

# MEMORANDUM

TO: Town Council  
FROM: Bill Bruce  
DATE: July 31, 2020  
RE: Update on Envirolink Contract

On July 9, Town Council approved Envirolink's proposal in response to the Town's RFP for operations, maintenance, customer service, and billing for the proposed water system. Council instructed staff, with assistance from the water working group, to begin contract negotiations. Specific concerns, and a number of questions, were raised by Council during the discussion, which the water working group has endeavored to answer through a series of meetings with Envirolink over the last month, including a review of the firm's financials with Finance Officer Anders and Town Attorney Thomas.

Attached to this memo is a document containing the requested supplemental information for Envirolink's proposal to the Town. The supplemental information includes additional detail on costs associated with Town responsibilities, a reduction in proposed O&M costs for systems of less than thirty customers, a reduction in mark-up costs for reimbursables, and additional detail on the variety of service contracts the firm provides statewide.

**Requested action:** For information only. Advise staff of any additional concerns or priorities as contract negotiations continue.



Supplemental Information for Envirolink's Proposal to the Town of Oak Ridge

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1. Envirolink's Financial Information – As a private corporation, Envirolink's financial statements are confidential and not public information. Envirolink has been in business since 1997 and has experienced steady growth. Envirolink allowed Town representatives to view its financials at an in person meeting on the afternoon of July 21<sup>st</sup>. Based on that meeting and presentation, it is our understanding that the Town attorney and finance officer are satisfied with the financial position of Envirolink.
2. Financial information on Shiloh, Autumn Forest, Carriage Cove, and Knight's Landing. ONSWC would prefer that the Town make an offer for purchase of these systems and then enter into a letter of intent with appropriate non-disclosures. This will allow the Town a period to conduct its due diligence. In order to provide the Town a framework to prepare such an offer, ONSWC is able to allow Town representatives to view financial information on these four systems but is unable to submit financials directly to the Town. ONSWC is concerned about submitting financial information to the Town as it is confidential information of a private corporation; however, based on feedback from the Town Attorney on July 21<sup>st</sup> we can provide those documents that were viewed on the 21<sup>st</sup> with a "Confidential" marking to retain its pledge of privacy.
3. Cost of items listed in the Town's responsibility. Below is a list of the items listed in the proposal along with typical cost based on our experience:
  - a. Town employee. This person is envisioned to be a representative of the Town with the authority to render policy and financial decisions as they may arise from time to time. In our experience, this effort requires a limited number of hours per month (e.g. less than 10). During the initial phase of system on-boarding, the designated Town representative may need to allocate more hours per month to ensure a smooth start-up of the Water System.
  - b. Utilities including water, sewer, electric, internet, telecommunications services at no charge. This item was included for two purposes.
    - i. Our proposal was based on the Town allowing Envirolink use and access of an office within Town Hall. This item was included to address the use and access of existing Town facilities.
    - ii. Water system operation. Typically, water systems of this nature require support from various utilities, including electric, water, and telecommunication/internet (if equipped with SCADA). Our proposal was submitted with the understanding that these cost would be paid directly from revenues generated from the water system and not pass through Envirolink. Typical cost for utilities are provided below:
      1. Electric – A typical 'off-grid' or 'community' water system consumes power in the range of \$1,000 - \$1,750 of power per year.
      2. Sewer – Typical 'off-grid' or 'community' water systems do not consume sewer utility service.
      3. Water – Typical 'off-grid' or 'community' water system consume water but the water consumed is provided by the water system with no additional cost to the water system.
      4. Internet/telecommunications – Typical 'off-grid' or 'community' water systems are designed both with remote monitoring and without remote

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monitoring. If the water system is equipped with remote monitoring, typical cost for internet or telecommunications is in the range of \$150 - \$350 per year.

5. Emergency power generation – For Oak Ridge, we consider two scenarios. Widespread outage and isolated outages. For planning purposes, plans for widespread outages are flexible enough to adapt to isolated outages. For clarity, isolated outages are typically limited to 1 – 2 water systems, where widespread would affect all the water systems within the area. For widespread outages, the main concerns for the Town are ice storms and hurricanes. There are three options for providing emergency power generation:
  - a. Equipment Rental. In the event of emergency, rental equipment vendors maintain an inventory of generators.
    - i. Positive. No expenditure of funds unless required.
    - ii. Concerns. During widespread emergency events, there is typically a high demand for backup power, so the availability of backup power when needed cannot be guaranteed.
  - b. Mobile generator.\* This would require the purchase of a mobile generator sized to provide power to the water system. The generator is then rotated from system to system during an emergency and used to fill the tank and then moved to the next site. The generator is rotated from system to system in order to keep customers supplied with water.
    - i. Positive: Customers are supplied with water during the emergency situation.
    - ii. Concerns: Labor and equipment intensive (requires personnel and trucks).
  - c. Dedicated Backup Power.
    - i. Positive. Backup power is available when needed.
    - ii. Concerns. Costly option for infrequent need. Additional considerations are that diesel backup power is not permitted within 100 feet of the well head.

\*Cost of mobile generator. Typically a 20 – 25 kw generator is suitable for most wells. Depending on the model, we would expect the cost of such a unit to be between \$10,000 - \$20,000.

