



File ID 13-0654 No. 47

Monterey County

Board Order

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Salinas, CA 93901
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Upon motion of Supervisor Potter, seconded by Supervisor Parker and carried by those members present, the Board of Supervisors hereby:

- a. Received a report on the Toro Area Wastewater Service Feasibility Study, dated May 14, 2013, prepared by Wallace Group, a California Corporation; and
- b. Directed the Director of Public Works to return to the Board of Supervisors when the Community of Toro has secured a minimum 67 percent vote from the homeowners in support of the formation of a Community Services District.

PASSED AND ADOPTED on this 16th day of July 2013, by the following vote, to wit:

AYES: Supervisors Armenta, Calcagno, Salinas, Parker and Potter
NOES: None
ABSENT: None

I, Gail T. Borkowski, Clerk of the Board of Supervisors of the County of Monterey, State of California, hereby certify that the foregoing is a true copy of an original order of said Board of Supervisors duly made and entered in the minutes thereof of Minute Book 76 for the meeting on July 16, 2013.

Dated: July 23, 2013
File Number: 13-0654

Gail T. Borkowski, Clerk of the Board of Supervisors
County of Monterey, State of California

By Denise Hancock
Deputy

May 14, 2013

Mr. Paul Greenway
Assistant Director
County of Monterey
Department of Public Works
168 W. Alisal St. FL2
Salinas CA 93901-2438

Subject: Toro Area Wastewater Service Feasibility Study

Dear Mr. Greenway:

The County of Monterey authorized Wallace Group to conduct a Feasibility Study on behalf of the Toro Area Sewer Coalition Steering Committee (TASCSC). The overall purpose of this Study is to:

1. Update the previously prepared study, "MRWPCA Wastewater Service Study for Toro Park Planning Area", dated August 12, 2010, prepared by Wallace Group.
2. Evaluate an option for the Toro Area Community to operate and maintain the existing wastewater treatment plant through the operations of a public entity such as a Community Services District.
3. Provide steps to move forward with creation of a public entity and buy-out of the current sewer provider, California Utility Services (CUS).

EXECUTIVE SUMMARY

The goal of this study is to evaluate the options and the cost to form a Community Services District (CSD) and to operate and maintain the collection system and WWTP and equate the cost on per parcel basis that can be compared to the 2010 Study that evaluated connecting to the MRWPCA Regional WWTP.

To determine the cost per equivalent customer, it will be assumed that the CSD would utilize a Special Tax to pay for the up-front costs and would utilize a Rates and Charges to fund the annual administration and operations and maintenance expenses. Table ES-1 provides a summary of the estimated annual expenses and the annual and monthly cost per customer to operate and maintain the collection system and WWTP.



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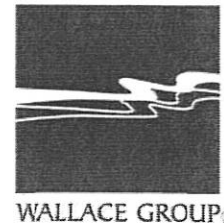


Table ES-1. Cost per Equivalent Customer

	Low	High
Annual Debt Service	\$227,490	\$614,215
Annual Administration Expenses	\$290,000	\$506,000
Annual O&M Expenses	\$244,000	\$244,000
Reserves	\$400,000	\$400,000
Total	\$1,161,490	\$1,764,215
# of Equivalent Customers	1,123	1,123
Annual Cost per Equivalent Customer	\$1,034	\$1,571
Monthly Cost per Equivalent Customer	\$86	\$131

Based on Table ES-1, the estimated cost per equivalent customer will be range between \$86 and \$131 per month. CUS' current rate is \$122 per month. The 2010 Study estimated the cost to consolidate with MRWPCA was between \$79 and \$134. Based on the current analysis, there are a few cost estimates provided in the 2010 Study that are underestimated and should be updated to match the current analysis.

Based on the evaluation of this study, it is recommended that the TASCSC would form a Community Services District and contract the administrative and operation's services for the first 5 years until the District is established. A study can be conducted in year 4 to determine if it is more cost effective to continue contracting these services out or to bring them "in-house". Based on this recommendation the following steps are provided to guide the TASCSC:

1. The TASCSC conduct a survey of the entire sewer community to determine the level of support. It is recommended that the County Board of Supervisors require this before supporting the project and expending staff time and additional financial resources. A Special Tax vote requires 2/3 voter approval, therefore the survey would need to reflect similar approval feedback before moving forward. *Timeframe: 3 months*
2. Assuming support from the sewer community, the TASCSC and the County would meet with LAFCO to understand the requirements of LAFCO and their schedule. *Timeframe: 1 month*
3. To minimize the financial risk to the County, it is recommended that the County pursue obtaining a funding mechanism as a first task. As recommended, the preferred funding mechanism is a Special Tax to cover all formation costs, the "buy-out" of CUS and first year administrative and operational expenses. The costs associated with conducting the Special Tax hearing are identified within the costs of forming the Community Services District. These costs are identified and discussed in Table 2. Some of the costs associated with forming a CSD may not be required prior up front and could be deferred until after the Special Tax is formed, thus reducing the financial risk to the County. However, to be conservative, it is estimated that the financial risk to the County is estimated at \$335,000 as noted in Table 2.



If the Special Tax were to not pass, the County would be responsible for all costs incurred up to completion of the hearing. If the Special Tax passes, all costs incurred by the County would be re-paid by the Special Tax. In addition, all additional costs to be incurred through the final stages of the formation of the CSD would be covered by the Special Tax. *Timeframe: 18 months if CEQA is required*

4. Once the Special Tax hearing passes, the County and TASCSC would have a funding mechanism to “buy-out” CUS and complete the formation of the CSD including the preparation of any additional documents that LAFCO may require. *Timeframe: 24 to 48 months (Could be longer depending on legal challenges – advice from legal counsel is recommended)*
5. Once the formation of the CSD is completed, the CSD would complete an additional rate study to establish Rates and Charges to operate and maintain the CSD, to be collected once a year on the tax roll.

