



SAN LUIS OBISPO COUNT
DEPARTMENT OF PUBLIC

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TO: State Water Resources Control Board

FROM: Paavo Ogren, San Luis Obispo County Public Works Director

*PO
by JMW*

DATE: November 30, 2011

SUBJECT: Los Osos Wastewater Project Update

Introduction

On March 1, 2011, your Board adopted Resolution 2011-0009 to authorize funding from the Clean Water State Revolving Fund (SRF) to the County of San Luis Obispo (County) Los Osos Wastewater Project (Project). The purpose of this Project update is to provide your Board with the updated report as required by Resolved #13 of that resolution, as well as relevant additional information for your Board's consideration.

Request

The County respectfully requests that your Board **lower the interest rate to 0% for the life of the loan** subject to any conditions related to subsequent transfer of ownership from the County to the Los Osos Community Services District (LOCSD) per Government Code 25825.5 (AB 2701).

Should your Board grant this request, the cost for a typical single family residence would be further reduced by \$18 per month and bring Project affordability to 4.04% of Median Household Income (MHI) as illustrated in Exhibits "A" and "B" to this report. As suggested in your staff's report, conditions could be included to make the reduction in interest rate non-transferrable and automatically revert to 2.6% should the County seek to transfer or assign its responsibilities or obligations under the Project financing agreements.

Exhibit "A" illustrates the monthly cost savings that the County has achieved to date compared to the preliminary estimates in 2007. Total monthly savings to date for a typical single family residence total \$41, which has been achieved through favorable government financing terms and grants. The December 5, 2011, decision by your Board on possible reduced interest rates could result in additional monthly savings of \$18.

Affordability of the Project continues to be a concern to the County and community of Los Osos. Exhibit "B" presents affordability calculations for a typical Single Family Residence which make up nearly 90% of properties in Los Osos. Total monthly sewer costs are presented as a percentage of MHI. These costs include costs of the County Project in addition to costs related to the prior LOCSD project assessment and on-lot costs to property owners to abandon their existing septic systems and connect to the sewer. According to the Wastewater User Charge Survey Report published by your Board, the monthly cost to Los Osos property owners would be the highest in the State for a similar population served and nearly five times the State average.

A comparison of your staff's recommendation to the County's requested interest rate on SRF loan financing is presented to illustrate the impact on monthly costs and percentage of MHI to facilitate your consideration of a reduced interest rate from the 2.6% approved on March 1, 2011. As can be seen, each percent reduction in the interest rate results in about a \$7 per month reduction to the monthly bill. The maximum interest rate reduction would save property owners about \$18 per month, a significant savings. By comparison, each \$1 million in additional grants received or Project cost reduction will save property owners about 82 cents per month.

Project Status Update

Many significant Project milestones have been reached since the approval of the SRF funding in March. **The County Board of Supervisors approved the Due Diligence Resolution on March 15, 2011,** to formally accept the Project and declare the County's intent to proceed with construction and operation. This action set in motion the following series of Project milestones.

- Complete the assessment pre-payment period (April 2011)
- Receive Waste Discharge Requirements from Regional Water Board (May 2011)
- Establish the overall Project budget (May 2011)
- Initiate the collection system re-design by CDM (May 2011)
- Obtain interim financing to fund pre-construction costs (June 2011)
- Place assessments on the tax rolls and begin collection (August 2011)
- Advertise for and select a construction management firm (September 2011)

With the issuance of the interim financing, Project efforts are now focused on preparing for construction. The engineering design firm, Camp Dresser & McKee Inc. (CDM), was hired to update and complete the collection system design, which also includes the recycled water reuse system. They are currently in the final design phase, preparing final plans, specifications, and cost estimates. A final design is scheduled for February 2012, at which time the collection system will be put out to bid.

The County must also comply with an extensive list of pre-construction conditions that have primarily been issued in the Project Coastal Development Permit and with the funding approvals issued by your Board and the U.S. Department of Agriculture (USDA).

Key conditions of the funding agencies include the acquisition of all rights-of-way and obtaining recycled water reuse assurances. The County has obtained the right of possession for the treatment facility site, and has acquired the vast majority of the required rights-of-way from the LOCSD, which transferred their property interests related to the Project to the County on November 17, 2011. Recycled water reuse assurances have also been obtained to provide sufficient irrigation acreage for the anticipated start-up flows of the Project. Recycled water users include the local schools, community park, and approximately 90 acres of agricultural land. The County is continuing to pursue additional user assurances from the local golf course and cemetery.

There are numerous pre-construction conditions in the Coastal Permit, the majority of which are design requirements and will be addressed by the final plans and specifications. Some conditions, however, require significant efforts to comply with, including the following:

- Recycled Water Management Plan
- Water Conservation Program
- Habitat Management Plan
- Mid-Town Site Restoration

Of the items above, drafts of each of the required plans or programs have been submitted to Coastal staff for review. The final design of the Mid Town Site Restoration is almost completed and the project will be ready to put out to bid in early 2012.

