

OPTIONS FOR FUTURE WATER SERVICE IN LOMPICO

May 22, 2014 7:30 p.m.

*Senior Center, Highlands Park,
8500 Highway 9, Ben Lomond*

WORKING GROUP

Susan Mauriello, County Administrative Officer

Christina Mowrey-Riggs, CAO Principal Analyst

Robin Musitelli, Supervisorial Aide

John Ricker, County Water Resources Manager

Pat McCormick, LAFCO Executive Officer

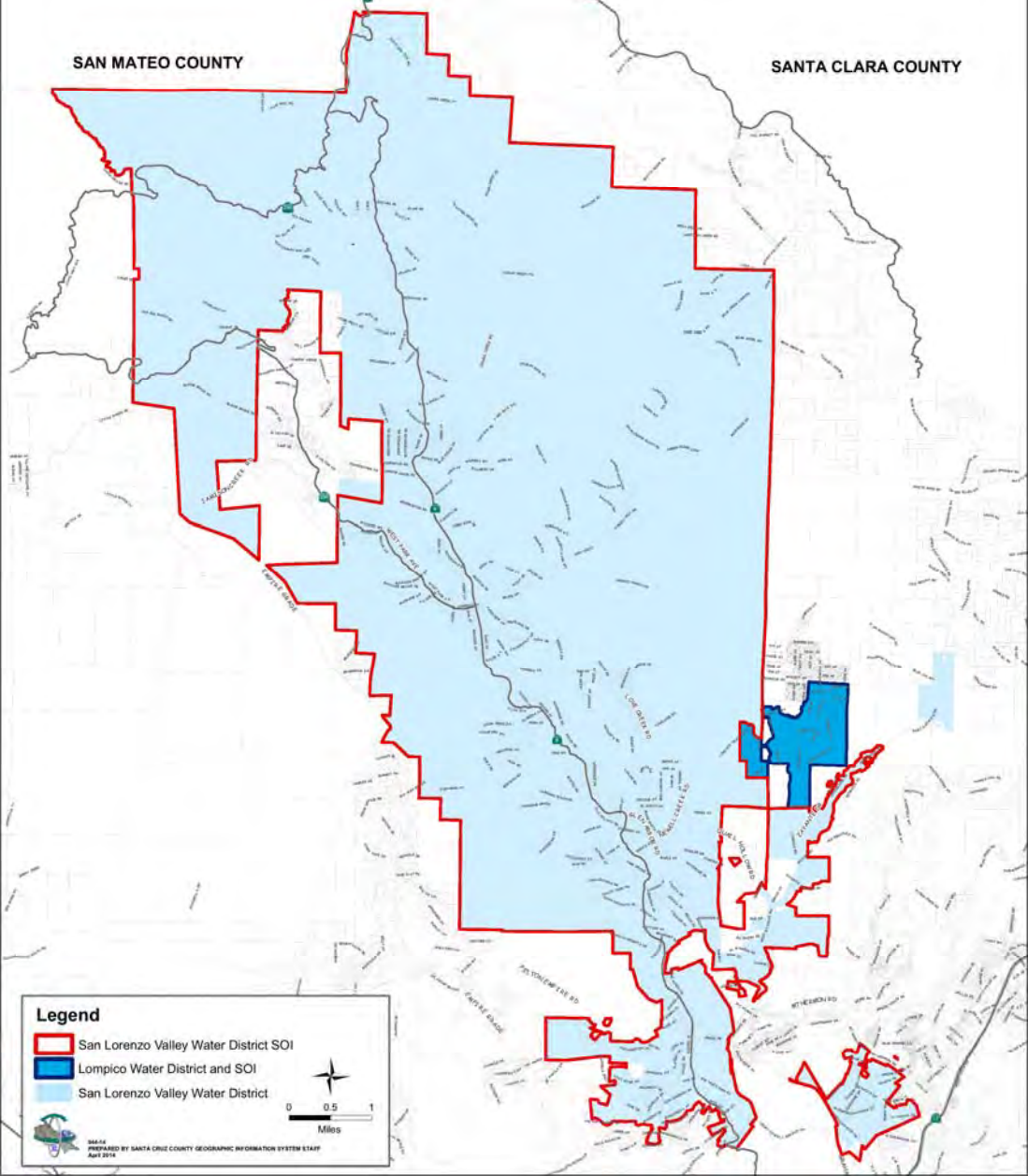
Jim Mueller, SLVWD General Manager

Rick Rogers, SLVWD Operations Manager

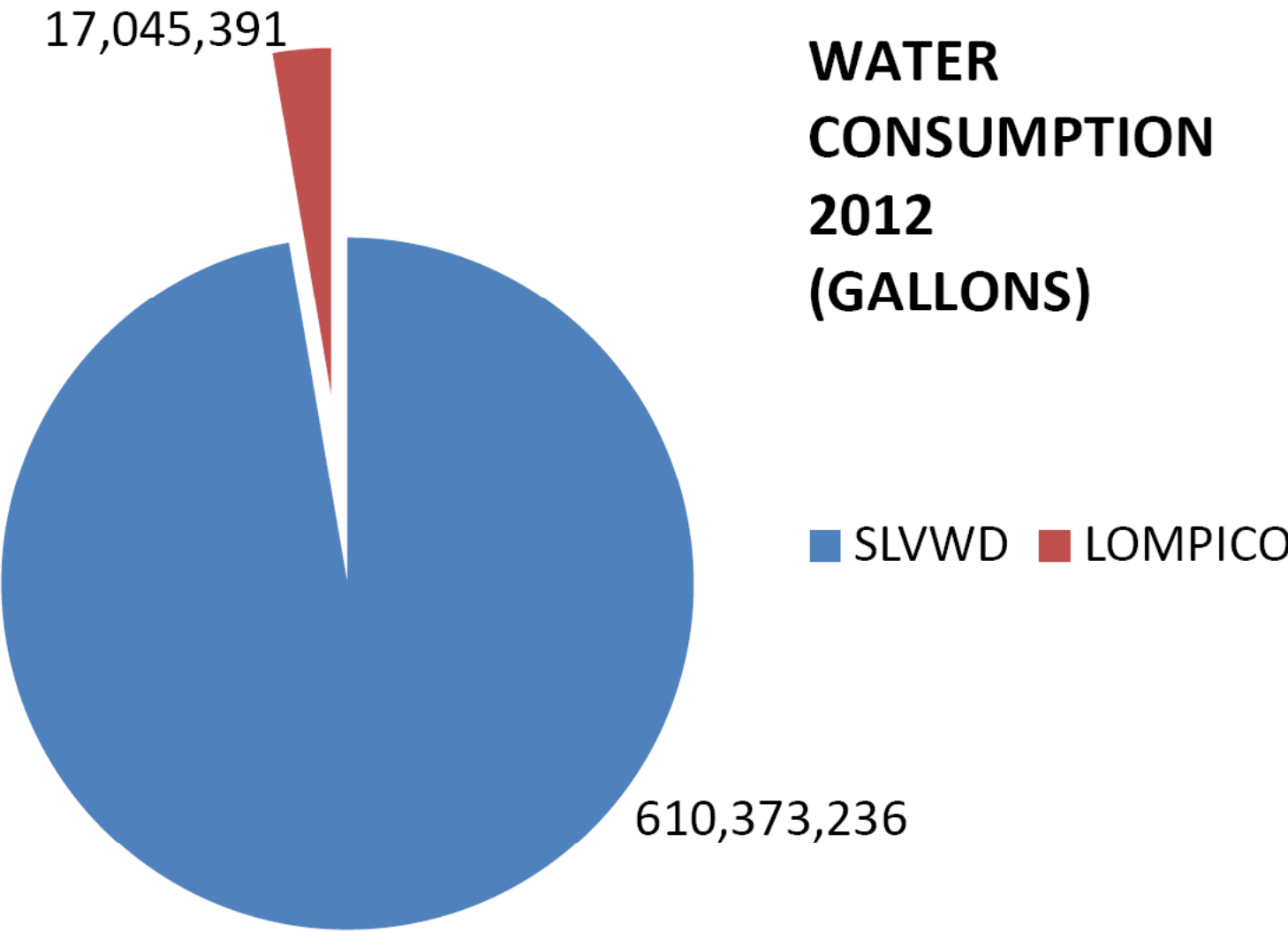
Rick Harrington, Lompico CWD Board Member

Lois Henry, Lompico CWD Board President

SAN LORENZO VALLEY AND LOMPICO WATER DISTRICTS SANTA CRUZ COUNTY, CALIFORNIA



**WATER
CONSUMPTION
2012
(GALLONS)**



DEFERRED MAINTENANCE INSUFFICIENT RESOURCES

- Unable to meet maximum day demand
- All 6 tanks are in poor condition and need replacement
- Need to exercise valves, flush dead ends, and install remote controls
- Increase monitoring and treat 2 wells for iron and manganese
- Inadequate management and financial reserves

EMERGENCY INTERTIE

- Completed
- For emergency use
- “At some point, you can't keep putting Band-Aids on trauma wounds.”

REJECTED OPTIONS

- County of Santa Cruz
- Scotts Valley Water District
- City of Santa Cruz Water Department
- Private Water Company
- Management Agreement

ASSUMPTIONS FOR INDEPENDENT

- Remain an independent agency
- Pursue general plan to improve infrastructure on a pay-as-you-go basis
- Hire a full-time general manager
- Pay off debts on schedule
- Incur no major unexpected costs

- Put 4% of total budget into reserve each year until reserve reaches four months of operations and maintenance costs
- Assume an inflation rate of 3% for operations, maintenance, and administrative expenses
- Increase rates in 2014 to operate with a balanced budget over the next five years

