



FINANCIAL CONSIDERATIONS, GIGABIT STRATEGIES

SEPTEMBER, 2018

AGENDA

- ❖ Models for Gigabit Strategy
- ❖ Capital Cost Estimates for Fiber to the Premise
- ❖ Feasibility Benchmarks and Financial Results
- ❖ Feedback and Possible Next Steps

STRATEGIES TO IMPROVE BROADBAND

Implement Broadband Friendly Policies and Ordinances and Smart Conduit Construction to Gain Assets and Attract Partners

Connect County Government and Smart City Applications, Potential partnerships with Caltrans, Crown Castle and Others

Connect other Key Community Anchor Institutions

 **Connect Homes and Businesses with Fiber through a Public-Private Partnership or Collaboration**

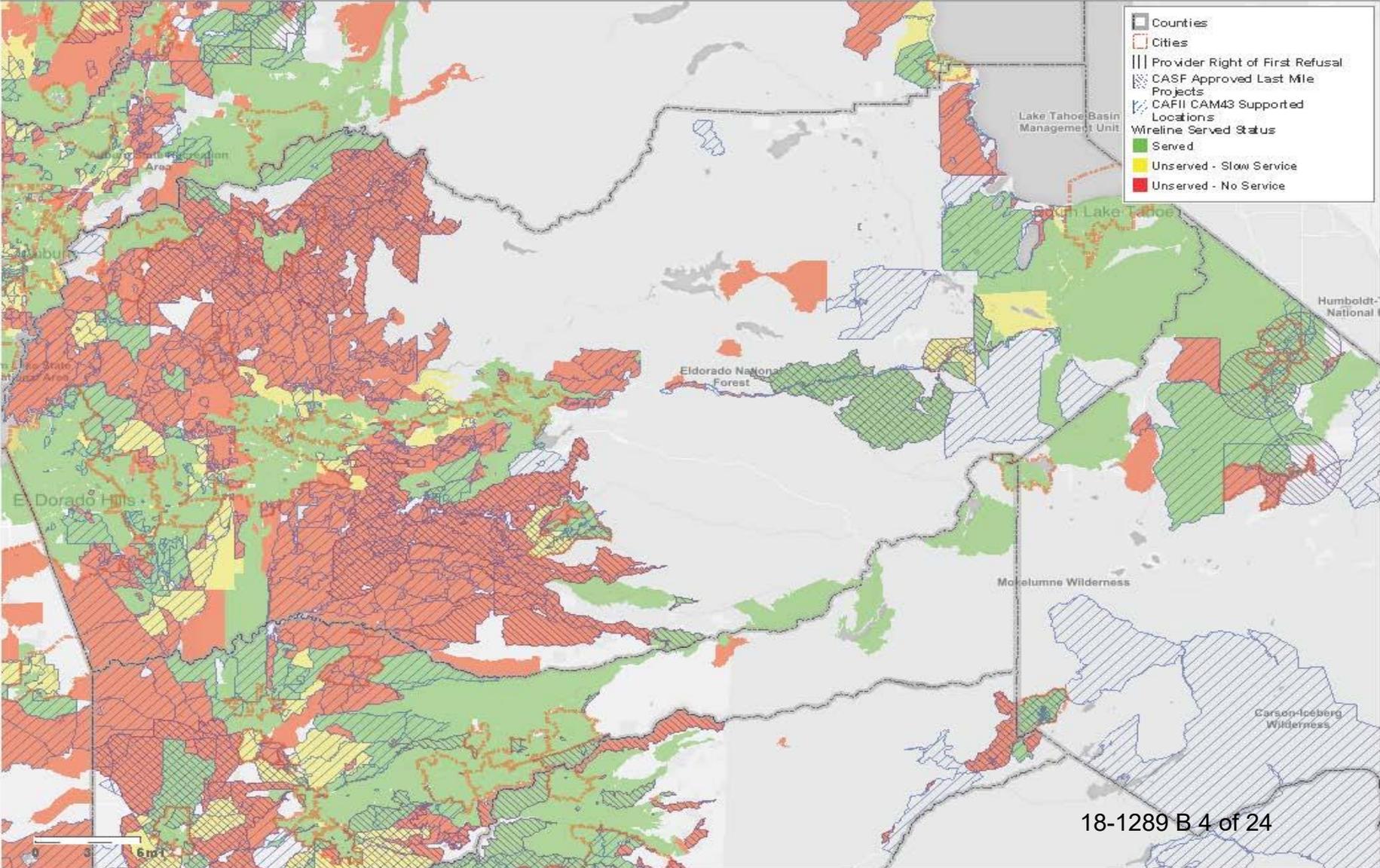
Further Evaluate Working with Existing Providers to Improve their Services (Comcast, AT&T, Calnet, CVIN, CENIC, Others)

CURRENT ASSESSMENT

Areas in red have no broadband service.



