



# SAN LUIS OBISPO COUNTY DEPARTMENT OF PUBLIC WORKS

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## MEMORANDUM

**TO:** Michael Thomas, Assistant Executive Officer  
Central Coast Regional Water Board

**FROM:** Paavo Ogren, Deputy Director of Public Works *PAO*

**VIA:** Noel King, Director of Public Works *NK*

**DATE:** August 27, 2007

**SUBJECT:** Los Osos Wastewater Project, Status of Project Efforts

This memorandum is intended to provide a wastewater project update to the Regional Water Board (RWB) on the work efforts by the County of San Luis accomplished subsequent to the status report provided to the RWB on July 6, 2007 in Watsonville. First, the following is a summary of that previous status report.

### Summary of Prior Review – July 6, 2007 (Watsonville)

Date	Action
June 19, 2006	Board of Supervisors approved policies covering AB 2701 (Legislative Elements) and initial project efforts (Project Strategies) leading to a Prop 218 assessment proposal for Summer/Fall 2007.
October 3, 2006	Board of Supervisors approved \$2.0 million project budget
December 12, 2006	Board of Supervisors approved initial consultant contracts
January 1, 2007	AB 2701 Effective Date – work begins
March 20, 2007	Board of Supervisors appoints Technical Advisory Committee (Note: From April 2nd through the end of August 2007, the TAC scheduled approximately 25 public meetings and approximately 75 separate working group meetings – 25 each for 3 working groups).
March 26, 2007	Project Team releases Rough Screening Report
March 27, 2007	Board of Supervisors Certifies a Level III Water Resource Level of Severity for Los Osos
May 30, 2007	Project Team releases public draft Fine Screening Report
June – Mid July 2007	Period for public review and comment on draft Fine Screening Report

Board of Supervisors items on Los Osos are on the following project website link:  
[http://www.slocounty.ca.gov/PW/LOWWP/BOS\\_Items.htm](http://www.slocounty.ca.gov/PW/LOWWP/BOS_Items.htm)

At the time of the status report to the RWB in July, the public review and comment period for the draft Fine Screening Report of project options was nearing its end. Attachment "A" provides excerpts from the report presented in July to the RWB on the scope and purpose of the County's project screening analysis and other project topics.

In pursuing implementation of a community wastewater project for Los Osos under the authority of Assembly Bill 2701, several actions have been approved by the County Board of Supervisors since the July update to the RWB. The following is a list of those significant action items:

<b>Date</b>	<b>Board of Supervisors Action Item</b>
July 17, 2007	Approved Policies regarding Proposition 218 Property Owner votes (ballots) – Attachment "C "
July 24, 2007	Board of Supervisors approves water resource actions – Planning Department; Resource Management System
August 7, 2007	Considered status of Coastal Development Permit for the (LOCSD) project and directed staff to <u>not</u> pursue an extension
August 14, 2007	<ul style="list-style-type: none"> <li>✓ Considered the Project Screening Analysis</li> <li>✓ Considered the Pro/Con analysis by the Community Technical Advisory Committee</li> <li>✓ Approved Project Selection Strategies – (Attachment "D")</li> </ul>
August 21, 2007	<ul style="list-style-type: none"> <li>✓ Approved Resolution establishing Boundary Map of the County Assessment District</li> <li>✓ Approved Resolution of Intention to Undertake Proceedings (Municipal Improvement Act of 1913 etc...)</li> </ul>
August 28, 2007 (Pending)	<u>Staff Recommendations:</u> <ul style="list-style-type: none"> <li>✓ Approve Resolution Preliminary Approving the (Assessment) Engineers' Report and Set October 23, 2007 as date of Protest Hearing</li> <li>✓ Approve the Form of the Prop 218 Ballots and Ballot Package</li> <li>✓ Instruct Clerk of the Board to Initiate Ballot Proceedings</li> </ul>

Current County efforts are focused on the property owner ballot proceedings, which must comply with California Government Code Section 53753 including a minimum 45 day mail-in ballot period. It is important to recognize that the Prop 218 decision is a protest ballot proceeding on proposed assessments to fund a wastewater project, without imposing requirements on the County specifying which technologies or sites must be utilized by the County in developing a community wastewater project. Simply stated, the Prop 218 assessment proceedings reflect a property owner "*funding decision*" and not a "*technology or site-selection decision*."

### Project Schedule

The project's current schedule (leading to the Prop 218 protest hearing) has been revised to reflect that the 45 day minimum mail-in ballot period will conclude with the protest hearing held by the Board of Supervisors on October 23, 2007. Unofficial results may be known as soon as October 25, 2007 with official results confirmed soon thereafter. Previously, we anticipated that the protest hearing would be held November

20, 2007, with official results in December 2007. The ability to hold the protest hearing sooner than anticipated is possible because staff of the Public Works and County Clerks offices were able to coordinate ballot development with assessment engineering efforts and the concurrent work efforts shortened the overall schedule.

Pursuant to AB 2701, if property owners support the Prop 218 assessments, County efforts will continue; if not, then AB 2701 directs that the authority over community wastewater efforts will revert to the Los Osos Community Services District (LOCSD). The County's draft implementation schedule after the Prop 218 proceedings is illustrated in Attachment "B." In addition to a draft schedule, a "project flowchart" (see Attachment "E") has been developed illustrating tasks association with technology and site selection, including environmental review and permitting, for the remainder of 2007 and through 2008.

If the project efforts can be implemented within the draft schedule, construction will commence in early 2010, or about 3 years after the effective date of AB 2701. In contrast, the LOCSD efforts took nearly 6.5 years from their inception until they commenced construction, and the previous County effort took approximately 15 years and was still awaiting a Coastal Development Permit at the time that the LOCSD was approved by Los Osos voters.

The schedule also assumes no delays from litigation. Project implementation may take longer than illustrated if litigation occurs; with additional costs to the project from any such litigation and from the inflationary impact of delays. It is our hope that opportunities for litigation will be reduced based on the numerous issues previously disputed before, considered by, and resolved through the courts. Nevertheless, it should be recognized that the County has pursued some project efforts different from previous efforts and that some individuals may, in efforts to delay a project from moving forward, choose litigious paths.

