

**EXECUTIVE OFFICER'S AGENDA REPORT
JANUARY 27, 2015**

TO: LAFCO Commissioners

FROM: Javier Camarena, Assistant Executive Officer

SUBJECT: MSR NO. 15-04, SOI UPDATE 2015-04: MUNICIPAL SERVICE REVIEW AND SPHERE OF INFLUENCE UPDATE FOR THE WESTERN HILLS WATER DISTRICT

INTRODUCTION

This proposal was initiated by the Local Agency Formation Commission in response to State mandates that require the Commission to conduct municipal service reviews and sphere of influence updates for all cities and special districts every five years, as needed. The current review covers the Western Hills Water District, which provides water, sewer, and storm drainage services to the Diablo Grande Specific Plan area, located in the western foothills in Stanislaus County. The previous update for the District was adopted June 23, 2010.

DISCUSSION

The Western Hills Water District (WHWD) was organized under California Water Code Division 13, §34000 - §38501, which allows for water districts to be formed for purposes such as to: produce, store and distribute water for irrigation, domestic, industrial and municipal uses; drain and reclaim lands; collect, treat and dispose of sewage, waste and storm water; generate hydroelectric power; allocate water to crops and acreage; and protect groundwater from contamination.

The Municipal Service Review and Sphere of Influence Update process provides an opportunity for districts to share accurate and current data, accomplishments and information regarding the services they provide. LAFCO Staff sent the WHWD requests for information, researched District reports and reviewed the WHWD's most recent audits and financial statements. Once this data was collected, a revised Municipal Service Review and Sphere of Influence Update document was drafted and circulated for comments. As of preparation of this staff report, no comments have been received.

Minor changes have been made to the document since the previous update to reflect recent additions to State law, including the requirement that LAFCOs identify "disadvantaged unincorporated communities" within or contiguous to city and district spheres of influence. Pursuant to Government Code §56033.5, a "disadvantaged unincorporated community" is defined as inhabited territory (12 or more registered voters), or as determined by commission policy, that constitutes all or a portion of a community with an annual median household income that is less than 80% of the statewide annual median household income (AMI). Staff utilizes available information from the Census, including American Community Survey data, as well as a mapping tool developed by the Department of Water Resources that identifies known Census Designated Places that meet the income criteria for disadvantaged communities. In this case, the WHWD does not meet the definition of a disadvantaged unincorporated community because the AMI is above 80% for residents within the District boundaries.

The proposed Municipal Service Review and Sphere of Influence document is attached to this report as Exhibit 1. The relevant factors as set forth by the Cortese-Knox-Hertzberg Act are discussed for the District. No changes are being proposed for the District's Spheres of Influence at this time. The document serves to affirm the District's current Sphere of Influence.

For the Western Hills Water District, this is the third Municipal Service Review and Sphere of Influence Update that the Commission has approved. Since the previous MSR-SOI update issues related to water supply and revenue have developed.

The District was receiving 8,000 acre-feet of water per year from the Kern County Water Agency (KCWA). In 2010, the District negotiated a water banking agreement with districts of the Kern County Water Agency and Dudley Ridge Water District (collectively known as the “Westside Districts”). The agreement allows the WHWD to bank excess water with the Westside Districts which is credited to WHWD for future use in drought and emergency situations. On January 31, 2014, the California Department of Water Resources announced a zero percent (0%) allocation of water to all State Water Project contractors, including KCWA. At this time, WHWD is only receiving 10% of its allocation; however, the district is not using its banked water. Should the district require additional water, WHWD can purchase water from the water bank to meet the minimum water needs of the Diablo Grande community. The initial term of the banking agreement is from 2010 to 2019.

Historically, the WHWD’s expenses have been greater than its revenue due to a small customer base. Revenue deficits have been covered by the current developer. The WHWD anticipates new income streams resulting from commercial and residential development. A recent Water Rate Study conducted by the WHWD provides recommendations that the District is currently considering. The recommendations include phasing usage rate increases over the next five-year planning period and establishing a service charge for all customer classes. Implementation of these recommendations along with anticipated growth will reduce the deficit and create a revenue stream that will cover expenses.

As a municipal service review is considered a “snapshot in time,” LAFCO Staff will continue to monitor the Western Hills Water District, as it does with all of the special districts, and offer itself as a resource to the District where possible.

ENVIRONMENTAL REVIEW RECOMMENDATIONS

Pursuant to the California Environmental Quality Act (CEQA), the adoption of a municipal service review is considered to be categorically exempt from the preparation of environmental documentation under a classification related to information gathering (Class 6 - Regulation §15306). Further, LAFCO’s concurrent reaffirmation of an existing sphere of influence qualifies for a General Exemption as outlined in CEQA Regulation §15061(b)(3), which states:

The activity is covered by the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA.

As there are no land use changes, boundary changes, or environmental impacts associated with the Municipal Service Review and Sphere of Influence Update, an exemption from further environmental review is appropriate.

