

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION
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March 3, 2004

TO: Sacramento Local Agency Formation Commission

FROM: Peter Brundage, Executive Officer

RE: **FLORIN RESOURCE CONSERVATION DISTRICT ANNEXATION
OF ELK GROVE WATER SERVICE TERRITORY TO DISTRICT
(10-03) [CEQA: 10-03]**

RECOMMENDATION:

1. Adopt the CEQA Exemption as adequate and complete for this project.
2. Amend the Florin Resource Conservation District Sphere of Influence to include that portion of Elk Grove Water Service Area shown on as Parcel 1 on Exhibit A.
3. Approve the annexation of the Elk Grove Water Service territory into the Florin Resources Conservation District.
4. Direct staff to evaluate whether or not the “Waegell” parcel is within the Florin Resource Conservation District boundary.

Applicant Florin Resource Conservation District
9257 Elk Grove Boulevard
Elk Grove, California 95624

Project Proposal

The District currently provides water service to an area that is not within the boundary of the Florin Resource Conservation District. The primary purpose of the proposal is to clean up this boundary issue and allow voters within the territory of the Elk Grove Water Works Service area the opportunity to vote in Florin Resource Conservation District elections and other ballot measures within the Florin Resource Conservation District.

Analysis of Proposal

The Florin Resource Conservation District has diversified from its original mission. On September 27, 1999, the County of Sacramento Superior Court issued a Judgment in Eminent Domain in favor of the Florin Resource Conservation District. The District thereby acquired the assets and liabilities of the Elk Grove Water Works, Inc., a private water company.

The court ordered a compensation of \$16,500,001 for the assets of the Elk Grove Water Works. On June 28, 2002, after several years' of litigation, the Sacramento County Water Agency and Florin Resource Conservation District entered into a Master Water Agreement. This amends an agreement between the SCWA and the Elk Grove Water Works Master Water Agreement dated February 28, 1995.

The Master Water Agreement has three key elements:

1. The Elk Grove Water Service provides retail water service to the Expanded Franchise Area and in that capacity owns, operates and maintains all retail water distribution facilities;
2. The SCWA was to provide the wholesale water within the Expanded Franchise Area, and in that capacity owns, operates and maintains all wholesale water production, treatment and transmission facilities; and
3. The SCWA continues to collect Zone 40 fees from those portions of Zone 40 lying within the boundaries of the expanded Franchise Area.

The Master Water Agreement sets the roles and responsibilities of the respective parties related to service responsibilities for retail and wholesale for water service provided to residents in and around the City of Elk Grove.

Since, a portion of the former Elk Grove Water Works service territory is not part of the Florin Resource Conservation District approximately 11,911 residents living in this area currently cannot vote for the Board of Directors. Consequently, they do not have any representation. The proposed annexation will correct this situation.

Finally, this report does not attempt to address the following policy issue:

Does the District have the ability to meet new growth that is projected for its service area and provide a long term sustainable water supply to serve this area at build out?

While this is an important question, the analysis is complex. There are likely differences of opinion. Therefore, the intention of this report is not to provide an analysis and answer to this question because this proposal does not deal whether or not this area should be served. Yet, it is an important question that needs to be asked when unserved areas are annexed to either water districts or cities.

Population growth in the Elk Grove area served by FRCD has been factored into the Water Forum Agreement and projected water supply for this and other developing areas requiring

water. The Water Forum Agreement adopted in 2000 is based on approved land use General Plans. Based on numerous assumptions made in the Water Forum Agreement, this area should have a sustainable water supply to serve the projected population.

The analysis to this question is not clear cut and there may be differences of opinion. However, the growth assumptions for this area have been used by the Water Forum Stakeholders to set allocations between various water providers.

This report does not focus on this issue because land use decisions have already been made and water service is being provided. Annexation of the proposed area will not increase the service requirement for FRCD but simply allow existing users a voice in the provision of service to this territory.

District Summary

The Florin Resource Conservation District was formed in 1953 to provide resource conservation works, including but not limited to, soil conservation services (erosion control), water development and distribution, soil conservation planning, and wildlife conservation.