BACKGROUND

In 2010, Monterey Regional Water Pollution Control Agency (MRWPCA) authorized Wallace Group to conduct a study to determine the feasibility of connecting the Toro Park collection system, owned and operated by California Utility Services (CUS), to MRWPCA's Regional Wastewater Treatment Plant (WWTP). Wallace Group evaluated several options on proposed sewer main alignments to connect the existing Toro Park WWTP to the Salinas Pump Station, which is the facility that would ultimately pump the wastewater to MRWPCA's Regional WWTP.

This study, which is included as Attachment A, provided information on the following:

- Service area boundary
- Overview of the collection system facilities
- Overview of the Toro Area WWTP facilities
- Current and future wastewater flows to the WWTP, including estimated peaking factors
- Preliminary design of the conveyance system to the Salinas Pump Station with four alternatives including:
 - Costs to construct each alternative
 - Environmental and permitting requirements
 - Easements
 - Recommendations
- Purchase and operational factors including costs equated back to a per parcel cost

The purpose of this current study is to review additional operational options. Based on the information provided or available, bullets one through four above have not changed significantly to impact the outcome of the current study, and therefore will not be updated. The data from the 2010 Study will be used for this current study.



MAINTAINING EXISTING WWTP OPERATIONS

The TASCSC requested the review of an option to operate and maintain the existing wastewater treatment plant in lieu of connecting to MRWPCA's Regional WWTP. The purpose of this option is to determine if it will result in lower startup and monthly costs to the Toro Area service area as compared to the option of connecting to MRWPCA's Regional WWTP. The following analysis is provided to estimate the monthly costs associated with operating and maintaining the existing WWTP:

The analysis will be outlined similar to the 2010 Study for easy comparison with some updates. Therefore, this analysis will include the following:

- Local Agency Formation Commission of Monterey County (LAFCO)
- Formation of an entity to operate and maintain the collection system and WWTP
- Annual administration costs
- Annual operation and maintenance costs
- Development of capital reserves
- Purchase of the assets from CUS
- Funding options
- Annual Fees per Customer
- Comparison to 2010 Study

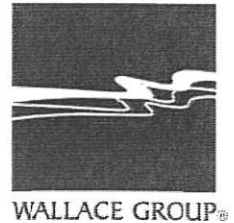
Local Agency Formation Commission of Monterey County

The Local Agency Formation Commission of Monterey County (LAFCO) is an independent countywide body created by the State Legislature. LAFCO makes decisions about the boundaries and services of cities and special districts. Statutory purposes are to encourage the orderly formation and development of local governments; preserve agricultural and open space lands; discourage urban sprawl, and ensure the efficient delivery of government services.

As a regulatory agency, LAFCO forms new cities and special districts, approves changes in boundaries (annexations, consolidations, mergers, dissolutions, etc.), and allows cities or special districts to provide services outside their boundaries. As a planning agency, LAFCO determines and updates the Spheres of Influence of each city and district, conducts studies of the public services provided by local agencies, and may initiate proposals to change boundaries based upon the Spheres of Influence or special studies.

The Process of Forming a Community Services District, prepared by LAFCO is included as Attachment B. This attachment provides details on the steps required by LAFCO to form a CSD. Below is a summary of the critical steps necessary for the formation of a CSD:

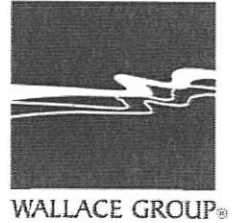
1. The TASCSC and the County of Monterey are recommended to meet with LAFCO to discuss the intentions of the community and to fully understand the process before preparing the resolution and processing an application. Items to be discussed will include, but not limited to:
 - a. Tax sharing agreement with the County of Monterey (if necessary)



- b. Financial Feasibility Study (Rate Study)
 - c. Environmental Analysis (CEQA)
2. A proposal to form a new Community Services District may be made by petition or by adoption of a resolution of application by the legislative body of any county, city, or special district that contains any of the territory proposed to be included in the district. For TASCSC, the County Board of Supervisors would adopt the resolution of application.
3. Following LAFCO's acceptance of the Resolution of Application, a written application for formation must be submitted to LAFCO. The application must address the following issues:
 - a. Whether the proposed district can carry out its purposes.
 - b. Whether it will have sufficient revenues to provide the proposed services.
 - c. Whether existing agencies can feasibly provide the needed service or services in a more efficient and accountable manner.
 - d. Address or clarify any statutory requirements and local policies that discourage the unnecessary creation of new agencies.
 - e. Address or clarify LAFCO's broader legislative purposes to encourage the orderly formation and growth of local government agencies, to preserve open space and agricultural lands, to discourage urban sprawl, and to ensure that local government services are provided in an efficient manner (Government Code section 56000, et seq.).
4. Financial and Environmental Review documents are to be prepared.
5. Following completion of the Application, Financial Study, and Environmental Review, the Executive Officer of LAFCO will prepare a report and recommendations and schedule a public hearing. Recommendations to the Commission will be based on statutory and policy factors, comments from affected agencies, and an analysis of the proposal. The Commission will conduct a public hearing to consider the application on its merits, including local policies and the requirements of State law including Government Code sections 56425(e), 56668, and 56886.5(a). If the Commission denies the application, no further proceedings will be held on the proposal. If the Commission approves the formation, the application will be submitted to the U.S. Department of Justice for pre-clearance.
6. After the U.S. Department of Justice pre-clears the application, LAFCO would request the Monterey County Board of Supervisors to direct the County Elections Official to conduct the necessary elections to establish the proposed district. The vote requires a majority favoring the formation to establish the CSD.

