MEMORANDUM
OFFICE OF THE
BOARD OF SUPERVISORS
COUNTY OF PLACER

TO: Honorable Board of Supervisors

FROM: Robert M. Weygandt, Supervisor District 2

DATE: February 28, 2012

SUBJECT: Request for Board Intention to Direct MFP Revenues to Fund Wastewater Regionalization

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Action Requested:
Request the Board state their intent to direct approximately 10% (or no more than $35 million in present value or $60 million in actual dollars over 30 years) of Middle Fork Hydroelectric Project (MFP) revenues to complete a regional solution for treating wastewater in Western Placer County.

This investment makes possible the ability to stabilize and reduce sewer rates in the county's Sewer Maintenance District 1 (SMD1) service area and stabilize sewer rates in the City of Auburn's service areas by funding capital costs related to regionalization. Specifically, using the attached assumptions and current rate calculations, City of Auburn rate payers would not incur a rate increase and SMD1 rate payers would enjoy an initial reduction of approximately $10 per month. Over the past 20 years, Placer County sewer rates at non-regional plants have increased substantially more than at regional plants. With a continuation of this historical trend, long-term rates will be significantly cheaper with the regional solution.

Direct staff to return to the Board on March 13, 2012 with next steps should the Board decide to establish such policy direction.

Background:
On December 6, 2011, the Board of Supervisors unanimously voted to "direct staff to proceed with a regional solution for SMD 1 compliance and return to the Board no later than March 13, 2012 with recommendations for a final Board decision."

On January 23, 2012, the Auburn City Council unanimously adopted a resolution stating their desire "to participate with the County and the City of Lincoln to further evaluate this regional solution. As a result, we direct staff to participate in all relevant discussions and conduct analysis including but not limited to details about County funding support for the City per the direction of the Board of Supervisors on December 6, 2011. The Council will return in early March 2012 to consider participation in this regional solution." Auburn City Council input during this meeting indicated that the Council specifically expects their staff to return with information regarding the potential use of MFP revenues to stabilize Auburn's sewer rates.

On November 8, 2011, a presentation to the Board of Supervisors included an estimated projection of future MFP revenues (Attachment A). The projection outlined the percentages of the estimated net present value of the MFP revenues ($348.5 million) over the next 30 years. Approximately ten percent of the projected net present value of the MFP revenues is $35 million.

County staff has developed projections for the additional amount of debt and debt service that would be incurred to finance regional capital costs for the City of Auburn that are currently unfunded (Attachment B) and would provide up to the remaining balance of the Middle Fork funds for SMD1 (Attachment C).

The projections provided in Attachments B and C show the annual debt service and net present value of the amount needed to fund the capital costs for SMD1 and for the City of Auburn service areas. As summarized in the table below, the annual debt service for funding Auburn regionalization is $1.2 million and the annual debt service for SMD1 regionalization (before subsidy) is estimated to be $2.85 million for a total of $4.05 million annually. The net present value of the amount needed for Auburn is $16.5 million ($28 million actual dollars), and the net present value of the amount needed for SMD1 is $18.5 million ($32 million actual dollars) for a total net present value of $35 million ($60 million actual dollars).

Summary of Annual Debt Service and Subsidy

	Annual Debt Service	Annual Subsidy	Subsidy (NPV)	Subsidy (Actual)
City of Auburn	$1,200,000	$1,000,000	$16,500,000	$28,000,000
SMD #1	$2,850,000	$1,050,000	$18,500,000	$32,000,000
	$4,050,000	$2,050,000	$35,000,000	$60,000,000

Board Policy for Spending MFP Revenues:

Also on November 8, 2011 the Board of Supervisors discussed the financial management of the MFP revenues. The Board unanimously voted to affirm the existing Placer County Budget and Financial Policy as a basis for proceeding with development of the formal policy document and as well as the incorporation of the below concepts.