### Summary of Public Comments

On August 14, 2007, a report on public comments by John Waddell P.E. totaling 106 pages was submitted to the Board of Supervisors. The comments varied and many were very detail oriented – even beyond the intent of the Fine Screening Report. Many of the comments addressed the County's adopted strategies (June 19, 2006) which are the basis for current work efforts. Others addressed the Fine Screening Report's contents and/or perceived omissions. Overall, however, the substantive assumptions and the scope of the Fine Screening Report clearly meet its two purposes (Attachment "A").

Overall, the following is a list of some of the significant public comments from the community – replies are provided in Attachment "F":

1. That project options are not affordable.

2. That the County should base the Prop 218 proposed assessments on specific technologies and sites.
3. That various project technologies or sites are unacceptable.
4. That certain technologies, sites or approaches to project implementation are not adequately considered in the County's efforts leading to the Prop 218 ballots.
5. That the Board of Supervisors should not have final authority on selecting project technologies and sites.
6. That the Proposition 218 Ballots should be secret and confidential – that they should not be public records.
7. That grants from federal and state agencies should be known and approved prior to the County's assessment proposal pursuant to Prop 218.
8. That maximum project costs should be established prior to the County's assessment proposal pursuant to Prop 218.
9. That the County should have pursued extension of the Coastal Development Permit issued for the Los Osos Community Services District's wastewater project.
10. That the County should allow the owners of undeveloped properties to cast ballots (i.e. that assessments should also be proposed on undeveloped properties at this time).
11. That property owners and/or residents outside of the prohibition zone (which some claim was improperly determined) should help pay for project costs (i.e. that the entire community should pay for project costs and not just those inside the prohibition zone).
12. That the Fine Screening Report is omitting evaluation of "on-site" solutions.

See Attachment "F" for replies.

### Fiscal Impacts

Preliminary fiscal analysis on the project has recently been completed with preliminary estimates provided to the Board of Supervisors on August 14, 2007. Attachment "G" is the "Financial Considerations" section of the Board of Supervisors agenda report for that date. The preliminary estimates are currently being updated, and augmented, to reflect revised estimates. For example, minor assumptions are being refined, but the overall conclusions that can be drawn at this time remain the same. First, the STEP collection alternative appears based on the County's independent analysis, to be cost-competitive. Second, monthly costs for a single-family residence may exceed \$200 excluding private

on-lot costs such as abandonment of existing septic tanks. Without external grant assistance, the lowest cost option might keep monthly costs closer to \$175, excluding on-lot costs. In a best case scenario, with grants and relief of the \$6.5 million State Revolving Fund direction from the Governor, monthly costs could possibly be near \$125. All scenarios exceed affordability standards and on August 14, 2007 the Board of Supervisors adopted additional strategies to help mitigate affordability impacts (Attachment "D").

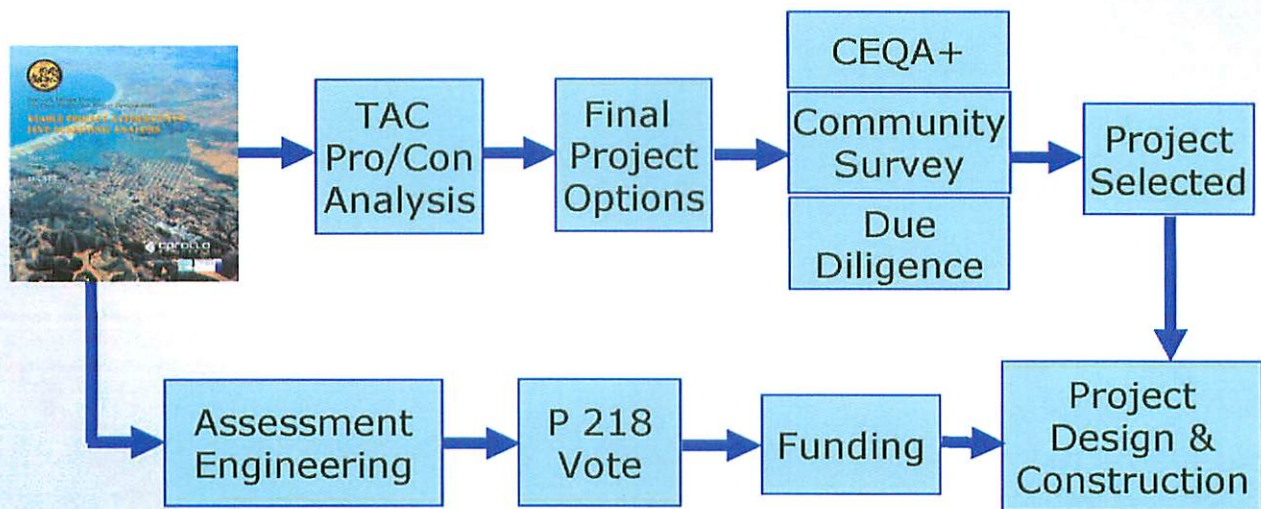
## Conclusion

The County continues to approach its wastewater project efforts in a multi-disciplinary manner. The Project Team includes environmental and civil engineers, environmental resource specialists, hydrogeologists, assessment engineers, financial specialists, attorneys, an archeologist and water resource professionals. The Clerk of the Board of Supervisors is conducting the Prop 218 protest ballot proceedings. Contacts with other agencies and non-governmental organizations are continuous and on-going. Letters of support from many organizations have been received.

**Attachment "A"**  
Excerpts from the report to the Regional Water Board  
Presented July 6, 2007 – Watsonville California

Overview of the County's Fine Screening Report

## The Fine Screening Report Will Be the Basis for Parallel Efforts



The Fine Screening Report is intended for dual specific uses.

First, the Fine Screening Report is the preliminary engineering efforts by the County leading to project selection decisions. Ultimately, the project selection is concluded with the "Notice of Determination" or "NOD," which is a legally required action of the County pursuant to California Environmental Quality Act (CEQA). Conducting an objective and impartial evaluation is important to the validity of the current County efforts leading to project selection. The NOD creates a 30 day period if persons choose to litigate the County's CEQA efforts. The Fine Screening Report initiates project selection efforts but does not conclude project selection efforts. Several additional steps are necessary to comply with environmental and permitting laws and regulations, including the preparation of appropriate environmental reports. Final project selection is anticipated in 2008 after the additional efforts identified in the Illustration above are complete.