Formation of Operating Agency

The TASCSC's goal is to form a public agency that will allow the residents to gain more control over the operations and maintenance and the finances of the sewer collection system and WWTP. A secondary goal would be for the TASCSC to also take over the responsibilities of services such as lighting and landscape that are currently provided by the County under County Service Area (CSA) #15. The following operating agency options are available to the TASCSC:



- Expansion of County Service Area #15
- Sanitation District
- Consolidating with Other Agencies
- Community Service District

The options provided below include a discussion of each of the options and their benefits or restrictions. A final recommendation is provided at the end of this section write-up.

Expansion of County Service Area #15

The County of Monterey currently provides lighting and landscape services to approximately 65% of the sewer service area. Funding for CSA#15 is through the service area's property taxes. The total annual revenue from property taxes is approximately \$135,000 (Account 4010 to 4040: Property Tax Funds - \$110,000, Account 5415: Road and Street Services Fund - \$25,000).

This option would expand CSA#15 to include the entire sewer collection system. The County would then operate and maintain the collection system and WWTP as a function of CSA#15. The County currently operates and maintains four collection systems and/or WWTPs, including:

- Moss Landing
- Boronda
- Chualar
- Pajaro

The following are the benefits of expanding CSA#15:

- The County staff would be required to oversee the operations and maintenance of the collection system. County engineering, administration, and operations staff would be required for this service. It is anticipated that the County would need additional operations staff to operate and maintain the collection system. It is anticipated that the County would utilize existing engineering and administration staff to oversee the expanded CSA#15. Although this would help keep expenditures down, County staff may not be able to provide additional resources. It would be recommended that additional support be provided, but this would be required to be approved by the County Board of Supervisors.
- CSA#15 could fund the operations and maintenance of the collection system and WWTP through Rates and Charges, collected on the property tax bill.

The following are the restrictions of expanding CSA#15:



- CSA#15 is under the direction of the County Board of Supervisors, which is a public entity. Although the Board is elected from community members from the County, the Board is not comprised strictly of Toro Area community members. Governance of CSA #15 is supplemented by an advisory committee composed of residents of the service area. The level of input and community involvement in the decisions on operations, maintenance and finances is dampened as compared to other possible public entities. Therefore, the community members will not have as much local "control".
- Based on discussions with County staff, although not policy, the County is steering away from operating and maintain the collection systems and WWTPs. This is supported by the fact that the County is looking to relinquish responsibility of other collection systems in the County. For example, the City of Salinas is working with County staff to evaluate the condition of the Boronda collection system and possibly take over this system from the County.

Although expanding CSA#15 is a viable option, the community at-large is requesting more "control" over the operations, maintenance, and finances of the sewer collection system. In addition, In general, the County may not be in support of adding the Toro Area collection system as an additional service provided by the County. Therefore, the community and the County are not likely to support moving forward with this option.

Sanitation District

A second option is the formation of a Sanitation District. A Sanitation District would have the authority to operate, maintain, and construct new sewer facilities. A Sanitation District would also have the authority to obtain funding, including proceedings for the formation of an assessment district and/or a Rates and Charges protest hearing. A Sanitation District would form a Board of Directors, elected from the service area. This Board would provide the community with the local "control" that the TASCSC is requesting.

One of the goals of the TASCSC was to potentially incorporate multiple services (lighting, landscape) into the services of the public entity. A Sanitation District would not have the powers to include any other services other than operating, maintaining, and constructing sewer facilities. Although this is a good alternative, the community is less likely to support moving forward with this option since it does not provide opportunities to meet both goals.

Consolidating with Other Agencies

A third option is to consolidate services with neighboring collection systems and sewerage agencies. The most feasible options include Spreckels Community Services District, County Service Area (CSA) 72 – Las Palmas, or the City of Salinas.



The 2010 Study analyzed the additional option to consolidate with Monterey Regional Water Pollution Control Agency (MRWPCA). As noted in the past study, although MRWPCA is capable of receiving the effluent from the Toro Park Community via the Salinas Pump Station, MRWPCA does not maintain collection system operations staff. Therefore, even if the Toro Park Community were to send their effluent to MRWPCA for treatment and disposal, the Toro Park Community would still need to identify an operating agency for collection system operation and maintenance.

Spreckels Community Services District: Under LAFCO, Spreckels Community Services District has the authority to provide the following services: collection, treatment, and disposal of sewage waste and water; street lighting; collection and disposal of solid waste (garbage); fire protection services; and street, sidewalk, and storm drain maintenance. The District sold the sewer collection system and WWTP to California American Water Company (Cal Am); therefore, the District no longer owns, operates or maintains a collection system or WWTP. It is not beneficial to the CSD to consolidate wastewater collection, treatment and disposal services with the Toro Park Community, since Spreckels CSD does not maintain these services.

To consolidate with the Spreckels collection system and WWTP (owned and operated by Cal Am), an option would require Cal Am to purchase or “buy-out” CUS, which would be a private party transaction and would not provide the TASCSC with the local “control” they are requesting.

Feasibly, Spreckels CSD and the Toro Park Community would also have an option to also “buy-out” Cal Am and CUS, regain ownership of the Spreckels collection system and WWTP, and expand the Spreckels CSD to include the Toro Park WWTP service area. This option would provide a significantly larger service area for Spreckels CSD to serve, pull resources and share in the cost to run a CSD. The Spreckels CSD would operate two WWTPs unless it was determined that the effluent from one of the communities could be pumped to a single treatment facility or to MRWPCA. This option would need to be explored further with Spreckels CSD.

