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Honorable Janet Wolf, Chair, and Members of the Board of Supervisors
County of Santa Barbara
105 E. Anapamu Street
Santa Barbara, CA 93101

RE: Goleta West Sanitary District, Your Agenda for April 20, 2010

Dear Chair Wolf and Members of the Board of Supervisors:

This letter is submitted on behalf of the Goleta West Sanitary District, which respectfully requests that the Board of Supervisors take the following action:

1. Oppose the City of Goleta's detachment application and send a letter to LAFCo so stating (Staff Report Option #2); and
2. Instruct its representatives on LAFCo to vote to deny the application.

Our request is supported by the following points:

Detachment Will Cause a Drop in Quality of Sewer Service. The City admits that Goleta West provides an excellent level of sewer service to its customers and has done so since 1954. And, the City does not claim that it is capable of improving on the current level of service. There is no reason to believe that merely shifting service responsibilities from an experienced sewer agency to an inexperienced City – and creating a greater level of fragmentation in Goleta Valley utility service – will improve service levels.

In fact, there is good reason to believe that the detachment proposal will threaten the current excellent level of service by diverting property taxes from the capital needs of the sewer system – including repair, maintenance, rehabilitation and upgrades. To maintain the current level of service, those lost taxes will need to be back-filled with sewer charge increases, and those increases may be difficult to implement (see below).

Sewer systems have notoriously expensive capital programs for a number of reasons. First, wastewater facilities are heavily regulated by the Clean Water Act and other statutes, and closely monitored by the Regional Water Quality Control Board. Second, wastewater collection systems tend to be located at the lowest elevations in a community – in riparian corridors, wetlands and other low-lying areas, which are difficult and expensive to maintain. These also tend to be environmentally sensitive areas, and bringing heavy equipment into those areas creates permitting expenses and delays. Given the costly nature of sewer systems, the City's plan to replace a guaranteed revenue source – property taxes - used to fund vital capital improvements, with a source – user fees - that is subject to protest, initiative and referendum (see below), inherently places the quality of service at risk.

Detachment Will Cause a Drop in Quality of Street Sweeping Service. The staff report finds that street sweeping service "is likely to be curtailed or eliminated or the cost of service is likely to need to be absorbed by the city or county" (page 5). Neither the City nor the County has excess revenues. The County also faces practical problems in providing street sweeping (and sewer services), given that it lacks both the facilities and the governmental structure to provide the service. Thus, the streets will not be cleaned, which will have an adverse impact on the quality of those neighborhoods. In addition, dirtier streets will degrade the quality of storm water runoff, resulting in increased ocean contamination.

Detachment Will Cause a Jump in Service Charges. As noted above, the City's detachment proposal diverts the property taxes currently used by Goleta West to pay for capital costs to other uses, requiring the deficit to be back-filled with increased service charges. The size of the service fee increase a particular customer will face depends on the property's location.

Isla Vista. There is no dispute that service charges will dramatically increase over a short period of time, although there is disagreement about the magnitude of the jump. Goleta West projects that the increase will be 183% (from \$168/year to \$309/year) in the first five years. The City projects the increase will be even larger, at 214% (from \$168/year to \$360/year).

City. Goleta West anticipates that annual charges for City residents will jump from \$168 to \$353 a year, a 210% increase over the first five years. Amazingly, the City fiscal analysis claims there will be no increase. The difference between the two projections is explained by fundamentally different assumptions:

a. How Property Taxes Will Be Used.

Goleta West's analysis assumed that the City will follow through on its stated plan to use reallocated property taxes for general city services such as potholes and parks. That intention has been expressed in official city statements.

The City's analysis assumed that reallocated property taxes will be used for sewer system capital projects, as is the case with Goleta West's current operations.

Which assumption is more realistic? Clearly, Goleta West's. The City's assumption is diametrically opposed to public statements made by the City to justify its detachment proposal. Since those statements have criticized Goleta West for using property taxes to underwrite sewer system capital expenses, it would be disingenuous for the City to now claim it will use the taxes for the same purpose.

b. Revenue Neutrality Agreement.