Second, the Fine Screening Report is useful because it provides cost estimates that are needed for developing “special benefit” estimates. Special benefit analysis is required pursuant to Prop 218 and is a feature of an Assessment Engineers Report. **Special benefit analysis is important because it determines the maximum amount of the proposed assessments that, if approved, would act as liens on properties within the community.** The proposed assessments also determine the “weighing” of property owner ballots, with each property’s ballots weighed in proportion to the assessments proposed on that property.

The Fine Screening report does not indicate how cost estimates translate into special benefits. That analysis is instead a function of the assessment engineer’s report.

Article XIID states that a “Special Benefit” means a particular and distinct benefit over and above general benefits conferred on real property located in the district or to the public at large. General enhancement of property value does not constitute “special benefit.”

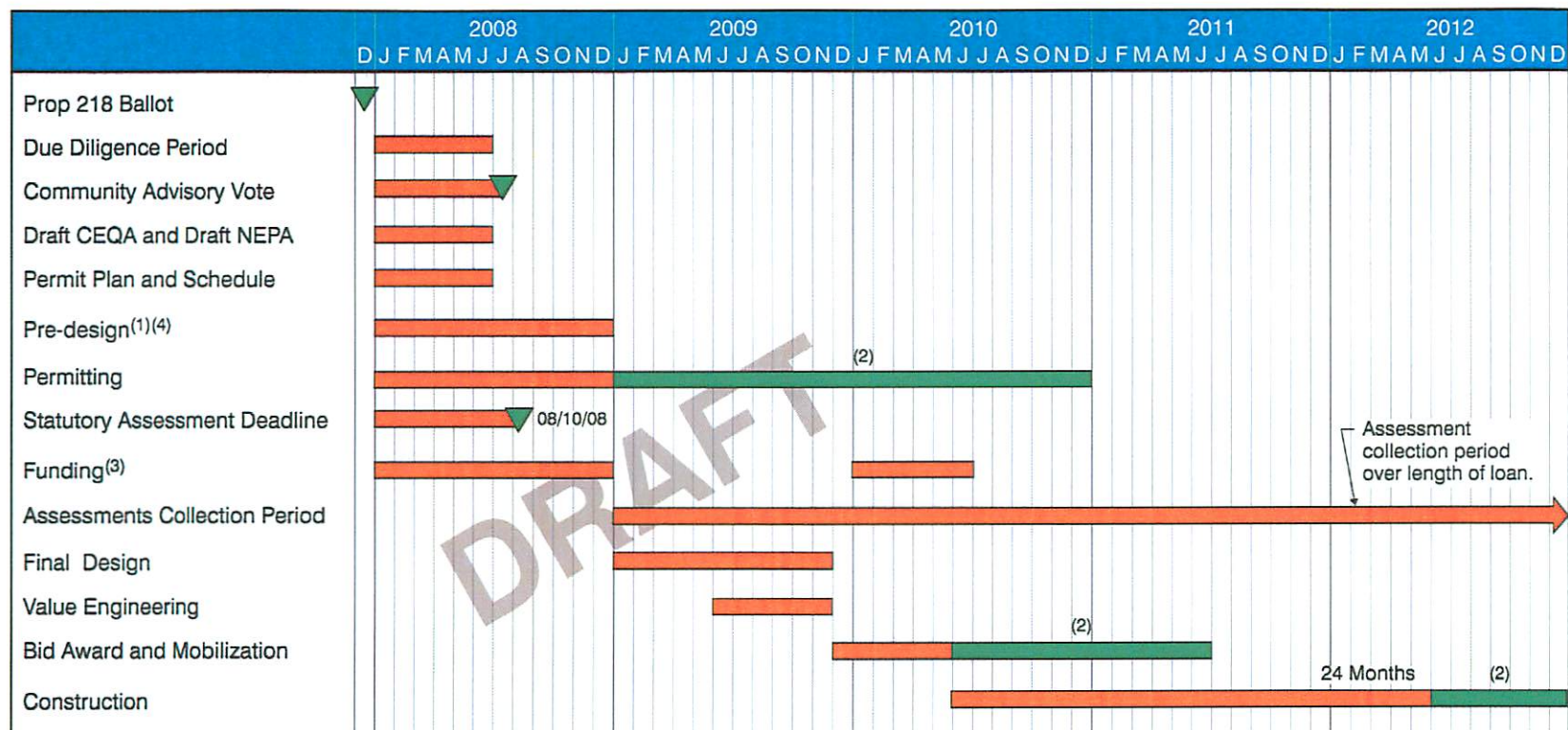
The Fine Screening Report evaluates the following five components of a community wastewater project:

1. Treatment Plant Sites
2. Treatment Technology Options
3. Collection System Options
4. Effluent Disposal/Reuse Options
5. Solids Disposal/Handling Options

**Other Topics Reviewed in July status report to RWB**

- ✓ Proposition 218 Proceedings
- ✓ Compliance with the California Environmental Quality Act (CEQA)
- ✓ Due Diligence Pursuant to AB 2701
- ✓ The Community Survey
- ✓ Significant Project Issues
- ✓ Sea water intrusion
- ✓ Groundwater litigation
- ✓ Goals
- ✓ Compliance with conditions of the Coastal Development Permit (CDP)
- ✓ Water Management Plan
- ✓ Land Use Planning
- ✓ Habitat Conservation Plan (HCP)
- ✓ Sustainability
- ✓ Assembly Bill 32 to help us develop a scope of work for evaluating sustainability.
- ✓ Affordability
- ✓ Methods of Project Delivery
- ✓ Household Impacts

# Attachment "B" Draft Schedule



**NOTES:**

1. Early predesign effort to support EIR, permitting and funding including interactions with water purveyors.
2. Permitting could be as short as 12 months or as long as 36 months to complete.  
Bid, award and construction would **not** take place until permitting task is complete.
3. Funding may take place in more than one phase.
4. DOES NOT include potential litigation.