6. Rehabilitation of substandard conditions. This is envisioned to address the situation where the construction of the water system does not meet either Town approved standards, State of North Carolina Public Water System standards or industry standards. For new construction, this is mitigated through appropriate design/construction standards and inspections during construction. This expenditure is associated with

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normal wear and tear and accounted through the use of funds generated through depreciation expense. If upgrades are required to meet new regulations, then most jurisdictions either use capital reserve account funds or generate capital through the issuance of bonds or secure financing through low interest loan programs.

7. Parts. Management of water systems do require routine and emergency repairs. Typical parts include:
  - a. Repair bands,
  - b. Meters,
  - c. Chemical pump rebuild kits,
  - d. Meter boxes,
  - e. Chemical barrels,
  - f. Pressure Relief Valves,
  - g. Air compressors,
  - h. Valves,
  - i. Electrical contactors and started,
  - j. Clean fill,
  - k. Stone,
  - l. Straw,
  - m. Pipe

At startup, a limited amount of these materials will be required. We anticipate less than \$12,000 of inventory. In our role, we will evaluate inventory levels and annually discuss whether adjustments to the inventory are warranted.

8. Permits. NC DEQ charges an annual permit fee. The current fee schedule for the permit is provided below. The typical 'off grid' or 'community' water system for the Town of Oak Ridge would be in the range of 50 to 300

<b>Community Water System (No. of persons served)</b>	<b>Fee</b>
50 or fewer	\$255
More than 50 but no more than 100	\$270
More than 100 but no more than 200	\$330

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More than 200 but no more than 300	\$350
More than 300 but no more than 400	\$385
More than 400 but no more than 500	\$420
More than 500 but no more than 750	\$780
More than 750 but no more than 1,000	\$810
More than 1,000 but no more than 2,000	\$840
More than 2,000 but no more than 3,000	\$870
More than 3,000 but no more than 4,000	\$1,350
More than 4,000 but no more than 5,000	\$1,460
More than 5,000 but no more than 7,500	\$1,925
More than 7,500 but no more than 10,000	\$2,065
More than 10,000 but no more than 25,000	\$2,600

9. Pricing Proposal. Envirolink's proposal includes a cost per entry point. This cost covers labor, equipment, & testing associated with conducting the required visitations, preventive maintenance, sampling, and testing.
- a. This fee is broken down as follows:
    - i. \$270 per month for analytical services (e.g. testing)
    - ii. \$830 per month for labor & equipment
    - iii. \$150 per month pretax profit
  - b. Envirolink changes its reimbursable rate for subcontracted services to a cost plus 15% basis (compared to the previously submitted 18%). In particular for chemicals, Envirolink's

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purchasing power generally nets an overall savings of 20% for small utility systems.

- c. For systems with less than thirty (30) customers, Envirolink will waive its profit so that the monthly cost per entry point will be \$1100.
10. Representative Systems. While every system is unique, Envirolink did include several systems as representative of Envirolink's capabilities. We caution against comparing cost for each system without understanding the scope and effort required for the individual systems. To provide better clarity of the differences for each of these systems, we provide the following information.
- a. Vance County – This system does not include any wells or well houses. Water is provided under agreement with the City of Henderson.
  - b. Robersonville, NC – The proposal indicated that there were 12 wells. While this is accurate, the system only has three entry points. In addition, Town staff conduct required maintenance on the wells. The cost to operate the water system including Envirolink and Town staff is greater than \$536,000 per year and serves approximately 1,130 connections. Customer Service & Billing services are performed by the Town and cost approximately \$100,000 per year and depreciation is \$65,000 per year. Thus well and distribution system operations cost the Town approximately \$371,000 per year or \$10,305 per entry point per month.
  - c. Wade, NC – The Town of Wade has seven wells with three entry points. The cost shown in Envirolink's proposal is actually a cost per well versus cost per entry point. The cost per entry point is actually \$750 per month with the Town's maintenance person performing all the maintenance activities on the well and does not include testing.
  - d. Laurinburg, NC – This system is similar to Vance County. Water is purchased, so Envirolink's responsibility is limited to distribution only, with County personnel performing maintenance activities.
  - e. McCain Prison – The treatment system for this water system is very complex and requires significant operator attention. The complexity of this system increases the cost of operation because of the high degree of operator attention required.
  - f. Pender County Schools – Envirolink's scope is only one well and entry point, with the school utilizing their existing maintenance personnel to maintain the well. The cost of operation of this well system is approximately \$1,800 per month.

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11. Reserve recommendation. There is significant variability across the industry in the use of reserve accounts and the appropriate level of reserve accounts. It is our recommendation that any unspent depreciation expense annually be transferred into a capital reserve account and that the account be seeded with an initial minimum of \$50,000.
12. Operating Reserve (e.g. Working Capital) – The NC Local Government Commission requires a minimum of 8% in the operating reserve or working capital amount. There are several other methods for determine the appropriate level of working capital. The National Association of Regulated Utility Companies (NARUC), uses the 1/9<sup>th</sup> method. This establishes a working capital of 1/9<sup>th</sup> of the utility's operating expenses as a minimum level of working capital. Our recommendation is typically to strive for a goal of 6 months of operating expenses as a working capital goal.