

**MEMORANDUM
DEPARTMENT OF FACILITY SERVICES
COUNTY OF PLACER**

To: **BOARD OF SUPERVISORS**

Date: **DECEMBER 9, 2008**

From: ~~JD~~ **JAMES DURFEE / WILL DICKINSON** *(initials)*

Subject: **POLICY DIRECTION REGARDING COMPLIANCE WITH USDA GRANT
REQUIREMENTS FOR SHERIDAN SPRAYFIELDS EXPANSION PROJECT**

ACTION REQUESTED / RECOMMENDATION: It is recommended that your Board indicate your intention to take the following actions needed to obtain grant funding from the United States Department of Agriculture for the capital project known as the Sheridan Sprayfields Expansion Project, contingent upon approval of necessary sewer and water fee increases in CSA 28, Zone 6 (Sheridan Sewer, Water and Lighting):

1. Forgive existing debt totaling \$1,370,000 owed by CSA 28, Zone 6 to the County Service Area Revolving Fund.
2. Provide approximately \$570,000 in contributions from the General Fund to match a USDA grant of \$700,000.
3. Provide an estimated total of \$440,000 in contributions from the General Fund to CSA 28, Zone 6, to bridge operating shortfalls anticipated from April 2009 through June 2011.

BACKGROUND: CSA 28, Zone 6, provides the community of Sheridan with sewage collection and treatment, domestic water service and street lighting service for approximately 200 connections. Placer County staff manages the CSA.

As discussed in detail at your budget workshop in August, this is a very small and financially challenged district that must build very expensive capital improvements in order to comply with State and Federal regulations that are impacting sewer and water districts throughout California. In addition, new permit requirements are driving up operating costs such as labor, lab testing, electrical power and chemical use.

This district is attempting to achieve regulatory compliance and financial self-sufficiency by constructing new capital improvements, seeking grant funds and raising user fees. Over the last three years the CSA has completed construction of a new pond that provides storage of treated sewage effluent. It has also commenced design and substantially completed environmental review for the second phase of the sewer compliance project: purchase of land and construction of various improvements needed to expand the fields used to dispose of the treated wastewater. This second phase is known as the Sheridan Sprayfields Expansion Project.

The U.S. Department of Agriculture (USDA) has tentatively agreed to provide the Sheridan Spray Irrigation capital project with a \$700,000 grant if your Board takes Actions 1, 2 and 3 listed above. Our application for this grant, which staff intends to submit in January, will be significantly strengthened if your Board has publically expressed a commitment to taking all three actions.

Your Board has previously approved loans to CSA 28, Zone 6 from the CSA Revolving Loan Fund in furtherance of the new storage pond construction and the Sprayfields Expansion

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Project, and to cover operating shortfalls. The current loan balance is now \$1,370,000. To improve the funding situation in this district, in July 2007 your Board approved a 43% increase in sewer and water fees in Zone 6. Additional fee increases are needed to achieve financial independence in this CSA. Because of the small size of the district, it would be impossible to raise sewer fees high enough to repay the existing loans while continuing to invest in further capital improvements needed to comply with the law. Debt forgiveness is therefore an essential component of our plan to improve the CSA's financial standing and meet the USDA grant requirements.

In addition, the USDA wants to be assured that sufficient funding exists to continue operating the CSA. Staff recommends accomplishing this by doubling sewer and water user fees over the next three years while phasing out contributions from the General Fund towards operating costs. Staff anticipates returning to your Board in April 2009 for a public hearing of the fee increase request and formal approval of Actions 1, 2 and 3 listed above. The staff recommendation at that time will be contingent upon support for the proposed fee increase from the constituents of CSA 28, Zone 6. If all the recommended actions are approved, staff anticipates that the CSA will be financially self-sufficient by the end of the three year period.

ENVIRONMENTAL CLEARANCE: Approval of this action is not a project as defined in the California Environmental Quality Act. Environmental review has been initiated for the Sheridan Sprayfields Expansion Project and will be completed prior to awarding bids for construction.

FISCAL IMPACT: If the recommended actions are taken in April 2009, the combination of debt forgiveness and new contributions from the General Fund are projected to total \$2,380,000. The USDA is expected to provide grant funding of \$700,000 towards completion of the Sheridan Sprayfields Expansion Project.

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CC: COUNTY EXECUTIVE OFFICE
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