**Figure ES.3**  
**DRAFT PROJECT SCHEDULE<sup>(4)</sup>**  
LOS OSOS WASTEWATER PROJECT DEVELOPMENT  
SAN LUIS OBISPO COUNTY





# Attachment "C"

Board of Supervisors Agenda Report Exhibit "A" (Approved July 17, 2007)  
Los Osos Wastewater Project  
Proposition 218 Property Owner Votes

1. That the Proposition 218 vote required by AB 2701 is conducted for developed parcels subject to, or threatened with, regulatory enforcement action by the Central Coast Regional Water Quality Control Board (Regional Water Board).
2. Staff shall prepare a report on options for undeveloped properties, both within the boundaries of the "prohibition zone" developed by the Regional Water Board, as well as undeveloped parcels outside of the prohibition zone but within the Los Osos Urban Reserve line, including but not limited to the following considerations:
  - a. Wastewater infrastructure needed for those undeveloped parcels before they can be developed.
  - b. Water supply infrastructure needed for those undeveloped parcels before they can be developed, which shall include consultation and possible development of conceptual terms of agreements with the water purveyors of Los Osos.
  - c. Habitat Conservation Resource issues that may need to be resolved before those undeveloped parcels can be developed.
  - d. General Plan issues that may need to be resolved before those undeveloped properties can be developed.
  - e. Options for a second Prop 218 vote for owners of undeveloped parcels, including but not limited to the following:
    - i. "Availability" assessments pursuant to the Uniform Standby Charge Procedures Act (Chapter 12.4 (commencing with Section 54984) of Part 1 of Division 2 of Title 5).
    - ii. A "resource project" that would cover proportional special benefits for those undeveloped parcels, including wastewater infrastructure, water supply infrastructure, and/or habitat conservation resources that may be needed for those undeveloped parcels before they can develop.
  - f. Options for development of wastewater and water supply infrastructure capacity for undeveloped parcels, and provisions for habitat conservation, with the imposition of development related fees which would be paid at the time of the development of those undeveloped parcels in lieu of a second Prop 218 vote.
  - g. Other considerations that may be identified during the preparation of the report.

# Attachment "D"

Los Osos Wastewater Project  
Project Selection Strategies  
(Board of Supervisors Adopted August 14, 2007)

- A. Utilization of Design-Build methods of public contracting, including the following:
  - a. Special legislation, that is project-specific, to provide the County with the greatest flexibility in implementing design-build public contracting in accordance with State Water Board / State Revolving Fund guidelines on design-build and the Design Build Institute of American (DBIA) manual.
  - b. Under existing statutory authorizations:
    - i. Utilization of Government Code Section 5956, especially for "STEP" alternatives.
    - ii. Utilization of traditional design-bid-build contracting for gravity collection bids.
  - c. Prepare design-build selection model based on present value and lowest life-cycle cost analysis while considering results of community survey.
- B. Development of a policy platform on the STEP collection alternative that:
  - a. Opposes any requirement for separate electric meters for individual property step- pump facilities.
  - b. Supports the establishment of individual property tanks and pumping equipment as public facilities – i.e. maintained as part of the overall wastewater project.
- C. Co-Equal environmental analysis (originally approved by your Board on June 19, 2006) with the following strategy additions:
  - a. Initiating the development of the RFQ/RFP for selecting the environmental team to prepare the EIR and Coastal Development Permit application, and associated scope of work, commencing as soon as possible.
  - b. Near-concurrent release of the draft EIR for public comment and the Community Survey (2008)
  - c. Concurrent consideration by the County Planning Commission of the project EIR and the Coastal Development Permit once bids are received so that environmental and cost considerations can be considered together (2008)
    - i. Development of the Coastal Development Permit (CDP) application as nearly consistent with the CDP previously issued for the LOCSW wastewater project

