

# BROCHURE 5

## PROJECT SELECTION AND MONTHLY COSTS



# Los Osos Wastewater Project

SAN LUIS OBISPO COUNTY  
DEPARTMENT OF PUBLIC WORKS

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Project Website: <http://www.slocounty.ca.gov/PW/LOWWP.htm>

## Project Technologies vs. Financing Terms



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The most important concern for many individuals regarding the proposed wastewater project in Los Osos is the monthly project costs to homeowners and residents. Another significant concern relates to the project site and technology selection, which includes the treatment plant location and the different options for collection, treatment and reuse of the wastewater. The County Board of Supervisors recently approved a list of project strategies related to project selection and financing that are designed to help address these very concerns. A summary of the strategies is on the following pages.

These strategies help establish a path to follow toward final project selection. They encourage community input, keep the door open for additional options that may reduce costs, recognize recent environmental developments, encourage private industry competition in order to identify the lowest cost project, address the water supply needs of the community, and seek financial assistance—both to the overall project and to low income households.

It is the environmental review process established by the California Environmental Quality Act (CEQA) that will lead to the final project selection decision. The County plans to follow a “co-equal” environmental analysis model in order to have a level playing field. Project options include regional treatment and/or septage handling, regional water supplies, and decentralized (neighborhood) treatment, in addition to those options presented in the County’s Fine Screening Report.

Community preferences are also an important part of project selection. A community advisory survey of Los Osos property owners, residents, and business owners is planned for mid-2008. This survey will be held concurrent with the release of the draft Environmental Impact Report (EIR) so members of the community will be able to consider the impacts of each option as they complete their surveys.

The technology related strategies address the identification of the least costly collection system. The collection system will comprise about 65% of the total capital costs of the project. The County plans to include a design-build approach for the collection system. This approach will allow private industry contractors of the STEP option to submit bids and compete for the project. The County will prepare a project selection model to compare the submitted bids with a life cycle cost analysis and the community preferences identified in the community survey.

The finance related strategies are targeted to both reduce the overall project costs and to provide individual cost savings to low income households. Grants and special financing have the potential to reduce the monthly project costs to the average resident. However, directing some grant funds or discounts to those individuals who need it the most, can benefit them significantly.

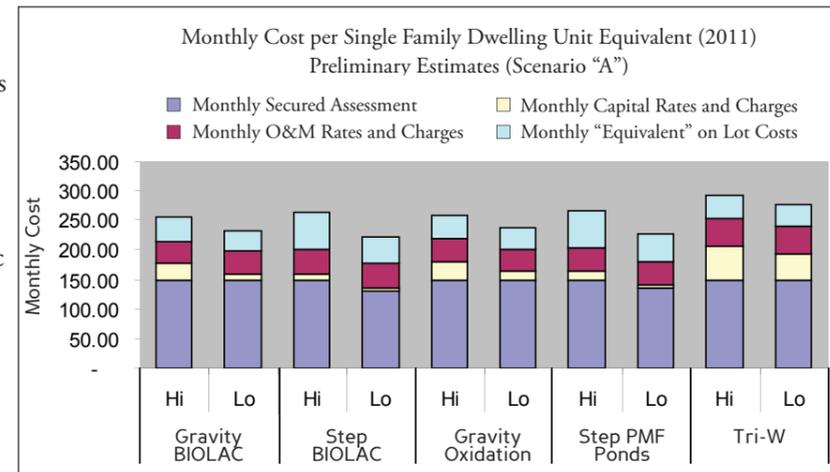
The average, estimated monthly costs of a wastewater project are presented in this brochure. The costs estimates are for a typical single family home (other types of homes, apartments and mobile homes, would have lower monthly costs than single family homes). The estimates include the average monthly cost of the pending Prop. 218 “special benefits” assessments and the estimated monthly costs for other capital costs and annual operations costs. Estimated monthly costs are used to help target the amount of a household’s monthly budget that would need to be set aside to pay costs when they are due. Most of these costs will be due with property tax bills. The estimated “on-lot” costs are for decommissioning existing septic tanks, connection from the home to project facilities, landscaping restoration, and other costs that are paid for directly by the property owners.

