



PROCEEDINGS OF THE
LOCAL AGENCY FORMATION COMMISSION
OF SANTA CRUZ COUNTY

Wednesday
October 2, 2019
10:00 a.m.

Supervisors Chambers, Room 525
701 Ocean Street
Santa Cruz CA 95060

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The October 2, 2019 Santa Cruz Local Agency Formation Commission meeting is called to order by declaration of Chairperson Jim Anderson.

ROLL CALL

Present and Voting:	Commissioners R. Anderson, Cummings, Estrada, * Friend, Lather, Leopold, and Chairperson Jim Anderson
Absent:	None
Alternates Present:	Brooks
Alternates Absent:	Banks, Coonerty, Hunt,
Staff:	Joe A. Serrano, Executive Officer Jason Heath, Acting LAFCO Counsel Debra Means, Secretary-Clerk

MINUTES

MOTION

Motion: Leopold	To approve August 7 th minutes.
Second: Friend	Motion carries with a unanimous voice vote.

ORAL COMMUNICATIONS

None

PUBLIC HEARING

COMPREHENSIVE SANITATION DISTRICTS SERVICE AND SPHERE REVIEW

Mr. Serrano reports that this review analyzed ten sanitation districts and eight of those are managed and operated by Santa Cruz County. These eight agencies include Davenport, Freedom, and Santa Cruz County Sanitation Districts as well as County Service Areas (CSAs) 2, 5, 7, 10 and 20.

Salsipuedes Sanitary District and Bear Creek Estates Wastewater System are the other two districts included in the review. Bear Creek Estates is operated and managed by the San Lorenzo Valley Water District (SLVWD). These ten agencies were analyzed individually and have their own distinctive service and sphere determinations.

Any agency that provides wastewater services, and has at least one mile of service lines, has to comply with rules and regulations from the State Water Board's Sanitary Rules of Order. There may be some modifications to those regulations and these agencies may be subject to those new requirements.

The Association of Monterey Bay Area Governments (AMBAG) conducts growth projections for cities, counties and unincorporated areas in the region. Typically, growth projections are not done for special districts, so staff took the growth rate for the unincorporated areas of Santa Cruz County and applied it to the ten sanitation districts up until 2035. The total population within the ten agencies is expected to surpass 81,000 by next year.

State law requires LAFCOs to identify disadvantaged unincorporated communities (DUCs), which are areas outside a city, and have a household income of 80% or less of the statewide median household income. Based on these criteria, there is one DUC located within Freedom County Sanitation District, just outside Watsonville's city limits. If there is an application to annex territory involving the City of Watsonville that is near or adjacent to the DUC, further evaluations should be conducted at that time.

These ten sanitation districts were formed between 1965 and 1985. Their infrastructure continues to age. Several agencies have identified the need for infrastructure improvements, but they have not been scheduled in their Capital Improvement Plans (CIPs). Some agencies do not have a CIP in place. Staff has recommended that those agencies address their infrastructure needs by scheduling projects in the foreseeable future. The lack of funding is a primary reason for not scheduling CIP projects.

The primary source of revenue is sewer rates. Most of these rates are adopted annually and rely on the Consumer Price Index for any increase in rates. This type of moderate increase is usually not enough to cover operational expenses. Some agencies have been facing financial deficits over the years.

There are already collaborations in place between the ten sanitation agencies. Smaller agencies transfer their collected wastewater to nearby treatment plants under a contract or some type of agreement. Freedom County Sanitation and Salsipuedes Sanitary Districts collect their wastewater and transfer it to the City of Watsonville's treatment plant, each with separate contracts and different rates. Freedom's contract has been updated over the years but Salsipuedes' contract has remained unchanged since inception.

Salsipuedes may consider meeting with the City of Watsonville to update their contract. In a more regional approach, there could be an implementation of a countywide Memorandum of Understanding (MOU) or Joint Powers Agreement (JPA) to reflect the collaboration that is already in place.

Most of these agencies received an adopted sphere in the early 1980s except for CSA 20 and Bear Creek Estates Wastewater System. Staff is recommending a coterminous sphere for CSA 20, which means it has the same boundary as its service area. For Bear Creek Estates, staff is recommending a zero sphere which indicates that the responsibilities of sewer service should be transferred over to another local agency, and the Wastewater System should be dissolved. This follows the Commission’s adopted policies and it reflects the agency’s own request to have their services transferred to another agency such as the County.