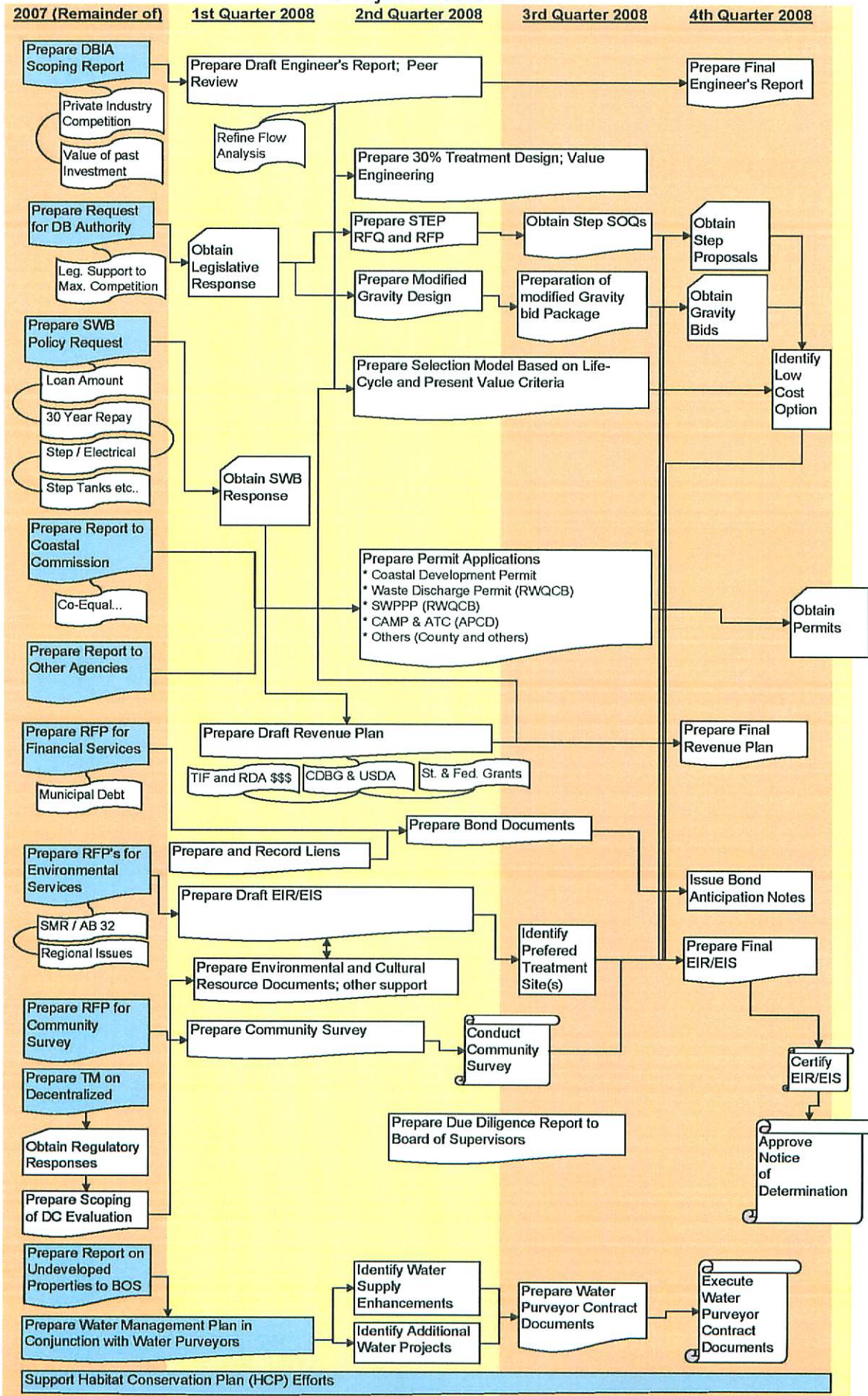
- ii. Modifications should be limited to specific project changes
  - d. Evaluation of risks to the State Marine Reserve that could result from wastewater treatment plants at the alternative sites identified in the EIR
  - e. Evaluation of greenhouse gases based on Assembly Bill 32.
- D. Consideration of the following regional options during the preparation of the project EIR:
- a. Regional treatment with City of Morro Bay and Cayucos
  - b. Regional septage facilities
  - c. Regional water supplies
- E. Consideration of a Decentralized Community Wastewater System
- a. Development of a Technical Memorandum on the Decentralized proposal presented by Lombardo Associates Incorporated
  - b. Submit to and obtain replies from regulatory and permitting agencies on the decentralized proposal / technical memorandum
  - c. Development of the scope of additional studies and work to support consideration of the alternative during the preparation of the project EIR.
- F. Development of wastewater system rates and charges based on demand.
- a. Similar to the City of San Luis Obispo's demand-based rate model.
  - b. Incentives for permitted grey-water systems that further reduce demands on the wastewater system.
  - c. Special legislation that would provide your Board with discretion to establish a rate discount for disadvantaged persons.
- G. Financial strategies including the following:
- a. A policy platform supporting the State Water Board's development of a 30 year repayment program, and a zero percent interest program, for projects serving disadvantaged communities and projects where the cost of compliance exceeds affordability standards established by regulatory agencies.
  - b. Consideration of Tax Increment Financing
  - c. Consideration of Redevelopment Agency Financing

- d. Consideration of Community Development Block Financing for on-lot costs incurred by disadvantage persons
- e. Staff coordination of USDA applications for on-lot costs incurred by disadvantaged persons
- f. Prop. 50 (Integrated Regional Water Management) grant funding for disadvantaged persons.

H. Water resource considerations:

- a. Coordination with the community water purveyors to identify the following:
  - i. "Water Supply Enhancements" – The components of the wastewater project that directly benefit the community's overall water resource management needs and existing deficiencies.
  - ii. "Additional Water Projects" – Those additional water projects that are needed to meet the water demands at build-out and serve undeveloped and/or under developed properties.
- b. Consideration of contractual arrangements with the community water purveyors for the purpose of implementing and equitable cost sharing of Water Supply Enhancements and Additional Water Projects.

# Attachment "E" Project Flowchart



# Attachment "F"

## Frequently Asked Questions and Answers

1. Comment: Project options are not affordable.

Reply: The following is a list of County efforts to mitigate affordability impacts:

- a. The County Initiated grant efforts immediately to 1) reduce project costs and 2) assist low income households
- b. The County agreed to analyze alternative technologies that could provide cost savings
- c. The County approved project implementation strategies (August 14, 2007 – see Attachment "D") that further enhance revenue possibilities or promote cost controls

2. Comment: That the County should base the Prop 218 proposed assessments on specific technologies and sites.

Reply: The County's approach to proposing Prop 218 assessments that are not technology or site specific is based on numerous reasons. Although some of the following reasons carry greater weight than other reasons, it is the combination and totality of the issues that support the County's approach to the proposed Prop 218 assessments.

- a. Property owners can best demonstrate that they are resolved to support development of a community wastewater project by approving Prop 218 assessments without regard to technology or site debates.
- b. The ability of the County to cost effectively implement a community wastewater project is enhanced with the approval of Prop 218 assessments that do not restrict technologies or site selection decisions.
- c. The unresolved issues that exist in public debates in Los Osos, and the ongoing litigation on the wastewater project, continue to discourage consensus on technologies and site selection issues and therefore make a Prop 218 assessment that is technology and site specific problematic.
- d. The significant uncertainty that exists on developing consensus for specific technologies and sites, does in fact, support the County's approach – i.e. that the proposed assessments should be a community funding decision without regard to technologies or sites.
- e. The environmental reporting and review efforts required by the California Environmental Quality Act, and the National Environmental Policies Act, if

applicable are more appropriate (rather than the Prop 218 assessment process) to resolve non-financial debates on technologies and sites.

