

Final

2015 Municipal Service Review  
and Sphere of Influence Study:

Pajaro / Sunny Mesa  
Community Services District

Adopted by the Commission on March 30, 2015

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**2015 MUNICIPAL SERVICE REVIEW AND SPHERE OF INFLUENCE STUDY  
FOR THE PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT**

Pajaro/Sunny Mesa Community Services District – At A Glance	
<b>Formation Date</b>	The Pajaro/Sunny Mesa Community Services District was formed on January 29, 1992 (LAFCO Resolution 92-01) by reorganizing the Pajaro Community Services District, the Sunny Mesa County Water District, and County Service Area 73.
<b>Legal Authority</b>	Community Services District Law (Government Code §61000 et seq.)
<b>Board of Directors</b>	Five-member Board of Directors appointed by the County Board of Supervisors.
<b>District Area</b>	The existing District encompasses approximately 6,238 acres or 9.75 square miles in several discontinuous areas of Pajaro, Prunedale and Elkhorn.
<b>Sphere of Influence</b>	Same as District boundaries.
<b>Population</b>	Approximately 6,800
<b>Authorized Powers / Services Provided</b>	To provide lighting service; to supply water for domestic use, irrigation, sanitation, industrial use, fire protection and recreation; to purchase, own, operate and maintain public parks.
<b>Budget (FY 2014-15)</b>	\$1,818,800 (Direct and Indirect Expenses); \$131,000 debt service; \$150,000 reserves; net surplus operating fund \$17,900
<b>General Manager</b>	Don Rosa
<b>Contact Information</b>	District Office: 136 San Juan Road, Royal Oaks, CA 95076 T: 831-722-1389 F: 722-2137
<b>Website</b>	<a href="http://www.pajarosunnymesa.com">www.pajarosunnymesa.com</a>

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## EXECUTIVE SUMMARY AND RECOMMENDATIONS

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### Background and Purpose

This Municipal Service Review and Sphere of Influence Study provides information about the services and boundaries of the Pajaro/Sunny Mesa Community Services District. The report is for use by the Local Agency Formation Commission (LAFCO) in conducting a statutorily required review and update process. The Cortese-Knox-Hertzberg Act requires that the Commission conduct periodic reviews and updates of Spheres of Influence of all cities and districts in Monterey County (Government Code Section 56425). State law also requires that prior to updating an adopted Sphere, LAFCO shall conduct a review of municipal services (Government Code section 56430). The last service review of the District was completed in February 2006 as part of a review of all local agencies in the North County Area of Monterey County.

### District Boundaries and Sphere of Influence

The District provides services to the unincorporated community of Pajaro, the Sunny Mesa and Hillcrest subdivisions, areas east of Pajaro and Sunny Mesa to San Miguel Canyon Road, the area served by the Vega Water System, and residential areas on Struve Road in the northern Moss Landing area.

The District is currently proposing a Sphere of Influence Amendment and Annexation for five former ALCO service areas that the District now owns and operates in the Moss Landing and Prunedale areas. This action would provide registered voters within those District-served areas with an equal opportunity to serve on the District's Board of Directors. This report reviews the current status of the District's services and boundaries, and concludes with recommended determinations for the Local Agency Formation Commission to approve the District's Sphere/Annexation proposal.

The scope of the District's 2015 Sphere/Annexation proposal is limited to the former ALCO system areas that the District now owns and operates. No additional new Sphere of Influence beyond these parcels is proposed or recommended. District representatives have expressed concern that annexing additional nearby parcels, or placing them within the District's Sphere of Influence, could lead to expectations of service that may not be feasible for the District to provide in the foreseeable future. Bringing the District's former ALCO-served areas into its Sphere of Influence and boundaries will not result in any new legal obligations or duties to serve other nearby areas.

### District Facilities, Services, Capacity, and other Highlights

The District's primary role is water service. It is also authorized to provide lighting service and to purchase, own, operate and maintain public parks. The District owns and operates nine water systems, and provides contractual service and maintenance for the water systems of six additional neighborhoods and four schools of the North Monterey County Unified School District. The District owns one public park (Pajaro Neighborhood Park) and also provides maintenance services for privately owned, Cayetano Park, Berlanga Park and 204 PG&E-owned streetlights throughout the District.

The District provides for open governmental practices and is in general compliance with state requirements for Special Districts, including Board Member compliance with the Brown Act, Assembly Bill 1234 ethics training, financial transaction reporting to the State Controller's Office, conducting regular audits, and other requirements of law. Additionally, the District maintains a website for public access to share contact information, District services, meeting dates, water rates, conservation measures and notices.

The District is financially solvent and has significant financial reserves and assets, particularly after recently having received the Pajaro Neighborhood Park as a capital asset. A comprehensive study of the District's water rates is currently being prepared. The study consists of an organizational staffing review and compensation study, rate design goals and objectives, and an evaluation of District programs and

