EXECUTIVE OFFICER'S REPORT

June 15, 2012

TO: LAFCo Commissioners

FROM: James E. Glaser, Executive Officer

SUBJECT: FINAL MUNICIPAL SERVICE REVIEW AND SPHERE OF INFLUENCE PLANS FOR WATER CONSERVATION DISTRICTS OF SAN JOAQUIN COUNTY

Recommendation:

It is recommended that the Commission approved the Municipal Service Review and Sphere of Influence Plans for the three water conservation districts: North San Joaquin Water Conservation District, Stockton East Water District, and Central San Joaquin Water Conservation District.

Background:

The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 requires that LAFCo review and update spheres of influence plans every five years. A service review is a comprehensive review of services intended to obtain information about municipal services. Its purpose is to evaluate the provision of services from a comprehensive perspective and recommend actions, when necessary, to promote the efficient provision of those services. Service reviews are intended to serve as a tool to help LAFCo, the public, and other agencies better understand the public service structure and evaluate options for the provision of efficient and effective public services.

The focal point of the service review process lies with the preparation of written statements of determination regarding the agency’s ability to provide services. LAFCo must make written evaluations on six categories. The following is a list of those determinations:

- **Determination 1**: Growth and population projections
- **Determination 2**: The location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence
- **Determination 3**: Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies
- **Determination 4**: Financial ability of the agency to provide service
- **Determination 5**: Status of, and opportunities for, shared facilities
Determination 6: Accountability for community service needs, including governmental Structure and operational efficiencies

In determining a sphere of influence the Commission is required to consider and make written determinations with respect to the following factors (Government Code Section 56425):

1. The present and planned land uses in the area, including agricultural and open space lands.
2. The present and probable need for public facilities and services in the area.
3. The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.
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.

On May 18, 2012 the Commission held a workshop to receive comments and testimony on the draft MSR and SOI plans. The area of focus at the Commission workshop was the economic vitality of Central San Joaquin. It appears that resolution of the various lawsuits for which Central San Joaquin is a party will likely determine the district’s future viability; however there is some uncertainty on when final settlement of the various lawsuits will occur. Both Stockton East and Central San Joaquin expressed a desire to move forward and finalize the MSR and SOI Plans.

Comments and additional information received at the workshop have been incorporated into final draft of the MSR. Both Stockton East and Central San Joaquin were provided an opportunity to make further comments on the changes. Stockton East and Central did not have any additional changes on the document. The following changes to the final draft MSR and SOI Plans include:

- Page 4, Financial Ability to Agencies to Provide Services
  - It is difficult to assess the economic vitality of Central due to the many pending lawsuits. The result of litigation could have a profound effect on the District’s finances.
- Page 11, 2nd paragraph
  - All three Districts were formed for the purpose of distributing water from the American River which was planned to come to all of Eastern San Joaquin County through the Folsom South Canal. As a result of political determination the Canal was never completed south of Sacramento County.
- Page 32, Table 1-6
  - Correction made to show Stockton East receives 75,000 acre feet per year of interim water from Stanislaus/New Melones
- Page 34, 2nd paragraph
  - The City of Lodi has recently (March 2011) began construction of a $36.5 million water treatment plant in order to treat 6,000 acre feet of water from Woodbridge Irrigation District.
- Page 34, Stockton East Water District
  - Stockton East is entitled to use the unused portion of Calaveras County Water district’s contractual entitlement
- Page 35, 3rd paragraph
  - The City of Stockton has just completed the Delta Water Supply Project which will draw water from San Joaquin River. The initial phase will allow 30 million gallons per day (MGD) of water to be treated and delivered, therefore meeting approximately
one-third of Stockton's water needs. At final build-out (estimated in 2050), the water treatment plant will have the capacity to treat up to 160 mgd.

- Page 39, 1st paragraph (Central San Joaquin)
  o The wheeling rate paid to Stockton East was set an interim amount of $5.00 per acre foot for the 2010 and 2011 water seasons. A trial is underway to review and determine the actual wheeling charge for the 2010, 2011, and 2012 irrigation season. At 27,000 to 30,000 acre feet of water usage per year and assuming the Court would eventually rule that this rate is appropriate, the wheeling costs range from $135,000 to $150,000 per year. If the Court were to approve a higher wheeling rate, the annual costs could be substantially greater. With limited reserve, the District may not be able to pay without a significant rate increase and complying with the requirements of Proposition 218.

