



BOARD OF SUPERVISORS  
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors  
105 E. Anapamu Street, Suite 407  
Santa Barbara, CA 93101  
(805) 568-2240

Department Name: County Executive  
Office  
Department No.: 012  
For Agenda Of: 5/5/09  
Placement: Departmental  
Estimated Time: 1 hour  
Continued Item: Select\_Continued  
If Yes, date from:  
Vote Required: Majority

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**TO:** Board of Supervisors  
**FROM:** Department Director John Baker, Assistant CEO/Planning Director  
Contact Info: John Baker, 568-3570  
**SUBJECT:** Allocation of Property Tax Revenues Between the City of Goleta and Goleta West  
Sanitary District Resulting from Detachment

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**County Counsel Concurrence**

As to form: Yes

**Auditor-Controller Concurrence**

As to form: Yes

**Other Concurrence:** N/A

As to form: Select\_Concurrence

**Recommended Actions:**

The Board of Supervisors:

- A. Approve a resolution allocating the distribution of property tax revenues between the City of Goleta and Goleta West Sanitary District agreeing to allocate all ad valorem property taxes currently allocated to Goleta West Sanitary District from within the corporate boundaries of the City of Goleta to the City.
- B. Authorize the Chair to execute a property tax allocation agreement between the City of Goleta and County Santa Barbara Board of Supervisors.
- C. Recommend to Local Agency Formation Commission allocation of existing Goleta West Sanitary District property tax reserves in the amount of \$20 million for the upgrade of the Goleta Sanitary District treatment plant.

**Summary Text:**

The City of Goleta (City) has filed an application with the Local Agency Formation Commission (LAFCO) to detach all properties within its corporate boundaries currently served by the Goleta West Sanitary District (GWSD). This application requests that all future property taxes allocated to GWSD within the City boundaries be reallocated to the City. Revenue and Taxation Code Section 99 (B)(5)

provides in the event that a jurisdictional change would affect the service area of a special district, the Board of Supervisors shall, on behalf of the district, negotiate any exchange of property tax revenues between the two parties.

County representatives met with representatives of GWSD to determine what its position would be in the event a detachment were to take place. A copy of GWSD letter outlining its position is attached as Exhibit A. County representatives subsequently had several negotiation discussions with City representatives. Those discussions resulted in the recommendations stated above.

### Goleta West Operations

GWSD currently provides essentially two operating and maintenance services to the residents of the District. Its primary operations relate to sewer collection and treatment. It provides these services to residents in the western portion of the City, residents of Isla Vista, an area north of Highway 101 including the Glen Annie golf course, and, as a result of a settlement agreement, the Embarcadero Municipal Improvement District (EMID). A map of the District's area of jurisdiction is included as Exhibit B. The sanitary sewer services provided by GWSD to EMID are charged at approximately the same rate as other customers within the District. This service includes approximately 60 miles of sewer lines and two sewer lift stations. The Goleta Sanitary District completes treatment. GWSD also is responsible for the replacement and upgrade of its pipelines and pump stations as part of a standard capital improvement program as well as payment to Goleta Sanitary District for the upgrading of its treatment plant. As part of its daily operations, GWSD does plan checks for and inspections of new services.

The District's secondary service is street sweeping of approximately 54 miles for the residents of the City and Isla Vista. Approximately 36 miles (66%) of the services currently provided by the District are directed to residents within the corporate boundaries of the City.

- **GWSD Revenues**

For the current fiscal year, GWSD projects revenues of \$5.5 million. Three sources – property tax: \$1.64 million; interest earnings: \$1.4 million; and, user fees: \$2.3 million – make up the bulk of the revenues. Connection, inspection, plan check and other small fees make up the remainder of the revenues. Sewer user fees are currently \$168 annually for residential customers of the District. No property taxes are collected from residents of EMID.

- **GWSD Expenditures**

The total operating expenses for the current fiscal year are projected to be \$2.98 million. Personnel (\$793,000) and treatment costs (\$1.1 million) make up the bulk of those costs. The remainder covers contractual services, legal services and general administrative costs. The costs for just sanitary sewer related maintenance and operations are \$2.43 million. The primary difference between the two figures (\$500,000) relates to street sweeping (approximately \$200,000) legal services (\$30,000) and contractual services (\$225,000). Property taxes are used in the operating budget primarily for street sweeping personnel and O&M costs unrelated to sanitary sewers. It is estimated approximately \$130,000 and \$70,000 of the street sweeping costs respectively are attributable to the City and Isla Vista. Capital improvements are projected to

cost \$6.1 million during the year. A portion of that amount is programmed for the treatment plant upgrade. All capital costs are funded from various reserves of the District.

- **GWSD Reserves**

The District maintains reserves in an amount of approximately \$30.5 million. The largest portion of those reserves is for the District's share of the Goleta Sanitation District plant upgrade (projected to be \$20 million). The others relate to specific capital projects, operating and cash reserves, and equipment and building reserves. The plant upgrade reserve has been accumulating over a period of several years in order to be in a position to meet the GWSD commitment of 40.78% of the cost of the Goleta Sanitary District treatment plant upgrade with a cash payment. At the present time, the estimate for this upgrade is \$50 million.