ALTERNATIVES FOR COMMISSION ACTION

After consideration of this report and any testimony or additional materials that are submitted, the Commission should consider choosing one of the following options:

- Option 1:** APPROVE the Municipal Service Review and Sphere of Influence Update for the Western Hills Water District.
- Option 2:** DENY the update.
- Option 3:** If the Commission needs more information, it should CONTINUE this matter to a future meeting (maximum 70 days).

RECOMMENDED ACTION

Approve Option 1. Based on the information presented, Staff recommends approval of Municipal Service Review and Sphere of Influence Update for the Western Hills Water District. Therefore, Staff recommends that the Commission adopt Resolution No. 2016-13, which:

1. Determines that the Municipal Service Review and Sphere of Influence Update qualifies for a General Exemption from further California Environmental Quality Act (CEQA) review based on CEQA Regulations Sections 15306 and 15061(b)(3).
2. Makes determinations related to the Municipal Service Review and Sphere of Influence Update as required by Government Code Sections 56425 and 56430.
3. Determines that the Sphere of Influence for Western Hills Water District should be affirmed as it currently exists.
4. Directs Staff to circulate the subject resolution depicting the District's adopted Sphere of Influence to all affected agencies.

Attachments:

Exhibit 1 - Draft Municipal Service Review and Sphere of Influence Update for the Western Hills Water District

Exhibit 2 - Draft Resolution No. 2016-13 (Western Hills Water District)



***MUNICIPAL SERVICE REVIEW AND
SPHERE OF INFLUENCE UPDATE FOR THE:***

WESTERN HILLS WATER DISTRICT

Prepared By:

*Stanislaus Local Agency Formation Commission
1010 Tenth Street, Third Floor
Modesto, CA 95354
Phone: (209) 525-7660*

Adopted: _____

STANISLAUS

LOCAL AGENCY FORMATION COMMISSION

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Municipal Service Review and Sphere of Influence Update For the Western Hills Water District

Introduction

The Cortese/Knox/Hertzberg Local Government Reorganization Act of 2000 Act (CKH Act) requires the Local Agency Formation Commission (LAFCO) update the Spheres of Influence (SOI) for all applicable jurisdictions in the County. A Sphere of Influence is defined by Government Code §56076 as "...a plan for the probable physical boundary and service area of a local agency, as determined by the commission." The Act further requires that a Municipal Service Review (MSR) be conducted prior to or, in conjunction with, the update of a Sphere of Influence (SOI).

The legislative authority for conducting Service Reviews is provided in Government Code Section 56430 of the CKH Act. The Act states, that "in order to prepare and to update spheres of influence in accordance with Section 56425, the commission shall conduct a service review of the municipal services provided in the county or other appropriate area..." A Service Review must have written determinations that address the following factors:

Service Review Factors to be Addressed

1. Growth and population projections for the affected area
2. The location and characteristics of any disadvantaged, unincorporated communities within or contiguous to the sphere of influence
3. Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies including needs or deficiencies related to sewers, municipal and industrial water, and structural fire protection in any disadvantaged, unincorporated communities within or contiguous to the sphere of influence.
4. Financial ability of agencies to provide services
5. Status of, and opportunities for, shared facilities
6. Accountability for community service needs, including governmental structure and operational efficiencies
7. Any other matter related to effective or efficient service delivery, as required by commission policy

State Guidelines and Commission policies encourage cooperation among a variety of stakeholders involved in the preparation of a Service Review. This Service Review will analyze the existing and future services for the Western Hills Water District (WHWD). The Service Review will also provide a basis for the District and LAFCO to evaluate, and, if appropriate, make changes to the District's Sphere of Influence.

Sphere of Influence Update Process

A special district is a government agency that is required to have an adopted and updated Sphere of Influence. Section 56425(g) of the CKH Act calls for Spheres of Influence to be reviewed and updated every five years, as necessary. Stanislaus LAFCO processes the Service Review and Sphere of Influence Updates concurrently to ensure efficient use of resources. For rural special districts, which do not have the typical municipal level services to review, this Service Review will be used to determine what type of services the district is expected to provide and the extent to which they are actually able to do so. The Sphere of Influence will delineate the service capability and expansion capacity of the agency, if applicable.

Service Review – Western Hills Water District

Authority

The Western Hills Water District (WHWD) was organized under the California Water Code, Division 13, §34000-38501. The District is considered to be a “landowner-voter district”, as the board members are elected by landowners within the District’s boundaries.

Background

Special districts are local governments that are separate from cities and counties, yet provide public services such as fire protection, sewer, water, and street lighting. In California, there are over 3,300 special districts with a great diversity of purposes, governance structures, and financing mechanisms. Some districts are responsible for one type of specific duty, while other districts provide multiple public services, as is the case of the WHWD.