The Urban Services Line (USL) was adopted by the Board of Supervisors and it is not managed by LAFCO. It is a critical tool to determine which areas will receive sewer service from the Santa Cruz County Sanitation District (SCCSD). There are some conflicting areas where the USL is different from current jurisdictional or sphere boundaries. LAFCO staff plans to meet with Public Works to discuss these inconsistencies and perhaps jointly recommend actions in the foreseeable future.

Mr. Serrano appreciates Rick Rogers from the San Lorenzo Valley Water District, Ashleigh Trujillo and Beatriz Barranco from Public Works, and Delia Brambila from Salsipuedes Sanitary District for their work and contributions to help complete this review.

MOTION

<p>Motion: Leopold Second: Cummings</p>	<p>To find this review is exempt from CEQA, it fulfills the requirements under Government Code Section 56425 and 56430, and to adopt Resolution No. 2019-19 with the following terms and conditions:</p> <ul style="list-style-type: none"> • Adopt a coterminous sphere for CSA 20, • Adopt a zero sphere for Bear Creek Estates Wastewater System, • Reaffirm the sphere boundaries for the 8 remaining agencies included in the review, and • Direct the Executive Officer to meet with Public Works to discuss the relationship between the Urban Services Line and the jurisdictional and sphere boundaries for Santa Cruz County Sanitation District, as recommended by staff.
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Commissioner Lather thinks she found a few mistakes in the review:

- Rolling Woods no longer has a treatment plant. The plant was demolished and Santa Cruz City handles its treatment.
- CSA 5 has two rates and there are separate budgets that are combined. They have two treatment plants and the two groups should work together to share treatment ability. Upgrades to the facilities are difficult. There should be more discussion about why there are two treatment systems.
- CSA 10’s treatment is done by the City of Santa Cruz. The City bills them directly and it is not done with a Memorandum of Understanding (MOU). This is not included in the County’s sewer rates but it is part of their sewer rates. It shows there is a \$26.24 monthly rate when they are really paying two rates because they are paying separately for the collection and another fee for the treatment. They have had a staff turnover and it may have been difficult for them to understand this. All the other districts include sewer treatment in their rates.

Mr. Serrano adds that staff used the adopted sewer rates that were presented to the Board of Supervisors.

Commissioner Lather continues to correct or make further recommendations:

- There should be more discussion about Bear Creek Estates. All of the laterals are made out of orangeburg pipe. Those laterals should be replaced or there will be high nitrate levels in the groundwater and creeks.
- When it is mentioned that most of these agencies are “financially stable,” they actually need millions of dollars in upgrades.
- On page 19, it says that CSA 10 has 104 connections and serves 900 residents. She does not think that makes sense when the average is 2.3 residents per household.

Mr. Serrano extracted most of this information from the agencies’ responses and any available documentation on their websites. He provided agencies advanced copies of this report to help ensure the accuracy of its conclusions and findings.

Commissioner Lather continues that in 2005, LAFCO legally approved extraterritorial sewer and water service for Cemex in Davenport. She thinks this should be added into the description of Davenport County Sanitation District.

She wonders about Boulder Creek’s FY 2018-19 and FY 2019-20 budgets. It says they are financially stable, but they have a lot of work to do, and the budget has dropped considerably. She does not know how their budget is determined and maybe it is just “O and M” costs and not any contributions to capital improvement costs.

Mr. Serrano says the financial analysis is based on the audited financial statements that the County provides. The definition of “financially stable” is that their operational revenues are covering their operational expenses, excluding the need to save funds for infrastructure improvements. The need to save funds to address aging infrastructure is mentioned in the review.

Commissioner Lather notices that on page 103, it says CSA 10 has a treatment plant. If there is plastic pipe in the infrastructure, that is not a problem. On the Woods Cove side, the infrastructure is new and they used plastic in their collection system. The Rolling Woods side is aging and probably needs upgrading. The line that goes down the road to the City of Santa Cruz is HTPE pipe and that is not a big concern.