CSA 72 - Las Palmas: The Las Palmas collection system and WWTP are also currently owned and operated by Cal Am. Therefore, as noted above for the Spreckels collection system and WWTP, it would not be advantageous for the Toro Park Community to consolidate with the Las Palmas collection system and WWTP under the current ownership of Cal Am. However, the option to “buy-out” Cal Am by the residents of Las Palmas, form a CSD or consolidate with Spreckels CSD and/or Toro Park Community is available. Again, this option would expand the service area, increasing the resources and number of customers served, but would also include operating and maintaining another WWTP. This option would also need to be explored further with the Las Palmas Community.



City of Salinas: The City of Salinas owns and operates a large sewer collection system. All wastewater from the City of Salinas is conveyed to MRWPCA for treatment and disposal. Options that could be explored include:

1. The City of Salinas expanding their service zone to include the Toro Area for sewer collection and WWTP services. All other services (water, lighting, landscape, etc) provided by various agencies would continue to be provided by the entities currently providing the services. The City of Salinas would operate and maintain the collection system. The City of Salinas could continue to operate and maintain the Toro Park WWTP or construct the force main to the Salinas Pump Station as noted in the 2010 Study. The City currently operates and maintains their Industrial WWTP, which provides the City with staff available who have the appropriate WWTP licensing to operate the Toro Area wastewater treatment plant.
2. The Toro Area creating a Community Services District (see discussion following regarding Community Services District Formation) and contracting with the City of Salinas for the operation and maintenance of the collection system and WWTP in lieu of hiring staff.

The following are the benefits for option 1 noted above:

- The City has a population of over 151,000 persons. The City maintains a staff dedicated to collection system operations and maintenance, and operations and maintenance of the Industrial WWTP. The cost to operate and maintain the City's collection system is \$4.65 per single family resident. The low monthly sewer cost is due to the City's ability to spread the cost over the entire City population. The City's residential monthly charge also includes the fee from MRWPCA for treatment and disposal, which is \$13.50 per single family home.

If the City were to expand their zone to include the Toro Park Area, the Toro Park Community would also benefit from the City's larger population. It is feasible that the cost to operate and maintain the collection system would be at the same rate as the existing City customers (\$4.65 per single family resident). However, in addition to the collection system costs, the Toro Area Community would also be responsible for the following costs associated specifically to the Toro Area Community:

- The costs associated with the City of Salinas taking over the sewer collection system and WWTP, which includes the LAFCO expenses and "buying-out" of CUS.
- The MRWPCA connection fee, capital infrastructure cost to construct a sewer main to the Salinas Pump Station and the MRWPCA monthly sewer rate of \$13.50; or



- The cost for the City of Salinas to operate and maintain the Toro Park WWTP and disposal facilities.

The following are the concerns and/or restrictions for option 1 noted above:

- The Toro Area Community would be required to discuss this option directly with LAFCO to determine if expanding the City's sewer service area to Toro Area is feasible under LAFCO authority.
- The City of Salinas is a public entity and has a City Council that represents the public at-large. The Toro Park residents would have the ability to work directly with City staff and the Council. However, similar to the County, the Council is not comprised solely of Toro Park community members and therefore, the TASCSC goal of having local "control" is not entirely met with this option.
- The City of Salinas would not take over the services of CSA #15 and therefore, these services would remain with the County of Monterey.

The following are the benefits for option 2 noted above:

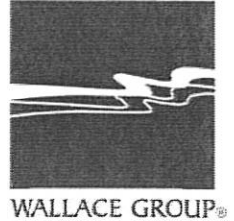
- The City of Salinas already has staff resources and equipment resources to operate and maintain a sewer collection system and WWTP. The CSD would benefit from these resources by contracting with the City to operate and maintain the Toro Park collection system and WWTP. The Toro Park Community would pay the City a contracted amount. This option would work similarly to the way the County of Monterey works with the City of Castroville to operate and maintain the Moss Landing collection system, which is owned by the County. The future Toro Park CSD would benefit from the City's resources, reduce the CSD's starting expenses, and reduce the staff required to be hired to operate and maintain a small collection system and WWTP.
- The creation of a CSD will provide the community the local "control" that the community has requested as it will be able to negotiate a fair contract with the City to operate and maintain the collection system and WWTP to standard that meets their needs, and ultimately their monthly expenses.
- The services provided under CSA#15 could be undertaken by the CSD.

The following are the concerns and/or restrictions for option 2 noted above:

- The Toro Park Community would incur the cost to form the CSD and annual administration in addition to paying the City of Salinas a contracted fee for operating and maintaining the collection system and WWTP.

Community Services District

A fourth option is to form a Community Services District (CSD) for the Toro Park Community. Similar to the Sanitation District, by formation of a CSD, the newly formed CSD would have the authority to operate, maintain, and construct new sewer



facilities. A CSD would also have the authority to obtain funding, including proceedings for the formation of an assessment district and/or a Rates and Charges protest hearing. A CSD would form a Board of Directors, elected from the service area. This Board would be “autonomous” and thus provide the community with the local “control” that the TASCSC is seeking.

A CSD would also be capable of providing additional services in addition to sewer collection and treatment. If approved by the Local Agency Formation Commission of Monterey County (LAFCO), the CSD could provide additional services such as lighting and landscape maintenance (CSA#15 services) or storm water management.

Formation of Operating Agency Recommendation

Table 1 provides a summary of the options available and their associated benefits and concerns and/or restrictions.

Based on discussions with the TASCSC and understanding the long range goals of the community to maintain local “control” and also incorporate the services of CSA#15, it is recommended that the TASCSC pursue the formation of a CSD for the operations, maintenance, and construction of sewer facilities. The CSD would also enact the powers to provide the services currently provided by CSA#15. Further discussion on contracting versus obtaining in-house staff for operation and maintenance service will be provided later in this Study.