- Page 39, add paragraph 3
  o It is difficult at this point in time to fully assess the economic vitality of Central. Several cases involving litigation are pending which could substantially change the economic picture for the District. The City of Stockton, California Water Service Company and Stockton East are seeking damages in excess of $5,000,000 for unpaid amounts under a contract to pay for the construction of conveyance facilities that delivers water to the District. In addition, the wheeling rates for 2010, 2011, and 2012 has not yet been established by the courts. The Court only determined that Central shall pay Stockton East $5.00 per acre foot until the actual wheeling rate is established. If these cases do not end favorably for Central, a severe economic consequence could occur since Central's reserve account was only $665,743 at the end of fiscal year 2010-11. On the other hand, if Central is successful in its litigation efforts against the United States Bureau of Reclamation and the federal government authorizes payment, then Central's economic picture could improve. However, the courts have not yet taken any action. At this time, it is simply too speculative to conclude that Central's finances will improve or decline in the future. For the last four years Central has dipped into its reserves to meet expenses.

Stockton East requested that a specific time frame be set for Central to complete the annexation of territories that have been included within Central's Updated Sphere of Influence boundary. A one-year time frame is suggested and has been added as a condition of approval in Resolution No. 1282 Approving the Spheres of Influence. An additional condition was included that states that if annexation does not occur within the stated timeframe, the Commission would set the matter for hearing to determine if Stockton East should be given the option to include these areas within their sphere thereby allowing the opportunity for annexation of these territories.

Staff has prepared two resolutions for Commission's consideration and approval. The resolutions incorporate, by reference, the determinations required in the Government Code.

Attachments: Resolution 1281-Approving the Municipal Service Review
Resolution 1282-Approving the Spheres of Influence
Final Draft MSR and SOI Plan for Water Conservation Districts of San Joaquin County (Dated June 15, 2012)
Resolution No. 1281

Before the San Joaquin Local Agency Formation Commission
Approving the Municipal Service Review for the Water Conservation Districts of San Joaquin County (North San Joaquin Water Conservation District, Stockton East Water District and Central San Joaquin Water Conservation District)

WHEREAS, Section 56430 of the Government Code requires the Commission to conduct a service review of the municipal services provided in the county or other appropriate area designated by the Commission; and

WHEREAS, the Commission must prepare written statements of its determinations with respect to six specific topics; and

WHEREAS, the Commission held a workshop on May 18, 2012 and set the public hearing for June 15, 2012;

WHEREAS, the Commission held a public hearing on the Water Conservation Districts of San Joaquin County Municipal Service Review on June 15, 2012 in the Board of Supervisors Chambers, 6th Floor, 44 North San Joaquin Street, Stockton, California, pursuant to notice of hearing which was posted, mailed, and published in accordance with State Law; and

WHEREAS, at said hearing the Commission heard and received evidence, both oral and written regarding the Water Conservation District’s Municipal Service Review, and all persons present were given an opportunity to be heard; and

WHEREAS, this Commission has duly considered the Municipal Service Review on Water Conservation Districts of San Joaquin County dated June 15, 2012; and

NOW, THEREFORE, the San Joaquin Local Agency Formation Commission DOES HEREBY RESOLVE, DETERMINE, AND ORDER as follows:

Section 1. Certifies that the proposal is found to be exempt from the California Environmental Quality Act (CEQA) pursuant to Section 15262 of the CEQA guidelines.

Section 2. The written determinations required by Section 56430 of the Government Code have been made and are contained in Exhibit A.

Section 3. The Municipal Service Review for Water Conservation Districts of San Joaquin County is hereby approved.