ASSUMPTIONS FOR MERGER

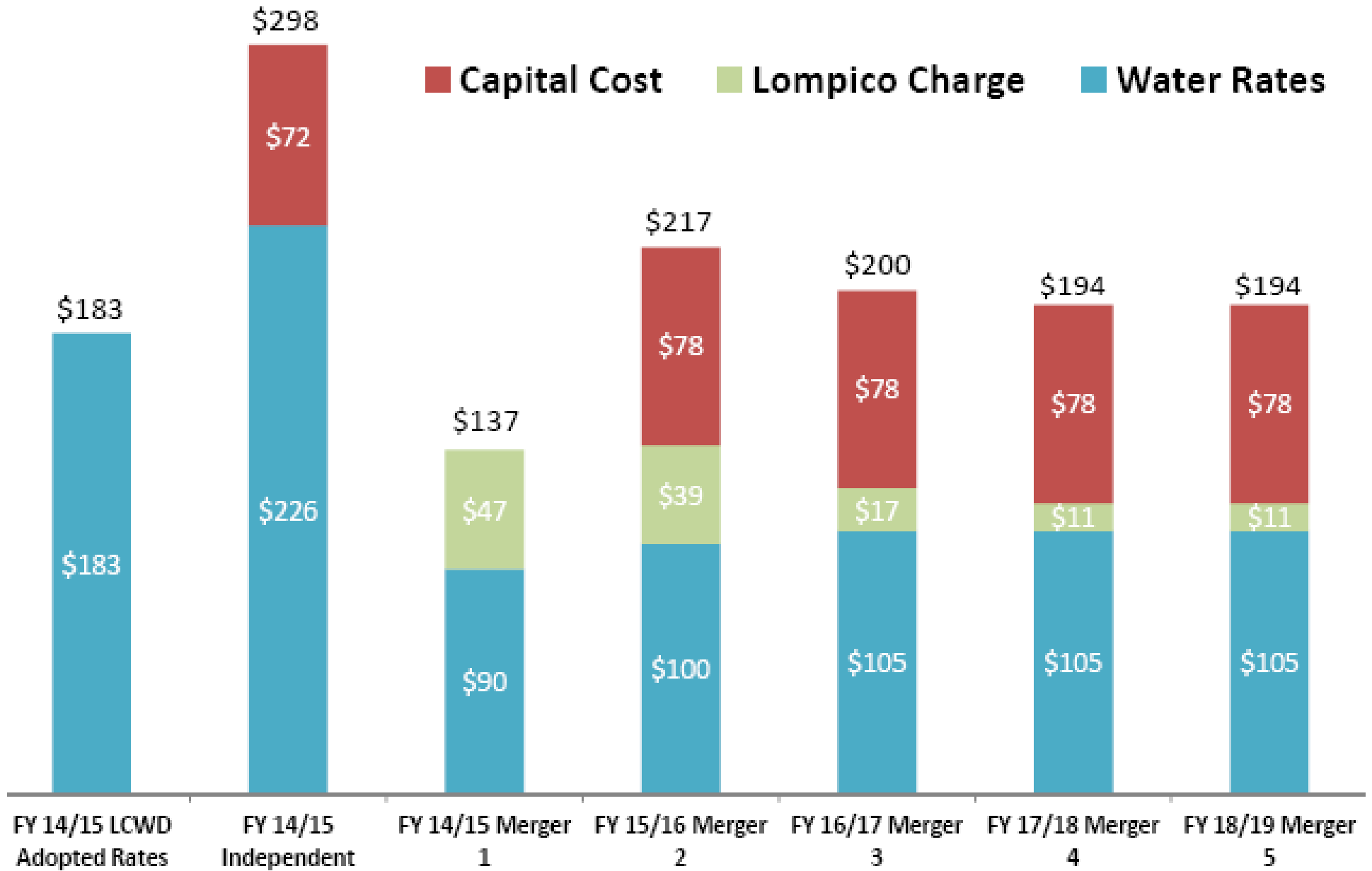
- Lompicans would be required to pass a bond that generates \$2.75 million for SLVWD to spend fixing infrastructure
- Lompicans would pay an extra charge on the water bill for five years to cover the difference between the estimated SLVWD revenues from Lompico and the SLVWD expenses in Lompico
- LCWD would pay off the short-term CALPERS side fund loan from SLVWD prior to merger

COMPARISON OF CAPITAL IMPROVEMENT PROGRAMS UNDER INDEPENDENT LOMPICO AND MERGER SCENARIOS

FIVE FISCAL YEARS BEGINNING ON JULY 1, 2014 AND ENDING ON JUNE 30, 2019

	INDEPENDENT	MERGER
Sources	Minor improvements to wells and creek intake Do not meet CDPH flow requirement	Included in maintenance
Treatment	\$77,000 of plant improvements	\$77,000 of plant improvements
Storage	Three tanks replaced	All six tanks replaced
Distribution	\$348,100 spent 70% on meters and laterals; 30% on pump stations, gate valves, etc.	\$580,000 spent on replacing all meters and 2/3rds of laterals
SCADA	Full system installed	Full system installed
5-Year Expenditure	\$1.11 million pay-as-you-go	\$2.75 million paid off over 30 years

AVERAGE LOMPICO CUSTOMER BI-MONTHLY COSTS MERGER MODEL



LOMPICO CHARGE

Estimated expenditures for SLVWD to operate
Lompico

- Estimated SLVWD revenues from Lompico

= Lompico Charge

LOMPICO CHARGE

SALARIES AND BENEFITS	270,375
SUPPLIES AND SERVICES	164,731
DEBT SERVICE, JUDGMENTS	27,315
TOTAL EXPENDITURES	462,421
PROPERTY TAXES	53,040
CONNECTION FEES, OTHER	3,000
RESIDENTIAL WATER SALES	266,000
LOMPICO CHARGE	138,381
OTHER REVENUE	2,000
TOTAL REVENUES	462,421
LOMPICO CHARGE, MONTHLY	23.50
LOMPICO CHARGE, BI-MONTHLY	47