California Interactive Broadband Map Data as of: 12/31/2016



GIGABIT STRATEGIES

WHAT DOES IT GIVE US?

Now

- ❖ **Less than 6 Mbps**
- ❖ Limited Ability to Do What is Needed on the Internet
- ❖ **\$60 to \$100** pricing for residential customers
- ❖ **\$500 to \$750** pricing for business customers

Then - With Gigabit Strategy

- ❖ **1,000 Mbps (Symmetrical)**
- ❖ Heightened Ability to Do Anything on the Internet
- ❖ **\$60 to \$100** pricing for residential customers
- ❖ **\$500 to \$750** pricing for business customers
- ❖ Ability to Retain and Attract Businesses, Soloworkers
- ❖ Allow for More Telecommuting (Less Traffic, Pollution and Commute Times)
- ❖ **Increased Home Values (\$13,000 - \$30,000** based upon \$430,000 average home value)
- ❖ Increased GDP

MODELS TO CONSIDER

FOR GIGABIT STRATEGY

Work with phone/cable company

- County may or may not invest capital to incent the providers
- Low financial risk, and no control
- Shadow Conduit, Joint Builds

Wholesale or Public Private Partnership

- # of Financing Options
- Share in Capital Costs
- Share in the Revenue

Retail, County as the ISP

- County invests in Fiber to the Premise
- Provides Internet Services Directly

Financial, operational and political risk increases with each “step up”

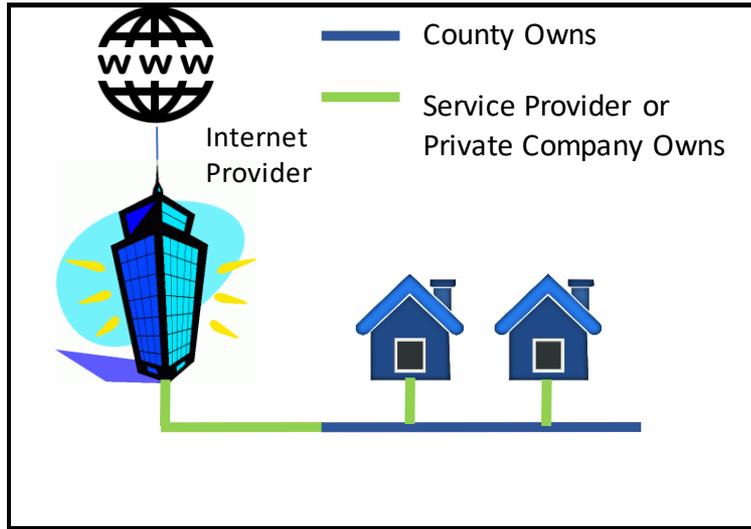
Control also increases with each “step up”

SUMMARY OF FINDINGS

Retail and Wholesale Models

- ❖ Neither are financially feasible without a form of Supplemental Funding (Grant) or Additional Revenue Sources (Annual Property Tax Assessment)
- ❖ With a \$150 - \$300 Annual Property Tax Assessment, the Retail and Wholesale Models work
- ❖ Both types of models and their respective results are included within this report.
- ❖ NEO focused on the Wholesale Models as the County has stated it does not want to be the ISP.

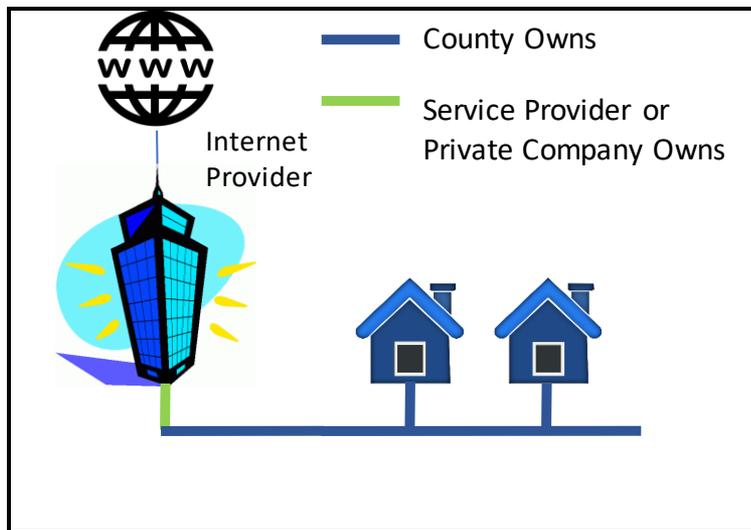
PUBLIC PRIVATE PARTNERSHIP MODELS



Shared Capital Costs and Revenue

In some cases, the local government builds and provides capital for fiber to the Neighborhoods.

