FROM: Cathy Rosen, Public Works Director
       Joe Stowell, City Engineer

INITIALED AS APPROVED FOR SUBMITTAL TO THE COUNCIL BY:

Scott Dudley, Mayor
Larry Cort, City Administrator
Doug Merriman, Finance Director
Grant Weed, Interim City Attorney, as to form

PURPOSE
The purpose of this agenda bill is to seek City Council’s direction regarding the US Navy’s connection to the new WWTP.

FISCAL IMPACT DESCRIPTION
Funds Required: none
Appropriation Source: 

SUMMARY STATEMENT

Background
The City operates its wastewater treatment facilities under a National Pollution Discharge Elimination System (NPDES) permit issued by the Washington Department of Ecology (DOE). According to the permit issued by DOE, once facilities have reached 85 percent of capacity (either flow or loading), the City must engage in long-term facility planning. The city has met this threshold and our permit was amended to include the following deadlines.

- June 30, 2013 – Submittal of Draft Facilities Plan (Completed)
- December 31, 2014 – Submittal of Construction Drawings
- December 31, 2017 – Operational Plant

The City’s inability to meet these deadlines as well as other terms of the permit “...constitutes a violation of the Clean Water Act and is grounds for enforcement action; for permit termination, revocation and reissuance, or modification; or denial of a permit renewal application.” (NPDES Permit No. WA0020567, paragraph G17)

In order for the City to meet the schedule outlined in our NPDES permit, a decision regarding Navy participation is required.
**Navy Participation**

On March 7, 2013, a project memorandum prepared by Carollo Engineers was delivered to Captain Nortier of NASWI. The letter outlined the City’s perspective on a fair and reasonable method for determining a connection charge and also outlined potential additional costs for the Navy to consider.

After several months of correspondence and meetings, the Navy presented the City with a letter on November 25, 2013 indicating there were still outstanding concerns regarding the Navy’s share of the connection cost. After numerous meetings between City staff and local and regional Navy staff, it has become clear that Federal Acquisition Regulations (FAR) commit the Navy to a long and prescriptive approval path. A schedule received by the Navy and provided to the City on December 13, 2013 (Exhibit B) indicates it may be March 2015 or later before the Navy can make a firm commitment. Even then, such a commitment would be based on calculations prepared by the Navy’s consultant and not on those prepared by Carollo and presented to the Navy in March 2013. In addition, Navy representatives have expressed they are not prepared to pay cash for the connection charges and have asked the City to consider financing their charges and include those charges in a negotiated rate.

With this information in hand and following a City Council discussion December 17, 2013, the City sent Captain Nortier a letter on December 19, 2013 (Exhibit A) reiterating the proposed connection charges presented to the Navy in March 2013. The letter also indicated the City is unable to provide financing and will require an agreement with the Navy by January 20, 2014 in order to be included in design of the new WWTP. In short, this letter sought confirmation from the Navy that it would be unable at this time to commit to the cost sharing agreement outlined in March 2013. The City requested a response by January 20, 2014.

**Options**

This agenda bill was written prior to response from the Navy.

In preparation for the January 20, 2014 response, staff developed three potential options for moving forward. All three options consider the Navy ultimately connecting to the City’s WWTP.

**Option 1 – Proceed with Navy Participation**

This option assumes the Navy has agreed to the March 2013 terms presented by the City and is able to produce an acceptable agreement by January 20, 2014. This option presents the lowest cost to City rate payers and a larger facility.

- Rates ↓
- Capacity ↑
- Risk ↓
- Total Cost ↑

**Option 2 – Proceed without Navy Participation, Construct a Larger Facility**

This option assumes the Navy will connect to the new WWTP but is unable to agree to the terms presented by the City at this time. This option presents the greatest risk for the City and its rate payers. If the Navy is unable to connect or doesn’t connect in the near
future, City rate payers would bear the burden of the additional construction and financing costs.

<table>
<thead>
<tr>
<th>Rates</th>
<th>Capacity</th>
<th>Risk</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>↑↑</td>
<td>↑</td>
<td>↑↑</td>
<td>↑</td>
</tr>
</tbody>
</table>

Option 3 – Proceed without Navy Participation, Construct a Smaller Facility
This option reduces the treatment capacity and in turn reduces the size and cost of the facility. Should the Navy decide to connect at a later date and should council allow the connection, the usable life of the treatment plant would likely be reduced. This option provides the least risk to the City and its rate payers. Utility rates for this option will fall between the other two options.