- f. Conflicts that could develop in pursuing project permits will be minimized if the Prop 218 assessments are not technology or site specific.
- g. Community speculation and debate also exists regarding cost estimates that have been developed on technologies and sites.
- h. Resolving debates on cost estimates and developing the lowest cost option can best be resolved through competitive bidding between private companies that are willing to provide firm contractual commitments.
- i. If the Prop 218 assessments restrict the County's technology options, then they will also create unnecessary barriers in developing a competitive public contracting approach, and determining the lowest cost project with firm contractual commitments from private industry will not be possible.
- j. Competitive public contracting processes can be accomplished under the County's approach through the use of design-build public contracting, after additional value engineering and peer review, to establish the lowest cost option through firm contractual commitments from private industry.
- k. If Prop 218 assessments are technology specific, then it would defeat the benefits of private industry competition and the pursuit of firm contractual commitments by private industry. (The ability to attract adequate competition from private industry requires that community funding is pre-approved – especially considering the community's bankruptcy status).
- l. Community preferences on, and acceptability of, technologies and sites (including cost considerations) are best evaluated through a community survey that coincides with the public draft environmental impact report.
- m. Addressing and resolving community issues will occur as project efforts move from the preliminary engineering, a broader scope analysis, and into additional levels of detail, such as preliminary design, environmental, permitting, and public contracting/bidding/design build.
- n. The County's approach requires minimizing costs to County-wide taxpayers; Prop 218 assessments that are not technology or site specific do in fact minimize risks to County-wide taxpayers.
- o. The County's approach will enhance the Community's ability to obtain grants and obtain favorable rulings from State and Federal agencies.
- p. The County's approach is consistent with Assembly Bill 2701 and testimonies of County officials to legislative committee's during the development of AB 2701.

- q. The County's approach is the most expedient path to permanently resolving enforcement actions and rendering them unnecessary.
- r. Approval of the Prop 218 assessments by property owners will immediately establish a cooperative approach to developing a community wastewater project with the County and become a significant move to resolving the community's existing enforcement situation and ongoing litigation.

3. Comment: That various project technologies or sites are unacceptable.

Reply: The Community Survey will determine community acceptability issues and project preferences. A competitive public contract process will best determine the lowest cost option. Timing of these efforts with the public draft environmental impact report will be important.

4. Comment: That certain technologies, sites or approaches to project implementation are not adequately considered in the County's efforts leading to the Prop 218 ballots.

Reply: The development of "Viable Project Alternatives" or project options in the Fine Screening analysis does not restrict the development of final project technologies or approaches during the CEQA process or the permitting efforts. Consequently, consideration of additional details such as regional approaches to certain project components, or treatment on a decentralized basis, is still possible. As one of its purposes, the Fine Screening Report initiates technology selection efforts, but final determinations will not be made until the Notice of Determination required by CEQA is approved.

5. Comment: That the Board of Supervisors should not have final authority on selecting project technologies and sites.

Reply: Governing Boards of local agencies throughout California are responsible for discretionary decisions on capital projects. No compelling reason exists to pursue an alternative approach to decision making especially considering the level of controversy existing within the community.

6. Comment: That the Proposition 218 Ballots should be secret and confidential – that they should not be public records.

Reply: State statutes (Government Code Section 53753) establish that the Prop 218 ballots are public records and local agency discretion does not exist on this point.

7. Comment: That grants from federal and state agencies should be known and approved prior to the County's assessment proposal pursuant to Prop 218.

Reply: Timing and approval of grants is not guaranteed. The County's efforts enhance the community's ability to obtain grants and may be the community's



only real hope of obtaining federal and state assistance. Pursuing grants and other efforts to mitigate affordability impacts – those things that are within the control of the County – are the issues that the County is addressing. The suggestion from public comment that requiring the pre-approval of grants prior to establishing the Prop 218 assessments will actually reduce the ability of the County to implement a project in a timely manner and meet the expectations those federal and state agencies; thus it would be a counter-productive strategy.

8. Comment: That maximum project costs should be established prior to the County's assessment proposal pursuant to Prop 218.

Reply: Local agencies cannot establish or guarantee maximum project costs on mandated projects. The maximum amount of assessments (just under \$25,000 for most single family residences) is, nevertheless, the maximum amount of the lien that can be placed on those properties. Other properties are assessed based on land use and/or existing infrastructure. If project costs are less than estimated, or if grants are received to reduce the local share of project costs, then the assessments must be reduced. Cost overruns will need to be funded through bonds secured by wastewater rates and charges. Based on the contingencies included in cost estimates, it is not reasonable to conclude that cost-overruns will occur.

9. Comment: That the County should have pursued extension of the Coastal Development Permit issued for the Los Osos Community Services District's wastewater project.

Reply: The Coastal Development Permit (CDP) extension of the LOCSD project was considered by the Board of Supervisors on August 7, 2007, who directed staff to not pursue the extension. One of the six legislative elements adopted by the Board of Supervisors on June 19, 2006 included not accepting any of the liabilities of the LOCSD. In addition, the work supporting the CDP issued to the LOCSD is still substantially valid, and the conditions established in that permit continue to provide important insight into the expectations of the Coastal Commission. Lastly, since the County will be preparing an Environmental Impact Report for consideration by the San Luis Obispo County Planning Commission, the application of the CDP and its consideration by the Planning Commission can reasonably be concurrent activities.

10. Comment: That the County should allow the owners of undeveloped properties to cast ballots (i.e. that assessments should also be proposed on undeveloped properties at this time).

Reply: The Board of Supervisors considered and established policies regarding the Prop 218 ballot proceedings on July 17, 2007. The County cannot provide reasonable certainty to undeveloped property owners on their ability to connect to the wastewater system once it is constructed and consideration of their participation will need to be separate from the

developed property owners. County staff is anticipating returning to the Board of Supervisors, based on direction from July 17, 2007, prior to the end of 2007.

11. Comment: That property owners and/or residents outside of the prohibition zone (which some claim was improperly determined) should help pay for project costs (i.e. that the entire community should pay for project costs and not just those inside the prohibition zone).

Reply: The County agrees that certain project costs should be paid on a community-wide basis, especially those costs associated with water supply enhancements that will reduce existing sea water intrusion. Other costs that reflect community-wide benefits include those associated with a habitat conservation plan. The ability of local agencies to create taxes on a community-wide basis is limited as a result of tax reform statutes, and the State Constitution (i.e. Prop 13 and Prop 218). Nevertheless, the County will continue to consider additional tax possibilities, especially for community wide benefits. For example, a "special-tax" could be considered by the community for water supply, habitat, and affordability issue. While special taxes require 2/3rds voter approval, they have been successfully proposed by the County in other communities and could possible help develop equitable costs sharing on certain project components.

