



Santa Cruz Local Agency Formation Commission

Date: November 6, 2024
To: LAFCO Commissioners
From: Joe Serrano, Executive Officer
Subject: **Big Basin Water Company – Status Update**

SUMMARY OF RECOMMENDATION

LAFCOs have statutory purview over cities and special districts that provide municipal services, including but not limited to, the delivery of water. This legal oversight does not apply to privately-owned water systems or mutual water companies that provide water in Santa Cruz County. However, the recent governance and operational issues facing Big Basin Water Company has tasked local agencies, including LAFCO, to explore possible solutions to ensure that the Big Basin community receives adequate water services and representation now and in perpetuity. This report will provide an update on the collaborative efforts to help address the ongoing issues facing the Big Basin Water Company.

It is recommended that the Commission receive and file the forensic audit developed by Moonshot Missions as part of the collaboration between the court receiver and LAFCO.

EXECUTIVE OFFICER’S REPORT

The Big Basin Water Company (“BBWC”) was formed in the 1930s to provide water and sewer services to the Big Basin community. At present, BBWC’s active water sources consist of two active wells and more recently an emergency intertie with the San Lorenzo Valley Water District. BBWC was also responsible for providing sewer service to a small number of homes (29 connections) through two wastewater discharge leach fields, however, that responsibility was transferred over to the County earlier this year.

While the privately-owned company has been in existence for almost a century, several significant failures and violations have resulted in the unprecedented action by the courts to establish a receivership in order to provide better oversight to the company. The receivership was awarded to Serviam by Wright LLP (formerly known as Silver & Wright LLP) in September 2023 and is meant to be a temporary solution to the long-standing issue of proper governance and management of reliable water supply. It has now been a year since the receiver has taken over BBWC’s operations. This report is meant to provide an update on the latest operational improvements as well as summarizing the key findings from a needs assessment and alternatives analysis developed by a non-profit organization.

Internal & External Improvements

The court receiver has made some significant improvements during the past year. The company now has an accurate list of connections – in other words, the company finally has a reliable database of how many customers are actually receiving water from BBWC. The court receiver has also made several capital improvements (addressing broken or failing infrastructure needs) by successfully getting support from the residents to approve a rate increase as well as receiving financial aid from the County and State. Additionally, the court receiver has successfully transferred over sewer responsibility to the County. With the full support of the Central Coast Water Board, the court receiver and the County agreed to initiate the consolidation process of BBWC's wastewater treatment plant (WWTP) into the County's existing sewage district (County Service Area No. 7) as intricately described in the Preliminary Engineer's Report prepared by Bowman & Williams (refer to **Attachment 1**).

To ensure adequate funding, the County created a new zone (Zone 2) for the WWTP area. The method of apportionment used to charge each parcel in CSA 7 Zone 2 is the equivalent benefit unit method, as specified and supported in the Engineer's Report. The total annual cost of operating, maintaining, and servicing CSA 7 Zone 2 is divided by the sum of all equivalent benefit units to determine the cost per unit, which is similar to the method used in the formation of CSA 7 Zone 1 charges. Of the 32 parcels included in Zone 2 of CSA 7, 12 contain active connections and 17 are standby. For the 12 parcels containing active connections, the proposed annual sewer charge for fiscal year ("FY") 2024-2025 is \$3,728.81. For the 17 standby parcels, the proposed annual sewer charge for FY 2024-2025 is \$932.20. The remaining 5 parcels in Zone 2 of CSA 7 either contain WWTP infrastructure, are unbuildable, or do not contain existing sewer laterals; these 5 parcels will not be charged. BBWC was previously charging \$1,440 annually per active connected parcel for sewer services. For the 12 parcels containing active connections, the proposed annual rate increase for FY 2024-2025 is \$2,288.81. For the 17 standby parcels, the proposed annual rate increase for FY 2024-2025 is \$932.20. The affected residents approved the rate increase through a mailed-in ballot process in July 2024.

