



Today is November 29, 2011, today, after searching your website over the last week, just found the agenda for your meeting of December 5, where the item that interests my community most is said to be heard. As off this afternoon, the staff report is still not available on your website. I am concerned that comments will not be accepted after noon on November 30. It is my sincere request that citizen comments be accepted throughout this and next week and through the hearing on December 5.

As for my comments on the subject of the Los Osos Wastewater Project financing, first I must express disappointment in my County representatives as they did not hold a hearing of their own asking for public input in this process, it is the hard working citizens of Los Osos who will be paying for this project well into our future. The County did not provide notice of your hearing or contact information to comment on this process, there is no information on your process on their project website. I had to research this myself, taking away from my otherwise busy life, and am trying to reach others to comment on their own at this very late date.

It is with sincere concern for my community that I ask that the interest on the loan approved by your Board last March be further reduced to 0% interest. The community of Los Osos has been punished by this saga for far too long. We have been willing to build a wastewater project time and time again, even in 2005 when the downtown location of the plant was stopped, our community merely intended to "Move the Sewer" to the location the County has chosen and is pursuing construction for today. Citizens begged your Board at that time not to let that loan until the pending recall vote had been taken, that board chose to proceed with dispensing funds and the hasty Los Osos Community Services District Board as it was made up at that time, proceeded with construction. Setting into motion the financial disaster that plagues the District today.

The argument to Move the Sewer at that time was to also save the project money, the engineer representing the SWRCB who was involved in the negotiations agreed that moving the sewer to the rural location out of town, would in fact save some \$25 million for the project.

Cost has always been the issue for Los Ososans, prior to the 1980's infrastructure project such as these were paid for by the pre-Regan funding sources available at that time. That we, an economically compromised community even then, would have to pay for it ourselves was staggering. Years later, the higher the price the more concern and the more people effected. Battles over siting, systems and price will always go on, but we all agree we need low income assistance and the SRF loan process is the best chance we have a making any project more affordable.

Please consider a 0% interest loan for Los Osos, the 3.25% interest on the USDA money will be very costly, driving the price higher, longer, effecting more.

Attached is a White Paper prepared by one of our citizens with census data available at the time (2000). Her report is very valuable, but a true economic impact study has never been done by the County or the LOCSD before them, this would be prudent information as we would know better how many families are on fixed incomes and how many working families will be forced from their homes. Additionally, our small, Mom & Pop business community will suffer greatly and they too will close up shop.

You do not have to proceed at this time, the County should be directed to get the economic data and resubmit. They could easily make the case for Los Osos to receive special consideration and a 0% loan.

Your attention to this important matter is appreciated.

Thanks you,
Julie Tacker
40 year Los Osos resident and homeowner

AFFORDABILITY REPORT

Prepared for

THE COMMUNITY OF LOS OSOS

WASTEWATER PROJECT

January 2009

Summary

The proposed cost for the Los Osos Wastewater Project (LOWWP) presents serious affordability issues for up to 60% of the Prohibition Zone (PZ) residents.

Overview

Affordability for the LOWWP is of significant concern for a predominant majority of residents in the PZ. County preliminary estimates indicate the project may cost \$165 million.¹

Project cost for each single-family residential parcel is expected to be \$25,000. This cost was published with the 218 Vote of 2007. It was explained that an assessment will be included in each property owner's annual tax assessment. While one can pay the entire amount up front, it is not likely that most will do this. Thus, assessments will be \$1,800 per year, or \$150 per month. Additional costs will include monthly fees for operation and maintenance, which will bring the total estimated cost to \$250 per month. Another homeowner expense will be the one-time cost to decommissioning a septic tank and hook up to the sewer. Since these additional costs have not been presented to the community, this analysis only considers the assessment of \$25,000 per single-family residential parcel.

Affordability Guidelines

The United States Environmental Protection Agency (USEPA) provides some guidance on wastewater charges. According to the USAEPA's *Rate Options to Address Affordability Concerns for Consideration by District of Columbia Water and Sewer Authority* (2002), user rates should be calculated as a percentage of median household income (MHI) on a system-wide basis. Rates are considered affordable if they are less than 2% of MHI.

While wastewater user rates are considered affordable if less than 2% of MHI, they average much less throughout the United States. According to *Water and Wastewater Pricing: An Informational Overview*, prepared in 2003 by the USEPA Office of Wastewater Management, combined water and wastewater rates average 0.5% of MHI in the United States. The Congressional Budget Office estimates the percentage of household income needed by 2019 to pay for infrastructure investments for water and wastewater would increase this percentage to 0.6% (on the low end) to 0.9% (on the high end) of household income.

¹ Source: "Supes Approve Another Million" *The Bay News*, January 22, 2009.

Finally, according to the draft staff document *Small Community Wastewater Strategy* prepared by the California State Water Board (CSWB) in 2008, both the United States Department of Agriculture (USDA) and Department of Public Health (DPU) use 1.5% of MHI for evaluating sewer affordability. Further, this report identifies other factors for evaluating affordability, and these include: MHI, sewer rates as a percentage of MHI, population density and rate base, distance from larger regional systems, debt service and long-term operational and maintenance costs, regional cost of living, and status of the local and/or regional economy. With the recent state of the economy in the United States, no doubt this would also be a significant factor.