Enabling Act: Public Resources Code, Section 9074.

Board of Directors: Five member Board of Directors, elected at large.

General Manager: Michael B. Kenny

Service Area: 297 +/- square miles/ 190,000 +/- acres

History of Resource Conservation Districts

After years of working the soil without regard for its future preservation, the Federal Government realized that steps must be taken to prevent our agricultural lands from becoming barren wastelands. The Great Dustbowls of the Midwest in the 1930's provided the impetus for government involvement in soil conservation. In 1933, the Federal Soil Conservation Service was created primarily to attack the problems in the dustbowl areas. Once the Service was formed, however, it became apparent that the need for conservation practices was nationwide. This Federal agency involves itself exclusively in privately owned lands.

The original function of the Soil Conservation Service was to develop projects in selected problem areas so the landowners could see first hand what could be done to prevent erosion and promote soil preservation. The intent of the program was for a landowner to visit the site to see how good soil conservation practices are established and then return to his land and initiate the necessary conservation practices. This plan failed. While the landowners agreed the measures implemented by the Soil Conservation Service were necessary and ultimately beneficial, more often than not, they lacked the resources to initiate their own soil conservation plans.

As a result of the Soil Conservation Service's initial failure, a new plan was devised in an attempt to solve the problems of the individual landowner. The new plan utilized local government control in combating the problems of erosion and soil depletion. If local governmental agencies were established by the initiative of local landowners to address the problems of the soil, then the Federal Government would offer free technical assistance for devising soil conservation programs. Subsequently, the states quickly passed the necessary enabling legislation giving birth to soil conservation districts as we know them today.

Sacramento County Resource Conservation Districts

Description

Sacramento County has four Resource Conservation Districts, as they are now called, pursuant to a change in the law in 1972. District boundaries encircle agricultural areas with common soil practices and conservation problems. Lower Cosumnes Resources Conservation District protects the Delta Region of the County, Sloughhouse Resource Conservation District protects the southeastern sector of the County, and Florin Resource Conservation District protects the Florin Area in the central sector of the County. The Granite Resource Conservation District in the Orangevale Area of the northeast sector of the County is inactive.

Initially, the districts served small areas but as time passed and an awareness of the need for soil conservation practices spread, the districts began to annex contiguous areas with similar soil practices and problems. The entire agricultural area in the southern sector of the County is now protected by one of the three active Resource Conservation Districts.

The Natomas area is the only agricultural area in Sacramento County not served by a Resource Conservation District. Resource conservation practices, however, have been undertaken by the individual landowners in the area.

History/ Background

The Florin Resource Conservation District was formed in 1953, pursuant to Section 9000 et. seq. of the State of California Public Resources Code. The District is located about six (6) miles south and east of the current city limit of the City of Sacramento. Originally, the District was formed to address soil degradation issues resulting from poor irrigation and drainage in farm land south of the City of Sacramento. The District provides technical assistance and conservation education to farmers dealing with natural resource management issues. The District also serves as a clearinghouse for soil and water conservation measures, such as administration of the local water hyacinth eradication program.

When the Florin Resource Conservation District first began operating, it was mainly involved in setting up drainage systems for large farms to preclude the danger of flooding from Morrison Creek.

Since its formation, the FRCDD has acquired other assets and has expanded the types of services it provides.

District Boundary Issues

The District has three distinct areas shown on Exhibit “B”. The District is composed of the Franklin parcel, the Florin parcel, and the Waegell parcel.

Parcel 1 as shown on Exhibit “A” and “B” is the area proposed to be annexed into the current District boundary. This area is part of the Elk Grove Water Works that has never been in the FRCD. Note: A portion of the Elk Grove Water Works service territory already lies within the FRCD. (See Exhibit 1).

In addition, this staff report cannot confirm that the Waegell parcel (Exhibit “B”) is within the FRCD boundary. District consultants and county staff have never been able to confirm that this area was ever annexed because no adopted resolution has been found. Therefore, this supplemental boundary issue will need to be addressed under a separate report.

