

6. SAN MARTIN COUNTY WATER DISTRICT

AGENCY OVERVIEW

The San Martin County Water District (SMCWD) was formed in 1988 as an independent special district when the former private water company that served the area entered into receivership. The District provides water services in the unincorporated community of San Martin between Morgan Hill and Gilroy. A water service review for the District was last conducted in 2005.

The principal act that governs the District is the County Water District Law.⁶¹ The principal act empowers the District to “store water for the benefit of the district, conserve water for future use, and appropriate, acquire, and conserve water and water rights for any useful purpose.”⁶² Districts must apply and obtain LAFCO approval to exercise latent powers or, in other words, those services authorized by the principal act but not provided by the district at the end of 2000.⁶³

Type and Extent of Services

Services Provided

SMCWD provides water services to a portion of the unincorporated San Martin community, east of Monterey Road and centered along San Martin Avenue. The District provides potable water for a variety of uses, including residential, commercial, and industrial. The District does not provide water for agricultural purposes, nor does the District have a water conservation program. The District provides water for fire suppression as there are no other providers in the area.

SMCWD relies on groundwater extracted from the Llagas Subbasin, which is managed by Santa Clara Valley Water District. Recycled water is not available within the District’s service area.

⁶¹ California Water Code §30000-33901.

⁶² California Water Code §31021.

⁶³ Government Code §56824.10.

Service Area

The District serves the entirety of its boundaries. There are reportedly no unserved areas within the District's boundary area, as all parcels have connections to the system. However, seven properties are inactive and are instead operating off of private wells.

Additionally, the District reports that it is serving at least 13 parcels outside its boundaries. Since 1994, state law requires local agencies to seek LAFCO approval prior to extending services beyond their boundaries.⁶⁴ Of the 13 extraterritorial connections, five were possibly added prior to the law requiring LAFCO approval, and prior to the SMCWD formation, as discussed below. The District sought LAFCO approval for only one of the remaining connections (APN 825-37-043)—all other connections were made without LAFCO approval. Extraterritorial parcels are described in Figure 6-1 and shown on Figure 6-2.

The District reports that prior to the formation of the District, a 12-inch pipeline was constructed by the County to supply water from West San Martin Water Works (WSMWW) to a county facility on Murphy Avenue, as well as to a residence, due to the unreliability of the supply from the private water company that was the predecessor to SMCWD. In the early years of the District, the contract manager at the time extended a pipeline from the 12-inch pipeline to serve three properties on Llagas Avenue, north of San Martin Avenue, outside of the District's bounds. These five connections were connected to the system prior to the formation of the SMCWD, and acquired by SMCWD in 1999 as part of a lawsuit settlement.⁶⁵ These five connections are indicated in Figure 6-1.

In 2001, SMCWD sought and was granted approval by LAFCO for extending water service outside its boundaries to the Santa Clara County's Household Hazardous Waste Collection Facility (APN 825-37-043). LAFCO approved the service extension and a sphere of influence amendment to include the parcel in anticipation of future annexation of the parcel to the District. As an assurance to LAFCO, SMCWD adopted a resolution in June 2001 to annex all parcels receiving service, as well as those parcels that were requesting service from the District. LAFCO approved the service extension and decided to resolve the sphere of influence and boundary issues along with other existing service extensions through a comprehensive sphere of influence review.

In 2005, LAFCO conducted a countywide water service review and in the consequent sphere of influence update in 2007, LAFCO expanded the District's sphere of influence to include eight of the 10 parcels receiving extraterritorial service, in order to facilitate annexation of the parcels to the district. One connection to the north of the District, along Llagas Avenue, was excluded as it was not contiguous to the District's bounds and had intervening parcels that were not served. The Coyote Lake-Harvey Bear Ranch County

⁶⁴ Government Code §56133.

⁶⁵ APNs 825-03-011, 825-03-012, 825-09-012, 825-09-034, and 825-09-057.

Park, at the east end of the District’s service area, was also excluded from the SOI expansion in order to verify which facilities were being served.