FIVE YEAR MERGER PRO FORMA BUDGET
FY 14/15 TO FY 18/19

LEVEL CFD PAYMENTS

	LCWD FY12/13	LCWD FY13/14	Merger FY14/15	Merger FY 15/16	Merger FY 16/17	Merger FY 17/18	Merger FY 18/19
					15% savings in labor hours over previous year	10% savings in labor hours over previous year	5% savings in labor hours over previous year
SALARIES AND BENEFITS	259,385	235,119	270,375	278,486	243,815	226,016	221,157
SUPPLIES AND SERVICES	273,173	283,486	164,731	169,673	174,763	174,763	179,952
DEBT SERVICE, JUDGMENTS, TRANSFER	44,678	80,820	27,315	20,068	0	0	0
TOTAL EXPENDITURES	577,237	599,425	462,421	468,227	418,578	400,779	401,109
PROPERTY TAXES	52,000	52,000	53,040	54,101	55,183	56,286	57,412
CONNECTION FEES, OTHER CHARGES	2,300	5,425	3,000	3,000	0	0	0
RESIDENTIAL WATER SALES	449,150	530,000	266,000	295,000	310,000	310,000	310,000
LOMPICO CHARGE	0	0	138,381	114,066	51,273	32,307	31,446
OTHER REVENUE	2,000	2,000	2,000	2,060	2,122	2,185	2,251
TOTAL REVENUES	570,391	599,425	462,421	468,227	418,578	400,779	401,109
ANNUAL CFD PAYMENTS ON PROPERTY TAX	0	0	0	468	468	468	468
CFD PAYMENTS, CONVERTED TO BI-MONTHLY	0	0	0	78	78	78	78
LOMPICO CHARGE, MONTHLY			23.50	19.50	8.50	5.50	5.50
LOMPICO CHARGE, BI-MONTHLY			47	39	17	11	11
LOMPICO TOTAL BI-MONTHLY COST			137	217	200	194	194

Explanation of Five Year Merger Pro Forma Budget FY 14/15 to FY 18/19

- Generally a 3% annual inflation factor.
- The exceptions are:
 - Rate revenues are calculated using adopted SLVWD rates.
 - Property tax revenues are calculated using a 2% annual increase.
 - Debts are the actual scheduled debts
- The Lompico charge is calculated by taking total expenditures and subtracting revenues
- 4 new field staff would need to be added, spending 70% of their time during the first two years of the merger in Lompico.
- As Lompico's capital improvements are completed, SLVWD will be able to reduce its staff time in Lompico: 15% in year 3 (FY16/17), 10% in year 4 (FY 17/18), and 5% (FY 18/19).

- For supplies and services, the LCWD budget for FY 13/14 was the basis. Most costs for FY 14/15 were carried forward unchanged. No costs were carried forward for elections, directors' fees, audit fees, or management services. Equipment maintenance was cut from \$20,000 to \$10,000 and facilities maintenance was cut from \$78,500 to \$40,000 because LCWD doesn't have a capital improvement account and is funding their capital repairs using these line items. The amounts used in the pro forma represent on-going, standard maintenance costs.
- Capital improvements, including engineering and contingencies, will be paid from the CFD bond funds, and are not included in the pro forma operating budget. The bond proceeds will provide \$2.75 million to SLVWD for Lompico infrastructure improvements. The bond payments will be made on the County property tax bills and are level over 30 years.
- The Lompico charge is converted to monthly per-customer amounts by taking the annual amount and dividing it by 5904, which is 492 (the number of Lompico connections using the SLVWD billing system) times 12 months.
- LCWD bills bi-monthly. Total per connection bi-monthly costs are shown so that Lompico customers can estimate their total water costs, which include water bills and the CFD bond payments that are collected on the County property taxes.

DETAILED LINE ITEM BUDGET

A detailed five-year line item budget of the estimated expenditures and revenues is available from the SLVWD office, or online at www.slvwd.com

SLVWD STAFFING LOMPICO

Estimated Lompico Personnel Requirements

Note: 2014 Salary Rates

Position	Step 4 salary	Benefits @ 42%	X 12 months	/ 2080 hrs= hrly rate
Field Services Worker 1	\$4,525.82	\$6,426.66	\$77,119.97	\$37.08
Electrician	\$6,263.43	\$8,894.07	\$106,728.85	\$51.31
Water System & Treatment Operator	\$5,653.67	\$8,028.21	\$96,338.54	\$46.32
Lead WS & T Operator	\$6,219.14	\$8,831.18	\$105,974.15	\$50.95
Total	\$22,662.06	\$32,180.13	\$386,161.50	\$185.65

Call **\$386,200.00**

Assume: assign 30%
to SLVWD

Call **\$270,375.00**

Lompico County Water District

General Fund Expenditures for Existing Debt

	Safe Drinking Water State Revolving Fund Loan	Personnel Settlement	PERS Side Fund Loan (i)	TOTAL FOR MERGER	TOTAL FOR INDEPENDENT
FY 14-15	\$7,247 (ii)	\$20,068	\$58,284	\$27,315	\$85,599
FY 15-16	\$0 (iii)	\$20,068	\$9,714	\$20,068	\$29,782
FY 16-17	\$0	\$0	\$0	\$0	\$0
FY 17-18	\$0	\$0	\$0	\$0	\$0
FY 18-19	\$0	\$0	\$0	\$0	\$0

(i) Only due in Independent model. Will be paid off prior to merger under Merger model.