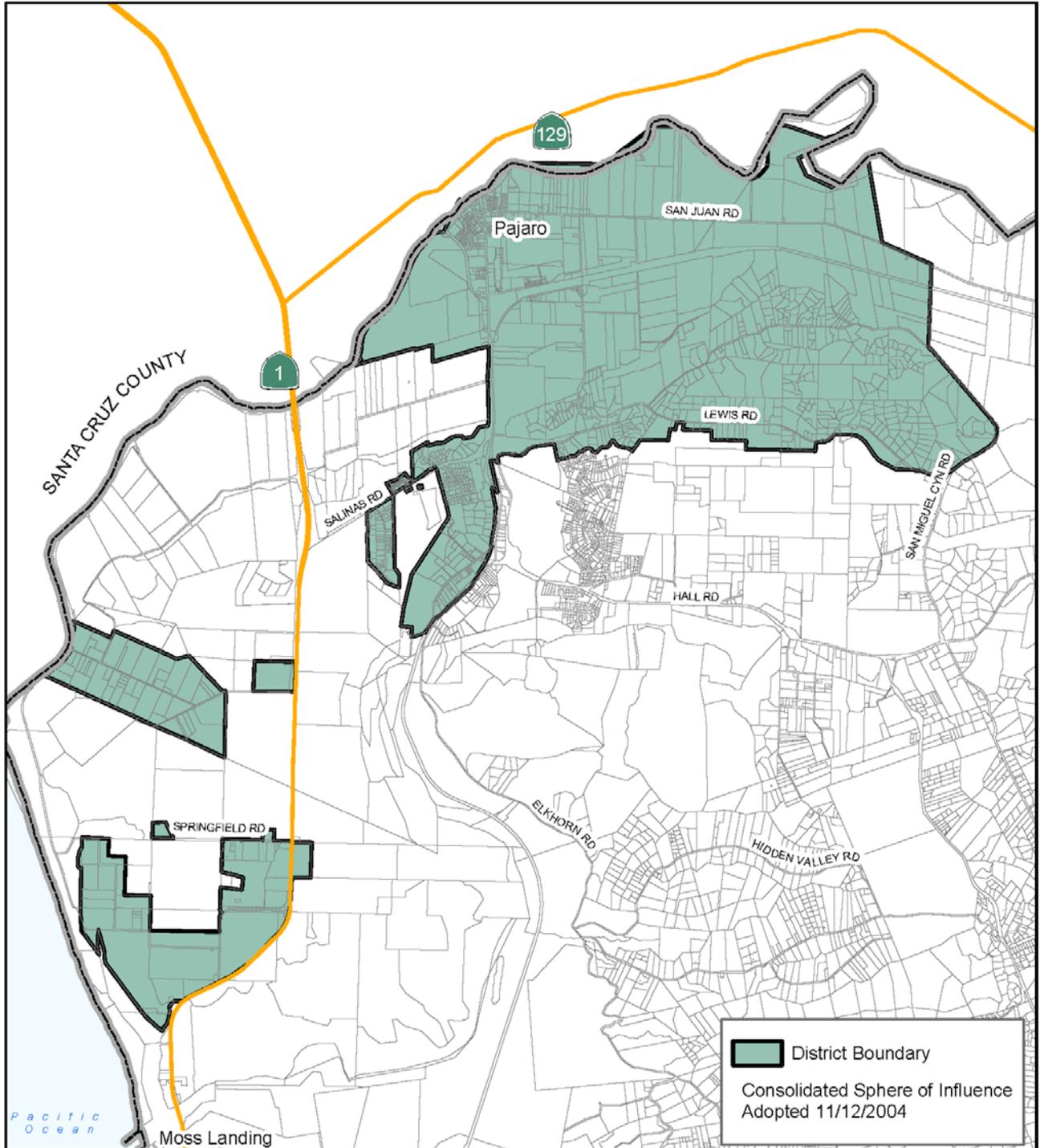
service levels. The goal of the effort is to improve overall efficiency and performance levels by better matching revenues to expenditure needs, ultimately enhancing the District's sustainability.

Future challenges for the District include problems that are endemic to the region, such as seawater intrusion, nitrate contamination, and the need to meet water quality standards in the face of changing (strengthened) regulations. Particular concerns of the District include staying ahead of the service needs of aging infrastructure such as leaking underground pipes, and meeting financial challenges under the District's present rate structures.

The Pajaro Neighborhood Park is the District's newest facility, which is a locally important symbol of community partnerships and pride. The District has been successful in obtaining a grant for the construction of a new 600,000 gallon water storage tank for the Pajaro water system. The District was also awarded a \$500,000 grant to fund identification of solutions to a nitrate contamination problem in the District's Springfield Water System. As it continues to face challenges related to aging infrastructure and the persistent regional issues of water supply and water quality, the District has shown itself to be a responsive and reliable community partner.

### **Recommendations**

Based on determinations presented on pages 19 through 21 of this study, the Executive Officer recommends that the Commission conduct a public hearing and adopt a resolution to (1) finding that this study is exempt under the California Environmental Quality Act Guidelines, (2) approve the study, and (3) approve the District's proposed Sphere of Influence Amendment and Annexation.



