

December 29, 2006

Hon. R.L. (Bud) Leonard, Mayor
Hon. Julie Woodall, Mayor Pro Tem
Hon. Melissa Marks, Councilmember
Hon. Mike Dunker, Councilmember
Hon. Marc Barsanti, Councilmember
City of Rio Dell City Council
675 Wildwood Ave.
Rio Dell, CA 95562

Dear Council Members:

This letter responds to the December 22, 2006 memorandum from Interim City Manager John Miller. His memorandum enclosed the December 15 recommendations of Winzler & Kelly (W&K), the City's consulting engineers, for upgrades and replacements to Scotia infrastructure as a part of annexation and for sharing and financing of those costs and summarized the staff recommendations to the City Council on these matters.

We greatly appreciate the work your staff has done over the past eight months with regard to The Pacific Lumber Company's (PL's) request to annex the town of Scotia into Rio Dell. However, we strongly disagree with W&K's analysis and recommendations, and we believe the staff adoption of these recommendations is misplaced.

In this connection, let me emphasize that PL completely agrees with the City Council's direction to staff that the annexation "must ensure revenue neutrality, protect the utility ratepayers, and limit current and future risk to Rio Dell residents." We believe the annexation must do the same for Scotia residents as well.

These objectives require that expenditures for infrastructure be as cost-efficient as possible and that infrastructure upgrades and replacements be made only when truly necessary. In this connection, we note that Scotia's infrastructure of sewer, water, storm drains, and road systems currently functions in an efficient and cost-effective manner and is in compliance with all state and federal regulations (including the existing RWQCB cease and desist order). Indeed, on balance Rio Dell's infrastructure is in about the same condition as Scotia's.

As you know, we have had a team of planning, land use, legal, historical, and engineering experts working on our behalf. Their goal was to develop a plan that would provide for an orderly transition of Scotia to private individual ownership and ensure that the residents of both Rio Dell and Scotia would profit from social and economic benefits of the proposed annexation and not be burdened by it.

More specifically, in response to W&K's October infrastructure technical reports, PL asked SHN Consulting Engineers and Geologists (SHN) (with assistance from and Black and Veatch

engineers) to put together an infrastructure plan for Scotia that would be acceptable to LAFCO if either annexation to Rio Dell, or developing a Community Services District (CSD) were the preferred method of governance. That plan was submitted to the City on November 8, 2006. Since that time, it has undergone some minor modifications, but essentially remains the same as previously submitted. Attached to this letter is a series of tables that summarize the costs of the SHN infrastructure plan, as well as the major differences between the SHN and W&K plans.

The SHN Plan is based on the fact that Scotia's infrastructure currently functions in an efficient and cost-effective manner and complies with state and federal regulations. It provides a common sense approach to fixing infrastructure problems - one that would be seen as reasonable for Scotia homeowners, would not increase rates for Rio Dell ratepayers, and could potentially reduce future utility costs for Rio Dell ratepayers.

W&K's recommendations, on the other hand, would require that Scotia infrastructure be upgraded to Rio Dell's standards for new subdivision construction - the Rio Dell Standard Improvement Specifications - standards that most existing Rio Dell infrastructure does not meet. This makes absolutely no sense for annexation of a fully developed community, especially one with the historic values of Scotia. Moreover, W&K's cost share methodology for its proposed new sewage treatment plant and disposal system contains at least 6 major flaws (as demonstrated in the attached SHN memorandum).

As we have noted, PL supports *necessary* infrastructure upgrade and replacement. Therefore the SHN infrastructure plan provides for substantial upgrades and replacements, namely approximately:

- 85% of the wastewater collection system,
- 95% of the residential/commercial water distribution system,
- 95% of the residential/commercial fire suppression system,
- 60% of the storm water collection system, and
- 85% of the roads (assumes Main Street is maintained by the County).

In addition, in order to reach closure on all issues, as noted below, PL is prepared to agree to a new wastewater treatment and disposal system that serves Rio Dell and Scotia jointly.

In assessing the SHN Plan, the City Council should bear in mind that replacing essentially all infrastructure in Scotia (as recommended by W&K) without making comparable replacements of Rio Dell infrastructure will result in Scotia residents subsidizing a significant portion of Rio Dell infrastructure (assuming uniform rates for Scotia and Rio Dell). That is, necessary OM&R will be far less costly in Scotia than in Rio Dell, leaving more monies derived from utility rates available to fund the higher maintenance and ultimate replacement costs attributable to Rio Dell infrastructure.

In contrast, the SHN plan protects both the Rio Dell and Scotia ratepayers and limits current and future risk to both Rio Dell and Scotia residents.