- Projects that have significant countywide or regional benefits (i.e. benefits two or more jurisdictions);
- Project/program is consistent with existing plans and priorities identified by the Board of Supervisors, including fiscal policies;
- Priority will be given to projects that will maximize long-term net revenues to the County, those that leverage other available dollars or that provide for efficiencies that result in long term savings (may include loans or match programs);
- Project/program does not supplant existing dedications for infrastructure or programs and/or there is an absence of outside funding sources to implement;
- Project reflects costs related to regulatory constraints outside of jurisdiction's control and other funding resources available to meet the regulatory framework.

In addition to the benefit of funding regional capital costs with of MFP revenues, it is worthy to note the history and the long term environmental and cost benefits of regionalization.

Historical Highlights:

- Residents of western Placer County are served by seven separate wastewater treatment agencies that provide wastewater treatment services to approximately 200,000 residents.
- In 1994 the County updated its General Plan. It's here that county policy to regionalize wastewater treatment began to take shape. Including such policies as 4.D.6, "The County shall promote functional consolidation of wastewater facilities."
- In 1998 the County recognized the need to sharpen its focus and commissioned a study to evaluate available options to meet the County's increased wastewater treatment needs. This study recommended that the County pursue a regionalized wastewater treatment plan to include: construction of two new regional wastewater treatment plants, upgrade of an existing wastewater treatment facility, and closure of six small, inefficient facilities.
- In 1999 the Board of Supervisors unanimously approved a JPA between the County of Placer, the Newcastle Sanitary District, the South Placer Municipal Utility District, and the Cities of Auburn and Lincoln, (the Parties) establishing the Regional Wastewater Conveyance and Regional Wastewater Treatment and Reclamation Facility Authority to help advance such projects.
- In 2000 this JPA, now called the Placer Nevada Wastewater Authority (PNWA) convened. The County of Placer and the Cities of Auburn and Lincoln remain member agencies. The PNWA has proven to be successful with efforts contributing to the successful construction of a regional wastewater treatment and reclamation facility, the decommissioning of two inefficient facilities, installation of the Bickford Ranch regional pipeline and securing $10 million in grants.
- In 2004 the City of Lincoln's new $85 million Wastewater Treatment and Reclamation Facility opens for business.
- In 2003-2006 the City of Lincoln installs oversized pipes for the regional sewer project and adds additional connections.
- In 2007 the Bickford Ranch pipeline is constructed adding on another 2.5 miles onto the regional pipeline in the ground. Thirty to forty percent of the regional pipeline has now been constructed and is in the ground awaiting completion of the remaining pipeline.
- In 2009 the Board of Supervisors unanimously confirmed their commitment to regional sewer and agreed to concurrently study the upgrade project in the event regional was unsuccessful.

Long-term Environmental and Cost Benefits:

- The completion of a regional project would allow the participating entities to achieve and better comply with increasingly stringent water quality standards and treatment/disposal criteria.
- All taxpayers in California face increasing regulation and the resulting cost. Such consistent increase in sewer rates reveal the high cost of regulatory compliance. This trend is expected to continue with future cost increases best positioned to be offset with a regional solution.

- A regional wastewater treatment solution to SMD#1 regulatory compliance provides greater habitat preservation and enhancement of current habitat.
- A regional wastewater treatment solution significantly reduces the risk of sewage contamination in sensitive spawning reaches of Auburn Ravine and Coon Creek.
- The County has received approximately $10 million in grant funding from the US Environmental Protection Agency and the Army Corp of Engineers over the past ten years specifically to fund efforts related to regionalizing wastewater treatment.
- Over the past 15 years the County has spent over $10 million on efforts related to regionalization of wastewater treatment particularly for SMD#1.
- Repayment on SRF financing of a regional wastewater treatment solution is aligned with receipt of MFP revenues; as it is expected that the County will begin to receive MFP revenues in 2015, while SRF loan repayments on a regional wastewater treatment loan are expected to begin two years later in 2017.
- The use of MFP revenues for a regional wastewater treatment project will provide benefit to county residents across several jurisdictions and is a perfect example of applying these revenues for county-wide benefit.
- The use of MFP revenues for the regional wastewater treatment project is consistent with the County's policy of spending one-time revenues on one-time expenditures.
- Regionalization of sewage treatment is consistent with the County General Plan and the Placer County Conservation Plan.
- A resolution adopted by the State Water Quality Control Board on February 7, 2012 included the statement: "Regionalization achieves efficiency and better water quality by reducing the number of individual treatment and collection systems. Regionalization can also result in lower wastewater costs because multiple agencies are sharing the infrastructure and operation costs."