This District was formed prior to the creation of LAFCo during the 1950’s. Two resolutions forming the district were filed with the Clerk of the Board and have been located. There is at least one other resolution that has not yet been located or verified that it was filed with the Clerk of the Board.

LAFCo records clearly indicate that the “Waegell” parcel is within the District’s Sphere of Influence.

Concern has been raised by staff of the Sacramento County Water Agency that this parcel overlaps into the County Zone 40 water service area. They have requested that LAFCo review this issue to ensure that potential water service areas do not overlap.

The purpose of this annexation proposal is to only add Parcel 1 into the FRCD service boundary. At this time, FRCD is limited to providing water service to only a small portion of its District boundary; the historical service area of the Elk Grove Water Works, Inc.

District Revenue Sources

The District does not receive any property tax revenue. Without both the Elk Grove Water works system and lease income, the District's budget is only about \$10,000, which is rental income from a building purchased in 1961.

District Use of Funds

Generally, Resource Conservation Districts have small budgets. Resource Conservation Districts are independent special districts governed by boards of directors that are elected by registered voters within the district. If there is no opposition for a given candidate, the Board of Supervisors may appoint the candidate. Consequently, in the past, the need to hold elections has been minimal.

The entire boundary assuming the “Waegell” parcel is part of the Florin Resource Conservation District contains approximately 190,000 acres. The number of registered voters within Parcel 1 proposed for annexation is 11,911. The District is staffed by

volunteers for resource conservation activities. The District currently receives funding from local, state and federal grants. The U.S. Department of Agriculture, through its Soil Conservation Services, provides staffing and technical assistance to the District as well as to two adjacent resource conservation districts.

Also, the Florin Resource Conservation District purchased the Susan B. Gains Building at 2450 Florin Road in the City of Sacramento which it leases (long term) to the Sacramento County Department of Human Assistance.

The District purchased a private water company; now known as the Elk Grove Water Service Area. The District now supplies water to approximately 10,304 connections within the City of Elk Grove. The City of Elk Grove is also served by the Sacramento County Water Agency.

The Florin Resource Conservation District is governed by a five member Board of Directors. Each Director is elected at large for a four (4) year term. The General Manager of the Elk Grove Water Service is Michael Kenny.

The Water System

The Florin Resource Conservation District acquired the Elk Grove Water Works pursuant to its power of eminent domain. By the complaint, the District sought to acquire all of the assets and properties of the Elk Grove Water Works. The court ordered a stipulation between the parties through a settlement agreement on September 27, 1999. The District acquired the water system for \$16,500,001.

The purchase price was financed from the proceeds of Certificates of Participation (COP's) that were executed by the District and delivered to investors in 1999.

Service Area

The service area of Elk Grove Water Service encompasses approximately thirteen square miles with approximately 10,304 service connections. The water service area lies entirely within the City of Elk Grove.

Approximately one half of the residential customers are not metered and are charged a flat fee for water service. As of this date, the District has no plans to install meters for the existing non-metered residences. The primary source is groundwater sources consisting of eleven (11) active wells and one backup well for emergencies. Most of the anticipated residential service growth in the next several years is expected to occur in the geographical area south of Bond Road and east of Waterman Road (Tariff Area No. 2). All new service requests will be installed with water meters, as required by law, and by the Master Agreement with SCWA. Basically, Sacramento County Water Agency will wholesale water to the District and the District will be the retailer. The District will maintain and operate the distribution system and bill customers.

The District is required by state law and by the Master Agreement to provide meters for all new retail customers of the water system. Approximately 244 commercial and public

agency customers, out of 454 currently served within Tariff Area No. 1 and Tariff Area No. 2 have meters. The District does not currently plan to install meters for unmetered commercial customers.

Water System Infrastructure

There are eleven full time employees that operate the water service. The water system has twelve separate water well and pumps sites. One of the well sites is used only for emergencies. All wells and the treatment facility have at least one well-house structure, a power supply and site piping which connects the wells into one system. Nine of the wells also have backup generators.

The water system has ten chlorine feed facilities distributed among ten sites, four sets of sand removal equipment and two portable generators. Each well is controlled by Mercoid switches based on system pressure at each well site. Each well is inspected daily by district staff.