There is a need for a Sewer System Management Plan (SSMP) that is specific for different CSAs and special districts. There is supposed to be an audit every two years and she was unable to find an audit. In those audits, there is information that would be helpful for reviews. They are supposed to cover how many miles of cleaning they do per year, and how many miles of video they do for each area. The State wants to know what is going on with the infrastructure and they can focus on the worst areas. She does not think there is enough Public Works staff dedicated to maintaining all the CSAs and districts.

CSA 10’s sewage goes to the City of Santa Cruz whose system is fairly new. She supports a study or review to see if the City would give them extraterritorial service as a satellite agency or

satellite community so they could have just one fee. They are paying them same as the City's customers, but they are getting their lines cleaned and videoed, as well as their sewage treated. CSA 10 customers are paying more to the County to perform less duties.

She recommends doing the same for Freedom County Sanitation District (FCSD) and the City of Watsonville. Pieces of the FCSD were taken when the City expanded its city limits and it created small isolated areas that now have to be maintained. SCCSD is helping with this maintenance but it is out of the way. The rates should probably be higher due to the travel time it takes to reach Freedom. FCSD is paying Watsonville for treatment but the rates for the City are about the same as the County.

She suggests having a study that looks at making SCCSD independent from the County. Special districts are more focused on what their job is. She knows some Public Works agencies have been fined because they were not putting enough energy into the sanitation part of their purview.

Cities and counties in general have difficulty with all the different parts of operation they are responsible for, such as parks, roads, and lighting. Maintaining sewers is also important but sometimes it does not get enough attention.

Mr. Serrano appreciates Commissioner Lather's expertise. The last Sanitary Sewer Management Plan (SSMP) was adopted by the County in 2017. There is some difficulty locating this type of information on the County's website and it was mentioned in the review. Other special districts have their reports more accessible. One of staff's recommendations for the CSAs is to update their webpages to make it easier for the general public and other agencies to find these reports. Much of the review's information was based upon the 2017 SSMP.

There is an option for the City of Santa Cruz to take over CSA 10. Public Works has indicated an interest in transferring CSA 10's responsibilities to the City. It is unknown whether the City is willing to take over that responsibility. If both parties agree, LAFCO is in favor of such a transfer.

There is another option for the City of Watsonville to take over Freedom County Sanitation District (FCSD). LAFCO staff met with the City to discuss the possibility of taking over FCSD, but the City said they do not have the resources. If the City and FCSD are both willing and support the transfer, LAFCO would also support it. Currently, there is no support from both sides.

Commissioner Leopold also appreciates Commissioner Lather's comments due to a career's worth of experience. He is confused about Salsipuedes Sanitary District's role not having its rates changed by the City of Watsonville. and how that affects the district.

Mr. Serrano met with Salsipuedes' General Manager. The sanitation district has had a contract with the City of Watsonville to treat their wastewater since the 1970s. This contract has not changed or been updated since inception.

In recent years, there has been a huge fluctuation in cost with the contract between the City of Watsonville and Salsipuedes Sanitary District. One year it went up to \$155,000 and the next year it dropped to \$100,000. Their service rates go higher than the CIP amount, which is from 4% to 9%. The district has to address these costs beyond the typical CIP increase. The contract

with the City goes up and down and fluctuates each year, which makes it difficult to budget for on an annual basis. It may be beneficial for the District to meet with the City and update the contract to better reflect current and future service demand.

Commissioner Leopold wonders about making SCCSD independent. He understands Commissioner Lather's comments that there would probably be a greater focus, but there may be a greater expense.

Commissioner Lather thinks that information could be researched in a study. SCCSD is an independent district. Over the years, it has somehow merged into Public Works. In the past, they had their own secretary and their own fiscal finance, and now it has somehow dissolved into other parts of Public Works.

She thinks there could be a financial benefit to becoming independent. Currently, Public Works staff is used in other areas and the focus is not towards sewer maintenance all the time. They could have staff specifically for sewer maintenance. She understands the need to move staff around within a public agency as emergencies and priorities arise, but times are changing. Environmental aspects of sewer are getting tighter. It may not be financially better on a day-to-day basis, but it may be financially better if they are not getting in trouble for not replacing lines, or not receiving fines.

