



# CITY OF RIO DELL

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January 24, 2007

Residents of Scotia

This letter is in response to a letter sent on January 24, 2007 to Scotia residents by Dennis Wood, Vice President-PALCO. The intent of this letter is to clarify the recommendations that have been made to date by City of Rio Dell staff regarding the proposed annexation and misconceptions that were contained in his letter. Staff believes that the annexation is in the best interest of PALCO and Scotia residents, and could provide benefits to the City of Rio Dell. However, the annexation must ensure revenue neutrality (the revenue from taxes and fees must equal the cost of providing services), protect utility ratepayers, and limit current and future risk to Rio Dell residents (residents and ratepayers on both sides of the Eagle Prairie Bridge). The studies that have been prepared to date indicate that it is possible to structure an annexation agreement that could meet the objectives of everybody involved.

The infrastructure analysis is complete and available for public review at City Hall and an electronic copy is available on the City of Rio Dell website at [riodellcity.com/current-projects.shtml](http://riodellcity.com/current-projects.shtml). The infrastructure analysis evaluated the condition of all infrastructure and utility systems in Scotia based on Rio Dell Standard Improvement Specifications or appropriate drinking or water quality standards, and specified a series of improvements to limit liability to the City of Rio Dell. PALCO and its engineers have agreed to a significant portion of the scope of improvement. These infrastructure and utility liabilities can be addressed in one of three ways: (1) PALCO constructs improvements to address the liabilities; (2) an analysis is prepared that determines that existing rates, or recommend increased rates, are adequate to correct the liabilities in the future as well as support the ongoing operation of the system; or (3) the City accepts the additional liabilities as identified. In any case, it is important that decisions regarding annexation improvements be made based on the best available information.

Staff is not inflexible in its recommendations regarding the scope of the annexation infrastructure improvements. We have relied on our consulting engineers to make recommendations regarding a scope of improvement. Because the estimated cost of these improvements is high and PALCO's engineers disagree with some of the assumptions in Rio Dell's engineering analysis, we have recommended to PALCO that an objective third-party engineer be selected to evaluate: (1) the appropriate standards for the review of the Scotia systems; (2) conclusions regarding condition of the Scotia systems and deficiencies that would result in a significant future risk to Rio Dell residents; and, (3) cost estimates to make required improvements. We are hopeful that PALCO will accept our offer so that we can come to agreement on the scope of improvement.

An important issue that has not yet been resolved is how the infrastructure improvements will be funded. Existing Rio Dell ratepayers should share in the cost of improvements that benefit the City as a whole. However, improvements to correct system deficiencies in the water distribution, stormwater and wastewater collection, and road systems would be appropriately borne by the owner and operator of those systems, PALCO. It would not be appropriate to shift the full cost for these improvements or the liability of not making these improvements to the future property owners of Scotia or the ratepayers of the City of Rio Dell. If PALCO proposes to shift a portion of the burden to the future Scotia property owners, staff has indicated to PALCO that assessments and special taxes should only be imposed in a manner similar to comparable homes in Humboldt County. In addition, assessments or special taxes should not create a burden on homeowners or limit the City's ability to raise revenue in the future.

The City of Rio Dell operates its infrastructure and utility systems pursuant to state law and actively uses grant and rate funds to improve its systems. In the last year the City has made over \$8.0 million in improvements to the water system. The letter from Mr. Woods suggests that Rio Dell infrastructure does not meet state standards and mentions the Cease and Desist Order that was imposed by the Regional Water Quality Control Board (RWQCB). This CDO requires that the City stop using infiltration ponds along the Eel River to dispose of treated effluent during the summer time by the year 2010, because this is now considered a "point source" of pollution. This Cease and Desist Order relates only to the summer time disposal of effluent and not to the function of the wastewater treatment plant. The City has received grant funds to evaluate the use of treated effluent to irrigate dairy lands in Metropolitan or the PALCO tree farm. In either case, wastewater rates in Rio Dell will have to be increased to pay for the new effluent disposal system. PALCO currently uses infiltration ponds along the Eel River to dispose of treated effluent during the summer time. There is no doubt that the RWQCB will impose the same requirements on Scotia to develop a new system for summertime effluent disposal in the near future.

Mr. Wood suggests that a community services district would be a more cost effective method for "Scotia residents" to manage and maintain the PALCO infrastructure. However, it is important to recognize that the scope of improvement identified in the annexation infrastructure analysis would become a liability of the CSD. Improvements, such as the summer time disposal of treated effluent, would be borne exclusively by the ratepayers of a Scotia CSD. The City of Rio Dell would not discourage PALCO from proceeding with the formation of a CSD. However, we strongly believe that annexation is a more viable alternative and one that would provide greater benefit to residents of Scotia, Rio Dell, and PALCO.

City staff is committed to make the annexation review process as transparent as possible. We encourage you to regularly check the City's website for updates or contact City Hall at 764-3532 if you have questions.

Sincerely,



John Miller, Interim City Manager  
City of Rio Dell