The District, however, has not followed through with annexation applications to LAFCO for the parcels, nor does the District seek LAFCO approval prior to extending service beyond its boundaries. Since 2007, three additional extraterritorial connections were added by SMCWD outside its boundaries. SMCWD was informed by LAFCO on several occasions in 1999, 2001, 2005, and 2007, and most recently, during the course of this service review that they must seek LAFCO approval prior to extending services. . The District reported that it has repeatedly failed to comply with LAFCO requirements and State law due to the anticipated LAFCO application processing costs and the perceived lack of repercussions for failure to comply. LAFCO will send letters to the property owners, the County Department of Environmental Health, the State Department of Public Health and other offices to inform them that these water service connections have not been approved by LAFCO.

Figure 6-1: Extraterritorial Service Connections

APN	Address	Connection Date	Current Land Use	Within current district SOI?
Connections acquired by SMCWD as part of the 1999 lawsuit settlement agreement from WSMWW. No records prior to these dates are available for these connections. It is possible they were connected prior to LAFCO approval requirements in 1994.				
825-09-012	13505 Murphy Avenue	1996	Residence and dog grooming	Yes
825-09-057/058	Murphy Avenue	1981	Santa Clara County Roads	Yes
825-03-011	13775 Llagas Avenue	1996	Cement product manufacturer	Yes
825-03-012	13755 Llagas Avenue	1996	Building material supplier	Yes
825-09-034	13920 Llagas Avenue	1996	Industrial buildings	No
Connections with LAFCO Approval				
825-37-043	14070 Llagas Avenue	2001	Santa Clara County Household Hazardous Waste Disposal Facility	Yes
Connections without LAFCO Approval				
825-03-001	13805 Llagas Avenue	2008	Food processing plant	No
825-03-010	13905 Llagas Avenue	2005	Auto auction storage yard	No
825-09-030	13710 Llagas Avenue/ 13720 Llagas Avenue	2001	Residence	Yes
825-09-048	13515 Murphy Avenue	2008	Residence	Yes
825-10-075	13025 Murphy Avenue	1998	Santa Clara County Airport	Yes
825-31-016	N/A	2005	Harvey Bear Ranch County park	No
825-38-016	13155 Sycamore Avenue	2001	Tractor Supply and Service	Yes

Services to Other Agencies

Although SMCWD does not provide contract services to other agencies, the District has a reciprocal agreement with West San Martin Water Works, Inc. to provide water to each other through an intertie during emergency outages. The existing valve between the two systems was closed as a result of a lawsuit between the two purveyors, but relations have improved and West San Martin has agreed to assist SMCWD if needed.

Contracts for Water Services

The District does not receive any water services from other agencies under contracts.

Collaboration

Currently, the District does not engage in any collaborative efforts. Opportunities for collaboration with other agencies may arise through joint water service planning with the nearby providers of Morgan Hill, Gilroy, SCVWD, and West San Martin Water Works. The agencies providing water in the South County region share common concerns for groundwater cleanup, long-term groundwater quality, growth and development.

Boundaries

The District's boundary is entirely within Santa Clara County. The present boundaries encompass approximately 0.7 square miles east of Monterey Road which are centered along San Martin Avenue. SMCWD serves a portion of the San Martin Planning Area as described in the 1995-2010 County's General Plan. SMCWD adopted a resolution in 2002 stating that it is the District's goal to eventually serve the entire San Martin Planning Area east of Monterey Road.⁶⁶ The County General Plan describes the San Martin Planning Area as including all valley lands between the hillside areas to the east and west, and land between Maple Avenue to the north and Masten and Fitzgerald Avenues to the south.

Outside of the District's service area, the San Martin community is primarily served by West San Martin Water Works, Inc. (a private company) to the west of Monterey Road, and private or shared wells, small water systems or small mutual water companies in the rest of the area.

Sphere of Influence

The District's sphere of influence extends outside its boundaries. The SOI was last updated in December 2007 to include parcels that had been outside of District's boundaries but were receiving service and/or were surrounded by parcels served. An additional 173 acres was added to the District's SOI. At that time, eight extraterritorial service connections were included in the SOI, as discussed in the Service Area section of this chapter. No further revisions to the District's sphere of influence have occurred since then.