Purpose

Water districts are formed for purposes such as to: produce, store and distribute water for irrigation, domestic, industrial and municipal uses; drain and reclaim lands; collect, treat and dispose of sewage, waste and storm water; generate hydroelectric power; allocate water to crops and acreage; and protect groundwater from contamination.

Governance

A five member Board of Directors governs the District. Meetings are held on the second Wednesday of each month at 4:00 p.m. at 9521 Morton Davis Drive, Patterson, CA.

Formation

The WHWD was formed on June 8, 1992.

Location and Size

The District is located in the western foothills of the unincorporated area of Stanislaus County, west of Interstate 5, and approximately 5 miles southwest of the City of Patterson. The WHWD encompasses approximately 5,070 acres and serves an estimated population of 846.

The District serves an area that is unincorporated and has two designations in the Stanislaus County General Plan - Agriculture, and Specific Plan (for the Diablo Grande project area). The Diablo Grande project area includes residential, commercial, open space, and recreational areas.

Characteristics

The United States Census Bureau identifies Diablo Grande as a Census Designated Place (CDP). A CDP provides statistical information for settled concentrations of population that are not incorporated. According to the 2009-2013 American Community Survey 5-Year Estimates, the annual median household income within the Diablo Grande CDP is \$95,461.00. This amount exceeds 80 percent of the statewide level. Therefore, Diablo Grande does not meet the definition of a Disadvantaged Unincorporated Community as defined in Section 56033.5 of the CKH Act.

Sphere of Influence

The District's Sphere of Influence is coterminous with its current boundaries. No amendments to the District's boundaries or sphere of influence are being proposed with this Municipal Service Review and Sphere of Influence Update.

Personnel

WHWD currently has six full time and two part time employees. Staff consists of a General Manager, a Water Treatment Plant Operator, a Utility Field Coordinator, a Field Operator, an Office Assistant / Field Assistant, a Water Lab Assistant, and two General Field Maintenance Workers.

Services

The District is authorized to provide the functions or classes of services (e.g. water, sewer, and storm drainage) as identified in this report. Due to recent changes in the CKH Act, the District would have to seek LAFCO approval to exercise other latent powers not currently provided.

The District currently serves Diablo Grande's two existing golf courses, a winery, a clubhouse/restaurant, and residences, accounting for a total of 482 water and 439 sewer connections.

Water

Water for the WHWD is delivered from the California Aqueduct via a metered turnout located near the corner of Lower Oak Flat Road and Interstate 5. The current delivery system consists of 4 pumping stations, a water treatment plant, a surface water reservoir (1 million gallons) and approximately 22 miles of water treated waterlines and 7 miles of raw water pipelines.

In June 2000, WHWD purchased up to 8,000 acre-feet per year supply of water from the Kern County Water Agency (KCWA). This water purchase was approved by the KCWA, the WHWD, and the State Department of Water Resources.

In 2010, the WHWD negotiated a water banking agreement with four member districts of the Kern County Water Agency and the Dudley Ridge Water District (collectively known as the "Westside Districts"). The agreement allows the WHWD to transfer excess KCWA-contracted water to the Westside Districts. In return, the Westside Districts agree to credit Western Hills Water District with 500 acre feet of water in a virtual water "bank account" in any year in which the Westside Districts receives at least 500 acre feet from WHWD. "Banked" water is not physically stored for future use; rather it is credited via an accounting system to be used for drought and other emergency situations. However, the water comes at a very high price. From 2010 to 2013, WHWD banked 2,000 acre feet of water.

In 2013, WHWD received notice from the California Department of Water Resources (CDWR) that the KCWA-contracted water allocation would be restricted to just 35% of the 8,000 acre feet already purchased by WHWD. By the end of 2013, the allocation for 2014 was reduced to 5% of the 8,000 acre feet. On January 31, 2014, following two years of little rain, the CDWR announced a zero percent (0%) allocation of water to all State Water Project contractors, including KCWA. At this time, WHWD is only receiving 10% of its allocation; however, the district is not using its banked water. Should the district require additional water, WHWD can

purchase water from the water bank to meet the minimum water needs of the Diablo Grande community. The initial term of the banking agreement is from 2010 to 2019.

With the ongoing drought in California, issues related to water supply and delivery may continue until the State experiences relief through sufficient rainfall levels. At this time, WHWD and other water districts throughout the state must plan accordingly and prioritize their usage.

WWHD is currently under a Compliance Order from the State Water Resource Control Board for violation of Section 64533(a) of the California Code of Regulations, Stage 2 Disinfection Byproducts Rule Total Trihalomethanes (TTHM) Maximum Contamination Levels. WHWD is currently developing an action/remediation plan for this order.

Wastewater

The District determined that conveying the wastewater for treatment at the City of Patterson's facility, rather than treating it at smaller on-site facilities as originally planned, would result in more efficient provision of service, consolidation of sewer treatment in one location, and reduction in the likelihood of spills or other treatment difficulties.

