

Attachment A – Budget Recommendations Discussion

Budget Adjustment

The original Project budget of \$173.4 million was approved by your Board on May 17, 2011. Since that date, the County has successfully secured an additional \$10 million in grant funding and staff is requesting that funding be appropriated to increase the approved budget to \$183.4 million.

The following table illustrates Project funding:

Funding Source	Amount
USDA Loan/Interim Financing	\$83,129,000
USDA Grant	\$4,061,000
SRF Loan	\$78,708,416
SRF Principal Forgiveness/Grant	\$7,500,000
DWR IRWM Grant	\$5,645,444
SWB Water Recycling Grant	\$4,000,000
SWB Planning Grant	\$35,963
Total Funding	\$183,379,823

In order to repay the loan financing, funding has been previously approved by the community and your Board in the form of special assessments (in 2007) and sewer service charges (in 2010) to be paid by property owners.

The graph, below, illustrates how monthly cost estimates have been revised over the history of the Project for typical single family residence (SFR). The County has achieved the reduction in monthly costs by working with the State Water Board to change policies on their financing terms and securing interest rate reductions and grants from both the State Water Board and USDA. Staff will continue to pursue interest rate reduction opportunities with the State Water Board.

As the monthly cost estimates have been revised over the eight years of project development to reflect favorable financing terms and grants, they reached a low point of \$140 per month after collection system bids were received that were well under the budget estimates. The recent rise in the monthly costs estimates is largely due to the water recycling facility being significantly more than the budget planning estimates of \$36.1 million for design and construction. The estimated cost increase can be attributed to a number of factors, including the following:

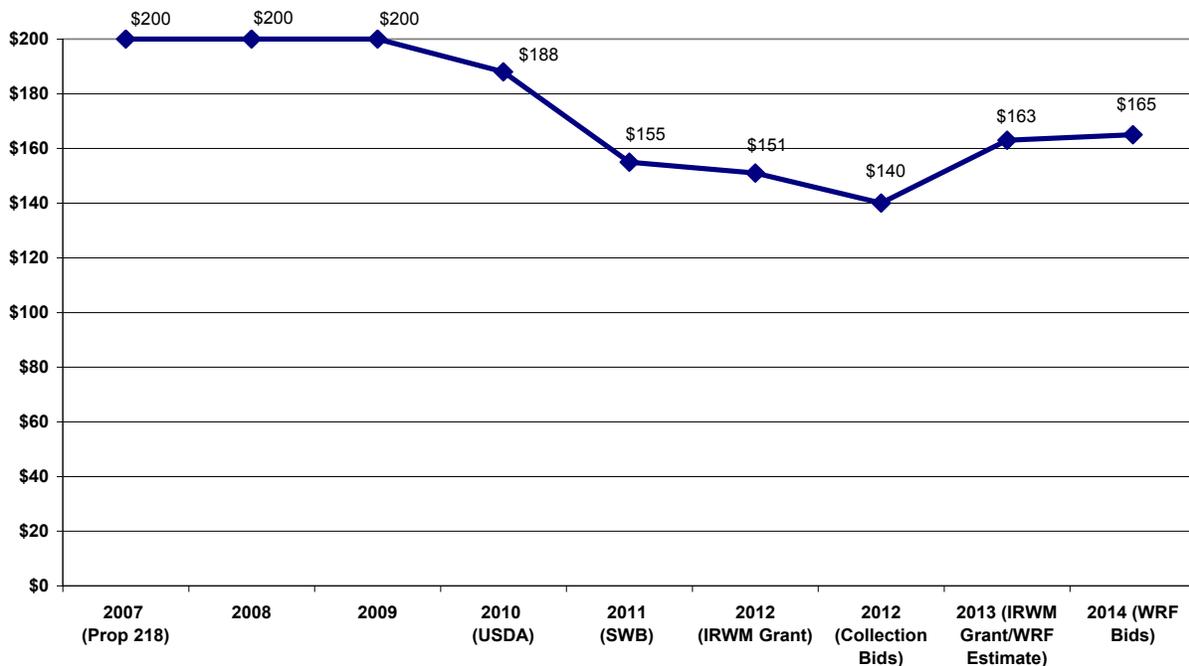
- Additional treatment requirements and environmental mitigation measures established in Project permit conditions.
- Added grading and earthwork requirements. The budget estimates were based on an assumed 40 acre site with minimal slopes. Due to environmental permit constraints, the planned 40 acre site was reduced to approximately 13 useable acres on the more steeply sloped portion of the site.

