

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Public Works	(2) MEETING DATE 3/20/2012	(3) CONTACT/PHONE Jill Ogren, Utilities Staff Engineer (805) 781-5252	
(4) SUBJECT Submittal of resolutions calling for Property Assessment Proceedings per Proposition 218 and the Municipal Improvement Act of 1913 for County Service Area No. 23 (CSA 23 - Santa Margarita) in order to fund a state water connection to the State Water Project for drought reliability.			
(5) RECOMMENDED ACTION It is our recommendation that your Honorable Board: <ol style="list-style-type: none"> 1. Hear and consider the options for possible water partnership agreements to exchange water with CSA 23 for the purposes of drought reliability. 2. Approve the attached resolution approving the boundary map of the CSA 23 Drought Reliability Assessment District. 3. Approve the attached resolution of intention. 4. Approve the attached resolution declaring the official intent of the County of San Luis Obispo to reimburse certain expenditures from proceeds of indebtedness. 5. Approve the attached resolution preliminarily approving the Engineer's Report, setting date for Public Hearing of protests establishing the proportional benefit received from the ability to obtain 5 AFY of water for drought reliability thru a connection to the State Water Project. 6. Set the time and date of the Proposition 218 public hearing for May 22, 2012. 7. Accept the ballot package, which includes the Notice of Hearing and Assessment Ballots, which will be mailed to each registered owner as listed on the last equalized secured property tax assessment roll. 8. Direct the Clerk of the Board to mail and collect the ballot package, tabulate the ballots after the close of the public hearing, and report the results at the regularly scheduled meeting of June 5, 2012. 			
(6) FUNDING SOURCE(S) N/A	(7) CURRENT YEAR FINANCIAL IMPACT N/A	(8) ANNUAL FINANCIAL IMPACT N/A	(9) BUDGETED? N/A
(10) AGENDA PLACEMENT { } Consent { } Presentation { } Hearing (Time Est. _____) {X} Board Business (Time Est. 20 min.)			
(11) EXECUTED DOCUMENTS {X} Resolutions { } Contracts { } Ordinances { } N/A		(12) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: { } 4/5th's Vote Required {X} N/A	
(13) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(14) W-9 {X} No { } Yes	
(15) LOCATION MAP Attached	(16) BUSINESS IMPACT STATEMENT? No	(17) AGENDA ITEM HISTORY {X} N/A Date _____	
(18) ADMINISTRATIVE OFFICE REVIEW <i>Nikki J. Schmidt</i>			
(19) SUPERVISOR DISTRICT(S) -			

County of San Luis Obispo



TO: Board of Supervisors

FROM: Public Works
Jill Ogren, Utilities Staff Engineer

VIA: Dean Benedix, Utilities Division Manager
Paavo Ogren, Director of Public Works

DATE: 3/20/2012

SUBJECT: Submittal of resolutions calling for Property Assessment Proceedings per Proposition 218 and the Municipal Improvement Act of 1913 for County Service Area No. 23 (CSA 23 - Santa Margarita) in order to fund a state water connection to the State Water Project for drought reliability.

RECOMMENDATION

It is our recommendation that your Honorable Board:

1. Hear and consider the options for possible water partnership agreements to exchange water with CSA 23 for the purposes of drought reliability.
2. Approve the attached resolution approving the boundary map of the CSA 23 Drought Reliability Assessment District.
3. Approve the attached resolution of intention.
4. Approve the attached resolution declaring the official intent of the County of San Luis Obispo to reimburse certain expenditures from proceeds of indebtedness.
5. Approve the attached resolution preliminarily approving the Engineer's Report, setting date for Public Hearing of protests establishing the proportional benefit received from the ability to obtain 5 AFY of water for drought reliability thru a connection to the State Water Project.
6. Set the time and date of the Proposition 218 public hearing for May 22, 2012.
7. Accept the ballot package, which includes the Notice of Hearing and Assessment Ballots, which will be mailed to each registered owner as listed on the last equalized secured property tax assessment roll.
8. Direct the Clerk of the Board to mail and collect the ballot package, tabulate the ballots after the close of the public hearing, and report the results at the regularly scheduled meeting of June 5, 2012.

DISCUSSION

In 2008, CSA 23 received a \$3,000,000 loan/grant package from the United States Department of Agriculture (USDA) to fund waterline improvements, a new water tank and supplemental water supply for drought reliability in the form of a connection to the State Water project. The waterline improvements and new tank have been completed.

On May 25, 2010, staff presented to your Board a recommendation for water supply reliability in the form of a connection to the State Water Project.