In 2002, the WHWD and the City of Patterson entered into and approved a Memorandum of Understanding, wherein the City agreed to treat up to 750,000 gallons per day of wastewater from Diablo Grande and the District agreed to construct a sewer line from Diablo Grande to the City's collection facility and share in the cost of the expansion of the City's treatment plant.

Wastewater flows from the WHWD are discharged into the District's Diablo Grande to Patterson Trunk Sewer which flows down to the valley floor and to the City of Patterson's facilities. Wastewater service for the WHWD has over 22 miles of pipeline ranging in size from 4 to 18-inches. This service operates without the use of pumping stations.

The agreement with the City of Patterson along with the current facilities has provided sufficient wastewater service for Diablo Grande. The allowable 750,000 gallons per day is enough to provide service to the entire Diablo Grande community. At this time, no additional capacity or facilities are needed.

Storm Water

Storm drain facilities are designed to carry flows from the developed portions of a basin into the natural creeks, Salado Creek and an unnamed tributary creek to Salado Creek. Specifically, existing creek channels are utilized as the main conveyance facilities and pipelines located in the major street alignments and convey runoff into detention ponds and creek channels. Detention basins are sized so that there is no increase in peak flow off-site due to development. The facilities include various diameter pipelines, box culverts, and combine the use of small reservoirs, ponds, and conventional storm drains to handle drainage. At this time, no additional capacity or facilities are needed.

Support Agencies

The District maintains positive and collaborative relationships with other agencies, such as: Stanislaus County, City of Patterson, Kern County Water Agency, Department of Public Health, Regional Water Quality Control Board, and Department of Water Resources.

Funding Sources

Rates and fees for services are established during the District's annual budget review process. The budget process is designed to screen out unnecessary costs and is submitted to the Board of Directors for review and approval. The District's source of revenue is derived from connection and service fees, and Mello Roos (bond financing) assessments.

The District appears to have limited financial resources and/or reserves. Historically, the District's expenses have been greater than its revenue. Revenue deficits have been covered by the current developer, World International, LLC. As a result, the District has not been able to establish operating or capital reserves.

Revenue is limited due to a small customer base. Presently, the water company receives its income from two golf courses, sixty acres of grapes, residential housing and a water banking program. This will be the norm until residential and commercial projects are started and completed for the District.

Recently, the District conducted a Water Rate Study for the five-year planning period from FY2015-16 to FY 2019-20. The study summarizes the projected cost of service and related revenue requirements, updates the cost of service allocation among the customer classes, and provides a detailed schedule of updates in the District's fixed meter charge and usage charges. The current rate structure does not bill service charges to non-residential household customers. The study states that all customers should pay a service charge for the capacity they require in the water system. In addition, 80% of total revenue for the District is generated by the service charge, whereas the industry standard is approximately 30%.

The District is considering recommendations set forth in the Water Rate Study, which include phasing necessary increases in four years of the five year planning period and establishing a service charge for all customer classes. Implementation of these recommendations along with anticipated growth will reduce yearly deficits.

Service Review Determinations

The following provides an analysis of the seven categories or components required by Section 56430 for a Service Review for the Western Hills Water District (WHWD):

1. Growth and Population Projections for the Affected Area

The WHWD serves the Diablo Grande area which consists of approximately 5,070 acres. The Diablo Grande area is currently in its first phase of development. The County has issued approximately 450 building permits for single family homes. Phase 1 of the Diablo Grande Specific Plan in its entirety anticipates over 2,000 residences, associated commercial uses, open space, and recreational areas. At this time, no additional growth beyond what has been identified in the Diablo Grande Specific Plan has been proposed.

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

No Disadvantaged Unincorporated Communities have been identified within or contiguous to the District's Sphere of Influence as defined in Section 56033.5 of the CKH Act.

3. Present and Planned Capacity of Public Facilities and Adequacy of Public Services, Including Infrastructure Needs or Deficiencies Including Needs or Deficiencies Related to Sewers, Municipal and Industrial Water, and Structural Fire Protection in Any Disadvantaged, Unincorporated Communities Within or Contiguous to the Sphere of Influence.

The District is maintained by the General Manager and staff. Currently, the WHWD has both the ability and the capacity to serve its service area and has no unmet infrastructure needs or deficiencies. As mentioned previously, there are no disadvantaged unincorporated communities within or contiguous to the Sphere of Influence of the WHWD.

The District is considering usage rate increases and establishing a service charge for all customer classes. These changes along with anticipated growth will reduce the deficit and create a revenue stream that will cover expenses.

4. Financial Ability of Agencies to Provide Services

The WHWD provides Annual Operating and Capital Budgets as well as Audited Annual Financial Reports. At this time, the WHWD appears to have limited financial resources and/or reserves. As a result, the District's expenses are greater than its revenue. This will continue to be the case until residential and commercial projects are developed within the District, resulting in a greater source of revenue from assessments.