The distribution system consists of twelve hydro-pneumatic pumps which are distributed among the well sites to maintain adequate pressure in the distribution system when wells are idle. There are approximately 70.5 miles of pipeline of which approximately 21.6 miles is PVC pipe ranging in diameter size from 4 to 18 inches. Approximately 49 miles of pipeline is made of asbestos cement pipe ranging in diameter size from 2 to 10 inches. Approximately 0.7 miles of pipeline is either stainless steel or cast iron. Only about 120 service connections are larger than 1 inch in diameter.

Other facilities and assets of the Florin Resource Conservation District include:

- 17 parcels of land
- 2 passenger cars
- 4 trailers
- 4 trucks
- 1 leak van
- office furniture and equipment
- computers
- radio equipment

Water Supply

The water service area covers approximately 13 square miles. It is comprised of two zones, or tariff areas. In Tariff Area No. 1, the adequacy of the wells is acceptable for normal usage, but water flow might prove insufficient in case of need to meet the demands of fire equipment. New development in Tariff Area No. 1 will be serviced from existing wells and a new water treatment plant (the "Railroad Plant"). The existing wells and the new treatment plant will provide the necessary capacity to accommodate new development and the required fire capacity.

Tariff Area No. 2 will be served with water purchased from Sacramento County Water Agency (SCWA). Sacramento County Water Agency is installing transmission mains to

deliver water to Tariff Area No. 2. The adequacy of SCWA supplies and piping is beyond the control of the District. If SCWA cannot meet demand, the District has the right to supply water to the SCWA wholesale area subject to the terms and conditions of the First Amended and Restated Master Agreement.

Water Demand

Tariff Area No. 1 will have 7,866 customers at build out (2010).

Tariff Area No. 2 will have 5,957 customers at build out (2010).

The total estimated number of customers will be 13,823. This represents an increase of approximately 3,500 customers over the next 5 to 6 years.

These growth estimates are based on population projections provided by SACOG. In addition, all new customers must be on meters.

Water Quality

The overall water quality from District wells is very good. Approximately ten wells are disinfected using sodium hypochlorite solution. At each site, a 100-gallon hypochlorite solution storage tank is installed along with a small metering pump. The metering pump feeds chlorine into the system whenever the well pump is operational if disinfection is required.

Disinfection at wells must be commenced if bacteriological testing shows a presence of contamination. Currently, there have been no positive results at any of the well sites. The disinfection facilities have been installed as a precaution.

The system is also tested for radon and other radioactive elements. To date, levels have been less than significant.

Water Rates and Charges

Current customers are charged either a flat monthly rate or a metered rate for water service. All new customers will be billed on the basis of metered monthly usage.

Rates

General flat rate service is \$23.99 per month for a one-inch service connection. Other flat rates range from \$13.66 per service connection per month to \$183.17 per service connection per month depending upon the size of the service connector.

The charges for meter services vary for each Tariff Area. The following table illustrates the metered service rate for each Tariff Area.

<u>Usage</u>	<u>Tariff Area No. 1</u>	<u>Tariff Area No. 2</u>
0 to 4200 cu ft	.445 per 100 cu ft	\$1.09 per 100 cu ft
4200 cu ft or more	No Charge	\$1.34 per 100 cu ft
Meter Service Fee	\$2.00 per month	\$2.00 per month
Meter Service Charges for one-inch meter connection	\$15.34 per month	\$24.95 per month

Water Capacity Access (Connection Fees)

The District implemented a water capacity access charge. The charge is collected from owners of property making use of capacity in water lines. Such charges are based upon frontage along the line to which the capacity charge applies. This charge ranges from \$24 per foot to \$37 per foot, depending upon the size of the line.

In the case of property which does not front such line, but will be connected to it, the charge is based upon the size of the turnout required to serve the property. The charge ranges from \$900 to \$2,200, depending on the turnout size. This charge covers the capital improvements and system capacity.

Service Connections

The following chart illustrates the growth trend in water connections over the last four years.