The Project received approval of Waste Discharge Requirements from the Regional Water Board on May 5, 2011. This key project permit was the last major regulatory approval required for the Project and was also a condition of your Board's funding approval.

Reducing Project costs and addressing affordability impacts has been a major focus of the County, and an important Project milestone to note is the recent award of a \$5.8 million grant from the Department of Water Resources (DWR) Proposition 84 funds. The County is also completing a grant application to your Board for \$3 million in grants from the Water Recycling Funding Program.

Finally, the Project schedule is progressing toward the initiation of the collection system construction in mid-2012 and water recycling facility construction by late-2012. The Project is expected to be completed and ready for property owner connections by the end of 2014. A Project schedule is included as Exhibit "C" to this report.

Cost Estimates

Table 1 provides Project cost estimates with updated funding sources to reflect your Board action of March 1, 2011, assessment prepayments, and grants secured since that time.

Table 1: Project Costs and Funding	
Project Cost Estimate	
Preliminary Engineering, Planning, Environmental and Administration	\$8,500,000
Environmental Permits, Mitigation, and Water Conservation	\$5,800,000
Collection and Recycled Water System Design, R/W, and Construction	\$104,292,000
Water Recycling Facility Design, R/W, and Construction	\$38,124,000
On-Lot (owner-financed)	\$15,635,000
SRF Refinance	\$6,288,416
Predevelopment Finance/Interest Charges	\$1,110,000
Contingencies	\$9,284,000
TOTAL	\$189,033,416

Source of Funds	
USDA Loan	\$83,129,000
USDA Grant	\$4,061,000
SRF Loan	\$69,686,028
SRF Principal Forgiveness	\$7,500,000
Prop 84 IRWM Grant	\$5,845,444
Water Recycling Grant Funding Program	TBD
Pre-Paid Assessments	\$3,176,944
Owner-Financed	\$15,635,000
TOTAL	\$189,033,416

Of note is that the total SRF loan amount needed and approved in March, \$78,708,416, has been reduced to \$69,686,028 due to receipt of assessment prepayments and award of Proposition 84 grant funding to the County. The County is continuing to pursue grant funding opportunities, one of which is an application to your Board for a Water Recycling Grant, in order to further reduce the debt burden to Los Osos property owners.

Recent construction bid experience is showing bids coming in at up to 30% less than the engineer's estimates. Much of this has to do with the state of the economy and therefore the County is working to put the collection system construction out to bid as soon as possible to take advantage of the current bidding climate.

In addition, the County is considering strategies to ensure the lowest possible construction bids are received for the project. Project costs can be minimized by ensuring that a high number of contractors bid on the Project (the greater the competition, the lower the bids). Strategies under consideration include bid sizing, bid sequencing, contractor outreach, and front-end specifications to name a few.

The County will evaluate various bid sizing, in terms of construction value, on the collection system. Generally, lower bid values attract more local and smaller firms and higher bid values attract more of the larger firms. The goal (absent other factors) is to size the bids to attract the highest number of bidders. Bid sequencing can also be used to attempt to lower the bids by opening bids in a series of dates rather than all on the same day. This may result in more competitive prices on subsequent bids by allowing bidders to gauge their prices on earlier bids and allow successful bidders to incorporate efficiencies in subsequent bids.

Contractor outreach will be conducted prior to an official call for bids. The goal is to identify and introduce all interested contractors to the Project with the purpose of building and maintaining contractor interest and, thus, increasing the number of contractors that will bid on the Project. This may include workshops and internet outreach. The outreach provides contractors an opportunity for input and feedback on the Project prior to the completion of design and specifications, allowing the County to implement contractor suggestions that would position the County to receive favorable Project bids.

Front-end contract specifications have considerable impact on bid prices received. Agencies often overlook the price impacts created by the contractual front-end specifications. The amount of risk that front-end specifications place on the contractor and the lack of clarity within them can also negatively impact bid prices with the contractor adding significant contingencies to their bid to cover the risk. The County will prepare the front-end specifications with a fair allocation of risks to the party best able to manage each risk in an attempt to keep bid prices low. Risk issues include differing site conditions, dewatering, allowances for utility conflicts, hazardous materials, cultural resources and a value engineering incentive to share the savings of contractor cost reduction proposals. The County will also focus on providing clear requirements and procedures in the front-end specifications, including change order procedures, contractor obligations, and payment procedures. By sharing risk and minimizing vague or unstated requirements and procedures, the County can minimize contingencies within the bids.

The County successfully utilized these cost reducing strategies on its recently completed, award winning, \$176 million Nacimiento Water Project. Construction bids came in \$16.7 million (12%) less than preliminary estimates and this being in 2007; relatively good economic times.