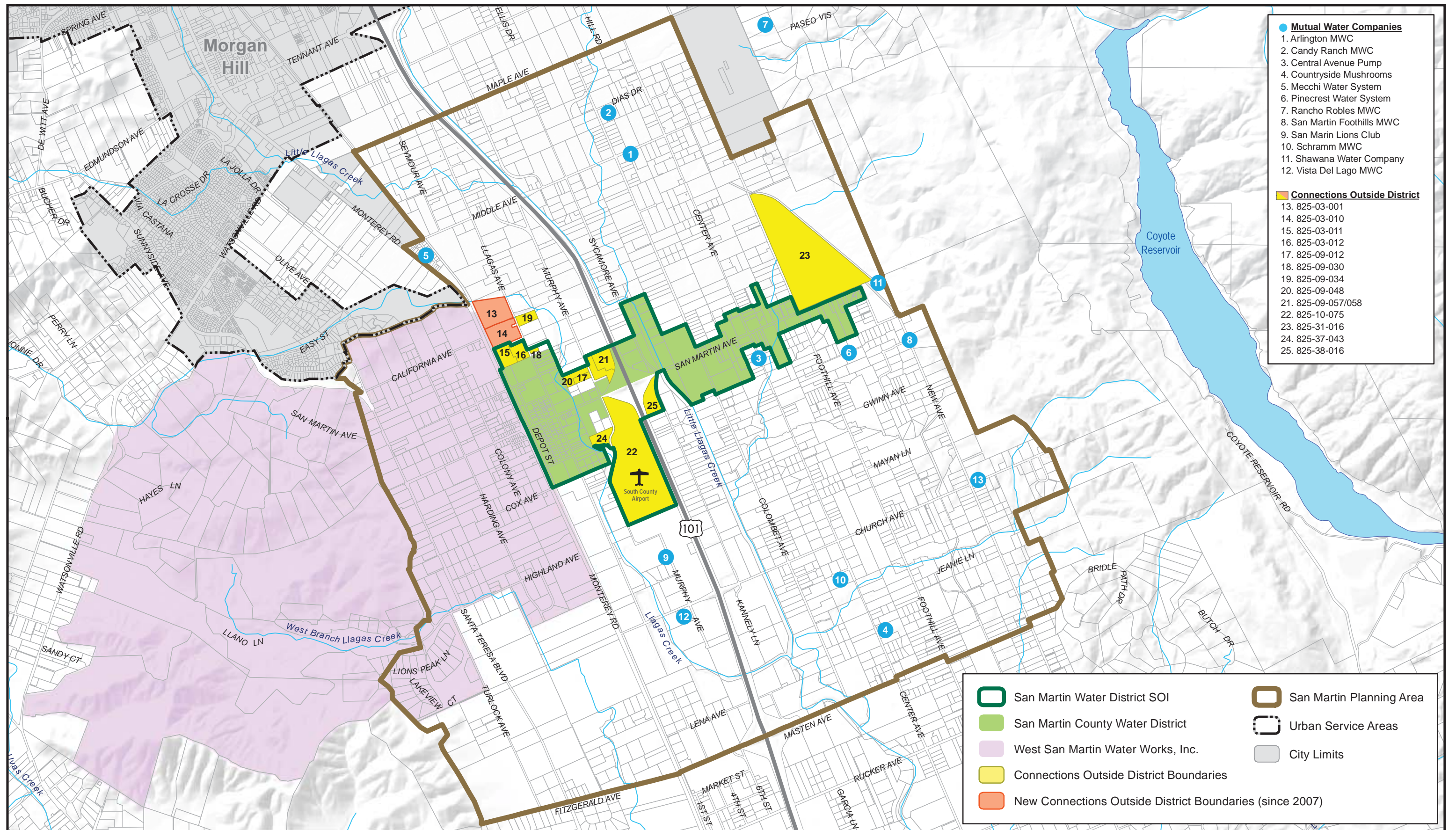
According to the District, as of 2005, it provided services to Coyote Lake-Harvey Bear Ranch County Park at the east end of the District service area. The area was outside of District boundaries. LAFCO determined that there was a need to verify which facilities were being served. The area was not included in the 2007 SOI expansion and was postponed to be addressed during the next round of updates. Following the 2007 SOI update, the SMWCD

⁶⁶ SMCWD Board Resolution 2002-04, November 19, 2004.

added two additional extra territorial connections outside the SMCWD SOI and one extraterritorial connection within the District's SOI—without LAFCO approval. Presently, there are a total of four connections that are receiving services outside the District's SOI.

