

PROCEEDINGS OF THE
LOCAL AGENCY FORMATION COMMISSION
SANTA CRUZ COUNTY

Wednesday, April 2, 2008
9:30 a.m.

701 Ocean Street,
Room 525,
Santa Cruz,
California

The April 2, 2008 Santa Cruz Local Agency Formation Commission meeting is called to order by declaration of Chairperson, Jim Rapoza.

ROLL CALL

Present and Voting: Commissioners Jim Anderson, Barrett, Roger Anderson, Coonerty, Begun, Pirie, and Chairperson Rapoza
Absent: Campos
Alternates Present: Bell
Alternates Absent: Estrada, Reilly
Staff: Patrick M. McCormick, Executive Officer
Chris Cheleden, LAFCO Counsel
Debra Means, Secretary-Clerk

MINUTES
March 5, 2008

MOTION AND ACTION

Motion: J. Anderson Second: Barrett	To approve the March 5 th minutes. Motion carries with a unanimous voice vote.
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PUBLIC HEARINGS

STORRS EXTRATERRITORIAL WATER SERVICE FROM CENTRAL WATER DISTRICT

Mr. McCormick says this is an extraterritorial service application subject to Government Code 56133. The property is located on the east side of Pleasant Valley Road and north of Hames Road in Aptos. The Central Water District (CWD) is an independent water district that provides water to customers in the Freedom

Boulevard, Day Valley, and Pleasant Valley areas. The proposed site is located at the eastern end of the district closest to Corralitos.

The western portion of the Storrs property is the location for the proposed winery. The property owners have designed a structure along with a fire suppression system with sprinklers as required by code. The property owners prefer hooking up to the Central Water District main for fire service, rather than constructing storage and pressurization on site. The CWD has a main in Pleasant Valley Road and has issued a will-serve letter for fire service only to the proposed structure. The CWD is in pretty good shape compared to many other water agencies in the County. It does not have much extra water. It has a current demand of approximately 625 acre feet and a current capacity of about 636 acre feet per year. At buildout, it is estimated 703 acre feet per year will be needed. CWD will have to develop additional wells and storage between now and when it builds out. Today, there is some capacity left to serve extra customers.

This application is just for fire service and it would require negligible water use. The water would be used for testing the system and if there was ever a fire.

The boundary and sphere of influence for the CWD in Pleasant Valley is confusing. The boundary is irregular because, before LAFCO regulation up to the 1960s, the water district served various individual parcels. Some parcels were residential and some were agricultural. When LAFCO set the first sphere of influence for the district, they tried to include the residential areas of Pleasant Valley and did not include the agricultural parcels.

The western portion of the Storrs' property is inside the sphere of influence for CWD and it is rural residential in character, similar to the properties north and south of the Storrs' property that are already connected to the CWD. The eastern portion of the Storrs' property is outside the sphere of influence, agricultural in character, and adjacent to other agricultural areas. The County has the property zoned Commercial Agriculture. In this case, it makes sense to have a sphere of influence line dividing someone's property.

If the proposal is not approved by the Commission, the property owner will have to install his own water storage and pressurization system. An annexation would be a complicated process; and at this point, the CWD is not ready to provide domestic water service for the property.

Commissioner Barrett asks how often would the new system for fire prevention need to be flushed and changed.

Steve Storrs, the applicant, answers that he does not know the exact procedure. His winery is now at the Sash Mill. Every three years, maybe 50 gallons of water is used. He thinks the main issue is to flush the valves and make sure they are all working.

Commissioner Barrett asks how difficult it is for the applicant to ask for reconsideration or extra time. He asks if it is burdensome for the applicant to have a one-year permit, then ask for an extension if he needs more time.

Mr. McCormick answers that it would just require foresight from the applicant and staff to check ten months from now for the property owner to request an extension and have it agendaized before the Commission. There are no further application fees.

Commissioner Begun asks what the gallons per minute flow is when the sprinkler system is operating, and could that cause a pressure drop on the system with a four-inch main.

Steve Storrs understands that it would be precarious for them to allow the four-inch main to open. CWD would require him to participate in a pressure-regulating valve fix that would be up Pleasant Valley Road so there would not be a problem with the pressure in the whole system. CWD asked him to pay for 50% of the cost. There is a six-inch main going to a four-inch main pressure-regulating valve going back to a six-inch. He would help them alleviate that problem. If a fire hydrant is open now, there would be a pressure drop in the area.