In other cases, the local government builds and provides capital for all of the fiber.



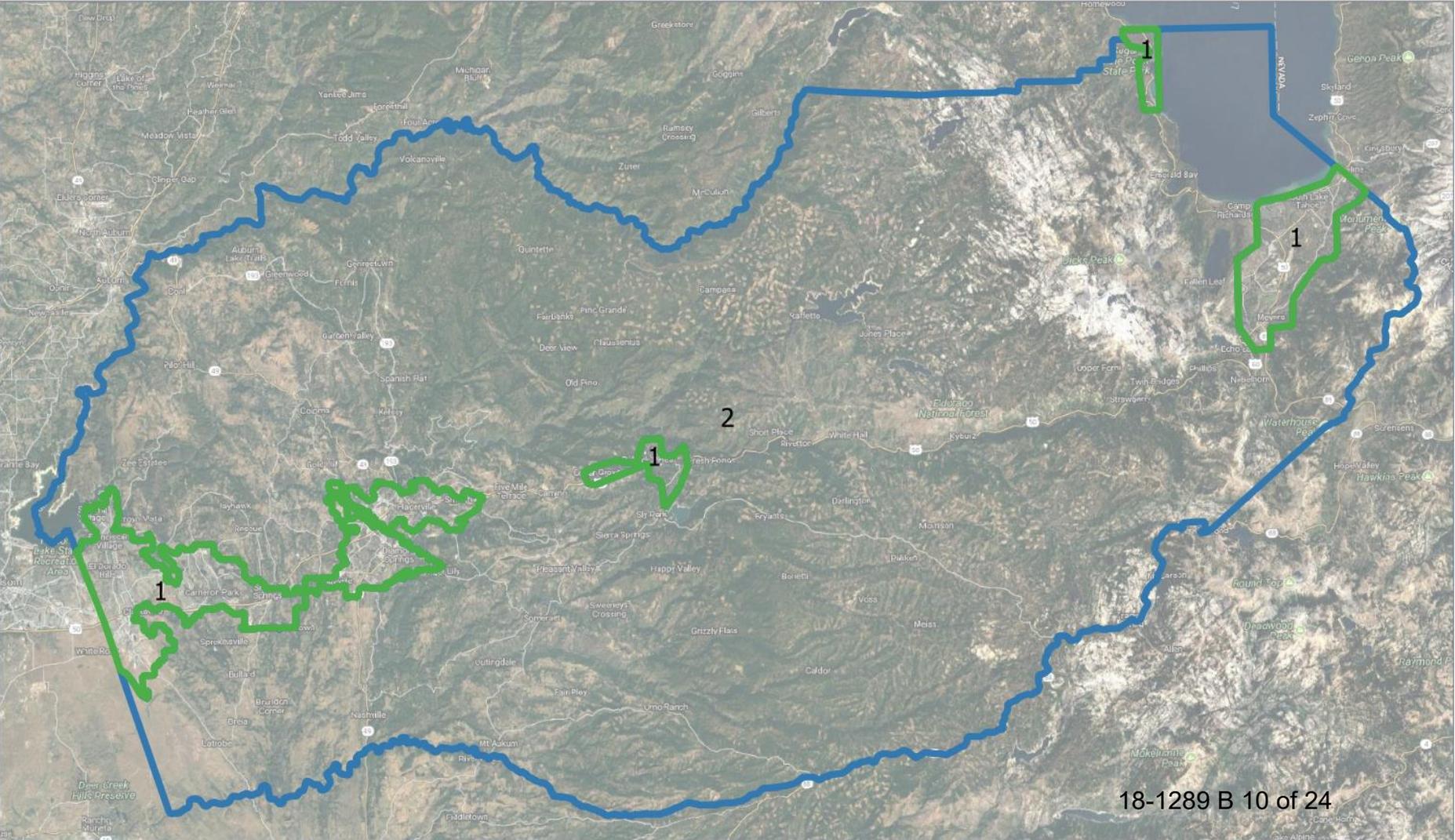
We assumed the County would pay for all of the fiber materials and construction.