<table>
<thead>
<tr>
<th>Rates</th>
<th>Capacity</th>
<th>Risk</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>↓</td>
<td>↓</td>
<td>↓</td>
<td>↓</td>
</tr>
</tbody>
</table>

Staff Recommendation
Both Options 1 and 3 maintain reasonable rates while minimizing the risk to the City and its rate payers. Option 2 is not advised as it places all the risk on the City with no guarantee the Navy will connect.

CITY COUNCIL WORKSHOP
This item was discussed at the December 17, 2013 City Council Workshop.

RECOMMENDED ACTION
Adopt Resolution 14-xx.

Resolution to be distributed at or just prior to the City Council meeting.

ATTACHMENTS
Exhibit A – December 19, 2013 letter to Captain Nortier
Exhibit B – December 13, 2013 Navy approval schedule
December 19, 2013

Captain Mike Nortier
Commanding Officer
Naval Air Station Whidbey Island
3730 North Charles Porter Avenue
Oak Harbor, WA 98278-5000

RE: City of Oak Harbor Wastewater Treatment Plant

Dear Captain Nortier:

Thank you for meeting with me, the City Council and key staff on November 25, 2013 to discuss the Navy’s interest in connecting to Oak Harbor’s planned wastewater treatment plant. As I am sure you can appreciate, we have been very supportive of the prospect of including the Navy as a customer when the new plant opens in late 2017. We believe that there are many strong arguments for continuing to serve the Seaplane Base, not the least of which is to reinforce the secure and longstanding partnership between the City and NAS Whidbey Island.

That said, we certainly respect the Navy’s due diligence in carefully evaluating the pros and cons of such an important decision. It is clear that there are many variables to consider before committing to one course over another, and we are certainly aware that your decision-making process, like ours, is built to insure accountability and financial restraint. Your letter to me dated November 14, 2013 lists four outstanding issues which confirm that you are not able to provide a firm commitment at this time.

Since the meeting on November 25, Navy and City staff have been in close contact to explore potential paths forward that would, at once, meet the City’s goal of moving ahead with a needed infrastructure improvement and meet the Navy’s goal of economic viability. While these discussions have been cordial and productive, it has become clear that there is a considerable delta in time (likely one to two years at a minimum) between when the City must move forward to keep our project on track and when the Navy could definitively agree to a new Utility Services Contract that would define precise costs for the Navy’s connection to the new plant. That lack of certainty, during a period of time when the City has planned for several years to be in full design and early construction of the new plant, is of significant concern to us, our ratepayers and our permitting agency.

At a City Council Workshop on December 17, 2013, we discussed those concerns and now offer the attached assessment (including cost sharing information provided to you on March 7, 2013) of the situation from the City’s perspective. Please know that we understand and respect fully the process that you must follow before making a final decision on connecting to the new plant.
this time – our intent in providing this assessment is to seek confirmation from the Navy by January 20, 2014 that it cannot provide a firm commitment at this time to the cost sharing arrangement outlined and presented in the first quarter of 2013.

We look forward to hearing from you no later than January 20, 2014. Should you have any questions regarding elements of this letter, please do not hesitate to contact Joe Stowell, our City Engineer, at 360-279-4520 or jstowell@oakharbor.org.

Sincerely,

Scott Dudley
Mayor

att. Assessment of Project Status/Navy Participation
    Project Memorandum, 22 February 2013
cc. Oak Harbor City Councilmembers
    Larry Cort, City Administrator
    Cathy Rosen, Public Works Director
    Joe Stowell, City Engineer
Assessment of Project Status/Navy Participation
December 18, 2013

The City of Oak Harbor has been working diligently to replace our aging wastewater treatment plants with a new facility by the end of 2017. The existing rotating biological contactor (RBC) plant and lagoon system on the Seaplane Base are aging facilities that cannot be upgraded to meet the needs of the City. Both facilities are in need of repair and at risk of failure. In order to continue with design and complete construction by the end of 2017, the City and Navy must reach an agreement defining precise cost sharing terms by January 20, 2014 to provide sewer service. If the City and Navy are unable to reach an acceptable agreement by January 20, 2014, the City must proceed without Navy participation in order to stay on schedule, avoid permit violations and protect our rate payers from unjustifiable cost increases.