Section 4. The Executive Officer is hereby authorized and directed to distribute copies of the adopted Municipal Service Review and this Resolution to affected agencies and interested parties.
PASSED AND ADOPTED this 15th day of June 2012 by the following roll call votes:

AYES:

NOES:

ABSENT:

ELDEN R. NUTT, CHAIRMAN
San Joaquin Local Agency
Formation Commission
Service Review Determinations

An explanation of the specific operational and management aspects of each service provider considered in each of these topic areas is provided below. Based on the information contained in the Service Review, the determinations listed by topic covered in the Service Review are as follows:

1. Growth and Population Projections

The growth projections for the Districts show that their population will reach 684,294 people by the end of the 30-year planning horizon. This is slightly more than a 61 percent increase in population and will represent more than 46 percent of the entire County population by the year 2042. These projections are based on a 1.5 percent annual growth rate for the Districts. Provision of services to agricultural users may actually decrease as a result of urban growth. However, this growth will not necessarily result in an increase in water demand, as the majority of the land within the three Districts is currently developed either for agricultural or urban use. Because the water demand for agricultural and urban uses are essentially equal, overall population growth is not as important as compared to the Districts’ ability to secure long term water supplies.

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

Although there could be an endless array of communities which meets the definition contained in California Government Code §56033.5, none of the districts provide sewer, municipal and industrial water, nor structural fire protection directly to residential uses.

3. Present and Planned Capacity of Public Facilities and Adequacy of Public Service Including Infrastructure Needs and Deficiencies

The Eastern San Joaquin County Groundwater Basin is overdrafted by approximately 200,000 acre feet per year (af/yr). Additional surface water sources are needed to restore equilibrium within the basin. Continued depletion of the groundwater could result in saline intrusion into the basin and the permanent destruction of a portion of the basin. The Eastern San Joaquin Groundwater Basin Groundwater Management Plan (2004) and the Eastern San Joaquin Integrated Regional Water Management Plan (2007) outline various strategies to address concerns regarding the groundwater decline in San Joaquin County and discuss options for obtaining additional surface supplies.

North San Joaquin has the potential water right to approximately 20,000 af/yr. Stockton East has the right to use 67,115 af/yr of Calaveras River water through New Hogan Reservoir and up to 75,000 af of interim supply of Stanislaus River water through New Melones Reservoir. Central has the right to 49,000 af of firm supply and up to 31,000 af of interim supply of Stanislaus River water through New Melones Reservoir.

Additional water supplies and strategies for water conservation are needed. Not all properties in the eastern portion of the County are within a water conservation district and therefore are not contributing to the stewardship of the basin. Central’s SOI boundary should be expanded to include these properties.
4. Financial Ability of Agencies to Provide Services

The Districts’ financial capabilities vary significantly with Stockton East’s budget being nearly twenty times larger than the other Districts. Stockton East, however, serves an urbanized area and receives more property tax revenues and utility user fees from a greater amount of users. It is difficult to assess the economic vitality of Central due to the many pending lawsuits. The result of litigation could have a profound effect on the District’s finances. The District has historically dipped into its reserves to meet expenses. Central has paid Stockton East for court ordered interim wheeling charges for 2010 and 2011. The Courts have yet to determine actual wheeling rates for 2010, 2011, and 2012. Both Stockton East and Central are in litigation with the US Bureau of Reclamation (USBR) over the breach of its New Melones’ contract for failure to allocate full contract entitlements. A monetary settlement will be determined in September 2012. North San Joaquin does not have a sufficient revenue stream to build infrastructure needed to utilize its water right to 20,000 af/yr and continues to be under threat of losing its water rights. In 2010 the District voters failed to pass Measure C which would have amended a previous measure allowing the District the right to adopt a groundwater charge in the future which would have provided some revenue to build or upgrade its facilities. Without the groundwater pump charge the District’s only source of revenue is property taxes. North San Joaquin has secured 100% of the fund for the Tracy Lake Groundwater Recharge Project. $300,000 is provided by an USBR grant and the balance financed through the formation of an improvement district and the issuance and sale of two series of Improvement District warrants. Payment of the principal and interest on the warrants will be secured by an annual capital assessment to be levied on all 1,310 acres of land within the Improvement District. After the project is operational, an annual operation and maintenance assessment will also be assessed every year until the project is retired with the landowners paying 56% of those annual costs subject to an annual cost true-up. The project will divert up to 4,000 af/yr from the Mokelumne River into South Tracy Lake for irrigation purposes thereby conserving groundwater.

The ability of all the Districts to raise additional revenue is limited because compliance with Proposition 218 is required for any new or increased fees and assessments.