Most recently on November 1, 2011 your Board approved the Santa Margarita Drought Reliability Project, certified the associated Supplemental Environmental Impact Report and directed staff to develop options for water partnership agreements and a financing plan for Board consideration.

History

The water supply reliability for Santa Margarita became a real concern in 1991 when, in the 5th year of sustained and significant drought, the water levels of existing wells became critically low. The Board of Supervisors declared a water supply emergency and established mandatory water conservation measures. Since that time the Public Works Department has been working with the community on alternatives to improve water reliability. Several reports and many presentations have been prepared for the community and advisory group over the last 15 years.

Historically, the focus on improving water supply reliability had been on supplemental water (obtaining an amount of water that is available each and every year); but based partially on feedback from the community and advisory group, the focus shifted several years ago to a water banking/exchange program to improve drought reliability. Under a drought reliability program the objective would be to obtain an amount of water that is only used when needed, as in a significant drought or other emergency that may be declared by your Board pursuant to Water Code Section 350 - 359. The Project, as described above, was chosen after the advisory group and community considered numerous alternatives which all were capable of meeting the purpose of drought reliability while being cost effective for the community. A more detailed review of alternatives is presented in the Supplemental Environmental Impact Report dated September 2011.

Drought Reliability Program

The Program consists of a physical connection between the State Water Pipeline and Santa Margarita domestic water supply system, the establishment of a five-acre foot annual allocation of State Water to County Service Area 23 (CSA 23) and the implementation of an agreement to exchange water between CSA 23 and other State Water participants. The concept of the exchange agreement provides that in non-emergency years, CSA 23's annual allocation of state water (5 AF) is made available to a banking partner for their storage or use. In an emergency year, when Santa Margarita needs the supplemental water pursuant to a water supply emergency declaration as determined by your Board pursuant to Water Code Section 350 - 359, up to 80 acre feet will be available to CSA 23 from its banking partner.

Water Banking Partnership Agreements

The proposed water banking program consists of an agreement between CSA 23 and one or more water partners to exchange water. A “water ledger” is established which maintains a record of quantities of water made available by CSA 23 to each partner, the quantities delivered to CSA 23 during emergencies, and the balance of water available every year. The agreements establish costs and conditions for exchanging water. As in banking, deficits are allowed.

In the case of CSA 23, the physical tie-in to the State Water Project results in multiple potential water banking partners. Since several existing state water contractors have allocations large enough to provide up to 80 acre feet to CSA 23 while also having the ability to access multiple sources of water and meet their own drought period needs.

Possible Water Banking Partners

Four possible partners have been identified:

- 1) County Operations Center (County of San Luis Obispo)
- 2) A Flood Control Zone 3 State Water Sub-contractor
- 3) Flood Control District Zone 3
- 4) County Service Area No. 16 – Shandon

Exhibit “A” provides a list of pro’s and con’s for each of the possible partners and Exhibit “B” provides a list of estimated financing costs. The one time buy-in fee per acre-foot of water is a negotiable item with the possible partner. The annual operations and maintenance costs associated with each of the possible partners is variable based on where along the pipeline the partner takes the water.

Establishing who the banking partner(s) will be and the conditions of the agreement will be established after the results of the Proposition 218 proceedings are known, and only if it passes. It is currently staff’s recommendation, should the Proposition 218 proceeding succeed, that the County Operations Center be the first banking partner approached.

Resolution Approving the Boundary Map

The attached resolution and map establishing the boundary of the proposed assessment district is required under the Municipal Improvement Act of 1913 (1913 Act), once approved by your Board it will be recorded with the County Recorder pursuant to Sections 3110 and 3111 of the Streets and Highways Code. The proposed assessment district boundary is one and the same with the CSA 23 Area Boundary.

Resolution of Intention

This attached resolution is required under the Municipal Improvement Act of 1913. Section 102000 of the Streets and Highways Codes requires that before ordering any improvement authorized by the 1913 Act your Board must adopt a resolution declaring its intention to do so.

Resolution of Reimbursement

This attached resolution preserves the County's option for reimbursement from assessment funds for capital expenditures made up to 60 days prior to approval of this resolution.

Proposed Assessment District

Before implementation of the program and construction of the State Water tie-in can occur, a Proposition 218 assessment proceeding must be approved by the community. The proposed assessment district will fund a portion of the capital costs deemed as "Special Benefits" associated with the physical tie-in to State Water pipeline for drought reliability water. The Proposition 218 process will establish the special benefit to the properties. Property owners will have the choice to pay the assessment in full or to finance the assessment over 40 years through a low interest loan from the USDA.