5. Status of, and Opportunities for, Shared Facilities

Since 2002, WHWD has had a Memorandum of Understanding with the City of Patterson, wherein the City treats up to 750,000 gallons per day of wastewater from Diablo Grande. At this time there are no additional proposals for shared facilities.

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

It is reasonable to conclude that the WHWD can adequately serve the areas under its jurisdiction. A five member Board of Directors, elected by the landowners, governs the District. The Board is subject to the provisions of the Brown Act requiring open meetings. The District has its own website (www.whwdist.org), which provides up to date information. The District Manager is responsible for oversight of daily operations and management of WHWD staff.

7. Any Other Matter Related to Effective or Efficient Service Delivery, as Required by Commission Policy

The WHWD is currently meeting minimum water needs of the Diablo Grande Community through its "banked" water program. However, the severe drought in California will continue to raise concerns and issues related to water supply and delivery until the State experiences relief through sufficient rainfall levels.

Sphere of Influence Update

In determining the Sphere of Influence (SOI) of each local agency, the Commission shall consider and prepare determinations with respect to each of the following factors pursuant to Government Code Section 56425:

1. The present and planned land uses in the area, including agricultural and open-space lands.
2. The present and probable need for public facilities and services in the area.
3. The present capacity of public facilities and adequacy of public services that the agency provides, or is authorized to provide.
4. The existence of any social or economic communities of interest in the area if the Commission determines they are relevant.
5. For an update of a sphere of influence of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence.

This document proposes no changes to the District's existing Sphere of Influence. Rather, it serves to reaffirm the existing SOI boundary. As part of this process, Staff researched the history of the establishment of the District's SOI. A map of the current District boundary and Sphere of Influence is attached in Appendix "A".

The following determinations for the Western Hills Water District's (WHWD) Sphere of Influence update are made in conformance with Government Code §56425 and local Commission policy.

Determinations:

1. The present and planned land uses in the area, including agricultural and open-space lands

The Western Hills Water District's Sphere of Influence (SOI) includes approximately 5,070 acres and is coterminous with the District's current boundary. The present land uses within the District's SOI include agricultural rangeland, vineyards, two developed golf courses, a clubhouse/restaurant, several residential units, and a municipal water storage and distribution system.

Planned land uses are expected to include: additional residential units, commercial and/or employment areas, and open space and recreational lands.

The land uses within the District boundaries are governed by the Stanislaus County General Plan and the Diablo Grande Specific Plan and are not expected to change. In addition, the District does not have the authority to make land use decisions, as the responsibility for land use decisions within the District boundaries is retained by the County.

2. The present and probable need for public facilities and services in the area

The Stanislaus County Board of Supervisors approved a Specific Plan for the Diablo Grande area in 1999. Phase 1 of the Specific Plan anticipates over 2,000 residences, associated commercial, open space and recreational uses. The District currently has total of 482 water and 439 sewer connections.

Although development has slowed dramatically since the previous service review, the probable need for public facilities and services within the approved Specific Plan area is expected to increase in the future.

3. The present capacity of public facilities and adequacy of public services that the agency provides, or is authorized to provide.

The District has the infrastructure and personnel in place to provide water, sewer and storm water services. However, like many other Water Districts throughout the state, due to severe drought conditions, water supply is scarce and is of crucial concern.

In addition, the District appears to have limited financial resources due to a shortage of customers resulting in revenue unable to cover expenses. The District will likely see an increase in revenue with further development.

4. The existence of any social or economic communities of interest in the area if the Commission determines they are relevant.

WHWD serves the Diablo Grande area which is located approximately 5 miles southwest of the City of Patterson and is surrounded by rural area. There are no communities of interest within the District boundaries, Sphere of Influence or surrounding area.

5. For an update of a sphere of influence of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence.

No Disadvantaged Unincorporated Communities have been identified within or contiguous to the District's Sphere of Influence as defined in Section 56033.5 of the CKH Act.

APPENDIX "A" DISTRICT SUMMARY PROFILE

District: **WESTERN HILLS WATER DISTRICT**

Contact Information: 9501 Morton Davis Dr. Bldg. B, Diablo Grande, CA 95363
Ph. (209) 895-9493

Location: In the western foothills of Stanislaus County, west of Interstate 5, approximately 5 miles southwest of the City of Patterson.

