

From: McLaughlin, Chris J CIV NAVFAC SE [mailto:chris.mclaughlin@navy.mil]  
Sent: Wednesday, February 17, 2016 12:09 PM  
To: John Paul Castro <jcastro@cityofkeywest-fl.gov>  
Cc: Greg Veliz <gveliz@cityofkeywest-fl.gov>; Martin, Katharine CIV NAVFAC SE <katharine.martin@navy.mil>; Cottom, Melvin R CIV NAVFAC SE, PWD Key West <melvin.cottom@navy.mil>; Mann, Andrew F CIV NAVFAC SE, JAXS <andrew.mann@navy.mil>  
Subject: RE: Navy Wastewater Contract

Thank you Mr Castro,

Yes, we do realize that our current contract expiring 31 MAR 2016 should be continued in place without change and extended to 30 SEP 2016 to coincide with your end of business fiscal year. Effective 01 OCT 2016, however, we do wish to implement a change to the current allocation method and begin "doing business" as your other large users do. You mentioned a pending FCAA agreement for Key Haven and we would certainly be interested in looking at that arrangement to see if it fits with the intent and direction we have been given by our headquarters.

At your City Commission meeting on March 16th, please inform the commission of the Navy's new direction. Reassure them that the 31 MAR 2016 will be extended until 30 SEP 2016 with no changes, as there is no issue between the parties on that extension, but that after that date, the Navy is being directed to come more in line with other consumers. Headquarters has assumed a monetary savings in waste water annual costs and I will need to inform them on status of getting there shortly after your City Commission meeting.

It is possible that because of this new direction from the Navy, the City Commission may need to re-look at the pending FCAA Key Haven agreement if underlying that agreement was the assumption that there would be no changes to the Navy's allocation percent.

I look forward to hearing from you again after that meeting. In the meantime I assume you have no objections to extending the current contract expiration date to 30 SEP 2016. Thank you.

Best regards,  
Chris McLaughlin  
Contracting Officer  
NAVFAC-SE  
AQ-UT  
(904) 542-6774

-----Original Message-----

From: John Paul Castro [mailto:jcastro@cityofkeywest-fl.gov]  
Sent: Wednesday, February 17, 2016 11:41 AM  
To: McLaughlin, Chris J CIV NAVFAC SE  
Cc: Greg Veliz  
Subject: [Non-DoD Source] RE: Navy Wastewater Contract

Chris,

Thank you for your response.

Due to the timing of the request to make major changes to the wastewater contract I would agree that extending the contract to September 30 to coincide with the City's fiscal year would be the best route.

Until we can give our financial consultants time to assess the rate models for the utility and revenues from City of Key West rate payers and bulk users I cannot comment on what changes to the Navy's billing will be possible for the future contract. We are currently working on an agreement with the FCAA to take the influent from Key Haven. This would be the most appropriate comparison to a "best customer" as they will be our only other bulk user. City rate payers pay a base charge per unit plus a flow rate. I don't know if that would be a scenario for savings for the Navy if implemented or if it would even be possible. It is understandable if the Navy would like to lower the reserve capacity at the plant and other capital components.

In the end, the costs to run the plant and treat the flow will get absorbed by all users, it is just a matter of allocating those costs appropriately. We have started working on a new bulk user agreement and will start preparing the FY17 budget in just over a month. I would like to put forth an agenda item to the city commission (March 16 meeting) to extend our current agreement to the end of FY16 so we can start negotiating a contract to be effective Oct. 1.

If you would like to discuss over the phone please let me know.

John Paul Castro  
Utilities Director  
City of Key West  
305-809-3902

-----Original Message-----

From: McLaughlin, Chris J CIV NAVFAC SE [mailto:chris.mclaughlin@navy.mil]  
Sent: Friday, February 05, 2016 12:08 PM  
To: John Paul Castro <jcastro@cityofkeywest-fl.gov>  
Subject: RE: Navy Wastewater Contract

John,

I couldn't get back to you the other night as I had planned. And I just left you a voice mail. In summary, I had a conference call this morning with our Navy folks down in Boca Chica. As you may (or may not) be aware the Department of Defense, and thus the Department of the Navy, has been enforcing a major push in Utility consumption and costing improvements through all means available including reviewing and revamping all existing utility arrangements. Not only are we exploring more sustainable and eco-friendly generation and delivery systems but also revisiting working arrangements with an eye towards cutting costs. Part of that includes doing business the way the "best customers" within the local communities do. In the past there has been a capacity reserve clause in our contract for waste water flow. We're metered and we also pay a percentage of O&M / Capital Improvement costs. Each year you budget for a Navy contribution toward that fund and some years there are charges to pay and some years there aren't. We are looking at entering an arrangement whereby the Navy is treated in the same

manner as your other "best customers", whether they be the major hotels/resorts, the airport, the community college, or other large non-Navy consumers. Accordingly we wish to explore utilizing similar rate and billing structures for the US Navy.

We understand and are sympathetic to the one immediate impact this might have to your revenue flow. But the Navy has studied its capacity needs in Key West and does not see any significant future growth or need for even the current capacity extent to which we reserve. In fact, if other "best customers" do not utilize a reserve capacity structure in their billing, then we wish to explore that as well. We also understand that the City of Key West is bound by a governing utility board responsible for establishing rates and structures which appear to coincide with your municipal fiscal years. Our current contract with the city of Key West, however, expires at a point that doesn't align with your fiscal year. We therefore recognize that there may be a need to extend our existing contract a sufficient number of months so that its expiration coincides with your fiscal year billing and rate anniversary. These are some of the issues we wish to discuss with you next week.

My phone number is (904) 542-6774 and my email address is [chris.mclaughlin@navy.mil](mailto:chris.mclaughlin@navy.mil). Thank you and please let me know a time next week convenient for you and your team to discuss this further via teleconference call.

Best Regards,  
Chris McLaughlin  
Contracting Officer  
NAVFAC-SE  
NAS Jacksonville, FL 32212