### Detachment Issues

As previously stated, the City has requested that all future property taxes collected by the District from properties within the City be reallocated to the City. The current percentage of the total taxes collected by the District for those properties is 78%. While not agreeing that any detachment and subsequent reallocation should take place, GWSD proposes that no more than 52% should be redistributed to the City based on sanitary sewer flow in the system from City properties (see Exhibit A). The City contends that property tax has no relation to sewer flow and that sewer fees should cover all sewer operations and capital expenditures related fees. The basic opinion expressed by the City is that its residents are subsidizing those living outside the City with its property taxes.

The District raises a number of additional issues including: 1) cost of the treatment plant upgrade; 2) capital projects completed with property taxes in the City; 3) wastewater flow versus remaining property taxes to handle flow; 4) necessary future increases in rates to fund capital projects; 5) capacity used versus contracted capacity; and, 6) future development potential in the City as compared to the unincorporated area. These issues are detailed in Exhibit A. They become of primary concern if a reallocation of reserves were to mirror the request made by the City for reallocation of future property tax revenues, thereby stripping GWSD of the resources it has accumulated to pay for the treatment plant upgrade. A final issue raised by GWSD is the provision of services to EMID other customers north of Highway 101. The District contends that the City will be required to provide this service under an extra-territorial agreement.

Separation of the reallocation of future property taxes and what would be done with existing reserves must be made very clear. Technically, and in accordance with State law, only the reallocation of future taxes can be the subject of discussions between the County, on behalf of GWSD, and the City. Any distribution of reserves is left to LAFCO's determination. The District has grave concerns, however, that past property tax receipts have been accumulated with the clear intent of making a cash payment of its requirement to pay 40.78% of the costs of the Goleta Sanitary District treatment plant upgrade and a reallocation would put a significant burden on the District to meet its commitment even if the City were to pick up 52% of this commitment based on flow.

There will also be an issue with regard to wheeling charges between the City and the District if detachment takes place. Sewage coming from the GWSD Emily lift station near the Bacara through the City will be subject to a City charge to GWSD. There are spots on the unincorporated south side of the City and the lift station at the edge of the UCSB campus that will carry City sewage, resulting in a GWSD charge to the City. The final result of the use of facilities by the other party will require negotiations between the two agencies for proper exchange of charges.

If a detachment is to take place, a question arises regarding the viability of GWSD to continue to serve the remainder of its service area. GWSD has indicated that it could continue to serve the unincorporated area of its current jurisdiction if it is not totally stripped of its resources and reserves. This is technically not the subject of a detachment proceeding, but is something the County needs to consider during this negotiation process. With the City assuming its rightful share of the future commitments for maintenance of the system within the incorporated area, acceptance of capital requirements for the pipelines, payment of future treatment plant costs (both treatment and capital based on flow), most of the points presented in Exhibit A will be addressed. The issue with regard to providing service to EMID and other properties north of Highway 101 would be a LAFCO determination. It could leave the service with GWSD or condition the City to assume the responsibilities subject to the requirements of the settlement agreement between EMID and GWSD.

Tied to the issue of viability of GWSD continuing to operate under a detachment scenario is the question of what sewer service fees would be required in the future if detachment takes place. GWSD states that taking away reserves as a part of detachment would result in its customers having to essentially pay twice for improvements and upgrades. It states increases in rates could be as much as four times the current user fee. A number of factors must be taken into account before a true rate can be determined. They include: 1) percentage reallocation of future property taxes; 2) amount of reallocation of property tax reserves; 3) percentage of treatment plant costs and capacities allocated to the two agencies; and, 4) wheeling charges negotiated between the agencies. As part of a reserve study conducted by GWSD in preparation for the costs after the completion of the Goleta Sanitary District treatment plant upgrades, an additional \$600,000 annual cost is projected for the current district. As a result, the District projects an annual four percent (4%) increase thereafter to cover treatment cost increases.

The District recently completed a financial study of different future property tax allocations and property tax reserve distributions, looking at scenarios using different reductions in property tax and reserves. These studies indicate that rates could rise from the current \$168 per year for residential customers to as much as \$360 per year upon completion of the treatment plant upgrade in 2015 for both GWSD and City customers if treatment plan upgrades are fully funded by property tax reserves and the reallocation requested by the City is implemented. With no detachment the current rate of \$168 is projected to increase by four percent (4%) annually beginning in 2013. Again it is pointed out that these figures are based on some very fluid assumptions, but should give an idea of what will be required to have sanitary sewer operating and capital costs paid for by user fees.

