



WINZLER & KELLY

Ref: 0106110003-11001

April 21, 2010

Humboldt Local Agency Formation Commission
1125 16th Street, Suite 202
Arcata, CA 95521

Re: Annexation of Scotia to the City of Rio Dell

Dear Commissioners:

Please accept this letter in support of the City of Rio Dell's application to annex the town of Scotia. By way of background, I have a Master's Degree in Sanitary Engineering from the University of California at Berkeley and over thirty-five (35) years of experience as a consulting engineer. For the last thirty (30) years I have provided consulting services to communities in Humboldt County regarding water and sewer issues. I have also been qualified by the local courts to serve as an expert witness on matters similar to those which I will be addressing today.

I have reviewed the MSR and financial analysis prepared by Town of Scotia, LLC for their Community Services District (CSD) formation and I assisted the City of Rio Dell with their MSR for this annexation. I am also very familiar with the infrastructure needs of Humboldt County, having been one of the primary authors of a study that our firm completed for the County Community Services Department as a part of the on-going General Plan Update. I want to first provide you with specific examples as to why I believe annexation to the City is superior to the formation of a new Community Services District and then will close with some general issues that I think are important for you to consider.

In reviewing the MSR and financial analysis for the CSD formation, I find that analysis to be flawed, incomplete and incorrect. The CSD application used information that is approximately three (3) years out of date regarding the City of Rio Dell. The information contained in Rio Dell's application is current and illustrates that the city has made significant progress in resolving their wastewater issues. The city is currently under construction with \$2.25 million worth of improvements to the treatment plant and is currently completing the 30% Design documents for the remainder of the system. The approach that the city will be adopting will save **millions** of dollars in costs and will provide a system that will meet the community's needs for the next twenty (20) years. We have also done some initial work to look at what it would take for the City's wastewater treatment and disposal systems to accommodate the additional flows if annexation was to occur. This information is shown on the attached table. Please note that if the annexation happened within the next six (6) months, the Town of Scotia could save approximately \$1,300,000, due to the ability to include the added capacity to the construction of the improvements for the rest of the City.

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When PALCO approached the City about annexation in 2006, there were many facets of the infrastructure improvements that there was agreement between the City and PALCO's engineer. However, the main area where there was disagreement was in regard to the issue of the existing Scotia wastewater treatment plant being located in the flood plain. The CSD application assumes that this is not an issue and that their solution is to take some electrical components and locate them out of the flood plain. While that will in fact protect those components, it does not protect the rest of the treatment plant that is still located within the flood plain. In 1964, this treatment plant was under water by approximately ten (10) feet.

Both the City of Rio Dell and the town of Scotia experienced flooding in 1964, when their treatment plants were under water. The City built a new treatment plant with a dike around their facility, and that was one of the alternatives that the City looked at for Scotia to keep their treatment plant in its current location. In 1964 the Scotia WWTP was privately owned and therefore could not receive Federal or state assistance to rebuild. The owners at that time took the lowest capital cost approach to repair by rebuilding in place. When this facility floods in the future, the CSD will have to either relocate the treatment plant or build a dike to protect it if it wants to receive assistance for the work. This is but one example of where the applicant for CSD formation is essentially passing the cost for future work onto the residents to be dealt with later after they are gone.

The documents for CSD formation are trying to convince you that it is environmentally superior and less costly to operate two small treatment plants than it is to have one larger facility. Somehow the Town of Scotia, LLC believes that having a discharge upstream of the City of Rio Dell's water intake is environmentally superior to combining the wastewater flows and having a combined discharge downstream. They will even argue that they do not have a discharge to the Eel River as their effluent goes into percolation ponds or to the log pond. While that may be true for the initial point of their discharge, those flows likely end up in the Eel River. There are additional studies that have to be completed by Scotia LLC that are required by their current permit. The results and acceptance of those studies by the RWQCB is unknown at this time. This can have a significant impact on the future requirements of this facility. Historically, Scotia, Rio Dell and most dischargers have been permitted to use percolation ponds for discharge in the summer. These have recently been deemed by the courts to be a direct discharge and the RWQCB is requiring alternative solutions. The City is currently addressing this and Scotia will have to address it as a part of their next permit cycle. In my opinion, the CSD application does not adequately disclose this issue to the commission.

I also believe that the economies of scale of operating just one treatment plant instead of two should be self evident to the commission. Among the areas where savings will be realized include needing less operators and less testing and reporting, since there is only one discharge permit.

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Town of Scotia, LLC makes the statement that their plant is in compliance with their discharge permit. That is correct. However, they do not point out that there are some significant issues that will be in front of the CSD. In addition to the flooding issue, these include but are not limited to, the discharge to the log pond, discharge during the summer and how they are handling biosolids.

In reviewing their application for a CSD, I note that the applicant tries to portray it as a continuation of what has existed for 100 years. That, unfortunately, is not correct. The essential difference is that in the past if there was any issue that required legal, administrative, or financial assistance, the operator of these utilities had a major corporation who could be called upon to provide these support services. As discussed in the county-wide infrastructure study, these services along with finding competent and licensed technical personnel represent a **major** challenge for Community Services Districts. Currently, as a privately operated treatment plant, the operators do not need to be licensed by the State of California. Once it becomes a CSD, they will need to be licensed. The laws of supply and demand currently make it very difficult for small districts to be able to afford to hire properly licensed operators when larger communities can afford to pay more.