	<u>June 2000</u>	<u>June 2001</u>	<u>June 2002</u>	<u>June 2003</u>
Metered	1,872	2,723	3,418	4,285
Flat	<u>6,056</u>	<u>6,056</u>	<u>6,056</u>	<u>6,019</u>
Total	7,928	8,779	9,474	10,304

Projected Growth

The water system had approximately 10,304 customers as of June 30, 2003. The City of Elk Grove has approved development plans for 3,255 new homes in the water service area. The District has approved 869 of the proposed 3,255 homes. Based on growth projections, the District anticipates that 3,255 new connections will be added by June 30, 2008. The total number of connections at build out will be about 13,823.

Most of the growth expected to occur will be within Tariff Area No. 2. Water Supply will be the responsibility of SCWA. The FRCD water supply area is for the area of Elk Grove that is already receiving service. The new growth area because it is served by SCWA is a signatory to the Water Forum MOU.

Largest Water Customers [Consumers]

2003 Payment

Elk Grove Community Services District	\$108,957
Elk Grove Unified School District	66,710
Emerald Vista Apartments	47,702
Ferguson & Brewer Management	30,579
Oak Grove Apartments	<u>15,303</u>
Total	\$269,251

Total operating revenue for 2003 was \$4,780,676.

Outstanding Debt Related to Water Facilities

As of October 1, 2003, the District had \$33,845,000 in outstanding bonds. These funds were used to purchase the water system from the Elk Grove Water Works (\$16,500,001); the balance of available funding will be used for new capital improvements and rehabilitation of the existing water system. The annual debt service payment (principal and interest) on this debt is estimated to range from \$1,450,000 to approximately \$3,355,000 with an annual average debt service of approximately \$3,005,000.

Debt Service will be paid from both lease payments and the revenue from water service.

District Revenue and Expense Projections

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Water Revenues	\$2,055,229	\$3,222,344	\$4,780,676
Expenses			
Water & Power	\$ 456,335	\$ 534,827	\$ 764,216
Other Production	\$ 179,157	\$ 443,600	\$ 571,697
Payroll Taxes	\$ 522,605	\$ 614,427	\$ 775,104
Administration	<u>\$ 436,612</u>	<u>\$ 762,623</u>	<u>\$ 924,294</u>
Total Operating Expenses	\$1,594,709	\$2,355,537	\$3,035,311
Net Operating Income (before Interest and depreciation)	\$ 460,520	\$ 866,807	\$1,745,365

District Fiscal Status as of June 30, 2003

Assets

Land	\$ 1,100,316
Buildings	\$12,023,500
Water System	\$18,192,004
Furniture & Equipment	\$ 165,248
Transportation	<u>\$ 143,201</u>
Total Assets	\$31,624,279

Liabilities

Long Term Debt

2002 Refund - Office Building	\$15,979,237
2003 Refund - Water System	<u>\$33,300,011</u>
Total	\$49,279,248
Less Deferred Refunding Change	<u>(\$ 3,840,210)</u>
Total Long Term Debt	\$45,439,038

Water Forum Agreement

The Elk Grove Water Works and its successor, the FRCD is not a signatory to the Water Forum Agreement. However, Leo Winternitz, Executive Director of the Water Forum Successor indicates that the annexation by FRCD will not affect the Memorandum of Understanding signed by the Water Forum Stakeholders, including SCWA.

Urban Water Management Plan

The FRCD has prepared an update to the Urban Water Management Plan as required by the California Department of Water Resources.

This is a planning document that identifies water demand, water supply, conservation plans and emergency plans related to the water service area operated by FRCD.

This plan indicates that the primary water source for this service area is groundwater. The District supplies 98 per cent of its water from wells and the aquifer. It also purchases about 2 percent from SCWA. The purchased water currently is also supplied from groundwater.

The District promotes and participates in water conservation programs. The District’s goal is to keep the average residential consumption near 700 gallons per day or about 1 acre foot per year per residential connection.

