

# Mount Shasta Herald

## News

### **Nestle contract includes district revenue**

**By Deborra Clayton**  
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The terms of the contract between the McCloud Community Services District and Nestle Waters North America for the company's spring water purchase and McCloud bottling plant provide significant revenue for the district.

According to district budgetary figures, if the project proceeds as planned and construction commences sometime in the middle of 2005, the revenue generated in the first five years will increase overall district revenue during that time by 48 percent.

In subsequent years, annual revenue generated by the project will increase overall district revenue by up to 35 percent each year.

#### Contingency fee

The contract contingency period began when the agreement was signed on October 1, 2003.

The district stands to receive up to \$250,000 from Nestle as compensation for keeping district water off the market to other beverage bottlers.

The contingency period would end when the Environmental Impact Report required by the California Environmental Quality Act and the Environmental Assessment required by the National Environmental Protection Act have been completed and mitigations have been satisfactorily addressed; any legal challenges have been settled; and all necessary discretionary permits have been obtained for construction.

The \$250,000 was placed in an escrow account and an initial \$25,000 released to the district last fall, with an additional \$56,250 released this month. The district will continue to receive \$56,250 annually until the contingency period ends, at which point it will receive the balance of the account.

If Nestle cancels the contract during the contingency period, McCloud will keep

whatever portion of the contingency fee it has already received and Nestle will keep the undisbursed balance.

#### Interim spring water sales

Nestle may make interim spring water purchases from the district when the contingency period ends.

Interim water sales, if pursued by Nestle, will generate up to \$2.72 million in annual revenue.

Purchase price for spring water during this period will be \$35 per 6,700 gallon truckload.

The maximum draw will be 1600 acre feet, which is 520 million gallons per year.

Interim sales may continue until October 1, 2008 if bottling facility construction has not yet begun by that time; or, until October 1, 2010 if the bottling facility construction is still underway during those two years; or until October 1, 2013 if Nestle needs the additional three years to complete the facility and elects to continue interim purchases during that time.

#### Long-term sales

Upon commencement of bottling plant operations, or on October 1, 2010 if the facility is not yet open and Nestle elects to continue interim spring water purchase for up to three more years, the long-term sales agreement will go into effect.

The annual water payment, based on the maximum draw, will be 200 times the household equivalent rate paid by district customers for water.

The purchase price will rise at the same rate all customers' rates rise whenever the district increases its HE water rate.

If the district converts to a metered system, annual adjustments to the purchase price will be calculated at the same percentage increase incurred by all McCloud customers.

The current HE water rate is \$18.90 per month. If Nestle were to purchase water under these terms, revenue generated from their annual water payment this year would total \$45,360, a 24 percent increase in district water service revenue.

Nestle would be required to pay the full annual water payment every year regardless of the amount of water the company draws within the maximum draw allowance.

### Additional spring water sales

With district approval, Nestle would be able to purchase additional spring water.

The price for spring water purchased over and above the maximum draw would be \$129 per acre foot. This price would increase over time at the same rate it increases for other district customers.

### Ground water sales

At the district's discretion and in accordance with pertinent county ground water ordinances and any restrictions imposed by the EIR/EA, Nestle could purchase ground water for use in beverage products other than spring water.

Water drawn from district-owned wells to be constructed on the bottling facility site would be metered and purchased in amounts allowed by the district at the established industrial water rate of \$.00018 per gallon.

### Exclusivity fee

If the bottling facility begins operations, or on October 1, 2010 if the facility is not yet operational and Nestle elects to continue interim purchase of spring water, the district would begin receiving annual payments in exchange for allowing Nestle exclusive purchase of McCloud spring water for its bottled water purposes.

The exclusivity fee would generate \$150,000 annually for the first five years, \$200,000 annually for years six through 10, and \$250,000 annually for years 11 through 25.

On the 26th year, and every 25 years thereafter, the fee would be adjusted for inflation by the percentage difference between the district water rate at the time of adjustment and the rate 25 years prior to that time.

### MACEP

The contract includes an annual \$100,000 contribution from Nestle to the McCloud-Arrowhead Community Enhancement Program.

MACEP payments would begin when the bottling plant commences operation or on October 1, 2010 if the facility is not yet open and Nestle elects to continue interim spring water purchase for up to three more years.

The contract designates these district funds "as a means to support and promote community development and quality of life in the McCloud community", through

capital, and other, expenditures.

#### Additional costs to Nestle

Although the district would own the exclusive water system Nestle builds to draw spring water for bottling, the contract requires Nestle to pay for the construction, operation and maintenance of the system.

Nestle would also be required to pay for the installation, power costs, operation and maintenance of any groundwater wells on the bottling plant site.

The district itself would own the groundwater wells.

For connection to the district's water system, Nestle has agreed to pay 200 times the water connection fee charged to district customers.

Nestle would also be responsible for the cost of any upgrades to the water and sewer systems needed to provide service to the plant site.