November 9, 2011

TO:

Members, Local Agency Formation Commission

FROM:

Martha Poyatos, Executive Officer

SUBJECT:

Municipal Service Review and Sphere of Influence Update for County

Service Area 7 (La Honda)

Summary:

Attached please find the municipal service and sphere of influence update for County Service Area 7 (La Honda) (CSA 7). This is the first municipal service review for CSA 7. LAFCo is required by State law to complete municipal service and sphere of influence reviews for all cities and special districts in the County by taking the following actions: prepare a Municipal Service Review report and adopt Municipal Service Review Determinations pursuant to Government Code Section 56430; adopt Sphere Influence Determinations pursuant to Government Code Section 56425; and reaffirm or amend the sphere of influence.

LAFCo staff has met twice with the CSA Customer Advisory Committee and Public Works staff and also held an evening meeting in La Honda. Availability of the report and agenda for the evening workshop and the November 16 LAFCo meeting were distributed to CSA 7 customers. In addition, paper copies of the circulation draft were made available at the La Honda post office and copies of this report are being delivered to the La Honda post office. The attached report reflects comments received at the study session. The recommended service review determinations address primarily infrastructure deficiencies and the need to adjust rates and in many cases serve as recommendations to the County of San Mateo and the CSA 7.

It is recommended that the Commission:

- Accept the attached Municipal Service Review and Sphere of Influence Report
- 2) Accept public comment
- 3) Adopt Municipal Service Review Determinations found on pages 20 to 23 with any changes merited by public comment at the hearing
- 4) Adopt Sphere of Influence determinations found on pages 23 and 24 with any changes merited by public comment at the hearing
- 5) Reaffirm the status quo sphere of influence of CSA 11 as detailed on page 24
- 6) Direct the Executive Officer to transmit the adopted report and determinations to the County of San Mateo and the CSA Customer Advisory Committee.

<u>Final</u>

Municipal Service Review & Sphere of Influence Update County Service Area No. 7 (La Honda) Updated November 8, 2011

Introduction

This municipal service review and sphere of influence update for the County Service Area 7 is being completed as required by Government Code Sections 56425¹ and 56430. County Service Area 7 (CSA 7) is a County-governed special district formed in 1965. San Mateo County Department of Public Works operates CSA 7 providing potable water to approximately 68 customers in the La Honda community in the boundaries of CSA 7 and to County owned and operated Camp Glenwood Boys Ranch and Sam McDonald Park located outside CSA 7 boundaries. This final report has been updated since the October 12, 2011 Circulation Draft. Changes in data or new information are shown in 'bold' and 'underline'. Recommended determinations are found on pages 20 – 23.

Section 56425 requires LAFCo to periodically update spheres of influence. The LAFCo adopted sphere of influence for CSA 7 is "status quo". Section 56430 requires that in order to prepare and update spheres of influence in accordance with Section 56425, the Local Agency Formation Commission² shall conduct a service review of the municipal services provided in the county or other appropriate area. A municipal service review is an analysis of public services in which determinations are made regarding adequacies or deficiencies in service, cost effectiveness and efficiency, government structure options and local accountability Specifically, Section 56430 requires LAFCo to adopt considerations in the following areas.

- 1) Growth and population projections for the affected area.
- 2) Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies.
- Financial ability of agencies to provide services.
- 4) Status of, and opportunities for, shared facilities.
- 5) Accountability for community service needs, including governmental structure and operational efficiencies.
- Any other matter related to effective or efficient service delivery, as required by commission policy.

¹ Sphere of Influence is defined as the plan for the probable physical boundaries and service area of a city or district, as determined by the Commission. County Service Area 7 boundaries are limited by the General Plan to the existing boundaries of La Honda as a rural service center.

² Created by the State legislature in 1963, the Local Agency Formation Commission (LAFCo) is a Statemandated, independent commission with countywide jurisdiction over the boundaries and organization of cities and special districts including annexations, detachments, incorporations, formations, consolidations and dissolutions. A fact sheet on LAFCo is attached to this report.

County Service Area 7 (CSA 7)

County Service Area No. 7 was formed in 1965 pursuant to Government Code Section 25210 et seq. in order to operate the existing water system serving a portion of the La Honda community and the County-owned and operated Camp Glenwood Youth Facility and Sam McDonald Park. La Honda is designated a Rural Service Center designated in the County's General Plan. Please see Map 1 for the Rural Service Center boundaries. Map 2 illustrates water provider boundaries and shows that Cuesta La Honda Guild serves a larger portion of the Rural Service Center.³

Sam McDonald Park was acquired from Stanford University in 1958 for \$67,000 and dedicated for public use in 1970. The County acquired the water system in 1958 in conjunction with the acquisition of Sam McDonald Park. The County improved the system by constructing a 500,000-gallon steel water storage tank in 1967, and a water treatment plant in 1993. The water tank was financed with General Fund monies to improve the capacity of the system and the water treatment plant was installed to comply with an Environmental Protection Agency mandate. The County was able to fund the \$400,000 cost for the treatment plant under Proposition 86 (Juvenile Probation Bond Funds) because the system serves Camp Glenwood.

CSA 7, Sam McDonald Park and the Probation Department's Camp Glenwood
Youth Facility are served by the same water source. The shared system operates
dependent upon water rights of CSA 7 property owners and those of Sam
McDonald Park and Camp Glenwood.

Water for CSA 7 residents, Camp Glenwood and Sam McDonald Park requires treatment and the three entities are able to share the cost of one treatment facility. Much of the CSA 7 water distribution system, treatment facility and storage facility are located on Sam McDonald Park. CSA 7 does not rent these lands or own easement for these facilities, which affords an in-kind contribution from County Parks and a savings to CSA 7. Parks staff assist in locating and repairing leaks and operation of the treatment plant. CSA 7 and the Probation Department pay a proportionate share of the treatment plant operation costs.

County Service Areas under their enabling legislation may provide all the services of a city, except land use. The only active power provided by CSA 7 is water. If it is determined that other municipal type services are needed in the community and that CSA 7 would be the provider, it would be necessary for the Board of Supervisors as governing body, to apply to LAFCo for expansion of powers to provide that service.