5. Status of, and Opportunities for, Shared Facilities

The sharing of resources has been primarily through the coordination of planning efforts and the joint advocacy for locally supported groundwater banking and conjunctive water use projects. The Districts have, through the Eastern Water Alliance, coordinated their planning and financing efforts to implement projects designed to enhance the Basin and have implemented a groundwater management plan. Furthermore, the Northeast San Joaquin County GBA has provided an opportunity for the Districts to work collectively to seek additional water supplies for eastern San Joaquin County. Shared capital facilities have historically been limited to wheeling agreements between Stockton East and Central. Although these wheeling agreements were terminated by effective January 1, 2009, Stockton East is required to continue wheeling water through its conveyance facilities for Central under Water Code §1810. Litigation over Central’s payment for’s wheeling services is ongoing. There are opportunities for additional shared facilities among the Districts including: wheeling Mokelumne River water from North San Joaquin to Stockton East for treatment, recharge and/or consumptive use, and conveyance of surplus Mokelumne and Calaveras River water to Central.

6. Accountability for Community Service Needs, Including Governmental Structure and Operational Efficiencies

Each district has indicated their compliance with applicable regulations and rules governing their operations. The Boards of Directors of the respective agencies meet regularly and they are accountable to their members. Central has had a vacancy on its Board of Directors for a significant period of time.
Stockton East appears to be a stronger district financially and operationally and therefore able to more effectively carry out its objectives. Consolidation oftentimes results in increased operational efficiencies for local agencies, however, it appears that the financial health and in the case of water districts, the right to firm sources of water supply, are deterrents to consolidation. Inclusion of all properties within the spheres of influence of the Districts would be beneficial to allow for comprehensive planning and to provide for a solution of the groundwater overdraft.
Resolution No. 1282

Before the San Joaquin Local Agency Formation Commission Approving the Sphere of Influence Plans for the Water Conservation Districts of San Joaquin County (North San Joaquin Water Conservation District, Stockton East Water District and Central San Joaquin Water Conservation District)

WHEREAS, Section 56425(g) of the Government Code requires the Commission to review and update each sphere of influence every five years; and

WHEREAS, Section 56076 of the Government Code provides that a “sphere of influence” means a plan for the probable physical boundaries and service area of a local governmental agency; and

WHEREAS, the Commission must prepare written statements of its determinations with respect to four specific factors; and

WHEREAS, a municipal service review in compliance with Section 56430 of the Government Code has been prepared in conjunction with the spheres of influence; and

WHEREAS, the Commission held a workshop on May 18, 2012 and received comments; and

WHEREAS, the Commission held a public hearing on the Sphere of Influence Plans on June 15, 2012 in the Board of Supervisors Chambers, 6th Floor, 44 North San Joaquin Street, Stockton, California, pursuant to notice of hearing which was posted, mailed, and published in accordance with State Law; and

WHEREAS, at said hearing the Commission heard and received evidence, both oral and written regarding the sphere of influence update, and all persons present were given an opportunity to be heard; and

WHEREAS, this Commission has duly considered the Sphere of Influence Plans for the Water Conservation Districts of San Joaquin County; and

NOW, THEREFORE, the San Joaquin Local Agency Formation Commission DOES HEREBY RESOLVE, DETERMINE, AND ORDER as follows:

Section 1. The determinations required by Section 56428 of the Government Code have been made and are attached hereto as Exhibit A.

Section 2. The sphere of influence boundaries for North San Joaquin Water Conservation District, Stockton East Water District, and Central San Joaquin Water Conservation District, are hereby approved and are depicted in Exhibits B, C, and D, attached.
a. Central San Joaquin Water Conservation District shall complete the annexation of Areas A, B, and C as shown in Exhibit D, by June, 2013.

b. If the annexations specified in above section “a” is not completed within the identified timeframe, the Commission shall set for hearing the reconsideration of the sphere of influence plan to determine if Stockton East Water District should be given the option to include Areas A, B, or C as shown in Exhibit D within its sphere of influence and thereby allowing the opportunity for the annexation of said territories.

Section 3. The Executive Officer is hereby authorized and directed to distribute copies of the adopted Sphere of Influence Plans and this resolution to affected agencies and interested parties.

