



SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION  
EXECUTIVE OFFICER'S REPORT  
LAFCO NO. 953 AND 953-A  
LOMPICO REORGANIZATION TO THE  
SAN LORENZO VALLEY WATER DISTRICT

To: Santa Cruz LAFCO Commissioners  
Date: July 28, 2014 for August 6, 2014 Agenda  
From: Patrick M. McCormick, Executive Officer

---

*Summary: The Commission will conduct a public hearing and may take action to authorize the Lompico Reorganization, which would dissolve the Lompico County Water District and annex the Lompico area to the San Lorenzo Valley Water District. In related matters, the Commission will also consider a service review and sphere of influence amendments for the two districts.*

*Recommendation: The staff recommends that the Commission:*

*(1) Approve draft Resolution No. 953, which accepts the 2014 Service Review and Sphere of Influence Study for the Lompico County Water District and the San Lorenzo Valley Water District, and amends the spheres of influence for both districts; and*

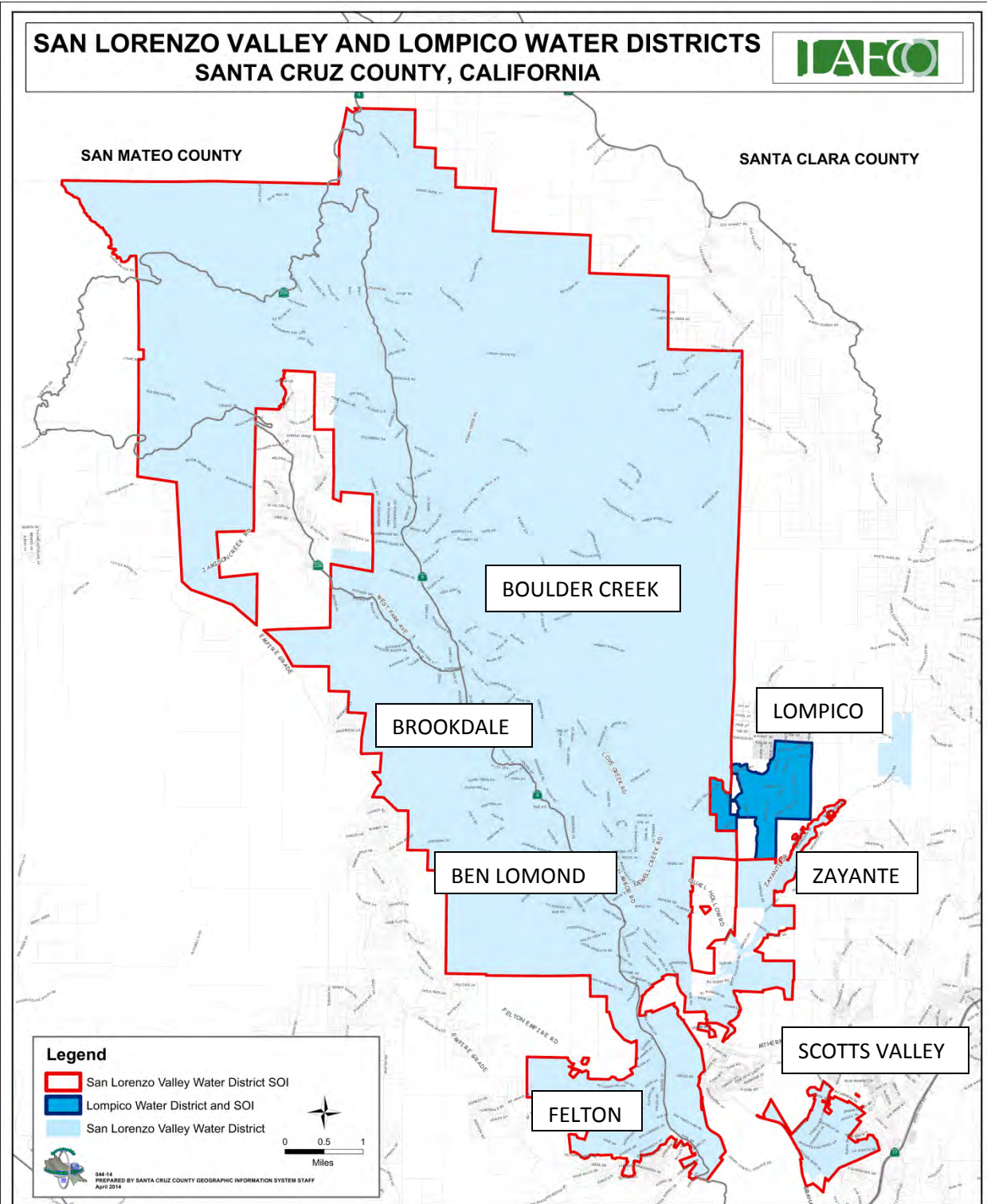
*(2) Approve draft Resolution No. 953-A, which authorizes the Lompico Reorganization.*

---

**Introduction**

The Commission has received two applications jointly filed by resolutions of the Lompico County Water District (LCWD) and the San Lorenzo Valley Water District (SLVWD). Application No. 953 would amend the Sphere of Influence for the Lompico County Water District to be a zero sphere of influence, and would add the Lompico area to the Sphere of Influence of the San Lorenzo Valley Water District. Application No. 953-A is for a reorganization that would dissolve the Lompico County Water District and annex the Lompico area to the San Lorenzo Valley Water District.