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³ A small number of developed commercial parcels are served by wells.

La Honda

La Honda is located in the Santa Cruz Mountains in San Mateo County's rural area just east of the Coastal Zone, approximately 18 miles west of downtown Redwood City and ten miles east of Highway One. La Honda has a Census 2010 population of 9284 persons and land area of 4.3 square miles. La Honda is designated as one of three of the County's Rural Service Centers in the 1986 County General Plan. Rural Service Center is defined as a small rural community having a combination of land uses, which provide services to surrounding rural areas. The General Plan acknowledges that of the three Rural Service Centers, the services in La Honda are not as oriented to agricultural or recreational activities as San Gregorio and Pescadero. The General Plan cites that La Honda is home to approximately twice as many permanent residents as Pescadero and San Gregorio and many of these residents commute to jobs on the urban bayside. In addition, the General Plan indicates that La Honda businesses provide services to employees of, and visitors to the local park areas and surrounding timber industry. Rural and remote in nature, La Honda utilities include Pacific Gas and Electric electricity, individual propane gas, septic systems, limited private wells and water service from CSA 7 and Cuesta La Honda Guild.5

Customer Advisory Committee

In 1997 the Board of Supervisors adopted an ordinance providing for creation of a CSA 7 Customer Advisory Committee to advise and make recommendations to the Public Works Director regarding water rates, plans for system improvements and organizational and operational issues affecting CSA 7. In preparation of this municipal service review, LAFCo staff met with the Advisory Committee and Public Works staff and has scheduled an evening workshop in the Community to receive comments from CSA 7 customers.

Municipal type services provided in the area are summarized below.

La Honda (Census 2010 Population - 928						
Police	Fire & Emergency Response	Water	Sewer	Garbage/ Recycling	Lighting	Roads/Other ⁶
Sheriff	County of San Mateo via	County Service Area	Private Septic Systems	See Footnote ⁷	<u>La Honda</u> <u>Highway</u>	County of San Mateo &

⁴ La Honda is a Census Designated Place (CDP) and comprises an area larger than the Rural Service Center and much larger than CSA 7 boundaries.

⁵ Cuesta La Honda Guild is a common interest development of several hundred homes in La Honda. The Guild was incorporated in 1936 to provide water, recreational facilities and road maintenance to its members. The Guild has 285 customers including Apple Jacks and La Honda Elementary School. The Guild service to the school ends at the meter and the School is responsible for the system from the meter to the school facility.

⁶ Roads, General Government Services

contract with	7 & Cuesta		Lighting	private roads
CalFire	La Honda		District	not included in
	Guild,		(Partial)	County Road
	Individual			System
	Wells			

Please see Attachment 2 for boundaries of County Service Area 7, Cuesta La Honda Guild and other small water systems in the area.

Service review criteria as set forth in Government Code Section 56430 are examined below.

1) Growth and population projections

Census 2010 population for the Census Designated Place (CDP) of La Honda is 928. As noted above, the CDP boundaries are not coterminous with the rural service center boundaries. Based on the current 68 water connections, the estimated population of CSA 7 is 189, based on 2.78 persons per household.⁸

La Honda is a small rural community consisting primarily of low-density residential and limited commercial land uses, which provide services to the immediate and surrounding areas. Development includes residential, commercial, elementary school, and a fire station. The boundaries of County Service Area 7 are much smaller than the La Honda Rural Service Center boundaries. Most of the area not served by CSA 7 receives water from the Cuesta La Honda Guild and a small number of properties are served by individual wells. Use of septic systems and limited water supply combined with limited opportunity for subdivision indicates minimal potential for population growth in the Rural Service Center.

2) <u>Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies</u>

Water Infrastructure & Operations:

The CSA 7 water system originated in the 1920's when private developers diverted water from Alpine Creek to serve a small subdivision of primarily vacation homes. The system was later expanded to serve Camp Glenwood and Sam McDonald County Park. The County took the system over in 1958 and subsequently performed repairs and upgrades. County Service Area 7 was formed in 1965. The system is administered and operated by San Mateo County Department of Public Works – Flood Control and

⁷ Curbside garbage collection service is provided by individual subscription service with Allied Waste of Half Moon Bay. The County has established recycling drop-off centers in La Honda at the Elementary School and a more comprehensive center in Pescadero for rural residents to use.

⁸ Based Association of Bay Area Governments (ABAG) 2009 Projection of 2.78 person per household in San Mateo County.

Utilities Section of the Engineering and Resource Protection Division. In 1998, the "County Service Area 7 La Honda Water System Master Plan" was completed. The Master Plan included an assessment of the system, development of a water system capital improvement plan, a list of prioritized improvements and a water rate and revenue plan.

The water system serves approximately 68 customers included in two non-contiguous areas totaling 1 square mile within the Rural Service Center as well as the Camp Glenwood and San McDonald County Park outside CSA 7 boundaries. The CSA 7 water system is comprised of water supply (an intake and pump in Alpine Creek), a Water Treatment Plant, a 500,000-gallon storage tank and a distribution system. The Treatment Plant was constructed in the early 1990's to meet Federal and State water quality requirements. Portions of the distribution system date back to the 1920's.

The 1998 Master Plan for CSA 7 provides detailed information about water supply, treatment, distribution system and water storage. The distribution system is described as a simple branched network without looping 10 that serves residential customers along Alpine Creek and La Honda Creek. In the 1998 Master Plan, it is stated that the system is not divided into pressure zones owing to the small number of connections, rugged terrain and limited public rights of way and easements in which to construct additional water mains. However, subsequent to the Master Plan, the distribution system was separated into five pressure zones for bacteria sampling purposes as required by San Mateo County Environmental Health. The Master Plan assessed the distribution system as in poor condition given the age, pipe materials and marginal quality of installation. The pipe diameters are small based on current industry standards and have limited capacity to deliver necessary flows. Pipe diameters range from 0.75 inches to 4 inches and pipelines are old, poorly installed and undersized based on the desired level of service and current water industry standards. The water pipeline serving the Memory Lane area runs through a privately owned "Trailer Park" area where service by County employees is difficult. Some pipe is buried in roads while other runs cross-country through parkland and easements.