Attached to this letter is SHN's response to the W&K infrastructure analysis, calling out the key assumptions and where the two plans differ. These proposed upgrades for Scotia (non-sewage treatment and disposal) would be a sizeable undertaking (almost \$9 million). It is PL's intent to complete these improvements in a phased approach as part of the annexation process to the City of Rio Dell. Regulatory requirements, standard-of-care, and the "Rio Dell standard plans and specifications for new subdivision acceptance (as deemed appropriate by SHN for the base level of system changes in Scotia) have been incorporated into the proposed system modifications to allow Scotia to function as a separate entity from PALCO.

Over the past several months, we have worked very diligently with your staff to try and resolve the differences between our proposals on dealing with the Scotia infrastructure. This letter and attached report by SHN is our last attempt at doing so. Our deadline is upon us and we are looking for an indication from the City Council that there is support to move the annexation forward. If not, we will redirect our efforts toward another method to gain subdivision approval.

Offer Summary

1. Wastewater Treatment and Effluent Disposal

PL has continually expressed its preference to upgrade its existing sewage treatment plant as part of an annexation agreement; however, in order to show a strong commitment to help solve the City of Rio Dell's wastewater problems, it is making the following offer as part of an annexation agreement:

- PL would dedicate up to five acres of its industrial land to the City for construction of a new sewage treatment plant to serve both communities--estimated value of land is \$750,000.
- PL would allow the combined communities to use the Scotia tree farm at no cost, to dispose of its secondary effluent, as long as PL can continue to harvest on the land under an agreed-to plan with the City. It would provide the necessary easements from Rio Dell and the new treatment plant to the tree farm area--estimated value of this land "use" is \$100,000 per year.
- PL would work with the City in the design process to provide for the necessary space for a secondary effluent holding pond--estimated value of this land is estimated at over \$.250 million.
- PL would commit to spending pre-construction costs for a new treatment plant in lieu of the monies proposed to spend on upgrading the existing sewage treatment plant (under the SHN plan). PL, in conjunction with the City, would design, engineer, and seek the necessary support to prepare the documentation to support a financing mechanism (bond package or other possible means) for the new sewage plant and wastewater disposal system. This process to gain a rate increase from its ratepayers if the City Council, after conferring with staff, provisionally agrees to PL's proposal

subject to the Council's further consideration of the EIR and annexations issues during the required public hearings.

- There is no cost sharing methodology outlined in this approach other than all Scotia (including commercial and industrial rate payers) and Rio Dell rate payers would pay for the remaining costs of construction through an increase in sewage rates on an equivalent dwelling basis. We believe these rates would be lower than what is required by Rio Dell on a stand alone basis to upgrade its existing plant and construct a new disposal system in Metropolitan.
- If the new sewage rates (required for financing) are not approved by the City Council, PL would be allowed to spend funds to upgrade its existing sewage treatment plant (as proposed by SHN) and the City would assume the operation of the Scotia treatment plant or the City would allow PL to operate the entire Scotia sewage system as a private utility until the construction and funding of a new sewage plant is approved.

2. Other Infrastructure

- PL would agree to complete the balance of the improvements that would be seen as reasonable for Scotia homeowners and would not impact Rio Dell ratepayers, as outlined in the November SHN infrastructure plan and summarized again in the attached SHN memorandum. The total cost of these improvements is estimated to be almost \$9.0 million.

Infrastructure Item	Cost
Wastewater Collection	\$ 3,481,400
Water Distribution	\$ 2,430,000
Water Treatment	\$ 240,000
Storm Water	\$ 1,010,000
Streets	\$ 1,700,000
Total	\$ 8,861,400
Note: does not include wastewater treatment or disposal costs	

3. Dedication of Facilities and Equipment of One Time Costs

- PL commits to work with the City on the one time costs outlined in the preliminary Muni Financial report. PL does not want to see negative impacts to the City; however, it is not sure at this point what those impacts may be. PL would be willing to work with the City and give consideration to the dedication of a facility that would house public works and city staff.

4. Water Rights

PL is willing to consider dedication of lands and the transfer of water rights as long as PL receives a firm commitment from the City for delivery of all water volumes that are not required for municipal service within Rio Dell (including Scotia).

5. Fire District

PL is working separately with the fire district on finalizing one time costs. The budgets for operating scenarios have been agreed upon and forwarded to Muni Financial for review and calculation of the level of assessment needed. PL strongly supports a consolidated fire department.

6. Phase 1 Environmental Site Assessment

- PL has conducted Phase 1 and Phase 2 environmental site assessments of its industrial property and is committed to working with the Regional Water Quality Control Board to implement any necessary clean-up plans on its industrial property.
- PL has and will continue to have the obligation to clean up any potential environmental problems on all its properties in Scotia and will work with the City on any necessary legal language to ensure compliance with environmental regulations.