In addition, the boundary of the CSD could ultimately include the Las Palmas and/or Spreckels collection systems and WWTPs if ultimately the communities within these service areas are inclined to “buy-out” their privately owned collection systems. Incorporating these two service areas would expand the customer base that could share in the administrative expenses of operating a CSD and staffing to operate and maintain the collection system. However, each system would still be responsible for the expense to operate and maintain the individual WWTPs and the “buy-out” of their individual private utility company. The scope of this study does not include exploring this option.



Table 1. Summary of Operating Agencies

Operating Agency	Benefits	Concerns and/or Restrictions
Expansion of CSA#15	<ul style="list-style-type: none"> • County has been in the sewer business and has the resources • County would utilize existing staff to operate and maintain facilities • Utilize County Tax Roll to fund CSA#15 	<ul style="list-style-type: none"> • May need to hire additional staff • County Board of Supervisors does not provide full local "control" • County is steering away from operating and maintaining collection systems
Sanitation District	<ul style="list-style-type: none"> • Has authority to operate, maintain, and construct new sewer facilities • Has authority to collect fees • Would form a Board from the local community 	<ul style="list-style-type: none"> • Does not allow the agency to provide additional services such as lighting
Consolidating with Other Agencies		
Spreckels CSD	<ul style="list-style-type: none"> • Would expand the systems and spread costs to more residents 	<ul style="list-style-type: none"> • Does not currently own, operate & maintain collection system and WWTP • Would require "buy-out" of Cal Am
CSA #72 – Las Palmas	<ul style="list-style-type: none"> • Would expand the systems and spread costs to more residents 	<ul style="list-style-type: none"> • Does not currently own, operate & maintain collection system and WWTP • Would require "buy-out" of Cal Am
City of Salinas – Own Toro System	<ul style="list-style-type: none"> • Large system, costs are spread out and thus costs are lower 	<ul style="list-style-type: none"> • Required to discuss with LAFCO to determine feasibility • Does not provide the local "control" • Would not take over the services of CSA#15
City of Salinas – Contract to Toro System	<ul style="list-style-type: none"> • City has resources, Toro would not have to invest in equipment or handle personnel. Reduces cost • Negotiate fair contract price for operations and maintenance • Provides local "control" • Would provide services of CSA#15 	<ul style="list-style-type: none"> • Would incur the cost to form a community Services District



Table 1, Continued. Summary of Operating Agencies

Operating Agency	Benefits	Concerns and/or Restrictions
Community Services District	<ul style="list-style-type: none"> • Authority to operate & maintain collection system • Authority to obtain funding • Form a Board of Directors and provide local "control" • Provide additional services such as those provided by CSA#15 	<ul style="list-style-type: none"> • Would incur the cost to form a Community Services District

Costs to Form an Operating Agency

Based on the recommendation to form a CSD, Table 2 provides an estimate of the up-front costs associated with the formation process. The table includes the cost to process an application through LAFCO, the cost to conduct a Proposition 218 Hearing, and the administrative cost to "buy-out" CUS. This table does not include the cost of the "buy-out" of the actual facilities to be paid to CUS. The "buy-out" costs are provided in discussion later in this report and summarized in Table 5.

Table 2. CSD Formation Expenses

Task	Cost
Environmental Review (CEQA)	\$100,000
Financial Study	\$25,000
Legal Counsel	\$85,000
Bond Counsel	\$20,000
Proposition 218 Proceedings	\$70,000
Appraisal	\$20,000
LAFCO Fees	\$15,000
Total	\$335,000

Annual Administration Costs

The following discussion provides the basis for estimated annual administration costs for operating a Community Services District. Each administrative item provides a discussion on alternatives to operating costs, the first being a lower cost alternative to the second. The following expenses and the assumptions associated with the expenses for the Annual Administration for a CSD are as follows:

- Management Staff: Management of the CSD would include the General Manager, District Engineer, and administration support.



- ✓ Due to the small size of the District (managing the collection system, lighting, landscape), it is assumed that the administration functions would be supported through part-time positions contracted to a company that specializes in management of small CSDs.
- ✓ Alternatively, at a higher expense to the community, the CSD would maintain in-house a General Manager and Administrative Support. It is still assumed that the District Engineering would be contracted out.
- Operations Staff: As noted previously, the operations can be:
 - ✓ Contracted to a local agency (City of Salinas) or a private company.
 - ✓ Conducted through personnel hired directly by the CSD.

The staff required to maintain the collection system would be equivalent to 0.5 persons. The staff required to maintain the WWTP would be equivalent to 2.0 persons. The WWTP operator would be required to have a Grade 3 operating license.

- The Toro Park WWTP is a Class III WWTP based on the Office of Operator Certification requirements for Sequencing Batch Reactor technology used to treat the wastewater and the size of the facility. A Class III WWTP requires a Grade 3 licensed operator. This Grade represents the level of training required by the State Water Resources Control Board to operate a specific WWTP classification.
- Office:
 - ✓ The Toro Park Community has a community center that can be used for monthly meetings. The operation's staff would utilize the WWTP office facilities for their day-to-day functions. The CSD would be required to furnish the operation's staff with office supplies, office equipment, vehicles, etc to properly operate and maintain the collection system and WWTP.
- Billing and Collections: The CSD would contain over 1,100 parcels.
 - ✓ If the CSD puts the sewer bill on the County annual tax roll, this service can be provided by a company contracted to prepare the annual tax roll and therefore, a full time staff person would not be required to process billings and collections on a monthly basis.
 - ✓ If monthly sewer bills are issued, it would result in a full time staff person to process the bills and conduct collections for unpaid billings.
- Insurance: The CSD will be required to maintain insurance.
- Legal Services: The CSD will need to maintain legal counsel. A CSD of this size will only require legal counsel services on an as-needed basis.
- Accounting Services: The CSD will need accounting services to help prepare audits, tax forms, etc on an annual basis.