DPW reports that ongoing deficiencies include loss of pressure and at times water interruption during peak use, primarily on weekends. Because of the lack of proper design and remote location of portions of the system, breaks can go undetected until supply or pressure reveals there is a problem. The portion of the system that generally runs cross country and through San McDonald Park is located in rough terrain making

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⁹ County Service Area 7 is one of several districts operated by the Flood Control and Utilities Section of the Public Works Engineering and Resource Protection Division. The Flood Control and Utilities Section is responsible for ten sewer, two water, twelve lighting, and seven drainage districts serving unincorporated areas and three flood control zones.

¹⁰ The more modern approach to water system design is to loop all the water mains creating redundancy. A looped system eliminates dead-end mains and improves both flow distribution and water pressures through the system.

leaks difficult to detect, locate, access and repair. Repair of private roads by residents should be conducted in consultation with CSA 7 regarding location of water lines to avoid damage of lines located in roads. In addition, the distance of CSA 7 from County corporation yards adds costly travel time in responding to service needs.

Master Plan Assessment

The Master Plan assessment included the following findings about supply, treatment, and distribution system and water storage:

Raw Water Supply:

- 1) The Alpine Creek water source has adequate quantity and is suitable quality to continue to serve as one source for CSA 7.
- CA Superior Court Decree 355792 requires residents with riparian water rights in the La Honda Creek be supplied with water from either La Honda Creek or a different source than Alpine Creek.
- 3) The Alpine Creek diversion works well, but needs a spare pump to improve reliability.

Water Treatment System:

- The Camp Glenwood Water Treatment Plan (WTP) is in good working order and produces finished water that is in compliance with State and Federal regulations. To meet future water quality requirements the County may need to optimize WTP performance, shut the WTP down temporarily when water turbidity increases or modify the WTP.
- 2) Some minor corrosion is evident in the chemical storage and feed area and should be checked through application of appropriate coating.
- 3) The chemical storage tanks need to be anchored and provided with secondary spill containment.

Water Distribution System:

- Most of the distribution system water pipelines are old, poorly installed and undersized based on the desired level of service and current water industry standards.
- 2) The water pipeline serving the Memory Lane area runs through a privately owned "Trailer Park" area where service by County employees is difficult. This pipeline should be replaced with a pipeline paralleling Highway 84.
- 3) The water pipeline crossing Alpine Creek near Highway 84 is suspended from a cable across the creek and is at risk of failure. It should be reinstalled under the streambed or rerouted and attached to the adjacent bridge to improve its reliability and durability. An installation under the streambed might require a

temporary streambed alteration permit from the California Department of Fish and Game depending on the method of installation.

Water Storage:

- 1. The CSA 7 system has more than adequate storage in reasonably good physical condition.
- 2. There is apparently little or no flexibility for the reservoir inlet and outlet pipeline connections. All reservoirs need to have new or additional flexible connections installed on inlet and outlet piping to improve seismic reliability and durability.
- 3. The roof on the 70,000-gallon redwood treated storage reservoir (T-2) is deteriorating and needs to be replaced.
- 4. The redwood boards imbedded on the tops of the concrete grade beam foundations supporting the redwood reservoirs are deteriorating and will eventually need replacement. The redwood reservoirs do not appear to be anchored to supporting wooden beams and grade beams. The reservoirs should be properly anchored to improve seismic reliability.
- 5. All reservoirs should be inspected regularly and repaired as needed.
- 6. There should be a pressure-reducing valve on the bypass pipeline for T-2, to control downstream pressure during bypassing.

Recommended Improvements

The 1998 Master Plan recommended improvements and modifications detailed below. Estimated costs for capital improvements are included in parenthesis after each item and total \$2.390 million in 1998 dollars 11, an extraordinary amount based on the small customer base of approximately 68 ratepayers and indicative of the system's age, condition and lack of a planned design. Improvements completed are noted below in bold and underline. Cost estimates from the Master Plan Capital Improvement Program have been updated by SMC Public Works to reflect present day dollar values, improvements already completed and improvements no longer necessary, which total \$3,450,422. Please see section titled "Updated CSA 7 Master Plan, October 2011".

Raw Water Supply

1. Purchase a spare raw water pump for the Alpine Creek diversion to have in inventory when the single duty pump needs repair or fails. (\$3,900) **Completed**

- 2. Establish a new water diversion on La Honda Creek to serve residential connections in the La Honda Creek drainage. (\$663,000)
- 3. Carry out sanitary surveys for the Alpine Creek and La Honda Creek drainages to

¹¹ The October 12 circulation draft incorrectly cited improvement costs at \$4 million because it included in the total all alternatives for replacement of 2" diameter pipeline.

comply with State of California Department of Health Services requirements for smaller water systems.

Water Distribution System

- 1. Relocate the water main serving Memory Lane so that it runs from the "Trailer Park" along Highway 84 to Memory Lane. (Included in item 3 below)
- 2. Construct a permanent, dependable crossing for the Alpine Creek water pipeline. (\$30,000)
- 3. Replace older, small-diameter pipelines of diameters less than 4 inches with new, properly installed, 4-inch-diameter pipe. **\$1,117,000**
- 4. Read all meters monthly to accurately record water usage as a basis for proper cost allocation and to quantify unaccounted-for water.
- 5. Rebuild or replace meters on a 10-year cycle to ensure that metering data is accurate.
- 6. Disconnect unauthorized connections or establish meter accounts whenever they are discovered.
- 7. Provide looping by installing a 4-inch-diameter water main along Pescadero Road from the Alpine Creek Bridge to the La Honda Creek Bridge. (\$555,000)

Water Storage

- I. Provide flexible connections for all reservoir inlet and outlet pipelines. (\$3,700)
- 2. Repair or replace the roof on the 70,000-gallon redwood treated water storage reservoir (T-2). Install a bypass pipeline with pressure reducing valve. (\$3,500)
- 3. Inspect the redwood blocks supporting the redwood reservoirs and replace when their structural integrity fails. Add seismic anchoring. (\$9,600)
- 4. Inspect the welded-steel reservoir regularly and recoat/repaint the interior and exterior as recommended by a competent reservoir painting specialist.