7. Benefit Assessment

- PL proposes that infrastructure improvement costs under the SHN Plan relating exclusively to Scotia be shared by PALCO and the residents of Scotia, through a special assessment district, as follows (see also Table 2 attached).
- PALCO would spend approximately \$5 million for such Scotia costs.
- The remainder of these Scotia costs would be financed through a special financing district for Scotia (such as a redevelopment district) or a special Scotia-only assessment. The benefit assessment for these costs would be placed on all parcels in Scotia, including industrial, commercial, and residential.
- The level of the benefit assessment would be set so as to not diminish the market value of the residential and commercial property in Scotia.

What is in it for Rio Dell?

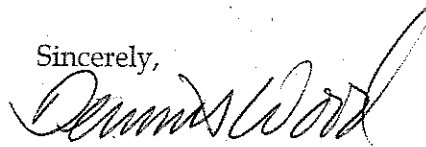
Given all the information that has been studied and with sometimes conflicting results. This leads one to ask, "What is really in it for Rio Dell?" Some of the key items are as follows:

- By combining the communities into one, utility rates for Rio Dell ratepayers will be lower as capital and O&M (Operation and Maintenance) costs will be spread over a larger rate payer base.
- If a new sewage treatment plant and disposal system were to be built in Scotia to serve both Rio Dell and Scotia, the associated rates would actually be less (between \$250 to \$500 per year) than those paid if Rio Dell were to improve its own plant and disposal system separately.

- Annexing Scotia will provide the Rio Dell general fund with substantially higher revenues through new tax revenues coming from Scotia property taxes from homes and industrial and commercial properties, sales taxes from commercial businesses, and bed tax revenues from the Scotia Inn and other taxes totaling approximately \$500,000 per year. These new revenues would greatly improve funding for services to the entire community.
- Adding the recreation fields in Scotia to the City parks facilities would increase recreation opportunities for Rio Dell residents.
- City control and support of commercial and industrial development potential would provide for higher paying jobs for local residents, as well as, improve commerce, resulting in more tax revenues flowing into the City coffers.
- Annexation enables the City to provide oversight and protection of local historic and cultural resources.
- All of the above may lead to overall higher property values in the community, benefiting all local residents.

In summary, this letter and the attachments (SHN infrastructure analysis and tables) outline our level of commitment to the City of Rio Dell as part of the Scotia annexation. Please review these documents, carefully. I urge any Council member to call me with any question about PL's proposal, to discuss or clarify any aspect of it, or to discuss the next step for moving annexation forward. In addition, I plan to communicate directly with members of the Council either before next Tuesday's meeting or immediately afterwards. Please understand, however, that PL needs to know whether annexation is to move forward or instead PL needs to look for a different solution for the town of Scotia. In this connection, time is of the essence.

Sincerely,



Dennis Wood
Vice President - Real Estate Operations

DEW:ds:lms

cc: John Miller ✓

Attachments



Memorandum

Reference: 005161.150
Date: December 29, 2006
To: Dennis Wood, PALCO
From: Mike Foget
Subject: **Rio Dell Requirements for Annexation and Recommendations for Scotia**

Rio Dell Requirements for Annexation

In its December 22, 2006, memorandum to PALCO, the City states that, "...the recommended terms of the annexation must ensure revenue neutrality, protect the utility rate payers and limit current and future risk to Rio Dell residents." Our proposed plan addresses the City's concerns.

Revenue Neutrality. The issue of revenue neutrality would be addressed directly by PALCO and Rio Dell.

Protect the Utility Rate Payers. Protection of utility rate payers should apply to both Rio Dell and Scotia residents, primarily with the proposed shared infrastructure between the two communities, for wastewater treatment and disposal.

- **Wastewater Treatment and Disposal:** The City's preferred alternative is for centralized wastewater treatment and disposal facilities. The best way to protect the rate payers is to implement a practical design approach that will meet regulatory requirements, and minimize both capital and annual operational and maintenance costs. We agree that one rate should be applied to both communities and that capital reserves should be included in the rate structure. However, we must reach a consensus on wastewater treatment and disposal options.
- **Water/Storm Water:** The existing Scotia infrastructure meets the existing drinking water and water quality standards for both the water and storm water systems respectively. Upgrades to protect rate payers will include seismic retrofitting the existing treated water storage tank.

Limit Current and Future Risk to Rio Dell Rate Payers. The upgrades we have proposed (SHN November 8, 2006 letter) to existing infrastructure in Scotia should limit current and future risk to Rio Dell residents. Although our annexation plan does not meet the subdivision standards proposed by W&K (essentially requiring new construction for all infrastructure in Scotia), it does replace/repair approximately:

- 100% of the wastewater treatment and disposal system,
- 85% of the wastewater collection system,
- 95% of the residential/commercial water distribution system,
- 95% of the residential/commercial fire suppression system,
- 60% of the storm water collection system, and
- 85% of the roads (assumes Main Street is maintained by the County).