(ii) \$12,305 is due, but County Auditor will disburse \$5,058 of reserve fund. District will need to use \$7,247 from general fund.

(iii) County Auditor will disburse \$7,247 from reserve fund. No additional money needed from the general fund.

THE BOND

- The bond would be paid for through a Community Facilities District
- Same as Felton's acquisition of the water system from California-American Water Co.
- County would sponsor and lend their good name
- County and Districts would enter agreement specifying how proceeds will be spent
- Needs 2/3rds vote in Lompico to pass

**LOMPICO COUNTY WATER DISTRICT
SUMMARY OF ESTIMATED COSTS
for
CONSOLIDATION WITH SLVWD**

WATER STORAGE TANK REPLACEMENT

Replacement of six (6) existing redwood storage tanks
Lewis 1 & 2, Madrone 1 & 2, and Kaski 1 & 2.

Quantity	Description	Unit \$	\$
2	100,000 gallon tank	\$87,000	\$174,000
4	60,000 gallon tank	\$70,000	\$280,000
6	Demolition & site preparation	\$25,000	\$150,000
Subtotal Construction Cost			\$604,000
Estimated Contingency @ 20%			\$120,800
Total Estimated Construction Cost			\$724,800
Engineering & Administration Services @ 15%			\$108,720
Total Projected Cost			\$833,520

Call \$835,000

TREATMENT SYSTEM IMPROVEMENTS

(Note: Assumes Lewis Treatment Plant completed by LCWD)

Quantity	Description	Unit \$	\$
1	Mill Creek WTR Wet Well	\$40,000	\$40,000
1	Mill Creek WTP	\$40,000	\$40,000
Subtotal Construction Cost			\$80,000
Estimated Contingency @ 20%			\$16,000
Total Estimated Construction Cost			\$96,000
Engineering & Administration Services @ 15%			\$14,400
Total Projected Cost			\$110,400

Call \$110,000

SERVICE LINE & METER REPLACEMENT

Replacement of approximately 333 (66%) existing service lines and 500 water meters

Quantity	Description	Unit \$	\$
333	Service line replacement	\$1,130	\$376,290
500	Water meters & appurtenances	\$350	\$175,000
Subtotal Construction Cost			\$551,290
Estimated Contingency @ 20%			\$110,258
Total Projected Cost			\$661,548

Call \$660,000

DISTRIBUTION SYSTEM INTERCONNECTION

Complete interconnection of Lompico CWD and SLVWD water distribution systems. Installation of approximately 1,500 LF 8-inch water main on suction side of booster pump station.

Quantity	Description	Unit \$	\$
1500	8-inch mainline	\$250	\$375,000
Subtotal Construction Cost			\$375,000
Estimated Contingency @ 20%			\$75,000
Total Estimated Construction Cost			\$450,000
Engineering & Administration Services @ 15%			\$67,500
Total Projected Cost			\$517,500

Call \$515,000

SCADA SYSTEM IMPROVEMENTS

Installation of Supervisory Control and Data Acquisition System (SCADA)
for operational automation

Quantity	Description	Unit \$	\$
2	Water storage zones; Madrone & Kaski	\$40,000	\$80,000
1	Mill Creek WTP	\$50,000	\$50,000
1	Lewis WTP	\$50,000	\$50,000
1	Intertie Pump Station	\$50,000	\$50,000
Subtotal Construction Cost			\$230,000
Estimated Contingency @ 20%			\$46,000
Total Estimated Construction Cost			\$276,000
Engineering & Administration Services @ 15%			\$41,400
Total Projected Cost			\$317,400

Call \$315,000

PRESSURE REDUCTION STATION IMPROVEMENTS

Replacement of nine (9) existing Pressure Reduction Stations (PRVs).

Quantity	Description	Unit \$	\$
9	PRV Stations	\$30,000	\$270,000
Subtotal Construction Cost			\$270,000
Estimated Contingency @ 20%			\$54,000
Total Estimated Construction Cost			\$324,000
Engineering & Administration Services @ 15%			\$48,600
Total Projected Cost			\$372,600