**FIGURE I:**  
Existing Boundaries of the Pajaro/Sunny Mesa  
 Community Services District

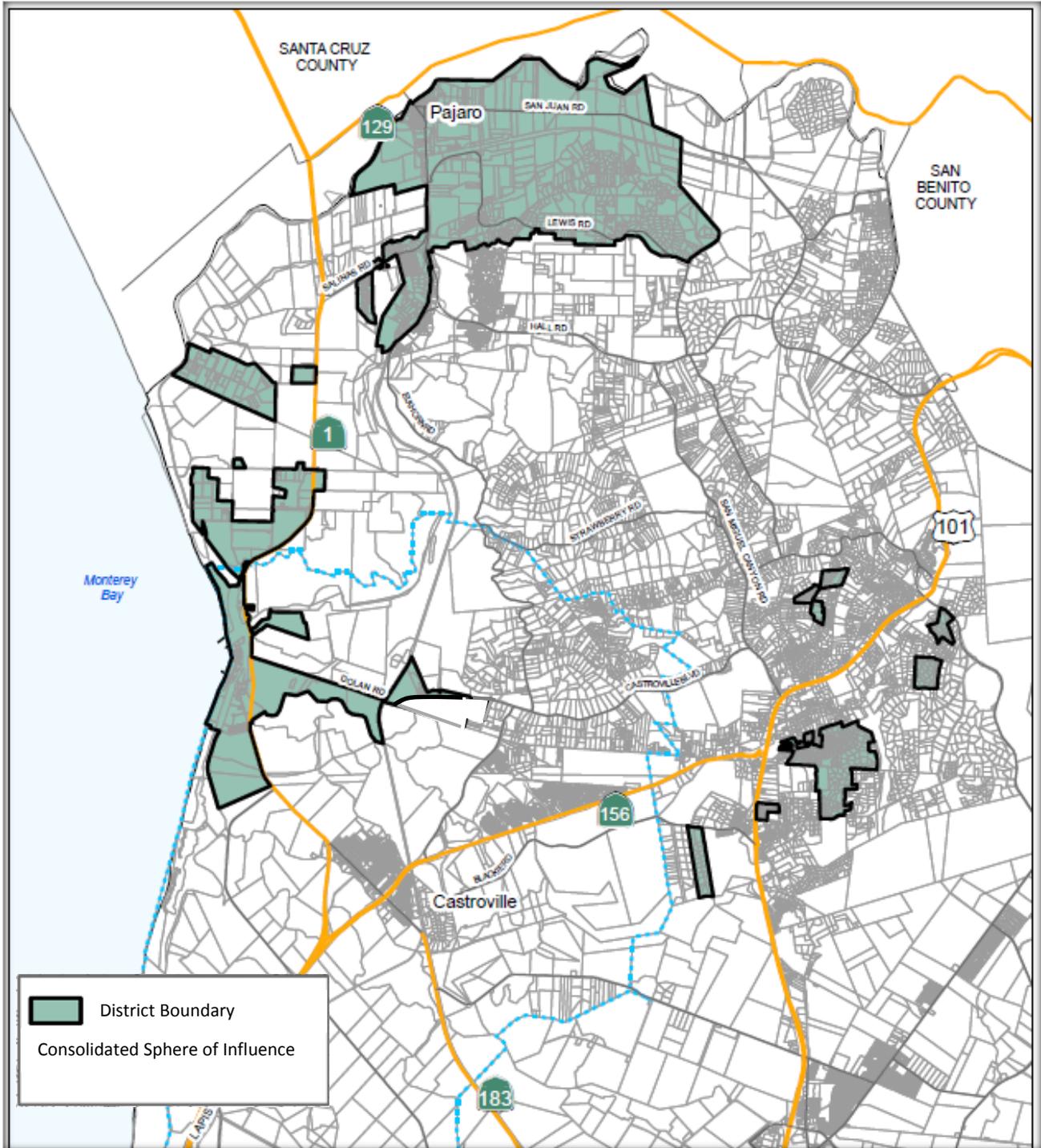


FIGURE 2:  
Proposed Boundaries of the Pajaro/Sunny Mesa  
 Community Services District

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## HOW THIS REPORT IS ORGANIZED

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This report presents a brief history of the District's formation and reviews its current and proposed Sphere of Influence and District boundaries. The report describes population and growth projections, District facilities and services, governance, finances, and future challenges and opportunities. The document concludes with recommended determinations as required by the Cortese-Knox-Hertzberg Act and with acknowledgements and source references.

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## DISTRICT HISTORY

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The present Pajaro/Sunny Mesa Community Services District had its beginnings in 1983 with the reorganization of the Pajaro Township Fire District and Pajaro Lighting District into a Community Services District. In 1986 the Pajaro Community Services District purchased from the City of Watsonville the water system that served Pajaro at the time, and water service became the District's primary function.

In 1992, the Pajaro/Sunny Mesa Community Services District was formed by dissolving the Pajaro Community Services District, the Sunny Mesa County Water District, and County Service Area 73, and by reorganizing these entities as the Pajaro/Sunny Mesa Community Services District (LAFCO Resolution 92-01). The 1992 consolidation further solidified the District's importance as a provider of potable water to the community.

In 2003, the Pajaro/Sunny Mesa Community Services District annexed the water Systems in the northern Moss Landing area (LAFCO Resolution 03-23). In 2007, the District assumed ownership of five water systems formerly owned by the Alisal Water Company ("ALCO"), as further described in the 2015 Proposal section, below.

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## DISTRICT BOUNDARIES AND SPHERE OF INFLUENCE

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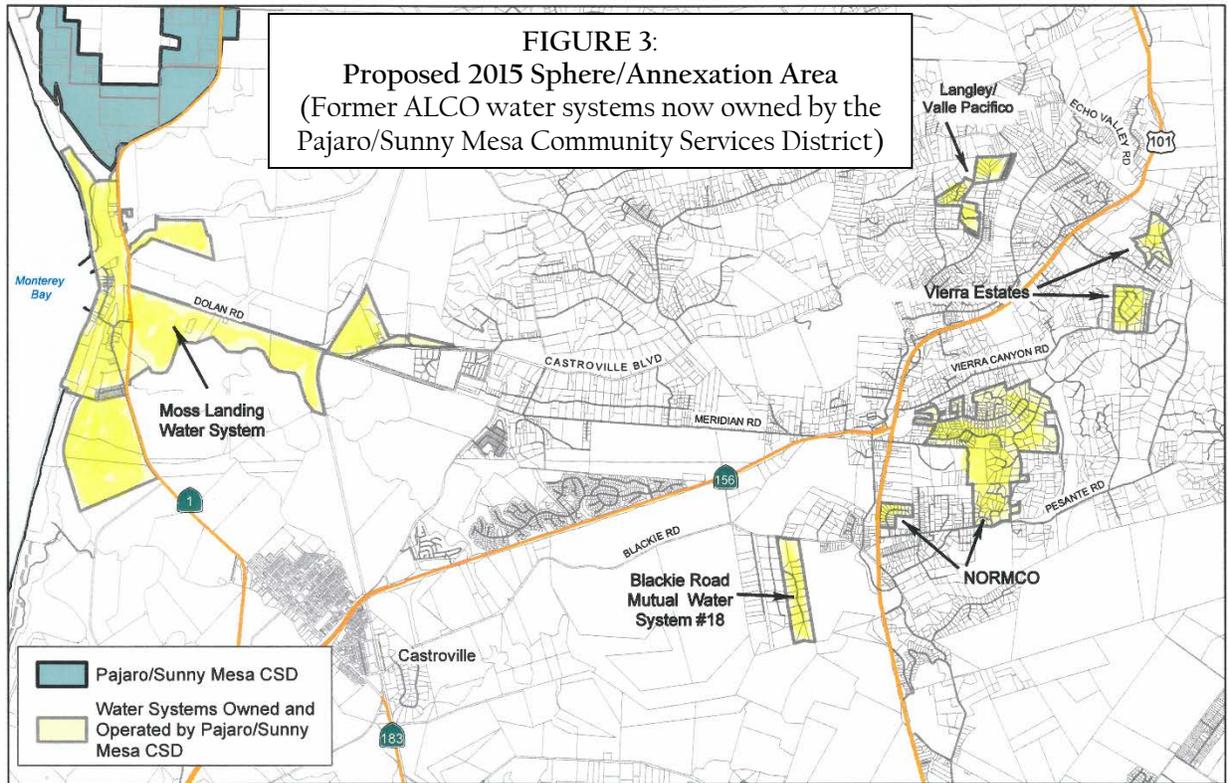
### Introduction

As shown in Figure 1, the District provides potable water service, street lighting, and park maintenance to:

- The unincorporated community of Pajaro,
- The Sunny Mesa and Hillcrest subdivisions, each located about two miles south of Pajaro,
- Areas east of Pajaro and Sunny Mesa to San Miguel Canyon Road,
- Areas served by the Vega Water System, and
- Residential areas on Struve Road in the northern Moss Landing area.