User Service Charges and Assessments

Assessments to partially fund the Project were approved on December 18, 2007. User rates and charges to fund the remainder of the Project in addition to operations and maintenance were approved on December 14, 2010. Both received overwhelming support of the community through the Proposition 218 process. Revenues from these sources were approved at levels sufficient to repay \$169.6 million in total debt based on anticipated financing terms at that time.

Due to the favorable financing terms received from both the USDA and your Board, approved revenues are sufficient to repay up to \$179 million in total debt. As can be seen from Table 1, this is about \$26 million more than is currently estimated to be needed.

On-lot Costs

As indicated above, on-lot costs are those born by the property owner to abandon the existing septic system and connect to the sewer system. Total on-lot costs for all properties are estimated to be \$15.6 million. The cost to individual properties will vary widely based on site conditions and distance to the sewer lateral. On average, it is estimated to cost single family residences \$44 per month to cover this cost if financed through a personal loan over 10 years at 9% interest.

As we proceed, the County will develop a number of programs to assist property owners with on-lot costs. The County is evaluating the mini loan and linked deposit programs offered by your Board, Federal Community Development Block Grant program, USDA grants, and other applicable programs. These programs could significantly assist to lower this cost to applicable property owners.

Summary

The County continues to make significant progress on the Los Osos Wastewater Project. Construction is expected to commence in mid-2012, as scheduled, and be completed in late 2014. The County, in partnership with your Board and the USDA, has been successful in securing favorable financing terms for Project related debt in addition to obtaining nearly \$20 million in grant funding. As directed by the Governor's signing message of AB 2701 (Blakeslee) we have worked cooperatively with your Board in ensuring repayment of the LOCSD SRF Loan which fell into default status in 2005.

The County will continue to pursue every available opportunity to reduce the cost of the Project to Los Osos property owners in order to address affordability concerns. Your Board has the ability to significantly reduce the cost to property owners by lowering the interest rate on the SRF Loan. We respectfully request that your Board consider reducing the interest rate to the maximum extent possible. In return, the County will be open to considering whatever conditions you require to make that happen.

Attachments: Exhibit A – Monthly Cost Savings
Exhibit B – Monthly Cost and Affordability
Exhibit C – Project Schedule

File: CF 310.87.01

Exhibit A

COUNTY PROJECT MONTHLY COST SAVINGS

2007 Preliminary Monthly Estimate			<u>\$200</u>
	Monthly Savings		
	<u>Loans</u>	<u>Grants</u>	<u>Total</u>
<u>USDA</u>			
Approved (August 30, 2010)	<\$17>	<\$2>	<\$19>
<u>Department of Water Resources</u>			
Approved (August 16, 2011)	<\$0>	<\$4>	<\$4>
<u>State Water Board</u>			
Approved (March 1, 2011)	<\$13>	<\$5>	<\$18>
<u>Total Savings to Date</u>	<u><\$30></u>	<u><\$11></u>	<u><\$41></u>
Current Monthly Estimate			<u><u>\$159</u></u>
<u>December 5, 2011 State Water Board Action</u>			
Potential Reduced Interest Rate	<\$18>	<\$0>	<\$18>
New Monthly Estimate			<u><u>\$141</u></u>

Exhibit B

MONTHLY COST AND AFFORDABILITY

	SRF Interest Rate	Single Family Residence County Project Monthly Cost	Total Cost % of MHI	Total Sewer (inc. On-Lot & LOCSD Asmnt.) Monthly Cost
2007 Preliminary Estimate		\$ 200	5.21%	\$ 263
Current Estimate	2.60%	\$ 159	4.39%	\$ 222
SWB Staff Recommendation	2.00%	\$ 155	4.31%	\$ 217
Alternative Interest Rate Options for SWB Consideration	1.00%	\$ 148	4.17%	\$ 210
County Request	0.00%	\$ 141	4.04%	\$ 204
"Affordability Benchmarks"				
EPA Affordability			2.00%	\$ 101
USDA Affordability			1.50%	\$ 76

Exhibit B (cont.)