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The existing Scotia infrastructure meets the existing drinking water and water quality standards for both the water and storm water systems respectively. Upgrades to the water treatment plant, such as seismic retrofitting the existing 0.4 million gallon water storage tank, would limit future liability to rate payers.

The existing wastewater system currently meets all existing water quality standards, since improvements have been made this summer to the wastewater collection and treatment systems. As we move into the winter months, we will see how these improvements helped the wastewater treatment plant meet its current permit requirements. However, current risk to rate payers would still be limited because the existing wastewater treatment system is on a compliance schedule with the California Regional Water Quality Control Board, North Coast Region (RWQCB) for studies and improvements to the existing plant. A new centralized wastewater treatment plant and disposal facility would limit future risk related to wastewater disposal for both communities.

It is our opinion that replacing essentially all infrastructure in Scotia (as requested by W&K) basically leads to Scotia residents subsidizing a significant portion of Rio Dell infrastructure repairs. Under the proposed W&K plan, almost all of Scotia's infrastructure would be new, fees collected from Scotia rate payers (aside from those dedicated to the combined wastewater treatment and disposal, and basic costs for the Scotia water system such as electrical, chemical supplies, and water treatment plant operational labor) would go toward repair and maintenance of existing Rio Dell infrastructure including the aging roads, wastewater collection, and storm water collection systems.

Potential Scotia Annexation Cost Sharing and Improvement Financing for Wastewater Facilities

We have reviewed the W&K December 15, 2006, memorandum entitled, "Potential Scotia Annexation Cost Sharing and Improvement Financing for Wastewater Facilities." We do not concur with this memorandum, based on several reasons including that the pro rata share of avoided costs is inconsistent with the City's requirement that PALCO be treated as a "developer."

Throughout the annexation process, the City of Rio Dell has maintained the position that PALCO be treated as a developer and therefore all infrastructure required in Scotia should be upgraded to "new development" standards. However, the City's methodology for cost sharing is based on "avoided costs" rather than proportioned according to their share of the benefits. The "avoided costs" methodology is inconsistent with the policy of treating PALCO as a developer. Instead of sharing in wastewater treatment costs based on the developer required usage (flow proportioned according to the number of equivalent dwelling units that benefit from sewer service), PALCO is now being requested to subsidize construction based on the City's opinion of what PALCO's costs could be to build wastewater treatment facilities on their own. Clearly, the pro rata share of avoided costs is an exception to developer treatment and one that the City has taken for its exclusive benefit.

We have differences of opinion with regard to W&K's assessment of a Scotia only system, and the combined system. These estimates are the basis for W&K's "Potential Scotia Annexation Cost Sharing and Improvement Financing for Wastewater Facilities." There are several inconsistencies in applying costs estimates which tend to show the Rio Dell only and Rio Dell/Scotia combined system estimates are biased low while the Scotia only estimates are biased high. Some of these examples include the following:

1. Table 1 (from W&K's December 15, 2006, "Potential Scotia Annexation Cost Sharing and Improvement Financing for Wastewater Facilities") asserts that Rio Dell would construct nutrient removal facilities for a plant sized at 3.70 MGD at a cost of \$1.25 million (\$0.34 per gallon per day treated), while the Scotia facility would construct nutrient removal facilities for a plant sized for 0.81 MGD at a cost of \$2.4 million (\$2.96 per gallon per day treated). W&K's *Final Wastewater Treatment Facility Technical Report* does not justify why costs in Scotia would be nearly 9 times higher per unit treated than for the same facility improvements in Rio Dell.
2. Table 23, rows 10 and 12 (pg 53) from the W&K *Final Wastewater Treatment Facility Technical Report* (December 1, 2006) shows that the nutrient removal costs for the Scotia facility is based on the City requiring the construction of two nutrient removal facilities. W&K's December 15, 2006, "Potential Scotia Annexation Cost Sharing and Improvement Financing for Wastewater Facilities" memorandum table 1 still identifies nutrient removal costs for a Scotia only wastewater treatment facility at \$2.4 million. The second facility adds an additional cost of \$1,400,000 to Scotia in the pro rata calculation even though it is clearly a mistake, one that has been noted in past correspondence (December 8, 2006 W&K e-mail from Carlos Diaz).
3. The sequencing batch reactor equipment required to treat the combined flow of 4.51 MGD and presumably provide nutrient removal is estimated to cost \$1.1 million (Table 24, items 11 and 12 from the W&K *Final Wastewater Treatment Facility Technical Report*). The same type of equipment, sized to treat 0.81 MGD of flow from Scotia for nutrient removal is estimated to cost \$1.0 million (Table 23, item 10). W&K's *Final Wastewater Treatment Facility Technical Report* does not justify why costs for Scotia would be nearly 5 times higher per unit treated than costs for the same improvements constructed for the larger combined facility.
4. Yard piping is represented at a cost of \$100,000 (Table 24, item 19) for the combined facility and \$200,000 (Table 23, item 25) for the Scotia facility. W&K's *Final Wastewater Treatment Facility Technical Report* does not justify why costs for the Scotia facility would be nearly 2 times higher than similar improvements constructed at the combined facility, which is nearly six times larger.
5. Table 24, item 3 in W&K's *Final Wastewater Treatment Facility Technical Report* presents costs for an 8-inch diameter PVC raw sewage force main, a small pumping station with standby power, and the bridge crossing. The 8-inch diameter force main (W&K estimated at \$85 per foot) is undersized (would result in pipeline velocities in excess of 16 fps). The cost estimate should be based on a 12-inch diameter pipeline, which W&K has assumed to cost \$100 per foot resulting in approximately \$150,000 error in costs. The 12-inch pipeline provides a velocity of approximately 7 fps (the maximum flow in a force main recommended by the EPA is 8-9 fps).

