

SAN MATEO

**LOCAL AGENCY FORMATION COMMISSION**

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March 11, 2005

TO: Members, Local Agency Formation Commission

FROM: Martha Poyatos *Martha Poyatos*
Executive Officer

SUBJECT: LAFCo File 04-08-Proposed Annexation of "Phase II Los Trancos Woods" to the West Bay Sanitary District (1.758 acres)

Summary:

This application was submitted by resolution of the West Bay Sanitary District Board of Directors on behalf of property owners to annex six non-contiguous residential parcels located in unincorporated Los Trancos Woods to the District. The application is a second phase of a larger annexation approved by the Commission in May of 2002. The purpose of this proposal and the first phase annexation is to replace inadequate septic systems with public sewer. The Phase II application was submitted to include an additional six parcels to the sewer annexation project to lower the cost per property of the sewer main construction prior to initiating the financing process. Since the Commission received the Phase II application, an additional five property owners have expressed interest in annexation, bringing the total for the Phase II annexation to eleven properties. Approval of the annexation is recommended, modified to include the additional properties, conditioned upon approval of the West Bay Sanitary District Board of the additional properties, and conditioned upon a finance mechanism to fund the sewer construction.

Background

The entire Los Trancos Woods neighborhood is in the sphere of influence of both the West Bay Sanitary District and the Town of Portola Valley. In May of 2002, the Commission approved annexation of 53 non-contiguous properties to the District conditioned upon a finance mechanism to fund construction. Subsequent revision and completion of engineering design and updated construction estimates

resulted in construction and finance cost estimates of approximately \$3.9 million compared to the estimate of \$2.1 million when Phase I was approved by the Commission. Assuming even assessment of sewer construction to the original 53 homes, the revised cost estimate results in a cost per household for sewer construction, design and financing of \$73,584 versus the original estimate of \$40,000 per household¹. The increase is associated with the need to construct at least one pump station, additional lengths of sanitary sewer mains, a review of the cost of construction on fairly narrow streets which have other utilities already in place, reimbursement agreements with Blue Oaks and Portola Valley Ranch², bond costs and increase in material costs in the current economy. Based on the increase, the Phase II annexation was initiated in an effort to bring cost per household down.

The owners of the properties in have contributed approximately \$183,000 toward the annexation, environmental review and engineering work related to the annexation. The challenge the property owners face is that unlike new development, in which new infrastructure is funded by developers, the Los Trancos Woods community is a neighborhood of existing homes served by septic systems. The majority of these parcels range in size from 0.11 acre to 0.85 acre and are characterized by varying slopes making repair of septic systems problematic. The area in general is hilly and served by narrow winding roads. This, combined with presence of water lines in roads, complicates sewer design and construction.

Since the application was submitted to LAFCo, five more property owners have requested to be included in the annexation and sewer construction project bringing the total parcels in Phase II to eleven. Four of the original fifty-three property owners from Phase I have indicated they want to withdraw from the project, bringing total properties that have indicated a willingness to assess themselves to sixty. Government Code Section 56375(a) gives the Commission the authority to modify the boundaries of a proposal. Based on the requests of the five additional properties it is recommended that the Commission modify the proposal to include these properties.

¹ In addition to the assessment cost of the sewer main, each property owner will be responsible for the cost of abandoning the existing septic system and construction of a lateral connecting the home to the sewer main. These estimated costs (which will vary based on site conditions) are quoted to range from \$2,500 to \$7,000.

² Los Trancos Woods Sewer Construction is subject to reimbursement agreements that exist with Portola Valley Ranch and Blue Oaks Subdivision because developers of these properties funded sewer construction in Alpine Road and Los Trancos Road and the reimbursement agreements require that subsequent properties that benefit from the sewer main constructions reimburse a proportional share the costs of sewer main extension.