12. That the Fine Screening Report omits evaluation of "on-site" solutions.

Reply: As a public agency in the role of a "service provider" the County is providing property owners with the option of developing a community wastewater system. "Private solutions" (i.e. those that do not involve a public agency service provider) are outside the role of the County established by Assembly Bill 2701, and outside the role that the County would normally fulfill as a public utility service provider. The County does support the alternative use of grey-water systems, which will reduce wastewater flows and pumping by water purveyors. On August 14, 2007, the Board of Supervisors adopted strategies supporting a "demand-based" system to establish wastewater rates and charges, and also supported incentives for grey-water systems. On site systems, and composting toilets, are outside the scope of a community wastewater system.

**Attachment "G"**  
**Excerpt from Board of Supervisors Agenda Report**  
**August 14, 2007**

**Financial Considerations**

The Public Works Department has also recently completed a financial model utilizing the cost estimates identified in the engineering analysis and projecting them into multi-year budget estimates and monthly costs to property owners. The financial model has the ability to vary numerous assumptions. The graphs illustrated on the following pages have been developed based on cost estimates for the following four options and the "Tri-W" project:

Option	Collection Technology	Treatment Technology	Effluent Disposal Level	Solids Disposal Option	Sites
1.	STEP	Ponds	Level 2	Sub-Class "B"	TBD
2.	STEP	Biolac	Level 2	Sub-Class "B"	TBD
3.	Gravity	Biolac	Level 2	Sub-Class "B"	TBD
4.	Gravity	Ox. Ditch	Level 2	Sub-Class "B"	TBD

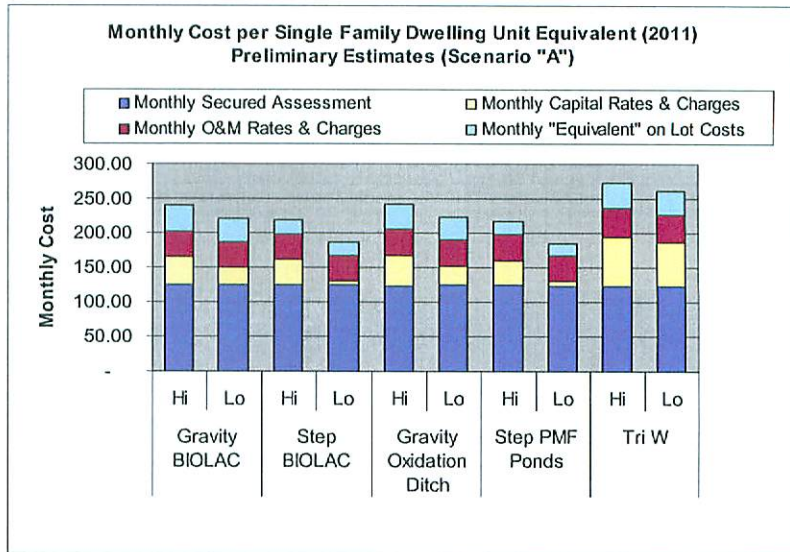
TBD = To Be Determined

It is important to reiterate that these options are not project recommendations and do not include all possible options that will be evaluated concurrent with the preparation of the Project EIR. The options do, nevertheless, provide a range of information that your Board and the community can consider along with the following preliminary cost estimates. The variables in the options identified above relate to the collection and treatment technologies, which comprise approximately 80 - 85% of the project capital costs. "Level 2" effluent disposal reflects the highest benefit to water resources that can result from the wastewater project and appears to have favorable community consensus, including support from the community's water purveyors. "Sub-Class 'B'" is the least costly solids disposal option and has been included in the analysis for affordability purposes. The cost of solids disposal in relation to total project costs is, however, relatively small and community consensus may develop to support a higher level of solids disposal, and treatment. Additional solids treatment and disposal options identified in the Fine Screening report including Class "B", which allows for landfill disposal, and Class "A", which includes composting and recycling. Cost estimates from \$3 - \$6 million have been included for property acquisition, but other than identifying site options in the engineering analysis, recommendations will be made after the draft EIR is released for public comment and the community survey is conducted.

## Scenario "A" - Monthly Estimated Costs

Significant assumptions used in developing Scenario "A" preliminary estimates include the following:

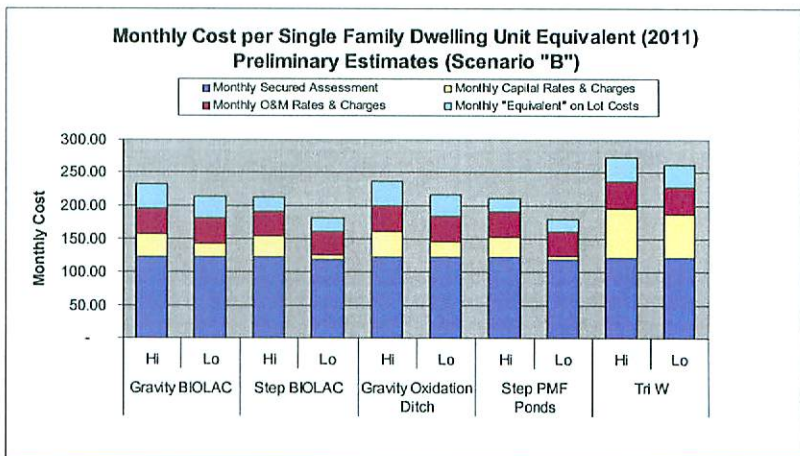
- 50 % of debt for public facilities is financed utilizing State Revolving Funds at 2.35% interest repaid over 20 years including \$6.5 million to comply with Governor's signing message accompanying AB 2701.
- 50% of debt for public facilities is financed utilizing tax-exempt municipal bonds at 5.0% interest repaid over 30 years, with "cash funding" of bond reserves.
- Private facilities ("On-Lot") costs are amortized over 20 years at 8.25% interest. This assumption is based on approximate terms of equity loans on private property – property owners may actually fund these costs in a variety of manners, and some may be eligible for financial assistance from Community Development Block Grants, the USDA Rural Improvement Program, and other possible sources.