Control – Risk – Reward Tension

CAPITAL COSTS



FIBER TO THE PREMISE GIGABIT BROADBAND AREAS



SUMMARY OF CAPITAL COSTS

Summary	Total Capital Costs
Area 1, Communities	\$ 131,886,557.47
Area 2, Rural	\$ 141,683,232.30
Area 2, Priority Areas	\$ 11,696,243.70
Businesses	\$ 67,826,164.00
Total	\$ 353,092,197.47

Capital Costs using a Take Rate of 40% with a RETAIL MODEL (100% of the Capital Costs) Capital Costs will Increase with a Greater Take Rate %.

Capital Costs for a WHOLESALE MODEL are estimated at \$291.394 Million

Area 2, Priority Areas:

California Advanced Service Fund has identified Priority Areas of:

Coloma, Garden Valley, Greenwood, Latrobe, Shingle Springs, Pilot Hill, Pleasant Valley, Rescue and West Shore.

FTTP CAPITAL COSTS, AREA 1

FTTP Estimates, Communities in Area 1		Cameron Park	Diamond Springs	El Dorado Hills	Placerville	Pollock Pines	Shingle Springs	South Lake Tahoe	Tahoma	Totals
Overall	Project Cost	\$ 12,702,854	\$ 10,803,112	\$ 27,550,518	\$ 12,114,517	\$ 7,379,887	\$ 4,857,292	\$ 28,570,111	\$ 4,125,444	\$ 108,103,736
	Cost per HHP	\$ 1,669	\$ 2,205	\$ 1,825	\$ 2,634	\$ 2,171	\$ 2,857	\$ 1,898	\$ 2,364	
	Cost per HHS	\$ 4,173	\$ 5,512	\$ 4,561	\$ 6,584	\$ 5,426	\$ 7,143	\$ 4,746	\$ 5,910	
	Cost per MI	\$ 122,978	\$ 97,696	\$ 112,413	\$ 88,336	\$ 98,948	\$ 85,794	\$ 108,602	\$ 94,820	
Engr. Labor	Project Cost	\$ 669,737	\$ 543,273	\$ 1,430,918	\$ 594,752	\$ 371,512	\$ 234,883	\$ 1,473,980	\$ 203,968	\$ 5,523,022
Aerial Labor	Project Cost	\$ 1,041,321	\$ 1,114,584	\$ 2,470,329	\$ 1,382,337	\$ 751,840	\$ 570,837	\$ 2,651,726	\$ 438,647	\$ 10,421,620
UG Labor	Project Cost	\$ 3,499,289	\$ 3,672,168	\$ 8,235,588	\$ 4,520,474	\$ 2,478,914	\$ 1,861,497	\$ 8,813,139	\$ 1,441,091	\$ 34,522,160
Tech Services Labor	Project Cost	\$ 908,822	\$ 588,031	\$ 1,802,119	\$ 553,079	\$ 408,126	\$ 206,636	\$ 1,796,723	\$ 211,650	\$ 6,475,185
Customer Premise Labor and Install Materials including Splitters	Project Cost	\$ 4,032,071	\$ 2,595,462	\$ 7,998,259	\$ 2,436,556	\$ 1,800,933	\$ 900,466	\$ 7,973,017	\$ 926,897	\$ 28,663,661
OSP Materials	Project Cost	\$ 2,300,877	\$ 2,115,939	\$ 5,124,455	\$ 2,458,980	\$ 1,436,105	\$ 1,002,346	\$ 5,372,676	\$ 822,565	\$ 20,633,944
Electronics	Project Cost	\$ 250,738	\$ 173,656	\$ 488,851	\$ 168,340	\$ 132,457	\$ 80,626	\$ 488,851	\$ 80,626	\$ 1,864,144
Total Project Capital Costs Before Contingencies		\$ 12,702,854	\$ 10,803,112	\$ 27,550,518	\$ 12,114,517	\$ 7,379,887	\$ 4,857,292	\$ 28,570,111	\$ 4,125,444	\$ 108,103,736
Administrative and Project Management (2%)		\$ 254,057	\$ 216,062	\$ 551,010	\$ 242,290	\$ 147,598	\$ 97,146	\$ 571,402	\$ 82,509	\$ 2,162,075
Contingency (20%)		\$ 2,540,571	\$ 2,160,622	\$ 5,510,104	\$ 2,422,903	\$ 1,475,977	\$ 971,458	\$ 5,714,022	\$ 825,089	\$ 21,620,747
Total Capital Costs		\$ 15,497,482	\$ 13,179,797	\$ 33,611,632	\$ 14,779,711	\$ 9,003,462	\$ 5,925,896	\$ 34,855,536	\$ 5,033,042	\$ 131,886,557