The 2005 Water Service Review indicated that the District desired that the SOI to be expanded to include the entire San Martin Planning Area east of Monterey Road. However, the proposal was not adopted by LAFCO, as a water system master plan had not been prepared and there were no projections for future water demand or storage capacity needs within this area.

Figure 6-2



ACCOUNTABILITY AND GOVERNANCE

San Martin County Water District is governed by a five-member Board of Directors elected at-large to serve staggered four-year terms. There are currently three board members, all of whom were appointed. All current directors filed for election, but being unopposed they were appointed by the Board of Supervisors. The Directors generally do not receive any compensation; however, they are reimbursed for direct expenses. Current board member names, positions, and term expiration dates are shown in Figure 6-3.

The Board meets on the third Tuesday of every month at the California Antique Aircraft Museum at 5:30 in the afternoon. Agendas are posted on the bulletin board at the San Martin post office. The date, time and place of the meetings are also listed on monthly bills. Minutes are available upon request.

Figure 6-3: SMCWD Governing Body

San Martin County Water District				
<i>District Contact Information</i>				
Contact:	Peter J. Forest, District Manager			
Address:	P.O. Box 120, San Martin, CA 95046-0120			
Telephone:	408-779-4633			
Fax:	408-779-4633			
Email/website:	sanmartincwd@gmail.com			
<i>Board of Directors</i>				
Member Name	Position	Term Expiration	Manner of Selection	Length of Term
Vacant	Director 1	December 2013	N/A	4 years
Donald E. Popma	Director 2	December 2013	Appointed	4 years
P. Dennis Gothot	Director 3	December 2011	Appointed	4 years
Victoria E. Gothot	Director 4	December 2011	Appointed	4 years
Vacant	Director 5	December 2011	N/A	4 years
<i>Meetings</i>				
Date:	Third Tuesday of every month at 5:30pm.			
Location:	California Antique Aircraft Museum, 12777 Murphy Avenue, San Martin, CA 95046.			
Agenda Distribution:	Posted at the San Martin post office.			
Minutes Distribution:	Available upon request.			

In addition to the legally required agendas and minutes, the District encourages voter participation by enclosing items of interest with the monthly bills and annual consumer confidence report, and direct mailings of any additional items as necessary. The District does not maintain a website where documents and information are made available to the public.

If a customer is dissatisfied with the District's services, that customer may call the office or mail a complaint. The district manager is responsible for addressing complaints about billing, business and service quality, while the treatment operator handles complaints regarding water quality and quantity emergencies. The District reported that there were

three complaints filed in 2010—two were regarding leaks and one regarding low pressure or the absence of water during a power outage.⁶⁷

San Martin County Water District demonstrated accountability and transparency in its disclosure of information and cooperation with Santa Clara LAFCO. The District responded to the questionnaires and cooperated with the document requests.

MANAGEMENT AND STAFFING

The District is managed and operated by contract employees, including a district manager, certified water treatment/distribution operator and bookkeeper

The District does not generally track the workload handled by the agency and its staff, due to minimal demand; the water operator does, however, keep a maintenance log and the district manager supplies a monthly written activity and system status report to the Board, which includes extraordinary time spent in the field by the manager or operator. Informal evaluations of each of the contractors are completed by the Board at monthly meetings and as issues surface.

The District does not formally evaluate its own performance in the form of an annual report or benchmarking study. However, the District reported that it has tried to closely monitor its costs from month to month, in order to minimize expenditures. District operations are also informally evaluated during the budget process.

To improve its operational efficiency, the District upgraded two and three-inch pipelines to six and eight-inch pipelines, and upgraded residential service connections to one inch. These upgrades were completed between 1995 and 2010 for a combined cost of \$1.5 million. These improvements helped eliminate leaks and breakages and limit unaccounted for loss from the system.

The District's financial planning efforts include an annually adopted budget. The District conducts informal capital improvement planning, but no CIP has been adopted. The District keeps a list of projects that are anticipated to be completed over the next ten years. The project list is updated annually, and planned projects are included in the annual budget. SMCWD does not adopt any other planning documents, such as a master plan.