### 2015: Proposed Sphere of Influence Amendment and Annexation

In December 2014, the District's Board of Directors submitted a proposal for a Sphere of Influence Amendment and Annexation of the areas shown in Figure 3. The proposal consists of service areas of former ALCO-owned water systems that are now owned and operated by the District. These five areas (Moss Landing Water Service, Inc., NORMCO, Blackie Road Water System #18, Vierra Estates Water System, and Langley/Valle Pacifico) include approximately 564 parcels. The District's objective is to expand eligibility for representation on its Board of Directors. Because the District's customers in the former ALCO system areas are located outside of District boundaries, they are currently ineligible to be appointed by the County of Monterey to serve on the District's Board. The District would like all its customers to have the same opportunity to serve as members of its Board.



The District has operated these former ALCO water systems since 2005 and has owned them since 2007. ALCO's former operations of these and other water systems resulted in violations of the Federal Safe Drinking Water Act over a period of years. Consequently, a federal court ordered the systems liquidated and sold to one or more water purveyors with a demonstrated history of regulatory compliance.

In 2002, the District wrote to the court to express interest in acquiring five of the former ALCO systems. The District's letter of interest was later joined by support letters from the Monterey County Water Resources Agency, the County Health Department, and the Board of Supervisors.

In 2004, the Federal court ordered the five systems to be sold to the District. The District began operating the systems in 2005, and assumed full ownership in 2007. No Annexation action was undertaken at that time. In 2013, the LAFCO Executive Officer administratively approved an out-of-agency extension of water service to the five former ALCO system areas (LAFCO File Number 13-07). This action formalized the District's existing out-of-agency service to these areas. However, the areas have remained outside District boundaries until the present time, leaving these residents ineligible to serve on the District's Board of Directors.

The scope of the District's 2015 Sphere/Annexation proposal is limited to the specific parcels shown in Figure 3, i.e. the former ALCO system areas that the District now owns and operates. No additional new Sphere of Influence beyond these parcels is proposed by the District or recommended by LAFCO staff. District representatives have expressed concern that annexing additional nearby parcels, or placing them within the District's Sphere of Influence, could lead to expectations of service that may be infeasible for the District to provide in the foreseeable future. Bringing the District's former ALCO-served areas into its Sphere of Influence and boundaries will not result in any new legal obligations or duties to serve other nearby areas (via annexation or contractual services), if requested by nearby residents.

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## POPULATION AND GROWTH

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The Pajaro unincorporated community is located just south of Watsonville, on the Santa Cruz- Monterey County line. Pajaro encompasses less than a square mile in area and provides services for about 3,000 residents. As described above, the District's boundaries are larger than the Pajaro community. Population within the existing District is approximately 6,815<sup>1</sup>. The population of the Sphere/Annexation proposal area is approximately 1,400<sup>2</sup>.

In June 2014, the Association of Monterey Bay Area Governments (AMBAG) adopted an update to its Regional Growth Forecast. In the 2014 AMBAG Forecast, the projected 2010-2035 countywide population increase is 19.3% (a 0.7% compound annual growth rate). In the northern regions of Monterey County near the District's existing and proposed Sphere of Influence, households are projected to increase by 17.7%, slightly less than the projected countywide rate.

The District's existing boundaries primarily encompass developed properties and agricultural areas that do not have residential subdivision potential. Similarly, areas within the District's 2015 Sphere/Annexation proposal are mostly already developed at low and rural densities with minimum lot sizes ranging from one to five acres. The Monterey County General Plan and Zoning Ordinance restrict unincorporated development to existing lots of record (i.e., no new subdivisions) in this area of the County. Some portions of the District's 2015 proposal, such as the Langley/Valle Pacifico Water System area, are further restricted from intensifying existing land uses under the County's B-8 Zoning designation<sup>3</sup>.

The District's 2015 Sphere/Annexation proposal includes the Moss Landing area. The County of Monterey is currently preparing a Moss Landing Community Plan update. If approved, the Community Plan would facilitate residential development on unbuilt lots of record, plus potential commercial and institutional development. The District is the identified water service provider for future development envisioned in the Plan. The Plan's water supply assessment, and the District itself, acknowledge that the District currently has water supplies to support only a portion of the Plan's envisioned development potential. The draft Plan includes policies that will limit development to a level for which sustainable water supplies are available. These policies will be enforced by standards in the Coastal Implementation Plan for the North County Planning Area (of the Monterey County General Plan), by plan-level and project-level environmental review, and by other regulatory mechanisms. While build-out of the Plan would be incremental and long-term, eventual identification of additional water supply would likely be needed.

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## FACILITIES AND SERVICES

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The District is first and foremost a water service agency and is the only public agency that provides public potable water services in the Pajaro, Moss Landing and Prunedale areas. In addition to supplying water, the District is authorized to provide lighting services and to purchase, operate, and maintain public parks.

The District owns and operates nine water systems ranging in size from 22 to 450 service connections. Included in the water systems are 16 wells, 26 tanks, and related facilities such as small structures, pumps, water treatment equipment, generators, and control systems. The District also owns and maintains one park: Pajaro Neighborhood Park. The 1,200-square-foot District office and service yard are located at 136 San Juan Road in Royal Oaks. District facilities are summarized in Table 1, below.

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<sup>1</sup> Source: Monterey County GIS Services

<sup>2</sup> Source: Monterey County GIS Services

<sup>3</sup> The purpose of the "B-8" Zoning District is to restrict development and/or intensification of land use in areas where, due to water supply, water quality, sewage disposal capabilities, traffic impacts or similar measurable public-facility type constraints, additional development and/or intensification of land use if found to be detrimental to the health, safety, and welfare of the residents of the area, or the County as a whole (Monterey County Zoning Ordinance).

Table 1 District-Owned and -Operated Facilities	
Water Systems	
Currently in District Boundaries	Service Connections
Pajaro	468
Sunny Mesa	277
Vega / Vista Verde	139
Springfield	34
<b>Total</b>	<b>918</b>
Former ALCO Water Systems	Service Connections
NORMCO	275
Moss Landing	145
Blackie Road #18	21
Langley-Valle- Pacifico	31
Vierra Estates	53
<b>Total in areas proposed to be annexed</b>	<b>525</b>
Parks	
Name of Site and Location	Site Area and Facilities
Pajaro Neighborhood Park - San Juan Road, Pajaro (Five Acres)	Synthetic field, BBQs, stage pavilion, playgrounds, basketball court, walking/jogging path, community art wall

The District’s newest facility is its Pajaro Neighborhood Park. The park features two playgrounds, modern climbing structures, play equipment, shade structures, picnic tables, a stage pavilion, basketball and volleyball courts, and a field for softball and soccer. Granite Construction donated the land, and the Pavex Construction Division of Graniterock built the park improvements. Full ownership of the Pajaro Neighborhood Park transferred to the District in 2014. The District shares the park’s facilities with the local YMCA to coordinate organized recreation activities such as youth soccer leagues, tournaments, and evening fitness classes.