Assumptions used in developing Attachment B and C information were done with input from both City of Auburn and Lincoln staff.

The assumptions include:

- Auburn participation in the regional project
- 30 year SRF funding at the current rate of 2.2%
- Principal forgiveness of $7.5 million principal and related interest on SRF loan repayment for SMD1
- Principal forgiveness of $1.675 million principal and related interest on SRF loan repayment for the City of Auburn
- Lincoln's capital cost estimates updated February 14, 2011 for pipeline construction and treatment plant expansion: County $66,010,000, and Auburn $28,700,000
- Subject to approval by the City Council, contributions from the City of Auburn are assumed to be approximately $2.245 million
- Subject to approval by the City Counsel, annual contributions of approximately $200,000 (increasing 2% annually) from the City of Auburn generated by reduced treatment plant costs

- The City of Auburn may be able to make additional contributions subject to further discussion with Auburn officials.
- Staff is in the process of determining the amount of contributions, if any, from SMD1 reserves for upgrade and expansion that can be applied to the regional project.

Conclusion/Recommendation:
MFP revenues are general fund revenues with regional application. Use of MFP revenues to fund capital costs for the City of Auburn and SMD1 are an appropriate application of MFP revenues which will provide benefits to a substantial number of constituents across several jurisdictions within the County. I respectfully request the Board to state it's intent to direct an amount not to exceed $35 million ($60 million in actual dollars) or approximately 10% of future Middle Fork Hydroelectric Project (MFP) revenues to assist with funding capital costs of regionalization for SMD#1 and City of Auburn wastewater treatment and direct staff to return to the Board on March 13, 2012 with next steps.

Exhibit A

Middle Fork American River Hydroelectric Project

Revenue Net Present Value Estimate

11/8/2011

This estimate is based on the most recent data available. As a power sale contract has not been finalized and other variables are estimated based on ranges of probability. Substantial adjustments to the net present value of future revenues are likely as date is further refined and defined and the revenue projection model is more mature. It is important to recognize the volatility of the future reveneus as reflected on the previous page. It is possible to have years where no revenue is available due to drought conditions or outages.

Net Present Value of Total Revenues: **$348,521,617**

Percent	Percentage of NPV
5%	17,426,081
10%	34,852,162
15%	52,278,243
20%	69,704,323
25%	87,130,404
30%	104,556,485
35%	121,982,566
40%	139,408,647
45%	156,834,728
50%	174,260,809
55%	191,686,889
60%	209,112,970
65%	226,539,051
70%	243,965,132
75%	261,391,213
80%	278,817,294
85%	296,243,374
90%	313,669,455
95%	331,095,536

Exhibit B

City of Auburn
Preliminary SRF Loan Amortizationwith County Cost Subsidy
February 22, 2012

	Principal	Rate	Term	Payment
Project Cost for Auburn per Lincoln Proposal	$ 28,700,000			
Cash Contribution from Auburn	(2,245,000)			
Estimated Accrued Interest from SRF Draw Period	1,300,000			
SRF Principal Forgiveness	(1,675,000)			
Auburn SRF Loan Beginning Balance	**$ 26,080,000**	**2.20%**	**30**	**(1,196,736)**