FTTP CAPITAL COSTS, CASF PRIORITY AREAS

FTTP Estimates, Priority Areas in Area 2		Chrome Ridge	Coloma	Cool	Garden Valley	Georgetown	Greenwood	Latrobe	Pilot Hill	Pleasant Valley	Rescue	Totals
Overall	Project Cost	\$ 120,352	\$ 334,535	\$ 1,520,823	\$ 1,055,543	\$ 4,370,329	\$ 320,827	\$ 158,904	\$ 267,989	\$ 526,242	\$ 911,541	\$ 9,587,085
	Cost per HHP	\$ 4,814	\$ 7,434	\$ 2,880	\$ 3,095	\$ 4,735	\$ 6,548	\$ 13,242	\$ 5,826	\$ 3,556	\$ 2,319	
	Cost per HHS	\$ 12,035	\$ 18,585	\$ 7,201	\$ 7,739	\$ 11,837	\$ 16,369	\$ 33,105	\$ 14,565	\$ 8,889	\$ 5,799	
	Cost per MI	\$ 256,069	\$ 86,892	\$ 89,041	\$ 88,850	\$ 73,070	\$ 89,617	\$ 122,233	\$ 98,526	\$ 91,680	\$ 104,176	
Engr. Labor	Project Cost	\$ 2,532	\$ 12,195	\$ 71,670	\$ 48,446	\$ 201,434	\$ 11,723	\$ 3,947	\$ 9,376	\$ 22,511	\$ 43,270	\$ 427,104
Aerial Labor	Project Cost	\$ 4,863	\$ 38,811	\$ 172,309	\$ 119,827	\$ 602,897	\$ 36,150	\$ 13,212	\$ 27,526	\$ 57,987	\$ 88,357	\$ 1,161,939
UG Labor	Project Cost	\$ 16,255	\$ 125,463	\$ 562,327	\$ 390,799	\$ 1,946,595	\$ 116,896	\$ 42,468	\$ 89,026	\$ 188,486	\$ 291,054	\$ 3,769,369
Tech Services Labor	Project Cost	\$ 8,001	\$ 10,159	\$ 67,341	\$ 44,806	\$ 112,704	\$ 10,465	\$ 6,692	\$ 10,236	\$ 21,182	\$ 50,355	\$ 341,941
Customer Premise Labor and Install Materials including Splitters	Project Cost	\$ 15,796	\$ 26,431	\$ 280,744	\$ 182,735	\$ 491,323	\$ 27,701	\$ 9,248	\$ 26,471	\$ 80,644	\$ 210,527	\$ 1,351,620
OSP Materials	Project Cost	\$ 36,136	\$ 84,707	\$ 321,689	\$ 226,845	\$ 956,014	\$ 81,123	\$ 46,566	\$ 68,586	\$ 117,334	\$ 185,892	\$ 2,124,892
Electronics	Project Cost	\$ 36,769	\$ 36,769	\$ 44,743	\$ 42,085	\$ 59,362	\$ 36,769	\$ 36,769	\$ 36,769	\$ 38,098	\$ 42,085	\$ 410,218
Total Project Capital Costs Before Contingencies		\$ 120,352	\$ 334,535	\$ 1,520,823	\$ 1,055,543	\$ 4,370,329	\$ 320,827	\$ 158,904	\$ 267,989	\$ 526,242	\$ 911,541	\$ 9,587,085
Administrative and Project Management (2%)		\$ 2,407	\$ 6,691	\$ 30,416	\$ 21,111	\$ 87,407	\$ 6,417	\$ 3,178	\$ 5,360	\$ 10,525	\$ 18,231	\$ 191,742
Contingency (20%)		\$ 24,070	\$ 66,907	\$ 304,165	\$ 211,109	\$ 874,066	\$ 64,165	\$ 31,781	\$ 53,598	\$ 105,248	\$ 182,308	\$ 1,917,417
Total Capital Costs		\$ 146,829	\$ 408,133	\$ 1,855,404	\$ 1,287,762	\$ 5,331,801	\$ 391,409	\$ 193,863	\$ 326,947	\$ 642,015	\$1,112,080	\$ 11,696,244

California Advanced Service Fund has identified Priority Areas within El Dorado County: Coloma, Garden Valley, Greenwood, Latrobe, Shingle Springs, Pilot Hill, Pleasant Valley, Rescue and West Shore.

