

**MEMORANDUM
DEPARTMENT OF PUBLIC WORKS AND FACILITIES
COUNTY OF PLACER**

To: Honorable Board of Supervisors

Date: November 3, 2015

From: Ken Grehm, Director of Public Works and Facilities
By: Valerie Bayne, Administrative Services Manager

Subject: Environmental Engineering / Budget Revision / Sewer and Water Loans Repayment

ACTION REQUESTED

Approve a Budget Revision of \$ 2,000,000 to cancel General Fund Reserves designated during the approval of the FY 2015-16 Final Budget for the first year of a three year sewer loan repayment plan to the Solid Waste Management Fund, and record the resulting General Fund Contribution for the County Service Area Zones of Benefit (CSAs) for Sheridan Sewer, Sheridan Water, and Applegate Sewer; and approve a three year loan repayment plan in the amount of \$6,490,000.

BACKGROUND

CSA28, Z6 Sheridan Sewer

CSA 28, Zone 6, provides the community of Sheridan with sewage collection and treatment, and street lighting service for approximately 200 connections. The Sheridan Sewer loan was used to cover operating shortfalls and to fund a portion of the Sheridan Sprayfield Capital Project. In addition to the Sprayfield project a second storage pond was constructed in 2006. Combined, both projects increased the capacity of the sewer system and allowed for new connections to the system.

CSA28, Z8 Sheridan Water

CSA 28, Zone 8, provides the community of Sheridan with domestic water service for approximately 200 connections. The Sheridan Water loan covered operating shortfalls and a portion of the Sheridan Water Supply Improvement Project which included an additional municipal water well and storage tank. The water project brought the system into compliance with regulatory requirements and allowed for new connections to the system.

CSA28, Z24 Applegate Sewer

CSA 28, Zone 24 provides sewer collection and treatment service to 32 connections within the community of Applegate. The Applegate loans covered operating costs including a requirement from the RWQCB to haul wastewater from Applegate to SMD 1 during the winter months. The loans also funded a portion of the Applegate Regional Sewer Project which allowed wastewater from Applegate to be pumped to SMD 1 for treatment.

On June 9, 2009, your Board approved forgiveness of \$3,783,000 in total General Fund loans to Sheridan Sewer, Sheridan Water, and Applegate Sewer. This approval was based on evidence that the sewer districts were not financially able to repay the capital costs of completed mandated infrastructure improvements due to limited dwelling connections and inability to continue raising sewer fees high enough to repay the loans.

On June 22, 2010, your Board authorized loans in a total amount of \$1,680,000 to Sheridan Sewer, Sheridan Water, and Applegate Sewer to cover operating shortfalls and continue investment in required infrastructure improvements as regulatory requirements continued for these districts. Each

of these districts remained small, financially challenged districts that needed to comply with State and Federal regulations without the ability to pay for the projects. The loans approved by the Board were made from the Solid Waste Management Fund (SWMF), with interest payments by the General Fund, and repayment of principal due within ten years of loan approval (June 2020). The ability for these districts to repay these loans was anticipated to include the General Fund, and/or other local, state or federal sources.

On April 10, 2012, your Board authorized two additional loans in a total amount of \$4,900,000 to Applegate Sewer to fund operating shortfalls (\$300,000) and the unfunded component of the Applegate Regional Sewer Project (\$4,600,000). Again, the districts were anticipated to be able to fund repayment of these loans. The loans were also made from the Solid Waste Management Fund, with interest payments by the General Fund, and repayment of principal due within ten years of loan approval (April 2012).

Over the last four years, the General Fund has made an annual contribution of approximately \$65,000 to the Applegate Sewer district for its interest obligation to the SWMF, and no principal payments have been made. Leveraging opportunities for external funding were explored during the regionalization of the Applegate Sewer project, and during the Sheridan Sewer and Water projects. Though staff at the Department of Public Works and Facilities and the County Executive Office analyzed possible state and federal funding solutions, none were identified and can no longer be pursued due to the formal completion of the projects.

The following is a breakdown of each CSA's current loan obligation as of November 3, 2015:

| | |
|--------------------------------------|--------------------|
| CSA28, Z6 Sheridan Sewer | \$ 370,000 |
| CSA28, Z8 Sheridan Water | \$ 960,000 |
| <u>CSA28, Z24 Applegate Sewer</u> | <u>\$5,160,000</u> |
| Total Loan Obligation to SWMF | \$6,490,000 |