Year	SRF Beginning Balance	Annual Debt Service Payment	Annual Contribution to Debt Service From Auburn	Annual Debt Service Subsidy to Auburn From County	County Subsidy to Auburn/EDU/Month (Stabilizes Current Rate, No Rate Reduction)	PV of Annual Debt Service Subsidy to Auburn From County
	$ 26,080,000					
2017	25,457,024	(1,196,736)	(200,000)	(996,736)	(12.12)	(859,794)
2018	24,820,342	(1,196,736)	(204,000)	(992,736)	(12.07)	(831,401)
2019	24,169,653	(1,196,736)	(208,080)	(988,656)	(12.02)	(803,868)
2020	23,504,648	(1,196,736)	(212,242)	(984,495)	(11.97)	(777,169)
2021	22,825,014	(1,196,736)	(216,486)	(980,250)	(11.92)	(751,280)
2022	22,130,428	(1,196,736)	(220,816)	(975,920)	(11.87)	(726,176)
2023	21,420,561	(1,196,736)	(225,232)	(971,504)	(11.82)	(701,835)
2024	20,695,077	(1,196,736)	(229,737)	(966,999)	(11.76)	(678,234)
2025	19,953,632	(1,196,736)	(234,332)	(962,405)	(11.70)	(655,351)
2026	19,195,875	(1,196,736)	(239,019)	(957,718)	(11.65)	(633,164)
2027	18,421,448	(1,196,736)	(243,799)	(952,938)	(11.59)	(611,654)
2028	17,629,983	(1,196,736)	(248,675)	(948,062)	(11.53)	(590,801)
2029	16,821,107	(1,196,736)	(253,648)	(943,088)	(11.47)	(570,584)
2030	15,994,434	(1,196,736)	(258,721)	(938,015)	(11.41)	(550,985)
2031	15,149,576	(1,196,736)	(263,896)	(932,841)	(11.35)	(531,986)
2032	14,286,130	(1,196,736)	(269,174)	(927,563)	(11.28)	(513,569)
2033	13,403,688	(1,196,736)	(274,557)	(922,179)	(11.22)	(495,717)
2034	12,501,833	(1,196,736)	(280,048)	(916,688)	(11.15)	(478,413)
2035	11,580,137	(1,196,736)	(285,649)	(911,087)	(11.08)	(461,640)
2036	10,638,163	(1,196,736)	(291,362)	(905,374)	(11.01)	(445,384)
2037	9,675,466	(1,196,736)	(297,189)	(899,547)	(10.94)	(429,629)
2038	8,691,590	(1,196,736)	(303,133)	(893,603)	(10.87)	(414,359)
2039	7,686,068	(1,196,736)	(309,196)	(887,541)	(10.79)	(399,561)
2040	6,658,425	(1,196,736)	(315,380)	(881,357)	(10.72)	(385,220)
2041	5,608,174	(1,196,736)	(321,687)	(875,049)	(10.64)	(371,324)
2042	4,534,818	(1,196,736)	(328,121)	(868,615)	(10.56)	(357,858)
2043	3,437,847	(1,196,736)	(334,684)	(862,053)	(10.48)	(344,810)
2044	2,316,743	(1,196,736)	(341,377)	(855,359)	(10.40)	(332,168)
2045	1,170,975	(1,196,736)	(348,205)	(848,532)	(10.32)	(319,919)
2046	0	(1,196,736)	(355,169)	(841,568)	(10.24)	(308,052)
		$ (35,902,095)	**$ (8,113,616)**	**$ (27,788,479)**		**$ (16,331,905)**

Notes:

Per EDU Subsidy is based on current level of 6,852 units
Stabilization of current rate applies only to the effect on rates of financing capital costs of regionaliztion.
Auburn will be responsible for determining their rates.
Discount rate for subsidy present value is assumed at 3.0%

Exhibit C

SMD #1
Preliminary SRF Loan Amortization with County Cost Subsidy
February 22, 2012

	Principal	Rate	Term	Payment
Project Cost for SMD #1 per Lincoln Proposal	**$ 66,010,000**			
Interest from SRF Draw Period	3,000,000			
SRF Principal Forgiveness	(7,500,000)			
SMD #1 SRF Loan Beginning Balance	**$ 61,510,000**	**2.20%**	**30**	**(2,822,518)**