According to a Santa Cruz Sentinel news story about the park’s development, “The County (of Monterey) secured a \$5 million state grant and put \$1.2 million of Pajaro area redevelopment money into the project. Because County funding for operating the park was limited, Pajaro/Sunny Mesa's board agreed to own and manage it. Several businesses, including Graniterock, Granite Construction, Driscoll's and Sunridge Farms<sup>1</sup>, have pledged to help cover the \$130,000 annual budget<sup>2</sup>. The county is chipping in \$25,000, which Pajaro/Sunny Mesa hopes will be ongoing. The Pebble Beach Foundation has awarded a grant to hire an on-site manager for the first year. Central Coast YMCA will provide the staff.”

In addition to its owned facilities, the District provides contractual water systems maintenance services for six neighborhoods<sup>3</sup> and four schools of the North Monterey County Unified School District<sup>4</sup>. The District provides maintenance service to Cayetano Park, Berlanga Park and Memorial Park, and services more than 200 PG&E-owned streetlights throughout the District. The District also maintains several contracts for maintenance of private streets and storm drains in various North Monterey County neighborhoods.

<sup>1</sup> Royal Oaks Farms also pledged operating funds.  
<sup>2</sup> Based on one year of operation, the budget is proposed to be \$52,000.  
<sup>3</sup> Vierra Meadows, Dolan Road Mutual Water Company, Green Acres Water Association, Holly Hills Mutual Water Company, Paradise #5 Water Company and the Woodland Heights Mutual Water Company  
<sup>4</sup> Elkhorn Elementary, Echo Valley Elementary, Prunedale Elementary, and Central Bay High School.

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## GOVERNANCE / TRANSPARENCY AND ACCOUNTABILITY

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### Governance

The District is an independent special district governed by a five-member Board of Directors, each of whom must be a registered voter residing in the District. Board Members are appointed by the County of Monterey Board of Supervisors and serve four-year terms in accordance with the resolution establishing the District (LAFCO Resolution 92-01), the Community Services District Law, California Uniform District Election Law and the District's adopted bylaws. Board officers include a President, Vice President, Secretary, Assistant Secretary, and Treasurer elected among the Board Members with rotating one-year duties or until a successor is elected. There are no standing Board committees, but the Board may establish committees from time to time.

### Transparency and Accountability

The Board of Directors holds regular monthly meetings on the third Wednesday of each month at 6:30 pm at the District offices at 136 San Juan Road in Royal Oaks. Regular meeting agendas are posted the Friday prior to the meeting date by 5:00 pm at the District Office, the Moss Landing Post Office, and the Pajaro and Prunedale public libraries. The District also offers to mail, fax, or email agendas on request.

Meeting activities are conducted in compliance with the Ralph M. Brown Act and are open and public. Certificates are on file demonstrating Board member compliance with ethics training requirements. Ethics training refresher classes are anticipated to occur in the first quarter of 2015. District bylaws include an expense reimbursement policy and require annual audits. Financial Transaction Reports are filed in a timely manner to the State Controller's office, including compensation of paid employees. The District's web site ([www.pajarosunnymesa.com](http://www.pajarosunnymesa.com)) includes information on its staff, services, public meetings, forms, projects, water quality and rates. In compliance with state law requirements as of January 1, 2015, the District intends to soon post the salaries and compensation of its employees on its site.

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## FINANCES

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The District conducts annual financial audits, as required by law. An audit includes examining supporting evidence, testing account balances, and assessing the accounting principles used as well as overall financial statement presentation. All recent annual audits have resulted in a "clean opinion" being issued by the independent auditors, indicating that no deficiencies were found.

### Operating Revenues and Expenses

The District's operating budget for Fiscal Year 2014-2015 includes estimated revenues of \$2,117,700. Sources of anticipated revenue include water billing (66.3%), water bond assessments (14.8%), sanitation district reimbursements (7.9%), Pajaro Valley Water Management Agency collection and contract fees (3.3%), street maintenance reimbursements (2.6%), utility and lighting administrative reimbursements (2.2%), pro rata tax collection (1.0%) and other sources (1.8%).

The District's \$1,818,800 operating expenses budgeted for Fiscal Year 2014-15 occur across 58 separate line items. The District's largest indirect operating expenditures include salaries and wages (32.2%), benefits (11.8%) and interest on debt service (7.1%). The District's largest direct operating expenditures include bond debt service (12.5%), utilities for wells and streetlights (10.4%) and water system repair and maintenance (4.1%).

The current adopted budget projects an 8.6% increase in revenues compared to the Fiscal Year 2013-14 actual amount. In 2013-14, actual revenues were 13.6% greater than had been budgeted. In addition to incremental water rate increases that are in place and enhance year-to-year District revenues, the 13.6%

increase over budgeted revenues was partly due to usage fees from a large water user that temporarily received District service. The District also received unanticipated revenue from the County of Monterey for operations of the new Pajaro Neighborhood Park.

The current budget projects a 7.7% decrease in operating expenses. For 2013-14, actual operating expenses were 43.4% over budgeted amounts. District staff describes that the 43.4% difference between budgeted and actual amounts reflected unanticipated aging infrastructure-related maintenance and repairs (see Future Challenges and Opportunities section, below, for more discussion of this issue) along with depreciation and amortization expenses that are now being given more weight than in previous budgets. It should be noted that depreciation of the new Pajaro Neighborhood Park’s structures and equipment will be reflected as increased costs in future District budgets. Though not a cash outlay, this recurring depreciation expense will have an ongoing indirect effect of decreasing the District’s annual net income.

#### Non-Operating Revenues and Expenses (Debt Service and Reserve Fund)

The District’s adopted 2014-2015 budget anticipates \$131,000 in debt service. This figure includes payments towards the principal balances for Revenue Certificates of Participation (a type of bond usually secured with revenue from an equipment or facility lease), two special assessment bonds, a reorganization (refinance) loan, and vehicle loans for two service trucks. The District services these debts through regular budgeting efforts paid semiannually on alternating quarters and months.

#### Net Income

After expenses have been subtracted from revenues in the 2014-2015 Budget, \$298,000 remains (“Gross Net”). From this amount, non-operating expenses of debt service (\$131,000) and reserves (\$150,000) are then funded. A \$17,900 anticipated balance remain as surplus operation funding in this budget.