I can fully understand why the Town of Scotia, LLC wants to form a Community Services District. It's about money. By forming a CSD, the formation of which they essentially control, they believe they can maximize their profits from the subdivided value of their lands, as it will not include costs that the City of Rio Dell would charge them for annexation. In this, they are correct. The City would likely not approve the subdivision leaving the town's residents with a significant unfunded infrastructure need or assessment(s) that the applicant is trying to do with CSD formation.

This is also not about whether Town of Scotia, LLC and the corporation behind it will make money or not. This is about how much money they will make. Nowhere in the application do I find any information that allows one to estimate how many millions of dollars will be made off the sale of the numerous parcels over what could be obtained by selling the town with its current four (4) lots. In 2007, Muni Financial estimated a net increase of between \$143,000 and \$193,000 for each residential unit. With 272 residential units, and assuming an average increase of \$175,000 increase results in \$47,600,000 of gross profits. This of course, does not include the value of the mills, the power plant, the commercial area, the Scotia Inn and other miscellaneous structures. In the CSD application, while they estimate the cost for infrastructure at around \$17 million, the sub-divider is proposing to fund \$12.6 million and place the remaining \$5 million on the residence that will be left behind owning these parcels. What is not said is that if the real cost is more than the \$17 million estimated in these documents, those additional cost will also be borne by the residents that are left behind.



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So, the choice before you is clear. You can allow the formation of a new CSD that will be underfunded, have higher utility bills and significant potential future infrastructure needs or you can deny the application and require them to annex to the City of Rio Dell.

I appreciate your thoughtful consideration of this very important matter and would be happy to answer any questions you might have.

Very Truly Yours,
WINZLER & KELLY

A handwritten signature in cursive script that reads "Neal Carnam".

Neal Carnam
Managing Principal

Table 1: Opinion of Probable Cost for Combined Rio Dell- Scotia Wastewater Treatment and Disposal System				
Construction Costs	Rio Dell Only	Additional Cost for Scotia-- Combined	Additional Cost for Scotia - Built Separate	Notes:
Transmission from Scotia to Rio Dell				
Pump Station (Scotia)	\$ -	\$ 400,000	\$ 400,000	New Raw Effluent Pump Station and back up generator, Protected from 100-year flood
Force Main Scotia to Rio Dell	\$ -	\$ 750,000	\$ 750,000	8,200 feet, 8" Force Main with 101 Bridge crossing
Sub-TOTAL	\$ -	\$ 1,150,000	\$ 1,150,000	
Treatment System Improvements				
Headworks Rio Dell	\$ -	\$ -	\$ -	New Mechanical Screen and Grit Removal at Rio Dell WWTP to be completed Summer 2010. Sized for Rio Dell peak hourly flows. Upgrade for Scotia not necessary.
New WWTP in Rio Dell	\$ 3,150,000	\$ 1,110,000	\$ 1,751,000	AeroMOD Sequox Modified Sequencing Batch Reactor
Expand WWTP Flood Berm	\$ -	\$ 250,000	\$ 250,000	Due to site size constraints, to accommodate a larger treatment plant the exiting flood protection berm would need to be expanded to fee up additional City owned property
Disinfection System Upgrade	\$ 58,000	\$ 200,000	\$ 200,000	Additional Disinfection System feed and storage capacity needed for Scotia
Site Piping and Valves	\$ 102,000	\$ -	\$ 63,000	For combined system site piping could be designed to handle all flows, for a system built at a later date separate piping would need to be installed.
Sub-TOTAL	\$ 3,310,000	\$ 1,560,000	\$ 2,264,000	
Disposal System Improvements				
Pump Station Rio Dell to Metropolitan	\$ 400,000	\$ 30,000	\$ 240,000	
Force Main	\$ 1,700,000	\$ -	\$ -	13,000 feet, 14" HDPE Force Main for Rio Dell flows alone, which could also handle Scotia flows with additional energy input.
Flood Irrigation System	\$ 450,000	\$ 75,000	\$ 75,000	Includes irrigation paddocks, piping and tailwater system
Biosolids Disposal*	\$ -	\$ -	\$ -	New Sludge Press and Solids Handling Building to be completed Summer 2010. Final disposal options under evaluation.
Sub-TOTAL	\$ 2,550,000	\$ 105,000	\$ 315,000	
Construction Sub-Total	\$ 5,860,000	\$ 2,815,000	\$ 3,729,000	
Contingency (20%)	\$ 1,172,000	\$ 563,000	\$ 745,800	Typical Planning Level Contingency
Construction Total	\$ 7,032,000	\$ 3,378,000	\$ 4,474,800	
Irrigation Land	\$ 240,000	\$ 50,000	\$ 50,000	Assumes purchase, if lease, value of lease may be substituted
Engineering, Administrative, Legal, Permitting (ELAC)				
Design (10%)	\$ 703,000	\$ 338,000	\$ 447,000	Typical Planning Level Percentage of Costs
Permitting (3%)	\$ 211,000	\$ 101,000	\$ 134,000	Typical Planning Level Percentage of Costs. Assumes CEQA for Scotia to be covered in overall annexation CEQA.
Construction Management (10%)	\$ 703,000	\$ 338,000	\$ 447,000	Typical Planning Level Percentage of Costs
ELAC Total	\$ 1,617,000	\$ 777,000	\$ 1,028,000	
TOTAL COSTS	\$ 8,889,000	\$ 4,205,000	\$ 5,552,800	
Note: These are preliminary planning level, order of magnitude cost estimates.				