Several different funding scenarios for the project were considered and are shown in the graphs following. The high and low bars for each scenario represent the uncertainties in estimates for the different technology options. Scenario “A” includes the most conservative financing terms and is the basis of the monthly cost estimates in this brochure. Other scenarios can be reviewed on the project website.

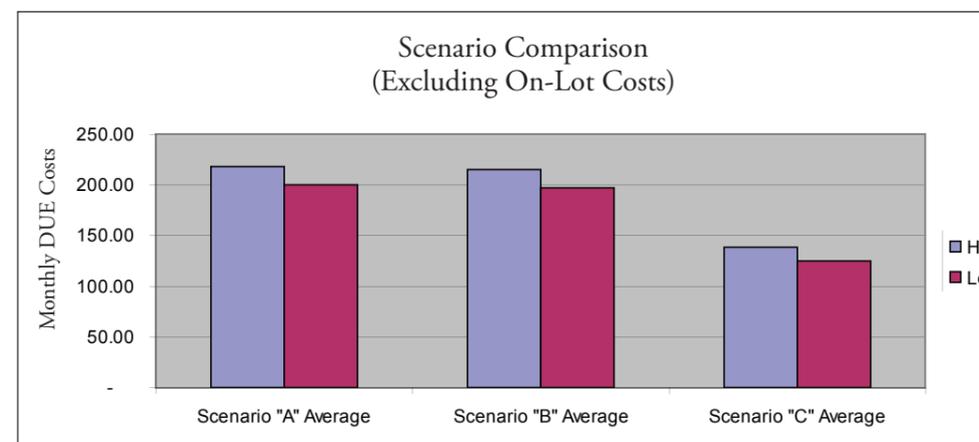
## Scenario “A”

Significant assumptions used in developing Scenario “A” preliminary estimates include the following:

- 50% of debt for public facilities is financed utilizing tax-exempt municipal bonds at 5.0% interest repaid over 30 years, with “cash funding” of bond reserves.
- 50 % of debt for public facilities is financed utilizing State Revolving Funds at 2.35% interest repaid over 20 years including \$6.5 million to comply with Governor’s signing message accompanying AB 2701 (although the signing message is an unresolved/disputed issue).
- Private facilities (“On-Lot”) costs are amortized over 20 years at 8.25% interest. This assumption is based on approximate terms of equity loans on private property – property owners may actually fund these costs in a variety of manners, and some may be eligible for financial assistance from Community Development Block Grants, the USDA Rural Improvement Program, and other possible sources.



Scenario “B” (not illustrated in this brochure) assumes similar terms to Scenario “A”, except that 95% of the debt for public facilities would be financed with State Revolving Funds, with a slight reduction in the estimated monthly cost. Scenario “C” (not illustrated) includes the most favorable financial terms that are being pursued but not guaranteed. The assumptions for Scenario “C” include State and Federal grants and a 30-year, low interest loan from the State Water Board, without additional conditions requiring repayment of the \$6.5 million owed by the LOCSO.



This graph illustrates how favorable financial terms can have a greater impact on monthly project costs than the cost savings that may be realized through the different technology options. Pursuing the lowest cost option through competitive bidding is important, and on August 14, 2007, the Board of Supervisors adopted strategies in this brochure. Nevertheless, pursuing favorable financing terms can potentially have a greater savings in monthly costs and the County remains dedicated to working on all project issues while mitigating affordability issues.

# Project Selection Strategies

(Summary of policies officially adopted by the County Board of Supervisors on August 14, 2007)

## Design-Build

- First priority: Seek special legislation to provide greatest flexibility
- Second priority: Apply Gov't Code Section 5956 for design-build of STEP option and use traditional design-bid-build for gravity option
- Prepare design-build selection model based on life-cycle cost analysis and results of community survey

## STEP Collection System

- Oppose requirements for separate electrical meters on individual properties
- Establish STEP tanks and pump equipment as public facilities—ie. maintained by the project

## Co-Equal Environmental Analysis

- Begin preparation for environmental review work as soon as possible (before Prop 218 results)
- Near-concurrent release of draft Environmental Impact Report (EIR) and community advisory survey in 2008
- County Planning Commission review of EIR and Coastal Development Permit (CDP) after bids are received for design-build of collection system
  - Develop CDP consistent with previous CDP for project
  - Limit CDP modifications to specific project changes
- Evaluate risks to Morro Bay State Marine Reserve from wastewater treatment at alternative sites identified in EIR
- Evaluate greenhouse gases based on Assembly Bill 32 regulations