Table 2 below, presents an overview of recent and budgeted District revenues, expenses and net income.

<b>Table 2</b> <b>Pajaro/Sunny Mesa Community Services District:</b> <b>Income Budget Summary</b> <b>Fiscal Years 2012-13 through 2014-15</b>				
	2012-13 (audited)	2013-14 (budgeted)	2013-14 (actual)	2014-15 (budgeted)
Operating Revenues	1,823,770	1,716,900	1,950,168	2,117,700
Operating Expenses	(1,742,873)	(1,373,292)	(1,969,901)	(1,818,800)
Non-Operating Revenues (Expenses)	(106,622)	(99,644)	6,346,327 <sup>1</sup>	281,000
<b>NET INCOME</b>	<b>(25,725)</b>	<b>243,964</b>	<b>6,326,594<sup>2</sup></b>	<b>17,900</b>

Source: Pajaro/Sunny Mesa Community Services District annual financial reports

<sup>1</sup>The District received ownership of the newly constructed Pajaro Neighborhood Park, a capital asset valued at over \$6.3 million, during fiscal year 2013-14. The District’s audit classifies receipt of this asset as non-operating revenue.

<sup>2</sup>If the Pajaro Neighborhood Park (a “one-time” asset donation valued at \$6,338,523 upon transfer) were to be set aside for comparison purposes with previous fiscal years, the resulting Net Income figure of -\$11,929 would be roughly comparable with currently budgeted and recent (Fiscal Year 2012-13) Net Income amounts.

## Assets and Liabilities

The District anticipates a net capital/cash reserve contribution of \$230,000 for the current fiscal year. In the adopted budget, \$75,000 has been targeted for water system repairs and maintenance. As discussed in more detail in the Future Challenges and Opportunities Section, below, the District does its best to plan for replacement of, or major repair of a piece of equipment when it has met the end of its useful service life. The age of some former ALCO system infrastructure is unknown. Looking forward, the District also foresees needing facility communication improvements of approximately \$500,000, and a Hydro Vacuum Trailer and Mobile Generator costing approximately \$117,000. These items are not budgeted or included in the District's 5-year Capital Improvement Plan or 10-Year Projection Plan.

At the end of Fiscal Year 2013-2014, the District's year-to-year Total Net Position had increased by more than 40%, as a result of the Pajaro Neighborhood Park donation. The park represents a dramatic increase in the value of the District's assets. If the Park's asset value (\$6.3 million upon transfer) were to be set aside for purposes of comparison to previous years, the District's June 30, 2014 Total Net Position would be approximately \$6.4 million. That hypothetical Total Net Position amount would be roughly consistent with the incremental year-to-year decreases seen in 2012 and 2013.

The District recently commissioned and accepted a comprehensive water rate study, also discussed further in the Future Challenges and Opportunities Section, below. The study assesses and evaluates the District's existing water rates and provides recommendations as to what rate increases may be appropriate to address the District's needs for sustainable infrastructure and service provision. If implemented, subject to a Proposition 218 ballot process, water rate adjustments would enhance the District's operating revenues, net income, and, ultimately, help stabilize and build the District's reserves.

An overview of assets, liabilities, and total net position is presented in Table 3, below.

<b>Table 3</b> <b>Pajaro/Sunny Mesa Community Services District:</b> <b>Assets, Liabilities, and Net Position - Fiscal Years 2010-11 through 2013-14</b>				
	As of June 30, 2011	As of June 30, 2012	As of June 30, 2013	As of June 30, 2014
<b>ASSETS</b>				
Current Assets <sup>1</sup>	1,111,452	1,205,932	1,228,971	1,396,189
Total Assets	14,932,845	14,562,637	14,339,185	20,164,446 <sup>2</sup>
<b>LIABILITIES</b>				
Current Liabilities <sup>3</sup>	596,972	580,238	487,494	519,211
Total Liabilities	7,885,880	7,719,373	7,521,646	7,422,011
<b>TOTAL NET POSITION <sup>4</sup></b>	<b>7,046,965</b>	<b>6,843,264</b>	<b>6,817,539</b>	<b>12,742,435</b>

Source: Pajaro/Sunny Mesa Community Services District annual financial reports

<sup>1</sup> Cash, cash equivalents, certificates of deposit, accounts receivable, bond repayment assessments, and similar.

<sup>2</sup> The District received ownership of the newly constructed Pajaro Neighborhood Park during Fiscal Year 2013-2014. If the Park's asset value (\$6.3 million upon transfer) were to be set aside for purposes of comparison to previous years, the District's June 30, 2014 Total Net Position would be approximately \$6.4 million. That hypothetical Total Net Position figure would be roughly consistent with the incremental year-to-year decreases seen in 2012 and 2013.

<sup>3</sup> Accounts payable, accrued expenses, deposits, current portions of revenue bonds and notes payable, and similar.

<sup>4</sup> Total assets, less total liabilities

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## FUTURE CHALLENGES AND OPPORTUNITIES

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### Water Facility Needs

Northern areas of Monterey County are challenged by nitrate contamination of water resources, seawater intrusion into aquifers, and issues related to aging infrastructure (wells, pipes, tanks, and filtration) that needs continuous repair or replacement. Age and condition of some of the District's infrastructure are not known.

Water loss due to pipeline leaks or other infrastructure failures can result in great expense to the District and its ratepayers. Underground pipe servicing or replacement presents the most difficulty and expense because the leaks are difficult to detect and streets and other surfaces must be excavated for access. The District is planning proactive leak-detection measures with a specialized private contractor.

The following is a brief overview of the primary current issues related to the District's water systems.

