

## **ITEM IV**

- **Waterworks - King William Reservoir Report**

# CITY OF NEWPORT NEWS

## Office of the City Manager

September 16, 2009

**TO:** The Honorable City Council  
**FROM:** Acting City Manager  
**SUBJECT:** 120-Day Report on King William Reservoir Project

On May 12, 2009, City Council adopted a resolution suspending work on the King William Reservoir (KWR) Project for a period of 120 days and authorized analyses related to continuation or termination of the project. That 120-day period ended on September 9, 2009, and Waterworks has completed its report in accordance with City Council's direction; I am providing you a copy of that report as an attachment to this memorandum. As you will see from the report, it is recommended that the project be terminated immediately, and ten specific recommendations are offered for Council's consideration. Waterworks Director Brian Ramaley and I will review the report findings and our recommendations at your work session on September 22, 2009. As an executive summary, the key points of the report are presented here.

In a letter dated September 8, 2009, Colonel Andrew Backus, District Engineer for the U. S. Army Corps of Engineers, Norfolk, documented his expectation that a Supplement to the Final Environmental Impact Statement (EIS) will be required as a result of the March 31, 2009 court decision. Such a supplement is estimated to require approximately two years' effort and a cost of several million dollars.

Upon review of this most recent challenge to project implementation and the impacts of this development on other key permits and project hurdles, we have concluded it is likely that the recent court decision and suspension of the key permit necessary to construct the reservoir create a legal, regulatory and public relations environment where successful project implementation is extremely unlikely, if not impossible. Building

upon this conclusion, it is recommended that the KWR project be terminated.

Project expenditures have totaled nearly \$55 million, including those properties purchased after project suspension. As was understood at the time of the resolution suspending the project, some significant additional expenditures have added to the final cost as we have honored contracts and commitments made previously in order to close out the project as honorably as possible. Delineation of project expenditures, remaining bond funds and expectations for repayment of certain project funding mechanisms are addressed in the report.

As you are aware, water demand in Waterworks' service area has not increased as was predicted early in the KWR project, largely due to enhanced conservation by industries, residents and other customers. Waterworks and other area utilities have worked hard to imbue a water conservation ethic in Hampton Roads residents, industries and businesses and those efforts are now paying dividends well beyond initial expectations. A review of current demand patterns and existing supplies was conducted. While the number of connections and population served has continued to increase over the past 15 years, total water demand has remained relatively static. The report concludes that a five-year goal for completion of an updated water supply program (including identifying any short and longer term water needs) is reasonable and adequately protective of existing and future customers. This effort will be coordinated with the regional and State Water Supply Plans currently being prepared.

Using a new, perhaps shortened, planning horizon and updated water needs forecast, a new group of alternatives will be evaluated. Combinations of alternatives will also be evaluated depending on the range of need identified and potential impacts of climate change will be included in the analysis.

The following specific recommendations are made:


1. Terminate existing consulting contracts in accordance with provisions contained in contracts. Termination will include final, minor close-out costs associated with file transfers and final invoicing.

2. Terminate agreements with King William County in accordance with the provisions contained in the agreements. In addition to the formal, legal notification requirements, staff recommends that City Council consider preparing a notice or advertisement in the *Tidewater Review*, a local newspaper, thanking the residents and staff of King William County for their patience and participation in the project over the last two decades.
3. Make preparations to market properties acquired for the KWR program in accordance with project development agreements, contracts, and permits. This will likely involve hiring a real estate firm and closing attorney.
4. Repay the \$20 million VRA loan principal balance with unspent cash proceeds from the loan (\$17.4 million) combined with cash from other sources (\$2.6 million). This will result in an estimated net interest savings of \$1.3 million. The next payment is due in January 2010.
5. Following formal termination of all contracts and subcontracts, revoke or amend appropriations to the KWR Project and reallocate remaining revenue bond proceeds to other needed capital projects in the Waterworks CIP.
6. Submit to the Corps of Engineers and the Virginia Department of Environmental Quality a formal request to rescind our Joint Permit Application for the project.
7. Apply future proceeds from the sale of property that was purchased as part of the KWR project to reduce or repay general obligation bonds and/or revenue bonds based on specific interest rates and financing terms contained in each program.
8. Initiate a new water needs assessment and complete by the end of 2012. This will include interviews with all major industrial and military customers, and will include discussions with regulators and other stakeholders. It will also incorporate the potential consequences of climate change on supplies and on future demands. It will be closely coordinated with the Regional and State Water Supply Plan currently being developed.

9. Based on results of needs assessment, identify and evaluate alternatives based on availability, total cost, and environmental impacts. This effort should be completed by the end of 2012. Both the updated needs assessment and the alternatives assessment will be conducted in accordance with state and federal policies and will consider a broad range of options for both supply-side and demand-side management, including the full range of environmentally desirable measures that have been suggested in recent years.
  
10. Waterworks will continue to investigate and implement watershed protection measures at all existing water supply facilities to ensure the continued viability of these supplies and to sustain our water resources. This may include implementation of additional regional storm water treatment facilities, acquisition of additional buffer lands, and expanded monitoring programs.

Several of these recommendations, if approved, will require resolutions and/or ordinances to be adopted by Council. Those will be drafted once direction is received on September 22, 2009.

Thank you for your attention, and I look forward to our discussion at the work session.



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Neil A. Morgan

NAM:ww

cc: Director of Public Utilities