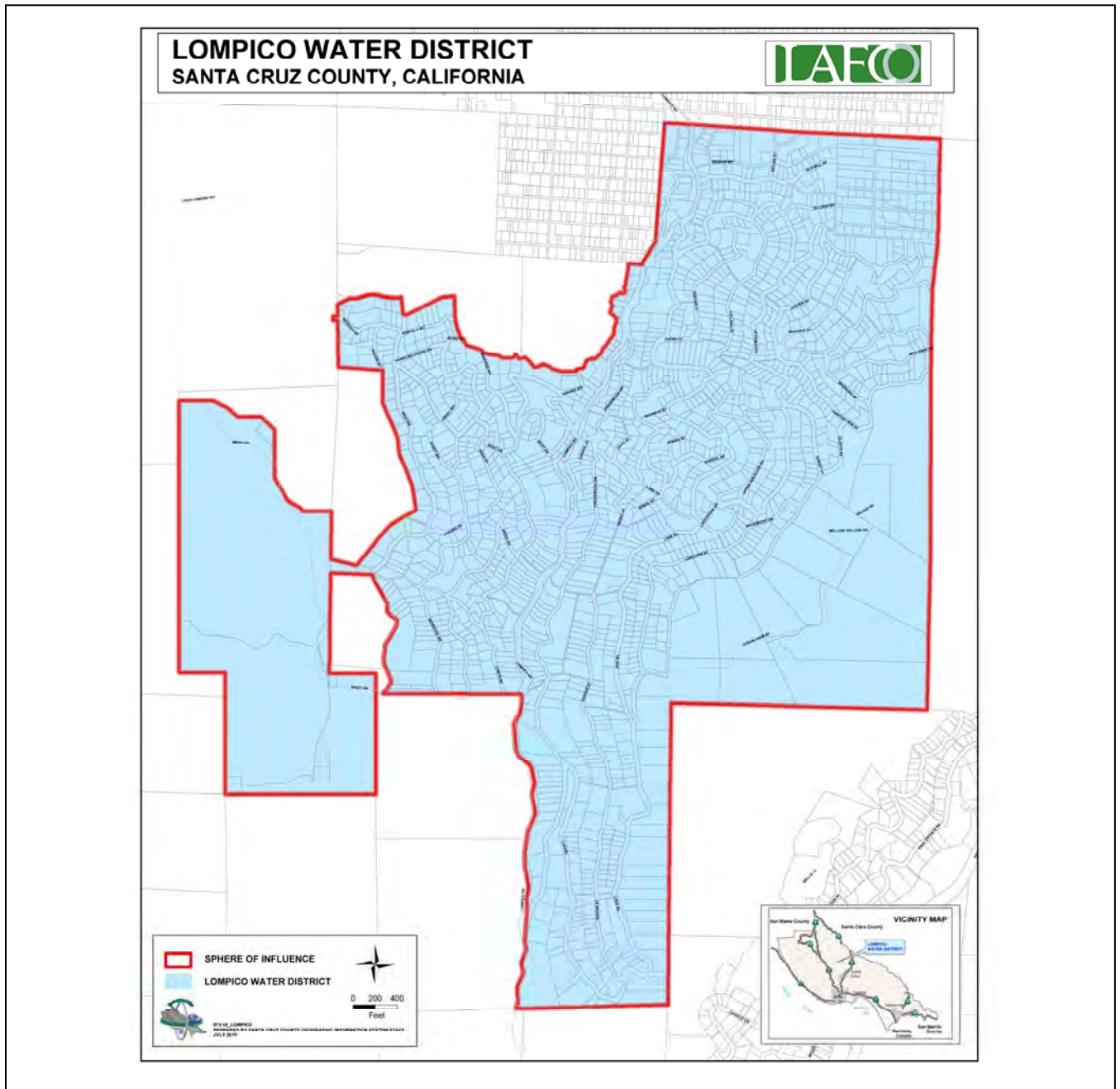
LOCATION MAP



## Current Services

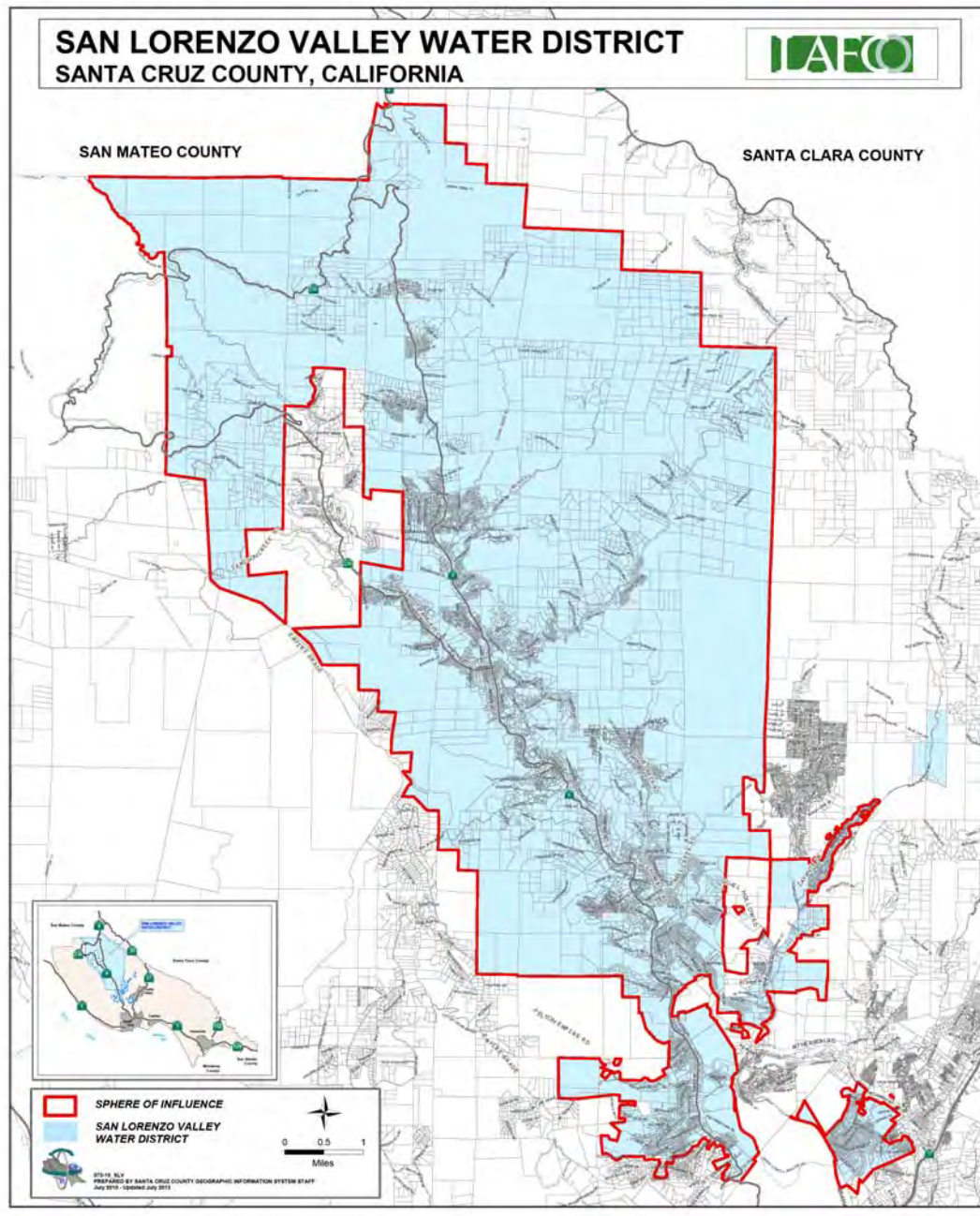
The Lompico County Water District was formed in 1963 and provides water service to approximately 500 connections. In 2012, it sold 17,045,391 gallons (52 acre-feet). Its system includes 4 wells, one stream diversion, two treatment plants, and six storage tanks. For many years, it has experienced a series of problems: managerial, financial, and operational problems. The current Board of Directors has kept the district out of bankruptcy and receivership, and favors dissolution of the LCWD and annexation of Lompico to the San Lorenzo Valley Water District.

LAFCO adopted the first Sphere of Influence for the LCWD in 1985. The current LCWD Sphere of Influence, as shown on the following map, was last reviewed by LAFCO in 2008, and is a contiguous sphere of influence: the boundary and the sphere are the same.



The San Lorenzo Valley Water District was formed in 1941, provides water service to approximately 7,300 customers in Boulder Creek, Brookdale, Ben Lomond, Felton, Zayante, and southern Scotts Valley; and provides sanitary sewer service to approximately 55 customers in the Bear Creek Estates subdivision along Bear Creek Road. The SLVWD utilizes both surface water and groundwater sources.

LAFCO adopted the first Sphere of Influence for the SLVWD in 1985. The current SLVWD Sphere of Influence, as shown on the following map, was last reviewed by LAFCO in 2008 and has identified limited areas, close to its service mains, which are eligible for annexation.