Call \$375,000

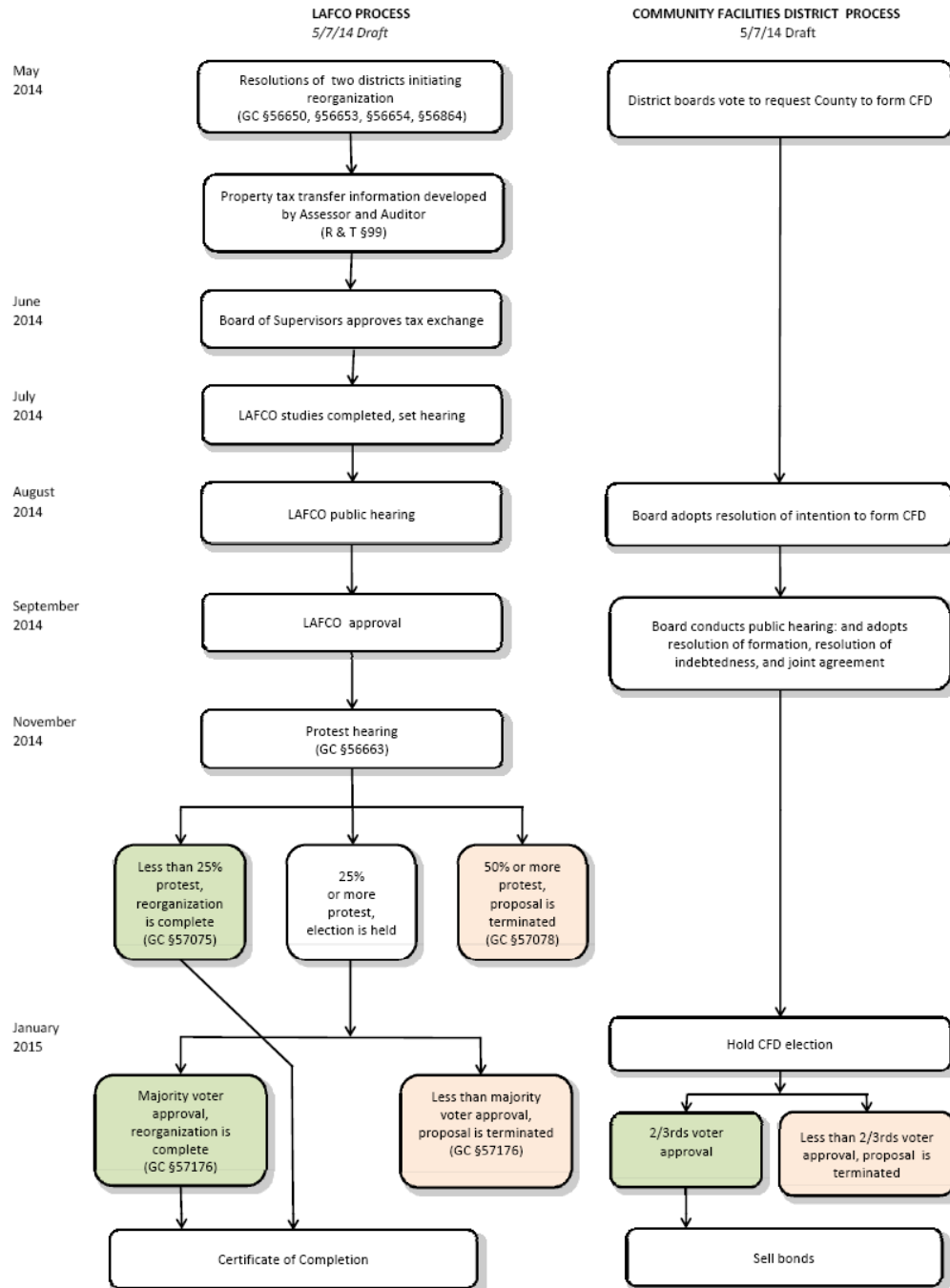
SUMMARY OF ESTIMATED COSTS

Description	\$
Water Storage Tank Replacement	\$835,000
Treatment Plant Improvements	\$110,000
Service Line & Meter Replacement	\$660,000
Distribution System Interconnection	\$515,000
SCADA System Improvements	\$315,000
PRV Improvements	\$375,000
Grand Total	\$2,810,000

Call \$2,750,000

CONDITIONS

- \$2.75 million bond
- Bond oversight committee
- PERS side fund loan payback
- Lompico charge



QUESTIONS?

DECEMBER 4 BACKGROUND INFORMATION

Note that the following documents were presented at the December 4, 2013 meeting. Some of the information has been updated, revised, or reformatted in the newer information presented in the previous section.