Commissioner Roger Anderson asks about the layout of the site. The western portion of the proposed property will be the primary site of the winery. He is curious about the relative number of square feet and the types of usage for storage of previous vintages, where the actual fermentation will be, and where the more active processes are going to be done.

Mr. Storrs replies that there is a flat area of approximately one-half acre that was quarried in the 1940s or 1950s for the Watsonville airport. On that firm soil area, he is proposing to build approximately 7,000 square feet. Inside that building will be wine storage. To one side of the building will be an overhang of approximately 1,400 square feet where the crushing of the grapes will take place. They presently crush their grapes in Santa Cruz in an area that is about 16 by 40 square feet. The western part of his property is already in the water district's sphere of influence.

On the eastern portion, there are about 12 acres of vineyard and about 3 acres of Newtown Pippin apples that go to Martinelli's for organic apple juice program. The fire marshal requested that they ask CWD for water.

MOTION AND ACTION

Motion: Pirie Second: Coonerty	To approve LAFCO No. 924, as recommended by staff, with one year to make the connection. Motion carries with a unanimous voice vote.
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CONTINUED CONSIDERATION OF PERIODIC REVIEW OF CITY OF WATSONVILLE SPHERE OF INFLUENCE

Mr. McCormick reports that at the last meeting, there was a public hearing regarding the Interlaken and College Road area being out of the sphere of influence for the City of Watsonville. Some of the parties at the meeting were not aware that this matter proceeded upon the City's request. The matter was continued to this hearing.

MOTION AND ACTION

Motion: Pirie Second: J. Anderson	To approve staff's recommendation. Motion carries with a unanimous voice vote.
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CONTINUED CONSIDERATION OF PROPOSED LAFCO BUDGET FOR FISCAL YEAR BEGINNING JULY 1, 2008

Mr. McCormick says there is a new set of numbers since the last meeting. It is pretty close to a status quo budget. Staff is recommending a proposed budget of \$533,000 for fiscal year 2008-2009.

Some of the projects facing the Commission this year are completing sphere of influence reviews for all of the public agencies. The Commission needs to be ready to respond to litigation whenever it comes, and be ready to perform a study such as the study done for fire protection in Pajaro Valley. The largest pending application is a proposal to form a fire protection district in Bonny Doon. There will eventually be a major series of applications from the City of Watsonville, but they are not expected to arrive this upcoming fiscal year.

The biggest challenge facing the Commission is that the expected revenues from last year did not arrive. Revenues were approximately \$50,000 below what was projected. This lack of revenue does not affect the operating budget, but it does affect the ability to perform special studies.

The current funding system for LAFCO became effective July 1, 2001. LAFCO has been able to carry funding over from July 1st of every year for its two reserve funds: the Professional Services reserve that is used for consulting studies and the Litigation reserve.

He is proposing that the Commission maintain the Litigation reserve at \$107,500 and absorb the lack of revenue. The fund balance in the Professional Services contract would drop to \$35,000, which is not enough to perform a major study like the fire study for Pajaro Valley. It may be enough to get a subcontractor as a hydrologist to help with a report. This would not be enough money for reorganizing County Service Area No. 48 or for reorganizing Pajaro Valley Water Management Agency. Those are major studies that could come before the Commission in the next five years.

He suggests maintaining the Litigation reserve, absorb the losses in the Professional Services reserve, and begin to build back the Professional Services reserve over several years. In the beginning of 2000, the Commission began to build up these reserves over a four-year period. Hopefully, these reserves will also be built back up in three or four years to fund a major study.

He has dropped the revenue projections for the upcoming budget by cutting them in half. Twice in the last four years, the Commission found extra revenue that they did not budget, and it was refunded back to the County, the cities, and the 24 special districts. Last year, \$59,000 was refunded back to the agencies, which may have been a mistake. There were several big revenue years and the expenses were under control; so, a good faith effort was made to refund to the agencies. But the amount refunded to the agencies ends up to be about the same amount the Commission's budget needs now.

If the reserves were built back in the next few years, he would like to form a policy of when to refund fund balances back to the agencies and at what level the refund should be. He would like to avoid situations where LAFCO's budget would fluctuate and the dues paid by the agencies would fluctuate. He would prefer to keep the budget at a steady level.