Finally, the issue of whether the County would detach the remainder of GWSD if a City detachment were to proceed has been raised in discussions with both GWSD and the City. No internal discussion of this possibility has been conducted. Certainly the County must ensure that the best interests of the

residents of the unincorporated areas currently served by the District are maintained. Would a single district responsible for collection and treatment of sewage be in those best interests? More detailed review is needed before this question can be answered. Using the current FY 08-09 total operating budget of GWSD and Exhibit A as bases for determining the possible split of costs between the City area proposed for detachment and the portion of the district that would remain with GWSD (or the County if it were to detach from GWSD in the future), the following table has been created to display the approximate operating costs that would accrue to each agency.

<b>Expenditure Category</b>	<b>Amount</b>	<b>Goleta West (unincorporated)</b>	<b>City of Goleta</b>
Personnel	\$793,400	\$269,800	\$523,600
Treatment	1,076,000	516,500	559,500
Miscellaneous	1,107,600	376,600	731,000
Total	\$2,977,000	\$1,162,900	\$1,814,100

The operating budget for solely sewer related activities breaks out as displayed in the following table.

<b>Expenditure Category</b>	<b>Amount</b>	<b>Goleta West (unincorporated)</b>	<b>City of Goleta</b>
Personnel	\$676,800	\$230,100	\$446,700
Treatment	1,076,000	516,500	559,500
Miscellaneous	675,600	229,700	445,900
Total	\$2,248,400	\$976,300	\$1,452,100

As previously stated, the major difference in the two sets of costs relates to street sweeping, contractual and legal services and general administrative costs not attributable to sewer operations. The splits shown in the two tables provide some indication of the costs that will be borne by the two agencies to maintain the current level of service. If the County were to make a decision in the future to proceed with detachment, the figures shown for GWSD would presumably become a base for greater analysis. Capital costs are not included in the figures in the charts above.

**Recommendation**

Based on the review of current circumstances, County staff recommends that the Board of Supervisors, pursuant to Revenue & Taxation Code 99(B)(5), approve a reallocation of all property taxes collected from residents of the City of Goleta by the Goleta West Sanitary District. Property taxes are general fund revenues to be used for any general purpose of the governing body collecting those taxes. Enterprise funds are set up to provide specific services with fees and charges imposed to ensure proper operation of the facilities comprising the enterprise. In this case, property taxes collected by GWSD from City residents are funding general government and enterprise activities of the entire District. It is further recommended the Board authorize the Chair to execute a property tax allocation agreement between the County and City of Goleta which would reallocate future property taxes currently collected from City properties by GWSD to the City.

The funding of capital expenditures with property tax has been going on for a number of years, long before the incorporation of the City of Goleta. GWSD has relied on those taxes to meet significant improvements, the most significant being the reserve that built up to pay for over 40% of the Goleta Sanitary District treatment plant upgrade. Removal of a major portion of that property tax reserve at this point would put a big burden on ratepayers on both the unincorporated area of the District as well as the citizens of Goleta. Therefore, staff recommends that LAFCO, as part of its proceedings, condition the detachment to reserve \$20 million of property tax reserve of GWSD for payment of the treatment plant upgrade. While LAFCO is free to condition its approval of matters other than the property tax allocation in any way it feels appropriate, staff is recommending that the Board recommend this reserve commitment in concert with the City of Goleta City Council. The Board and Council should be mutually committed to isolating the treatment plant reserve before proceeding to LAFCO with the property tax allocation.

### Next Steps

The process to be followed if detachment moves forward is:

- Board of Supervisors and City of Goleta forward property tax exchange agreement resolutions to LAFCO
- LAFCO staff issues certificates of filing
- LAFCO staff gives notice and sets the matter for hearing by the Commission
- LAFCO staff prepares Executive Officer report and recommendation
- LAFCO conducts hearing, accepts testimony and approves or denies the detachment; denial stops the process
- If LAFCO approves the detachment, LAFCO staff gives notice and sets the matter for a protest hearing
- LAFCO staff conducts a protest hearing only for registered voters and landowners within the detachment area for protests against the detachment
- Protests must be in writing, signed and dated; to be valid protests cannot be dated prior to the date the notice of hearing is published
  - If 50% or more of the registered voters within the detachment area file protests, the detachment proceeding is terminated
  - If between 25% and 50% of the registered voters file written protests, the detachment goes to election
  - If 25% of the landowners who own at least 25% of the assessed value of land file written protests, the detachment goes to election
  - If fewer than 25% of either the registered voters or landowners file written protests, the detachment is complete.

### **Fiscal and Facilities Impacts:**

There are no fiscal or facilities impacts associated with receiving this report.

Budgeted: No

**Attachments:**        **Exhibit A. GWSD Letter**  
                                 **Exhibit B. Goleta Valley Map**  
                                 **Resolution Approving Property Tax Allocation**  
                                 **Property Tax Allocation Agreement**

**Authored by:** John Baker, Assistant CEO/Planning Director

**cc:**        Daniel Singer, City Manager, City of Goleta  
                 Goleta West Sanitary District  
                 Bob Braitman, Executive Director, LAFCO