## **Proposals**

### Spheres of Influence

The service area of the Lompico CWD is not currently within the SLVWD Sphere. LAFCO Application No. 953, filed jointly by both districts, proposes to change the LCWD sphere to be a zero sphere of influence, and change the SLVWD sphere to include the LCWD service area. Under state law, any boundary reorganization that LAFCO approves must be consistent with the adopted sphere of influence for each subject agency.

### Reorganization

In their resolutions of application for LAFCO Application No. 953-A, the two districts are jointly proposing the dissolution of the Lompico County Water District dissolution and the annexation of Lompico to the San Lorenzo Valley Water District, The districts are requesting that four conditions of approval be included in any LAFCO resolution (No 953-A) authorizing the reorganization. These four conditions are fundamental in structuring the potential reorganization.

#### A) INFRASTRUCTURE BOND

“Prior to the filing of the Certificate of Completion, a Community Facilities District bond or similar revenue instrument shall be passed by the voters and/or property owners of the Lompico service area so that proceeds not greater than \$2.75 million will go to the San Lorenzo Valley Water District (SLVWD) for the purposes of infrastructure improvements solely for the benefit of the Lompico service area. If a grant or other source of funds can be secured to make infrastructure improvements that are programmed to be included in the not-to-exceed \$2.75 million of bond proceeds, or if the costs of the programmed improvements are lower, the amount of the bond proceeds can be a lesser amount if authorized in writing by the San Lorenzo Valley Water District Board following consideration of the reduction at a public meeting of that board.”

As detailed in the attached service review and sphere study, the bond would provide \$2.75 million of funding for the San Lorenzo Valley District to repair, replace, and upgrade the deteriorated infrastructure in the Lompico water system. This funding is a key factor in the San Lorenzo Valley Water District’s support for the reorganization because the bond funding will allow the SLVWD to perform the needed infrastructure work without utilizing SLVWD reserves. The County of Santa Cruz is conducting the process to set a bond election in Lompico later this year. A preliminary cost estimate prepared in 2013 was that each connected property would pay \$468 per year for 30 years. In summer 2014, the County Board of Supervisors will review an updated estimate of costs as they go through process to consider setting the bond election. In order for the bond to pass, State law requires that 2/3rds of the participating Lompico voters vote in support of the bonds. If the bond

election fails, the reorganization process is automatically terminated.

B) BOND OVERSIGHT COMMITTEE

"Upon distribution of the bond proceeds, SLVWD shall establish a citizens' bond oversight committee consisting of five Lompico water customers to review expenditure of the bond proceeds on projects that directly benefit Lompico."

This condition provides a bond oversight committee of Lompico water customers.

C) LOAN PAYBACK

"Prior to the filing of the Certificate of Completion, Lompico County Water District shall pay the entire amount due on the PERS Side Fund Loan Agreement that was executed on July 30, 2013 by and between Lompico County Water District and San Lorenzo Valley Water District."

The Lompico County Water District provides pension benefits to its former and current employees through a contract with the California Public Employees Retirement System (PERS). It is part of a pool of small employers (fewer than 100 employees). When the pool was established, the various agencies had different levels of funding in their pension accounts, and a side fund was established for each agency. The LCWD had a lower than average funding level and therefore owed money in the side fund. In 2013, the Lompico County Water District obtained a short-term loan from the SLVWD to pay off the side fund. A clause of the note requires that LCWD pay off the note entirely prior to a merger. The reason for the clause is that, following a reorganization, the SLVWD inherits the former LCWD's assets and liabilities. The SLVWD did not want to inherit this liability.