Water Treatment

- I. Repair corrosion damage to the electrical system and floor under the chemical storage area. Coat flooring to prevent future damage. (\$5,000) **Completed**
- 2. Anchor chemical storage tanks and provide secondary containment for stored chemicals.
- 3. Construct a new WTP using water from La Honda Creek to comply with the Superior Court decree on water rights. (The updated capital plan proposes the alternative of raw water transfer pipeline to carry water to the existing treatment plant in lieu of constructing a separate water treatment plant)
- 4. Modify WTP operations or the WTP as required by new regulations.

Updated Capital Improvement Plan

Since the 1998 Master Plan, the County has responded to required regulatory requirements¹², emergency repairs and implemented few of the recommended capital projects due primarily to the extraordinary costs given the limited customer base.

As noted above, in anticipation of adjusting rates, the 1998 Capital Improvement Plan (CIP) has been updated based on the Bay Area Construction Cost Index. In addition, projects that have been completed or are no longer necessary have been removed from the CIP. Projects that remain on the updated CIP are required by regulation or are included in order to bring the water system to industry standards. DPW is further evaluating priorities summarized.

"Updated CSA 7 Master Plan, October 2011"

Priority	Project	1998	Updated	Reason for
	-	Estimate	2011	Adjustment
1	Redwood reservoir structure anchoring	9,600	6,693	1 of 2 Tanks
				Abandoned
	Reservoir flexible couplings	3,700	5,367	
	Water treatment plant repairs	5,000	7,253	
	Spare raw water pump	3,900	-	Has been purchased
2	Reservoir roof repairs	3,500	-	Tank abandoned
	La Honda Creek diversion and raw water			
	transfer line	663,000	961,795	
3	Replace water pipe, 13,000 feet, 4"			
	diameter PVC including reroute to	1,117,000	1,620,400	
	Memory Lane			
	Water pipe crossing Alpine Creek	30,000	43,520	
4	Install new 4" diameter pipe PVC			
	looping along Pescadero Road	555,000	805,123	
	Total	\$2,378,500	\$3,450,422	

The Master Plan included discussion of funding sources and rate adjustments that would be necessary to fund capital improvements, noting that DPW could either raise rates over and above operations costs in order to accumulate reserves for improvements or borrow and use revenues raised by raising rates to pay down the loan. The total dollar amount for improvements contained in the Master Plan is a total of the combined improvements and does not imply that all improvements must be completed simultaneously. And some alternatives for improvements such as replacement with 2" line in lieu of 4" line may no longer be feasible based on newer regulations.

As discussed in more detail below, water rates were last adjusted in 1999. The initial recommendation by DPW was to raise rates by 16% in order to cover the share of CSA 7 costs of system administration and operation. Because this increase would not include

¹² This includes Chlorine Analyzer to comply with adequate record keeping of water quality parameters.

funds for a reserve, the CSA 7 Advisory Committee recommended an increase of 25% to fund an annual \$10,000 reserve, with the caveat that the reserve funds be held separate from the operating budget. The budget discussion that follows later in this report includes information about the resulting reserve balance.

The Department of Public Works and LAFCo staff met with the Customer Advisory Committee and DPW has updated the Capital Plan priorities and cost estimates and is **beginning the rate setting process**. However, given the small ratepayer base of 68 residential users and the institutional customers consisting of the County facilities, both rate adjustment and either loan or grant financing sources would be necessary to implement all improvements identified in the plan.¹³

Regulatory Reporting

Small and large water systems are regulated by the California Department of Public Health's Division of Drinking Water and Environmental Management (DDWEM). 14 DDWEM recently conducted an inspection of the CSA 7 system and the San Mateo County Department of Public Works is in the process of responding to the DDWEM request for additional compliance information. The Department of Public Works anticipates increased costs associated with DDWEM reporting requirements.

The Department of Public Works website includes a CSA 7 page with information concerning the Master Plan, water quality, rates and contact information for the Department of Public Works.

Individual private wells are regulated by the land use jurisdiction. In unincorporated areas, the County of San Mateo Environmental Health Division regulates individual private wells¹⁵.

Operations:

CSA 7 office

CSA 7 office staff is housed at 555 County Center in Redwood City (Administration, Accounting, and Engineering). Field staff are based in the Tower Road complex, and include Public Works staff from the Facilities Services Division. The CSA 7 DDWEM
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¹³ For information regarding grants and loans see DDWEM "Drinking Water Funding" Page: http://www.cdph.ca.gov/certlic/drinkingwater/Pages/DWPfunding.aspx

¹⁴ Primacy is delegated by CDPH to certain county health departments for regulatory oversight of small water systems. Up until this year, San Mateo County Department of Environmental Health was delegated authority but for budgetary reasons transferred regulatory authority to the State.

In general, wells may be permitted if San Mateo County Environmental Health Division can certify proposed well for minimum sustained 2.5 gallons per minute and certify it for drinking water quality parameters. However, due to adjudication, additional compliance applies to properties near adjudicated creeks.

<u>certified as Drinking Water Treatment & Distribution System Operators by the DDWEM or that the County contract with an entity that has certified operators.</u>

Based on the remote location and distance of the system from County corporation yards, one alternative for more efficient operations would be to explore the option of contracting with another water agency such as the Cuesta La Honda Guild or private entities that provide contract service. In addition, there may be opportunity for a consortium of the small water operators in the rural area to share resources such as the services of a licensed operator. Please see map #2 of CSA 7 and other water providers.

(3) Financing constraints and opportunities

CSA 7 Budget:

The District's 2009-10 and 2010-11 Actual Budgets and the 2011-12 Adopted Fiscal Year Budgets are summarized on the following page.