Analysis

This analysis assumes the \$25,000 single-family assessment in the PZ will be added to property taxes at \$1,800 per year for 30 years. Affordability is examined using several factors identified by the CSWB in its 2008 staff document.

Median Household Income and Sewer Rates as a Percentage

According to Business Analyst Online by ESRI², 2008 MHI for the PZ is \$60,234. Therefore, using the USEPA affordability criterion, the annual cost for the LOWWP should be \$1,205, which is significantly less than what the LOWWP is expected to cost PZ single family residential property owners. Using the USDA and DPU criterion, the annual cost for the LOWWP should be \$904 per year, which is one-half of its projected cost. When considering nationwide averages, annual costs for the LOWWP should range from \$361 to \$542 annually.

At \$1,800 annually, the public works portion (collection, treatment, recharge) of the LOWWP is expected to consume 3% of the MHI, which exceeds the USEPA baseline for affordability. It is double the USDA and DPU baseline. This 3% does not include long-term maintenance and operation costs or the one-time homeowner expense of connecting to the sewer lines. When these costs are included, annual cost will exceed 4% and may even approach 5% of the MHI.

This picture is much more grim for those households that earn less than the MHI of \$33,500³ annually. The LOWWP costs will consume a much larger share of household income, as demonstrated in **Exhibit 1**.

² Source: ESRI provides management and geographic information analysis and GIS technology with 35 years of experience. ESRI creates 2008 forecasts based on 2000 US Census data.

³ Source: “*Official State Income Limits for 2008*.” Memorandum from Department of Housing and Community Development. February 28, 2008.

Cost as a Percentage of Household Income**Exhibit 1**

Households by Income	Households		LOWWP Cost As A Percentage of HI
	Number	Percent	
< \$10,000	220	4.2%	at least 18.0%
\$10,000 - \$14,999	129	2.5%	18.0% - 12.0%
\$15,000 - \$19,999	238	4.5%	12.0% - 9.0%
\$20,000 - \$24,999	309	5.9%	9.0% - 7.2%
\$25,000 - \$29,999	295	5.6%	7.2% - 6.0%
\$25,000 - \$29,999	204	3.9%	6.0% - 5.1%
\$35,000 - \$39,999	232	4.4%	5.1% - 4.5%
\$40,000 - \$44,999	329	6.3%	4.5% - 4.0%
\$45,000 - \$49,999	223	4.3%	4.0% - 3.6%
\$50,000 - \$59,999	428	8.2%	3.6% - 3.0%
\$60,000 - \$74,999	538	10.3%	3.0% - 2.4%
\$75,000 - \$99,999	1,110	21.2%	2.4% - 1.8%
\$100,000 - \$124,999	450	8.6%	1.8% - 1.4%
\$125,000 - \$149,999	141	2.7%	1.4% - 1.2%
\$150,000 - \$199,999	213	4.1%	1.2% - 0.9%
\$200,000 - \$249,999	64	1.2%	0.9% - 0.7%
\$250,000 - \$499,999	94	1.8%	0.7% - 0.4%
\$500,000 +	26	0.5%	0.4% or less

Source: U.S. Bureau of the Census, 2000 Census of Population and Housing. ESRI forecast for 2008.

Exhibit 1 demonstrates a number of affordability concerns. At \$1,800 annually:

- The cost of the LOWWP will exceed 2% of household income for more than 60% of households in the PZ.
- The cost of the LOWWP will exceed 1.5% of household income for more than 80% of households in the PZ.
- Cost as a percentage of household income will be double-digits for over 10% of households in the PZ.
- Cost as a percentage of household income will be comparable to the US average for only 2% of households in the PZ.

According to the USEPA report *Rate Options to Address Affordability Concerns*, when wastewater rates exceed 2% of household income, they are not considered affordable. It is important to point out that this will be the case for more than 60% of households in the PZ.

According to ESRI, in 2008, 49% of households in the PZ are headed by an adult age 55 or older (senior households). This is expected to increase to 54% by 2013. The expected cost of the LOWWP will have a **unique impact on senior households** (emphasis added) because many seniors are on fixed incomes that may not accommodate a 3% or higher increase in living expenses. Further, recent events in the financial sector have had a devastating impact on retirement funds and savings, which is already

impacting senior households' ability to pay for housing, utilities, food, and other essential expenses. **Exhibit 2** demonstrates the financial impact on senior households.