If the Commission approves this proposed budget, the County Auditor will estimate the dues that the various agencies would have to pay to contribute to the

LAFCO budget. An additional hearing would be held in May, at the earliest, to consider the final budget. He estimates the new amount that would be charged to the agencies would be an average of 30% higher than they paid one year ago, but only six percent higher than what they paid two years ago. That is due to the major refund the agencies received last year. There may be some question from the agencies on the increase in their bill if they compare with last year, but not if they include the previous two years.

Commissioner Pirie asks if there will be any major studies for the Bonny Doon application.

Mr. McCormick answers no. The Bonny Doon project is being handled by staff. The proponents paid a substantial application deposit, which is being tracked.

Commissioner Begun asks if the Commission does not have the money to perform a study, will the Commission postpone the study.

Mr. McCormick replies yes. If the Pajaro Valley Water Management Agency failed, for example, and it was decided that LAFCO should be the lead, the Commission would not have the funding in the next fiscal year.

Commissioner Pirie asks if there are options for increasing revenue mid-year.

Mr. McCormick answers no. The current fee schedule is at cost. The revenue is based upon the amount of applications that come before LAFCO. If there was some unexpected revenue where some third party wants to help fund a study in the middle of a fiscal year, the Commission could accept the revenue and revise the budget to spend it in the same year.

Commissioner Roger Anderson asks what are the options of moving money from the Litigation reserve to the Professional Services reserve if necessary.

Mr. McCormick replies that the Commission has that option.

Commissioner Roger Anderson asks what the timeline is on Measure U in Watsonville. He asks when Watsonville is supposed to apply to LAFCO with Buena Vista.

Commissioner Pirie says that Buena Vista will not be the first application but that Atkinson will be first. Buena Vista is probably a couple years away from coming to LAFCO as an application.

Commissioner Roger Anderson asks if Buena Vista could be considered a major source of revenue for LAFCO in the near future.

Mr. McCormick answers no, but it will be a major source of revenue when it comes to LAFCO. Watsonville will have an environmental document that has withstood some court challenges. Atkinson is likely to come before Buena Vista and it will also be a major revenue source.

Commissioner Jim Anderson says that last year, when refunding the districts was discussed, there was also discussion of paying down some impending PERS payments. He wants more information about that.

Mr. McCormick says that the Personnel Committee looked at that, but it did not recommend paying off the PERS side fund, an outstanding liability that comes with a 7.75% interest rate. One option is that if a refund policy is enacted, the Commission may want to reconsider whether it is better to take \$10,000 or \$20,000 in a year when refunds occur and pay down the side fund. In the long term, that will save the agencies the difference between 7.75% and whatever they receive on their money.

Commissioner Roger Anderson asks what sort of return does the Commission get on their reserve funds.

Mr. McCormick answers that the reserve funds are invested in the County pool funds, which dropped below 4% the last time he checked. These are essentially money market funds.

Commissioner Barrett asks what the balance is in the PERS account that the Commission is paying 7.75%.

Mr. McCormick thinks it is about \$40,000 or \$50,000. The City of Capitola refunded their whole program to save the difference in the interest rates. LAFCO is such a small agency that there is some inefficiency of scale. CAL PERS will accept a lump sum payment every third or fourth year and will credit that money. If there was \$59,000 to return to the agencies, for example, the Commission could return \$50,000 to the agencies and credit \$9,000 to CAL PERS.

Commissioner Barrett thinks the Commission should consider paying down the side fund in the future as opposed to refunding the agencies.

Commissioner Jim Anderson adds that the Commission is generating more expense for the districts so why not pay down the side fund.

Mr. McCormick says that the difference between 7.75% and 3.75% on \$50,000 spread over 29 agencies, that amount will not allow any city to add a police officer or a water district to lower water rates.

Commissioner Rapoza says that the impact of the LAFCO dues on the special districts is more significant, especially when special districts are being threatened by the State to lose their property tax revenues. Some think that all enterprise special districts have to do is raise their rates. Given Proposition 218, it is not that easy to raise water rates.

Commissioner Begun says that between the 2007-08 budget and the 2008-09 budget is \$26,000. He asks at what increase level in the proposed 2008-09 budget would the Commission get rid of the sentence about postponing the studies.

Mr. McCormick answers \$75,000.