Agency and Departmental Reports

County Assessor: The net assessed valuation of the reorganization area shown in the records of the Assessor is \$4,168,708. The assessed valuation of the additional five properties is \$3,144,920 for a total of \$7,313,628. The boundaries of the proposal do not divide lines of assessment or ownership.

County Clerk: The territory as modified has 14 registered voters. Annexation would not conflict with any political subdivision boundaries.

County Planning: San Mateo County General Plan land use designation is low density residential (0.3 to 2.3 dwelling units per acre). Zoning is R-1/S-8, 7,500 square foot minimum lot size. The proposed sewer annexation involves 53 parcels, all of which are already developed. Eleven of these parcels are larger than 15,000 sq. ft. Theoretically subdivision potential exists that would increase the number of parcels in the area in cases where parcels size, slope and other factors would permit subdivision. Any future subdivision requests would require 300-ft. neighborhood notification and a public hearing.

Annexation to the sewer district would remedy failing septic systems that pose a threat to water quality and vegetative, fish and wildlife habitats. General Plan Vegetative, Water, Fish and Wildlife Resources Policy 1.25 calls for the County to ensure that development will maintain adequate water quality for vegetative, fish and wildlife habitats and maintain and improve, if possible, the quality of groundwater basins and recharge areas.

General Plan Wastewater Policy 11.5 states: "a) Consider sewerage systems as the appropriate method of wastewater management in urban areas. b) Encourage extension of sewerage systems to serve unincorporated urban areas presently using individual sewage disposal systems where warranted by public health concerns, environmental pollution or the planned density of development."

County Public Works: The proposed annexation territory as modified consists of 3.27 acres. The map and legal description submitted with the proposal do not satisfy the requirements of the State Board of Equalization. The proposal would not necessitate removal from any other special districts. Natural boundaries, drainage basins or other topographical features would not affect and would not be affected by this proposal.

County Environmental Health: The West Bay Sanitary District provides the available sewer service and Los Trancos County Water District provides water in the area. The Director of Environmental Health has commented that: "This community was originally designed for summer/vacation occupancy and the septic systems were not anticipated to be used year round. With the homes now occupied as primary residences along with a high groundwater flow during the winter months, these septic systems are being used well beyond their anticipated design. In addition, the average property size in this community is far less than what is needed to perform adequate repairs to the septic systems adding to potential long-term problems. Due to the age of the septic systems, the small lot sizes, and hydrogeologic conditions in the area, the San Mateo County Environmental Health Division fully supports the subject project. Based on the information presented and known to the division, the continued use of individual on-site septic systems in this community poses a significant threat to public and environmental health. Property owners will be required to obtain a septic tank abandonment permit from San Mateo County Environmental Health Division and comply with the Health Department standards.

Executive Officer's Report and Recommendation

Submitted by resolution of the West Bay Sanitary District, this proposal requests annexation of a second phase of six developed properties to the West Bay Sanitary District. The area proposed for annexation is located in unincorporated Los Trancos Woods south of the boundary of the Town of Portola Valley and immediately west of Los Trancos Creek, which also serves as the County boundary. As noted above, an additional five property owners have requested inclusion of their parcels. The purpose of the proposal is to replace inadequate septic systems with public sewer.

Section 6830 of California Health and Safety Code permits annexation of areas that are not contiguous to the district boundaries if, in the opinion of the District Board, the area will benefit from annexation to the District. Non-contiguous annexations are common for West Bay Sanitary District because the District has an ordinance that requires all property within District boundaries to hook up to sewer if the sewer main is within 100 feet of the property line. Consequently while annexation of larger contiguous areas would promote more logical boundaries, property owners who have functioning septic systems typically do not apply for annexation until such time that their septic system becomes problematic or fails.

The property owners began the application process for the first phase of annexation with West Bay Sanitary District with 100%

landowner consent in spring of 2000. West Bay Sanitary District in turn conducted environmental review, adopted a negative declaration and applied by resolution of application to annex the properties to the District. The proposal area is within the West Bay Sanitary District sphere of influence, which was adopted in 1984.