County Service Area No. 7 Budget

County Colvide Alea No. 1 Badget		Actual		Actual		Adopted
		2009-10		2010-11		2011-12
Revenue:						
Connections:	68	6	8		67	
Water Sales and Monthly		· ·			•	
Charges:	\$	37,626	\$	36,739	\$	38,000
Other Charges & Penalties:	\$	717	\$	583	\$	-
Interest from Fund Balance:	\$	1,586	\$	1,946	\$	1,100
Total Revenue	\$	39,929	\$	39,268	\$	39,100
Fund Balance	\$	166,515	\$	179,198	\$	157,943
Total Sources	\$	206,444	\$	218,466	\$	197,043
Expenditures:						
Plant Operation & Maintenance: Routine Operation &	\$	11,346	\$	24,235	\$	30,000
Maintenance:	\$	494	\$	576	\$	26,000
Emergency Maintenance:	\$	1,954	\$	11,814	\$	10,000
Meter Reading:	\$	395	\$	825	\$	500
Billing & Accounting:	\$	2,769	\$	142	\$	1,000
Water Quality Monitoring &					·	
Testing:	\$	4,043	\$	2,423	\$	5,000
Engineering & Administration:	\$	4,104	\$	14,987	\$	18,000
Other Charges:	\$	2,140	\$	5,521	\$	11,260
Total Expenditures	\$	27,245	\$	60,523	\$	101,760
Operating Revenues less Expenditures	\$	12,683	\$	(21,255)	\$	(62,660)
Fund Balance at End of FY	\$	179,198	\$	157,943	\$	95,283
Capital Reserve at End of FY	\$	90,394	\$	97,868	\$	- *
Fund Balance less Capital						
Reserve (for O&M)	\$	88,804	\$	60,075	\$	_ **

^{*} Estimate of Capital Reserve at End of Fiscal Year is not available since the amount is based on actual water usage and actual monthly service charges billed.

Narrative: Actual 2009-10 Fiscal Year

Expenditures for FY 2009-10 included actual labor and equipment charges incurred by staff and payments for services (i.e. laboratory testing for water quality monitoring samples, County Environmental Health Services fees, etc.). Plant Operations &

^{**} Estimate of Fund Balance less Capital Reserve (for O&M) is not available since the amount is based on actual water usage, actual monthly service charges billed, and actual capital and other expenditures.

Maintenance (O&M) charges applied to the treatment plant. Routine O&M charges are applied to distribution system and responding to customer service requests.

Narrative: Actual 2010-11 Fiscal Year

Expenditures for FY 2010-11 included actual labor and equipment charges incurred by staff and payments for services (i.e. laboratory testing for water quality monitoring samples, County Environmental Health Services fees, etc.). Due to the water outage event in March 2011 as a result of a main break, charges associated with plant O&M, emergency maintenance and engineering & administration increased significantly as more work was required to repair the main, operate the plant for longer periods of time to replenish the supply in storage, and other administrative tasks (emergency notifications, posting notices, coordination of delivery of bottled water).

Narrative: Adopted 2011-12 Fiscal Year

Expenditures for FY 2011-12 have been estimated based on prior year actuals. Budgeted amount for routine operation & maintenance includes unforeseen repairs and potential capital improvement funding. The adopted budget represents a balanced budget to comply with County of San Mateo budgeting policy that the maximum authorized expenditures for the fiscal year cannot be exceeded except by subsequent amendments to the budget approved by the County Board of Supervisors. The adopted budget may include expenditure budgets higher than actual expenditures, which would result in unspent funds being added to the fund balance.

The 2011-12 adopted budget above includes \$38,000 in water sales fee revenue and \$1,100 interest and application of fund balance as a revenue (\$157,943) for a total of \$197,043. Estimated expenditures total \$101,760 comprised of \$66,000 operations and maintenance, \$500 for meter reading and \$35,260 in billing, accounting, water quality monitoring, engineering and administration and other charges. Estimated expenditures exceed revenues by \$62,660 resulting in an estimated fund balance of \$95,283.

While the 1999 rate increase has been successful in building a reserve, the reserve is not adequate to fund the significant capital improvements identified in the 1998 capital improvement plan. As noted above, the County Department of Public Works is reevaluating the Master Plan priorities and updating cost estimates and has begun a rate analysis.

System Shared with Camp Glenwood and Sam McDonald Park

The CSA 7 budget reflects all expenditures and revenues related to the system serving CSA 7 customers and the CSA 7 share of the treatment plant. As noted above, the treatment plant utilizes the water rights of CSA 7 property owners with water rights and those of Camp Glenwood and Sam McDonald Park. The Probation Department and CSA 7 pay 50% each of the costs associated with the Water Treatment Plant and appurtenances associated with pumping, treating and storing the treated water. Facilities are located on County lands for which CSA 7 pays no rent and owns no easements.

Water Rates:

CSA 7 customers are billed quarterly based upon meter readings for the preceding 90 days. The bill is comprised of a "Service Charge" and a "Volume Charge" component. The Service Charge is a flat monthly charge designed to recover costs that do not vary with consumption, such as, meter reading and billing and maintenance of the distribution system. The "Volume" charge is based on the amount of water used. One unit (100 cubic feet or hcf) equals 748 gallons.

Service Charge \$20.00 per month Volume Charge \$4.80 per unit

Rates were last raised in 1999. Prior to the rate increase two events factored into a need to adjust rates. Before 1997, the costs of the water treatment plant operation were funded solely by the Probation Department's Camp Glenwood. In 1997 a budget for the water system was developed with costs allocated between CSA 7 customers, Camp Glenwood and Sam McDonald Park based on best available water use data. One section of the water main runs through the trailer park and prior to 1998, the trailer park's water consumption was determined by calculating the difference in the quantity of water going into the trailer park and leaving on the other side. In 1998 the trailer park installed four separate meters off of the water main to measure water use more accurately after water rates were increased in 1997. Water use in the trailer park dropped by 56% of 2,016 units in 1996-97 to 895 units in 1997-98. Water use by other customers declined slightly but the trailer park reduction in water use resulted in a significant revenue shortfall for the CSA 7.