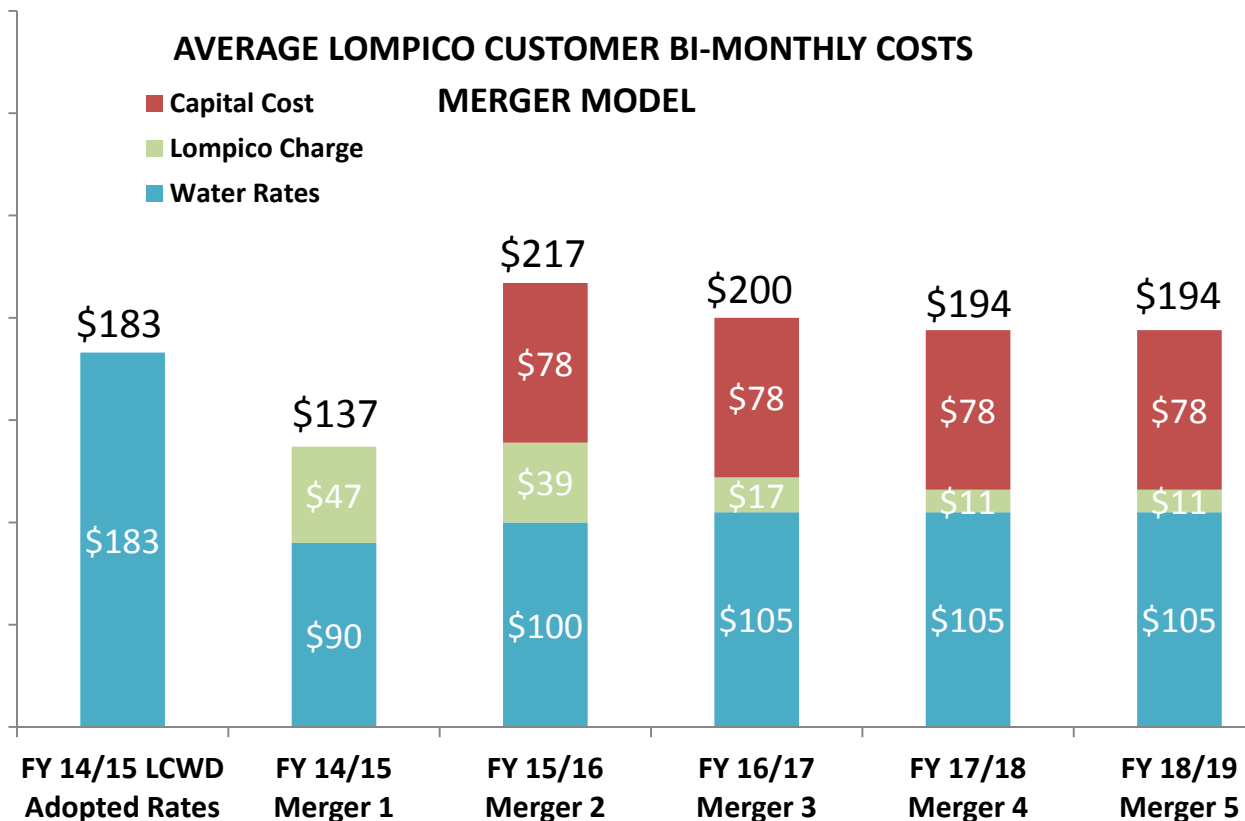
D) LOMPICO WATER RATES AND CHARGES

"SLVWD shall bill the Lompico customers of SLVWD the same rates as the other customers within SLVWD. However, prior to filing of the Certificate of Completion, in order to cover the difference between SLVWD's estimated revenues collected in Lompico and SLVWD's estimated operating costs in Lompico, Lompico County Water District shall enact a reduction in their water rates, effective only upon the reorganization, so that \$140,000 in excess of the amount generated by SLVWD rates would be collected in the first year following the effective date of the reorganization. LAFCO shall authorize SLVWD to continue to collect these Lompico charges after the reorganization. Prior to the Certificate of Completion being filed, SLVWD will deliver a letter to the LAFCO Executive Officer indicating that the charges adopted by the Lompico County Water District are structured in a manner that SLVWD is willing to implement. The Lompico charges shall not exceed the following amounts:

Year	Beginning	Per Month
		Per Connection
1	Upon the effective date of the reorganization	\$23.50
2	One year after effective date of the reorganization	\$19.50
3	Two years after effective date of the reorganization	\$8.50
4	Three years after effective date of the reorganization	\$5.50
5	Four years after effective date of the reorganization	\$5.50

The Lompico charges shall be phased out no later than five years after the effective date of the reorganization.”

Of the four conditions, this is the most complicated. Its origin is from the pro forma for the SLVWD’s operating costs of the Lompico system. Since the infrastructure is in poor shape and does not have electronic controls or meters, the Lompico system initially will cost the SLVWD more to run on a per-connection basis than the rest of their district. The charge would avoid a situation where the SLVWD customers in its other service areas are subsidizing the Lompico operating costs. If the reorganization is authorized and occurs, the Lompico charge would be an additional charge collected on the water bills of the SLVWD’s Lompico customers. The charge goes down annually as the infrastructure improvements are constructed and the SLVWD staff time in Lompico can be reduced. The Lompico charge would go away in early 2020 on the fifth anniversary of the effective date of the reorganization.



The Merger Year 1 (FY 14-15) costs are lower because the bond election will occur in late 2014, and the earliest date that the bond payments can appear on the property tax bills is fall 2015, during Merger Year 2 (FY 15-16).

### **Policy Issues**

Staff has identified three policy issues to bring to the attention of the LAFCO Commission: the possibility of LCWD continuing to operate as an independent district, an agency other than the SLVWD providing water service in Lompico, and the possible inclusion in the SLVWD sphere and annexation of three parcels located on Zayante Drive between the SLVWD and the LCWD.