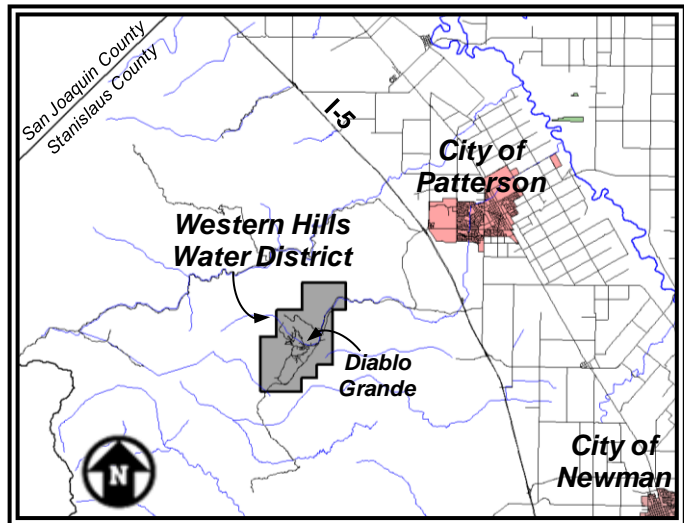
Service Area: Approximately 5,070 acres

Population*: 846

Land Use: Residential, commercial, open space, recreational

Date of Formation: June 2, 1992

Enabling Act: California Water Code, Division 13, §34000 et. seq. (Water District Act)



Governing Body: Five Board of Directors, elected by landowners within the District boundaries

Administration: Six full-time employees and two part-time employees

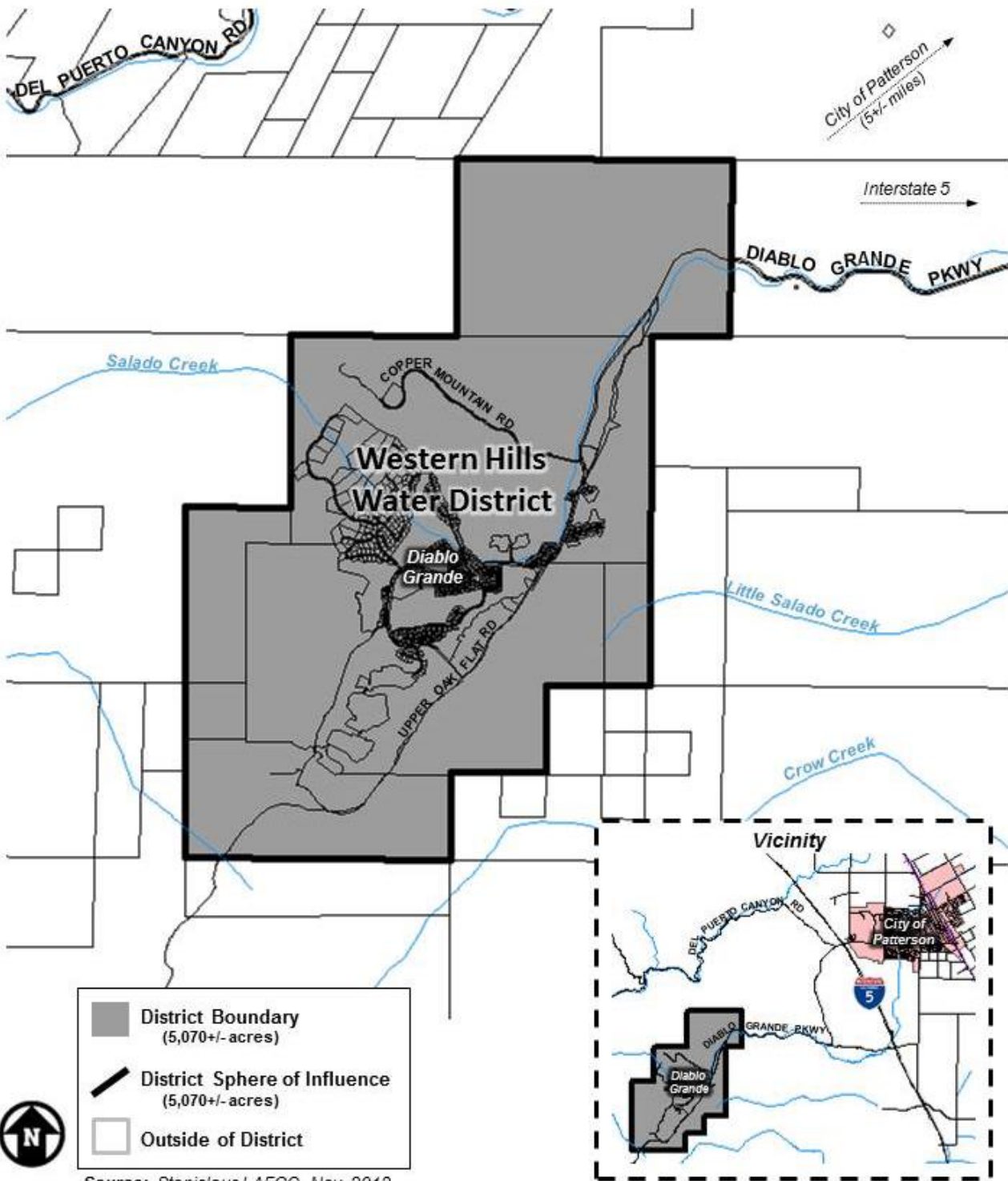
District Services: Water, sewer, and storm drainage

Budget: Fiscal Year 2014-2015
Revenues: \$1,667,864.00
Expenses: \$3,322,311.86
Capital Improvements: \$ 390,090.00