Total for CASF Priority Areas is approximately \$11.7 Million

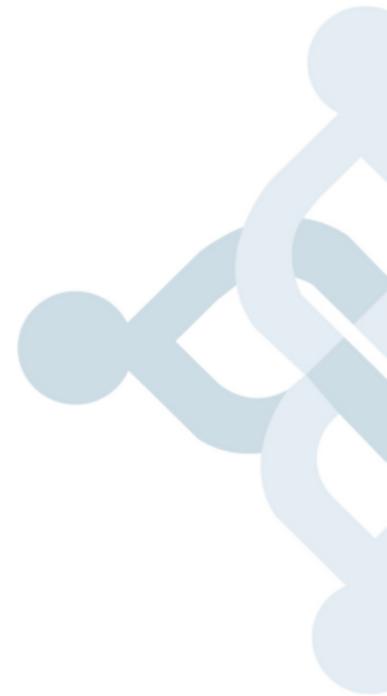
CAPITAL COSTS, WHOLESALE MODEL

	Phase 1	Phase 2	Phase 3	Phase 4	Totals
Projected Capital Costs	\$ 73,282,838	\$ 60,423,342	\$ 31,456,974	\$ 73,684,655	\$ 238,847,808
Administrative and Project Management Fee (2%)	\$ 1,465,657	\$ 1,208,467	\$ 629,139	\$ 1,473,693	\$ 4,776,956
Contingency (20%)	\$ 14,656,568	\$ 12,084,668	\$ 6,291,395	\$ 14,736,931	\$ 47,769,562
Total	\$ 89,405,062	\$ 73,716,477	\$ 38,377,508	\$ 89,895,279	\$ 291,394,326

Notes about Phasing and Capital Costs:

- Build in Tranches and Phases
- Build to Demand (i.e. Neighborhood Competition, “Champions”)
- Consider Building to Businesses, Industrial Parks
- Consider Building to 500-1000 feet of distribution fiber first
- Capital Costs for the Wholesale Model assume the Service Provider would pay for the Electronics and Customer Premise Labor and Install Materials.

FEASIBILITY BENCHMARKS AND FINANCIAL RESULTS WHOLESALE MODELS



FEASIBILITY BENCHMARKS

- ❖ Debt Coverage of 125% allows funding of next tranche
- ❖ 10 year Cumulative Net Operating Cashflows vs. 10 year Debt Balance
- ❖ Positive EBITDA
- ❖ Positive Net Income (after Principal and Interest Payments)
- ❖ Positive Cashflow

KEY ASSUMPTIONS, WHOLESALE MODEL

- ❖ \$353 Million in Total Capital Costs
 - \$291 Million to build fiber network to each homes/business would be paid by the County.
 - The Service Provider assumes cost of equipment and the costs to install a customer, turn up service (approximately \$30 – 62 Million)
- ❖ Residential pricing ranges from \$80 - \$100 per month for Gigabit services
- ❖ Business pricing ranges from \$80 - \$800 for services
- ❖ \$30 revenue share per customer is paid to the County by the service provider for residential services
- ❖ Approximately 10% of add-on business revenue is paid to the County for business services
- ❖ 15% take rate in year 1 and an additional 15% in year 2
- ❖ Additional take rate of 5% in year 3 and 4

SUMMARY OF FINDINGS, WHOLESALE MODEL

Financial Results, Prior to Application of an Annual Property Tax Assessment (Operating Cashflows, Revenues from PPP)

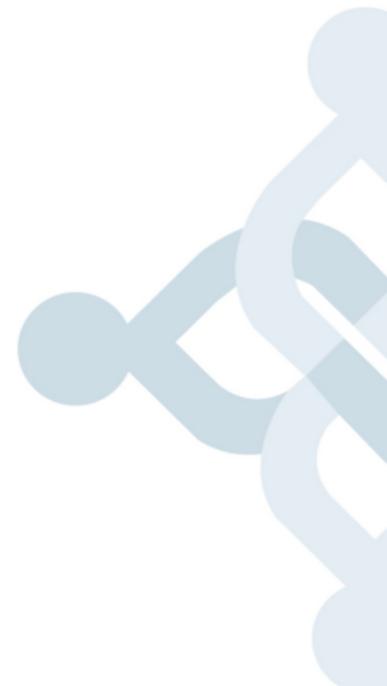
- ❖ NEO modeled the Revenue Share from Service Providers and the financial results include:
 - ❖ EBITDA of
 - (\$2.4M) in Year 1
 - (\$2.5M) in Year 2
 - (\$369k) in Year 3
 - Positive EBITDA starting in Year 4
 - ❖ Net Income after Principal and Interest Payments
 - (\$7.8M) in Year 1
 - (\$12.3M) in Year 2
 - (\$12.5M) in Year 3
 - Annual Losses Continue, Not enough Net Operating Cashflows to Cover Debt Service without Additional Revenue from Tax Assessment