Current rates shown above reflect the 1999 25% rate increase that has resulted in establishing a capital reserve within the fund balance. The capital reserve has grown to \$97,868 as of the close of the 2010-11 fiscal year.

Rate Comparison – Other Agencies:

In updating rates the County may wish to consider a tiered rate pricing versus flat rate. The following includes examples of tiered rates structures of other public water agencies in San Mateo County. One hundred cubic feet (hcf) is the standard unit of water and equals 748 gallons.

North Coast County Water District (12,412 customers)

Monthly Service Charge: \$24.94 Volume Charge per Unit:

First 5: 2.53 per hcf 6 to 16: 5.62 per hcf 17 to 28 8.04 per hcf

Bill for 12 hcf: \$24.94, 5 x 2.53 and 7x5.62= \$76.93

Coastside County Water District (6,583 customers)

Bi-Monthly Service Charge \$30.72 (\$15.36 per month) Volume Charge:

0-8 hcf	\$5.02 per hcf
9-25 hcf	\$5.53 per hcf
26-40 hcf	\$7.19 per hcf
41 or more hcf	\$8.88 per hcf

Bill for 12 HCF: \$15.36+8x5.02+4x5.53 = \$77.60

Montara Water and Sanitary District (1,656 customers)

Monthly Service Charge Meter 5/8" \$20.84 Volume Charge:

0 to 6 hcf	\$6.54 per hcf
7 to 13 hcf	\$8.72 per hcf
14-27 hcf	\$10.90 per hcf
over 27 hcf	\$15.26 per hcf

Bill for 12 HCF: \$20.84+6x6.54+6x8.72 = \$112.40

County Service Area 11 (100 customers)

Monthly service charge: \$22

Volume Charge: \$1.38 per unit

Bill for 12 units: 12x1.38 = \$16.56 plus \$22 = \$38.56

County Service Area 7 (68 customers)

Monthly Service charge \$20 Volume Charge \$4.80

Bill for 12 units: \$57.60+\$20=\$77.60

Future Review of Rates

Future review of rates could include factors such as updated capital improvement priorities, on-going maintenance and rate structure models including a tiered rate model that encourages conservation. Consideration can also be given to a rate structure that reflects a phased capital improvement plan and phased increases over time to allow for gradual implementation of some improvements. It is also recommended that the County adopt a policy for the frequency of rate reviews to ensure that water service revenues keep pace with the cost of operations and capital improvements to the extent possible.

New Customers

As reported on the CSA 7 webpage, new customers may connect to the system by paying appropriate fees. ¹⁶ The facility buy-in fee for new parcels located within CSA 7 boundaries is \$2,100.00. Service connection fees range from \$690.00 to \$1,435.00 based on meter size. The meter set-up fee is \$50.00. Please contact CSA 7 during business hours for more information.

Contact Information for CSA 7:

County Service Area No. 7 County of San Mateo Department of Public Works 555 County Center, 5th Floor Redwood City, CA 94063

Telephone: (650) 363-4100

La Honda Highway Lighting District (LHHLD) (34 Street Lights)

LHHLD boundaries are not coterminous with CSA 7. The Lighting District maintains 34 street lights located on Pacific Gas & Electric utility poles and includes portions of the Cuesta La Honda Guild, Sears Ranch Road, La Honda Road, Memory Lane and Pope Road. (Please see map #3 for LHHLD boundaries).

The District was formed in 1961. As a non-enterprise district providing a service that does not lend itself to fees, the LHHLD receives a share of the 1% property tax as a result of Proposition 13. The Adopted 2011-12 budget includes a fund balance of \$197,309, property tax and other revenue estimated at \$10,855 for a total of \$208,164. Financing requirements include services and supplies of \$7,800 and an appropriation

¹⁶ Customers eligible for connection must have water rights.

for contingencies of \$200,364 for total appropriations of \$208,164. Please see budget table below.

La Honda Highway Lighting District	2009-10 Actual	2010-11 Actual	2011-12 Adopted	
Revenues				
Property Tax	9,234	9,472	9,064	
Taxes - other	748	704	591	
Interest	1,722	2,198	1,200	
ERAF Rebate	5,696	5,169	0	
Fund Balance	174,302	185,886	197,309	
Total Sources	\$191,702	\$203,429	\$208,164	
Expenditures				
Operations/Maintenance/Repairs	4,194	4,573	5,700	
Electric & Gas Utilities	1,623	1,547	2,100	
Total Expenditures	5,817	6,120	7,800	
Appropriation for Contingency	185,885	197,309	200,364	
Total Requirements	\$191,702	\$203,429	\$208,164	

Refunds from the Educational Revenue Augmentation Fund (ERAF) ¹⁷ are not budgeted annually as a revenue because it is not a dependable revenue source. It has however become a significant contributor to the revenue and fund balance of the District. Aside from interest, the remaining revenue is generated through an allocation from the 1% property taxes assessed.

District repairs or service to streetlights are driven primarily by street light outages reported by residents or property owners or by night surveys performed by staff. Repairs vary from replacing bulbs, replacing fixtures, and upgrading fixtures. Most recently it has come to the attention of Public Works/LHHLD staff that a Pacific Gas and Electric pole that included a LHHLD light located on Sears Ranch Road was moved without notifying LHHLD and the light was therefore not replaced. Replacement or relocation of poles that contain LHHLD lights by P, G & E should include coordination with Public Works/LHHLD. Replacement of the light will be funded from District operations and maintenance funds. To perform operations and maintenance work, assigned staff travel from the County's Tower Road complex to La Honda.

An appropriate fund balance target would be based on the number of lights maintained by the District, the average operation and maintenance expenditures, replacement costs, an estimate of additional lights that could be added to the District without

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¹⁷ ERAF refunds occur when the ERAF contributions to school districts from the county, cities and special districts exceed the amount required to fund schools up to their revenue limits.

additional funding, and any future infrastructure upgrades that may be desired or deemed necessary (new lights, stand-alone light poles, or undergrounding of utilities).

