



"Citrus Capital of the World"

City of Santa Paula

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August 28, 2013

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VENTURA COUNTY
GRAND JURY

The Honorable Brian J. Back
Presiding Judge of the Superior Court
County of Ventura
800 S. Victoria Avenue
Ventura, CA 93009

Dear Judge Back:

On June 26, 2013, the Ventura County Grand Jury issued its report entitled "Final Report – Santa Paula Waste Water Treatment Plant" (the "Report"). The Report focuses on the processes and procedures relative to the construction of the City's water recycling facility (the "WRF"). At the conclusion of the Report, the Grand Jury requested a response to Findings F-01, F-02 and F-03 and Recommendations R-01 and R-02. We provide the following responses to these Findings and Recommendations pursuant to Penal Code §933.05.

Findings:

- FI-01** *The Council's actions have been made with the City's best interests in mind.*
- FI-02** *PERC had a superior design and process that utilized six acres less land, created an aesthetic building and guaranteed financing for the project.*
- FI-03** *Veolia had more building experience, a less sophisticated design and their projected user rate was lower.*

The City certainly agrees that the City Council had the best interests of its citizenry in mind when it approved the Design, Build, Operate, Finance Agreement (the "DBOF Agreement") with Santa Paula Water, LLC. As the Grand Jury notes, both proposals (from PERC/Alinda and Veolia) had merit in terms of their design, financing and capabilities and both showed areas of concern. The City Council was left with the arduous task of weighing those proposals and, ultimately, selected the proposal from PERC/Alinda.

Recommendations:

- R-01** *The Grand Jury recommends that the City take advantage of record low bond rates to purchase the City's WWTP.*
- R-02** *The Grand Jury recommends that the City immediately start the process to remove excess chlorides from the Water.*

At first glance, purchasing the WRF and removing chlorides from the wastewater seem to be an obvious course of action. These issues are, however, complex, interrelated and tie directly to the customers' wastewater rates.

In Santa Paula, wastewater rates are very high. The rate structure for residential customers consists of a flat base charge and a commodity charge based on water usage. An average water usage will result in a monthly sewer bill of \$83.01. During the past four fiscal years, rates rose by an aggregate 94.5% to the current \$83.01 from \$42.68 in fiscal year 2009. Although a 6.5% rate increase was originally scheduled to occur in October 2012, which would have increased monthly rates to \$88.41, City staff recommended and the City Council approved a postponement of the wastewater rate increase for six months.

As the Grand Jury notes, the DBOF Agreement provides for an option to purchase the WRF from Santa Paula Water for approximately \$78 million. In order to do so, however, the City would have to issue additional debt sufficient to purchase the facility and include the costs associated with the removal of chlorides. Whether through the construction of a brine line or the installation of a reverse osmosis system at the WRF, the costs associated with the removal of chlorides are estimated to range from \$25 to \$39 million (including initial expenditures for capital equipment and continuing operational costs). Although bond rates are favorable, financing the purchase price and the capital costs associated with the removal of chlorides (approximately \$117 million) might result in another significant rate increase to the City's customers.

The City disagrees with the Grand Jury that the DBOF Agreement does not address chloride removal. On the contrary, the DBOF specifically requires Santa Paula Water to design, build and operate the WRF in a manner that complies with all applicable laws and professional standards; it is contractually obligated to build a facility that specifically must comply with the City's Waste Discharge Requirement permit (R4-2007-002) issued by the Regional Water Quality Control Board, Los Angeles Region (Appendix 14 to the DBOF Agreement); the Consent Judgment entered by the Superior Court for the County of Ventura on September 24, 2007 (Appendix 14 to the DBOF Agreement); and the operative Basin Plan issued by the Regional Board. Each of these documents had a requirement that the effluent from the WRF would meet the established standard for chlorides set at 110 mg/l. The WRF effluent has never met that standard.

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The City recently initiated the dispute resolution procedures contained in the DBOF Agreement to determine whether Santa Paula Water bears responsibility for the treatment and removal of chlorides at the WRF. Resolution of this issue will greatly affect the purchase price and, ultimately, the customers' sewers rates.

In sum, the City is currently considering its various options including those recommended by the Grand Jury. The City is doing so, however, with the ultimate goal of lowering sewer rates for its customers.

We thank you for the opportunity to respond to the Report. Should you have any further questions or desire any further information, please contact me or City Manager Jaime Fontes.

Sincerely,

Ralph J. Fernandez, Mayor

cc: City Council
Jaime M. Fontes, City Manager
Brian Yanez, Interim Public Works Director