Water Supply Projection

Year	Acre Feet	Percent Growth
2000	6,800	3%
2005	8,000	3%
2010	9,000	4%
2015	11,000	4%
2020	14,000	4%
2025	17,000	4%
2030	22,000	4%

Currently, the FRCD/EGWW pumps about 6,400 acre feet from an average depth of 109 feet.

However, it is anticipated that the wholesale portion of the FRCD service area will have conjunctive use (ability to use surface water) after the “Freeport Diversion” project (joint project to treat Sacramento river water between East Bay Public Utility District and SCWA) is constructed. Nonetheless, major concerns for the long term sustainability of water supply for this area have been previously raised. This situation is made worse during drought years. Note: Sacramento County has experienced severe droughts during 1976-1977 and 1992-1995.

As a result, the District has adopted a Water Shortage Emergency Response Plan, in order to initiate water curtailment as soon as drought conditions are evident.

In addition, the District needs to be prepared to address other catastrophic events that could impair the water supply. These events include earthquakes, extended power outages, bacterial contamination, and other similar types of situations.

To the extent possible, the District is planning for these types of events by backing up systems and interconnecting with other service providers.

The FRCD/EGWW build out for water service is expected to occur by the year 2030. At build out, demand is expected to be 20 mgd or 22,000 acre feet per year as estimated by Boyle Engineering in 1994. To meet this demand, the District will need to significantly expand its facilities.

Other than ground water, the only major source of supply to meet the projected demands will be potable water produced and conveyed by SCWA through Zone 40 and 41 facilities.

Impact to Other Agencies

The proposed annexation will not significantly impact any other service provider in this area since the service provider is not changing. The Sacramento County Water Agency has requested that the annexation be conditioned subject to the following:

1. That the District comply with the First Amended and Restated Master Water Agreement between Sacramento County Water Agency and the District, as amended June 28, 2002.
2. The annexation is subject to the terms and conditions of the Settlement Agreement between Sacramento County Water Agency and the District, entered into on June 28, 2002.
3. The Settlement Agreement provides SCWA with the sole right to design, construct, own, and operate all facilities and perform all other activities, including but not limited to groundwater management and banking, necessary to manage the water resources and provide wholesale and retail water service within the boundaries of SCWA Zone 40 and 41.
4. The annexation of the Elk Grove Water Works Service area does not constitute affirmation by LAFCo that the existing boundary of the Florin Resource Conservation District includes the area identified on Exhibit "B" as the "Waegell" parcel because no verification has been found that a Resolution has either been filed or adopted.

Staff Recommendation

Staff recommends that the area identified as Parcel 1 on Exhibits A and B, be included in the Sphere of Influence for the FRCD and also annexed to said District subject to the terms and conditions of the Judgment in Eminent Domain, Case No. 99ASO4964, of the Superior Court of Sacramento County, the First Amended and Restated Master Water Agreement between Sacramento County and Florin Resource Conservation District, and the Settlement Agreement dated June 28, 2002, between the County and the District.

At the present time, the District has the ability to provide the same level of water service provided by the Elk Grove Water Works. The District has borrowed money to purchase the water service area and has also borrowed money for needed capital improvements to its system.

The water service area is a relatively small area of the District boundary. The surrounding area is served by Sacramento County Water Agency Zone 40 and 41. This LAFCo action does not expand FRCD ability to provide service beyond the Elk Grove Water Works service area as agreed upon with the County of Sacramento.

No opposition has been raised with this proposed annexation. However, the Sacramento County Water Agency has requested that LAFCo impose conditions as mentioned above.

SCWA staff has also requested that by approving this annexation, LAFCo does not affirm that the “Waegell” parcel is within the FRCD boundary until appropriate documentation can be supplied and verified, or LAFCo takes supplemental action to fix this uncertainty.

LAFCo acknowledges that the “Waegell” parcel is in the FRCD sphere of influence.

This is not a typical LAFCo application process and is very unique; however, annexation will allow the ratepayers the ability to select the FRCD Board members who will set rates and decide other policy issues related to the delivery of water. This proposal furthers the fundamental value of democracy by allowing for constituent participation in representative government.

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

Peter Brundage
Executive Officer

PB:Maf
(Florin Resource Conservation District I)