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KAMIL S. AZOURY, P.E.

April 19, 2010

A PUBLIC AGENCY  
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Honorable Janet Wolf, Chair  
Members of the Board of Supervisors  
County of Santa Barbara  
105 East Anapamu Street  
Santa Barbara, CA 93101

**Subject: Goleta West Sanitary District Detachment Proposal**

Dear Chair Wolf and Members of the Board of Supervisors:

The Goleta Sanitary District (GSD) wishes to follow up on its communication with the County's Chief Executive Officer (CEO) relative to the CEO's Agenda Letter regarding the detachment proposal of certain territories from the Goleta West Sanitary District (GWSD) by the City of Goleta. From the inception of this proposal, GSD has maintained a very careful position of neutrality since our District does not have "a stick in the fire" in conjunction with the City's proposal under consideration by the Board of Supervisors (BOS) and LAFCO. More specifically, GSD does not have a position with respect to the City's desire to reallocate GWSD's revenue from property taxes, or GWSD's desire to retain its property tax revenue to subsidize its operations.

One issue of concern to GSD is to make it very well known to all parties that it is in the process of constructing a major upgrade of its wastewater treatment facilities at an estimated cost of \$50 million. While GSD is the owner and operator of its facilities, its contractual users with capacity entitlements in the facilities (GWSD, UCSB, the City of Santa Barbara and the County of Santa Barbara) are required to pay their respective pro-rata shares of the facilities upgrading costs. In the past almost two years, GSD made this concern clear to the respective staffs of the City and the County.

Important to note is that GSD is obligated through a legal settlement agreement with the California Regional Water Quality Control Board (RWQCB) to complete construction of this project by November 2014. Our communications with the City and County staffs in conjunction with this issue have focused on advising that, in the eventuality that GWSD's property tax revenue ends up being reallocated, sufficient funds from whoever acquires and/or retains GWSD's property taxes should be allocated in proportion to their (GWSD, City of Goleta, County) respective capacity entitlements after detachment. Of course our concern is of substance if, and only if, the detachment proposal ends up becoming a reality.

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RETURN INSTRUCTIONS:

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Aside from our concern relative to the financing of the upgrade project as expressed above, GSD has maintained an "outside neutral observer" position. In September 2009, the City of Goleta requested of GSD a proposal for contractual services to operate and maintain the sewer collection system within the potentially detached GWSD's territories. In its response to the City on September 30, 2009, GSD reiterated and emphasized its position of neutrality on the detachment issue because of its good relationships with both the City of Goleta and GWSD. Nevertheless, GSD provided to the City cost estimates and other information regarding contractual services to operate and maintain the sewer collection system within the detached GWSD's territories should the City's detachment proposal eventually succeed. GSD also advised that services would be provided to the City at the same level and at the same costs as GSD's own customers. In this respect, GSD regards itself as a service provider similar to the manner it provides services under contractual agreements with GWSD, UCSB, the City of Santa Barbara Municipal Airport and surrounding commercial developments, Santa Barbara County for certain facilities and the Goleta Water District.

Up until March of 2010, GSD was under the impression that, whatever the outcome may be of the City's detachment proposal, GSD would not be impacted, and that, at most, GSD would provide services under contracts with the City and the County, depending on which option the County elects for the remaining undetached GWSD territories (mostly Isla Vista). However, on March 1, 2010, GSD met with the City and County staffs and was advised that the detachment proposal might also involve an annexation of GWSD territory to GSD. At that meeting, GSD unequivocally stated its opposition to any detachment of all or a part of GWSD and concurrent annexation to GSD. GSD reiterated its position in its letter dated March 5, 2010 and again highlighted its opposition to a concurrent detachment/ annexation of all or a part of GWSD to GSD's service area.

GSD was surprised with the CEO's Agenda Letter to the BOS received on April 9, 2010 in which 5 options were proposed for consideration, of which three (options 3, 4 and 5) focus on either a voluntary consolidation of GWSD and GSD, or other approaches that effectively would result in a reorganization of the two agencies. Additionally, another option (third bullet under option 2) would, if adopted, result in the detachment of a part of GWSD (mostly Isla Vista) and the annexation of the territory to GSD. The CEO's Agenda Letter did not present GSD's concerns relative to the merger and/or consolidation of the two Districts which was the subject of our communication to Mr. Brown dated April 16, 2010.