- Board Meetings: The CSD will require monthly board meetings.
- Permit Fees and Regulatory Compliance: The CSD will be required to maintain various permits for the operations and maintenance of the collection system and WWTP for regulatory compliance. The CSD will also be required to prepare various monthly and annual reports for regulatory compliance.
- Property Taxes: The CSD will own several properties, which will require property taxes to be paid by the CSD.

Table 3 provides the estimated annual expenses for running the administration functions for a small CSD based on the assumptions provided above.

Table 3. Annual Administration Expenses

	Annual Expense	
	Low	High
Management Staff	\$80,000	\$150,000
Operations Staff	\$150,000	\$250,000
Office	\$5,000	\$15,000
Billing and Collections	\$4,000	\$25,000
Insurance	\$10,000	\$12,000
Legal Services	\$8,000	\$10,000
Accounting Services	\$4,000	\$8,000
Board Meetings	\$4,000	\$6,000
Permit Fees & Compliance	\$10,000	\$15,000
Property Taxes ¹	\$15,000	\$15,000
Total	\$290,000	\$506,000

¹ The estimated property taxes are unknown. The annual expense included is budgetary only.

Annual Operation & Maintenance

There are operations and maintenance expenses for both the collection system and WWTP. For the collection system, the CSD Operation's staff will be required to inspect and clean the collection system (assume 20% of the collection system per year: 3 miles), repair breaks, report to sewer spills and customer calls. Within the collection system, there is also one small lift station that will require power and annual maintenance. For the WWTP, the CSD Operation's staff will be required to be on-site to inspect and maintain operations daily. This facility will have a high energy cost due the mechanical facilities (lift stations, aerators, sequencing batch reactor, headworks, etc.).

Table 4 provides a summary of the annual operating and maintenance costs for both the collection system and WWTP.



Table 4. Annual Operation and Maintenance Expenses

	Annual Expense
Collection System	
Cleaning & Video Inspection (20% of System per Year)	\$40,000
Routine Operations	\$25,000
Energy	\$4,000
Subtotal	\$69,000
Wastewater Treatment Plant	
Energy	\$100,000
Routine Operations	\$75,000
Subtotal	\$175,000
Total	\$244,000

Development of Capital Reserves

The infrastructure for the various communities served by the Toro Area WWTP was constructed between the 1960's and mid-2000's. This collection system infrastructure has a life expectancy between 50 and 80 years. The life expectancy of the facilities at the WWTP varies, but the mechanical facilities are between 10 and 15 years. At this time, it is expected that the infrastructure will need to be replaced with new sewer mains or spot repairs based on condition of sewer main. In addition, it is assumed the repairs will be required at the WWTP, although an inspection of the facilities has not been completed to determine the full extent of replacements or upgrades that are required at the WWTP.

Capital reserves can help meet the cost of repairs, replacements, unexpected emergency capital outlays, or unplanned increases in the cost of current capital projects. A common strategy for system reinvestments is to build-up a capital reserve fund based on system depreciation and the expected useful life of the system's assets. Typically, a capital reserve is ramped in over several years. For the purposes of this report, the reserves will be collected equally over 60 years to pay for the replacement of the collection system facilities. The total estimated current replacement value for the existing collection system is approximately \$12,000,000. If spread out over 60 years, the annual payment into the reserves is approximately \$200,000.

The total estimated current replacement value for the existing WWTP is \$3,000,000. If spread out over 15 years, the annual payment into the reserves is approximately \$200,000.

The total annual reserve payment is estimated at \$400,000. Since the current condition of the WWTP is unknown, this reserve does not account for any major upgrades or process changes to the WWTP, which could result in a significant cost to the property owners if required. Over time as the value of the infrastructure



increases, this annual reserve payment will need to increase. This can be estimated at a later date based on the completion of a rate study.

Purchase Assets from CUS

A significant cost to the CSD will be the purchase of the assets (collection system and WWTP) from CUS. *It should be noted that this section is an estimate for discussion purposes only and is not based on an official appraisal. An official appraisal and negotiation with the CUS owner will be required prior to the purchase of these assets.*

CUS owns and operates approximately 15 miles of transite and PVC pipe varying in size from 6-inch to 12-inch in diameter with 4-inch service laterals. The collection system also has approximately 270 concrete manholes and one small lift station (7.5 hp) located in the Markham Estates. CUS also owns and operates the 300,000 gpd WWTP and 112 acres of spray fields, of which only 74 acres are useable. Based on CUS' 2010 request for rate increase to the California Public Utilities Commission (PUC), the CUS' Average Rate Base is \$985,065. Based on discussions with several private utility companies and firms that deal with the purchasing and selling of private utility companies, a reasonable estimate or "rule of thumb" for the purchase of a private utility company is three (3) times the rate base. Based on these assumptions, the purchase price for the CUS system is estimated at **\$2,955,195**. This cost would include the purchase of the existing collection system, wastewater treatment plant, and spray disposal fields. However, for the purposes of this report, since the true "buy-out" is unknown, the purchase price used to determine the overall cost of the project will be estimated to be between **\$2,000,000 and \$5,000,000**. This cost would also include the legal fees associated with the "buy-out" of CUS which could be as high as \$450,000.

Funding Options

Prior to getting approval from LAFCO, the TASCSC will be required to prepare a Financial Study and establish a funding mechanism that will pay for: 1) the one-time cost to establish the CSD (CEQA, "buy-out" of CUS, legal fees, Financial Study, Proposition 218 proceedings, etc.); and 2) the annual administration expenses, operations and maintenance expenses, and reserve fund.