Wholesale
Model, \$300
Annual Property
Tax Assessment



	2019	2020	2021	2022	2023
	Forecast Project Period				
	Year 1	Year 2	Year 3	Year 4	Year 5
Revenues					
Service Revenues					
Residential, Phase 1	\$ 871,400	\$ 2,265,800	\$ 3,079,200	\$ 3,544,000	\$ 3,718,400
Residential, Phase 2	\$ -	\$ 814,000	\$ 2,116,800	\$ 2,876,500	\$ 3,310,800
Residential, Phase 3	\$ -	\$ -	\$ 393,400	\$ 1,022,900	\$ 1,390,200
Residential, Phase 4	\$ -	\$ -	\$ -	\$ 940,300	\$ 2,444,900
Total Revenues from Operations	\$ 1,039,200	\$ 3,460,300	\$ 6,037,000	\$ 8,887,300	\$ 11,401,500
Expenses					
Utilities, Power & Environmental	\$ 12,000	\$ 24,000	\$ 36,000	\$ 48,000	\$ 48,000
Salaries, Technicians	\$ 1,333,735	\$ 2,399,711	\$ 2,498,241	\$ 3,439,712	\$ 3,172,690
Salaries, Managerial Staff	\$ 480,000	\$ 600,000	\$ 600,000	\$ 720,000	\$ 720,000
Payroll Taxes and Benefits	\$ 471,571	\$ 779,925	\$ 805,543	\$ 1,081,525	\$ 1,012,099
Health and Dental Insurance	\$ 650,150	\$ 1,109,892	\$ 1,146,840	\$ 1,559,892	\$ 1,459,759
Equipment Refresh, CPE	\$ -	\$ -	\$ -	\$ -	\$ -
Sales Churn, percent of Total Revenue	\$ 20,784	\$ 69,206	\$ 120,740	\$ 177,746	\$ 228,030
Marketing and Sales, percent of Total Revenue	\$ 51,960	\$ 173,015	\$ 301,850	\$ 444,365	\$ 570,075
Residential Customer Care, Operations	\$ 4,532	\$ 8,845	\$ 11,884	\$ 19,323	\$ 24,085
Business Customer Care, Operations	\$ -	\$ 3,618	\$ 7,237	\$ 8,443	\$ 9,649
Total Expenses	\$ 3,487,554	\$ 5,926,995	\$ 6,406,062	\$ 8,498,710	\$ 8,244,090
EBITDA	\$ (2,448,354)	\$ (2,466,695)	\$ (369,062)	\$ 388,590	\$ 3,157,410
	2019	2020	2021	2022	2023
	Forecast Project Period				
	Year 1	Year 2	Year 3	Year 4	Year 5
Interest Expense	\$ 3,841,971	\$ 6,944,098	\$ 8,470,589	\$ 12,177,348	\$ 11,948,170
Principal Payments	\$ 1,486,223	\$ 2,777,285	\$ 3,537,917	\$ 5,188,554	\$ 5,417,731
Net Income	\$ (7,776,548)	\$ (12,188,079)	\$ (12,377,567)	\$ (16,977,311)	\$ (14,208,492)
Property Assessment Fees					
Annual Property Tax Assessment, Residential	\$ 26,838,900	\$ 26,838,900	\$ 26,838,900	\$ 26,838,900	\$ 26,838,900
Annual Property Tax Assessment, Commercial	\$ 3,294,300	\$ 3,294,300	\$ 3,294,300	\$ 3,294,300	\$ 3,294,300
Total Property Tax Assessment Fees	\$ 30,133,200	\$ 30,133,200	\$ 30,133,200	\$ 30,133,200	\$ 30,133,200
Net Income after Property Tax Assessment	\$ 22,356,652	\$ 17,945,121	\$ 17,755,633	\$ 13,155,889	\$ 15,924,708