- Inflation factors due to the actual construction period being several years beyond the estimated time.

Other factors contributing to the need for the budget adjustment include the following:

- Additional costs for engineering services for the collection system due to longer construction duration and responding to property owner requests to move their sewer laterals.
- Design and construction management costs for the water recycling facility are more than originally budgeted, which is due to inflationary factors and the increased complexity of the facility as mandated in the Project permits.

Monthly Cost Estimates (SFR)



Total cost estimates for the Project have also been refined, similar to the monthly cost estimates, as the original planning-level estimates have developed in greater detail. The 2007 estimates were based on a range of potential collection and treatment technologies and were the basis for the Proposition 218 assessment vote. The approved budget of May 2011 incorporated the requirements and mitigations of the Project permits, but did not have the benefit of detailed design estimates. The current budget reflects construction and engineering costs with a high level of detail, as bids have been received on all of the major elements of the work. The table below provides a summary of the 2007, 2011 and 2014 budget estimates developed for the Project.

Expenditures	2007 Preliminary Estimates	May 2011 Approved Budget	2014 Budget Adjustment	Variance
Preliminary Engineering, Planning, Environmental Reports and Administration	\$9,000,000.00	\$10,083,181	\$10,333,181	\$250,000
Environmental Permits, Mitigation, and Water Conservation	\$2,000,000.00	\$7,238,817	\$7,303,817	\$65,000
Collection and Recycled Water System - Design, Construction	\$112,000,000.00	\$103,442,000	\$90,035,660	(\$13,406,340)
Treatment Facility - Design, Construction	\$40,000,000.00	\$36,110,160	\$61,336,636	\$25,226,476
Right of Way	\$2,000,000.00	\$2,800,000	\$2,870,000	\$70,000
SRF Refinance LOCSD Loan Default	\$6,500,000.00	\$6,288,416	\$6,288,416	\$0
Interest/Financing Charges		\$1,110,000	\$1,110,000	\$0
Contingencies		\$6,325,842	\$4,102,113	(\$2,223,729)
Total Expenditures	\$171,500,000.0	\$173,398,416	\$183,379,823	\$9,981,407

Short-term Loans for Cash Flow Requirements

Monthly cash flow requirements for the Project have been averaging \$5 million per month, which is currently manageable with the 2-3 week processing of reimbursements from the USDA. With the start of the Water Recycling Facility construction, which are reimbursed by the State Water Board, monthly cash flow requirements are expected to increase to \$9 million per month and the State Water Board may have a longer lead time for reimbursement. Existing cash balances in FC 430 are \$8 million. As a result, the existing cash will need to be supplemented with short term loans from other funds.

In order to meet cash flow requirements, the Board of Supervisors annually authorizes the Auditor to make loans between any funds in the County Treasury that are under the control of the Board of Supervisors to the extent allowed by law. Board policy states that loans should bear an interest rate equivalent to the rate earned on funds in the County Treasury and repayment should occur by the end of the fiscal year unless specific authorization is given by the Board of Supervisors. In consultation with the Auditor, staff recommends that the Board of Supervisors grant an exception to the requirement that the funds be repaid by the end of the fiscal year for the Los Osos Wastewater Project since the Project is a multi-year Capital Improvement Project that will continue to span several more fiscal years.