Berkson Associates

Urban Economics
Policy Forensics & Forecasting
Planning & Policy Analysis

FINAL REPORT

PLAN FOR SERVICES & FEASIBILITY STUDY

LOS OLIVOS WATER RECLAMATION

Prepared for the Los Olivos Water Reclamation Steering Committee

Prepared by Berkson Associates

October 24, 2016

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1. INTRODUCTION AND SUMMARY

This Study evaluates the financial feasibility and governance options of one potential community wastewater system solution for Los Olivos. The Study compares the costs and benefits of three different governance options: formation of a Los Olivos Community Services District (CSD); annexation to the Santa Ynez Community Services District (SYCSD); and the creation of a County-dependent special district governed by the Board of Supervisors.

The wastewater treatment system costs used in this Study are from the September 2016 study update to a 2013 County sponsored feasibility study.[1] The 2016 study analyzed a Membrane Bioreactor system (MBR) that would serve the entire community and accommodate some expansion of existing uses and development of vacant lots in the commercial core, or "downtown". The 2016 study also described costs for individual onsite advanced treatment systems. Unlike the 2013 study, the 2016 study did not evaluate a "Phase 1" system that would be limited to the commercial core and small lot residences, and which could cost significantly less. As noted in this financial feasibility study, a "downtown" MBR system should be analyzed as one method to provide a more financially feasible system, in addition to other potential cost reductions; this approach assumes that residential properties outside the core could be served by onsite advanced treatment systems until expansion of the core system becomes viable.

Cost estimates for governance options were developed by Berkson Associates (BA) based on review of budgets for similar districts; discussions with SYCSD, County Public Works, and other districts; and BA experience with similar analyses. It is anticipated that these cost estimates will be refined as the process moves forward.

In 1974, Santa Barbara County designated a Los Olivos Special Problems Area (SPA), with boundaries as shown in **Figure 1**, due to potential adverse impacts of wastewater treatment and disposal in the area. Additional County review is required for development projects within the SPA to mitigate any potential impacts to public health. Property use is further limited by wastewater flow restrictions that may be imposed by the Central Coast Regional Water Quality Control Board (RWQCB).

In 2010, the County adopted a Wastewater Management Plan (WWMP) to address onsite wastewater issues in the SPA. These issues include a seasonally high groundwater table that

[1] Revisions to Los Olivos Wastewater System Preliminary Engineering Report, September 13, 2016, AECOM

allows discharge of some septic effluent directly into the water table; many small lots of insufficient size to properly accommodate an onsite septic system; many existing septic systems that do not meet current code requirements, and due to age or failure no longer treat effluent properly. Well and groundwater testing documented in the WWMP confirms high groundwater nitrate levels in areas of the Santa Ynez Valley.

In January of 2016 the Santa Barbara County Onsite Wastewater Treatment System Local Area Management Plan (LAMP)[2] went into effect, and includes permit, inspection and reporting elements. A permit issued by EHS is required for the construction of a new Onsite Wastewater Treatment System (OWTS) as well as the repair, modification or abandonment of existing systems. Inspection and approval of all work by EHS is required prior to backfilling any components or putting the system into service.[3]

The County WWMP identified a community wastewater treatment system as one possible method to treat wastewater and provide an option for replacing failing systems, particularly on small lots that can no longer support an onsite system that meets current codes. A community system would also enable redevelopment and modest expansion of current uses, as well as new development on vacant lots within the constraints imposed by the area's community plan. Currently, there is insufficient restroom access in the town's commercial core to accommodate visitors on the weekend year-round; portable restrooms are provided to serve visitors restricted from use of business restrooms.

In 2013, the County sponsored a Preliminary Feasibility Study (PFS) of wastewater treatment and disposal options[4] in response to the 2013 enactment of State Water Resources Control Board's Water Quality Control Policy regulating onsite systems.[5] This State policy affects both commercial and residential systems. A Focused Feasibility Study ("FFS") dated September 2016 provides a more detailed analysis of one treatment system reviewed in the 2013 study,[6] although did not evaluate a lower cost system limited to the downtown as a first phase.

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[2] cosb.countyofsb.org/uploadedFiles/phd/EHS/CH%20EHS%20LAMP%20Plan%20Document.pdf

[3] cosb.countyofsb.org/phd/default_all.aspx?id=19274&menu2id=174&pghead=18958&footer=18960

[4] Los Olivos Wastewater System Preliminary Engineering Report (Preliminary Feasibility Study, or "PFS"), AECOM, January 8, 2013

[5] Adopted pursuant to Assembly Bill 885.

[6] Revisions to Los Olivos Wastewater System Preliminary Engineering Report ("FFS"), AECOM, September 13, 2016

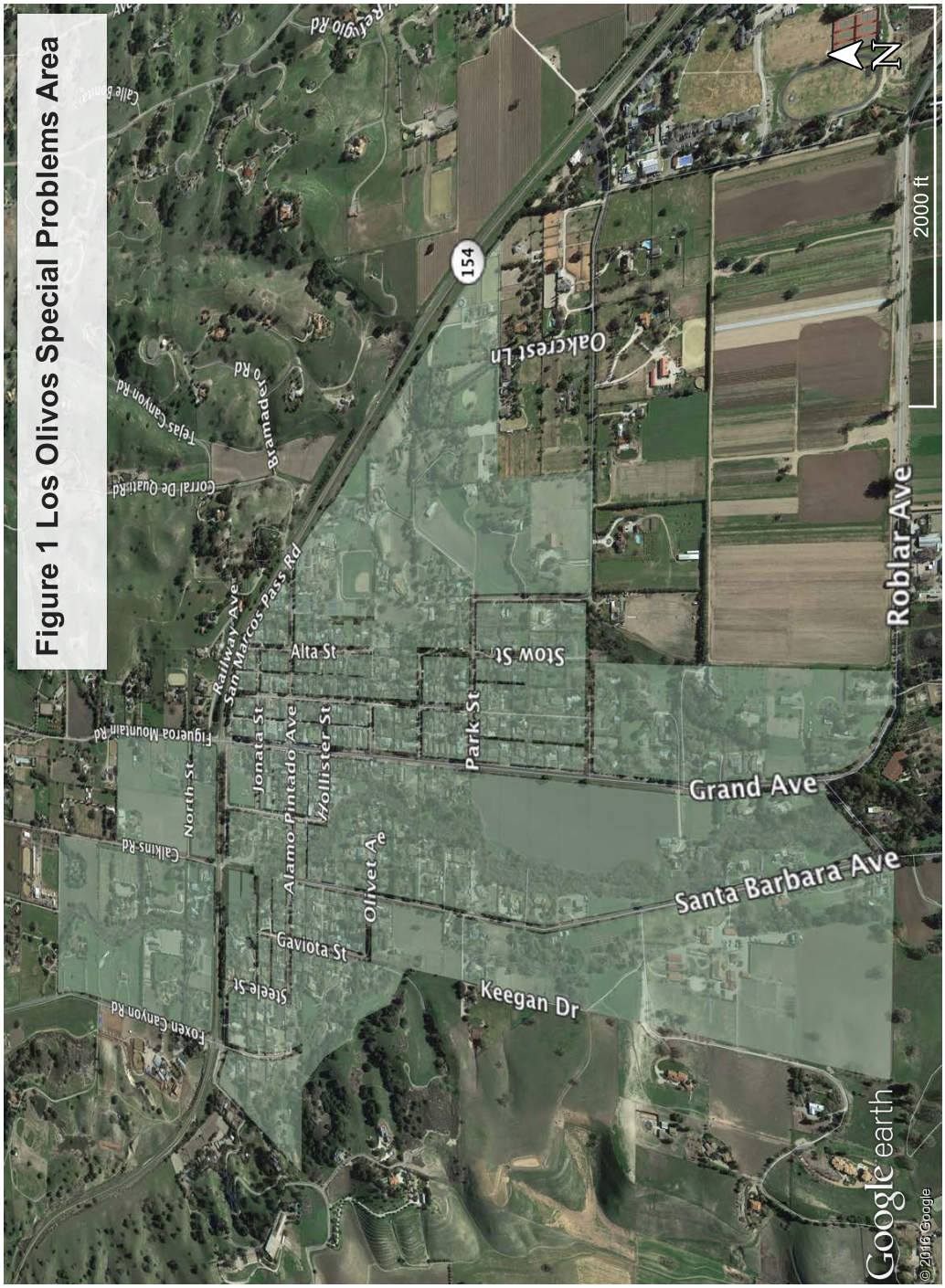
Figure 1 Los Olivos Special Problems Area
N
2000 ft
154
Oakcrest Ln
Roblar Ave
Grand Ave
Santa Barbara Ave
Keegan Dr
Gaviota St
Alta St
Park St
Stow St
Olivet Ave
Alamo Pintado Ave
Hollister St
Jonata St
North St
Railway Ave
San Marcos Pass Rd
Figuera Mountain Rd
Calkins Rd
Foxen Canyon Rd
Steele St
Bramadero Rd
Tejas Canyon Rd
Corral De Quati Rd
Google earth
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SUMMARY OF FINDINGS

1. UNDER THE STATUS QUO, THE ABILITY OF SMALL LOT HOMEOWNERS TO UPGRADE THEIR SYSTEM TO MEET TODAY'S MORE RESTRICTIVE STANDARDS MAY BE CONSTRAINED.