Moonshot Missions Assessment & Analysis Report

Moonshot Missions is a 501(c)(3) nonprofit water and wastewater utility consulting firm, based on the core principle that all people, particularly those in disadvantaged communities, have a right to safe, accessible, and affordable drinking water and clean waterways. Moonshot Missions is a collective of water leaders, professionals, and engineers with more than 250 years of experience with utility management, governance, community engagement, engineering, utility operations and finance. The firm helps communities attain clean water objectives by working collaboratively as trusted peer advisors. Moonshot Missions was engaged in March 2024 by LAFCO to provide technical assistance to the court receiver by 1) assessing BBWC's current technical, managerial and financial condition, and operational challenges, 2) evaluating ownership, governance, and operations alternatives that have the potential to support sustainable operations, and 3) providing information and advice regarding water rights preservation. This technical assistance was provided at no cost to the court receiver or BBWC and its customers through a cooperative agreement with the Environmental Protection Agency (EPA). **Attachment 2** provides a copy of the technical report developed by Moonshot Missions.

Moonshot Missions Report Structure

The report developed by Moonshot Missions presents a detailed technical, managerial, and financial evaluation of BBWC's current system, reviews governance options and analyzes long-term sustainability factors, including funding alternatives. It is intended to support informed decision-making regarding the most appropriate and sustainable path forward for the Big Basin Water Company system. The report has two key parts:

- **Part One** offers recommendations that aim to improve the delivery of safe drinking water to BBWC customers. A total of 46 recommendations were structured to prioritize actions into short-term (20 recommendations), medium-term (15 recommendations) and long-term (11 recommendations) timelines based on their urgency and impact on health, safety, and operational stability.
- **Part Two** of this report evaluates options for BBWC's future. Moonshot Missions evaluated options for BBWC's future by assessing available ownership, governance, and operational alternatives that have realistic potential to support sustainable operations. The considered alternatives involve three categories: (1) Dissolution and Annexation to San Lorenzo Valley Water District, (2) Hybrid – BBWC becomes part of another water entity, and (3) Stand-Alone – BBWC continues to be an independent entity through some means of reformation.

Ranking of Governance Options

In addition to evaluating BBWC's potential future options, Moonshot Missions also ranked the nine different alternatives based on the long-term sustainability of each one, as shown in **Table A** below. The sustainability analysis criteria used in Part Two were chosen because they encompass the critical aspects of delivering sustainable, safe, and affordable water service. The evaluation criteria were:

- **Level of Service** - Technical capacity to ensure competent and safe operations of the system, provide regulatory compliance, operations experience, ability to prepare for and respond to emergencies, and improve customer satisfaction.
- **Cost and Affordability** - Access to capital funding and financing, operational efficiencies, stable and sustainable rates, and customer affordability programs.
- **Ownership and Governance** - Accountability, transparency, retail water system management and oversight experience, and opportunities for community representation on governing bodies.

Table A – Ranking of Alternatives

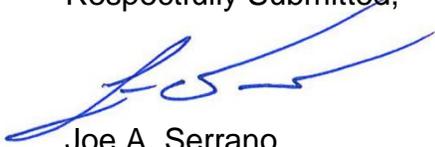
Ranking	Alternative
1	Annexation into San Lorenzo Valley Water District
2	Formation of a County Service Area
3	Annexation into Another Utility, except for Central Water District or PVWMA
4	Annexation into Central Water District
5	Ownership transfer to an Existing Investor-Owned Private Company
6	Formation of a New Special District
7	Annexation into Pajaro Valley Water Management Agency
8	Formation of a New Mutual Water Company
9	Formation of a New Private Company

The Commission may recall that LAFCO developed a governance options report back in March 2024¹, which is consistent with the alternatives identified by Moonshot Missions. However, Moonshot Missions provides a more in-depth analysis of the benefits and constraints associated with each option. LAFCO appreciates their ongoing efforts to share their technical expertise to the court receiver and Big Basin community.

CONCLUSION

The court receiver, Moonshot Missions, local leaders, and LAFCO continue to search for a viable successor to ensure that the Big Basin community receives adequate water service and proper governance now and in the future. While the question remains when the transfer of ownership will occur, it is encouraging to see process being made. LAFCO contributes these recent achievements directly from the collaborative effort from various local, regional, and state leaders. It is under this joint venture that a solution will come to fruition. In the interim, LAFCO will continue to provide the Commission periodic updates as the process unfolds.

Respectfully Submitted,



Joe A. Serrano
Executive Officer

Attachments:

- 1) [BBWC's Wastewater Treatment Plant Engineer's Report](#)
- 2) [BBWC's Drinking Water System Needs Assessment and Alternatives Analysis](#)

¹ 3/6/24 LAFCO Report: https://santacruzlafco.org/wp-content/uploads/2024/02/6a.0-BBWC-Staff-Report_Hyperlinked.pdf