1. BACKGROUND

In 2008, the City hired a consultant to prepare an update to our Sewer Comprehensive Plan, a requirement of Washington State Law. The results of the study concluded that our existing facilities exceeded 85% of design capacity and were predicted to be at 100% capacity by the end of 2017. In accordance with our National Pollution Discharge Elimination System (NPDES) permit through the Washington Department of Ecology (DOE), the City is required to expand our treatment capacity when this threshold is predicted to occur. As such, our NPDES permit has been amended to include the following deadlines:

- June 30, 2013 – Submittal of Draft Facilities Plan (Completed)
- December 31, 2014 – Submittal of Construction Drawings
- December 31, 2017 – Operational Plant

Failing to meet these deadlines “...constitutes a violation of the Clean Water Act and is grounds for enforcement action; for permit termination, revocation and reissuance, or modification; or denial of a permit renewal application.” (NPDES Permit No. WA0020567, paragraph G17)

Over the past three years, the City has corresponded with the Navy regarding the new wastewater treatment plant on several occasions. The following is a chronology of interactions with the Navy:

- October 21, 2010 – Navy Coordination Meeting
- November 9, 2010 – Stakeholder Workshop
- July 13, 2011 – Navy Briefing
- February 19, 2013 – Project Memorandum sent to Navy staff
- March 7, 2013 – Letter/Project Memorandum to Captain Nortier
- March 2013 – Presented Letter/Project Memorandum to high ranking Pentagon officials
- April 11, 2013 – Letter from Captain Nortier
- April 15, 2013 – Meeting with Navy Staff to discuss WWTP
- July 1, 2013 – Navy / CDM-Smith Kickoff Meeting
- August 21, 2013 – Navy Meeting
- September 4, 2013 – Navy Meeting
- November 25, 2013 – Navy Meeting
In addition to the formal meetings above, City and NAVFAC staff have been meeting and corresponding regularly.

In order to maintain the schedule prescribed by our permit with DOE, and to protect our rate payers from cost increases, the City of Oak Harbor would have needed an approved Utility Services Agreement with the Navy by January, 2014 if the Navy is to be a customer of the new wastewater treatment plant. Based on recent City discussions with local and regional Navy staff, it has become clear that such an agreement cannot reasonably be expected until 2015 at the earliest. However, before making a final decision on how and when to move forward with the project, the City is seeking confirmation from the Navy by January 20, 2014 that it cannot provide a firm commitment at this time to the cost sharing arrangement outlined below and presented in the first quarter of 2013.

2. REVIEW OF FEBRUARY 2013 COST SHARING MEMORANDUM

As noted above, the February 22, 2013 Project Memorandum regarding cost sharing between the City and Navy, as prepared by Carollo Engineers, was sent to the Commanding Officer of the NAS Whidbey Island on March 7, 2013 (copy attached). The City of Oak Harbor believed the cost sharing breakdown to be a fair and reasonable approach to developing the Navy’s fees for sewer service. Further, the City respectfully requested that the Navy indicate its scope of participation by July 1, 2013.

A. Connection Charges

In this Project Memorandum, certain non-recurring, non-refundable connection charges were identified in order for the Navy to receive sewer service from the City of Oak Harbor. Payments of the connection charges would be expected monthly through the completion of construction. Monthly payments of the connection charges would be based on actual project costs accrued to that point. Connection charges would not be incorporated into rates. Should the Navy and City agree to an alternate method of calculating connection charges, it may be incorporated as an amendment to the utility services agreement.

Cost estimates for these connection charges are listed below are in 2011 dollars. For planning purposes, the City is expecting 3% to 6% inflation per year.

Wastewater Treatment Plant Connection Charge

The connection fee for the Navy to connect to the WWTP will be proportional to the contributing maximum month flow (MMF) from the Navy.

Table 1 in the attached Project Memorandum provided to the Navy March 7, 2013 indicates that the Navy’s MMF contribution for Phase 1 of the WWTP is 21%. The planning level estimate for project costs for the WWTP is $72.1 million. The Navy’s share equates to an estimated $15.1 million in 2011 dollars.