Without a new community wastewater system, property owners will be responsible, at their own cost, for the installation, upgrade, maintenance and repair/replacement of individual advanced onsite treatment systems to meet County and State water quality standards if their systems fail or they propose a remodel or new development. The community would also be exposed to additional regulatory action if groundwater quality concerns persist. State grants or low interest loans may be available to fund onsite systems, however, a local governance entity is needed to administer the program and manage potential clustered systems.

The 2016 FFS describes modifications to existing household septic systems to provide increased treatment of waste using a peat filter. The system requires the addition of a pump vault, peat filter and drain field at an estimated cost of $17,640 per household and annual maintenance cost of $895.[7] However, the 2016 FFS states that "..many houses may not have the required space to install the peat filter which would result in the need for a more compact and higher cost system". Costs could vary depending on design, provider and potential clustering.

2. ADMINISTRATIVE COSTS VARY MODESTLY BETWEEN THE GOVERNANCE OPTIONS.

The overall administrative costs of the three governance options studied vary by $75,000 annually when a treatment system is in place. Annexation to the SYCSD or creation of a County-dependent special district (e.g., a County Service Area or sanitation district), are likely to have lower administrative costs than a new Community Services District (CSD), ranging from an estimated $114,000 to $124,000 annually because of economies of scale. The SYCSD and County-dependent special district options could provide access to technical and financial resources not otherwise readily available to a CSD.

A Los Olivos CSD is estimated to cost from $110,000 annually prior to system operation, to $189,000 annually when a system is in place as shown in **Table S-1**. The CSD will have its own

[7] 2016 FFS, AECOM, Section 3.2.1. Other estimates of onsite systems indicate costs could be closer to $25,000.

board, elections, office space and equipment and will be required to prepare annual financial audits and reports, and maintain its own website; these expenses contribute to the greater costs estimated for this option. It may be possible for a CSD to contract or share staff with other agencies to achieve savings. Chapter 5 describes CSD cost assumptions in more detail.

Table S-1 Estimated Overhead and Administrative Costs - New Los Olivos CSD

Item	Annual Amount First Year	Annual Amount Buildout
Administration		
Board	6,000	6,000
Legal	20,000	20,000
Accounting/Finance	15,000	15,000
Office Space, Utilities	0	15,000
Equip/Supplies/Internet	2,500	5,000
Memberships	3,000	3,000
Other Overhead/Admin.	10,000	17,000
Subtotal (exc. Staff)	56,500	81,000
Admin. Staff Salaries/Benefits	$54,000	$108,000
TOTAL Expenditures	**$110,500**	**$189,000**
per Residential Unit Equivalent (RUE)	$283	$376
per RUE per month	$24	$31

3. CONSTRUCTION AND OPERATING COSTS FOR A WASTEWATER SYSTEM COULD BE PROHIBITIVE FOR ANY GOVERNANCE OPTION UNLESS COST SAVINGS CAN BE ACHIEVED, ADDITIONAL REVENUES OBTAINED, OR THE SYSTEM IS PHASED.

Costs to plan and construct the community wastewater system serving all of Los Olivos would total nearly $21 million, or about $40,500 to $45,700 per single-family unit (or commercial equivalent) depending on the amount of existing and new development that connects to the system.[8] This system would serve the entire community including new development; the 2013 AECOM study analyzed a more limited system serving only the commercial core and adjacent smaller parcel homes, with the ability to expand to serve other areas, at less than half the total

[8] Revisions to Los Olivos Wastewater System Preliminary Engineering Report, September 13, 2016, AECOM

cost.[9] The 2016 study only analyzed a community-wide buildout scenario; a phased approach which provides a lower total cost system for the downtown should be analyzed as one means, in conjunction with additional grant or other funding, and system cost refinements, to improve financial feasibility.

Construction cost reductions of 25 percent or more are possible with careful planning, resulting in costs of $33,500 to $37,800.[10] **Table S-2** summarizes annual assessments for construction and finance of a community wastewater system, which are assumed to be the same for all governance options. The annual assessment assumes a low-interest, 40-year USDA loan that is common for similar small systems. The total costs are spread to all existing and new development. A target cost reduction scenario described in the 2013 AECOM study assumes $1.5 million in grants and a reduction in "Engineering, Admin. & Legal" cost factor from 35% to 20%.

Table S-2 Estimated Annual Assessments for System Construction (Full Buildout)

Item	CSD	CSA	SYCSD Annexation
SYSTEM CONSTRUCTION			
TOTAL Improvement Costs	**$21,019,000**	**$21,019,000**	**$21,019,000**
Annual Assessment for Construction per RUE	$1,809	$1,809	$1,809
Annual Assessment per 1,000 Com'l Sq.Ft.	$2,601	$2,601	$2,601
Annual Assessment for Construction w/savings			
Annual Assessment for Construction per RUE	$1,461	$1,461	$1,461
Annual Assessment per 1,000 Com'l Sq.Ft.	$2,100	$2,100	$2,100

Cost reductions will be particularly important to reduce administration and system operations costs to a point where rates are comparable to other tertiary treatment systems in the region. Including possible savings suggested in the 2013 PFS, up to 50% operating cost reductions may be possible depending on final system design and whether operations can be contracted to a

[9] Larger residential lots outside the commercial core potentially could be served by onsite systems.

[10] Based on target capital cost reduction scenarios and potential operating cost reductions indicated in the 2013 AECOM feasibility study.

larger, lower cost agency. As noted previously, a phased approach that serves only the downtown could result in a lower-cost system.

If operating cost reductions can be achieved, annual rates for administration and system operations could range between $910 to $1,060 or about $76 to $88 per month, depending on new development connecting to the system, governance option, and manner of contracting for services, as shown in **Table S-3**. These operating charges are generally consistent with other wastewater rates in the region for tertiary treatment.[11] **Table S-3** also shows total annual costs including administration, operations, and assessments for system construction.

Table S-3 Total Annual Costs by Organizational Option (w/New Development)

Item	CSD	CSA	SYCSD Annexation
OPERATIONS (inc. Administration)			
Annual O&M per Residential Unit Equivalent (RUE)	$1,741	$1,611	$1,592
Annual O&M per 1,000 Com'l Sq.ft.	$830	$768	$759
Annual O&M w/savings			
Annual O&M per RUE	$1,058	$929	$909
Annual O&M per 1,000 Com'l Sq.ft.	$504	$443	$433
TOTAL ANNUAL COSTS FOR OPERATIONS + CONSTRUCTION ASSESSMENTS			
Total per Residential Unit Equivalent	$3,550	$3,420	$3,401
Annual per 1,000 Com'l Sq.Ft.	$3,431	$3,369	$3,360
TotalCosts w/savings			
Total per Residential Unit Equivalent	$2,519	$2,390	$2,370
Annual per 1,000 Com'l Sq.Ft.	$2,605	$2,543	$2,534

The actual rates will depend on the final system design and whether it serves the downtown only or the entire community at buildout, further engineering analysis, and decisions to be made by a future governing board. The estimated cost allocations in this analysis assume a greater effluent "strength" from commercial wastewater and therefore cost allocations to commercial uses are proportionately greater. For example, the SYCSD charges restaurants a higher rate (6 times a residential rate) for "dirtier" wastewater, in addition to greater flows. Certain

[11] See Appendix A.

equipment needed to handle peak tourist flows can also be allocated to commercial uses, which would reduce the capital and operating costs borne by residential uses.

4. A CSD OFFERS THE GREATEST DEGREE OF LOCAL CONTROL OVER TYPE, LEVEL, AND COST OF WASTEWATER TREATMENT SERVICES.

An independent Community Services District (CSD) would be governed by a board of directors elected by the residents of Los Olivos to manage the planning, construction and operation of a community wastewater system. The CSD would also provide a local governance entity that could represent the community in negotiations with other service providers, for example, to contract for administrative and/or operational services with another entity such as the County or SYCSD. If connection to a regional wastewater system proves to be a more viable option than a community system, the CSD could represent the community's interests in regional planning and implementation efforts.

While the only service considered at this time is the provision of wastewater-related services, the CSD could expand its services, with Santa Barbara Local Agency Formation Commission ("LAFCO")[12] approval and subject to protest proceedings of local voters. All taxes and assessments would be subject to approval by voters or property owners within the CSD.

Unlike other governance options, a Los Olivos CSD would control decisions about the system, its cost and capacity to allow new development. In contrast, the other governance options would result in a board representing a broader constituency controlling services and rates. For example, in the case of annexation to the SYCSD, the SYCSD board would vote on decisions affecting Los Olivos, and Los Olivos would constitute a minority of voters within the expanded district.

[12] State law creates a local agency formation commission in every county to consider annexations, city incorporations, and special district formations. The Santa Barbara LAFCO is made up of two members of the Board of Supervisors, two members from the county's special districts, two members from the county's cities, and a public member chosen by the remainder of the board.

2. OVERVIEW OF THE COMMUNITY

DEMOGRAPHICS AND LAND USE

The census population of the Los Olivos Census Designated Place (CDP) is 1,132 residents.[13] The CDP encompasses a slightly larger area compared to the Special Problems Area (SPA) and the Township. The 2016 FFS based its system design on the higher population, and assumed minimal growth over time; this approach helps to assure that adequate capacity will exist for potential demand over the next twenty years.

According to the Santa Ynez Valley Community Plan EIR, there are 228,990 square feet of developed commercial floor area in Los Olivos.[14] The commercial space consists of a mix of hotel, retail, restaurants and office space. There are approximately 25 small lot residential properties in the commercial core.