On September 15, 2015, as part of the FY 2015-16 Final Budget approval, your Board approved a General Fund Reserve set-aside of \$2,000,000 as part of a first year repayment plan for the current sewer loan obligations. This approval was based on the analysis and recommendation provided by the County Executive Office based on the inability of these three districts to repay the principal portion of their loan obligations. Therefore, it is recommended the General Fund repay the Solid Waste Fund in full as follows:

| <u>District</u> | <u>FY 2015-16</u> | <u>FY 2016-17</u> | <u>FY 2017-18</u> |
|--------------------------------|------------------------|------------------------|------------------------|
| CSA28, Z6 Sheridan Sewer | \$ 114,021.00 | \$ 127,989.00 | \$ 127,989.00 |
| CSA28, Z8 Sheridan Water | \$ 295,840.00 | \$ 332,080.00 | \$ 332,080.00 |
| CSA28, Z24 Applegate Sewer | \$ 1,590,139.00 | \$ 1,784,931.00 | \$ 1,784,931.00 |
| Total Principal Payment | \$ 2,000,000.00 | \$ 2,245,000.00 | \$ 2,245,000.00 |

Three Year Repayment Total: \$6,490,000

The three year repayment plan is included in the five-year fiscal model provided regularly by the County Executive Office to the Board, and approval of this repayment plan will not impact the Board's ability to make annual budgetary decisions on General Fund priorities in lieu of these annual loan payments. Repayment of these sewer loans will avoid unnecessary interest payments on principal amounts that are not anticipated to be paid by other means. The mandated infrastructure improvements for Sheridan Sewer, Sheridan Water, and Applegate Sewer are now complete and future loan requests or obligations are no longer required for these purposes.

ENVIRONMENTAL CLEARANCE

Approval of this action is not a project as defined in the California Environmental Quality Act.

FISCAL IMPACT

If approved, the Budget Revision will utilize the \$2,000,000 set-aside in reserves during the FY 2015-16 Final Budget approval for this purpose, and repay year one of three of the loan repayment plan in the Solid Waste Management Fund, via the County Service Area Enterprise Funds of Sheridan Sewer, Sheridan Water, and Applegate Sewer. Future payments for year two and three will be recommended in the proposed budgets for each fiscal year in the appropriate accounts, and those future year payments are subject to approval of the annual proposed budget process. Interest payments will continue to be due by the General Fund until this obligation is paid in full.

Attachment 1 – Budget Revision

BUDGET REVISION

PAS DOCUMENT NO. _____

POST DATE:

| DEPT NO. | DOC TYPE | Total \$ Amount | TOTAL LINES |
|----------|----------|-----------------|-------------|
| 12 | BR | 6,000,000.00 | 7 |

- Cash Transfer Required
- Reserve Cancellation Required
Fund 100 GL 2420/SubGL 652000
- Establish Reserve Required

10/20/15  Auditor-Controller
 County Executive
 Board of Supervisors

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| ESTIMATED REVENUE ADJUSTMENT | | | | | | | | | | APPROPRIATION ADJUSTMENT | | | | | | | | | | | |
|------------------------------|-----|-----|------|----------|--------|-------|-------|-------|-----------|--------------------------|----------|-----|-----|------|----------|--------|-------|-------|-------|-----------|--------------|
| DEPT NO. | T/C | Rev | Fund | Sub Fund | OCA | PCA | OBJ 3 | PROJ. | PROJ. DTL | AMOUNT | DEPT NO. | T/C | Rev | Fund | Sub Fund | OCA | PCA | OBJ 3 | PROJ. | PROJ. DTL | AMOUNT |
| 12 | 006 | | 502 | 6 | 996806 | 96806 | 8780 | | | 114,021.00 | 10 | 014 | | 100 | | 999992 | | 3780 | | | 2,000,000.00 |
| 12 | 006 | | 502 | 8 | 996808 | 96808 | 8780 | | | 295,840.00 | 12 | 014 | | 502 | 6 | 996806 | 96806 | 3803 | | | 114,021.00 |
| 12 | 006 | | 502 | 24 | 996824 | 96824 | 8780 | | | 1,590,139.00 | 12 | 014 | | 502 | 8 | 996808 | 96808 | 3803 | | | 295,840.00 |
| | | | | | | | | | | | 12 | 014 | | 502 | 24 | 996824 | 96824 | 3803 | | | 1,590,139.00 |
| TOTAL | | | | | | | | | | TOTAL | | | | | | | | | | | |
| | | | | | | | | | | 2015 OCT 20 AM 9:52 | | | | | | | | | | | |
| | | | | | | | | | | PD AUDITOR-CONTROLLER | | | | | | | | | | | |
| TOTAL | | | | | | | | | | TOTAL | | | | | | | | | | | |
| | | | | | | | | | | 4,000,000.00 | | | | | | | | | | | |

REASON FOR REVISION: BUDGET REVISION TO CANCEL GENERAL FUND RESERVES AND INCREASE APPROPRIATIONS IN CSA 28 Z6 SHERIDAN SEWER,

Z8 SHERIDAN WATER, AND Z24 APPLGATE SEWER FOR ANNUAL SEWER LOAN REPAYMENT TO THE SOLID WASTE FUND.

Prepared by Valerie Bayne Ext 6803
 Department Head Valerie Bayne
 Board of Supervisors _____

Date: 11/3/15
 Page: _____

Budget Revision # _____ FOR INDIVIDUAL DEPT USE