Proposition 218 Proceedings

Approving the recommended actions will initiate the Proposition 218 ballot proceedings. The attached Assessment Engineer's Report establishes both the special and general benefits of the project and the proposed assessments conferred upon each property within the proposed assessment district. The engineer's report only assesses properties for the identified special benefit.

The special benefit identified in the Assessment Engineer's Report from the Project results from the availability of water during droughts and other emergencies declared by your Board. The special benefits also exist for both developed and undeveloped parcels because of improved usability of parcels during emergencies and is independent of a property owners specific discretionary decision to develop their parcels the development of which is reasonable to foresee during the useful life of the infrastructure connection. General benefits, such as the water that is purchased but given back to the water partner (lender's fee), and water system losses due to leakage and evaporation, have also been identified. The general benefits will be funded through the USDA grant funds.

The total special benefit identified in the engineers report is \$514,700, and as a result of USDA grants, a lesser amount (\$360,000) is proposed to be assessed through the assessment district. Each parcel in the assessment district has been assigned a Benefit Unit based on current property use. In order to relate costs to the parcels benefitting from the development of the proposed infrastructure, the historical water usage was evaluated and used to establish the relative benefit between the residential and commercial land use categories, as well as other special cases. Since residential uses account for approximately 90% of all water consumed in CSA 23, this land use category was used as the baseline for all other categories and assigned one (1) benefit unit. Vacant parcels are assigned a benefit unit based on the current zoning as they benefit as well from the infrastructure to be provided and the availability of drought reliability water. Parcels do not pay for the annual cost of the drought reliability water until such time as they become a water customer.

One (1) Benefit Unit is equal to a total assessment \$671.73. Based on the proposed USDA financing, this equates to a yearly charge on the property tax bill of \$35.85, or a \$2.99 monthly equivalent should the property owner choose to finance the assessment. In addition a \$5.00 tax collection fee per year will be charged. All property owners have the ability to pay their assessment in full during the prepayment period in order to avoid interest charges from the USDA loan.

If your Board approves the recommendations today, assessment ballots will be mailed to all affected property owners within the assessment district. The ballots can be returned anytime during a forty-five (45) day period or at the public hearing before your Board on May 22, 2012. A town hall meeting will be conducted by Public Works staff prior to the public hearing, in order to fully inform any interested property owners. On June 5, 2012, your Board will hear the results of the proceedings and either elect to proceed with the reliability project or make the determination that a majority protest by the property owners exists, thus terminating any further efforts on the project.

OTHER AGENCY INVOLVEMENT/IMPACT

County Service Area No. 23 Advisory Group, County Service Area No. 16, USDA, Zone 3 Lopez Reservoir Advisory Committee. On September 3rd, 2009 the CSA 23 advisory group voted to recommend presenting a State Water connection project to the community for a Proposition 218 proceeding. A town hall meeting was conducted for CSA 23 on May 13, 2010 and another is currently scheduled for April 5, 2012. Zone 3 Advisory Group gave support to being considered as a possible banking partner with CSA 23 at their meeting in November 2011.

FINANCIAL CONSIDERATIONS

The recommended actions have no direct financial impact other than the minimal staff time to process the Proposition 218 proceedings. The Assessment Engineer's Report outlines the proposed assessment for each parcel based on a determination of the special benefit to the parcel.

The total project cost estimate is \$660,000 which will be funded by a \$300,000 USDA grant and the balance by property assessments. Property owners who choose to finance their assessment would pay an estimated annual amount of \$671.73 per benefit unit or monthly equivalent of \$35.85.

RESULTS

Approval of the recommended action to initiate a Proposition 218 proceeding for a connection to State Water results is an opportunity for the community of Santa Margarita (CSA 23) to determine whether or not an additional assessment should be approved in order to bolster water supply reliability during a significant drought; thus promoting a well governed and livable community.

File: CF 320.580.02 CSA 23 - Santa Margarita
Reference: 12MAR20-BB-2
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ATTACHMENTS

1. Vicinity Map
2. Exhibit A - Banking Partner Options
3. Exhibit B - Bank Partner Financing Costs
4. Exhibit C - Engineer's Report
5. Exhibit C - Appendix A to Engineer's Report
6. Exhibit C - Appendix B to Engineer's Report
7. Exhibit C - Appendix C to Engineer's Report
8. Exhibit D - Assessment District Ballot Package
9. Resolution Approving Boundary Map of the CSA 23 Drought Reliability District
10. Resolution of Intention
11. Resolution Declaring the Official Intent of the County of San Luis Obispo to Reimburse Certain Expenditures from Proceeds of Indebtedness
12. Resolution Preliminarily Approving Assessment Engineer's Report, Setting Date for Public Hearing of Protests