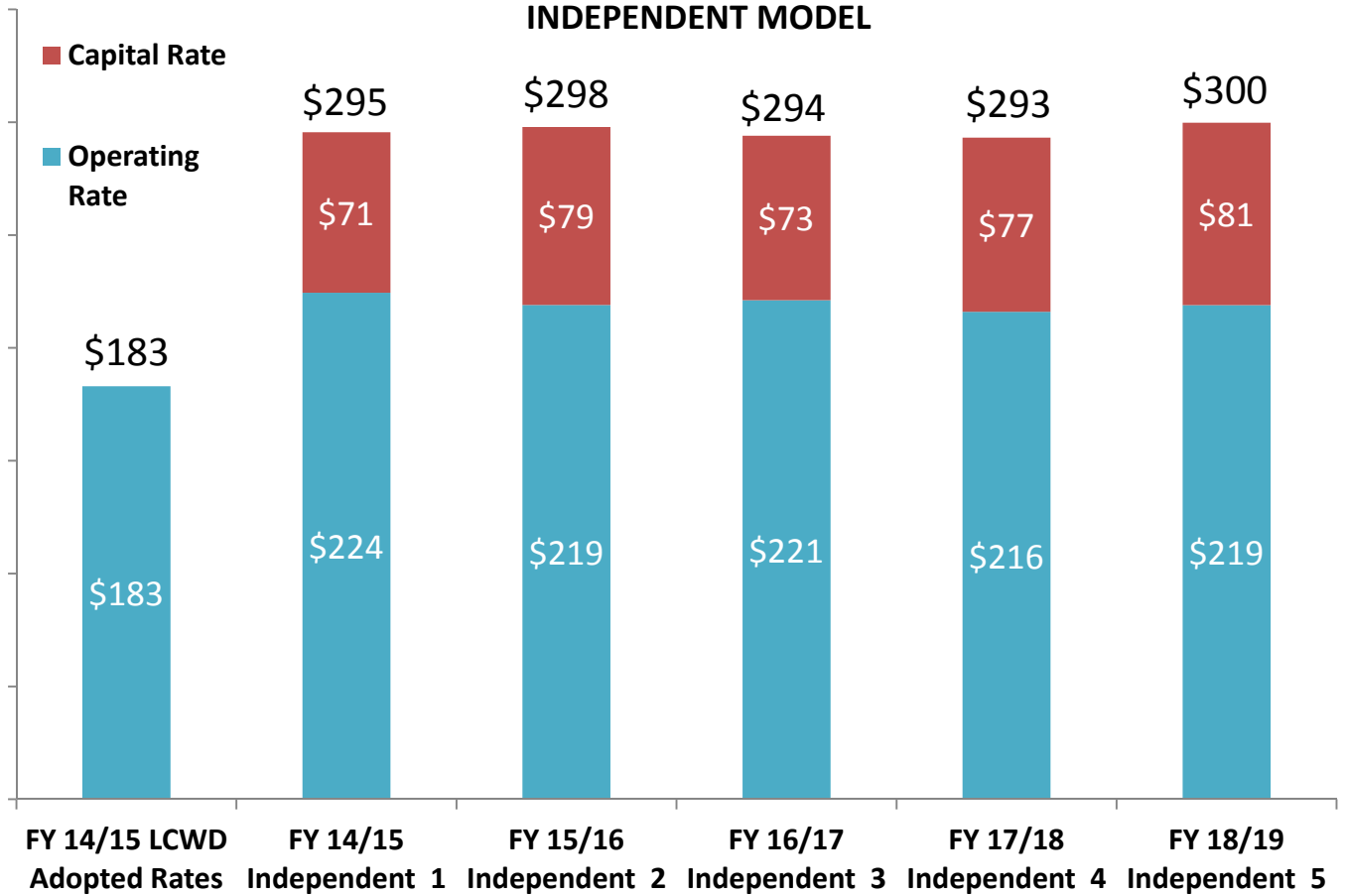
#### **Independent Lompico**

As detailed in the attached service review and sphere study, the Working Group (staff) and Liaison Committee (2 board members each from SLVWD and LCWD), have studied what would be required for the LCWD to remain as a independent water district, re-build their infrastructure, hire a general manager, and establish a reserve fund for emergencies. As shown in the following table, the current high water rates in LCWD would have to be increased more than 60% in order for the LCWD to have a good chance to succeed. Such a significant rate increase may not get authorized through the Proposition 218 rate process, which provides for customer notice and protest. If LCWD failed, it would either go into bankruptcy or receivership. Both would involve significant additional legal and administrative costs, and would not avoid the Lompico customers eventually paying for infrastructure improvements.

The difference in operating costs between the Merger Model on the previous page and the Independent Model on the next page demonstrates that the LCWD's predicament is a case of inefficiencies of scale. The larger SLVWD benefits by spreading costs over more customers. Lompico just may be too small to operate efficiently. In Lompico's case, fiercely independent also means fiercely expensive.