Property owners have reported that septic systems are problematic in the area particularly in the winter months. Small lot size and steep slopes provide constraints to repair of the systems.

Costs & Financing

Extension of sewer service to the annexation area based on a conventional gravity sewer system will facilitate construction of approximately 8,500 feet of sewer main within public streets and in some cases easements with stubs to the property line to accommodate clean-outs/sewer laterals for individual parcels. Individual property owners are then responsible for the cost and construction of individual laterals from the property line to the home and ejector pumps where parcels are below the grade of the sewer main. The updated estimate for construction of sewer mains and associated Class III permit, reimbursement fees, road restoration, bond costs, etc. is currently estimated at \$3,900,000³ or an average of approximately \$65,000 per household based on a total of 60 participants. Costs for construction of the clean out and lateral line from the property line to the home, abandonment of existing septic system and Class I sewer permit is estimated to range from \$2,500 and \$7,000 depending upon site specific factors. Additional costs would apply to individual parcels or groups of parcels that are below the grade of the sewer main for on-site systems to pump effluent to the main.

Because West Bay Sanitary District has a policy of requiring property owners and developers to fund all sewer main construction privately, the Los Trancos Woods property owners have pursued financing through County sponsorship of an assessment district. Sponsoring the assessment district would involve the County of San Mateo Public Works Department managing construction of the sewer main and would require an agreement between the County and the West Bay Sanitary District regarding acceptance of the sewer main upon its completion.

An assessment district serves as a finance mechanism to fund public improvements in an established area of benefit. Assessment districts

³ West Bay Sanitary District has a reimbursement policy by which annexation of property that could subsequently be served by these sewer mains would be subject to reimbursement of their proportional share of the sewer main extension to the original annexing owners at the time additional property is annexed to the District.

are not a separate legal entity and have no separate governing board and no authority to act independently of the local agency that establishes it. The formation process for an assessment district takes approximately six months and involves a petition by the property owners, board proceedings, an assessment engineer's report, public hearing, bidding process, assessment ballot, issuance of bids and awarding of contract. Assessments would be levied that would cover all costs associated with construction of public improvements. Payment of the amount assessed is a secured lien on the property and payments are used to repay bonds issued to finance the public improvements. Property owners, prior to assessments are given the opportunity to pay their total assessment in advance.

Costs which may be included in an Assessment District are:

- Construction of the public sewer extension, including necessary paving and other surface restoration.
- Acquisition of easements.
- Construction of a private sewer from the public sewer to the property line.
- Preparation of plans and other work by a civil engineer.
- Soils testing during construction.
- Acquisition of an encroachment permit from a city or the County so that work can be conducted in a public street.
- Fees for the sewer connection.
- charges for plan review, inspection, and administration.

If the County sponsors an assessment district, the County would conduct assessment district proceedings, the bidding process and oversee construction of the sewer mains, dedicating them to the Sanitary District upon completion. Proponents would be responsible to fund the various administrative costs of the assessment district formation. The Board of Supervisors has not yet taken action on the request to form the assessment district. County staff are scheduled to meet with representatives of an alternative financing program, the California Community Infrastructure Program, which is a Statewide Joint Powers Authority that issues pooled revenue bonds (the "Bonds") for municipalities and special districts seeking to finance, or refinance, public capital improvements to water, wastewater, and sewer facilities throughout California. Eligible capital improvement projects range from \$250,000 to \$50,000,000 with repayment terms up to 40 years. It has been requested by the Los Trancos Woods Group that this alternative be investigated because

pool participants obtain economies of scale such as lower bond issuance costs and a low fixed rate of interest offered by 'AAA' rated, insured revenue bonds.

As requested by West Bay Sanitary District for the Phase I annexation, it is recommended that this application be conditioned upon an assessment to fund the sewer construction.