MONTHLY COST AND AFFORDABILITY

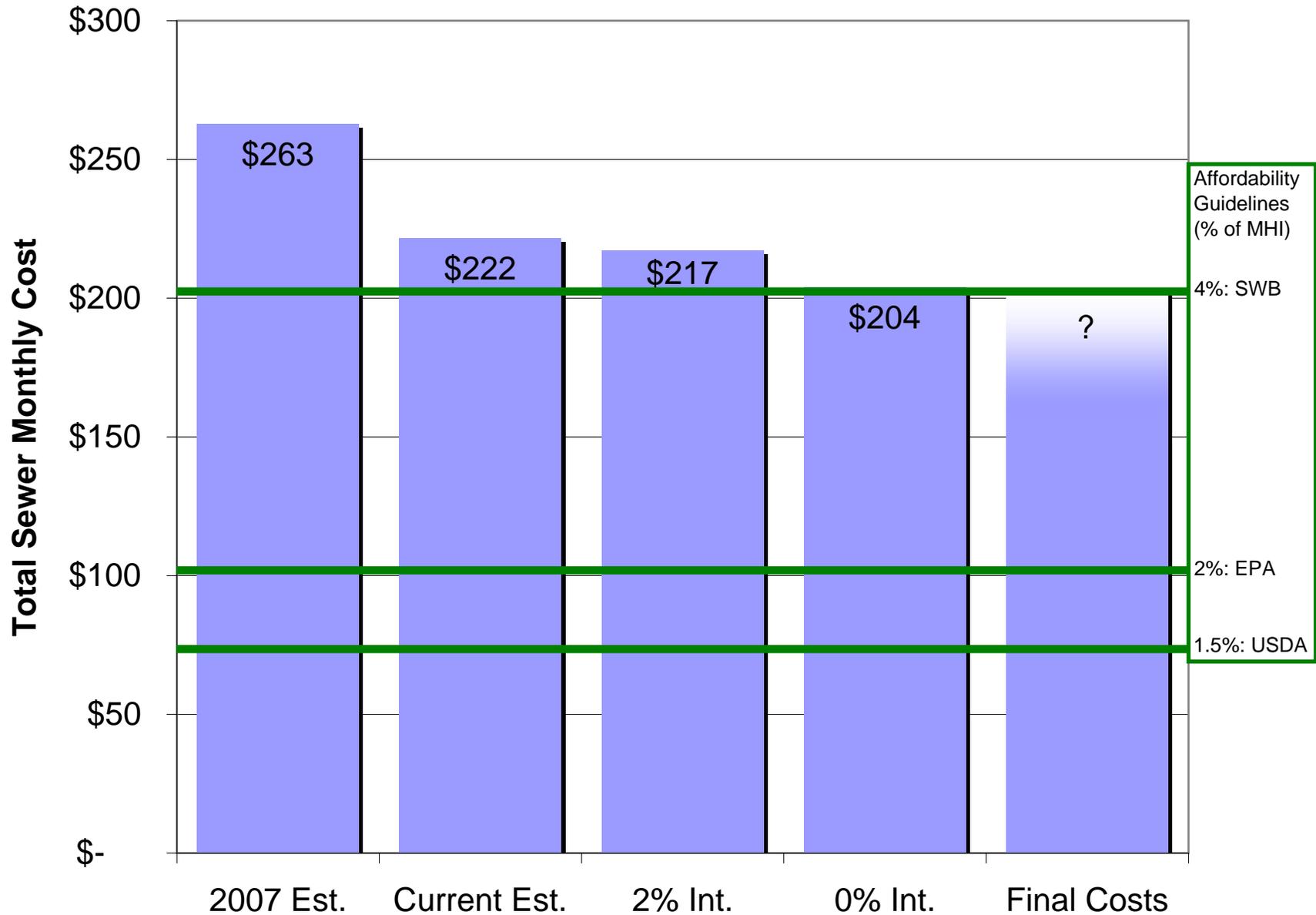


Exhibit C Project Schedule

Task Name	2010				2011				2012				2013				2014				2015				2016	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
USDA Funding Commitment			◆ 9/3/10																							
USDA LOC Compliance			▬	▬	▬	▬	▬	▬	▬																	
Rates & Charges Prop 218			▬	▬	▬	▬																				
Regional Board WDR		▬	▬	▬	▬																					
SRF Funding Commitment					◆ 3/1/11																					
SRF Condition Compliance					▬	▬	▬	▬	▬																	
BOS adopt Due Dilligence					◆ 3/15/11																					
Interim Financing Issuance					▬	▬																				
CDP Coastal/Planning Condition Compliance		▬	▬	▬	▬	▬	▬	▬	▬																	
Recycled Water Purchase Contracts					▬	▬	▬	▬	▬																	
Water Recycling Funding Application					▬	▬																				
Road Restoration Approach				▬	▬	▬	▬	▬																		
Basin Recycled Water Management Plan				▬	▬	▬	▬	▬																		
Right of Way				▬	▬	▬	▬	▬																		
Mid Town Restoration Design & Construction			▬	▬	▬	▬	▬	▬	▬																	
Collection System Design Process					▬	▬	▬	▬	▬																	
Consultant RFP and Approval Process					▬	▬																				
Design Phase					▬	▬	▬	▬	▬																	
Bidding and Award Phase									▬	▬																
Collection System Construction									▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	
Treatment Facility Design-Build Process									▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	
RFP and Award Process									▬	▬																
Design/Build Process											▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	
Septic System Decommissioning														▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	▬	