## Consider Regional Options in EIR

- Regional treatment with Morro Bay and Cayucos
- Regional septage handling facilities
- Regional water supplies

## Decentralized Wastewater System

- Develop technical memorandum reviewing proposal presented by Lombardo Associates, Inc.
- Obtain input from regulatory and permitting agencies
- Develop scope of additional studies for consideration in EIR

## Demand-Based Sewer Rates

- Similar to City of San Luis Obispo demand-based sewer rate structure
- Provide incentives for permitted gray-water systems
- Seek special legislation to provide option for income based rate discounts

## Financing Strategies

- Support State Water Board development of 30 year loans and 0% interest loans for disadvantaged communities and projects which exceed affordability standards
- Consider tax increment financing
- Consider redevelopment agency financing
- Consider Community Development Block Grant financing for on-lot costs incurred by disadvantaged individuals
- Support staff coordination of USDA grant applications for disadvantaged individuals
- Prioritize Prop. 50 (Integrated Regional Water Management) grant funds for disadvantaged individuals

## Water Resources

- Coordinate with community water purveyors to identify
  - “Water Supply Enhancements”—wastewater project benefits to existing community water supply needs
  - “Additional Water Projects”—water projects to meet build-out and development needs
- Consider implementation and cost sharing contracts with community water purveyors to meet identified water needs

## Financial Considerations

The Public Works Department recently completed a financial model utilizing the cost estimates in the Fine Screening Report. The capital, operations, and maintenance costs were projected into monthly costs to property owners. The financial model has the ability to vary numerous assumptions. The project team has developed four sample projects in addition to the Tri-W project. They are defined in the chart below.

Option	Collection Technology	Treatment Technology	Effluent Disposal	Solids Disposal	Sites
1	STEP	Ponds	Level 2	Sub-Class "B"	TBD
2	STEP	Biolac	Level 2	Sub-Class "B"	TBD
3	Gravity	Biolac	Level 2	Sub-Class "B"	TBD
4	Gravity	Ox. Ditch	Level 2	Sub-Class "B"	TBD
5	Gravity	MBR	Level 2	Sub-Class "B"	Tri-W

It is important to reiterate that these options are not project recommendations and do not include all possible options that will be evaluated. The options do, nevertheless, provide a range of information for the community to consider. The variables in the options relate to the collection and treatment technologies, which comprise approximately 80-85% of the project capital costs. "Level 2" effluent disposal reflects the highest benefit to water resources that can result from the wastewater project and appears to have favorable community consensus, including support from the community's water purveyors. "Sub-Class 'B'" is the least costly solids disposal option and has been included in the analysis for affordability purposes. The cost of solids disposal in relation to total project costs is, however, relatively small and community consensus may develop to support a higher level of solids disposal and treatment, including composting and recycling. Several possible treatment plant sites are identified in the Fine Screening Report, but final selection will be after the draft EIR is released for public comment and the community survey is conducted.

## Prop 218 Ballot Questions

The Prop. 218 ballots must be received by the Clerk of the Board of Supervisors by the end of the protest hearing on October 23, 2007.  
(Postmarks by October 23 are not sufficient)

The Clerk's address is:

1055 Monterey Street, Rm D120  
San Luis Obispo

Call John Diodati at (805) 788-6633 with questions.



## Monthly Estimated Costs

Monthly costs are the amount that households would need to set aside out of their monthly budget to pay for project costs when they are due to be paid. Some costs will be included in monthly wastewater utility bills. Other costs will be paid on property tax bills. The following chart illustrates the estimated monthly costs and how those costs are paid. Please see prior pages—some scenarios illustrate costs about 10% higher than the "best estimate" totals shown in the following table.