POTENTIAL NEW DEVELOPMENT

As a result of restrictive standards adopted by the Regional Water Quality Control Board in 1991, commercial projects in Los Olivos are limited to very low water uses and many proposed projects are eventually withdrawn.[15] A community wastewater system in Los Olivos, in addition to addressing existing threats to surface and groundwater resources, will also enable some level of commercial expansion in the Los Olivos core.

The 2016 FFS assumes approximately 120,500 square feet of new commercial development in the community. This assumption provides for some expansion of existing uses to include restroom facilities, and conversion of office uses to more water-intensive uses such as restaurants, as well as development of vacant parcels in the commercial core. Additional development would reduce capital and operating costs to existing property owners.

The MBR wastewater system analyzed by the 2016 FFS can adjust its capacity if needed to accommodate additional new development beyond the 120,500 square feet. The governing body of the Los Olivos wastewater system would determine the amount and timing of wastewater capacity expansion.

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[13] 2010 census.

[14] Table 4.9-24, EIR, pg.4.9-26.

[15] Santa Ynez Community Plan, October 9, 2009, pg. 115.

Mattei's Tavern Inn Development Plan

The development and expansion of Mattei's Tavern Inn could participate in the new community wastewater system; however, the current timeline for final approval and development of Mattei's is uncertain at this time, and it is not known whether the start of its construction will correspond with the timing of a community wastewater system.

The project, approved by the County Planning Commission on January 30, 2013, consists of a 64-guestroom cottage hotel, a gym, spa, swimming pool and a meeting/banquet room located adjacent to the existing Mattei's Tavern Inn. The Project's approvals require it to connect to a community wastewater system, if one is available at the time of construction; otherwise, the Project will need to construct its own onsite system with no further obligation to connect to a future community system.[16] The Project is anticipated to generate about 10,000 gpd of wastewater that would receive tertiary-level treatment and be used for onsite irrigation.[17]

After receiving its approvals, the property subsequently was sold, and the new owner is in the process of revising the Plan and going through a review process. Changes include adding two more rooms and reconfiguring the site plan, and reducing changes to interiors of existing historic structures. The County has not yet deemed the application complete; one of the outstanding issues is the status of the Project's wastewater system, which needs conceptual approval by the Regional Water Quality Control Board (RWQCB). Some of the concerns regarding the wastewater system, which differs from the original approved Plan, are whether landscape irrigation is an appropriate use for the treated effluent, whether all disposal could occur onsite, and if not, what options exist for offsite disposal. Depending on the outcome of RWQCB review, additional environmental documentation may be required as well as a Planning Commission hearing. If the Project is deemed to have no additional environmental impacts, it is anticipated that it could be approved at a staff level with no further public hearings required. The possibility exists that the property owner could revert to the original approved development.[18]

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[16] County of Santa Barbara Planning and Development, http://sbcountyplanning.org/projects/09DVP-00019/index.cfm

[17] County of Santa Barbara Planning and Development, http://sbcountyplanning.org/projects/09DVP-00019/index.cfm

[18] R.Berkson discussion with Joyce Gerber, Planner, County of Santa Barbara Planning and Development Department

Santa Ynez Valley Community Plan

The Santa Ynez Valley Community Plan EIR analysis of wastewater generation indicates the potential for a total of 1 million square feet of commercial uses split between retail and non-retail uses.[19] However, this level of development would require significant increases in density that may require 20 years or more before economic conditions justify increased multi-story density.

The Community Plan discusses a number of approaches to address wastewater issues in the area, including a community wastewater facility such as the system evaluated by AECOM, and a public sewer extension to Los Olivos such as a sewer extension and connection from the City of Solvang or the Chumash treatment facility to serve Ballard and Los Olivos.

The Community Plan noted that a sewer extension from the City of Solvang or the Chumash treatment facility raises significant policy concerns and potential environmental impacts associated with extending urban services through agricultural lands.[20] Comprehensive Plan policies in the Land Use and Agricultural Elements, as well as Local Agency Formation Commission (LAFCO) policies discourage extending sewer service to rural areas because such extensions can encourage development intensification that is incompatible within agricultural areas. The Community Plan also notes that "sewer extension along the Alamo Pintado corridor would also be inconsistent with Santa Ynez Valley Community Plan policies, which recognize and support the Santa Ynez Valley Community Plan policies which recognize and support preservation of distinct, and separate urban townships, and the preservation and enhancement of agriculture as a vital component of the Valley's economy and rural character."

[19] Table 4.9-20, EIR, pg.4.9-24.

[20] Santa Ynez Valley Community Plan, October 6, 2009, pg. 118.

ASSESSED VALUE AND EXISTING TAXES

Table 1 indicates the assessed value in the Los Olivos area. This total value provides a measure of feasibility when compared to the debt issuance required for a wastewater system, and to the annual assessment payments. These comparisons are discussed in Chapter 6.

Table 1 Summary of Assessed Value in Los Olivos

Land Use	Parcels	Assessed Value
Residential		
Rural Residential	49	na
Single Family Residence	282	$133,328,000
Residential Income 2-4 Units	5	$4,277,000
Total	336	$137,605,000
Commercial	57	$63,390,000
Vacant	23	$4,184,000
Other (non-taxable)	6	$0
TOTAL	**422**	**$205,179,000**

Source: Santa Barbara County Assessors Office, Online Parcel Details, 2016.
Parcel list provided by Los Olivos Reclamation Committee.
Boundaries correspond to Special Problems Area. Rural residential excluded.

EXISTING TAXES AND ASSESSMENTS

In Los Olivos, property owners pay for several school bonds in addition to their basic 1% of assessed value. The payments are shown in **Table 2**. The bonds increase the basic property tax bill by about 7.5%, for a combined rate of 1.075% of assessed value.

Table 2 Existing Basic 1% Property Tax and Additional Bonds

Fund	Rate
0000 Basic 1% (Prop 13/AB8) Taxes	1.00000%
7251 - Los Olivos Elem Bond 1996	0.01974%
7255 Los Olivos Elem Bond 2006	0.03000%
9421 Allan Hancock CC Bond 2006	0.02500%
Total	**1.07474%**

Source: County of Santa Barbara, Auditor-Controller's Office

These relatively low existing tax overrides provide additional financial capacity for wastewater system assessments. Industry standards general limit combined ad valorem and tax overrides to a maximum of 1.8 to 2.0% of total assessed value.

3. GOVERNANCE OPTIONS

Construction, management and operation of a new wastewater system in Los Olivos require a government agency. The characteristics, advantages and disadvantages of several primary options under consideration are described below.

STATUS QUO

Without a new wastewater system, property owners will be responsible, at their own cost, for the installation, upgrade, maintenance and repair/replacement of individual systems to meet County and State water quality standards if their systems fail or they propose new development. The community would also be exposed to additional regulatory action if groundwater quality concerns persist. State grants or low interest loans may be available to fund advanced onsite treatment systems, however, a local governance entity is needed to administer the program and manage potential clustered systems.

The 2016 FFS describes modifications to existing household septic systems to provide increased treatment of waste using a peat filter. The system requires the addition of a pump vault, peat filter and drain field at an estimated cost of $17,640 per household and annual maintenance cost of $895.[21] However, the 2016 FFS states that "..many houses may not have the required space to install the peat filter which would result in the need for a more compact and higher cost system". Costs could vary depending on design, provider and potential clustering.

FORM A COMMUNITY SERVICES DISTRICT (CSD)

A Community Services District (CSD) is a special district formed under California law.[22] Since the enactment of the Community Services District Law in the 1950s, more than 300 communities have formed community services districts to achieve local governance, provide needed public facilities, and supply public services.[23] The current study assumes that a CSD would be limited to wastewater and recycled water-related services, but it could provide a governance framework for other services in the future. Any new services would require Santa Barbara LAFCO approval

[21] 2016 FFS, AECOM, Section 3.2.1.

[22] Gov. Code Sec. 61000-61250.

[23] Gov. Code Sec. 61001(a)(4).

and potentially voter approval of any tax or assessment required to fund the services, and would be subject to a protest vote (greater than 50% protest would stop the proceedings).

FORMATION AND GOVERNANCE

CSD formation may be initiated by resolution of the County Board of Supervisors,[24] or by a petition signed by no less than 25 percent of registered voters living within the proposed district boundaries.[25] LAFCO approval is required. Either majority voter approval or voter or property owner approval of, respectively, a special tax or assessment may be necessary to generate sufficient revenue to carry out its purposes.[26]

The CSD's elected Board of Directors would establish policies for the operation of the district. An "independent" CSD elects its five board members from residents of the district.

SERVICES

This Study assumes that a CSD would provide services that include the collection, treatment and disposal of wastewater and recycled water. CSDs also may provide a broad range of other facilities and services, for example, parks and recreation, landscape maintenance and lighting.[27] Other services that may be activated at a future time ("latent" services) would be subject to approval by LAFCO[28] and a protest vote (greater than 50% protest would stop the proceedings). With the exception of funding an Area Planning Commission, a CSD has no authority over land use decisions; this power remains with the County.

ZONES

Whenever the board determines that it is in the public interest to provide different services, provide different levels of service, provide different facilities, or raise additional revenues within specific areas of the district, it may form one or more zones. A zone may be applicable to the

[24] Gov. Code Sec. 61013(a). It could also be initiated by other special districts, such as Santa Ynez River Water Conservation Improvement District No. 1, but the County is considered the most logical agency to initiate a proposal.

[25] Gov. Code Sec. 61011.

[26] Gov. Code Sec. 61014(e)(2).

[27] See Gov. Code Sec. 61100, which lists the services that CSDs are authorized to provide.

