

**Economic Analysis of the Ascension Sewer Project
for Ascension Parish**

Prepared for

Ascension Sewer LLC

Prepared by

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***The analysis and findings represent Dr. Richardson's analysis and findings and do not represent the opinion of any other organization with which he is associated.**

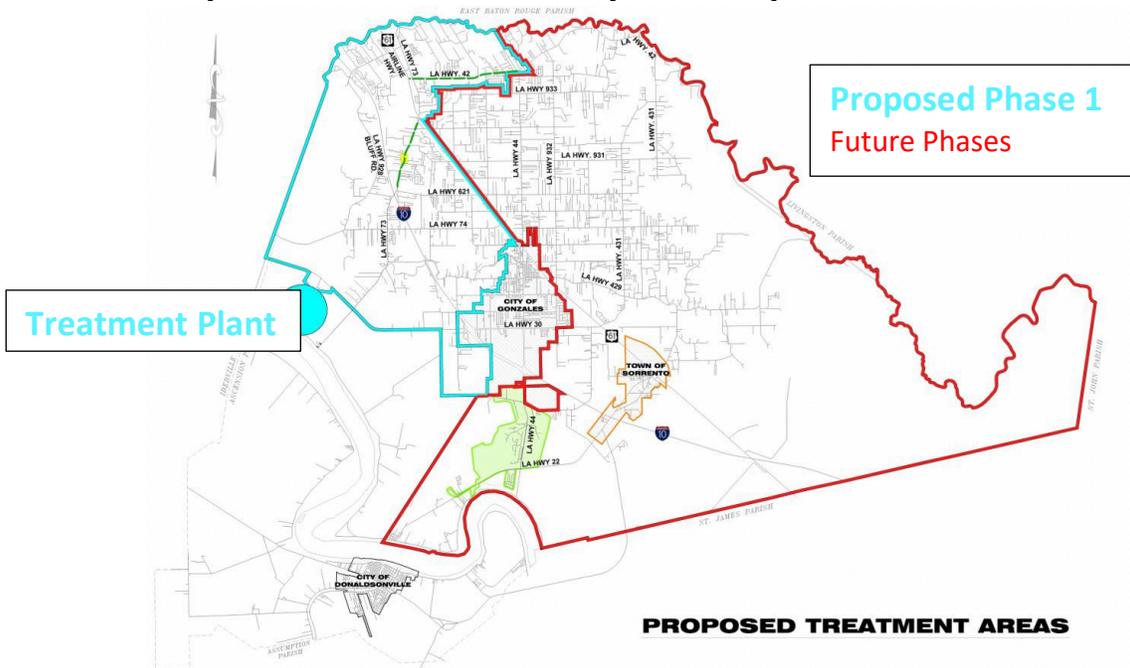
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Introduction

Ascension Parish is in negotiations with Ascension Sewer LLC to bring a regional sewage treatment system to the east bank of the Parish as illustrated in Map 1. About 90% of the Ascension Parish population lives in the east bank of Ascension Parish with about 80% of the population living in the area outside of Gonzales, an incorporated city with its own sewer system. The proposed transaction will consolidate Parish customers with the private customers of Ascension Wastewater Treatment (“AWT”), expanding the Parish’s customer base to just over 19,500 customers or about one half of the households in the east bank of Ascension Parish. This number will grow as the Parish grows and sewage treatment system expands to other areas of the parish.

¹ Prepared by Dr. James A. Richardson, Alumni Professor of Economics and Public Administration at Louisiana State University. The analysis, findings, and conclusions represent the analysis, findings, and conclusions of Dr. Richardson and do not necessarily represent the views of any organization with whom Dr. Richardson may be associated.

Map 1. Ascension Parish System Improvement²



Ascension Parish has grown from just over 50,000 persons in 1980 to 77,347 in 2000 according to the U.S. Census and to an estimated 124,672 by the American Community Survey in 2018. From 1980 to 2018 Ascension Parish has grown by over 149% compared to the state’s population growth over this same time period of about 9%. From 2000 to 2018 the Ascension Parish population has grown by over 60% while the state’s population has grown by just over 6.5%.

The unincorporated areas of Ascension Parish on the east bank are also the areas in which the continued growth of the Parish is expected. From 2010 to 2018 Ascension Parish’s population grew by 13% with a 10% growth in both Gonzales and Donaldsonville and a 14% growth in the unincorporated areas. The focus of the negotiations between the Ascension Parish Council and Ascension Sewer LLC is the

² From presentation by Ascension Sewer LLC to the Utilities Committee of the Ascension Parish Council, May 7, 2019.

unincorporated areas on the east side which is the Parish's fastest growing area.

The purpose of the negotiations is to consolidate the Parish's dispersed and inadequate sewer infrastructure, recognizing that water quality regulations on Bayou Manchac and other waterways in the Parish that receive treated sewer effluent will become more stringent. The more stringent water quality regulations will increase the cost to citizens directly and/or indirectly by increasing the costs to the Parish. If more stringent water quality regulations are not passed and sewer effluent flows into Bayou Manchac and other waterways in the Parish, there will be potential costs in terms of additional costs imposed by state and/or federal agencies, less land development, and reduced land values.

