



Municipal Corp. of Cape Charles

March 27, 2008

Mr. Steven R. Bennett
Construction Manager
Bay Creek Resort and Club
1 Club House Way
Cape Charles, VA 23310

Steve
Dear Mr. Bennett:

This is in reply to your letter of March 14, 2008 responding to the Town's proposal to settle the financial obligations related to water and wastewater capacity expansion under the Annexation Agreement. As you requested, the following additional information should clarify the derivation of the numbers:

- The \$8.9 million is a refinement of the \$9.4 million figure contained in the January 8, 2008 position paper. This is based on revising the NPV calculation to match the current build-out projection of 2026, vice 2032, thus removing additional periodic plant recapitalization estimates beyond the growth period. You had requested this revision in your position paper of January 29, 2008 and, as had been discussed, we agreed that this was a logical adjustment.
- The \$21.1 million is simply the Baymark share of the gross NPV calculation, as adjusted above, before crediting the Baymark share of the facility fee collections to yield the \$8.9 million. The equivalent value is \$21.6 million in the January 8, 2008 position paper.
- We provided the two options to allow you to consider what might be a better business decision. As noted in our March 6, 2008 letter, the \$21.1 million payment would eliminate the facility fee component of the connection charge for Baymark property subject to the Annexation Agreement. The \$8.9 million payment would keep the current connection charge in place, subject to future adjustment. While the first option had not been specifically discussed, the figure is inherent in the calculations we had previously reviewed with you (as discussed above).

We do not agree with several of the statements in your letter but do not believe it productive to address each and every one. Please do not misconstrue our silence as agreement with your statements. We had thought an agreement had been reached on the methodology at our last meeting, although we were not in agreement on the inputs to the

formula (demand, cost and schedule). In fact, your position paper of January 29, 2008 states, "The methodology explained in this paper is reasonable." Our view is that it is highly unlikely that we would ever completely agree on all aspects and values until the projects are completed. We do, however, believe that the estimate is reasonable given what we now know. We would prefer to settle this now so that we can avoid expending time and effort on continual reevaluation and proceed with the capacity expansion on a more firm financial footing. You question whether the Annexation Agreement provides for advance payment by Baymark. Regardless, the reduced amount calculated in the proposal is based on such an advance payment. If a settlement is not reached Baymark's liability will be greater. In particular we note that if a settlement is not achieved the Town will seek the full amount of \$21.1 million (or such greater amount as is actually incurred by the Town) without credit for any facility fees. The Town regards the credit for the facility fees as a very significant concession in an effort to reach a settlement.

This should provide the additional information needed to further evaluate the two options. I am hopeful that a specific offer will be forthcoming in response to the Town's proposal. Please let me know if you would like to meet in person to discuss any aspect of this matter. As in the case of our prior communications this letter is written for settlement purposes only and subject to approval by the Town Council.

Sincerely,

Joe

Joe Vaccaro
Town Manager

cc: Mayor Dora Sullivan
Cape Charles Town Council Members
Assistant Town Manager Heather Arcos
Paul Skolnick, Town Treasurer