[28] Gov. Code Sec. 61106.

extent that additional services are considered for the Los Olivos commercial core, which would pay for those services without taxing other areas.

Revenues and Expenditures

A CSD has broad authority. It can establish rates and charges for services[29] and receive grant and other revenues from other public agencies.[30] The district may levy special taxes or benefit assessments.[31] A district may charge "standby charges" for sewer that allows for the collection of a service charge or assessment based on the benefit derived from the availability of sewer, whether or not the service is utilized.[32] A district may issue General Obligation bonds (not to exceed 15 percent of the district's assessed value),[33] revenue bonds, and Mello-Roos Community Facilities District bonds.[34] All charges and fees are required to equal the cost of the service or facility; utility service charges may be adopted and increased through the Proposition 218 majority protest process. All taxes require voter approval or allow for a protest process.

Operating Costs

Estimated system operating costs are based on AECOM estimates for the proposed system described in Chapter 4. The operating costs include staff, supplies and equipment, and reserves for replacement. It is assumed that all governance options would incur similar costs for operation of the system and would allocate and bill those costs to the Los Olivos ratepayers. The billed costs also would include administrative and overhead charges as described below.

Administration and Overhead

CSD cost estimates assume a part-time general manager and secretary/treasurer; these positions may be contracted. The CSD would also require contract services for legal and financial reporting. A small 500 square foot office space is assumed, plus utilities and office equipment/supplies. CSD hearings would be held in a local school or similar facility.

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[29] Gov. Code Sec. 61115.

[30] Gov. Code Sec. 61016.

[31] Gov. Code 61121-22

[32] Gov. Code 61124, pursuant to the Uniform Standby Charge Procedures Act, Chapter 12.4 (commencing with Section 54984) of Part 1 of Division 2 of Title 5.

[33] Gov. Code Sec. 61126, pursuant to Article 11 (commencing with Section 5790) of Chapter 4 of Division 5 of the Public Resources Code.

[34] Gov. Code Sec. 61126-27.

The initial years prior to wastewater system operations will primarily revolve around planning, community workshops and consensus gathering, seeking grants and other funding, and special studies. It is anticipated that there will be no need for office space, and that staff requirements will be less. **Table 3** illustrates a potential budget. The initial costs could be funded through some combination of community contributions and assessments. Actual costs will depend on the final system design and decisions to be made by a future board.

Table 3 Estimated Overhead and Administrative Costs - Los Olivos CSD

Item	Annual Amount First Year		Annual Amount Buildout	
Administration				
Board	6,000		6,000	(3)
Legal	20,000		20,000	
Accounting/Finance	15,000		15,000	
Office Space, Utilities	0	(5)	15,000	(1)
Equip/Supplies/Internet	2,500	(6)	5,000	
Memberships	3,000		3,000	
Other Overhead/Admin.	10,000		17,000	(2)
Subtotal (exc. Staff)	56,500		81,000	
Admin. Staff Salaries/Benefits	$54,000	(5)	$108,000	(4)
TOTAL Expenditures	**$110,500**	(5)	**$189,000**	
per Residential Unit Equivalent (RUE)	$283	(7)	$376	(7)
per RUE per month	$24		$31	

(1) Assumes 500 sq.ft. at $2.50 per month.
(2) Other/Contingency at 10% of other admin costs inc. staff.
(3) Assume stipend of $100/month, 5 board members.
(4) 50% GM/Operator at $100k, 50% Sec'y Treasurer $60k, +35% taxes, benefits.
(5) Assumes first year (or more) primarily planning with no operational staff or contracts to administer; 50% staff assumed, and no office space required.
(6) Equipment/Supplies/Internet reduced first year due to no office space.
(7) Residential Unit Equivalents are "Load Adjusted" for commercial strength factor.

Financial Controls and Accountability

The CSD Board must adopt an annual budget, and may establish separate reserve funds from contingencies and capital. Annual independent financial audits and reports to the State are required.

Advantages and Disadvantages of Forming a CSD

Governance

- **Pro**: A Los Olivos-elected Board of Directors provides greater local control. By contrast, annexation to a larger district, such as the SYCSD, or formation of a County-dependent special district governed by the Board of Supervisors would result in decisions being made by governing boards in which Los Olivos is a small constituency.
- **Pro**: A CSD could represent the community in the planning and implementation process if a regional wastewater system proves to be a more viable option than a local community system.
- **Con:** Relatively small districts can have difficulty attracting qualified board members. However, Los Olivos currently appears to benefit from strong community participation by residents with a range of professional skills and experience.
- **Con**: The board of a small district, which is limited to resident, could be more easily dominated by special interests whose needs diverge from other community interest; for example in Los Olivos, the commercial core has a unique set of needs that differ from surrounding residential areas. This potential issue may be mitigated by the creation of zones to help assure that residential areas do not pay for services needed in commercial areas, and vice versa.

Services

- **Pro**: A Los Olivos CSD could tailor services to the needs of the local community. It would not be subject to decisions made to the benefit of a larger community of interest that may diverge from the needs of Los Olivos. As noted above, the latter issue may be mitigated by the creation of a Los Olivos "zone" if annexed to SYCSD, although zone limitations may also limit the ability to expand the range and type of services provided in Los Olivos.
- **Pro**: A CSD could see opportunities to reduce operating costs by contracting with a larger entity, for example, the SYCSD or the County Public Works Department.
- **Pro**: A CSD could serve as the local governing entity necessary to obtain State grants and loans for upgrade of onsite systems, which may be an option for larger residential properties in combination with a community system serving the commercial core.

Revenues and Expenditures

- **Con**: A Los Olivos CSD provides a smaller revenue base at greater financial risk of adverse, unanticipated financial events relative to other governance options.
- **Con**: A relatively small district will benefit less from potential "scale economies" compared to a larger entity that may contract at lower costs. This can be addressed to some degree by the CSD contracting with a larger entity such as the SYCSD or the County.
- **Con**: A CSD will incur costs for annual audits and financial reports.

Financial Controls and Accountability

- **Pro**: A locally elected board consisting of Los Olivos residents will be financially motivated to minimize costs, maximize the value of district services and contract oversight since they will also be ratepayers of the district.
- **Con**: Annual audits, financial reports, public noticing and disclosure can represent a greater cost and effort to a small district compared to larger entities, and create administrative costs that require higher fees and rates.
- **Con**: Public information and outreach (e.g., website) represent require more effort and cost by a small district relative to its staff and financial resources, creating risks of reduced transparency and accountability.

FORM A COUNTY-DEPENDENT SPECIAL DISTRICT

A common form of County-dependent special district is a County Services Area (CSA), which is a special district formed under California law.[35] County Service Areas (CSAs) may provide any service that a county can provide, and are the most common form of special district in California.[36] Another example of a County-dependent district is a county sanitation district; unlike a CSA, which potentially can provide a range of services, a sanitation district is limited to sanitation. This report generally refers to a CSA due to its potential for additional services, however, similar issues apply to sanitation districts.

The Laguna County Sanitation District in Santa Barbara County, with annual revenues in excess of $13 million, is an example of a County dependent district. Santa Barbara County also manages

[35] Gov. Code Sec. 25210 - 25217.4

[36] What's So Special About Special Districts? (Fourth Edition), Senate Local Government Committee, October 2010

other CSAs for sanitation purposes, for example CSA 12, but these are generally much smaller service areas largely limited to revenue collection, and have no full-time staff.

County-dependent special districts are governed by the County Board of Supervisors, but may appoint an advisory body to provide input.

FORMATION AND GOVERNANCE

A County-dependent special district may be formed by resolution of the County Board of Supervisors,[37] or by a petition signed by no less than 25 percent of registered voters living within the proposed boundaries.[38] LAFCO approval is required.[39] Either majority voter approval or voter or property owner approval of, respectively, a special tax or assessment may be necessary to generate sufficient revenue to carry out its purposes.[40]

The CSA is governed by the county board of supervisors. Los Olivos' 1,000 residents represent a very small percentage of the population of the county that elects the supervisors. The board of supervisors may appoint one or more advisory committees to give advice to the board of supervisors regarding a County-dependent special district's services and facilities.[41]

SERVICES

A County-dependent special district can provide a range of services similar to those that a CSD can provide.[42] CSA services may include the collection, treatment, or disposal of sewage, wastewater, recycled water, and stormwater.[43] If the board desires to exercise a latent power, the board shall first receive the approval of the local agency formation commission.[44]

ZONES

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[37] Gov. Code Sec. 25211.3.

[38] Gov. Code Sec. 25211.1.

[39] Gov. Code Sect. 25211.4.

[40] Gov. Code Sec. 25211.4(f)(2).

[41] Gov. Code Sec. 25212.4.

[42] Gov. Code Sec. 25213.

[43] Gov. Code Sec. 25213 (g).

[44] Gov. Code Sec. 25213.5 (a), pursuant to Article 1 (commencing with Section 56824.10) of Chapter 5 of Part 3 of Division 3.

Whenever the board determines that it is in the public interest to provide different services, provide different levels of service, provide different facilities, or raise additional revenues within specific areas of the district, it may form one or more zones.[45] A zone may be applicable to the extent that additional services are considered for the Los Olivos commercial core, which would pay for those services without taxing other areas.

REVENUES AND EXPENDITURES

A CSA has broad powers. It can establish rates and charges for services[46] and receive grant and other revenues from other public agencies.[47] A CSA may levy special taxes or benefit assessments for capital improvements and operations.[48] A district may charge "standby charges" for sewer that allows for the collection of a service charge or assessment based on the benefit derived from the availability of sewer, whether or not the service is utilized.[49] A district may issue General Obligation bonds (not to exceed 5 percent of the district's assessed value)[50] and revenue bonds.[51] All charges and fees are required to equal the cost of the service or facility; utility service charges may be adopted and increased through the Proposition 218 majority protest process. All taxes require voter approval or allow for a protest process.