Goleta West's analysis assumed that the City will receive 30% of the reallocated property taxes, since the 2001 Revenue Neutrality Agreement provides that the County Fire Department is to receive 70% of any property taxes reallocated from Goleta West to the City.

The City's analysis assumed that the City will receive 100% of the reallocated property taxes, which means the County Fire Department would receive

nothing. Most surprisingly, the City's report does not even mention the Revenue Neutrality Agreement.

Which assumption is more realistic? Clearly, Goleta West's. County staff agrees, and points out that the City's sidestepping of the RNA does not accurately reflect the current contractual arrangements between the City and County. See Staff Report, Attachment 9.

Taking into account the proper assumptions, it is safe to conclude that Goleta West's customers, both in Isla Vista and in the City, will experience an approximate 200% increase in their sewer rates in five years, and no decrease in their property tax bill. Rate increases of this magnitude will create an economic hardship for many customers in this economy – including businesses, homeowners, low-income renters and UCSB students -- and could result in a ratepayer backlash (see next section).

Future Revenue Shortfalls Are Likely. The City's detachment scheme will only accomplish the City's goals if – as the City expects -- property taxes can be reallocated to other purposes, and service charges can be increased to replace those diverted taxes. However, the City does not have an unfettered power to raise service charges. California law gives ratepayers the right to block a service charge hike. This citizen veto can occur in three ways. First, an increase can be blocked by a Prop 218 protest vote by property owners. Second, an increase may be subject to a referendum petition. Third, an increase can be rolled back by an initiative petition signed by 10% of the registered voters, and that rollback petition can happen months or years after the increase was first implemented. An initiative measure may request a special election, and it is not difficult to imagine a low voter turnout election and the rollback decision being made by a relatively small number of voters.¹

If a successful protest or rollback initiative is undertaken, the City could find itself with an expensive new sewer service obligation and no way to pay for it.

It bears emphasizing that the same quandary could face Goleta West as the service provider for Isla Vista. This is equally true for the County, if it decides to pursue detachment of Isla Vista and transfer of service responsibility to the County Public Works Department. And, of course, it is true for the Goleta Sanitary District if it ends up as the service provider for Isla Vista.

Detachment Violates LAFCo Principles. There have been two sewer service providers in the Goleta Valley for decades. The City's proposal would create three providers, and one of the three (Goleta West) would have a fragmented district with non-contiguous service areas. All three service providers would have overlapping facilities that require the payment of wheeling charges. The City has no experience in providing sewer service and no adopted policy of becoming a "full service" city that provides water, wastewater, police, fire and other municipal services. If the City's intention were truly to provide sewer service to its residents, its proposal would be to detach from both Goleta West and Goleta Sanitary District, which serves the eastern portion of the City.

¹ In 2006, the voters in the City of Dixon rolled back their sewer rates. In January 2008, the City of Dixon was fined \$220,000 by the Regional Water Quality Control Board citing failure to comply with required milestones established in 2005. In November 2008, the voters of Rohnert Park voted to roll back sewer rates to 2006 levels. In November 2009, the voters of Paso Robles rejected a proposed water rate increase. The cities of Petaluma and Crescent City have each placed a sewer rate rollback on the November 2010 ballot after citizens collected sufficient signatures on an initiative petition. Voters in the City of Sacramento are currently circulating a petition to place an initiative on the ballot to roll back utility rates.

Given these facts, detachment would violate LAFCo policies. In reviewing the City's application, LAFCo must consider, among other things, the effect of detachment on cost and adequacy of services, the ability of Goleta to provide service, and the nature of the governmental boundaries that would be created.² Santa Barbara LAFCo's policies encourage changes that "minimize the number of agencies providing services" and result in "better service, reduced costs, and/or more efficient and visible administration or services to the citizens."³ Thus, it is unlikely that LAFCo could support a proposal that creates a third provider which would increase the cost of sewer service while providing fewer services at a lower quality. This is particularly the case where Goleta has no history of providing any utility service and lacks the fiscal means to finance sewer service, should service charge increases be rejected. Indeed, LAFCo would be hard pressed to find that the fundamental purpose of a reorganization – orderly government – is served by the City's detachment, given that Goleta would not provide service to its entire jurisdiction and, as a result of the detachment, Goleta West would be left serving several unincorporated "islands."