All county water districts are required to completed annual audits⁶⁸ and submit the annual audits to the County within 12 months of the completion of the fiscal year.⁶⁹ SMCWD has not completed annual audits for several years. The District is in the process of

⁶⁷ Multiple calls were received during a single power outage.

⁶⁸ California Water Code §30540.

⁶⁹ Government Code §26909.

having the last six fiscal years audited. During this time, SMCWD has failed to submit its audits to the County annually within the required 12 month period.

POPULATION AND PROJECTED GROWTH

The District has a system that serves a total of 189 connections—151 residential and 38 commercial. Based on an average household size throughout the County of 2.98 people,⁷⁰ the estimated population of SMCWD is 450. According to the Department of Public Health records, SMCWD served approximately 600 year-long residents in 2010.⁷¹

The District reported that it had observed no change in the level of service demand in the last few years. Although the District does not make formal population projections, the District reported that it anticipated a similar growth trend in population over the next 20 years, with little or no change in demand for water services within its existing boundaries.

Most of the empty lots within the District are undevelopable. There are approximately three lots that are developable that are expected to be built out in the next 20 years. There are currently two known projects that may potentially bring additional demand. A Fry's Electronics-related company has expressed interest in building an athletic facility within the District's boundaries, but the project is currently on hold. In addition, a small commercial gas station has approached the District for water service; however, no action has been taken by the property owner to formally petition the District for service.

The District anticipates expanding its services to eventually encompass the San Martin Planning Area east of Monterey Road. There are at least 13 State and County regulated small water systems in the San Martin Planning Area (east of Monterey Road), including community, non-transient non-community and transient community water systems, which have the potential to eventually connect to the District's system. These systems are shown in Figure 6-4. None of these systems are within the District's current SOI. The location of each system is shown on the District's map in Figure 6-2. The District reported that the potential for any water system to merge with SMCWD is severely restricted by the cost of extending existing water mains and LAFCO fees, which would be entirely borne by these small water systems. It is recommended that the District work with LAFCO to maximize the number of properties annexed at any given time in order to spread out the processing costs amongst several applicants.

⁷⁰ U.S. Census Bureau, American Community Survey, 2009.

⁷¹ California Department of Public Health, *Annual Sanitary Survey Findings, San Martin County Water District, Water system No. 4300542*, 2010.

Figure 6-4: Mutual Water Companies in the San Martin Planning Area

Small Water System	Location	Connections
Arlington MWC	East Middle Avenue	8
Candy Ranch MWC	Dias Drive	6
Center Avenue Pump	Center Avenue	Unknown
Countryside Mushrooms	Center Avenue	1
Mecchi Water System	Crowner Avenue	26
Pinecrest Water System	Pinecrest Drive	6
Rancho Robles MWC	Paseo Vista	35
San Martin Foothills MWC	Vincent Drive	48
San Martin Lions	Murphy Avenue	3
Schramm MWC	Benetta Lane	8
Shawana Water Company	New Avenue	6
South County Retirement Home	Church Avenue	35
Vista del Lago MWC	Church Avenue	11

A few mutual water companies (MWCs) have expressed interest in connecting to the District's system. Specifically, Mecchi MWC, located on Crowner Avenue, faces challenges with septic systems adjacent to the company well and would like to connect to the SMCWD system. In the past, Chiri Ranch Mutual Water Company approached the District regarding the potential of connecting to the SMCWD's system, due to water quality concerns. Chiri Ranch also approached Candy Ranch Mutual Water Company to share the costs of connecting to the system between the two companies. Chiri Ranch MWC subsequently decided the costs were too high and split into individual well connections. Candy Ranch MWC has not expressed interest in connecting to the SMCWD system since then.

FINANCING

Financial Adequacy

The District reported that the current financing level was sufficient to provide an adequate level of service. Rates were adopted in 1992 and last updated in 2002; there has not been a rate increase since. However, SCVWD groundwater production service charges have increased and are reflected on a separate line item in the District's utility bills. SMCWD reported that the SCVWD groundwater production service charge has been an ongoing concern for SMCWD.

Similar to other water providers, the District reported an increase in delinquent accounts as a result of the recession. SMCWD has been forced to shut off accounts that owed over \$100 and were more than 90 days late. Although it was reported that the District's financing level is adequate, SMCWD has made efforts to minimize costs and maximize efficiency by re-piping the entire system to avoid water loss and installing accurate meters to minimize unbilled water use.