Although not assumed in the current analysis, the board may loan County funds to the CSA, contingent upon repayment within the same year unless the board extends the repayment period by 4/5ths vote.[52] The board of supervisors may also establish a revolving loan fund up to $10 million for loans to CSAs, and repayment to occur within 10 years.[53]

Operating Costs

[45] Gov. Code Sec. 25217 - 25217.4

[46] Gov. Code Secs. 25215.4–25215.5.

[47] Gov. Code Sec. 25214.2 (a).

[48] Gov. Code 25215.2–25215.3, 25216.3.

[49] Gov. Code 61124, pursuant to the Uniform Standby Charge Procedures Act, Chapter 12.4 (commencing with Section 54984) of Part 1 of Division 2 of Title 5.

[50] Gov. Code Sec. 25216.1.

[51] Gov. Code Sec. 25216.1.

[52] Gov. Code Sec. 25214.4 (b).

[53] Gov. Code Sec. 25214.5 (a).

Estimated operating costs are based on AECOM estimates for the proposed system. The operating costs include staff, supplies and equipment, and repair/replacement. It is assumed that all governance options would incur similar costs for operation of the system and would allocate and bill those costs to the Los Olivos ratepayers. Cost savings may be possible, depending on final system design and decisions to be made by a future board regarding staffing, i.e., contracting with private firms or sharing staff with other public entities.

Allocated costs would include administrative and overhead charges as described below.

Administration and Overhead

CSA cost estimates assume that existing County Public Works Department staff would provide management and administrative services needed by the County Service Area (CSA) or dependent county sanitation district, and the County would apply a cost allocation to bill for services from other County departments, for example, legal, accounting, buildings, etc.

The estimates shown in **Table 4** will be refined by the County if this option moves forward, and may vary depending on the final configuration of the wastewater system.

- **Management and Administration** – The initial estimate assumes that 0.25 FTE (approximately 10 hours/week) will be required for management oversight and direction, including contract review, reporting and interaction with ratepayers and a potential local advisory committee, management of any legal issues that may arise, and other management tasks. A staff cost for the manager, including salary, taxes and benefits, assumes $220,000 based on a review of County management positions. Administrative support would be required; the initial cost estimates assumes approximately 0.20 FTE, or 8 hours/week, at a total cost of $120,000 including salary, taxes and benefits.

  Actual costs may vary depending on the specific staff required and their salaries; for example, the administrative support may include services of a contract tech, and accounting/payment services from financial staff.

- **Indirect Cost Allocations** – The preliminary budget estimate assumes a $20,000 annual indirect cost allocation. The amount will depend on the extent to which the CSA or dependent county sanitation district requires services from other County departments. By comparison, indirect County charges to the Laguna County Sanitation District, which has revenues of about $13.5 million, is charged approximately $100,000 annually for indirect County services.

- **Other** – An additional $25,000 annually is included for miscellaneous expenses, for example, periodic system management reports and other plans and studies, expenses related to public information materials, and any extraordinary legal or technical services.

As noted above, wastewater system operating costs will be similar to the other governance options, depending on specific staff, contracting and other decisions to be made by future boards, and will be funded by service charges that include the overhead/administration charges.

Table 4 Estimated Administration Costs – CSA/County-dependent Special District

Item	Annual Amount
Administration	
Staff Salaries/Benefits	$79,000
Other Admin/Overhead	45,000
TOTAL Expenditures	**$124,000**

(1) Assumes 0.25 FTE Exec. at $220,000 w/taxes, benefits and 8 hrs/wk Contract Tech/Finance at $120,000.
(2) Includes $20,000 County cost allocation for legal, finance, etc., and $25,000 misc and contingency.
Note: County cost allocation to Laguna approx. $100k. (Laguna service revenues are about $13.5 million).

Financial Controls and Accountability

The board is required to adopt an annual budget, and provide for regular audits of CSA accounts.[54]

Advantages and Disadvantages of Forming a CSA

Governance

- **Pro**: A CSA or other County-dependent special district is consistent with LAFCO policies, second only to city annexation in priority, which generally encourage consolidation of functions with existing agencies, and discourage creation of new, potentially redundant public entities.
- **Pro**: No need for costs for ongoing local elections, as required for a CSD.
- **Con:** Board of Supervisors serves as CSA board, and therefore the community does not have direct control of the CSA. This can be partially addressed by creation of an advisory

[54] Gov. Code Sec. 25214.

body to oversee CSA affairs and to provide direction to the Board on CSA policy and implementation.

- **Con**: This option requires concurrence and support by the County Board of Supervisors.

Services

- **Pro**: The County's Public Works Department has the experience and expertise to manage a Los Olivos wastewater system, and to seek grant funding opportunities.

Revenues and Expenditures

- **Pro**: A County-dependent special district is likely to provide administrative and management economies of scale and cost savings compared to formation of a new CSD.
- **Pro**: While the County-dependent special district is intended to be financially self-supporting from revenues generated within its boundaries, the County could provide short-term loans and other financing assistance if necessary, at the discretion of the Board of Supervisors.
- **Con**: County-dependent special district costs would include allocation of County overhead costs that could offset, to some degree, the savings noted above.

Financial Controls and Accountability

- **Pro**: As noted above, annual financial auditing and financial reporting is provided as part of overall County process, reducing associated costs and helping to assure disclosure and transparency. An advisory committee would further improve financial review and disclosure.

ANNEX TO SANTA YNEZ CSD (SYCSD)

The Santa Ynez Community Services District (SYCSD) was formed November 15, 1971 and operates pursuant to the Community Services District Act (Government Code Section 61000 et seq.).[55] It is located in northern Santa Barbara County, primarily north of State Highway 246, three miles east of the City of Solvang and about a mile and a half west of State Highway 154, and 4.5 miles from Los Olivos.

The SYCSD is governed by a five-member board of directors, elected at-large. A General Manager is responsible for administrative functions.

[55] Santa Ynez Community Services District Municipal Service Review and SOI Update, Santa Barbara LAFCO, April 2012

The District collects and transports wastewater. Effluent from the District is treated and disposed of by the City of Solvang' s wastewater treatment plant. The District, by contract, maintains the collection lines, pump station and wastewater treatment plant for the Chumash Tribe Indian Reservation. The District provides street lighting in the community.

ANNEXATION AND GOVERNANCE

The SYCSD could apply to LAFCO for the annexation of Los Olivos, contingent on LAFCO approval of the District's pending application to first amend its Sphere of Influence to include Los Olivos. If it approves the annexation, LAFCO would conduct protest proceedings, including mailing notice to voters. LAFCO would require an election on the annexation proposal if at least 25 percent, but less than 50 percent, of voters protest the annexation; a protest of 50 percent or more would terminate the proceedings. If fewer than 25 percent protest is received at the protest hearing, the annexation can proceed.[56]

The SYCSD board would provide policy direction and oversight of District operations, including services to Los Olivos. Residents of Los Olivos would participate in elections for the five directors elected "at large" from the entire territory of the SYCSD including annexed areas of Los Olivos. Los Olivos' 1,000 residents would represent approximately 20 percent of the combined 5,000 SYCSD residents following annexation. Participation on the SYCSD board will depend on timing of open positions on the SYCSD board.

SERVICES

The SYCSD would manage and operate the Los Olivos wastewater system. Existing SYCSD staff would manage services and administrative functions, and existing technical staff would handle ongoing maintenance functions, augmented by contract services as needed.

ZONES

As noted for the formation of a new CSD, if the SYCSD board of directors determines that it is in the public interest to provide different services, provide different levels of service, provide different facilities, or raise additional revenues within specific areas of the district, it may form one or more zones.[57]

[56] Government Code Sec. 57075 et seq.
[57] Gov. Code Sec. 61140 (a).

LAFCO Terms and Conditions could require that the SYCSD create a separate zone for the annexed territory. Assuming LAFCO imposed such a term, this zone would provide for the establishment of rates specific to services to Los Olivos, and could also establish that services in Los Olivos could be limited solely to wastewater-related services.

Revenues and Expenditures

The SYCSD would charge user fees to Los Olivos residents who are connected to the wastewater system to fund operations, including an allocation of SYCSD overhead and administrative costs.

In addition to testing and maintenance responsibilities, the SYCSD would manage and provide oversight for the system's construction and implementation, future connections, and repair and replacement. The District would also facilitate the funding of initial construction and expansion, including seeking grants, and overseeing any assessment and debt issuance process. Revenues to fund maintenance and capita, including a share of SYCSD administration and overhead, would come exclusively from revenues generated from within the Los Olivos area.

Operating Costs

Estimated operating costs are based on AECOM estimates for the proposed system. The operating costs include staff, supplies and equipment, and reserves for replacement. It is assumed that all governance options would incur similar costs for operation of the system and would allocate and bill those costs to the Los Olivos ratepayers. The billed costs would include administrative and overhead charges as described below.