**AVERAGE LOMPICO CUSTOMER BI-MONTHLY COSTS  
INDEPENDENT MODEL**



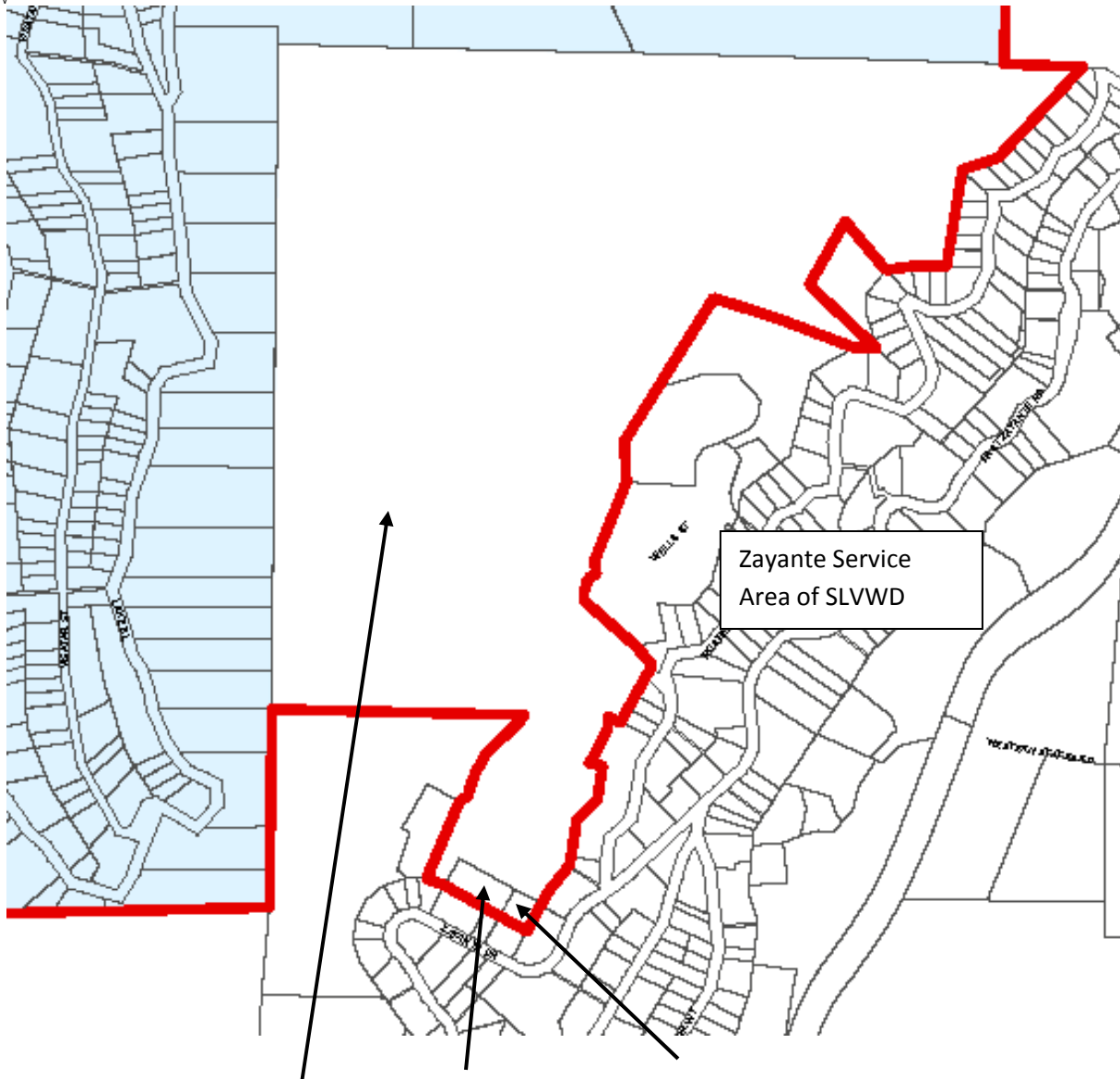
**Other Agencies Provide Lompico Services**

The attached service review and sphere study also summarizes some of the other organizational options considered for Lompico: the County of Santa Cruz, the City of Santa Cruz, a private water company, the Scotts Valley Water District, and a management agreement with San Lorenzo Valley Water District. The Working Group and the Liaison Committee determined that none of those options was worth pursuing, and they focused their studies on the two options: LCWD merges with SLVWD, and LCWD raises rates and stays independent.

**Zayante Drive Parcels**

There are three parcels located on Zayante Drive between the proposed Lompico annexation to the SLVWD and the SLVWD service area in Zayante. One of these parcels is already served by the SLVWD, and the other two parcels are easily served from the SLVWD main in Zayante Drive. In recent years, the SLVWD and LAFCO have been cleaning up the district’s boundary on a piecemeal basis as annexations are proposed in each neighborhood. Staff has sent individual inquires to the property owners of the three parcels on Zayante Drive, and will distribute any written responses to the Commissioners in advance of the public hearing.

