

Cost estimates for state water continue to rise

By Tom Friesen
Staff Writer

OCEANO — State water may be more expensive than directors of the Community Services District had anticipated, which may force them to drastically scale back the amount they will seek from the proposed Coastal Branch.

For the past few months, the directors have talked about decreasing their request from 1,000 to 750 acre-feet a year, but new information presented Wednesday by state water experts could result in even deeper cuts.

An acre-foot, or 326,000 gallons, is enough to serve two families of three for a year. A thousand acre-feet would be enough to supply Oceano when it reaches its ultimate size.

The financial firm of Smith Barney, which is handling the bond issue for construction of the project, has calculated costs to individual agencies based on four scenarios.

For Oceano, the range is between \$566 and \$640 an acre-foot, depending on how many other jurisdictions sign up and how much of an unallocated balance the county will want to reserve.

But those costs could actually reach \$700 for Oceano — and \$770 for Nipomo — under a worst-case scenario, according to deputy county engineer Glenn Priddy.

That scenario envisions other cities and districts joining Paso Robles in dropping out of the project while the county signs up for its full entitlement of 25,000 acre-feet.

"You'll have to put more up front ... (but) later you could end up with free water" if other local agencies are forced to join the project later, he told the board.

Berk Brannon, the district general manager, said Thursday that state water remains the only reliable alternative for Oceano, but "the more it costs, the less we can take. It would be easier to sell to the rate payers if we were desperate for water right now."

If the actual costs are more than \$600 an acre-foot and the payment schedules in the contracts don't allow for gradual rate increases over a period of five years or so, the district may even have to consider scratching plans for 750 acre-feet.

"As it continues to go up, it be-

comes a real problem. We're talking about less than 1,000 acre-feet by a long shot," Brannon said. "If the costs continue to rise, we'll be looking at less than 700 acre-feet — maybe like 500."

"It makes a whole helluva lot of difference if we have to come up with a huge chunk of money," he said. "There's a definite limit on how much money could be raised."

Priddy told district directors Wednesday that they may have to make their final decision on how much water to take without knowing the exact cost.

The county Board of Supervisors is scheduled to make its decisions on state water Wednesday, including
(Continued on back page)

Supervisors to decide on state water

By Scott Swanson
Staff Writer

SAN LUIS OBISPO — It's decision time on the State Water Project for county supervisors.

After months of postponing a final decision on whether or not the county should participate in the Coastal Branch of the State Water Project, the board is scheduled to hold a public hearing on the issue Wednesday.

The special meeting will be held, beginning at 9 a.m., at the Embassy Suites Hotel off Madonna Road in San Luis Obispo due to an expected large turnout.

The state has set June 3 as the final deadline for the county's decision on the Coastal Branch.

Supervisors, sitting as the county Flood Control and Water Conservation board of directors, will be asked to deal with a gamut of issues regarding the county's commitment to state water.

The board is scheduled to consider:

- Certifying the final environmental impact reports for both the proposed Coastal Branch and for local ~~open offices and a water treatment plant to be located in the North~~

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the approval of language to be included in contracts with the local jurisdictions. The supervisors will also discuss what will be done with the unallocated balance, if any.

(See related story.)

Priddy said the county Engineering Department estimates that 6,000 to 18,000 acre-feet will be requested by local purveyors, and "our recommendation (to the supervisors) is they ask for all 25,000." The unallocated balance would be paid for through property taxes.

He said the supervisors may delay a decision on how much water to take until they know how much the local jurisdictions want.

The local jurisdictions, like Oceano, are supposed to make their final decisions by May 1, but without knowing how much water the

county will take, they cannot be certain of the cost.

But Priddy said that, even if the supervisors don't make the decision Wednesday, cost estimates for local jurisdictions would be accurate to within 10 percent.

The more water the county takes, the greater its share of construction costs for the proposed treatment plant at Polonio Pass, east of Atascadero.

The county's share would be proportionally divided among the local districts and cities subscribing to the project. With fewer jurisdictions involved, the cost to each one would increase. Property tax revenue cannot be applied to construction of the plant.

But the Central Coast Water Authority, a joint-powers agency formed by water purveyors in Santa

Barbara County, is requesting 47,000 acre-feet from the state and will pay for most of the cost of the treatment plant.

Priddy said the "economy of

asked whether other South County cities would get the benefit of higher-quality state water without having to pay for it.

But Priddy said both sources

"The more it costs, the less we can take."

— Berk Brannon

scale" would make it cheaper for Oceano to participate in paying for one large treatment plant than to expand the facilities at Lopez Lake, which are now at capacity.

Treated state water will be pumped to the Lopez plant and blended with water from the reservoir before it reaches Oceano, Avila and Pismo Beach, which are all expected to subscribe.

District Director Janet Twitchell

would provide good water. "I don't think there's a significant quality difference."

The Oceano directors also pressed him on the issue of the district's ability to negotiate terms of the contracts.

Priddy responded that "certain parts" could be subject to negotiation, but "the vast majority is locked in" to protect the bondholders. Ultimately, Oceano's choice will be

whether or not to sign the contracts.

The contracts include a typical "step-up provision," which would require purveyors in the county to set water rates at 25 percent higher than needed to cover operating expenses, according to Douglas Brown, the bond counsel for the CCWA.

He said that provision would not really present additional costs to the district, but would give bond rating companies "a warm and fuzzy feeling" that would result in a higher rating and lower interest payments on the bonds.

The 25 percent extra would be used as a guarantee against defaults by any of the other agencies involved, Brown said. "It's a safe bet because public agencies don't go bankrupt. They don't disappear."

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To arrive at the necessary rates, the district would deduct its operating expenses, but not depreciation, from total revenues. The resulting net revenue should be 125 percent of debt service, he said. "It's rare that anyone has to raise rates" because the rates already compensate for capital costs.

Steve Amerikaner, the attorney representing the CCWA, was questioned by Director Larry Baughman about the effect the federal Endangered Species Act would have on the state project's reliability.

"It's a concern to every prospective participant" but there would be "a great deal of controversy and struggle" before water deliveries would be cut, he said, conceding that federal authorities could "potentially" affect the amount of water pumped from the Sacramento Delta.

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