Administration and Overhead

Table 5 estimates the allocation of SYCSD administrative and overhead costs to Los Olivos property owners proportionate to the number of connections.[58] In addition to operating and capital costs for the Los Olivos wastewater system, which are addressed separately in this report, it is assumed that SYCSD would allocate a share of the following costs:

- **General Manager and Secretary/Treasurer** – Currently the SYCSD allocates a percentage of the cost of its General Manager and Secretary/Treasurer to different functions, including administration; operations; and the Tribe collection system and treatment plant. Allocating these costs (other than the Tribe's costs) over a broader rate base that includes Los Olivos could improve economies of scale and reduce costs to existing SYCSD ratepayers. The estimated Los Olivos allocation is based on the approximate number of Los Olivos connections relative to total SYCSD connections.

[58] Correspondence with SYCSD, August 31, 2016.

The Los Olivos operating costs would account for nearly 50% of SYCSD costs, post-annexation, but only 33% of connections. This 33% factor is applied to the General Manager and Secretary/Treasurer costs (including taxes, benefits and workers comp) currently allocated to SYCSD operations totaling $141,500, for an allocation of $47,200.

- **Overhead Contribution and Administrative Fee** – In addition to a share of the General Manager and Secretary/Treasurer costs allocated to operations, it is assumed that Los Olivos rates would include a share of SYCSD's current overhead and administrative costs totaling approximately $200,000 (after deducting Tribe contributions). A 33% share would allocate $66,900 to Los Olivos.

The estimated annual costs of $114,100 allocated to Los Olivos would be refined if this option moves forward. Actual charges will not be determined until the Los Olivos system has been designed and the area included within the SYCSD Sphere of Influence. The staff allocations assume that no additional administrative or overhead staff will need to be hired following annexation and operation of the Los Olivos system, and that the administrative staff can handle the additional responsibilities without adversely affecting services to existing SYCSD ratepayers.

Table 5 Estimated Overhead and Administrative Cost Allocations - SYCSD Annexation

Item	Amount		Comments
Operating Costs			
Los Olivos Operating Costs (1)	685,934	49%	Estimate from 2013 PFS (under revision)
SYCSD Operating Costs (2)	711,650	51%	Excluding administration & Tribe collection/plant
Total	$1,397,584	100%	SYCSD Operations after Los Olivos Annexation
Connections			
Los Olivos	400	33%	
SYCSD	800	67%	
Total	1,200	100%	
Management Allocations: Current SYCSD Operations (3)			
General Manager 42%	78,000		42% of salary w/ 35% taxes, benefits, workers comp
Secretary/Treasurer 60%	63,526		60% of salary w/ 35% taxes, benefits, workers comp
Total	$141,526		Management costs allocated to expanded operations
Total Allocation to Los Olivos Operations (4)			
Management	47,175		33% LO share of total connections times total op's management
Admin/Overhead	66,900		33% LO share of total connections times total OH/admin
Total	**$114,075**		note: Tribe contributions deducted from total OH/admin

(1) Estimate from 2013 PFS (under revision); includes operations staff, equipment and supplies, reserves for repair/replacement. Updates costs will add insurance.
(2) FY16-17 budget, Operations excluding Tribe collection/plant.
(3) FY16-17 budget, share of GM and Secretary/Treasurer salaries allocated to operations (excludes Tribe).
(4) Admin/Overhead allocation based on admin. and bldg. budget of $245,700 less Tribe contribution of $45,000. Allocation proportionate to Los Olivos connections as % of total.

Financial Controls and Accountability

The SYCSD budget and financial reports would document and account for services to and revenues from the Los Olivos area. Costs, revenues, assets and liabilities specific to Los Olivos should be separately tracked; the creation of a Los Olivos zone would help to segregate the financial reporting for the area.

The SYCSD would be responsible for public outreach and dissemination of financial and other information. The District has provided information and documents requested for the current Study in a timely manner, but the District's website has not been operational since late 2015, limiting its ability to provide information to the community.

Advantages and Disadvantages of Annexation to SYCSD

Governance

- **Pro**: Annexation to SYCSD is consistent with LAFCO policies, third in priority behind city annexation and County CSA formation, which generally encourage consolidation of functions with existing agencies, and discourage creation of new, potentially redundant public entities.
- **Pro**: Costs of elections would be shared with the rest of SYCSD.
- **Con**: The SYCSD board will manage services provided to Los Olivos, rather than a locally elected board of Los Olivos residents, as would be the case with a new CSD. This can be addressed to some degree by creation of an advisory board to provide input to the SYCSD.
- **Con**: The SYCSD board, rather than a locally elected board, would control decisions regarding wastewater capacity and expansion, as well as costs, indirectly affecting new growth and development in Los Olivos and the Santa Ynez Valley, particularly if a regional wastewater plant is SYCSD's option for Los Olivos.

Services

- **Pro**: The SYCSD has the experience and expertise to manage a Los Olivos wastewater system.
- **Con:** The SYCSD could expand services to SYCSD and/or adopt charges for services not desired by Los Olivos residents, who would represent a minority of the SYCSD electorate. This can be addressed by creation of a separate Los Olivos zone as a LAFCO condition that would limit services in Los Olivos to wastewater.
- **Con:** the SYCSD board would determine the expansion of services in Los Olivos. Expansion of services would also be subject to any LAFCO conditions restricting services in Los Olivos or SYCSD, and subject to Los Olivos voter approval of new Los Olivos taxes.

New taxes and charges applicable to the entire SYCSD would be subject to voter approval the entire SYCSD electorate, of which Los Olivos represents a minority.

Revenues and Expenditures

- **Pro**: Annexation to SYCSD, similar to the formation of a County-dependent special district, is likely to provide administrative and management economies of scale and cost savings compared to formation of a new CSD.
- **Pro**: While services to the Los Olivos area, or zone, would be intended to be financially self-supporting from revenues generated within its boundaries, the SYCSD could provide short-term loans and other funding if necessary, as determined by the SYCSD board. The availability of SYCSD resources is likely to be less relative to a County-dependent special district option.
- **Pro**: Annual financial auditing and financial reporting is provided as part of current SYCSD operations, reducing associated costs to Los Olivos.
- **Con**: The SYCSD costs and charges to Los Olivos would include an allocation of SYCSD overhead costs that could offset, to some degree, the savings noted above.

Financial Controls and Accountability

- **Pro**: As noted above, annual financial auditing and reporting is provided as part of current SYCSD operations, reducing associated costs and helping to assure disclosure and transparency. A Los Olivos advisory committee would further improve financial review and disclosure.
- **Con**: The SYCSD's website has been non-operational since November 2015, raising concerns about SYCSD's ability to communicate with its customers in an efficient and transparent manner.

SANTA YNEZ WATER CONSERVATION DISTRICT ID-1

The Santa Ynez River Water Conservation District, Improvement District No. 1 (SYRWCD ID-1) is not authorized by State law to provide wastewater services, although it has latent powers to enter into contracts to accept, treat and dispose of treated wastewater from other agencies. SYRWCD ID-1 sought legislation in 2008 that would have expanded its services to include wastewater, but the Governor vetoed the bill.[59] Therefore, SYRWCD ID-1 is not considered a viable entity at this time to manage a Los Olivos wastewater system in the absence of a separate public entity in Los Olivos. A newly formed Los Olivos CSD or County-dependent district could consider contracting with ID-1 if cost efficiencies could be achieved.

[59] CURRENTS AND UNDERCURRENTS IN THE SANTA YNEZ VALLEY, Santa Barbara Grand Jury, 5/6/2010.

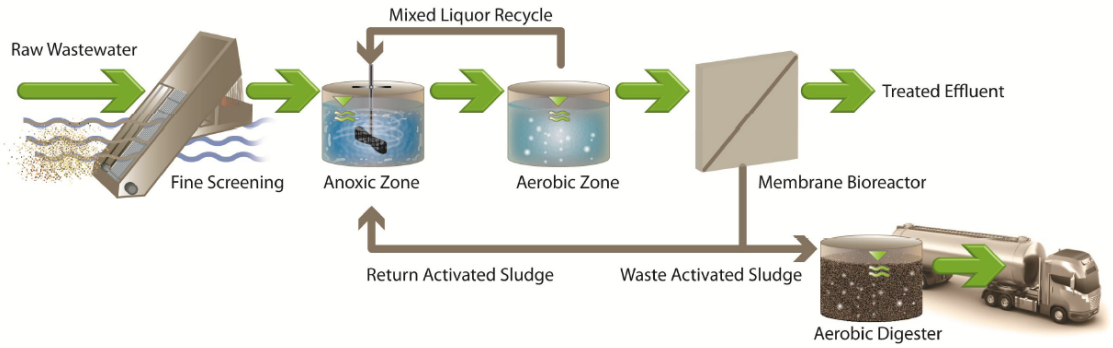
4. WASTEWATER SYSTEM

A recent report to Santa Barbara County's Environmental Health Services Department[60] refined the analysis prepared in 2013 of Los Olivos wastewater system options.[61] The 2016 Focused Feasibility Study ("FFS") further analyzed the Membrane Bioreactor ("MBR") option. This option was one of four treatment systems studied in 2013; MBR was analyzed further in the 2016 report because of its reduced footprint relative to other options, and its higher quality effluent compared to other methods.[62] The 2016 FFS did not evaluate connection to a regional system. The 2016 study did not evaluate a phased system serving the commercial-core, which could significantly reduce total costs, while other larger residential properties upgrade onsite systems.

PRELIMINARY SYSTEM

The following graphic illustrates the basic components of MBR. As described in the FFS, the MBR process consists of activated sludge reactors (or aeration basins) that use membrane filtration for solids separation. The sludge must be removed and separately disposed. The system includes a 300,000-gallon equalization tank or basin installed to smooth the spikes in flow during peak tourism days.