Commissioner Leopold serves on the board and the district has a multi-year CIP. There is an exhaustive effort to remodel their facility for staff and use the Lode Street facility in a different way. Every time rates are increasing, the customers care. He understands this concern and is not against having a study, but he is not sure there is more that can be done.

Commissioner Lather currently works for a special district that only deals with sewer maintenance. She can see a huge difference because their focus is primarily on sewer maintenance, keeping track of all the lines and replacing laterals. They are not caught up in the politics of their county.

Monterey County wanted them to replace a sewer line for a road that was unnecessary. The district said no because the politics are not there to pressure them. The special district she works for is half the size of SCCSD and they have five elected board members. These board members wanted to be on a sanitation board.

Commissioner Leopold wonders what a study like this would cost. He is concerned that money would be spent on a study and nothing would happen. There is limited funding and he wants to be sure there is interest from the sanitation board or its customers.

Mr. Serrano replies that one of the incentives of adopting a service review is that it triggers these types of conversations which may lead to other studies. There are some LAFCO funds set aside for consultation assistance if there is interest for a more technical report that goes beyond a service review. It could lay the foundation for having additional evaluations done by this Commission or by the subject agencies.

Commissioner Lather says the Personnel Department only hires people that are qualified for sewer work. People are not transferred around from other departments that are not qualified. She thinks sewer work is specialized and many do not appreciate it. Having counsel for the sanitation district be the same as the County is difficult as well. There are several difficulties having this kind of setup.

Commissioner Cummings says the report mentions that it might be beneficial to explore opportunities to combine and establish Joint Power Agreements (JPAs) or Memorandums of Understanding (MOUs). He asks how that could help address concerns around aging infrastructure.

Mr. Serrano answers that some agencies do not have CIPs in place such as Salsipuedes Sanitary District. Since they are a small agency, they could benefit from learning from other agencies. Perhaps this could be an outlet for other agencies to learn from each other such as economies of scale or purchasing power. There are benefits to having an MOU or a JPA that would help these smaller agencies.

LAFCO staff can make recommendations or suggestions to the agencies but he is not sure if they can direct the establishment of a MOU. LAFCO can encourage agencies to explore these options. There can be a more technical study that really shows the benefits of an MOU, JPA or something similar. The service review highlights the benefits and does not go into depth, but that could be the next step.

Commissioner Roger Anderson was happy to learn that only one of the districts is having problems. Bear Creek Estates' sewer system is only 34 years old. He was not aware that orangeburg pipe was paper pipe impregnated with tar and is not a long-lasting pipe. When such projects come to LAFCO, he suggests that the lifetime being built into the infrastructure is considered.

He thinks one of the most important DUCs in this County is the UC Santa Cruz campus. He wonders what the consequences would be having a DUC there for any future actions if the City of Santa Cruz wants to annex the north campus.

He notes the big difference in rates between the agencies. He suggests looking at the average cost of all sewer services within the County, including the cities' agencies. Some of these systems are just collection systems and others are treatment systems, so it may be more difficult to compare. He wonders what the cost is to treat the sewage after collection.

Some of the reports on expenditures include breaking out salaries and there are different categories that are more detailed than others. He would like to see more consistency so it is easier to compare the operations. He had difficulty finding any PERS backlogs from these agencies.

Expenditures versus revenues needs to be done annually. One complication is that some of the numbers are audited and others are budgeted. It is not obvious when some of the budgets are estimated.

Mr. Serrano adds that the definition of a DUC focuses on a community with a median household income. The campus does not have permanent residents so it does not fall under the true definition defined in the Cortese-Knox-Hertzberg Act (CKH Act). That is why the campus was not identified as a DUC.

Staff wanted to make sure that individual analysis was done for all ten agencies. Due to the comprehensive analysis, staff was also able to identify commonalities and overarching themes involving the agencies. Sewer rates were compared because of their similarities in customers, such as single-family and multi-family units. Staff was comfortable in comparing those types of rates. Because services and functionalities varied among the ten agencies, it was difficult to compare other costs and factors.

Commissioner Leopold requests reporting back on what it would cost to do a study on SCCSD becoming an independent district. He is not ready to support it until he knows what it would entail.

Counsel Heath adds that SCCSD is already a separate legal entity. He asks Commissioner Lather if she wants to know what it would take to make them more independent or separate from Public Works.