We also note GWSD's legal counsel, Brownstein Hyatt Farber Schreck (BHFS), in a letter to the BOS dated April 15, 2010, discussed on page 4 the concept of consolidation of GWSD and GSD. While we do not wish to comment on the entirety of that letter, GSD believes certain representations in the letter are inaccurate or incomplete. GWSD's legal counsel is correct in stating that GSD opposed the reorganization of the two Sanitary Districts in 1995. However, the letter did not provide the reasons behind GSD's opposition, which mainly were related to the improper setting of GWSD's sewer service charges and the rates not being in compliance with the guidelines of the State Water Resources Control Board (SWRCB) since GWSD was a recipient and user of facilities constructed through Federal and State funds under the Clean Water Act. The letter from GWSD's legal counsel also ignored the fact that GWSD wanted to retain all its property taxes for use in its territories through a special benefit district even

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after reorganization of the two agencies. Clearly such an approach to segregating revenues and expenditures was not appropriate for a reorganized single agency.

The letter from GWSD's legal counsel also failed to reference the voluntary attempt for a consolidation of the two Districts in 2002. In that case, after a study of almost two years, GWSD rejected the idea of the consolidation because of its concerns over increases in their user charges and impacts on employment and compensation of its personnel after the merger. Unfortunately, after significant efforts aimed at producing a voluntary consolidation of the two District, because of GWSD's objections to the basic principles of the consolidated District, the consolidation was not pursued.

We also wish to point out that, in the comparison of the user rates of GWSD and GSD on page 4 of the letter from Brownstein Hyatt Farber Schreck to the BOS, one important element in GSD's rates is overlooked. As part of financing its treatment plant upgrading project GSD has adopted a "hybrid" approach of pay-as-you-go in conjunction with a State Revolving Fund (SRF) loan. GSD increased its rates in the past few years to implement the pay-as-you-go component of the financing. In this respect, about \$136 (per year per single family dwelling or equivalent) of the current GSD's annual user charge of \$442 (BHFS erroneously used \$446 rather than \$442) is dedicated for the plant project. Therefore GSD's operations and maintenance cost component of the user charges is \$306 per year per home (\$442 - \$136 = \$306). The true "apples to apples" rate comparison would look as noted below.

Goleta West SD:	\$380	(number used by Mr. Amerikaner)
Goleta SD	\$306	(as described above)
Difference:	\$74	

After deducting the temporary increase which is needed to cover the pay-as-you-go component of the plant upgrade cost, it is clear that GSD's operations and maintenance rates are lower than GWSD's value. As such the claim by Brownstein Hyatt Farber Schreck of GWSD's better efficiency is not accurate.

GWSD intends to finance its share of the plant project from the cash at hand in its reserve funds that has already been collected over the years. GWSD does not need to collect any funds from its users for the plant project. The different methods used by GSD and GWSD for funding their respective financial obligations for the treatment plant upgrading project should not confuse the comparison of operations and maintenance costs of the two agencies

We also wish to note that on page 5 the Brownstein Hyatt Farber Schreck letter describes a scenario of "double" charging GWSD customers for the plant upgrade project if the rates between GSD and GWSD are to be equalized. Rate equalization between the two Districts would take into consideration GWSD's cash contribution to the project. It is worth noting that upon completion of the plant upgrade project in 2014, GSD's rates should drop by the pay-as-you-go charge component mentioned above to a much lower level to only cover the SRF loan debt service for 20 years. This debt service is anticipated to be about \$55 per home per year. Therefore, GSD is not expected to raise its rates any further in

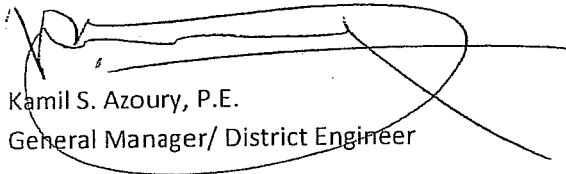
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conjunction with this project. Nor would GSD expect to collect from GWSD customers any portion of GSD's share of the plant upgrade costs.

In conclusion, GSD does not wish to be involved with the City's or the County's efforts to reallocate GWSD's property tax revenue, other than ensuring that funding obligations for the treatment plant upgrade project are adequately provided for. GSD's Governing Board remains opposed to reorganizing its District in conjunction with the efforts of the City and the County mentioned above. However, as a service provider, GSD is not opposed to providing its services under contractual agreements in a similar manner to that which it currently does with several neighboring public agencies.

Please contact us if you have any questions.

**GOLETA SANITARY DISTRICT**



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