A reduced connection charge for “urban improvements” will not be considered.

MMF in 2021 was chosen to be a fair and reasonable method of calculating the connection charge. MMF is the primary design point for sizing the WWTP.
Treated Effluent Outfall Connection Fee

The connection charge for the treated effluent outfall will be proportional to the Navy’s proportional peak flow (PF) discharged by the outfall. According to Tables 7 and 8 from the Project Memorandum, the Navy’s percentage of PF is 19%. With that, the Navy’s estimated share of the project costs is $0.5 million in 2011 dollars.

PF in 2030 was chosen to be a fair and reasonable method for calculating the connection charge. PF is the primary design point for sizing the outfall.

B. Collection System Improvements

Significant improvements will be necessary to redirect Navy sewer flows from the existing lagoons to the new WWTP. Some of the required improvements will only serve Navy property. Other improvements may also serve other City customers.

Navy Only
Where improvements solely serve the Navy, 100% of the project costs will be the responsibility of the Navy.

Should the Navy request assistance from the City to design, construct, operate and maintain collection system improvements that will solely serve the Navy, the Navy will be responsible for all project costs and a reasonable utility rate for operations and maintenance of the facilities. As with other improvements, connection charges will be assessed to the Navy in the same manner as other facilities.

Should the Navy design, construct, operate and maintain collection system improvements, the City will not adopt, accept, operate or maintain said improvements.

City / Navy
Depending on which alignment the Navy pursues to connect to the City’s collection system, improvements to the City’s collection system may be necessary. Where the Navy and other City customers both benefit from the improvement, the connection charge will be determined based on the design flow used to size the improvement.

Estimated Cost
Based on preliminary design efforts, Tables 5 and 6 in the attached Project Memorandum estimate the Navy’s cost to construct collection system improvements to be $7.0 million in 2011 dollars.

C. Wastewater Treatment Plant Operations and Maintenance

Operations and maintenance (O&M) of the new facilities will be based on average annual flow (AAF) for the new WWTP. An individual utility rate will be developed for collection system improvements once a route has been chosen.

Historically, the City and Navy have shared O&M costs based on percentage of AAF. Tables 3 and 4 of the PM indicate an initial estimated O&M cost of $459,000 per year in 2017 and an estimated $421,000 per year in 2030.

D. Ownership, Maintenance and Operation of the New Facilities.
Notwithstanding the payment by the Navy of a connection charge, the facilities to be supplied by the City under this agreement or any renewals thereof, will remain the property of and will be operated and maintained by the City.

E. **Decommission Existing Facilities**

Per Contract Number N62474-85-C-6905, page 2-2, paragraph 2(b), "Should the Contractor desire to return the lagoon and associated facilities to the Government at the end of the (50) year agreement (or at any time before), the contractor will be responsible that all facilities will meet existing Environmental Protection Agency (EPA) and National Pollution Discharge Elimination System (NPDES) permit requirements at such time."

Since the existing City wastewater treatment facilities currently meet NPDES requirements, no additional effort will be made by the City to improve or decommission the existing lagoons.

F. **Termination of Agreement**

In the event the Navy terminates this agreement, the City will be paid fair compensation for the work performed with respect to these facilities.

3. **DEADLINE FOR CITY DECISION**

In order to keep the wastewater treatment plant project on track to meet the City's 2017 deadline, the City must make a number of important design and procurement decisions starting in January, 2014. Consequently, the City Council will be considering action on January 21, 2014 on whether to proceed with the project assuming that the Navy will not be a customer under the cost sharing arrangement outlined above. A response is respectfully requested by January 20, 2014 confirming that the Navy cannot commit to such a cost sharing agreement at this time.
1.0 INTRODUCTION

This memorandum describes the cost sharing between the City and Navy for a Phase 1 and year 2030 wastewater treatment plant (WWTP) at the Windjammer Vicinity site. These costs are broken into three components:

1. WWTP;
2. Conveyance;
3. Outfall.

1.1 Cost Sharing for Wastewater Treatment Plant (WWTP)

The City's new membrane bioreactor (MBR) treatment plant will be located within the Windjammer Vicinity site shown in Figure 1. The entire site is over 50 acres in size. Figures 2 and 3 show the conceptual site plan and section view of the site for a WWTP that is approximately three to four acres in size. This facility could be located in the red-shaded area of Figure 1 (referred to as the Charrette concept). Figure 4 shows a potential rendering of a facility in this location. The Charrette concept is one option for siting a treatment plant within the Windjammer Vicinity. Other concepts have been discussed. The final location of the treatment plant within the Windjammer Vicinity will be determined during preliminary design.
WINDJAMMER CHARRETTE CONCEPT, CONCEPTUAL PLAN VIEW

FIGURE 2

CITY OF OAK HARBOR
Street view looking North from park past future re-aligned Bayshore Drive

WINDJAMMER CHARRETTE CONCEPT, CONCEPTUAL PERSPECTIVE VIEW

FIGURE 4

CITY OF OAK HARBOR
PROJECT MEMORANDUM

The current Navy portion of the total AA flow is approximately 18 percent. This portion is predicted to drop to 17 percent by startup (year 2017), and to 14 percent by the year 2030.

The estimated total annual operation and maintenance (O&M) cost for the WWTP is shown in Table 4. Values are shown in current dollars for startup (2017) and for 2030. The Navy contribution to the projected O&M costs shown in Table 4 were determined using the percentages shown in Table 3.

<table>
<thead>
<tr>
<th>Table 3</th>
<th>Basis of O&amp;M cost sharing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>City AA Flow</td>
</tr>
<tr>
<td>Current Conditions (2012)</td>
<td>1.5 mgd</td>
</tr>
<tr>
<td>Startup (year 2017) Conditions</td>
<td>1.9 mgd</td>
</tr>
<tr>
<td>Year 2030 Conditions</td>
<td>2.4 mgd</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 4</th>
<th>Estimated O&amp;M Cost (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component</td>
<td>Startup (Year 2017)</td>
</tr>
<tr>
<td>1) Labor</td>
<td>$640,000</td>
</tr>
<tr>
<td>2) Power/Fuel/Solids</td>
<td>$637,000</td>
</tr>
<tr>
<td>3) Chemicals</td>
<td>$85,000</td>
</tr>
<tr>
<td>Current Maintenance</td>
<td>$139,000</td>
</tr>
<tr>
<td>Equipment Replacement</td>
<td>$117,000</td>
</tr>
<tr>
<td>Asset Management</td>
<td>$178,000</td>
</tr>
<tr>
<td>4) Maintenance Subtotal</td>
<td>$434,000</td>
</tr>
<tr>
<td>5) Miscellaneous</td>
<td>$987,000</td>
</tr>
<tr>
<td>Total</td>
<td>$2,698,000</td>
</tr>
<tr>
<td>Navy Contribution Based on Percent of AA Flow</td>
<td>$459,000</td>
</tr>
</tbody>
</table>

1.2 Cost Sharing for Wastewater Conveyance

The approximate route for conveying raw sewage to the Windjammer Vicinity site is shown in Figure 5. Green segments from the Crescent Capeheart Housing Complex and Seaplane Base are required solely to convey Navy flow. Segment 2, is gravity pipeline within the City’s system that needs to be upgraded solely to serve the additional flow from the Navy. Segments in red (4, 5, and 6) are shared conveyance routes (i.e., these pipes convey both Navy and City flows).

Table 5 summarizes the Navy contribution to each of these five segments based on projected percentage of year 2030 peak hour flows. Table 6 summarizes the Navy contribution to the total conveyance project cost.
Table 5  Basis of Conveyance Pump Station and Pipeline Size (Year 2030)