Year	SRF Loan Balance	Annual Debt Service Payment	Annual Contribution to Debt Service From SMD #1	Annual Debt Service Subsidy toSMD #1 From County	County Subsidy to SMD #1/ EDU/Month (Rate Reduction)	PV of Annual Debt Service Subsidy to SMD #1 From County
	$61,510,000					
2017	60,040,702	(2,822,518)	(1,772,518)	(1,050,000)	(10.32)	(905,739)
2018	58,539,080	(2,822,518)	(1,772,518)	(1,050,000)	(10.17)	(879,358)
2019	57,004,422	(2,822,518)	(1,772,518)	(1,050,000)	(10.03)	(853,746)
2020	55,436,002	(2,822,518)	(1,772,518)	(1,050,000)	(9.90)	(828,880)
2021	53,833,076	(2,822,518)	(1,772,518)	(1,050,000)	(9.77)	(804,738)
2022	52,194,886	(2,822,518)	(1,772,518)	(1,050,000)	(9.64)	(781,299)
2023	50,520,656	(2,822,518)	(1,772,518)	(1,050,000)	(9.51)	(758,542)
2024	48,809,592	(2,822,518)	(1,772,518)	(1,050,000)	(9.39)	(736,449)
2025	47,060,886	(2,822,518)	(1,772,518)	(1,050,000)	(9.27)	(714,999)
2026	45,273,708	(2,822,518)	(1,772,518)	(1,050,000)	(9.15)	(694,174)
2027	43,447,211	(2,822,518)	(1,772,518)	(1,050,000)	(9.04)	(673,955)
2028	41,580,532	(2,822,518)	(1,772,518)	(1,050,000)	(8.93)	(654,325)
2029	39,672,786	(2,822,518)	(1,772,518)	(1,050,000)	(8.82)	(635,267)
2030	37,723,070	(2,822,518)	(1,772,518)	(1,050,000)	(8.72)	(616,764)
2031	35,730,460	(2,822,518)	(1,772,518)	(1,050,000)	(8.61)	(598,800)
2032	33,694,012	(2,822,518)	(1,772,518)	(1,050,000)	(8.51)	(581,360)
2033	31,612,763	(2,822,518)	(1,772,518)	(1,050,000)	(8.41)	(564,427)
2034	29,485,726	(2,822,518)	(1,772,518)	(1,050,000)	(8.32)	(547,987)
2035	27,311,894	(2,822,518)	(1,772,518)	(1,050,000)	(8.22)	(532,026)
2036	25,090,238	(2,822,518)	(1,772,518)	(1,050,000)	(8.13)	(516,530)
2037	22,819,706	(2,822,518)	(1,772,518)	(1,050,000)	(8.04)	(501,486)
2038	20,499,221	(2,822,518)	(1,772,518)	(1,050,000)	(7.95)	(486,879)
2039	18,127,687	(2,822,518)	(1,772,518)	(1,050,000)	(7.87)	(472,699)
2040	15,703,978	(2,822,518)	(1,772,518)	(1,050,000)	(7.78)	(458,931)
2041	13,226,948	(2,822,518)	(1,772,518)	(1,050,000)	(7.70)	(445,564)
2042	10,695,423	(2,822,518)	(1,772,518)	(1,050,000)	(7.62)	(432,586)
2043	8,108,204	(2,822,518)	(1,772,518)	(1,050,000)	(7.54)	(419,987)
2044	5,464,067	(2,822,518)	(1,772,518)	(1,050,000)	(7.47)	(407,754)
2045	2,761,759	(2,822,518)	(1,772,518)	(1,050,000)	(7.39)	(395,878)
2046	0	(2,822,518)	(1,772,518)	(1,050,000)	(7.32)	(384,347)
Totals:		**$ (84,675,531)**	**$ (53,175,531)**	**$ (31,500,000)**		**$ (18,285,475)**

Notes:

Subsidy per EDU based on 8,480 units in 2017 and 120 new units annually thereafter (annual growth based on long-term actual and estimated future growth rates).

Rate per EDU represents a portion of the capital cost that would occur as a result of joining the Regional Project.

SMD #1 will be responsible for determining their rates.

Discount rate for subsidy present value is assumed at 3.0% (estimated long-term inflation for power generation revenue)

Initial Connection fee for Regional is estimated at $4,575 for conveyance increasing with inflation (assumed at 2% for projection)

Assumes County spreads subsidy over existing and future users and allocates connection fee revenue to reduce debt payment