## Scenario "B" – Monthly Estimated Costs

Significant assumptions used in developing Scenario "B" preliminary estimates include the following:

- 95 % of debt for public facilities is financed utilizing State Revolving Funds at 2.35% interest repaid over 20 years including \$6.5 million to comply with Governor's signing message accompanying AB 2701.
- 5% of debt for public facilities is financed utilizing tax-exempt municipal bonds at 5.0% interest repaid over 30 years, with "cash funding" of bond reserves.
- Same assumptions for "On-Lot" costs as Scenario "A."

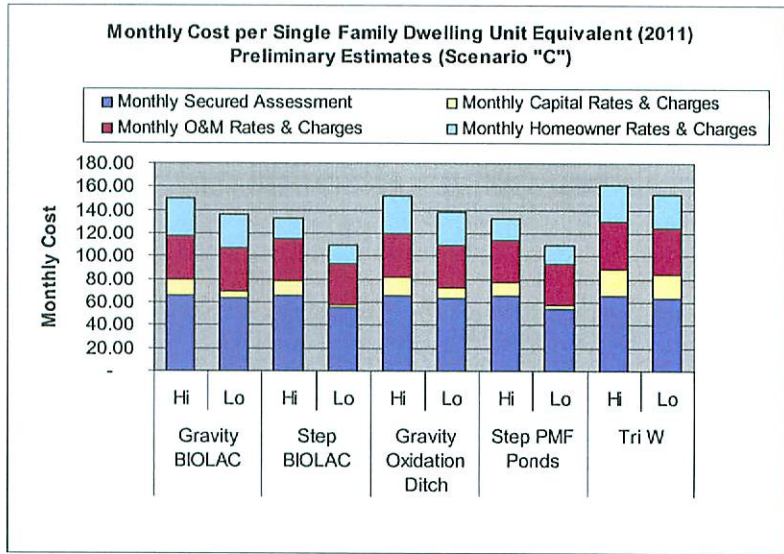


## Scenario "C" – Best Case Monthly Cost Estimates

Significant assumptions used in developing Scenario "C" preliminary estimates include the following:

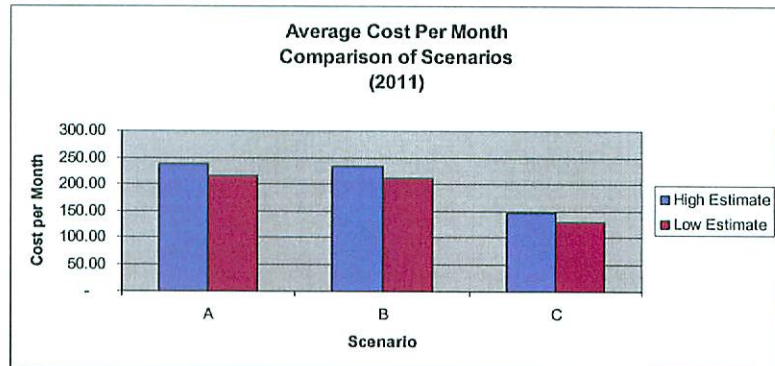
- \$45 million in grant revenue (\$35 million from Federal Water Resource Development Act; \$10 million from State Integrated Regional Water Management Act).

- 95 % of debt for non-grant funded public facilities is financed utilizing State Revolving Funds at 2.35% interest repaid over 30 years excluding \$6.5 million to comply with Governor's signing message accompanying AB 2701.
- 5% of debt for public facilities is financed utilizing tax-exempt municipal bonds at 5.0% interest repaid over 30 years, with "cash funding" of bond reserves.
- Same assumptions for "On-Lot" costs as Scenario "A."



## Comparison of Monthly Cost Scenarios

Comparing the scenarios developed above is useful to illustrate that monthly costs can potentially vary more significantly as a result of financial terms and conditions associated with project funding and less as a result of technologies that are utilized with a community wastewater system. The values illustrated



for each scenario represents the average cost of the options presented above. In summary, some key funding issues exist in order to significantly mitigate affordability issues, including the following:

- The ability to obtain grant revenues.
- The ability of the State Water Resources Control Board to develop a 30 year repayment program for projects in disadvantaged communities or for projects in communities where the cost of regulatory compliance exceeds affordability standards.

- The willingness of the State of California to not condition a State Revolving Fund 30 year bond with costs above those that would normally be associated with a County developed project.

Many other assumptions are also incorporated into the financial model. For example, the cost of separate electrical meters for each property in Los Osos, with community-wide costs estimated to total between \$13.4 - \$25.3 million, under "STEP" alternatives are not included in the scenarios illustrated above. This condition could be established through the SRF program by the State Water Board, but work evaluated by Thoma Electric has concluded that any such condition would exceed requirements of the California State electric code. As such, staff is of the opinion that alternative methods of addressing concerns of the State Water Board engineers should be pursued instead of incurring the added costs of separate electric meters.

Lastly, it is also important to recognize that the cost variations in the estimates between the different technologies can only conclude, at this time, that the technologies are very competitive with each other. The estimates are, therefore, also close enough to conclude that a competitive process involving public contracting and design-build strategies will provide the greatest opportunity to obtain the lowest cost option for the community.

While cost considerations are important, the community's acceptability of the alternative technologies is also important and will be understood as a result of the community survey that will be conducted in 2008.

The project strategies incorporated in Exhibit "A" will ensure a competitive environment for private industry bids and proposals on the project. Recognizing

the usefulness of project estimates is important, because even when private industry contractors bid on the same exact set of plans and specifications for a particular project, which establishes their contractual willingness to construct a public project, those bids can vary significantly. For example, the summary of four bid packages recently received for another large project being implemented by the County illustrates that the bids can vary significantly. In this example, successful competition resulted in combined low bids on the Nacimiento Project totaling about \$11.5 million less than the engineer's estimate, or about 10% under.

Bid Package	1	2	3	4
Engineer's Estimate	\$13.1	\$49.8	\$28.6	\$18.2
Low Bid	\$20.8	\$38.4	\$22.7	\$16.3
High Bid	\$29.4	\$51.3	\$29.3	\$24.0
Variance between Bids	34%	29%	25%	38%
Low Bid compared to Engineer's Estimate	59% over	-23% under	-21% under	-10% under
High Bid compared to Engineer's Estimate	124% over	3% over	2% over	32% over