6. A comparison of the estimates for the Rio Dell and Scotia treated sewage pump stations shows that both stations are expected to cost \$250,000 each including the back-up power supply. Based on the data in Table 23, item 28 of W&K's *Final Wastewater Treatment Facility Technical Report*, the Scotia raw sewage pumping station would need to provide a minimum capacity of 562 gpm (0.81 MGD) through 1,500 lineal feet of 6-inch piping, while the City of Rio Dell (Table 26, item 17) would need to provide a minimum capacity of 2,570 gpm (3.70 MGD) through 14,500 lineal feet of 10-inch piping. Obviously, the higher flow rate and longer pipeline will require a much larger facility, which is not reflected in the cost estimate.

Summary of Alternatives for Scotia and Rio Dell

A summary of alternatives for Scotia and Rio Dell has been presented by both W&K and SHN. Attached is Table 1, which presents capital costs (including soft costs for design and contingency) and differences between the proposed alternatives for various infrastructure elements in Scotia. Also listed below are highlights of our November 8 proposal as well as items that have been added to our original November 8, 2006, proposed infrastructure plan. Table 2 presents funding sources for infrastructure improvements.

Wastewater Collection

Wastewater collection components will include:

- All sewer collection lines located within the 100-year flood plain will have watertight manholes with vent lines located above the 100-year flood elevation.
- The residential/commercial collection system will be relocated and reconstructed; 6-inch minimum diameter sewer pipe.
- Trunk lines will be rehabilitated with cured-in-place lining.
- All service laterals will be replaced using a 4-inch minimum diameter run-out collection line to each building and include a service cleanout.
- New manholes and cleanouts will be installed in the residential and commercial areas. PALCO will repair existing manholes on their industrial property.
- Select portions of the lower Mill A and Mill B lines will not be lined at this time, the primary problem in these sections is related to leaking joints (typical of older VCP) and does not constitute an immediate priority.
- The work will require temporary paving.

Since our November 8 proposal, we have included an additional 250 lineal feet cured in place main line.

Wastewater Treatment Facility and Disposal

Our original November 8, 2006, proposal was to upgrade the existing Scotia WWTF, and wastewater disposal was not discussed. We believe that the existing Scotia wastewater treatment plant is not as flawed as W&K states and therefore does not require the amount of upgrades requested by the city engineer. However to move forward, PALCO agrees that the best path is to agree on the combined wastewater treatment and disposal system for this clearly is the greatest challenge facing Rio Dell's infrastructure in the near future and it has been made clear by the City that this is a primary condition of annexation. The combined wastewater treatment and disposal alternative under the annexation process is more advantageous for Rio Dell than Scotia.

Treatment of nitrates in effluent disposal is an issue raised by the City Engineer. However, according to the RWQCB, if a new facility were proposed for a community, then the effluent limitations for nitrates and ammonia would be set forth in a new permit for the new facility. However, if a facility were to be upgraded (with new structural components, new pumps etc.) it would not necessarily trigger new limitations for the facility. Furthermore, without monitoring data indicating that nitrates or ammonia were an issue for a facility, the RWQCB would not automatically require nutrient removal technology be implemented at an existing facility.

Water Distribution

Distribution system components will include:

- all new services from the new distribution lines (relocated to avoid property, structure, and easement conflicts) to residences without meters;
- replacement of the 3-inch and smaller diameter lines will meet the current City of Rio Dell standards, which require a minimum line size of 4-inches;
- verified serviceable or installation of new services and meters to commercial and industrial users; and
- temporary paving.

Since our November 8 proposal, we have included Residential water meters.