On-site Waste Water Disposal Zone

As stated above, some parcels will require septic tank effluent pump (STEP) systems or grinder pump where gravity flow to the sewer main is not possible. The West Bay Sanitary District operates an on-site wastewater disposal zone within its jurisdiction to maintain STEP and grinder pump systems. Sections 6960.3 and 6974 of the Health & Safety Code governing sanitary districts require LAFCo approval for formation of, or annexation to, an on-site wastewater disposal zones in counties in which LAFCo has adopted Rules & Regulations Affecting the Functions and Services of Special Districts. Therefore, for these parcels subsequent District action to annex parcels using STEP and grinder pump systems to the Zone will be require LAFCo consideration.

Environmental Review

The West Bay Sanitary District, acting as lead agency under the California Environmental Quality Act (CEQA), prepared and adopted an Initial Study and Negative Declaration for the Los Trancos Woods Sewer Construction and Annexation Project. The Negative Declaration is included with this report and covers annexation of all properties in lower Los Trancos Woods including Phase II properties. As responsible agency under CEQA, the Commission must use the Negative Declaration prepared by the District in considering annexation to the District.

The Initial Study identified less than significant impacts related to biological resources, geology, traffic, construction and water demand and also incorporated mitigation measures. In regard to water, the Los Trancos County Water District commented that the District did not have adequate capacity to serve additional development that could occur on currently undeveloped lots. In response, West Bay Sanitary District adopted a mitigation measure that only developed properties or properties that had been issued "will serve" letters from Los Trancos County Water District would be considered for annexation to the Sanitary District. Other mitigation measures include measures to address impacts related to construction, traffic and biological and cultural resources.

As responsible agency under CEQA, the Commission would need to certify that it has reviewed and considered West Bay Sanitary District's Negative Declaration if the Commission decides to approve the proposal.

Recommendation:

The study area and annexation parcels consist of developed, residential property in the sphere of influence of the West Bay Sanitary District. The property owners have demonstrated genuine interest and financial commitment in moving the annexation application forward. While sewer construction is ultimately dependent upon each property owner voluntarily assessing themselves to fund the construction, this annexation will satisfy their desire to lower financing costs per property owner. Annexation is consistent with the District's plans for extending services and with the County of San Mateo's general plan provisions favoring extension of sewerage systems to serve unincorporated urban areas presently using individual sewage disposal systems where warranted by public health concerns, environmental pollution or the planned density of development. The County of San Mateo Environmental Health Division supports extension of sewer to serve the area based on the age of the septic systems, the small lot sizes, and hydrogeologic conditions in the area.

Section 56886 provides that a change of organization may be approved subject to conditions including additional taxes or assessments. Approval of the annexation application conditioned upon formation of the assessment of the subject properties is recommended.

Section 56663 permits the Commission to waive the protest hearing for applications in which all owners of land have given consent of the annexation and in which the receiving entity consents to the waiver. Staff recommends that the Commission waive protest proceedings for this application.

Recommended Action, by motion: It is recommended that the Commission certify that it has reviewed and considered the final Initial Study and Negative Declaration for the Los Trancos Woods Sewer Annexation Project, prepared by the West Bay Sanitary District as lead agency.

Recommended Action, by resolution: Approve LAFCo File No. "Phase II Los Trancos Woods - 11 parcels to the West Bay Sanitary District as modified and waive protest proceedings, subject to the following terms and conditions:

- a. Consent from West Bay Sanitary District of modification of the proposals to include the additional six parcels.
- b. Successful passage of an assessment of subject parcels to fund the sewer main construction to serve the annexation parcels.

Attachments: Application Materials
 Negative Declaration

Cc: Tim Clayton, West Bay Sanitary District
 Neil Cullen, Director, San Mateo County Dept. of Public Works
 Marcia Raines, Director, San Mateo County Environmental Service Agency
 Tom Vlasic, Town of Portola Valley, Planning
 Carol Woodward, Dep. County Counsel