Figure 2 Components of a Membrane Bioreactor System



Source: AECOM, 2016

[60] Revisions to Los Olivos Wastewater System Preliminary Engineering Report ("FFS"), AECOM, September 13, 2016

[61] Los Olivos Wastewater System Preliminary Engineering Report (Preliminary Feasibility Study, or "PFS"), AECOM, January 8, 2013

The treated effluent is suitable for certain types of non-potable reuse ("NPR"), including agricultural irrigation. However, the FFS concluded that an NPR system would be of limited benefit due to minimal demand for irrigation during the winter season and costs to construct winter storage facilities, and lack of industrial users with large water demands. If a suitable number of NPR users could be identified, some cost savings could be achieved in constructing the NPR distribution lines in common with the collection system.[63]

The alternative to NPR is the use of infiltration ponds, which are reservoirs where water is stored and allowed to either infiltrate into the ground or evaporate.

The 2016 FFS recommends a gravity collection since the Los Olivos terrain generally slopes to the south. A lift station would be required since the disposal site is assumed to be to the north due to more favorable soil conditions that maximize groundwater recharge benefits.

CAPITAL COSTS

Table 6 summarizes the 2016 FFS capital cost estimates. The land cost assumes acquisition of 0.50 acres required for the recommended system, including 0.20 acres for a 300,000-gallon equalization tank or basin. The cost of the equalization tank, which is required to serve peak flows generated by summer tourism, has been allocated in the current report to commercial uses. Costs include a 20% contingency. The Engineering, Administration and Legal costs are calculated as 35% of construction costs (excluding land).

An adjustment to the commercial "Load Factor" has been added in this report to reflect the greater strength effluent of certain types of commercial uses. For example, restaurant wastewater flows are not only greater than residential uses, but typically have a "strength factor" as much as six times that of a residential use. The actual strength factors will be determined by engineering analysis, but a conservative factor averaging "2.0" (for all commercial uses, including restaurants, hotels, retail and office) is included to illustrate the relative distribution of costs between residential and commercial uses.

[63] FFS, Section 4.2.1.

Table 6 Estimated Capital Costs and Allocations for a Community Wastewater System

Item		Existing TOTAL		New		Buildout	
Total Improvement Costs (1)		**$20,869,000**				**$20,869,000**	
Equalization Tank (comm'l)		$516,000				$516,000	
Other (allocated per RUE)		$20,353,000				$20,353,000	
Costs w/Potential Savings		**$16,827,000**				**$16,827,000**	
Residential Unit Equivalents (RUE's) (2)							
Residential Units		336		0		336	
Commercial RUE's (3)		55		29		83	
Total		**391**		**29**		**419**	
Commercial Sq.ft.		**228,990**		**120,539**		**349,529**	
RUE's Load Adjusted							
Residential	1.00	336		0		336	
Commercial	2.00	109		57		167	
Total		**445**		**57**		**503**	
Capital Cost Allocations							
Residential (RUE alloc.)		$15,362,700	74%			$13,606,500	65%
Commercial							
Commercial (RUE alloc.)		4,990,300				6,746,500	
Commercial (Tank)		516,000				516,000	
Subtotal Commercial		$5,506,300	26%			$7,262,500	35%
Total		**$20,869,000**	100%			**$20,869,000**	100%
Allocation/RUE		**$45,700**				**$40,500**	
Allocation/Com'l Sq.ft.		**$24.05**				**$20.78**	
Allocations w/Savings							
Residential		$12,387,200	74%			$10,971,100	65%
Commercial		4,439,800	26%			5,855,900	35%
Total		**$16,827,000**	100%			**$16,827,000**	100%
Allocation/RUE		**$37,800**				**$33,480**	
Allocation/Com'l Sq.ft.		**$19.39**				**$16.75**	

(1) AECOM Sept. 13, 2016.

(2) Residential based on parcel count in SPA; number is less than AECOM analysis.

(3) Commercial RUE's not shown in AECOM FFS; estimate shown based on commercial flows/day divided by 221 gpd avg/residential connection.

As indicated in the 2013 PFS, "…careful project planning and management could result in administration fees as low as 20% of the construction costs", compared to the 35% assumption. The PFS further notes that a "design-build" type project could reduce administrative costs. The PFS calculated potential cost savings that in the range of $1,500,000 in grants or cost reduction, and Engineering, Administration and Legal costs of 20% of the total construction costs.[64]

Applying the potential cost reductions described above could result in savings of approximately $4 million, and a total cost of $16.8 million.

OPERATING COSTS

The 2016 FFS estimated annual operating costs of $685,900 as summarized in **Table 7**. Costs include collection system power costs, line cleaning, inspection and replacement; labor assumes one operator would be required at the plant for half of the day, 5 days per week. For one of these days, an additional operator would likely be required to assist with maintenance.[65]

As noted in the 2013 PFS, "O&M costs are approximate and actual costs could be half of the values presented depending on the final project." The PFS recommended that cost saving strategies such as sharing personnel and equipment with surrounding districts to perform O&M duties should be fully explored to lower annual costs.[66]

[64] 2013 PFS, Section 10.2.2.

[65] 2016 FFS, Section 5.1.5.

[66] 2013 PFS, Section 10.2.4.

Table 7 Estimated Annual System Operating Costs and Allocations

Item		TOTAL Existing	Buildout
Operating Costs (1)			
Collection System		$127,400	$127,400
Treatment/Disposal		558,500	558,500
Total		**$685,900**	**$685,900**
Units, Sq.ft. and RUE's			
Residential Units (RUE's)		**336**	336
Commercial RUE		**55**	83
Total		**391**	419
Commercial Sq.ft.		228,990	349,529
RUE's Load Adjusted			
Residential	1.0	336	336
Commercial	2.0	109	167
Total		445	503
Operating Cost Allocations			
Residential		$517,725	$458,543
Commercial		$168,175	$227,357
Total		$685,900	$685,900
Allocation/RUE		$1,541	$1,365
Allocation/Com'l Sq.ft.		$0.73	$0.65
Operating Costs w/Savings (2)	50%		
Allocation/RUE		$770	$682
Allocation/Com'l Sq.ft.		$0.37	$0.33

(1) AECOM FFS, Sept. 13, 2016.

(2) O&M cost savings assumes 50% reduction in operations & maintenance costs.

5. DISTRICT BUDGET

This section describes a preliminary budget for a Los Olivos special district. Estimated costs are shown for a CSD; depending on the type of district or annexation, administrative costs could be less as described in Chapter 3. If the proposal moves forward, the budget will be refined adopted by the district board.

ADMINISTRATION & OPERATING EXPENDITURES

As shown in **Table 8**, ongoing management and administrative costs are estimated at just under $200,000 annually. The first years, in advance of wastewater system operations, are assumed to require a smaller budget of slightly over $100,000 due to less staff time, no office, and reduced equipment expenses. The lower operating costs may extend from one to three years, depending on the time required to plan and construct a wastewater system. The initial costs could be funded by a combination of community contributions and assessments.

Table 8 Estimated Overhead and Administrative Costs - Los Olivos CSD

Item	Annual Amount First Year		Annual Amount Buildout	
Administration				
Board	6,000		6,000	(3)
Legal	20,000		20,000	
Accounting/Finance	15,000		15,000	
Office Space, Utilities	0	(5)	15,000	(1)
Equip/Supplies/Internet	2,500	(6)	5,000	
Memberships	3,000		3,000	
Other Overhead/Admin.	10,000		17,000	(2)
Subtotal (exc. Staff)	56,500		81,000	
Admin. Staff Salaries/Benefits	$54,000	(5)	$108,000	(4)
TOTAL Expenditures	**$110,500**	(5)	**$189,000**	
per Residential Unit Equivalent (RUE)	$283	(7)	$376	(7)
per RUE per month	$24		$31	

(1) Assumes 500 sq.ft. at $2.50 per month.
(2) Other/Contingency at 10% of other admin costs inc. staff.
(3) Assume stipend of $100/month, 5 board members.
(4) 50% GM/Operator at $100k, 50% Sec'y Treasurer $60k, +35% taxes, benefits.
(5) Assumes first year (or more) primarily planning with no operational staff or contracts to administer; 50% staff assumed, and no office space required.
(6) Equipment/Supplies/Internet reduced first year due to no office space.
(7) Residential Unit Equivalents are "Load Adjusted" for commercial strength factor.

The budget assumes a part-time General Manager and part-time secretary/treasurer. The staff may be employees of the District, or may be contracted services from a private firm or another public agency. Similarly, the District may contract for other services such as accounting, from a private firm or public agency. A contingency of 10 percent of non-staff costs is included. The actual manner of obtaining services, levels of services, and associated benefits paid (if employees) will be determined by a future CSD Board.

WASTEWATER OPERATIONS

As described in Chapter 3, the 2016 FFS estimates annual operating costs at $686,000. The prior 2013 study noted that these costs could be up to 50% lower depending on the final design, and depending on possible savings by contracting with surrounding districts.

OPERATING REVENUES AND RATES

Table 9 illustrates potentially rates required to cover the projected administrative and system operating costs, with and without potential operating cost savings. With the assumed savings, rates approach those of other tertiary treatment systems in the region (see **Appendix A**).