Wholesale Model, \$150 Annual Property Tax Assessment



	2019	2020	2021	2022	2023
	Forecast Project Period				
	Year 1	Year 2	Year 3	Year 4	Year 5
Revenues					
Service Revenues					
Residential, Phase 1	\$ 871,400	\$ 2,265,800	\$ 3,079,200	\$ 3,544,000	\$ 3,718,400
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Residential, Phase 4	\$ -	\$ -	\$ -	\$ 940,300	\$ 2,444,900
Total Revenues from Operations	\$ 1,039,200	\$ 3,460,300	\$ 6,037,000	\$ 8,887,300	\$ 11,401,500
Expenses					
Utilities, Power & Environmental	\$ 12,000	\$ 24,000	\$ 36,000	\$ 48,000	\$ 48,000
Salaries, Technicians	\$ 1,333,735	\$ 2,399,711	\$ 2,498,241	\$ 3,439,712	\$ 3,172,690
Salaries, Managerial Staff	\$ 480,000	\$ 600,000	\$ 600,000	\$ 720,000	\$ 720,000
Payroll Taxes and Benefits	\$ 471,571	\$ 779,925	\$ 805,543	\$ 1,081,525	\$ 1,012,099
Health and Dental Insurance	\$ 650,150	\$ 1,109,892	\$ 1,146,840	\$ 1,559,892	\$ 1,459,759
Equipment Refresh, CPE	\$ -	\$ -	\$ -	\$ -	\$ -
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Principal Payments	\$ 1,486,223	\$ 2,777,285	\$ 3,537,917	\$ 5,188,554	\$ 5,417,731
Net Income	\$ (7,776,548)	\$ (12,188,079)	\$ (12,377,567)	\$ (16,977,311)	\$ (14,208,492)
Property Assessment Fees					
Annual Property Tax Assessment, Residential	\$ 13,419,450	\$ 13,419,450	\$ 13,419,450	\$ 13,419,450	\$ 13,419,450
Annual Property Tax Assessment, Commercial	\$ 1,647,150	\$ 1,647,150	\$ 1,647,150	\$ 1,647,150	\$ 1,647,150
Total Property Tax Assessment Fees	\$ 15,066,600	\$ 15,066,600	\$ 15,066,600	\$ 15,066,600	\$ 15,066,600
Net Income after Property Tax Assessment	\$ 7,290,052	\$ 2,878,521	\$ 2,689,033	\$ (1,910,711)	\$ 858,108

SUMMARY OF FINDINGS, WHOLESALE MODEL

Results, \$300 Annual Fee

- ❖ \$30 Million in Annual Property Tax Assessments offsets losses from Operating Cashflows
- ❖ Additional \$20 Million can be paid toward Principal starting in Year 2
- ❖ 10 Year Cumulative Cashflows over \$330 Million
- ❖ 10 year debt balance is \$161 Million (great!)
- ❖ Debt can be paid off within 8-10 Years (great!)

Results, \$150 Annual Fee

- ❖ \$15 Million in Annual Property Tax Assessments offsets losses from Operating Cashflows
- ❖ No Additional money can be paid toward Principal
- ❖ 10 Year Cumulative Cashflows over \$182 Million
- ❖ 10 year debt balance is \$242 Million (not good)
- ❖ Debt can be paid off in 20 years (good)

Conclusion: \$150 is the minimum annual property tax assessment that should be considered. The financial model works better with a \$200 - \$300 assessment.

GIGABIT STRATEGIES

WHAT DOES IT GIVE US?

PERSPECTIVE ON \$300 ANNUAL PROPERTY TAX FOR 10 YEARS

Now

- ❖ **Less than 6 Mbps**
- ❖ Limited Ability to Do What is Needed on the Internet
- ❖ **\$60 to \$100** pricing for residential customers
- ❖ **\$500 to \$750** pricing for business customers

Then - With Gigabit Strategy

- ❖ **1,000 Mbps (Symmetrical)**
- ❖ Heightened Ability to Do Anything on the Internet
- ❖ **\$60 to \$100** pricing for residential customers
- ❖ **\$500 to \$750** pricing for business customers
- ❖ Ability to Retain and Attract Businesses, Soloworkers
- ❖ Allow for More Telecommuting (Less Traffic, Pollution and Commute Times)
- ❖ Increased Home Values (**\$13,000 - \$30,000 based upon \$430,000 homes**)
- ❖ **Return on \$3,000 Property Tax Investment = 433% to 1000%**
- ❖ Increased GDP

POSSIBLE NEXT STEPS

First:

- Policies and Ordinances
 - Dig Once and Shadow Conduit
 - Land Use Policies
- Capital Costs and Financial Assumptions
 - Research and Apply for Grant Funding for CASF Priority Areas
 - Meeting with CALTRANS regarding use of their Right of Way, Permitting Fees, etc.
 - Ride-out of Routes, Verify Construction Assumptions
 - Meet with Fiber Providers to Further Engage over use of their Fiber
 - Further Verify Financial Assumptions
- Community Engagement
 - Surveys regarding Annual Assessment Fees
 - Take rate percentage assumptions
 - Support regarding County-led PPP
- Service Providers
 - Determine One Provider or Multiple Providers
 - Engage in Negotiations for PPP

Then, Consider:

- Vote?
 - Community Engagement
 - Meet with LAFCO and engage a Municipal Advisor
- Final Design and Engineering
 - Finalize capital costs with final engineering
 - Issue RFPs for Construction



QUESTIONS?

THANK YOU