



Date: August 27, 2007 for September 5th Agenda
From: Patrick M. McCormick, Executive Officer
To: Commissioners
Subject: Trout Gulch Mutual Water Company

Summary: The California Department of Corporations requires any set of proponents wishing to incorporate a mutual water company to contact the appropriate LAFCO to ascertain whether the proposed mutual water company service area would overlap an existing water department or district service area, or if an existing water department or district could more appropriately serve the area.

Recommendation: Authorize comment letter to Trout Gulch Mutual Water Company.

The Mar Vista Water Company is operating along Trout Gulch Road, Valencia Road, and side roads in Aptos to serve 183 connections. This investor-owned company is up for sale, and a group of its customers organized in an attempt to purchase the system. The customers evaluated their organizational options and determined that incorporating a mutual benefit water corporation, commonly referred to as a mutual water company, as their preferred option. An investor-owned company, such as Mar Vista Water Company, is owned by one or more investors and its service area and water rates are regulated by the California Public Utilities Commission. A water mutual is jointly owned by all the customers and governed by a board elected by the customers. The incorporation of a mutual is accomplished through a filing with the California Department of Corporations. Once established, the mutual is self-governing in setting water rates. The water quality for mutuals must meet the standards of the California Department of Health Services (DHS). For systems with fewer than 200 connections in Santa Cruz County, the County Environmental Health Services division enforces the DHS standards.

The attached letter, dated July 26, 2007, from Jim Brownson, requests LAFCO's review of the appropriateness of forming the Trout Gulch Mutual Water Company to acquire the Mar Vista Water Company and provide water service to its service area.

Since January 2007, the LAFCO staff has provided information to the Mar Vista water customers for their use in evaluating different long-term service options (continued service by a new investor, incorporating a mutual and buying the

system, annexing to the Soquel Creek Water District). More recently, LAFCO staff has worked with the customer committee and the staff of the Soquel Creek Water District to identify the Mar Vista service area. The attached map, labeled Service Area of Trout Gulch Mutual Water Company, depicts the current customers of the Mar Vista Water Company and excludes the current customers of the Soquel Creek Water District. The map also includes “infill” parcels that are outside the Sphere of Influence that LAFCO has adopted for the Soquel Creek Water District and proximate to the Mar Vista mains.

During its investigation, the customer committee talked to the staff of the Soquel Creek Water District about the District acquiring the Mar Vista system, annexing the service area, and integrating the Mar Vista system into the Soquel system. The District would require that the system be upgraded to their design standards and would not use District assets to upgrade the Mar Vista system. This upgrading could be financed through an assessment district, but the costs are apt to be high and the assessment district formation process takes a long time--much longer than sale timeline of Mar Vista’s owner.

As reported in the attached August 26th newspaper article, the current owner and the customer group have come to an agreement on purchasing the system. A 120-day escrow period is running.

LAFCO Analysis

The Sphere of Influence that LAFCO has adopted for the Soquel Creek Water District follows the County’s Urban Services Line in this area of Aptos. The Sphere line bisects the Mar Vista Water Company’s service area, with the smaller parcels closest to Aptos village being inside the sphere, and the larger parcels farther out being excluded from the Sphere. The Soquel Creek Water District provides service to parcels immediately south of the Mar Vista service area and could integrate the Mar Vista system into the Soquel system if it met Soquel’s design standards. The Mar Vista area is substantially built out with just a few vacant buildable residential parcels. So, the future service demands are substantially the same as the current 139 residential customers. The Mar Vista system relies on two wells. One of the wells has a very high level of manganese. The reported concentrations of manganese range from 0.50 to 0.85 mg/L. The Maximum contaminant level for manganese is 0,05 mg/L. This is a secondary standard that concerns aesthetics (discoloration). The Department of Health Services considers such high levels of manganese concentration to be a neurotoxic risk in children and has ordered the Mar Vista system to lower the contamination levels. (Source: PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA WATER DIVISION, RESOLUTION NO. W-4579; January 12, 2006). Treatment systems are available for manganese, but are expensive. If the customer group completes the acquisition of the Mar Vista system, the manganese problem will need to be tackled quickly.

The LAFCO staff has prepared a draft letter to the customer committee supporting the acquisition of the Mar Vista Water Company by the Trout Gulch Mutual Water Company. The letter notes that the mutual water company should continue to evaluate opportunities to annex to the Soquel Creek Water District.

Attachments

cc:

Trout Gulch Mutual Water Company & Mar Vista Acquisition Committee

Attention: Jim Brownson

Soquel Creek Water District

County Environmental Health, Attention: Troy Boone

Mar Vista Water Company

Department of Health Services, Monterey Office

California Public Utilizes Commission, Water Division