LOMPICO COUNTY WATER DISTRICT

INDEPENDENT FIVE YEAR BUDGET PROJECTION	2014/15	2015/16	2016/17	2017/18	2018/19
OPERATIONS AND MAINTENANCE (O&M) EXPENSES					
1 Salaries and Benefits	359,000	369,770	380,863	392,289	404,058
2 Contract Operation and Maintenance	75,000	77,250	79,568	81,955	84,413
3 Power and Other Utilities	45,000	46,350	47,741	49,173	50,648
4 Regulatory Fees	1,500	1,545	1,591	1,639	1,688
5 Treatment Chemicals	26,000	26,780	27,583	28,411	29,263
6 Structure and Road Maintenance	13,000	13,390	13,792	14,205	14,632
7 Professional Audit Services	28,000	28,840	29,705	30,596	31,514
8 Transportation	8,000	8,240	8,487	8,742	9,004
9 Materials, Supplies, and Parts	3,000	3,090	3,183	3,278	3,377
10 Office Supplies	7,000	7,210	7,426	7,649	7,879
11 Miscellaneous: Director Fees, Membership, Training	10,000	10,300	10,609	10,927	11,255
12 SUB-TOTAL OPERATIONS AND MANAGEMENT EXPENSES	575,500	592,765	610,548	628,864	647,730
GENERAL AND ADMINISTRATIVE EXPENSES					
13 Insurance	9,000	9,627	9,916	10,214	10,520
14 Truck	0	0	35,000	0	0
15 Computer, Software, and Training	0	0	9,000	0	0
16 New Funding Project Costs (General Plan)	211,100	234,200	216,500	229,100	240,000
17 Long-Term Debt Service	32,255	33,255	7,399	0	0
18 Short-Term Loan to Pay Off CalPERS Side Fund	58,283	9,714	0	0	0
19 General Reserve	37,756	37,912	37,524	37,501	38,365
20 Engineering and Professional Services Not in Gen. Plan	20,000	20,600	21,218	21,855	22,510
21 Replacement Well	0	0	0	0	0
22 Capital Reserve	0	0	0	0	0
23 Intertie with SLVWD	0	0	0	0	0
24 SUB-TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	368,394	345,308	327,557	308,670	311,395
25 TOTAL EXPENSES	943,894	938,073	938,105	937,534	959,125

**LOMPICO COUNTY WATER DISTRICT
INDEPENDENT FIVE YEAR BUDGET
PROJECTION**

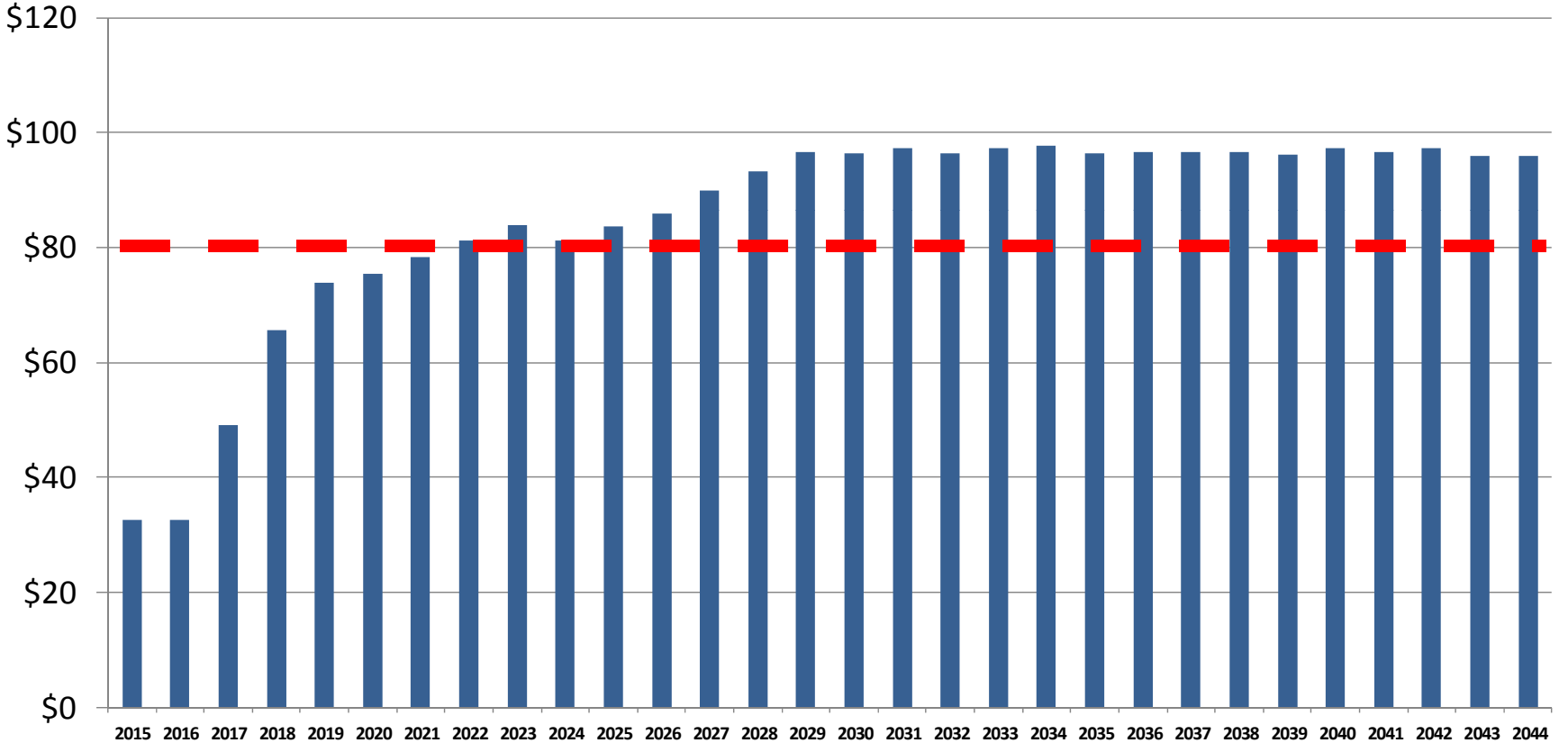
REVENUE	2014/15	2015/16	2016/17	2017/18	2018/19
a Water Revenues (Adopted LCWD Rates)	489,700	514,185	514,185	514,185	514,185
b Fees and Services	5,425	5,588	5,755	5,928	6,106
c Hookup Charges	1,500	1,545	1,591	1,639	1,688
d Other Sources: Property Taxes, Interest	54,300	55,929	57,607	59,335	61,115
e Revenue before Future Rate Increase	550,925	577,247	579,139	581,087	583,094
f New Revenues from Future Rate Increase	392,969	360,826	358,966	356,447	376,031
g TOTAL REVENUES	943,894	938,073	938,105	937,534	959,125