- *Springfield*: The system presently does not have a storage tank (operates "on demand,") and is located in a flood-prone area. During electrical outages and flooding events this leaves the small community of about 165 residents without water service. Additionally, the water quality of the well has not met drinking water standards since 1986. The nitrate content of the well water also exceeds Federal standards for continuous use as drinking water. The District received two (2) Grants for emergency interim bottled water providing five (5) five gallon bottles of water per week to all of Springfield Water System customers. The District was recently awarded a \$500,000 grant for planning to solve the nitrate problem. The District is considering drilling a new well on a site next to the Moss Landing Middle School on Springfield Road. A test well there has met regulatory water standards. If constructed, the well and tank site would be at a higher elevation than the distribution system, allowing a gravity feed. Such a new facility would allow water service during electrical outages and sufficient flow to provide fire protection.
- *NORMCO*: Source waters have low pH levels, leading to exceedance of maximum copper levels in the distribution system. The District has been working for several years on providing corrosion control and disinfection treatment for these waters. The project is nearing completion and will be operational once final approval is given by the State Water Resources Control Board.
- *Langley/Valle Pacifico*: Source waters contain excessive levels of iron, manganese and arsenic. The District completed a new treatment facility in March of 2013 to address the high levels of iron, manganese and arsenic. The water is monitored weekly to ensure that the arsenic maximum contaminate level is not exceeded.
- *Vierra Estates*: Source waters contain excessive levels of iron and manganese, having customers constantly change out home water filters to improve the "aesthetics" (taste, odor and color) of the water. In 2013, the District obtained grant funds to install a new treatment system to serve this community of approximately 50 connections. The improved system filters the iron and manganese to acceptable levels.
- *Pajaro System*: The District recently obtained a grant for the construction of a new 600,000-gallon water storage tank.
- *Moss Landing System*: District staff has identified the Moss Landing system as being in the most critical need of leak detection and repair.

The District maintains a five-year Capital Improvement Program for prioritization of anticipated infrastructure improvements and related funding needs. The significant expense of some needed improvement projects would exceed capital reserves availability, and would also be too expensive to be recouped through user-paid assessments. Therefore, as is common practice, the District pursues competitive grant funds to defray the costs of addressing its water system needs.

## Changing Regulatory Standards for Water Quality

All domestic water providers are required to stay up-to-date with an evolving set of water quality regulatory standards. The Safe Drinking Water Act requires regulators to determine the level of contaminants in drinking water at which no adverse health effects are likely to occur. Recently, new thresholds have taken effect for Chromium 6 levels in a water supply. Chromium 6 is a toxic heavy metal that makes its way into groundwater naturally from geological formations. The California Department of Public Health has set stringent limit of 10 parts per billion in public drinking water supplies, a level that will require more than 100 water systems to treat for the contaminant.

In general, water quality issues are resolved by three methods: Treatment, identification of new water sources, or intertying water systems to blend water supplies. The District is presently evaluating its options for compliance with the new State standards for certain well sources within the District. Because the Chromium 6 standard in particular is new and evolving, the District has not yet identified a proposed action and related expenses in its capital improvement plan and budget to mitigate it.

## Drought Conditions

The longevity of the current drought and its potential continuance may eventually require the District to locate alternative sources of water to adequately supply its customers. The District has a Water Conservation Plan in place and has engaged the public in a conservation awareness campaign. The District has reached out with a bilingual notice promoting voluntary conservation measures. The District is also aggressively monitoring water usage and system operations, and prepares regular monthly reports for the Board of Directors. The District has looked to a worse-case contingency of trucking water in for its customers, although staff states this option appears to have little logistical or financial feasibility.

## Comprehensive Water Rate Study

The District has commissioned a study, the first in its history, to independently assess and evaluate the District's existing water rates and provide recommendations to strengthen the District's financial base. The study was based on a comprehensive review of the District's organizational staffing and compensation, water funds and budgets, balance sheet, capital improvement plans, capital reserve plan, customer classes, current usage data, future planned growth of the District and other information deemed necessary. The goal of the effort is to improve overall efficiency and performance levels and to have revenues match the expenditure needs and sustainability of the organization. On March 18, 2005, the Board of Directors accepted the rate study and gave direction on options for implementation. Implementation of the study's recommendations is subject to a Proposition 218 ballot process.

## Moss Landing Water System - Potential Transfer to the Castroville Community Services District

As part of its 2015 Sphere/Annexation proposal, the District is currently proposing to annex the Moss Landing Water System, a former ALCO-served area that the District currently owns and operates outside its District boundaries. Moss Landing is also within the boundaries of the Castroville Community Service District, which has owned the Moss Landing wastewater collection system since it consolidated with the Moss Landing County Sanitation District in 2014 (approved LAFCO Resolution 14-05).<sup>1</sup>

In the future, it may be mutually beneficial for Pajaro/Sunny Mesa to sell or transfer the Moss Landing Water System to the Castroville Community Services District, which is based closer to the Moss Landing area, in order for the latter to provide both services. The single-agency provision of management, engineering, maintenance, and customer service responses for water and sewer services could be an opportunity for enhanced governmental efficiency. Individual Board members and staff of the two districts

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<sup>1</sup> Prior to consolidation, the Castroville Community Service District successfully operated the Moss Landing wastewater collection system for several years, by contract, on behalf of the County. The Castroville Community Service District reportedly receives widespread community support for its operations in Moss Landing.

have had initial conversations to explore the possible transfer, and there are no significant known obstacles or barriers. The possibility of a transfer is anticipated to be ripe for the two districts' full consideration in approximately two to three years, and is not viewed as a barrier to Pajaro/Sunny Mesa moving forward with its current proposal.

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## MUNICIPAL SERVICE REVIEW DETERMINATIONS

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Based on the recommended determinations in this section, and on the information elsewhere in this report, the Executive Officer recommends that the Commission adopt the District's 2015 Municipal Service Review.

### 1. Growth and Population Projections for the Affected Area

As discussed in the Population and Growth Section of this report, the projected growth rate for northern Monterey County areas is less than the county-wide average. Areas within the District's existing and proposed Sphere of Influence are mostly developed without significant potential for new growth. Population growth does not appear to be a significant challenge to the District's outlook.

### 2. The Location and Characteristics of Any Disadvantaged Unincorporated Communities [DUCs] Within or Contiguous to the Sphere of Influence

State law defines Disadvantaged Unincorporated Communities as communities with an annual median household income of less than 80% of the statewide annual median household income. Eastern portions of the Pajaro area generally north of Lewis Road and up to San Juan Road and the Pajaro River have annual median incomes above the 80% threshold, as do most of the former ALCO water system areas within the District's 2015 Sphere/Annexation proposal.

Portions of the areas served by the Moss Landing Water System, and much of area within and contiguous to western areas of the District, fall within the definition of a Disadvantaged Unincorporated Community. Areas contiguous to the Moss Landing Water System area on the east side of Highway 1 include agricultural fields and portions of the Elkhorn Slough system and are sparsely populated. As the Moss Landing area presently being served by the District will continue to be served by the District, and no service changes are proposed to be added or removed at this time, there will be no negative effect upon this population.