Cost as a Percentage of Household Income – Age 55+ Exhibit 2

Households by Income	Senior Households		LOWWP Cost As A Percentage of HI
	Number	Percent	
< \$15,000	197	7.71%	at least 12.0%
\$15,000 - \$24,999	347	13.58%	12.0% - 7.2%
\$25,000 - \$34,999	284	11.11%	7.2% - 5.1%
\$35,000 - \$49,999	438	17.14%	5.1% - 3.6%
\$50,000 - \$74,999	408	15.96%	3.6% - 2.4%
\$75,000 - \$99,999	524	20.50%	2.4% - 1.8%
\$100,000 - \$149,999	200	7.82%	1.8% - 1.2%
\$150,000 - \$199,999	88	3.44%	1.2% - 0.9%
\$200,000 - \$249,999	23	0.90%	0.9% - 0.7%
\$250,000 - \$499,999	35	1.37%	0.7% - 0.4%
\$500,000 +	12	0.47%	0.4% or less

Source: U.S. Bureau of the Census, 2000 Census of Population and Housing. ESRI forecast for 2008.

Exhibit 2 demonstrates a number of affordability concerns for senior households. At \$1,800 annually:

- The cost of the LOWWP will exceed 2% of household income for more than 65% of senior households in the PZ.
- The cost of the LOWWP will exceed 1.5% of household income for more than 85% of senior households in the PZ.
- Cost as a percentage of household income will be very near double-digits for over 20% of senior households in the PZ.
- Cost as a percentage of household income will be comparable to the US average for less than 2% of senior households in the PZ.

According to the USEPA guidelines, the LOWWP will be *deemed unaffordable to over 65% of senior households*.

Long-term Operating and Maintenance (O&M) Costs

As discussed above, the \$25,000 assessment does not include O&M costs, or the one-time cost to connect to the wastewater collection system. O&M costs have not yet been provided; therefore, these costs are not analyzed. However, it is worth examining utility allowances provided by the Housing Authority of the City of San Luis Obispo. Utility allowances are used when calculating affordable housing costs.

Monthly Utility Allowance - Sewer**Exhibit 3**

Community	Number of Bedrooms				
	0	1	2	3	4
Cambria	\$32	\$34	\$37	\$43	\$48
Cayucos	\$37	\$37	\$37	\$37	\$37
Los Osos	\$150+	\$150+	\$150+	\$150+	\$150+
Morro Bay	\$34	\$34	\$34	\$34	\$40
Pismo Beach / Shell Beach	\$32	\$32	\$32	\$32	\$32
San Luis Obispo	\$20	\$25	\$36	\$51	\$66

Source: Housing Authority of the City of San Luis Obispo (excluding Los Osos).

The monthly costs in **Exhibit 3** are not necessarily actual costs for most households in these communities (with the exception of Los Osos when the LOWWP assessment comes due). Rather, these figures are deemed affordable for the dwelling size and are based on representative costs in these communities. They are useful here for comparison purposes.

Regional Cost of Living and Status of Local/Regional Economy

According to ESRI, residents in the PZ spend slightly more on housing and other expenditures compared to the national average.⁴ Where 100 represents the national average, PZ household spending indices include:

Housing:	106
Original home mortgage	115
Home mortgage interest	109
Home mortgage principal	108
Lump sum home equity interest	114
Lump sum home equity principal	112
Health care	105
Personal care products and services	104
Life and other insurance	105

According to ESRI, housing expenditures consume 29% of household income. Furthermore, payments associated with home mortgages and home equity loans have large spending indices relative to nationwide averages.

According to data compiled by the California Realtor's Association, homes in San Luis Obispo County lost 40% of value from the peak price in June 2006 to September 2008.

According to DataQuick:

- The median sales price in Los Osos in September 2008 was \$397,500, which is a 6.9% decline from September 2007's median price of \$427,000.
- Looking back to April 2007, which had a median price of \$437,000, the decline to September 2008 is 9.4%

⁴ Source: 2004 and 2005 Consumer Expenditure Surveys, Bureau of Labor Statistics. ESRI forecast for 2008.

- DataQuick's most recent sales figures are for November 2008; the median price for Los Osos was \$348,000, which was a decline of 12.5% from September 2008 and 20.4% from April 2007.

Real estate and financial experts are unable to predict when housing prices will "hit bottom," though some speculate it will be in 2009 or 2010. Experts also cannot predict how low this "bottom" will go. This is significant for a number of reasons. Homeowners who had planned to use home equity to pay for the assessment and/or connection costs may find they no longer have equity. For those homeowners who have enough equity, loans may be possible; however, requirements for borrowing have tightened. Further, particularly if one has a low or fixed income, qualifying debt to income ratios must meet strict guidelines. Seniors who might have considered a reverse mortgage may think twice before locking in current home values that have declined significantly.

Homeowners who are forced to move because they cannot afford the LOWWP costs may find themselves having to sell their home for less than they owe. Or they may be unable to sell at all and experience default or foreclosure. According to RealtyTrac, in January 2009, there were approximately 40 properties in the PZ that were in default or bank-owned.

Renters will have a similar experience in that they may be forced to move due to LOWWP costs passed through from the property owner.

Estimates can be made and they can be challenged. But the facts are fairly clear that there will be a significant financial impact on a very large portion of the PZ population that the County will need to take into account. Unfortunately, no one has given this much attention and unless the sewer costs are made affordable, or grant programs established, or some creative financing programs are put into place, there will be a very difficult situation at hand.

Additionally, the EPA and the SRWCB will be looking at costs and funding options. The cost burden will not escape scrutiny.

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All work prepared *pro bono*

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