		Monthly Cost Estimate	Payments Due	Monthly Bill	Semi-Annual Tax Bill	Total Annual Cost Estimate
A	Monthly Utility Bill for Operations and Maintenance	\$40	Monthly	\$40	N/A	\$480
B	Equivalent Monthly Assessments	\$150	Property Tax Bills	N/A	\$900	\$1,800
C	Equivalent Monthly Capital	\$10	Property Tax Bills	N/A	\$60	\$120
	<b>Subtotals</b>	<b>\$200</b>		<b>\$40</b>	<b>\$960</b>	<b>\$2,400</b>
D	Equivalent Monthly On-Lot	\$50	Owner Financed Cost	N/A	N/A	\$600
	<b>Totals</b>	<b>\$250</b>		<b>\$40</b>	<b>\$960</b>	<b>\$3,000</b>

### Explanation of Cost Components:

- Operations and Maintenance (O&M) costs are the estimates for labor, equipment, supplies, and energy needed to operate and maintain the system for the collection, treatment, and disposal/reuse of the wastewater. This amount would be charged to the sewer customer on monthly wastewater utility bills.
- Assessment costs are the estimates for debt repayment on capital project costs that were deemed "special benefits" and were the subject of the Proposition 218 assessment vote. This amount would be charged to the property owner on the semi-annual property tax bills or the owner can choose to pay the full assessment amount in one lump-sum. Assessments may be reduced if grants are obtained.
- Capital costs are the estimates for debt repayment on capital project costs such as general benefits that cannot be included in the Proposition 218 special benefits assessment. Although it is not an 'assessment', this amount is expected to be charged to the property owner on the semi-annual property tax bills. Property owners may also pay lump-sum. Final debt will depend on final project costs, less grants and other sources of funding that might be obtained such as water purveyor contributions.
- On-lot costs are not paid by the County. They are the estimates (assuming debt repayment) on capital costs incurred by property owners to connect to the wastewater system, including costs of disconnecting existing septic systems. Property owners can pay for these costs in a variety of ways. This estimate assumes a home equity line of credit at 8.25% repaid over 20 years.

The monthly costs presented in the above are estimates for a typical single family home. Monthly costs would vary for other property types, such as, apartments, mobile homes, or commercial. Costs for commercial properties up to 10,000 sq. ft. would be similar to a single family residence, properties larger than 10,000 sq. ft. will have additional "special benefit" assessments of approximately \$2.50 per sq. ft.

Apartments and mobile homes will have lower monthly costs than single family homes for several reasons. They have lower "special benefit" assessments due to their shared facilities and the reduced demand per unit. The "on-lot" costs are also expected to be shared among all the units in the apartment complex or mobile home park. Monthly wastewater utility bills may also be lower, due to the lower demand per unit.

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# Questions & Answers

**Q:** What is the County doing to address affordability?

**A:** The County is seeking grants to:

- 1.) reduce project costs and
- 2.) assist low income households.

The County agreed to analyze alternative technologies that could provide cost savings and has developed financing and other strategies to control costs and provide outside revenue—see inside brochure.

**Q:** Why are certain technologies, sites or approaches not considered by the County prior to the Prop. 218 vote?

**A:** Numerous reasons exist for the County process. An 18 point reply on why the Prop. 218 is before site and technology selection can be found on the project website. This was included in the County's update to the Regional Water Board—see August 27, 2007 letter.

**Q:** Why should the Board of Supervisors have final authority to select project technologies and sites?

**A:** The governing boards of local agencies throughout California are responsible for final decision making on capital projects. There is no compelling reason to consider an alternate approach in this case, especially considering the level of controversy existing within the community.

## Office Hours

Bruce Gibson  
Supervisor, District 2  
San Luis Obispo County  
Board of Supervisors



Los Osos Office Hours:  
2nd & 4th Thursdays  
4-5 pm

Sea Pines Lodge  
1945 Solano Street, Los Osos  
(Subject to change)

Legislative Assistant  
Contact: Cherie Aispuro  
(805) 781-5450

## Technical Advisory Committee

Bill Garfinkel, Chair



The TAC has completed their Pro/Con analysis of the community options for a wastewater project. They will continue to meet on a regular basis over the next 12 months, leading up to the community advisory survey. Please check the project website for the TAC calendar; or call Cherie Aispuro.

## Website Access to Board Items

Tuesday Meetings of the  
Board of Supervisors:  
2:05 Public Comment on the project  
[www.slocounty.ca.gov](http://www.slocounty.ca.gov)