

September 15, 2020 Update

Bids for the Middlesex County Water System were opened August 21 and after some follow-up work the final pricing was determined, and financing arrangements with USDA are in process. There were substantial challenges to overcome in order to move forward, but the Board of Supervisors unanimously agreed last week to proceed with the full project. Key points to take away are as follows:

- Final construction pricing, at \$24.7M, was dramatically higher than the \$11.3M original cost projection in 2017, for a variety of reasons
- The Middlesex Water Authority's economic model shows that the system will still self-fund even with the higher construction cost
- The County will immediately be paid back its entire \$1.8M loan to the Authority that has been used to fund progress to-date
- The economic model indicates that it is likely the County may need to lend up to \$100,000 per year to the Authority during years 5-15, totaling a \$1.1M loan that will then be repaid by the Authority. If there is higher system subscription growth than the conservative estimates being used, these loans will likely not be necessary
- Due to the conservatism used by USDA for financing (e.g. zero new subscribers for 40 years), and the higher than expected construction cost, USDA has required the County to provide a funding guarantee, called an "Availability Agreement," that serves as underwriting collateral for their 1.125% 40-year loan.

Here is a summary of how the pricing and financing unfolded over the past couple weeks:

- Three days before final bids were opened the engineering firm overseeing the project provided the BOS with a revised construction cost estimate of \$25.0M. They had previously advised that the cost expectation had increased by \$6M from the original 2017 estimate of \$13.4, to \$19.4
- Construction bids came in at \$24.7, an \$11.3M increase from the original engineering estimate an \$5.3 higher than where the engineering firm had set expectations three days before bids opened
- The \$11M increase from the original engineering estimate reflected the following:
 - Inflationary impacts and industry activity levels. Bidding was delayed two years by easement challenges.
 - A 28% increase in subscribers, from 470 to 600
 - The addition of a system branch to Wilton Creek Road in Hartfield, with 39 committed subscribers
 - The additional cost of fire protection enhancements (versus original hydrant scope), which includes additional hydrants and extended network locations, larger diameter supply lines, and higher capacity system pumping and storage stations

- Numerous easement accommodations, such as horizontal boring, to mitigate impact on existing properties
- Detailed design modifications such as providing service laterals across the road from the main line (thus needing horizontal boring)
- After discussions with USDA regarding financing, the Water Authority found the following:
 - The USDA financing will be expanded to cover the increased borrowing needed
 - As planned, the County of Middlesex will be repaid immediately for the \$1.8M it loaned the Authority
 - USDA will require the County to back the creditworthiness of the Water Authority with an “Availability Agreement” promising up to \$257k/year in Authority funding if needed. According to the USDA agent, the Agreement gives USDA what requires to be comfortable with its underwriting and is not necessarily an expectation of true cash need.
 - The Water Authority’s analysis of cash needs shows a possible need for the Authority to borrow from the County \$100k per year for 11 years, beginning in or after year 5, after which the Authority can begin to repay such borrowings.
- Furthermore:
 - Water Authority initial analysis of system impacts indicate the property value enhancements likely resulting from central water should bring an incremental \$200k/year in real estate tax revenue to the County
- What’s Next?
 - The USDA loan needs to close by the end of September to retain the 1.125% 40-year financing rate. The rate will increase after September.
 - Some easements have yet to be finalized, a process that can take place amicably up until court dates.
 - The construction schedule will be finalized.

Property owners along the current waterline can still subscribe to the water system, so tell your neighbors!! The Water Authority has extended the incentivized period to December 31st. After that, the connection fee for a ¾” customer will increase from \$5,000 to \$7500 (minimum 10% deposit required). Subscriber agreements can be found on the Water Authority webpage (https://www.co.middlesex.va.us/index_MWA_Middlesex.html)

The Authority will soon be sending out reminders of the remaining balances owed on connection fees. As a reminder, these are due prior to the meter being set. Construction will take at least 12-18 months, so there is still time to make payments or you have the option to pay in a lump sum.