Revenue Sources: Service and connection fees, Mello Roos assessments

**Source: 2015 District Estimate*

MAP 1: WESTERN HILLS WATER DISTRICT BOUNDARIES AND SPHERE OF INFLUENCE



APPENDIX “B”

REFERENCES

1. California Legislative Analyst’s Office. *Water Special Districts: A Look at Governance and Public Participation*, March 2002”.
2. California State Controller’s Office. *Special Districts Annual Report*, November, 2011.
3. Diablo Grande Community Development Team Letter dated March 19, 2014.
4. Stanislaus County. *Board of Supervisors Resolution No. 2004-975*, Adopted December 14, 2004.
5. Stanislaus County. *2007-2014 Housing Element Update*, Adopted August 28, 2012.
6. Stanislaus LAFCO. *Municipal Service Review and Sphere of Influence Update - Western Hills Water District*, June 23, 2010.
7. Western Hills Water District *Sanitary Sewer Management Plan*, August 2009.
8. Western Hills Water District *Financial Statements, June 30, 2013 and 2012*.
9. Western Hills Water District. *Annual Budget 2014-2015*, June 2014.
10. Western Hills Water District website (<http://www.whwdist.org>)
11. Western Hills Water District, Letter from Patrick Garvey, District Engineer, dated November 6, 2015.
12. Western Hills Water District, *Draft Water Rate Study*, December 4, 2015.

INDIVIDUALS AND AGENCIES CONTACTED

1. Charles Smith, Controller, Western Hills Water District
2. Patrick Garvey, District Engineer, Western Hills Water District
3. Rachel Wyse, Stanislaus County Department of Planning and Community Development
4. Kristin Weiss, Stanislaus County Department of Planning and Community Development

**STANISLAUS COUNTY LOCAL AGENCY
FORMATION COMMISSION**

RESOLUTION

DATE: January 27, 2016

NO. 2016-03

SUBJECT: MSR No. 15-04 and SOI Update No. 2015-04 – Making Written Determinations and Approving the Service Review and Sphere of Influence Update for the Western Hills Water District

On the motion of Commissioner _____, seconded by Commissioner _____, and approved by the following vote:

Ayes:	Commissioners:
Noes:	Commissioners:
Absent:	Commissioners:
Ineligible:	Commissioners:

THE FOLLOWING RESOLUTION WAS ADOPTED:

WHEREAS, a Service Review mandated by California Government Code Section 56430 and a Sphere of Influence Update mandated by California Government Code Section 56425, has been conducted for the Western Hills Water District, in accordance with the Cortese-Knox-Hertzberg Reorganization Act of 2000;

WHEREAS, at the time and in the form and manner provided by law, the Executive Officer has given notice of the January 27, 2016 public hearing by this Commission on this matter;

WHEREAS, the subject document is exempt from the provisions of the California Environmental Quality Act (CEQA) pursuant to Section 15061(b)(3) of the State CEQA Guidelines;

WHEREAS, Staff has reviewed all existing and available information from the District and has prepared a report including recommendations thereon, and related information as presented to and considered by this Commission;

WHEREAS, at the hearing, all persons present were given an opportunity to hear and be heard in respect to any matter in relation to the review, in evidence presented at the hearing;

WHEREAS, the following determinations are made in conformance with Government Code Section 56430 and local Commission policy:

1. Growth and Population Projections for the Affected Area: The WHWD serves the Diablo Grande area which consists of approximately 5,070 acres. The Diablo Grande area is currently in its first phase of development. The County has issued approximately 450 building permits for single family homes. Phase 1 of the Diablo Grande Specific Plan in its entirety anticipates over 2,000 residences, associated commercial uses, open space, and recreational areas. At this time, no additional growth beyond what has been identified in the Diablo Grande Specific Plan has been proposed.
2. The Location and Characteristics of Any Disadvantaged, Unincorporated Communities within or Contiguous to the Sphere of Influence: No Disadvantaged Unincorporated Communities have been identified within or contiguous to the District's Sphere of Influence as defined in Section 56033.5 of the CKH Act.
3. Present and Planned Capacity of Public Facilities and Adequacy of Public Services, Including Infrastructure Needs or Deficiencies Including Needs or Deficiencies Related to Sewers, Municipal and Industrial Water, and Structural Fire Protection in Any Disadvantaged, Unincorporated Communities Within or Contiguous to the Sphere of Influence: The District is maintained by the General Manager and staff. Currently, the WHWD has both the ability and the capacity to serve its service area and has no unmet infrastructure needs or deficiencies. As mentioned previously, there are no disadvantaged unincorporated communities within or contiguous to the Sphere of Influence of the WHWD.

The District is considering usage rate increases and establishing a service charge for all customer classes. These changes along with anticipated growth will reduce the deficit and create a revenue stream that will cover expenses.