Revenue Sources

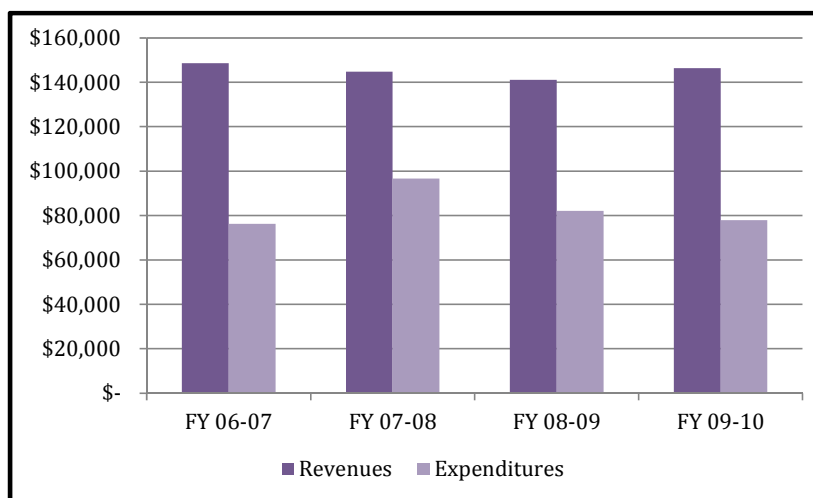
SMCWD’s primary source of revenue is water sales (99 percent), with the remainder coming from interest on investments. The District receives no property tax income.

The District charges rates based on water usage. A base rate, which depends on water meter size and ranges from \$20 to \$60 per month, is charged to cover meter reading and replacement, billing, collection, quality testing, administration, and distribution maintenance. The water usage charge pays for electricity to pump water, treatment chemicals and mechanical equipment replacement. SCVWD collects a groundwater production service charge based on the amount of groundwater pumped by each user. The service charge is set by SCVWD to cover groundwater recharge and groundwater management services. SMCWD passes this service charge onto each of its customers. The District has a two-tiered rate structure for water usage with the split at five units (1 unit = 748 gallons). For each unit up to five units, customers pay \$2.36 to SMCWD and for each unit over five units, customers pay \$2.81 to SMCWD. Of the amount that is paid to SMCWD, \$0.66 per unit is paid by SMCWD to SCVWD.

Expenditures

Figure 6-5: Expenditures and Revenues (FYs 06-10)

In FY 09-10, the District’s primary expenses were the SCVWD groundwater production charge (38 percent), utilities (nine percent), management services (nine percent), customer billing (eight percent), repairs and maintenance (seven percent), meter reading (five percent), meter analysis (four percent), bookkeeping (three percent), legal services (two percent), telephone services (one percent), and operating fees (one percent).⁷²



District expenditures and revenues over the last four fiscal years are shown in Figure 6-5. Each year, district revenues were significantly higher than expenditures.

⁷² All revenues and expenditures are as reported by the District in unaudited financial statements for each fiscal year.

Capital Outlays

The District plans for capital improvements for a ten year period, but does not have a formal capital improvement plan. The District uses a “pay as you go” approach, financing the majority of infrastructure projects out of capital improvement reserve.

The District does not estimate annual depreciation. The District has made no major capital expenditures in the last four fiscal years (FYs 07-10). In FY 10-11, the District replaced a significant portion of their pipeline system at a cost of \$250,000. The District appears to invest in its water system as needs and funding are identified.

Long-term Debt

In 1995, the District was issued a loan from the California Department of Water Resources for \$597,450, which was used to acquire the infrastructure and the main well as part of the District’s formation. The 30-year loan will be paid in full in 2025. Annual payments are approximately \$16,000, including principal and interest. The District recently paid off a large portion of this loan, ultimately saving over \$26,000 in interest. The balance at the end of FY 09-10 was \$362,358, and following the prepayment, was \$252,545 at the end of FY 10-11.