<table>
<thead>
<tr>
<th>Component</th>
<th>City Peak Flow</th>
<th>Navy Peak Flow</th>
<th>Total Peak Flow</th>
<th>Navy % Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pump Station/Pipeline from Crescent Capeheart (1)</td>
<td>0 mgd</td>
<td>0.7 mgd</td>
<td>0.7 mgd</td>
<td>100%</td>
</tr>
<tr>
<td>Gravity Piping, Component (2)</td>
<td>1.9 mgd</td>
<td>0.7 mgd</td>
<td>2.6 mgd</td>
<td>100%</td>
</tr>
<tr>
<td>Pump Station/Pipeline from Seaplane Base (3)</td>
<td>0 mgd</td>
<td>1.4 mgd</td>
<td>1.4 mgd</td>
<td>100%</td>
</tr>
<tr>
<td>Gravity Piping, Component (4)</td>
<td>1.9 mgd</td>
<td>0.7 mgd</td>
<td>2.6 mgd</td>
<td>27%</td>
</tr>
<tr>
<td>Gravity Piping, Component (5)</td>
<td>4.4 mgd</td>
<td>0.7 mgd</td>
<td>5.1 mgd</td>
<td>14%</td>
</tr>
<tr>
<td>Gravity Piping, Component (6)</td>
<td>9 mgd</td>
<td>2.1 mgd</td>
<td>11.1 mgd</td>
<td>19%</td>
</tr>
</tbody>
</table>

Notes:
1. Combined piping component, but does not need to be upgraded to serve City flow.

Table 6  Basis of Conveyance Pump Station and Pipeline Size (Year 2030)

<table>
<thead>
<tr>
<th>Component</th>
<th>Estimated Cost (in millions)</th>
<th>Navy % Contribution</th>
<th>Total Navy Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pump Station/Pipeline from Crescent Capeheart (1)</td>
<td>$3.5</td>
<td>100%</td>
<td>$3.5</td>
</tr>
<tr>
<td>Gravity Piping, Component (2)</td>
<td>$0.3</td>
<td>100%</td>
<td>$0.3</td>
</tr>
<tr>
<td>Pump Station/Pipeline from Seaplane Base (3)</td>
<td>$3.1</td>
<td>100%</td>
<td>$3.1</td>
</tr>
<tr>
<td>Gravity Piping, Component (4)</td>
<td>$0.1</td>
<td>27%</td>
<td>$0.02</td>
</tr>
<tr>
<td>Gravity Piping, Component (5)</td>
<td>$0.6</td>
<td>14%</td>
<td>$0.09</td>
</tr>
<tr>
<td>Gravity Piping, Component (6)</td>
<td>$0.1</td>
<td>19%</td>
<td>$0.03</td>
</tr>
<tr>
<td>Total</td>
<td>$7.7</td>
<td></td>
<td>$7.0</td>
</tr>
</tbody>
</table>

1.3 Cost Sharing for Treated Effluent Outfall

The different outfall options considered into Oak Harbor and Crescent Harbor are shown Figure 6. The preferred outfall will be along the existing outfall alignment into Oak Harbor. Table 7 shows the estimated Navy contribution to the outfall cost based on the projected percentage of year 2030 peak hour flows. Table 8 shows the estimated total outfall cost and the Navy contribution to that cost.
PROJECT MEMORANDUM

Table 7  Basis of Outfall Sizing (Year 2030)

<table>
<thead>
<tr>
<th></th>
<th>City Peak Flow</th>
<th>Navy Peak Flow</th>
<th>Total Peak Flow</th>
<th>Navy % Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outfall Pipeline/Diffuser</td>
<td>9 mgd</td>
<td>2.1 mgd</td>
<td>11.1 mgd</td>
<td>19%</td>
</tr>
</tbody>
</table>

Table 8  Outfall Cost Components (Year 2030)

<table>
<thead>
<tr>
<th>Process</th>
<th>Capital Cost (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobilization</td>
<td>$0.4</td>
</tr>
<tr>
<td>Nearshore Construction</td>
<td>$0.2</td>
</tr>
<tr>
<td>Buried inter-tidal construction</td>
<td>$0.9</td>
</tr>
<tr>
<td>Sub-tidal pipe</td>
<td>$0.7</td>
</tr>
<tr>
<td>Other(1)</td>
<td>$0.2</td>
</tr>
<tr>
<td>Total Estimated Construction Cost</td>
<td>$2.4</td>
</tr>
<tr>
<td>Soft Costs (engineering, legal, and administration)</td>
<td>$0.5</td>
</tr>
<tr>
<td>Project Cost</td>
<td>$2.9</td>
</tr>
<tr>
<td>Navy Contribution</td>
<td>$0.5</td>
</tr>
</tbody>
</table>

Notes:
1. Other includes diffuser, site work and WDFW mitigation.