The purpose of this study is to examine the benefits and costs of the proposed Cooperative Endeavor Agreement ("CEA") with Ascension Sewer LLC in which Ascension Parish retains ownership and control of the assets of the sewer system; retains oversight of performance and rate-making authority; will benefit from the growth of the utility system without any investment; and, the Parish-owned utility will continue to qualify for federal and state disaster recovery funds and low-cost financing.

Ascension Sewer LLC will acquire AWT and integrate its customers into the Ascension Parish sewer system. Ascension Sewer LLC will be responsible for all operating expenses and capital investments including an estimated \$215 million initial outlay and will have the exclusive right to finance, construct, operate, and maintain the East Bank Regional Sewer System.

II. Benefits and Costs of a Cooperative Endeavor Agreement in Upgrading the Sewer System in the Unincorporated Area of Ascension Parish on the East Bank

Ascension Parish has to deal with its inadequate sewer infrastructure. One alternative in Louisiana is a CEA, a cooperative endeavor agreement between two or more public and private sectors with these arrangements typically being of a long-term nature. Similar public-private partnerships are primarily used for infrastructure investments such as water and sewerage systems. Ascension Parish, the public entity, has to be certain that its economic benefits from the endeavor exceed any costs that it may incur.

The economic benefits associated with allowing Ascension Sewer, LLC to finance, construct, manage and operate the East Bank Regional Sewer System to Ascension Parish are estimated as follows:

- The Parish will immediately benefit from not having to allocate in its annual budget around \$4.1 million for ongoing operations and capital expenditures with respect to the Parish sewer system. According to the Ascension Parish budget documents, it made the following transfers for its sewer and water functions from 2014 through 2018:
 - - 2014 \$4,250,000 with all for operating budget
 - 2015 \$4,800,000 with \$2,325,000 for operating budget and \$2,475,000 for the capital budget
 - 2016 \$4,885,000 with \$4,050,000 for the operating budget and \$835,000 for the capital budget
 - 2017 \$6,762,000 with \$12,000 for the operating budget and \$6,760,000 for the capital budget

- 2018 \$4,025,000 with no distribution illustrated
- 2019 unknown at this time

- Estimates for 2020 – 2050
 - If Ascension Parish decides to forego the CEA, then it would be estimated that the Parish would continue to transfer just over \$4,100,000 per year to support its sewer and water operations and capital needs. This may vary from year to year, but is fully consistent with what has happened from 2014 through 2019.
 - If Ascension Parish participates in the CEA with Ascension Sewer LLC, the parish would not have to transfer the \$4,100,000 annually to support its sewer and water operations and capital needs. This would mean automatically an increase of \$4,100,000 to cover other needs of the Parish without any increase in taxes or fees or without any reason to downsize other programs.
 - The nominal value of this transfer of funds over 30 years is \$124 million and the present value of the transfer of \$4,100,000 from 2020 through 2050 is \$73.2 million with a discount rate of 4.0%³.
 - By participating in the CEA with Ascension Sewer LLC, Ascension Parish gains an estimated \$73.2 million.

- Ascension Sewer LLC plans to spend around \$215 million for upgrading the Parish sewer system and construct a wastewater treatment facility. This spending in Ascension Parish will create over a three-year construction period 324 jobs in construction and other sectors of the economy and will generate local tax revenues for local governments in Ascension Parish of about

³ The 4% discount rate is about 100 basis points higher than the current corporate bond rate.

\$1.024 million per year during the three-year construction project. The present value of these local tax collections is \$2.97 million.

- Ascension Parish will gain an estimated \$76.30 million as of 2019 from working with Ascension Sewer LLC on the upgrade of the sewer system in Ascension Parish.
- Also, given an improved sewerage treatment system, it could easily encourage even more individuals and families to consider Ascension Parish as a place to live and work. The projections are already robust but additional persons and families may want to consider Ascension Parish knowing that they will not have to make use of a septic tank and that the issue of sewerage treatment has been resolved with the environmental agencies in the State and the federal government.

There is no direct cost to Ascension Parish; though, there can be indirect costs. As I understand it, there will be a 4% increase in sewer fees for the first ten years of the CEA between Ascension Parish and Ascension Sewer LLC. Even without the upgrade in the sewer system there still could have been increases in the user fee charged to individuals and businesses. But, if we take the most cautious assumptions that there would be the 4% increase in user fees if the Ascension Sewer LLC plan is implemented over the first ten years of the project and no increases in fees if the plan is not undertaken, the present value of the estimate of the loss of tax revenues by local governments in Ascension Parish over the ten-year period is \$1.4 million. These dollars spent on the increased charges for the upgraded sewer system could have been spent on other purchases in the parish thereby costing the Parish governments some tax revenues.