Consolidation of Goleta West and Goleta Sanitary May Be A Better Approach. The staff report examines three alternatives (#3, #4 and #5) which are all variations of a single idea: consolidation of Goleta West and Goleta Sanitary.⁴ The three alternatives differ in the degree of County involvement in pursuing this reorganization.

Goleta West is prepared to consider consolidation with Goleta Sanitary. Indeed, in the mid-1990's, Goleta West proposed consolidation with Goleta Sanitary, but the latter strenuously opposed the idea and ultimately the proposal was dropped. However, Goleta West also believes that consolidation should be approached with careful thought:

Efficiency. The staff report includes data showing that Goleta West operates in a more cost-effective manner than Goleta Sanitary, since it offers a broader range of services (sewer services plus street sweeping) at a lower per-customer cost:

Average Annual Revenue Per Customer⁵
(including service charges and property taxes)

Goleta Sanitary	\$446
Goleta West	<u>380</u>
Difference	\$ 66

The efficiency of operation is one of the factors to be considered in examining a consolidation plan.

Rate Equalization. Goleta West charges \$168/year to its residential customers; Goleta Sanitary charges \$442/year. If the districts are consolidated, there will be substantial customer pressure to equalize the rates, which will necessarily result in significant increases to Goleta West customers. The pressure to achieve rate equalization could generate ratepayer objections and a potential customer veto through Prop 218 or the initiative process (see above). The challenge of equalizing rates will be made even more complicated by the fact that Goleta

² See Government Code § 56668.

³ See Santa Barbara LAFCo's Policies Encouraging Orderly Formation and Development of Agencies, available online at <http://sblafco.org/pol1.html>.

⁴ Under the LAFCo statute, a "consolidation" of two special districts may be ordered by LAFCo. (Gov't Code § 56030). The term "merger" only applies when a special district is to be joined to a City (Gov't Code § 56056).

⁵ Staff Report, page 3.

West is paying \$20 mm in cash for its share of the treatment plant upgrade, and Goleta Sanitary will be borrowing its share and financing that debt through future service charges. The Goleta West ratepayers can be expected to oppose any rate increase to fund Goleta Sanitary's share, since they could view such an increase as "double taxation."

Board of Directors Transition. Consolidation of these districts will result in a new board of directors representing all of the voters of the enlarged district. A mechanism will be needed to ensure that all voters are represented during the transitional period.

Detachment is a "Shell Game" for the City to Capture a Disproportionate Tax Allocation. From the beginning, the City of Goleta has sought to justify its detachment proposal by stating that it seeks to "remedy" an "inequity." This explanation has proved to be both disingenuous and unsupportable.

It is disingenuous because it seeks to conceal the City's true intent: to use property taxes currently dedicated to sewer system capital needs to fill a large hole in the City's budget.

It is unsupportable because the City's tax transfer scheme does not "cure" an "inequity." On the contrary, it is an attempt to use the LAFCo process to exploit a historical accident for the City's exclusive benefit.

Goleta West receives a large property tax allocation because of a unique set of historical facts. In 1978, California's voters approved Prop 13, and the State Legislature responded by freezing the property tax allocations among local agencies in effect on that date. In 1976 and 1977, Goleta West had increased its property tax levy to pay for new facilities, and the post-Prop 13 freeze locked in these higher taxes. Other water and sewer districts imposed a lower tax levy at the time.

The results of these events from 32 years ago are shown on the following table which compares the allocation among local agencies of property taxes collected from two comparable residential parcels in the City of Goleta. One parcel is in Goleta Sanitary District and the other is in the Goleta West Sanitary District. They are each valued by the Tax Assessor at approximately \$283,000.