Although there are several methods to fund the CSD, the most viable options are the formation of an Assessment District, establishment of a Special Tax, or establishment of Rates and Charges. Discussions for each are provided below:

Assessment District

The formation of an Assessment District would be utilized to pay the one-time cost to establish the CSD. The Assessment District proceedings would be conducted by the County of Monterey and must follow Proposition 218 Assessment District proceedings. The assessment district would allow the TASCSC to acquire bonds up



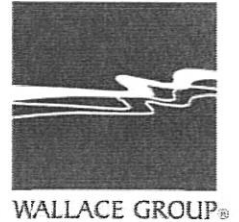
front and pay this debt service over 30 years. The debt service would be collected annually on the property taxes of the customers within the assessment district.

The Assessment District proceedings would require the County and the TASCSC to prepare a Financial Study and an Engineer's Report to establish an equitable cost share to all parcels included in the CSD boundaries. The Engineer's Report would also be required to establish a special benefit. Assessments require a finding that the public improvement is "needed" for a reason consistent with the law which permits the special assessment and that each property specially assessed receives a unique, measurable and direct benefit from the public improvement that was needed. To form the Assessment District would require a simple majority vote. If the Assessment District passes, all expenses identified in the Engineer's Report, related to the project can be paid for through the funding of the Assessment District including all County expenses expended prior to the formation of the Assessment District. The Assessment District would not be used to fund the annual administrative and operations and maintenance expenses. In addition, legal counsel would need to determine if the "buy-out" of CUS would qualify as a special benefit, thus the formation of an assessment district to fund the "buy-out" may not be feasible.

Table 5 provides the estimated cost to form an Assessment District. It is recommended that included in the expenses to be bonded for would be the first year annual administration expenses, first year annual operation and maintenance expenses and the first year reserves. This will provide the CSD with breathing room in the first year to become established and have operating money. To pay the annual expenses of the CSD (after year one), the TASCSC would be required to establish Rates and Charges (see next section).

Table 5. Assessment District Formation Costs

	Low	High
CSD Formation Expenses (See Table 2)	\$335,000	\$335,000
First Year Annual Administration Expenses (See Table 3)	\$290,000	\$506,000
First Year Annual O&M Expenses (See Table 4)	\$244,000	\$244,000
First Year Reserves	\$400,000	\$400,000
Purchase of CUS	\$2,000,000	\$5,000,000
Total	\$3,269,000	\$6,485,000
Bonding Fees - Underwritings 1.75%	\$57,210	\$113,490
Bonding Fees - Cost of Issuance	\$125,000	\$125,000
Total Bond	\$3,451,210	\$6,723,490
Annual Payment		
Assume 5% Rate over 30 Years - Low	\$227,490 to	\$443,185 to
Assume 8% Rate over 30 Years - High	\$315,280	\$614,215



Special Tax

"Special tax" means any tax imposed for specific purposes, including a tax imposed for special purposes, which is placed into a general fund. Proposition 218 has clarified that a special tax may take either of two forms: any tax imposed for specific purpose whose proceeds are held in a separate account for that purpose, or any tax imposed by a special purpose district or agency, including a tax whose proceeds are placed in the general fund of that district or agency. Because it is a tax, not a fee or an assessment, the amount of the special tax is not limited to the relative benefit it provides to taxpayers, unlike an assessment district. Special taxes cannot be imposed on an ad valorem (property value) basis. They must be levied uniformly on all eligible properties or taxpayers. Typically, they are "per parcel" taxes apportioned according to the square footage of the parcel or on a flat charge. The Special Tax resolution must specify the purpose of the tax, the rate at which it will be imposed, the method of collection, and the date of the election to approve the tax levy. Approval by a 2/3 vote of the city, county or district electorate is necessary for adoption.

The Special Tax would allow the CSD to put an annual tax on the property tax. This security would be used to obtain a low interest loan such as a State Revolving Fund (SRF) loan to pay the up front expenses (\$3,369,000 to \$6,485,000). At this time it is assumed that the interest rates would be similar to that of the assessment district. However, the community could possibly qualify for a lower interest rate through various funding programs. It is assumed that the annual payment for a Special Tax would be similar to that of the assessment district.

Rates and Charges

The third option is to utilize Rates and Charges to: 1) fund the annual administration and operations and maintenance costs; or 2) fund the up-front costs and the annual administration and operations and maintenance costs.

If it is determined that the CSD funds the up-front costs through the formation of an assessment district or Special Tax, the CSD would then be required to complete an additional Proposition 218 Protest Hearing to establish equitable Rates and Charges for the annual administration and operations and maintenance costs. This Protest Hearing would require a rate study to be completed. To establish rates for the annual operations and maintenance, the Proposition 218 Rates and Charges Hearing would require a majority protest.

The CSD could also conduct a Rates and Charges Protest Hearing to fund all of the up-front expenses and the annual expenses. Again, a rate study would be required. Once the rates are established, the CSD would work with an outside agency to obtain a loan such as a SRF Loan to pay the up-front expenses (\$3,369,000 to \$6,485,000 per Table 5).

Comparison of the Funding Options

Each method of funding has benefits and hurdles to overcome. They are as follows:



- Each funding option will require an agency to front the expenses of conducting a Proposition 218 Hearing at a minimum. The TASCSC will need an agency to become the Lead Agency for this Hearing. It is likely that the County would be required to assume this role unless it is determined that the City of Salinas would pursue extending their service boundary to include Toro Park wastewater service area.
- An Assessment District Formation requires the Engineer's Report to identify "Special Benefit". This often times results in controversy and is the center of many legal battles. It is recommended to obtain legal counsel advice to establish the Special Benefit for the Assessment District Formation, especially in regards to the legalities of including the costs of the "buy-out".
- The result of an Assessment District Hearing is based on the dollar value of the ballot associated with each ballot that is submitted. The simple majority of the ballots returned establish the outcome of the vote.
- If passed, the assessment is placed on the annual tax roll, collected by the County of Monterey Assessor's Office. The CSD would be required to prepare the tax roll each year.
- A Special Tax does not require "Special Benefit".
- A Special Tax requires 2/3 voter approval to be passed.
- If passed, the Special Tax is placed on the annual tax roll, collected by the County of Monterey Assessor's Office. The CSD would be required to prepare the tax roll each year.
- The Rates and Charges is based on a rate study and does not require "Special Benefit".
- A Rates and Charges Hearing requires a majority protest. Therefore, if you do not vote, it is assumed that the ballot is in favor of the Rates and Charges.
- Rates and Charges can either be collected by the CSD on a monthly basis through a bill prepared by the CSD or the CSD can place the Rates and Charges on the County Tax Roll similar to the Assessment District or Special Tax. The second option would eliminate the need for the CSD to have a full time staff person prepare monthly bills or handle collections. This results in a significant savings to the CSD.
- Both a Special Tax and Rates and Charges would require the CSD to then acquire a loan that would be paid for the up-front costs.

Annual Fees per Customer

The goal of this study is to evaluate the options and the cost to form a CSD and to operate and maintain the collection system and WWTP and equate the cost on per parcel basis that can be compared to the 2010 Study that evaluated connecting to the MRWPCA Regional WWTP. The following provides a summary of the expenses related to this goal.

- Formation of an Operating Agency (CSD Formation)



- Environmental Review
- Financial Study
- Legal Counsel
- Bond Counsel
- Proposition 218 Hearing
- Appraisal Fees
- LAFCO Fees
- Annual Administration Costs
- Annual Operation and Maintenance Costs
- Development of Capital Reserves
- Purchase Assets from CUS

To determine the cost per equivalent customer, it will be assumed that the CSD would utilize a Special Tax to pay for the up-front costs and would utilize a Rates and Charges to fund the annual administration and operations and maintenance expenses. Table 6 provides a summary of the estimated annual expenses and the annual and monthly cost per customer to operate and maintain the collection system and WWTP.

Table 6. Cost per Equivalent Customer

	Low	High
Annual Debt Service	\$227,490	\$614,215
Annual Administration Expenses	\$290,000	\$506,000
Annual O&M Expenses	\$244,000	\$244,000
Reserves	\$400,000	\$400,000
Total	\$1,161,490	\$1,764,215
# of Equivalent Customers	1,123	1,123
Annual Cost per Equivalent Customer	\$1,034	\$1,571
Monthly Cost per Equivalent Customer	\$86	\$131

Based on Table 6, the estimated cost per equivalent customer will range between \$86 and \$131 per month. CUS' current rate is \$122 per month. The 2010 Study estimated the cost to consolidate with MRWPCA was between \$79 and \$134. Based on the current analysis, there are a few cost estimates provided in the 2010 Study that are underestimated and should be updated to match the current analysis.

In addition, this analysis provides various options available to the CSD from financing, to annual expenses, to operations. Depending on the direction the CSD desires to proceed, this analysis could focus the cost per parcel.



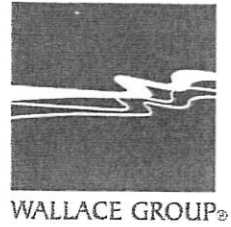
RECOMMENDATIONS AND STEPS TO PROCEED

It is recommended that the TASCSC would form a Community Services District and contract the administrative and operation's services for the first 5 years until the District is established. A study can be conducted in year 4 to determine if it is more cost effective to continue contracting these services out or to bring them "in-house". Based on this recommendation the following steps are provided to guide the TASCSC:

1. The TASCSC conduct a survey of the entire sewer community to determine the level of support. It is recommended that the County Board of Supervisors require this before supporting the project and expending staff time and additional financial resources. A Special Tax vote requires 2/3 voter approval, therefore the survey would need to reflect similar approval feedback before moving forward. *Timeframe: 3 months*
2. Assuming support from the sewer community, the TASCSC and the County would meet with LAFCO to understand the requirements of LAFCO and their schedule. *Timeframe: 1 month*
3. To minimize the financial risk to the County, it is recommended that the County pursue obtaining a funding mechanism as a first task. As recommended, the preferred funding mechanism is a Special Tax to cover all formation costs, the "buy-out" of CUS and first year administrative and operational expenses. The costs associated with conducting the Special Tax hearing are identified within the costs of forming the Community Services District. These costs are identified and discussed in Table 2. Some of the costs associated with forming a CSD may not be required prior up front and could be deferred until after the Special Tax is formed, thus reducing the financial risk to the County. However, to be conservative, it is estimated that the financial risk to the County is estimated at \$335,000 as noted in Table 2.

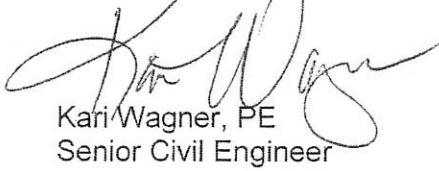
If the Special Tax were to not pass, the County would be responsible for all costs incurred up to completion of the hearing. If the Special Tax passes, all costs incurred by the County would be re-paid by the Special Tax. In addition, all additional costs to be incurred through the final stages of the formation of the CSD would be covered by the Special Tax. *Timeframe: 18 months if CEQA is required*

4. Once the Special Tax hearing passes, the County and TASCSC would have a funding mechanism to "buy-out" CUS and complete the formation of the CSD including the preparation of any additional documents that LAFCO may require. *Timeframe: 24 to 48 months (Could be longer depending on legal challenges – advice from legal counsel is recommended)*
5. Once the formation of the CSD is completed, the CSD would complete an additional rate study to establish Rates and Charges to operate and maintain the CSD, to be collected once a year on the tax roll.



Sincerely,

WALLACE GROUP



Kari Wagner, PE
Senior Civil Engineer