This estimated loss of tax revenues from customers paying a slightly higher user fee can be offset by having about a 9% increase in the number of households moving into Ascension Parish with a median household income of \$75,000 which is the median household income in Ascension Parish as of 2018. The average number of new households moving to Ascension Parish from 2015 through 2019 averaged about 660 per year so an additional 60 new households moving to Ascension Parish would offset any downturn in local tax receipts if the increased user fees for sewer service led to a reduction in local tax receipts.

If we are merely examining the budgeting and tax numbers, the CEA between Ascension Parish and Ascension Sewer LLC is an investment coup for Ascension Parish. The Parish saves considerable dollars that it is now spending on sewer and water operations and capital which it will forego if the CEA is approved. And if we tack on the local revenues that will be forthcoming from the construction activities, the net new revenues available to Ascension Parish grows even more.

III. A Do Nothing Alternative, but Satisfy DEQ

Another approach to considering the benefit-cost analysis of the CEA between Ascension Parish and Ascension Sewer LLC is to examine other alternatives. This becomes very speculative, but one alternative that has been discussed is the “Do Nothing” approach.

But, the information from the Department of Environmental Quality seems to be very direct and very focused that Ascension Parish must improve its sewerage treatment processes. It is my understanding that Ascension Parish is considering a “Do Nothing” alternative but doing enough work to comply with the DEQ requirements. It is also my understanding that this will require a rate increase for a customer base

of about 3,500 current or new Parish residents or new taxes or a reduction in expenditures for certain public services and being moved to the sewer upgrade program. I am not sure how much Ascension Parish would have to spend to comply with the DEQ. But, we can make some estimates of what each \$10,000,000 in additional expenditures for sewer improvements would mean to each of the 3,500 new residents of the parish or residents that would be asked to pay the new charge.

Each expenditure of \$10,000,000 means an extra \$2,857 per year for each of the 3,500 households being asked to pay the additional sewer fee for the necessary improvements, at least for that year. The current rate for AWT is around \$550 per year for sewer service.

If the Parish only had to spend \$1,000,000 per year, then the sewer service for the 3,500 residents being asked to pay for the upgrade in the sewer system would only increase by \$24 per month or about \$286 per year. Hence, the issue is exactly how much would it take to satisfy the requirements of DEQ.

Large expenditures by the Parish for sewer improvements could not be imposed on the new residents without potentially affecting their willingness to locate in Ascension Parish. There would have to be other sources of revenues such as increased fees on existing customers or higher taxes or a rededication of certain tax revenues to the sewer project and away from other projects.

The “Do Nothing” approach will almost have to come from new taxes or making use of new tax dollars from the growth in the Parish’s tax base for the sewer improvements as opposed to going to other priorities in the Parish.

These estimates are hypotheticals until we know exactly the dollar amount being considered that would satisfy the DEQ requirements and also make the Parish an attractive place to live.

IV. Additional Issues for Funding the Improvement of the Sewer System in Ascension Parish

The discussion and examination of upgrading the sewer system has been around for a number of years. Ascension Parish has spent dollars for studies, consultants, and the time of its employees as a solution is found that satisfies the environmental regulations of the state and nation. The Ascension Sewer LLC proposal will eliminate this expenditure of dollars by the Parish.

In addition, the Parish has stated that it spends around \$1,000,000 per year to clean drainage ditches as a result of sewer overflowing into the ditches. The upgraded sewer system should reduce this spending of \$1,000,000 per year. It will not eliminate it, but it should allow some, and hopefully, most of these dollars to be used for other public purposes.

Finally, the opening of a new business or a new public facility such as a new school in Ascension Parish has to pay for building a dedicated sewer treatment facility. It is estimated that these costs can range from \$90,000 for a restaurant to \$500,000 or more for a new school. In addition, the business or school must employ a certified operator to deal with the sewer treatment facilities. And, the business or public facility has to accept the negative impact of having a sewer treatment facility on its property or adjacent to its facility.

V. Summary

Ascension Parish has been one of the growth parishes in the State, but with growth comes additional issues that the Parish has to encounter. And one of these issues is the issue of appropriate sewer treatment facilities. The Parish has a responsibility to examine all possible alternatives, but the CEA with Ascension Sewer LLC provides the necessary expenditures to satisfy the environmental requirements as specified by DEQ, enhance the standard of living for those already living in the Parish, maintain the economic growth that has been occurring in the Parish for the last 40 years, and maintain monthly fees for sewer services reasonable and competitive with other parishes.

The Parish will immediately have access to about \$4.1 million for distribution to other public programs in the Parish. The Parish has been spending this money on sewer-related issues. This responsibility will become the responsibility of Ascension Sewer LLC. The present value of this \$4.1 million over the 30-year is \$73 million. In addition, the three-year construction project will add about \$2.97 million in new local tax receipts due to the additional economic activity. And, finally, the Parish will continue to be a growth Parish.