Total Alternative Cost Sharing

Table 9 summarizes the total Phase 1 and Year 2030 costs and the estimated Navy contribution to these costs. As shown in Table 9, the estimated Navy Phase 1 cost is $22.6 million dollars (in current dollars), which corresponds to $26.3 million dollars when escalated to the mid point of construction (year 2015).

Table 9  Total Alternative Costs (in millions)

<table>
<thead>
<tr>
<th>Component</th>
<th>2030 Cost</th>
<th>Navy Contribution</th>
<th>Phase 1 Cost</th>
<th>Navy Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>WWTP</td>
<td>$82.9</td>
<td>$14.9</td>
<td>$72.0</td>
<td>$15.1</td>
</tr>
<tr>
<td>Conveyance</td>
<td>$7.7</td>
<td>$7.0</td>
<td>$7.7</td>
<td>$7.0</td>
</tr>
<tr>
<td>Outfall</td>
<td>$2.9</td>
<td>$0.5</td>
<td>$2.9</td>
<td>$0.5</td>
</tr>
<tr>
<td>Total</td>
<td>$93.5</td>
<td>$22.4</td>
<td>$82.6</td>
<td>$22.6</td>
</tr>
<tr>
<td>Cost Escalated to Mid Point</td>
<td></td>
<td></td>
<td>$96.3</td>
<td>$26.3</td>
</tr>
</tbody>
</table>
## NAVY Acquisition Timeline for WWTP (Tentative)

<table>
<thead>
<tr>
<th>TASK</th>
<th>TENTATIVE TIMELINE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>START</td>
</tr>
<tr>
<td>Acquisition Strategy/Analysis of Alternatives</td>
<td>Current</td>
</tr>
<tr>
<td>*J&amp;A Preparation (if decision to move forward)</td>
<td>4/1/14</td>
</tr>
<tr>
<td>*J&amp;A Local Review/Signature</td>
<td>4/22/14</td>
</tr>
<tr>
<td>*J&amp;A Higher Level (HQ) Approval</td>
<td>5/13/14</td>
</tr>
<tr>
<td>Issue RFP</td>
<td>7/15/14</td>
</tr>
<tr>
<td>Proposal Due</td>
<td>9/15/14</td>
</tr>
<tr>
<td>Navy Technical Analysis</td>
<td>9/17/14</td>
</tr>
<tr>
<td>Request Audit (if required)</td>
<td>10/13/14</td>
</tr>
<tr>
<td>Prepare Pre-Negotiation Business Clearance</td>
<td>1/6/15</td>
</tr>
<tr>
<td>Upper Level Review and Approval of Pre-Negotiation Business Clearance</td>
<td>1/21/15</td>
</tr>
<tr>
<td>Negotiations</td>
<td>1/28/15</td>
</tr>
<tr>
<td>Prepare Post-Negotiation Business Clearance</td>
<td>2/5/15</td>
</tr>
<tr>
<td>Upper Level Review and Approval of Post-Negotiation Business Clearance</td>
<td>2/17/15</td>
</tr>
<tr>
<td>Obtain Funding</td>
<td>3/11/15</td>
</tr>
<tr>
<td>CHINFO (if applicable)</td>
<td>3/18/15</td>
</tr>
<tr>
<td>Award Contract</td>
<td>3/23/15</td>
</tr>
</tbody>
</table>

*NOTE: Dates are estimated and subject to change. J&A must be signed and approved prior to the issuance of a formal RFP.*
The Honorable Scott Dudley  
Mayor of City of Oak Harbor  
865 SE Barrington Drive  
Oak Harbor, WA 98277  

Dear Mayor Dudley:  

SUBJECT: NAVY COST SHARING REGARDING CONSTRUCTION AND OPERATION OF THE CITY OF OAK HARBOR NEW WASTE WATER TREATMENT PLANT  

We recently received your letter dated December 19, 2013 wherein you specifically requested confirmation from the Navy by January 20, 2014 that we cannot provide a firm commitment to the cost sharing arrangement presented in March 2013. Your letter further requested that the Navy provide advance payments totaling $22.6 million (2011 dollars) for connection charges, treated effluent outfall connection fee, and collection system improvements.