Commissioner Lather wants to know what it would take to make them separate from Public Works and the County, and to be a truly independent special district.

MOTION AND ACTION

Motion: Lather Second: Leopold	To approve staff's recommendations and: <ul style="list-style-type: none">• Direct staff to come back to Commission with the cost for a possible study to make the Santa Cruz County Sanitation District an independent special district from the County,• Have a conversation with the City of Watsonville about taking over Freedom County Sanitation District, and• Have a conversation with the City of Santa Cruz about taking over CSA 10. Motion carries by a unanimous vote.
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OTHER BUSINESS

CALAFCO's PROPOSED NEW MEMBERSHIP DUES STRUCTURE

Mr. Serrano reports that at the upcoming annual conference in Sacramento, CALAFCO will be conducting two elections: one is to address the upcoming vacancies on the CALAFCO board and the other is to determine whether there will be a new membership dues structure.

CALAFCO has been facing a financial gap for several years. Their primary source of revenue is membership dues from all 58 LAFCOs. They have been running a deficit between their operational revenues and expenses. Funds from educational events such as the annual conference have been helping to subsidize that gap, but that is only a temporary fix.

CALAFCO is proposing a new membership dues structure to improve their longevity as a resourceful organization. If this new dues structure is improved, there will be an increase in the dues, but it will be a small price to pay since CALAFCO is a vital tool for LAFCOs around the State.

The components of the new proposed structure are based on population, a per capita rate, and a flat rate for all 58 LAFCOs. Staff recommends directing Chairperson Jim Anderson, as voting delegate, to vote in support of the new dues structure on behalf of Santa Cruz LAFCO.

Commissioner Leopold adds that CALAFCO has been trying to reach a sustainable level for several years. CALAFCO helps track bills that represent LAFCO interests and organizes the annual conference. As CALAFCO moves from a more volunteer organization to a more professional organization, the costs have risen. In 2015, increasing some parts of membership dues were established. They reorganized the conference schedule by having them at the same place to get better deals. They were also hoping to get sponsorship money. The results were not as successful as hoped. The CALAFCO board created a committee to come up with structure alternatives that would make CALAFCO more sustainable.

The proposed dues structure will be about a 50% increase for Santa Cruz LAFCO if it passes. The actual dollar amount is relatively small, but the value of the organization is immense. He might have reorganized the dues structure differently, but he supports this dues increase.

Commissioner Roger Anderson was on that committee. He created a simple analysis about the implications of this new dues structure. On a map of California showing all of the 58 counties, it shows the percentage increase in dues for each county in the State. It shows that most of the southern counties are getting a better deal than the rest of the State.

The pie chart shows the fraction of total dues paid by each region. Dues paid by the Coastal Region compared to the Southern Region are a factor of two, yet they all get the same nominal influence, and maybe a little more in the South because of peculiar veto requirements set into CALAFCO's by-laws. His main concern is that this is a problem with governance.

He thinks a more equitable option would have been to just increase everyone's dues by 40% or whatever it took, but the rest of the committee was unable to agree on it.

Commissioner Leopold says the Southern Region consists of six very large counties that operate as one. They do not provide more money than the Coastal Region, but just six counties have allowed them to exercise their power more effectively than the 14 counties of the Coastal Region.

He agrees with the inconsistencies that Commissioner Roger Anderson pointed out. The increase in Santa Cruz LAFCO dues to pay for CALAFCO dues for cities like Watsonville or Capitola would only be about \$150 each. The County would pay \$550 more. In other counties, it would probably be a bigger deal, but he does not see it as a problem for this County.

Commissioner Roger Anderson agrees. He is looking at the overall picture and what it implies for CALAFCO. There was never any question that CALAFCO's dues needed to be increased, it was just the question of how to increase the dues. He will support the new dues structure, but he is not that happy about what the pie chart shows.

MOTION AND ACTION

Motion: Leopold Second: Cummings	To direct the voting delegate to vote in support of the new dues structure, on behalf of Santa Cruz LAFCO. Motion carries by a unanimous vote.
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* Commissioner Friend leaves the meeting.

MEETING RULES POLICY UPDATE

Mr. Serrano reports that this Commission periodically updates its policies. The Meeting Rules Policy was last updated in 2016. The proposed changes give staff more flexibility about how to organize the agenda, it addresses any outdated language, and reflects the current Commissioners' practice on conducting meetings.