Water Treatment Plant

Water treatment system components will include:

- seismic retrofitting existing 0.4 million gallon water storage tank, and
- 2 new turbidity meters.

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Stormwater Collection System

Stormwater collection components will include:

- replacement of needed portions of the existing system,
- the installation of new and replacement drain inlets and manholes in the residential and commercial areas (PALCO will repair existing drain inlets and manholes on their industrial property); and
- temporary paving.

Since our November 8 proposal, we have included an additional 250 lineal feet of 36-inch diameter storm drain line.

Roads/ADA

Roads will include:

- 0.2-foot overlay of asphalt throughout;
- patching, leveling with appropriate base course thickness (as required);
- some curb replacement (as required);
- repair to the retaining wall at south end of B Street; and
- safety issues to address basic signage and stop bars.

Since our November 8 proposal, we have included curb cut outs for ADA access for areas where overlays will be placed.

Caltrans Local Assistance Procedure manual states:

The state and local governments are required to comply with either 28 CFR, Part 35, Nondiscrimination on the Basis of Disability in State and Local Government Services, or 28 CFR, Part 36, Nondiscrimination on the Basis of Disability by Public Accommodations and in Commercial Facilities, for all new construction and altering of existing improvements with or without federal-aid funds.

The pavement overlay work is defined as an "alteration," as such it will be required to install curb ramps or ensure the curb ramps are in compliance with current ADA standards within the project limits.

Rio Dell Requirements for Annexation and Recommendations for Scotia

Table 1 Infrastructure Analysis Cost Comparison Rio Dell/Scotia Annexation				
Infrastructure Item	SHN Cost ¹		W&K Annexation Cost ²	Major Difference
	CSD	Annexation		
Wastewater Collection	\$3,481,000	\$3,481,000	\$5,200,000	<ol style="list-style-type: none"> 1. Use the reduced length of new 8-in. (- 690 LF), 10-in. (-2,380 LF); and, 12-in. and 15-in. (- 3,340 LF) lines until routing for new plant is known. 2. Lines are hydraulically and physically functional, per SHN, for 5+ years with minimal maintenance; line will be replaced during (N) WWTP construction. 3. Severe I&I on lower end Mill A and Mill B collection system was reduced in 2006. 4. All (N) residential/commercial collection and laterals included. 5. Delete pumping stations, electrical, testing, flow meter, wet wells, and generator as not needed for present situation. Per Don Bryant (PALCO), all existing pump stations will be in industrial or private use/responsibility. Pumping only required if gravity mains are relocated to a non-gravity flow through to the plant.
Wastewater Treatment ³ (Total estimated costs)	\$1,870,000	\$13,000,000	\$8,450,000 (assumes W&K Sequox, alt 2A)	<ol style="list-style-type: none"> 1. Item 1: Mobilization \$ 40,000; W&K cost is less than 1%. We have found that a mobilization cost of 8 - 10% (including site construction staging work, temporary on-site utilities, and erosion control) is realistic. 2. Item 2: Raw sewage pump station each \$250,000; the pump station from Rio Dell will need to pump a peak instantaneous flow of over 6 MGD. Several large pumps (100-HP) will be required. We estimate the cost for the Rio Dell pump station at \$1.2 million, and Scotia at \$500,000. 3. Item 3: 8-inch force main from Rio Dell \$807,500: In order to pump 6 MGD, 2 miles will require a 12-inch force main at \$1.6 million. 4. Item 10: Controls and SCADA System \$200,000; we have estimated electrical and instrumentation and controls at \$1 million. On recent projects, we have found that electrical (and Instrumentation) is usually 20-30% of total project cost. No allowance for electrical controls installation cost has been included. 5. Item 11: Construct new tanks to house sequencing batch reactor equipment \$600,000; For a mean monthly wet weather flow of 1.9 MGD, the manufacturer proposed two tanks each 104 by 50 ft. by 25 ft high. For sequencing batch reactors alone, this would need