	<u>Parcel A</u>	<u>Parcel B</u>
Location	Eastern Goleta	Western Goleta
Sewer Service Provider	Goleta Sanitary	Goleta West
<u>Property Tax Allocation</u>		
City of Goleta	\$ 153 (5.4%)	\$ 139 (4.9%)
Schools	1502 (53.2%)	1385 (48.9%)
County	821 (29.1%)	751 (26.5%)
Sewer district	To GSD 6 (0.002%)	To GWSD 167 (5.9%)
Other agencies	19 (0.006%)	17 (0.006%)
ERAF	<u>321 (11.4%)</u>	<u>371 (13.1%)</u>
Total	\$2,822 (100%)	\$2,831 (100%)

This table demonstrates a few basic facts:

First, there is parity between taxpayers in eastern Goleta and western Goleta concerning their total tax bill. Properties with the same assessed valuation pay the same total amount. There is no inequity.

Second, the City of Goleta receives about five cents of every dollar paid by City taxpayers. The City's share is the same in the east and in the west. There is no inequity.

Third, the taxpayers in western Goleta pay a higher portion of their tax dollars to Goleta West than the taxpayers in eastern Goleta pay to Goleta Sanitary. This is the result of the unique history described above.

Fourth, the school districts and the County receive less from taxpayers in western Goleta than from taxpayers in eastern Goleta. This is the result of Point #3 above.

As noted above, the City receives about five cents of every dollar paid by a City taxpayer. That number will jump to ten cents for taxpayers in western Goleta if the detachment is approved, and if the County surrenders its contractual claim to 70% of the reallocated taxes so that all of those taxes go to the City. Put another way: If the City's proposal is adopted and its fondest hopes are realized, City residents in the western part of the City will be paying twice as much in taxes to the City than residents in the eastern portion.

This analysis demonstrates that the City's "solution" does not solve the perceived "inequity." In fact, it will create an inequity. The City's detachment proposal would result in a shift of the property taxes from one local agency to another. A tax allocation created 32 years ago by a unique and unintended historical circumstance would be transformed into a deliberate and unjustified fiscal preference.

If the City were sincerely trying to put all City taxpayers on the same footing, it would propose that (i) all parcels in the City should be detached from both Goleta West and Goleta Sanitary, (ii) the City should assume sewer service for the entire City, and (iii) the property taxes currently allocated to Goleta West should be reallocated among all local agencies – including the schools and the County -- using the same formula as currently applies to Goleta Sanitary. If a reorganization like that were to occur, the City would continue to receive five cents from each taxpayer, the bulk of the taxes currently received by Goleta West would go to the schools and the County, and all City sewer customers would be treated equally.

Conclusion

Staff has asked your Board to direct it to pursue one of five alternatives with respect to the City's detachment proposal:

- (1) Take no action,
- (2) Oppose the City's detachment proposal, or
- (3) – (5) Consolidate Goleta West and Goleta Sanitary.

Goleta West respectfully submits that the only fiscally responsible alternative is Alternative #2, oppose the detachment, for the reasons stated above.

It is noteworthy that the staff report omits the option of supporting the City's proposal. Your staff apparently recognizes that detachment is a recipe for disaster, as it would increase sewer rates, decrease sewer service, eliminate street sweeping, create more government instead of less, create environmental risks, and entrench rather than eliminate a historical property tax anomaly.

Consolidating the sanitary districts may be a viable option deserving of further examination. However, rather than the County forcing a shotgun marriage, it should encourage the elected boards of the two agencies to work together to develop a consolidation proposal for submission to LAFCo.

Finally, if your board agrees with our suggestion that the County oppose the City's proposal, we ask that your Board direct the two County LAFCo representatives to vote against the City's detachment application for all of the reasons stated in this letter.

Thank you for your consideration of these comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven A. Amerikaner". The signature is fluid and cursive, with the first name "Steven" and last name "Amerikaner" clearly distinguishable.

Steven A. Amerikaner

cc Michael Brown, County Executive Officer
Board of Directors, Goleta West Sanitary District
Mark Nation, General Manager, Goleta West Sanitary District