4. Financial Ability of Agencies to Provide Services: The WHWD provides Annual Operating and Capital Budgets as well as Audited Annual Financial Reports. At this time, the WHWD appears to have limited financial resources and/or reserves. As a result, the District's expenses are greater than its revenue. This will continue to be the case until residential and commercial projects are developed within the District, resulting in a greater source of revenue from assessments.
5. Status of, and Opportunities for, Shared Facilities: Since 2002, WHWD has had a Memorandum of Understanding with the City of Patterson, wherein the City treats up to 750,000 gallons per day of wastewater from Diablo Grande. At this time there are no additional proposals for shared facilities.
6. Accountability for Community Service Needs, Including Governmental Structure and Operational Efficiencies: It is reasonable to conclude that the WHWD can adequately serve the areas under its jurisdiction. A five member Board of Directors, elected by the landowners, governs the District. The Board is subject to the provisions of the Brown Act requiring open meetings. The District has its own website (www.whwdist.org), which provides up to date information. The District Manager is responsible for oversight of daily operations and management of WHWD staff.

7. Any Other Matter Related to Effective or Efficient Service Delivery, as Required by Commission Policy: The WHWD is currently meeting minimum water needs of the Diablo Grande Community through its “banked” water program. However, the severe drought in California will continue to raise concerns and issues related to water supply and delivery until the State experiences relief through sufficient rainfall levels.

WHEREAS, the following determinations are made in conformance with Government Code Section 56425 and local Commission policy in determining a sphere of influence for the Western Hills Water District:

1. The present and planned land uses in the area, including agricultural and open-space lands

The Western Hills Water District’s Sphere of Influence (SOI) includes approximately 5,070 acres and is coterminous with the District’s current boundary. The present land uses within the District’s SOI include agricultural rangeland, vineyards, two developed golf courses, a clubhouse/restaurant, several residential units, and a municipal water storage and distribution system.

Planned land uses are expected to include: additional residential units, commercial and/or employment areas, and open space and recreational lands.

The land uses within the District boundaries are governed by the Stanislaus County General Plan and the Diablo Grande Specific Plan and are not expected to change. In addition, the District does not have the authority to make land use decisions, as the responsibility for land use decisions within the District boundaries is retained by the County.

2. Present and Probable Need for Public Facilities and Services in the Area: The Stanislaus County Board of Supervisors approved a Specific Plan for the Diablo Grande area in 1999. Phase 1 of the Specific Plan anticipates over 2,000 residences, associated commercial, open space and recreational uses. The District currently has total of 482 water and 439 sewer connections.

Although development has slowed dramatically since the previous service review, the probable need for public facilities and services within the approved Specific Plan area is expected to increase in the future.

3. The present capacity of public facilities and adequacy of public services that the agency provides, or is authorized to provide: The District has the infrastructure and personnel in place to provide water, sewer and storm water services. However, like many other Water Districts throughout the state, due to severe drought conditions, water supply is scarce and is of crucial concern.

In addition, the District appears to have limited financial resources due to a shortage of customers resulting in revenue unable to cover expenses. The District will likely see an increase in revenue with further development.

4. The existence of any social or economic communities of interest in the area if the Commission determines they are relevant: WHWD serves the Diablo Grande area which is located approximately 5 miles southwest of the City of Patterson and is surrounded by rural area. There are no communities of interest within the District boundaries, Sphere of Influence or surrounding area.
5. For an update of a sphere of influence of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence: No Disadvantaged Unincorporated Communities have been identified within or contiguous to the District's Sphere of Influence as defined in Section 56033.5 of the CKH Act.

WHEREAS, the Western Hills Water District was established to provide water, sewer, and storm drainage services within its boundaries;

WHEREAS, pursuant to Government Code Section 56425(h), the range of services provided by the Western Hills Water are limited to those as identified above, and such range of services shall not be changed unless approved by this Commission; and

WHEREAS, no changes to the District's Sphere of Influence are proposed or contemplated through this review.

NOW, THEREFORE, BE IT RESOLVED by the Commission:

1. Certifies that the project is statutorily exempt under the California Environmental Quality Act (CEQA) pursuant to Section 15061(b)(3) of the State CEQA Guidelines.
2. Approves the Service Review prepared in compliance with State law for the review and update of the Western Hills Water District Sphere of Influence, and written determinations prepared by the Staff and contained herein.
3. Determines that except as otherwise stated, no new or different function or class of services shall be provided by the District, unless approved by the Commission.
4. Determines, based on presently existing evidence, facts, and circumstances filed and considered by the Commission, that the Sphere of Influence for the Western Hills Water District should be affirmed as it currently exists, as more specifically described on the map contained within the Service Review document.
5. Directs the Executive Officer to circulate this resolution depicting the adopted Sphere of Influence Update to all affected agencies, including the Western Hills Water District.

ATTEST: _____
Sara Lytle-Pinhey
Executive Officer

WESTERN HILLS WATER DISTRICT BOUNDARY AND SPHERE OF INFLUENCE