We recognize there are benefits of the Navy becoming a customer of the new Wastewater Treatment Plant (WWTP) and would like to continue discussions with the City to reach a viable agreement. However, fiscal limitations and acquisition regulations restrict our ability to confirm by January 20, 2014 a commitment to the cost sharing arrangement proposed or to fund a lump sum payment of $22.6 million. Absent specific legislation, the Navy is not permitted to make lump sum payments for the City’s new facilities related to the basic infrastructure or system. Another potential option is for the City to amortize the cost of the required new treatment facility into the rate base. The Navy remains interested in this project and wants to further engage the City in the hopes of reaching a mutually beneficial solution.

We value the strong partnership that exists between the City and the Navy and appreciate your willingness to find a mutually beneficial solution. We remain confident that if the new WWTP construction costs remain within budget and a rate structure is established that is fair, reasonable, and non-discriminatory, that the Navy and City should be able to agree to a Utilities Service Contract that meets the Navy’s intent to be a future customer of the new WWTP. Nevertheless, we do not want to
compromise your construction schedule or place undue risk on the City or its rate payers. We look forward to hearing from you regarding a proposed way forward.

Please don't hesitate to contact CDR Mike O'Donnell, Public Works Officer, NAS Whidbey Island at (360) 257-1457 or mike.o'donnell@navy.mil should you have any questions.

Sincerely,

[Signature]

M. K. NORTIER
Captain, U.S. Navy
Commanding Officer
WHEREAS, the 2008 City of Oak Harbor Comprehensive Sewer Plan identifies the need for a new wastewater treatment facility to meet future growth and to replace aging and at-risk infrastructure; and

WHEREAS, recognizing that the City of Oak Harbor is connected to the pristine waters of Puget Sound, specifically Oak Harbor Bay and Crescent Harbor Bay, the City’s goal is to obtain the highest level of water quality practical while recognizing the limitations of the rate payers of the City to fund the improvements; and

WHEREAS, National Pollution Discharge Elimination System Waste Discharge Permit No. WA0020567 from the Washington State Department of Ecology has directed the City of Oak Harbor to increase wastewater treatment capacity by December 31, 2017; and

WHEREAS, the City of Oak Harbor Capital Improvement Plan of 2013-2018 specifically lists the Wastewater Treatment Plant Facilities Plan as a prioritized public project to be undertaken within the capital improvement plan time period; and

WHEREAS, input from the U.S. NAVY was sought, received and considered on potential wastewater treatment plant locations; and

WHEREAS, on August 14, 2012, City Council adopted Resolution 12-17 selecting the Windjammer Park site using a membrane bioreactor process (MBR) to best meet the needs of the City; and

WHEREAS, on March 7, 2013 the City of Oak Harbor provided a cost-sharing memorandum and requested a commitment by July 1, 2013 from the U.S. Navy to connect to the new wastewater treatment plant; and

WHEREAS, on November 25, 2013, the U.S. Navy delivered a letter indicating that the Navy could not provide a commitment without revisions to the cost-sharing memorandum dated March 7, 2013; and

WHEREAS, following discussion with the City Council on December 17, 2013, the City of Oak Harbor on December 19, 2013 requested confirmation from the U.S. Navy that it could not commit to the cost-sharing arrangement in the March
WHEREAS, on January 17, 2014 the U.S. Navy indicated they cannot provide a firm commitment by January 20th, 2014 to the cost sharing arrangement presented in March 2013, and

WHEREAS, design efforts have been suspended pending commitment of the U.S. Navy but must be resumed by January 21, 2014 in order to meet the Department of Ecology permit deadlines of December 31, 2014 for submittal of design drawings and December 31, 2017 for completion of an operational wastewater treatment plant.

NOW, THEREFORE BE IT RESOLVED by the City Council of the City of Oak Harbor as follows:

1. The City of Oak Harbor shall not consider flows from the U.S. Navy when designing the new wastewater treatment plant, and
2. The City of Oak Harbor shall proceed with design and construction of the new wastewater treatment plant to remain in compliance National Pollution Discharge Elimination System Permit number WA0020567.

PASSED by the City Council and approved by its Mayor this 21st day of January, 2014.

CITY OF OAK HARBOR

SCOTT DUDLEY, MAYOR

Attest: Approved as to form:

Anna Thompson, City Clerk Grant K. Weed, Interim City Attorney