Public Safety

La Honda is within the jurisdiction of County of San Mateo fire protection and emergency response. The County contracts with CalFire to operate four stations: Station 17 on Tower Road in San Mateo, Station 18 on Edmonds Road in Belmont, Station 58 on Skyline Boulevard in Skylonda and Station 59 on Pescadero Road in Pescadero. In addition, there are three volunteer staffed stations: Station 55 on Pescadero Creek Road in Loma Mar, Station 57 on La Honda Road in La Honda and Station 56 (Kings Mountain) on Skyline Blvd. The nearest station is La Honda Station 57 and the next nearest stations include Station 55 (Loma Mar), Station 58 (Skylonda) and Station 59 (Pescadero). The County Sheriff serves La Honda as part of Sheriff Beat 80 serving the rural south coast and Skyline areas.

Roads Roads

With the exception of Pescadero Creek Road and Alpine Road, roads within CSA 7 are not included in the County maintained road system and improvements are the responsibility of property owners. As noted above, property owners should contact CSA 7 prior to performing work on roads under which system water lines are located.

Solid Waste:

Curbside garbage pick up is operated by Allied Waste on a subscription basis in which Allied directly bills the property owners. There is no curbside recycling available in La Honda. Through grant funding from Cal Recycle, the County of San Mateo has located a drop off recycling center on the County easement at the La Honda Elementary School site. The drop off center has source separated recycling-only bins and the County contracts with a private contractor for weekly pick-up service of the recycling materials from this site.

(4) Status of, and opportunities for, shared facilities and cost avoidance

The remote location of La Honda limits opportunities for resource and facility sharing. As noted above, the County is encouraged to discuss contract service with other entities for water system maintenance and the possibility of shared services with other water suppliers for a licensed operator.

(5) <u>Accountability for community service needs, including governmental structure and operational efficiencies</u>

In regard to accountability to the public, the San Mateo County Board of Supervisors is the governing body of the District and the County of San Mateo Public Works Department is responsible for CSA 7 operations. The Department of Public Works maintains a website with water rate and other information about the water service. The San Mateo County Board of Supervisors as rate setting body is subject to the Ralph M. Brown Act governing public meetings including public hearings to set rates. The Board of Supervisors adopts a budget for the District annually and the Department of Public Works publishes an Annual Water Quality Report.

In addition, the Board of Supervisors authorized Customer Advisory Committee meets three times per year <u>or as necessary</u>¹⁸ to advise the public works director regarding water rates and other matters. This provides an additional opportunity for public participation from the community regarding water service.

For the purpose of this report, discussion of government structure relates to alternative forms of government for service delivery that would promote efficiencies. As a County Service Area that operates a small system in a remote area, it does not overlap with any other public local service provider. The District is immediately adjacent to Cuesta La Honda Guild, which operates a water system and provides road and other services to member property owners. There are also a number of small community systems in the area. In addition, there are private companies that provide contract operation and maintenance of public water and sewer systems.

Alternative models to the current governance by a County Service Area in which the Board of Supervisors is the governing body and the County of Public Works Department operates the water system, include:

- Community Services District that would be governed by a locally elected board that would either employ staff or contract with another entity for services. The locally elected board would be responsible for setting rates, operating the system and compliance with State regulations concerning public water systems.
- Transfer of the system to a private utility or entity including Calwater
- Formation of a mutual water company

A Community Services District that would need to employ staff for the sole purpose of operating one small system does not appear feasible at this time based on the poor condition and lack of a designed system, lack of adequate revenues to fund

¹⁸Upon formation, meeting frequency of the Advisory Committee was recommended to be three times per year in September, February and May. Following a lapse in meetings, the Committee recently met with Public Works and LAFCo on August 27, 2011 and October 29, 2011 regarding District operations, rates and the LAFCo Municipal Service Review.

improvements and small ratepayer base. Based on condition of system, needed improvements and lack of revenues available to complete improvements, CSA 7 is not a candidate for transfer to another private entity. The alternatives summarized above would be alternatives to consider if the County of San Mateo determines that it is not feasible for the County to operate the system due lack of rate payer support resulting in inadequate revenues.

Inventory of Active Services: CSA 7:

Enabling legislation for county service areas (Government Code Section 25213) authorizes county service areas to provide a broad set of municipal services, in essence all services a city may provide (except land use). Since 1997, provisions of the Cortese Knox Hertzberg Act were amended to require that LAFCo identify which of the services of a multi-purpose district are actively provided and which are inactive. Pursuant to Government Code Section 56425(i), in preparing a municipal service review and sphere update, LAFCo is required to prepare a statement of the nature and location of functions and services provided by the districts. If a district proposes to add a new service permitted under district enabling legislation, the District must apply to LAFCo for approval. County Service Area 7 provides the following services in the areas as specified and any other services authorized by the enabling legislation are inactive:

Water Service District-wide

If in the future if the District determines that other services permitted in CSA enabling legislation should be provided by CSA 7, the County Board of Supervisors as governing body of the District could apply to LAFCo. The application would include a plan for providing services and a proposed budget include revenues to fund service and any associated revenue sources such as an assessment, fee or tax.

CSA 7 (La Honda) - Recommended LAFCo Determinations Pursuant to Government Code Section 56430

- 1) Growth and population projections for the affected area.
- a) Census 2010 population for the Census Designated Place (CDP) of La Honda is 928. As noted above, the CDP boundaries are not coterminous with the rural service center boundaries. Based on the current 68 water connections, the estimated population of CSA 7 is 189, based on 2.78 persons per household.
- b) Land use in CSA 7 includes residential, elementary school, and a fire station. The boundaries of County Service Area 7 are much smaller than the La Honda Rural Service Center boundaries. Most of the area not served by CSA 7 receives water from the Cuesta La Honda Guild and a small number of properties are served by individual wells. Use of septic systems and limited water supply

combined with limited opportunity for subdivision indicates minimal potential for population growth in the Rural Service Center and CSA 7.

2) Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies.