MOTION AND ACTION

Motion: Leopold Second: Cummings	To adopt Resolution No. 2019-20, approving the changes to LAFCO's Meeting Rules Policy. Motion carries by a unanimous vote.
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Commissioner Roger Anderson asks if the changes in meeting rules in the last few years were just updates, similar to these most recent changes.

Mr. Serrano replies that most modifications in the past were just clarifying practices and correcting any typos or outdated language.

REGULAR AND ALTERNATE CITY MEMBER ROTATION PROCEDURE

Mr. Serrano reports that the City Selection Committee is tasked to appoint a regular and alternate member on LAFCO. Historically, they have been using a rotation procedure to ensure that all four cities have equal representation on LAFCO. During the appointment of Alternate Brooks and Commissioner Estrada as city representatives, there was no set process to determine who is next in line. To remedy this, staff developed a multi-year schedule. Assuming the rotation procedure continues, the schedule shows who the regular and alternate members will be and when a city is off the Commission between 2019 and 2029. This schedule is a tool for the four cities to know when they will be on LAFCO.

COMPREHENSIVE QUARTERLY REPORT

Mr. Serrano reports that the Cumbre Lane Reorganization has been recorded. The only current application, involving Roaring Camp, is still not ready for the Commission's consideration.

The Commission identified five service reviews to be completed by the end of 2019. With the adoption of the Comprehensive Sanitation Service Review, four of the five reviews have been

completed. The last review will be for Midpeninsula Regional Open Space District (MROSD) and it will be ready for the Commission's consideration in November.

The Commission has received over \$400,000 in revenues from the funding agencies, and it is common practice to receive these revenues in the first quarter. Expenditures cover about 16% of the total budget.

Staff has continued with outreach efforts. There was a recent meeting with MROSD regarding the upcoming service review process. There were several MROSD representatives who attended, including staff and board members. He attended on behalf of Santa Cruz LAFCO, as well as Chairperson Jim Anderson, Vice Chair Roger Anderson and Counsel Heath.

Santa Cruz LAFCO will be hosting the next Bay Area LAFCO Clerks meeting on October 11th. Staff will be presenting ways to improve their skills.

Staff will be presenting their key findings of the adopted Sanitation Service Review to Salsipuedes Sanitary District's board members on October 23rd.

Commissioner Leopold asks where the clerks' workshop will be.

Mr. Serrano replies that the workshop will be held in the 3rd floor's training room of the County Building.

Clerk Means adds that Mr. Serrano will be doing most of the presentations.

Mr. Serrano says when he worked in LAFCO's Southern Region, there was synergy between the six different LAFCOs. They started a clerks' group which met on a quarterly basis, and it grew into an analysts' group. Then the EOs and board members began to meet. He wants to implement something similar where the clerks learn from one another and it can hopefully expand to the analysts and EOs. He has seen worthwhile benefits from these groups in the past.

Commissioner Roger Anderson asks if the carryover is included in the revenue.

Mr. Serrano answers no. He did not want to identify the carryover amount unless it is needed.

Commissioner Roger Anderson thinks it looks odd to have a budget of \$662,000 and only \$400,000 accounts for all the funding members' contributions.

Mr. Serrano adds that the presentation reflects the statement of cash flow. If the carryover amount is added from the previous year, it totals to about \$662,000. That carryover amount is identified in the full comprehensive breakdown which is an attachment to the staff report.

LEGISLATIVE UPDATE

Mr. Serrano reports that AB 600, which involves Disadvantaged Unincorporated Communities (DUCs), is on the Governor's desk awaiting approval. He has until October 13th to act.

WRITTEN CORRESPONDENCE

Mr. Serrano says there were two late items of correspondence from CALAFCO. The first document shows the candidates for the upcoming election at the annual Conference. The second item is the Conference's itinerary.

Commissioner Roger Anderson asks if there are individual biographies for the board candidates.

Mr. Serrano will email the Commissioners when it is available.

The next LAFCO meeting is scheduled for 10:00 a.m. on Wednesday, November 6, 2019.

CHAIRPERSON JAMES W. ANDERSON

Attest:

Joe A. Serrano, Executive Officer