Table 1
Infrastructure Analysis Cost Comparison
Rio Dell/Scotia Annexation

Infrastructure Item	SHN Cost ¹		W&K Annexation Cost ²	Major Difference
	CSD	Annexation		
				<p>approximately 700 cubic yards and assuming \$1,000 per CY, \$700,000 would be appropriate. But if an additional tank were to be constructed for aerobic digestion then this number would need to be increased to at least \$1,000,000.</p> <p>6. Item 12: Furnish and install (N) sequencing batch reactor equipment \$600,000; for a combined flow of 1.92 MGD, we obtained a manufacturers' quote of \$475,000 (plus 20% for contractors mark-up) equipment cost alone is \$570,000. We estimate another \$285,000 for installation, for a total of \$855,000.</p> <p>7. Item 17: Furnish and install UV including tankage, \$350,000: We estimated the UV system as \$700,000.</p>
Wastewater Disposal ⁴	\$1,950,000	\$5,590,000	\$5,590,000 (per W&K Dec. 15, 2006 estimate)	<p>1. Storage volume presented by W&K is believed excessive. Reduction of Scotia projected flows (from W&K projection), both Scotia and Rio Dell Inflow and Infiltration (I/I), and further investigation of combining Type 1 and Type 2 tree farm disposal, can significantly reduce estimated effluent storage.</p> <p>2. Potentially, no pond will be required until Rio Dell effluent flows are pumped to Scotia for disposal.</p> <p>3. Agree with conceptual components for pond construction. Need to determine site, as pond lining may not be required pending subsurface investigation at potential pond site(s).</p> <p>4. Disagree that re-treatment system is required. Discussion with RWQCB and current permitting for Scotia does not require re-treatment. Future stored effluent processing could be sampled and either not treated or recycled to modified treatment plant processes.</p> <p>5. Length of effluent force main dependent upon location of plant final discharge.</p> <p>6. Question need for runoff control berms.</p> <p>7. Number and type of railroad crossings to serve disposal area should be reduced.</p>

Table 1
Infrastructure Analysis Cost Comparison
Rio Dell/Scotia Annexation

Infrastructure Item	SHN Cost ¹		W&K Annexation Cost ²	Major Difference
	CSD	Annexation		
Water Distribution	\$2,430,000	\$2,430,000	\$3,120,000	<ol style="list-style-type: none"> 1. W&K costs assume inter-tie and sufficient line size for hydraulic demand. 2. Present SHN understanding is that inter-tie with Rio Dell from North Court area may be constructed. However, SHN costs for CSD and annexation do not include inter-tie or line size increase sufficient for inter-tie (assumed at Rio Dell expense if inter-tie wanted). Therefore differences in costs are if no inter-tie is constructed; reduce new main size through Scotia from 12-in. to 10-in. diameter for 1,800 Linear Feet (LF), with corresponding appurtenances decrease, reduce new main size Scotia to North Court to 8-in. from 12-in. (1,200 LF), AND delete inter-tie 12-in. (- 800 LF), with corresponding appurtenances decrease. 3. Water services include meters in all cases. 4. Assumes Rio Dell takes over existing fire mains associated with W&K water plan, with no future compensation from PALCO for those facilities. 5. SHN assumes that temporary paving will be placed over all trenches, (hot mix), but street overlay will not be constructed until all in-street infrastructure work is completed.

Table 1
Infrastructure Analysis Cost Comparison
Rio Dell/Scotia Annexation

Infrastructure Item	SHN Cost ¹		W&K Annexation Cost ²	Major Difference
	CSD	Annexation		
Water Treatment	\$240,000	\$240,000	\$1,430,000	<ol style="list-style-type: none"> 1. We conditionally concur with the recommendation that additional monitoring and control would improve system reliability. No items are of immediate concern to existing operation and maintenance. Priorities may include: alarm system, continuous recording of effluent turbidity, and monitoring tank levels. 2. We do not concur with the need for a generator. Generators at the cogeneration plant currently provide adequate back-up power. Additionally, a PG&E link will be established for power backup. 3. There are advantages to switching from chlorine gas to hypochlorite, but it is not considered an immediate concern unless PALCO is shown not to be in compliance with the California Fire Code. 4. Seismic upgrade of the 1 MG raw water storage tank is not required at present. Add \$195,000 to SHN costs for seismic upgrade on 1-MG tank. 5. Filter backwash discharge treatment is not required at present. Discharge point is monitored downstream under current regulatory oversight. Determine if drainage swale is hydraulically connected to surface water source and apply for NPDES permit if required. Clean swale periodically and perform testing as required for disposal of sludge. 6. The exiting turbidimeters on the raw water and finished water monitor but do not record. Installing turbidimeters that have continuous monitoring capability on the raw and filtered water may be a priority for operation and compliance, so are included in SHN costs. The installation of additional turbidity and flow meters on the individual filters would be an aid to efficient and reliable operation but is not required for compliance. 7. Backwash recovery/treatment would add \$200,000 to the SHN cost estimate.
Storm Drainage	\$1,010,000	\$1,010,000	\$2,600,000	<ol style="list-style-type: none"> 1. Demolition and abandonment is necessary, but can be minimized based upon issues stated below and proper construction planning. 2. Storm drain system has and continues to function with limited, non-normal, annual upkeep in most areas. Lines of less than 12-in. diameter will not be replaced unless shown