### 3. Present and Planned Capacity of Public Facilities, Adequacy of Public Services, and Infrastructure Needs or Deficiencies (Including Needs or Deficiencies Related to Sewers, Municipal and Industrial Water, and Structural Fire Protection in any Disadvantaged, Unincorporated Communities within or Contiguous to the Sphere of Influence)

The District has established itself as a capable service provider. The District has adequate court-ordered and approved groundwater supplies and water rights to serve existing and previously approved projects in Moss Landing and other areas that meet the definition for being within a Disadvantaged Unincorporated Area. In the longer term, substantial future growth envisioned in the draft Moss Landing Community Plan would require an updated assessment of service demands and District capabilities. The impact of seawater intrusion on groundwater resources remains a long-term concern for all water suppliers in the Salinas Valley groundwater basin.

### 4. Financial Ability of Agency to Provide Services

The District is stable and solvent, and has been able to leverage sufficient reserves to cover recent operational expenses that exceeded budgeted estimates. The District has recently undertaken a comprehensive water rate study to strengthen its revenue base by rebalancing anticipated revenue needs and expenditures. The Board of Directors recently accepted the study and provided direction for

implementation actions. The Finances Section of this report outlines the District's current financial status and assets.

#### **5. Status of, and Opportunities for, Shared Facilities**

Special District service providers in and near the community include the Moss Landing Harbor District, North County Fire Protection District, North County Public Recreation District, Monterey Regional Waste Management District, Castroville Cemetery District, Castroville Community Services District, and the Pajaro Valley Water Management Agency, among others. While informal, in emergency situations, the District has worked side-by-side with the Castroville Community Services District, sharing labor and equipment. Additionally, the District has worked closely with the North County Fire Protection District in matters of fire suppression. These efforts include evaluations of storage capacity (to fight fires), hydrant flows and data gathering for insurance rating purposes. The District shares its Pajaro Neighborhood Park facilities with the local YMCA to coordinate organized recreation activities such as youth soccer leagues, tournaments, and evening fitness classes.

#### **6. Accountability for Community Service Needs, including Government Structure and Operational Efficiencies**

The District has many positive measures in place that demonstrate its accountability to the public, as discussed in the Governance, Transparency and Accountability Section of this report. The District's current proposal for an expanded Sphere of Influence and Annexation is also an effort at greater inclusiveness and representation of those being served by the District. Additionally, as discussed in the Future Challenges and Opportunities Section, if the recommendations of the Comprehensive Water Rate Study are implemented, the District's financial position to continue to provide efficient water service operations would be enhanced.

#### **7. Any Other Matter Related to Effective or Efficient Service Delivery, as Required by Commission Policy**

LAFCO has reviewed its local policies and notes no additional pertinent matters.

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### **SPHERE OF INFLUENCE DETERMINATIONS**

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Based on the recommended determinations in this section and the information in this report, this study provides support for the District's proposed expansion of its Sphere of Influence to include the areas of the former ALCO water system presently owned and operated by the District.

#### **1. The Present and Planned Land Uses in the Area, Including Agricultural and Open-Space Lands**

Present and planned land uses near the District's current and proposed Sphere of Influence include rural, medium and low density residential development, agricultural areas, and limited commercial and industrial land uses. The District is already providing service in both its current and proposed Sphere areas. No influence for change to these land uses is foreseen with adoption of a modified Sphere of Influence and District boundary. No impacts to agricultural or open-space lands are foreseen.

As discussed in the Population and Growth Section of this report, the draft Moss Landing Community Plan Update envisions new growth in the Moss Landing areas, and Pajaro/Sunny Mesa Community Services District is the service provider for potable water. As a part of the Monterey County General Plan, the Moss Landing Community Plan Update includes policies to limit development to a level for which sustainable water supplies are available.

## **2. The Present and Probable Need for Public Facilities and Services in the Area**

Issues of water quality and quantity are significant throughout the northern areas of Monterey County. Annual population growth is projected to be less than 1% in North County, and is less than the projected countywide average. As discussed in the Challenges and Opportunities Section, the District recognizes the need to monitor, remediate, and (when possible) anticipate and prevent potential aging infrastructure failures. The District does not forecast a need for significant additional facilities, such as may be needed if there were greater pressure from population and growth trends. Development is limited to existing lots of record, and in some areas water use cannot be intensified even on an existing lot of record.

## **3. The Present Capacity of Public Facilities and Adequacy of Public Services that the Agency Provides or is Authorized to Provide**

The District has identified that aging infrastructure will need to be replaced throughout the District and that replacement of pipelines and water storage tanks will require significant investment. The Moss Landing systems have been identified as needing the greatest amount of attention. The District will soon be engaging a proactive leak detection regime to obtain a fuller assessment of replacement needs within Moss Landing system and other areas of the District.

The District anticipates that repairs and upgrades will require budget augmentation through State and Federal grants. Seawater intrusion remains a long-term potential threat to operations of all water systems in the Salinas Valley groundwater basin, as does the longevity of the current drought and its potential continuance.

The Pajaro community has historically been underserved with public park, play and recreational spaces. The District's recently opened Pajaro Neighborhood Park is one of the few parks in the area. District staff reports that the public recreation services being coordinated there by the District in collaboration with the local YMCA have successfully served the community's needs.

## **4. The Existence of Any Social or Economic Communities of Interest in the Area, if the Commission Determines That They Are Relevant to the Agency**

Much of the District's present boundaries and areas within the Moss Landing Water System area include communities with annual household incomes less than 80% of the statewide annual median household income. As there will be no change in service or operations presently being provided by the District within its existing District boundaries and to the areas proposed for Annexation that the District already owns and operates, there will be no potential for a negative effect upon this community. Conversely, since taking over the former ALCO systems, District operations have demonstrated improved operational efficiency and improved water quality.

## **5. For an update of a sphere of influence of a city or special district that provides [municipal and industrial water], the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence.**

As described in the Challenges and Opportunities Section, much of the western portions of the District and surrounding areas meet the definition of a disadvantaged unincorporated community. The District is presently serving these communities and will continue to do so. The broad and general issues of aging infrastructure, water quality and the persistence of the drought that the District is challenged by, apply districtwide, and are not necessarily specific to the present and probable needs of this community. The District has consistently shown itself to be a responsive and reliable community partner that looks out for the needs and concerns of its customers.

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## SOURCES AND ACKNOWLEDGEMENTS

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The information in this study was primarily developed in coordination with District staff. District representatives met with LAFCO staff to discuss District services, operations and concerns. LAFCO also reviewed numerous written sources such as audits, budgets, Board agenda packets and annual reports.