.00	91,500.00	18,300.00
<b>OPERATING INCOME</b>	<b>1,900,000.00</b>		<b>2,091,097.00</b>	<b>1,909,019.00</b>	<b>1,880,831.00</b>	<b>1,690,377.71</b>
Bad Debt	0.00	3		4,804.00	0.00	
401-361300 401-NB GAIN/LOSS ON IN	0.00	3				0.00
401-51210 401-NB REGULAR SALARIES	240,000.00	4	390,554.00	415,096.00	395,717.63	415,439.50
401-52110 401-NB FICA TAXES	18,000.00	4	29,033.00	30,807.00	29,375.74	30,987.53
401-52210 401-NB RETIREMENT CONTR	24,000.00	4	38,581.00	38,635.00	24,890.97	20,486.33
401-52310 401-NB LIFE AND HEALTH	56,000.00	4	90,447.00	93,072.00	83,239.29	79,387.55
401-52410 401-NB WORKERS COMPENSA	12,000.00	4	19,340.00	18,710.00	16,780.00	23,550.00
401-52610 401-NB OPEB Costs	0.00	3	0.00	6,668.00	6,428.50	10,633.08
401-531001 401-NB PROFESSIONAL SE	0.00	3	46,586.00	4,903.00	16,151.00	18,183.55
401-534001 401-NB OTHER CONTRACTU	0.00	3	2,841.00	2,365.00	1,892.00	3,953.00
401-534003 401-NB ACCOUNTING	50,000.00	5	66,050.00	66,050.00	66,050.00	66,050.00
401-5310016 401-NB ENGINEERING 5E	0.00	3				0.00
401-551001 401-NB OFFICE SUPPLIES	1,500.00	5	1,825.00	2,216.00	3,014.00	2,354.28
401-552001 401-NB OPERATING SUPPL	45,000.00	5	73,405.00	74,567.00	70,879.00	76,953.35
401-5520014 401-NB NONCAPITALIZED	0.00	3				0.00
401-546001 401-NB REPAIR AND MAIN	250,000.00	6	255,276.00	417,608.00	172,971.00	145,394.65
401-543001 401-NB UTILITY SERVICE	60,000.00	7	82,190.00	83,743.00	68,835.00	64,509.10
401-5430011 401-NB WASTE DISPOSAL	1,500.00	3	8,234.00	7,291.00	7,198.00	6,118.21
401-5430016 401-NB CONTRACTED WAT	350,000.00	8	159,423.00	128,393.00	252,717.00	240,630.97
401-559001 401-NB DEPRECIATION EX	0.00	3	543,152.00	526,756.00	522,643.00	522,341.35
401-540001 401-NB TRAVEL AND PER	0.00	3	71.00		165.00	0.00
401-545001 401-NB INSURANCE	50,000.00	3	8,050.00	8,050.00	8,050.00	8,050.00
401-541001 401-NB COMMUNCIATIONS	6,000.00	5	4,932.00	5,924.00	4,742.00	8,653.89
401-542001 401-NB POSTAGE SERVICE	6,500.00	5	6,009.00	6,437.00	6,058.00	1,830.94
401-5490011 401-NB ADVERTISING	0.00	3	144.00			0.00
401-5520011 401-NB FUEL/OIL/LUBRI	10,000.00	5	12,830.00	15,844.00	13,104.00	17,627.79
401-549001 401-NB OTHER CURRENT CHARGES	0.00	3	396.00	2,060.00	445.00	463.00
401-554001 401-NB BOOKS/PUBLICATI	0.00	3	611.00	964.00	545.00	631.46
401-563001 401-NB OTHER IMPROVEME	0.00	3				0.00
401-5540011 401-NB DUES AND MEMBE	0.00	3	3,080.00	2,671.00	1,680.00	749.00
401-5540012 401-NB EDUCATION AND	0.00	3	1,521.00	911.00	1,004.00	200.00
<b>OPERATING EXPENSES</b>	<b>1,180,500.00</b>		<b>1,844,581.00</b>	<b>1,964,545.00</b>	<b>1,774,575.13</b>	<b>1,765,178.53</b>
<b>NET OPERATING PROFIT/LOSS</b>	<b>719,500.00</b>		<b>246,516.00</b>	<b>-55,526.00</b>	<b>106,255.87</b>	<b>-74,800.82</b>
<b>CASH CORRECTIONS</b>						
Depreciation	N/A		543,152.00	526,756.00	522,643.00	522,341.35
Debt Payment	N/A		-443,693.00	-427,371.00	-411,648.32	-396,028.84
Capital Improvements	-25,000.00		-12,991.00	-373,412.00	-28,028.61	-31,541.32
Franchise Fee Refund	N/A		-142,066.00			
<b>NET PROFIT/LOSS - CASH</b>	<b>694,500.00</b>		<b>190,918.00</b>	<b>-329,553.00</b>	<b>189,221.94</b>	<b>19,970.37</b>
<b>Annual Capital Improvement Debt</b>	<b>-558,933.37</b>	<b>9</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>Total Cash Flow</b>	<b>135,566.63</b>		<b>190,918.00</b>	<b>-329,553.00</b>	<b>189,221.94</b>	<b>19,970.37</b>

## NOTES

- 1 Assumed based on level growth. No assumption for future growth. This represents worst year exclusive of storm event.
- 2 No connection fees or tap fees assumed for conservatism. Note that at current HNWS rates 20 ERU connections per year would result in \$129,000 in annual cash flow.
- 3 Not applicable to cash flow or already absorbed by HNWS.
- 4 Assumed retention of a portion of staff. Operators only.
- 5 Assumed based upon best available information.
- 6 Discount reflects HNWS self perform ability.
- 7 Maintained high but will be reduced for WWTP abandonment.
- 8 Reflects increased FRUS rates.
- 9 From Infrastructure sheet.