MOTION AND ACTION

Motion: Pirie Second: J. Anderson	To approve the proposed budget. Motion is carried with a unanimous voice vote.
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PUBLIC MEMBER AND PUBLIC ALTERNATE APPLICATION REVIEW

* Public member Roger Anderson and alternate public member Carol Bell have excused themselves from this discussion and left the dais.

Mr. McCormick says the alternate and regular public member's term ends every four years. The Commission adopted a process for considering applicants. At the last meeting, the Commission opened the nomination process. Several nominations have been received for both positions. There are three options for the Commission to consider. One option is to make an appointment for each position. Another option is that the Commission can decide to invite the applicants to the next meeting for interviews. The last option is to reopen the application period.

State law says that for both of these appointments, the six other members of the Commission vote on the terms. In order to make an appointment, there needs to be a minimum of four votes. There also needs a county, a city, and a district vote among the four or more votes. All of the application materials are in the agenda packet.

Commissioner Pirie thinks there are some great people who have applied for these positions, but she feels that Roger Anderson and Carol Bell have done a good job. She supports reappointing both Mr. Anderson and Ms. Bell.

Ilia Bulaich, who lives at 305 Second Street in Watsonville, attends LAFCO meetings as an interested member of the public. The public member does not have to go through the ordeal of a general election. He has had a chance to observe Roger Anderson and his role as the public member. Mr. Anderson takes the initiative to ask cogent questions and make important comments. He would like to Roger Anderson continue to be LAFCO's public member.

MOTION AND ACTION

Motion: Pirie		To reappoint Roger Anderson as the public member and Carol Bell as the alternate public member. Motion is carried with a unanimous voice vote.
Second:	Jim	
Anderson		

* Mr. Anderson has reseated as public member and Ms. Bell has reseated as the alternate public member.

IMPLEMENTATION OF BROWN ACT AMENDMENTS ENACTED BY AB 343 OF 2007

Mr. McCormick reports that as of last year, State law requires certain Brown Act implementation measures to be changed. The new law requires better handling of late documents that get submitted to the agenda. It also limits staff materials being given to the Commission at the last minute. This law also applies to city councils, district boards, and the Boards of Supervisors. Staff has drafted a change in the meeting rules. There will be a binder available at every meeting for the public. The binder will contain late agenda materials.

Commissioner Roger Anderson asks if the materials that are set before the Commissioners are available to the public.

Mr. McCormick says that in the past, copies have been made of the important items and laid out for the public, but newspaper clippings that are not pertinent to the meeting have not been copied for the public. In the future, everything the Commissioners get will be organized in a binder so the public can review them.

On the record of the hearing, all of the materials are on the record and available for public review. The new law will make it easier for the public to find these materials.

Counsel Cheleden says that in another city or county, there was a change in an item regarding a few million dollars that the decision makers got at the meeting, but the public did not. This incident stimulated this legislation. The primary

feature is for the public to get whatever the Commissioners get at the same time. Documents that get submitted by the public at the meeting will be available to other members of the public after the meeting.

MOTION AND ACTION

Motion: J. Anderson Second: Barrett	To adopt draft Resolution No. 2008-10. Motion is carried with a unanimous voice vote.
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LEGISLATION

Mr. McCormick reports that next month he will include a report on SB 1118, which concerns county airport oversight. Watsonville is one of the key locations in the State where that is an issue.

STATUS OF PROPOSALS

Mr. McCormick adds that a year ago, he was asked to help a group of citizens in Aptos look at their water options. A water company was for sale. The customers have successfully organized and purchased a mutual water company called Mar Vista, which is located off Trout Gulch Road. This last week, they received their environmental health clearance for operating a water system. The remaining step for them to be a fully-operating mutual is to get authorization from the State Department of Corporations to issue their mutual shares.

Commission Begun asks how to request to have an item added to the future agenda.

Chairperson Rapoza says to ask Mr. McCormick who then talks to the Chair about finalizing the agenda.

Mr. McCormick adds that the Chairperson controls the agenda.

MOTION AND ACTION

Motion: Barrett Second: Pirie	To adjourn. Motion carries with a unanimous voice vote.
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Meeting adjourns at 10:24 a.m. The next meeting is scheduled for Wednesday, May 7, 2008.

CHAIRPERSON, JAMES W. RAPOZA

Attest:

Patrick M. McCormick, Executive Officer