PASSED AND ADOPTED this 15th day of June 2012 by the following roll call votes:

AYES:

NOES:

ABSENT:

ELDEN R. NUTT, CHAIRMAN
San Joaquin Local Agency
Formation Commission
Determinations Regarding Sphere of Influence Plans

The sphere plan proposes that North San Joaquin’s SOI be reduced in the overlapping area with Woodbridge Irrigation District (WID) located in the southwestern part of the District. Approximately half of the parcels in this area are being served irrigation water by WID and all parcels are within North San Joaquin for water conservation purposes. Some WID facilities are located within this area and WID indicates it can provide water service when requested by the landowner.

The sphere plan does not propose any changes to the existing SOI for Stockton East as its sphere is coterminous with the District. As land annexes to the City of Stockton the annexed territories automatically annex to Stockton East pursuant to existing statute. In these instances Stockton East’s sphere is amended upon annexation to include the newly annexed territory.

Central’s existing SOI is larger than the District’s service boundaries. Both Stockton East and Central have submitted competing applications to annex the territories in Central’s sphere but not within its District as well as the area identified as Area A in Figure 5. According to discussions held with the Eastern Water Alliance, the area south of Main Street and Copperopolis Road (Area A) was to be served by and included in Central. In addition, Duck Creek North Fork is utilized by Central to supply water to the District and is located in the territory. Central has indicated its willingness to provide service to this area. Central’s SOI should be expanded to include Area A. All properties in the eastern part of the County should be included within a water conservation district to allow comprehensive planning and finding solutions for the groundwater overdraft of the ESJ Basin.

1. Present and Planned Land Uses

Over seventy-five percent of the present land use is agriculture. The urban areas of the Districts cover most of the City of Lodi (North San Joaquin), and the entire City of Stockton (Stockton East). Planned land uses will result in increased urbanization surrounding the existing cities and will result in less demand for surface agricultural water. However, increased urbanization will result in increased domestic water use which will impact the provision of water by Stockton East. The need to improve and protect the groundwater basin will still be an important mission for all the Districts.

The sphere of influence for Stockton East will expand as urbanization occurs within the City of Stockton since all annexations automatically become part the District. North San Joaquin’s SOI will not expand since this district has been recently expanded and presently abuts directly to Stockton East on the south and the County Line to the north and east. The SOI should be reduced in the area that overlaps with Woodbridge Irrigation District. Both Stockton East and Central presently have requested expansion of their territories to serve additional agricultural uses.

2. Present and Probable Need for Public Facilities and Services

None of the Districts can directly serve the needs of all property owners within their boundaries desiring service with a physical water service connection. In addition, none of the Districts have sufficient surface water to provide to all lands within their boundaries and there is a need for improvement and expansion of the distribution systems in all three Districts. Furthermore, the entire groundwater basin is significantly overdrafted and additional surface water sources and strategies for water conservation are needed. Also,
many of the Districts’ existing contracts are not firm commitments of water. Therefore, the potential exists that there are inadequate surface water resources to serve the probable needs of the Districts. Coordinated planning strategies are necessary such as those outlined in the *Eastern San Joaquin Groundwater Basin Groundwater Management Plan* (2004) and the *Eastern San Joaquin Integrated Regional Water Management Plan* (2007). In this most recent plan, fifty-three specific actions are listed. All of the actions fall into one of the following categories: Monitoring; Improved Basin Characterization; Continued Long-Term Planning; Groundwater Protection; Construction and Implementation; Governance; Financing; and Public Participation/Community Outreach. Implementation of these strategies is critical to meet the future needs of the Districts.

3. **Present Capacity of Public Facilities and Adequacy of Public Services**

Existing public facilities and services are not adequate for serving the needs of all property owners of the Districts with a physical surface water service connection. Additional funding opportunities would allow for further expansion of facilities, but the ability of the Districts to raise additional revenue is limited. Capital funding for distribution systems is dependent upon approval and funding from outside governmental agencies and/or voter approved financing.

4. **Social and Economic Communities of Interest**

The Districts’ boundaries are primarily based on natural topography and as such are not related to any social or economic communities of interest.
NORTH SAN JOAQUIN WATER CONSERVATION DISTRICT
SPHERE OF INFLUENCE