Rio Dell Requirements for Annexation and Recommendations for Scotia

Table 1 Infrastructure Analysis Cost Comparison Rio Dell/Scotia Annexation				
Infrastructure Item	SHN Cost ¹		W&K Annexation Cost ²	Major Difference
	CSD	Annexation		
				<p>to be defective in conveying storm drainage. New 12-in., 18-in., and 24-in. storm drains are not proposed for installation by PALCO unless failing, or located in private or right-of-way corridors not compatible with future access or maintenance and operations.</p> <p>3. Specific sections of existing 36-in. diameter drain will be replaced to avoid easement and property encroachment issues, as well as replacement of identified deteriorated sections. 3,050 LF are proposed for construction.</p> <p>4. 60-in. dia. extension toward Eel River not immediate requirement.</p> <p>5. 54-in. dia. slip line not immediate requirement per SHN interpretation of CCTV tape.</p> <p>6. Replacement of all existing drain inlets is not an immediate requirement. Many are functional and structurally sound. Grates may require replacement or refitting.</p> <p>7. New drain inlets are required for relocating storm drain facilities from under buildings, off private property, etc.</p> <p>8. New storm drain manholes are required for relocating storm drain facilities from under buildings, off private property, etc.</p> <p>9. Retrofitting of existing storm drain manholes is appropriate for specific areas at this time. Not all existing storm drain manholes require retrofitting for function and maintenance and operation.</p> <p>10. NOTE: Storm drain facilities in the industrial areas of Mill A and Mill B not transferred to Rio Dell will remain under PALCO control and maintenance. Points of compliance for storm water monitoring and reporting to the RWQCB will be mutually agreed upon by PALCO and Rio Dell to isolate the two storm drain systems from violations not associated with the respective systems.</p>
Roads/ADA	\$1,700,000	\$1,700,000	\$3,250,000	<p>1. Conditionally agree with alleys identified for upgrade. Discuss need to pave only alleys subject to road status and, paving should be prioritized around construction of proposed wet and dry utility infrastructure.</p> <p>2. Conditionally agree with majority of roadways scheduled for improvement; however</p>

**Table 1
 Infrastructure Analysis Cost Comparison
 Rio Dell/Scotia Annexation**

Infrastructure Item	SHN Cost ¹		W&K Annexation Cost ²	Major Difference
	CSD	Annexation		
				<p>disagree with PALCO responsibility to improve Main St. A Main Street Overlay is not included in locations outside the proposed utility improvements projects. The street is owned and maintained by Humboldt County. PALCO should not be held responsible for county infrastructure.</p> <p>3. It appears from the W&K report that the retaining walls are being replaced because they are constructed of wood. Add retaining wall costs of \$100,000 to SHN costs for comparative purposes. Guardrails are similar to ADA issues, they are pre-existing conditions and do not necessarily require immediate attention.</p> <p>4. The ADA issues identified are pre-existing conditions that do not necessarily require immediate attention. Will be addressed if a facility change or improvement takes place, in relation to structures and street overlay work.</p> <p>5. Agree with concept of need for signage and striping; however, the extent of improvements needs to be discussed. Because of low traffic volume and local familiarity with the community, some typically dictated signage and striping associated with safety issues may not be necessary as the history of use and lack of safety related traffic incidents indicates adequacy.</p>
Totals	\$12,681,000	\$27,451,000	\$29,640,000	

1. Includes 30% contingency and buy in.
2. 30% contingency/engineering added to W&K base costs.
3. Wastewater treatment costs assume upgrade to existing Scotia WWTP (CSD), combined facility under annexation show total cost.
4. Wastewater disposal costs assume CSD only does not require significant storage, combined facility under annexation assumes total cost.
5. Note: left out cost associated with Ph I ESA (environmental) related issues.

Table 2
Funding Sources For Infrastructure Improvements

Infrastructure Item	Cost (\$MM) ¹	PALCO Cash (\$MM)	PALCO In-Kind (\$MM)	Rio Dell/Scotia Bonds/Grants (\$MM)	Scotia Assessment District (\$MM)
1. Wastewater Collection	3.481				3.481
2. Wastewater Treatment	13.000	1.870		11.130	
3. Wastewater Disposal	5.590	1.950		3.640	
4. Water Distribution	2.430				2.430
5. Water Treatment	0.240	0.240			
6. Storm Water	1.010				1.010
7. Roads	1.700				1.700
8. EIR/Engineering Studies	1.000	1.000			
9. WWTP Land	0.750		0.750		
10. Storage Pond Land	0.250		0.250		
11. WW Disposal Land (Use)	1.000		1.000		
12. Water Rights	--- ²				
13. Parks	--- ²				
14. Utility Systems	--- ²				
15. Rights of Way	--- ²				
Totals	30.451	5.060	2.000	14.77	8.621

1. \$MM: millions of dollars
 2. Additional infrastructure items to be donated by PALCO; however, current values are not available at this time.