**ZAYANTE DRIVE PARCELS**



Shaded = LCWD	APN 074-061-01	APN 074-112-10	APN 074-112-18
	Jaehnichen	Petersen	Amen
	9609 Zayante Dr	9629 Zayante Dr	9661 Zayante Dr
	TPZ/Residence	Unbuildable Lot	Lot/Misc. Improvements

**CEQA**

Sphere of Influence actions and reorganizations are subject to the California Environmental Quality Act. Staff has reviewed the projects and determined that they qualify for categorical exemptions under the act; therefore no additional review is needed. Two exemptions apply. For the sphere amendments and reorganization in the original applications, Categorical Exemption Class 20 applies: consolidation of two districts having identical powers. For the

potential addition of the three Zayante Drive parcels that staff has identified during the review process, Categorical Exemption Class 19 applies: annexation of existing facilities and lots.

### **Agency and Public Comments**

In response to the public noticing, staff has received one letter. In a letter dated July 25, 2014, Lilian A. Morgan, a Lompico resident, opposes the reorganization because she favors a “pay-as-you-go” approach to the infrastructure repairs, and is concerned that the proposed SLVWD costs will be a hardship on lower income residents of Lompico.

### **Alternatives**

Following the public hearing, the main alternatives for the Commission’s actions are as follows:

Draft Resolution No. 953, Service Review and Sphere Study

- 1) Accept the Service Review and Sphere Study, and amend the Sphere of Influence of the Lompico County Water District and San Lorenzo Valley Water District,
- 2) Continue consideration of the Service Review and Sphere Study to a future meeting,
- 3) Deny the sphere of influence amendments.

Draft Resolution No. 953-A, Lompico Reorganization

- 1) Approve the reorganization (dissolution of LCWD and annexation to SLVWD) as submitted,
- 2) Approve the reorganization subject to amended boundaries or amended conditions,
- 3) Continue the reorganization to a future meeting.

The state law concerning reorganizations is designed to encourage agencies to file for reorganizations that merge agencies. Government Code Section 56853(a) states:

“If a majority of the members of each of the legislative bodies of two or more local agencies adopt substantially similar resolutions of application making proposals either of the consolidation of districts or for the reorganization of all of any part of the districts into a single local agency, the commission shall approve, or conditionally approve, the proposal.”

Those facts exist in this situation; so, the Commission does not have authority to deny the reorganization application.

## **Recommendation**

The pending applications have the benefit of solving the on-going operating and financial problems of the small Lompico system in a manner that does not impact the rates of the customers in the larger San Lorenzo Valley system. Therefore, the staff RECOMMENDS that:

- 1) The Commission approve draft Resolution No. 953 which:
  - accepts the 2014 Service Review and Sphere of Influence Study for the Lompico County Water District and the San Lorenzo Valley Water District,
  - amends the Lompico County Water District Sphere of Influence to be a zero sphere of influence, and
  - amends the San Lorenzo Valley Water District to include the current service area of the Lompico County Water District and three parcels on Zayante Drive located between the Lompico County Water District and the Zayante service area of the San Lorenzo Valley Water District.
  
- 2) The Commission approve draft Resolution No. 953-A, which authorizes the Lompico Reorganization and adds three parcels on Zayante Drive to the annexation area.

## **What Happens Next**

If the Commission authorizes the Lompico Reorganization, two procedures will occur on parallel tracks. The Board of Supervisors will continue with the formation process for the Community Facilities District bonds. The Board is scheduled to consider adopting a resolution of intent on September 9, 2014 and a resolution calling for a Lompico bond election on October 21, 2014.

In parallel, after LAFCO finalizes the boundaries and conditions of a reorganization, state law gives the voters and landowners in the subject area (Lompico) an opportunity to protest the reorganization by having a protest hearing. The LAFCO Executive Officer will mail notices in early September, and the deadline for submitting written protests will be in October. If more than 50% of the Lompico voters protest, the reorganization will be terminated. If between 25% and 50% of either the Lompico voters or the Lompico landowners protest, an election will be called of the Lompico voters. The ballot question will be "Shall the Lompico Reorganization, as authorized by LAFCO Resolution No. 953-A, be approved?" The outcome will be determined by a majority to those voting.

cc:

Lompico County Water District, Board of Directors

San Lorenzo Valley Water District, Board of Directors

County of Santa Cruz

--Board of Supervisors

--CAO

--Environmental Health

--Auditor-Controller

--Planning Department

California Department of Water Resources, Drinking Water Division, Monterey Office

Zayante Fire Protection District

City of Santa Cruz, Water Department

Lompico Citizens' Advisory Committee

City of Scotts Valley

Scotts Valley Water District

3 Zayante Drive property owners

Ms. Lilian A. Morgan

**Attachments**

Draft Resolution No. 953 Studies and Sphere

Exhibit A Service Review Determinations

Exhibit B Map

Exhibit C Sphere of Influence Determinations

Draft Resolution 953-A Lompico Reorganization

Exhibit A Map

Lompico CWD Resolution of Application

SLVWD Resolution of Application

2014 Service Review and Sphere of Influence Study

Analysis Form

July 25, 2014 Letter of Lilian A. Morgan Opposing Reorganization