INDEPENDENT LOMPICO

CAPITAL IMPROVEMENT PLAN

Item	Completed by	Pro Forma Years					Task	
	July 1, 2014	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	Cost
Well #1			1,300					1,300
Well # 5	125		11,700					11,700
Well #6--standby	3,500		1,000			11,000		12,000
Well #7A				14,200				14,200
Lompico Creek					14,000			14,000
Lewis Treatment Plant			60,000					60,000
Mill Creek Treatment Plant	81,100							
Mill Creek Clear Well			17,000					17,000
Lewis Tank #1--Lower						156,500		156,500
Lewis Tank #2--Upper			120,000					120,000
Kaski Tank #1--South				120,000				120,000
Kaski Tank #2--North								0
Madrone Tank #1								0
Madrone Tank #2								0
Supplemental Supply (well)								0
Intertie								0
Booster Pump Station	750				10,500			10,500
Pressure Reducing Stations					7,600			7,600
Replace Laterals/Meters							244,000	244,000
Air Relief Valves					20,000			20,000
Gate Valves					66,000			66,000
SCADA				100,000	100,000			200,000
Back-Up Generator(s)						40,000		40,000
FIVE YEAR TOTAL			211,100	234,200	216,500	229,100	240,000	1,114,800
AVERAGE YEARLY COST OF PRO FORMA								222,960

GRADUATED BOND PAYMENTS CONVERTED TO BI-MONTHLY



CAPITAL FINANCING OPTIONS

Options	Improvements Needed	Finance Plan	Annual Cost	Bi-Monthly Comparison
Original Estimate: Lompico Water District	Deferred Major Maintenance \$1.4 million plus Emergency Intertie with SLVWD	Create CFD for improvements and use grant funds for intertie	\$131,000	\$45
Current Options with Alternatives:				
Independent Lompico	Deferred Major Maintenance \$1.4 million No Intertie	Pay as you go for 6-7 years – major rate increase	\$211,000	\$71
Lompico merges with SLVWD and creates a Community Facilities District (CFD) to finance improvements	Deferred Major Maintenance \$1.4 + Intertie \$1.3 Million for \$2.75 Million	Create CFD to finance all improvements – some rate increase needed	\$238,000 or restructured for less in the early years @ \$109,000 escalating to \$295,000	\$80 OR (\$36 increasing to \$100)
Lompico merges with SLVWD and creates a Community Facilities District (CFD) to finance improvements w/o intertie and seek grant funds	Deferred Major Maintenance \$1.4 Seek possible Disadvantaged Communities grant funds	Create CFD to finance improvements – no further rate increases initially	\$131,000 or restructured for less in the early years @ \$62,000 escalating to \$162,000	\$45 OR (\$21 increasing to \$55)

CONDITIONS

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.

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.

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.

LOMPICO CHARGE

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:

<u>Year</u>	<u>Beginning</u>	<u>Per Month</u> <u>Per Connection</u>
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.

Other Organizational Options Considered by Working Group or Liaison Committee for Lompico Water System

OPTION	EXPLANATION	REASONS FOR NOT PURSUING
County of Santa Cruz	Dissolve Lompico CWD Form a County–dependent district in Lompico (County Service Area, County Sanitation District, etc.)	<ul style="list-style-type: none"> • County not in the water business • Except Davenport, which has higher rates than Lompico • No significant operational economies
Scotts Valley Water District	Dissolve Lompico CWD Annex Lompico to Scotts Valley Water District	<ul style="list-style-type: none"> • No distribution system near Lompico • No significant operational economies • Not a good fit of communities
City of Santa Cruz Water Department	Dissolve Lompico CWD Expand city’s water service area to include Lompico	<ul style="list-style-type: none"> • City totally occupied with drought and supplemental supply issues • Unlikely to commit Loch Lomond water • No distribution system or treatment plant near Lompico, closest system is Rolling Woods • Loss of local control in Lompico
Private Water Company	Dissolve Lompico CWD “Sell” system to private water company (Cal-Am, Big Basin Water Co., etc)	<ul style="list-style-type: none"> • Loss of local control in Lompico • Potential for very high rates • Seldom, if ever, occurs in state
Management Agreement	Lompico CWD continues in existence and enters an agreement with SLVWD to run the Lompico system (management, budgeting, operations, engineering, billing, etc.)	<ul style="list-style-type: none"> • SLVWD employees serving two boards has high potential for conflicts • Probably similar or greater costs than merger