- a) The County Service Area 7 water system serves 68 connections and relies on water rights of landowners within CSA 7.
- b) CSA 7, Camp Glenwood and Sam McDonald Park share a single water treatment plant and operator.
- c) The 1998 CSA 7 La Honda Water System Master Plan assessed the distribution system as in poor condition given the age, pipe materials and marginal quality of installation. Pipeline diameters are substandard and the portions of the distribution system are located in areas that make leaks difficult to detect, locate, access and repair.
- Pipelines are located in private roads requiring coordination between residents contracting for road repair and the County Department of Public Works.
- e) The Master Plan Capital Improvement Plan identified recommended improvements including water storage and treatment plant repairs, La Honda Creek diversion and water raw water transfer pipeline, replacement of 13,000 feet of water pipeline, relocation of pipeline crossing Alpine Creek and installation of 4" looping water main in Pescadero Road to provide for redundancy for a total current estimated cost of \$3,450,422.
- f) The cost of improvements to portions of the system including the raw water tank and treatment plant shared by CSA 7, Camp Glenwood and Sam McDonald Park can be shared proportionately.
- g) The cost of improvements to portions of the system benefiting CSA 7 and the small customer base indicate a need to raise rates and complete improvements in phases.

3) Financial ability of agencies to provide services.

- a) CSA 7 water rates were last adjusted in 1999 and included a set aside for capital improvement reserve. While the 1999 rate increase has been successful in building a reserve, the reserve is not adequate to fund the significant capital improvements identified in the 1998 capital improvement plan necessary to provide for a safe and reliable water system.
- b) The County Department of Public Works is re-evaluating the Master Plan priorities and updating cost estimates and has begun a rate analysis.
- c) It is recommended that the County consider a policy on frequency of rate review to assure that rates keep pace with the financial needs of the District.
- d) Completion of needed improvements is dependent upon ratepayer support.

4) Status of, and opportunities for, shared facilities.

- a) CSA 7, Sam McDonald Park and Camp Glenwood share a single water treatment plant.
- b) Opportunities exist for CSA 7 to examine sharing resources including licensed operators with the numerous small water systems on the rural south coast and Skyline Area or contracting with a private entity to operate the system.

5) Accountability for community service needs, including governmental structure and operational efficiencies.

- a) The Board of Supervisors serves as the governing body of CSA 7 and the County Department of Public Works operates the system and is the point of contact for water rate payers.
- b) The Board of Supervisors authorized CSA 7 Customer Advisory Committee meets three times per year or as necessary to advise the public works director regarding water rates and other matters. This provides an additional opportunity for public participation regarding water service.
- c) The County Public Works Department maintains a website with contact information, rate information, water quality and the master plan.
- d) As a small, remote community there are inherent service inefficiencies in providing service to La Honda due to distance from Public Works facilities in San Mateo and Redwood City.
- e) Because the County of San Mateo Department of Public Works operates several non-contiguous systems, when needed it is able to pool resources to respond to emergencies in a manner that a small, single purpose district could not.
- f) Governance alternatives include:
 - 1. Community Services District that would be governed by a locally elected board that would either employ staff or contract with another entity for services. The locally elected board would be responsible for setting rates, operating the system and compliance with State regulations concerning public water systems. A Community Services District that would need to employ staff for the sole purpose of operating one small system does not appear feasible at this time based on the poor condition and lack of a designed system, lack of adequate revenues to fund improvements and small ratepayer base.
 - 2. Transfer of the system to a private utility or entity including Calwater. Based on condition of system, needed improvements and lack of revenues available to complete improvements, CSA 7 is not a candidate for transfer to another private entity.
 - 3. Formation of a mutual water company, which is not subject to LAFCo regulation.
 - 4. The alternatives summarized above would be alternatives to consider if the County of San Mateo determines that it is not feasible for the County

to operate the system due lack of rate payer support resulting in inadequate revenues. Dissolution or reorganization of the CSA 7 into a community services district would be subject to LAFCo application, approval, protest proceedings and potential election.

6) Any other matter related to effective or efficient service delivery, as required by Commission policy.

None

Sphere of Influence:

The adopted sphere of influence for CSA 7 is 'status quo' indicating that the District should continue to exist as a County-governed district. As discussed above under governance alternatives the condition of the system does not make it a candidate for transfer to another entity and operation as a County-operated district is reliant upon ratepayer support to provide adequate revenues for maintenance operations and capital improvements. Dissolution or reorganization of the CSA 7 into a community services district would be subject to LAFCo application, approval, protest proceedings and potential election.

In reviewing and updating a sphere of influence, Section 56425 requires the Commission to make determinations concerning land use, present and probable need for public facilities and services in the area, capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide and existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency. The following section discusses these areas of determination and represents determinations the Commission can adopt in reaffirming the District's sphere of influence.

The present and planned land uses in the area, including agricultural and open-space lands

Land use designations in County Service Area 7 (La Honda) include primarily residential with public recreation and institutional uses. The area is surrounded by, but does not include, open space and agricultural lands.

The present and probable need for public facilities and services in the area

The municipal service review provides information on needed improvements to the water system. The study area consists of two areas developed with primarily residential land use. It is part of a census-designated place with a Census 2000 population of approximately 189 persons in need of basic municipal services. It is anticipated that the level of demand may increase modestly as a result of limited development potential. The County of San Mateo provides basic municipal type services in the boundaries of

CSA 7. With the exception of Pescadero Creek Road and Alpine Road, roads are not part of the County maintained road system.

The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide

Services subject to this study include domestic water for approximately 68 residences. The 1998 Master Plan assessed the distribution system as in poor condition given the age, pipe materials and marginal quality of installation. The cost of recommended improvements are disproportional to the size of the rate payer base. Rate adjustments are imperative to be able to complete improvements to provide for safe and reliable water service. The distance of the system from County facilities, the aging and inadequately constructed water infrastructure and the small customer base hinder the County's ability to fund and operate the system efficiently and effectively.

The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency

CSA 7 (La Honda) is a part of a rural service center, the balance of which is served by privately operated Cuesta La Honda Guild. As a rural service center bordered by the urban rural boundary, CSA 7 and surrounding lands served by the Cuesta La Honda Guild are a community of interest as communities eligible for a municipal-type services.