Table 9 Estimated Total Annual Admin. and Operating Costs and Rates - Los Olivos CSD

Item	Annual Amount First Year	Ongoing	Buildout
Admin and Operating Costs			
Admin/Overhead	$110,500	$189,000	$189,000
Wastewater System Operations		685,900	685,900
Total	$110,500	$874,900	$874,900
Units, Sq.ft. and RUEs (Load Adjusted)			
Residential Units (RUEs)	336	336	336
Commercial RUEs	109	109	167
Total	445	445	503
Commercial Sq.ft.	228,990	228,990	349,529
Total Admin and Operating Cost Allocations			
Residential	$83,400	$660,400	$584,900
Commercial	27,100	214,500	290,000
Total	$110,500	$874,900	$874,900
Allocation/RUE	$248	$1,965	$1,741
Allocation/Com'l Sq.ft.	$0.12	$0.94	$0.83
Allocations w/Savings (1)			
Residential	$83,400	$401,500	$355,600
Commercial	27,100	$130,400	$176,300
Total	$110,500	$531,900	$531,900
Allocation/RUE	$248	$1,195	$1,058
Allocation/Com'l Sq.ft.	$0.12	$0.57	$0.50

(1) Assumes up to 50% potential system operations savings.

Actual rates will depend on the specific final system design, district management and administrative costs, and contracting and rate decisions to be made by the Board of Directors.

6. CAPITAL EXPENDITURES AND FUNDING

As described in Chapter 3, costs for the proposed system total $20.9 million, or $16.8 million if potential cost savings can be achieved. Total costs could be significantly lower if the system is phased to first serve only the commercial core, with other larger residential properties upgrading to improved onsite systems. These costs are assumed to be the same for all governance options. Additional grant funding may be possible for planning, design and construction to further reduce costs. Remaining costs are likely to be funded through debt issuance secured by benefit assessments paid by property owners, as described below.

CAPITAL FINANCING

A range of funding sources may be tapped to help pay for the system's planning and construction costs. Loans may also be utilized where possible to reduce finance costs. Examples of funding sources include:

- County of Santa Barbara
- State Water Resource Control Board's Clean Water State Revolving Fund and Water Recycling Funding Program
- United States Department of Agriculture's Water and Waste Disposal Loan and Grant Program

The governance entity will need to investigate and apply for these sources, and explore other opportunities for related funds, for example, to help fund sustainable energy sources such as solar panels to help reduce operating costs.

Table 10 illustrates the potential allocation of capital costs before and after possible cost reductions discussed in Chapter 3. The total costs are allocated to Residential Unit Equivalents ("RUE's). The table also shows an average load adjustment of "2" to reflect the increased costs attributable to wastewater from commercial uses, which varies depending on the type of use; for example, restaurants not only generate significantly greater flows than office or typical retail, but the waste "strength" also requires additional costs to process. For example, the SYCSD rates include a strength factor of "6" for restaurants. The actual adjustment factors will be determined after more detailed engineering analysis, and decisions to be made by a future governing board.

The allocations of costs have been adjusted for equipment required by commercial uses. For example, the system design includes an "equalization tank" to handle peak flows during the summer from tourists; these costs are allocated to commercial uses.

Table 10 Estimated Capital Cost Allocations

Item		Existing TOTAL		New	Buildout	
Total Improvement Costs (1)		**$20,869,000**			**$20,869,000**	
Equalization Tank (comm'l)		$516,000			$516,000	
Other (allocated per RUE)		$20,353,000			$20,353,000	
Costs w/Potential Savings		**$16,827,000**			**$16,827,000**	
Residential Unit Equivalents (RUE's) (2)						
Residential Units		336		0	336	
Commercial RUE's (3)		55		29	83	
Total		**391**		**29**	**419**	
Commercial Sq.ft.		**228,990**		**120,539**	**349,529**	
RUE's Load Adjusted						
Residential	1.00	336		0	336	
Commercial	2.00	109		57	167	
Total		**445**		**57**	**503**	
Capital Cost Allocations						
Residential (RUE alloc.)		$15,362,700	74%		$13,606,500	65%
Commercial						
Commercial (RUE alloc.)		4,990,300			6,746,500	
Commercial (Tank)		516,000			516,000	
Subtotal Commercial		$5,506,300	26%		$7,262,500	35%
Total		**$20,869,000**	100%		**$20,869,000**	100%
Allocation/RUE		**$45,700**			**$40,500**	
Allocation/Com'l Sq.ft.		**$24.05**			**$20.78**	
Allocations w/Savings						
Residential		$12,387,200	74%		$10,971,100	65%
Commercial		4,439,800	26%		5,855,900	35%
Total		**$16,827,000**	100%		**$16,827,000**	100%
Allocation/RUE		**$36,870**			**$32,650**	
Allocation/Com'l Sq.ft.		**$19.39**			**$16.75**	

(1) AECOM Sept. 13, 2016.

(2) Residential based on parcel count in SPA; number is less than AECOM analysis.

(3) Commercial RUE's not shown in AECOM FFS; estimate shown based on commercial flows/day divided by 221 gpd avg/residential connection.

A likely source of financing is the US Dept. of Agriculture (USDA), which offers loans through its Rural Utilities Service Water and Environmental Programs (WEP) for the construction of waste facilities in rural communities. The program is targeted to communities with populations less than 10,000. These loans are commonly used for capital funding by public agencies and offer low interest rates and long amortization terms. Currently interest rates are between 1.625% and 2.75% for 40-year loans.

Table 11 shows the annual debt service for a loan to fund the system's costs. The debt amount includes $150,000 for completing the USDA application, preparing an engineer's Report for assessments, forming an assessment district and conducting a vote to approve the assessment district. The assumed interest rate is assumed at 3%; actual rates will depend on financing conditions at the time the debt is issued. Debt issuance is approximately 10% of the area's assessed value.

GRANTS

In addition to its loan program, the USDA also offers Waste Disposal Predevelopment Planning Grants, and other forms of grants for construction. It is anticipated that a future governing board and staff will pursue grants to help fund the system and reduce costs to ratepayers.

ASSESSMENTS

Table 11 calculates annual assessment based on the system's cost and debt financing as described above. The allocations to commercial uses include a "load factor" to account for the additional waste processing required for commercial waste. An assessment engineer will determine the actual assessments, and the governing board of the district will adopt assessments. Assessments are likely to vary by specific commercial and residential use.

Although a benefit assessment is a fixed amount per parcel, the table illustrates the relative increase in tax burden when the assessments are added to existing property tax rates of 1.07% of assessed value. The resulting equivalent rates range from 1.44% to 1.53% compared to total assessed value in the area. The equivalent tax rates will vary by specific properties depending on their value. These average rates are less than generally accepted maximum caps of 1.8-2.0. Total debt is approximately 10% of total area value.

Table 11 Estimated Annual Assessments

Item		Existing TOTAL		Buildout	
RUE's Load Adjusted					
Residential	1.00	336		336	
Commercial	2.00	109		167	
Total		**445**		**503**	
Debt Issuance					
Improvement Costs		$20,869,000		$20,869,000	
Issuance Costs (1)		$150,000		$150,000	
Total		**$21,019,000**		**$21,019,000**	
Debt w/Potential Savings		**$16,977,000**		**$16,977,000**	
Annual Debt Service (2)	3.0%	**$909,000**		**$909,000**	
Annual Debt Service Allocations - Load Adjusted					
Residential		$685,400		$608,200	
Commercial		$222,700		$301,500	
Total		**$908,100**		**$909,700**	
Allocation/RUE		**$2,040**		**$1,810**	
Allocation/Com'l Sq.ft.		**$3.97**		**$2.60**	
Annual Debt Service w/Savings		**$734,000**		**$734,000**	
Allocation/RUE		**$1,650**		**$1,460**	
Allocation/Com'l Sq.ft.		**$3.21**		**$2.10**	
Assessed Value			Burden		Burden
Residential		$137,600,000	0.50%	$137,600,000	0.44%
Commercial		$63,400,000	0.35%	$88,018,899	0.34%
Total A.V. (3)		$201,000,000		$225,618,899	
Debt Service/Total A.V.		**0.45%**		**0.40%**	
Total w/current Tax Overrides		**1.53%**		**1.48%**	
Total w/savings		**1.44%**		**1.40%**	

(1) Estimated issuance costs include loan process/application, assessment engineer's report, assessment district formation/vote.

(2) Rates (8/2016) are between 1.625% and 2.75%; 40 year USDA loan.

(3) Includes unsecured a.v. Excludes 23 vacant parcels and 42 rancho estates.

APPENDIX A

SUMMARY OF SEWER RATES IN THE REGION

Source: Laguna Sanitation District presentation re: FY16-17 rates

Treatment Level	Agency	Monthly Rate	Inc.
Tertiary	**Summerland**	**$113.45***	**3.0%**
	Lompoc	**$ 84.00**	**10.5%**
	Laguna	**$ 80.31**	**6.0%**
	Vandenberg Village	**$ 75.67**	
Secondary	**Montecito**	**$102.40***	
	Santa Ynez	**$ 82.17***	**3.7%**
	Mission Canyon	**$ 69.87**	**3.7%**
	Cuyama	**$ 66.00**	
	Los Alamos	**$ 63.40***	
	Carpinteria	**$ 61.26***	
	Santa Barbara	**$ 47.87**	**5.5%**
	Goleta West Sanitary	**$ 40.78***	**9.6%**
	Goleta Sanitary	**$ 36.57***	
	Guadalupe	**$ 36.05**	**3.1%**
	Solvang	**$ 34.65**	**1.6%**
	Santa Maria	**$ 19.20**	**5.0%**
Primary	**Mission Hills**	**$ 39.53**	
	Buellton	**$ 25.00**	
Average		**$ 59.91**	

* These rates include estimated property tax contributions.

ACKNOWLEDGEMENTS

This report was funded by members of the Los Olivos Water Reclamation Steering Committee.