Reserves

The District initially operated with little or no reserves. As part of an overall effort to improve the District’s management and financial condition, the Board of Directors adopted a resolution to establish a minimum emergency reserve level of \$50,000. At the end of FY 09-10 the District had a fund balance of approximately \$168,546, or 14 months of operating expenditures.

WATER SUPPLY

The San Martin County Water District, Morgan Hill, Gilroy, and West San Martin Water Works all share the same groundwater basin. The San Martin County Water District relies on groundwater extracted from the Llagas Sub-basin, which is managed by SCVWD. The District has the capability to pump 2,000 gallons per minute or a maximum of one billion gallons in one year. In calendar year 2010, the SMCWD extracted 37.1 million gallons of groundwater, or four percent of the well’s maximum permitted capacity.

WATER DEMAND

Of the amount pumped in 2010, the District delivered 29.8 million gallons to metered connections, or 80.4 percent of the amount produced. Average daily demand in 2010 was 101,643 gallons per day.

WATER INFRASTRUCTURE AND FACILITIES

The District owns and operates one well, one treatment facility, one storage tank and 5.92 miles of distribution system. Water is pumped from the well up to the treatment facility, and then stored in the storage tank. The water is treated for perchlorate and is chlorinated.

Wells

The District owns one well with a capacity of 2,000 gallons per minute (gpm), which was reported to be in good condition. The well was constructed in 1986 and acquired in 1990 by the District after formation. The well's capacity greatly exceeds the current regular service demand of approximately 72 gpm. This excess capacity was designed into the system to ensure adequate fire flow.

The well does not have a back-up generator, because the electricity needed to operate the existing 200 hp well pump motor requires too large a generator output to be feasible for a small water company. Consequently, if PG&E's service is ever interrupted, the supply of water from the well will be disrupted. The District has considered building another well with a smaller pump and an emergency generator as a backup water source, should the main well ever go out of commission, due to a power outage. The project was put on hold, while the District concentrated on repiping. A small well is expected to be put in place by 2013. It will have sufficient capacity to serve the current potable needs of the District's service area during an emergency outage.

Water Treatment Facilities

The District's treatment facility, provided by the Olin Corporation, is adjacent to the well site. Olin was identified as the manufacturing operation that created the perchlorate contamination issue in South County. The treatment facility treats for perchlorate and the treatment capacity matches the well production capacity of 2,000 gpm; it has booster pumps to keep up with the well.

The treatment system was monitored and operated by Olin Corporation until summer 2009, when SMCWD took over operations. In July 2008, SMCWD and Olin Corporation approached the Department of Public Health (DPH) for permission to discontinue perchlorate treatment. The DPH requested that the District submit a formal application and directed the District to continue to provide perchlorate treatment until approval is granted by the Department to discontinue treatment⁷³

⁷³ California Department of Public Health, *Annual Sanitary Survey Findings, San Martin County Water District, Water system No. 4300542, 2010.*

Water Storage Facilities

The District currently has one 5,000-gallon storage tank, which allows the well to be periodically shut down to promote energy savings. The tank was constructed in 1990 and was reported to be in good condition. The District recognizes the need for more storage capacity in the future, and an elevated site that could offer gravity flow would greatly improve service reliability. The service area is almost entirely flat and the current water delivery system is pressurized, making the District completely dependent on power service from PG&E for pumping. The District has identified an elevated site within a park to the east for a new one million-gallon reservoir tank. SMCWD plans to construct the tank with savings, and anticipates completion of the new tank around 2020 when funds become available.

Conveyance and Distribution Facilities

The total distribution system pipeline is 5.92 miles in length. About half of the original 80 year old system pipelines and one third of the service connections were upgraded in 1995 at a cost exceeding \$1 million. The last portions of the original system were repiped and upgraded in 2002, 2005 and 2010, from two and three inch mains to six and eight inch ones to comply with industry standards. The western portion of the service area has a 12-inch main. The repiping project cost the District approximately \$414,000 between 2002 and 2010.

The system's pressure ranges from 50 to 70 psi, sometimes reaching 80 psi in lower elevations. The system appears to have sufficient minimum pressure to meet fire suppression requirements of 20 psi.

The distribution system's integrity is reflected in the District's rate of distribution loss and number of breaks and leaks in 2010. The District estimates that there is less than 15 percent unaccounted for distribution loss from the point of treatment to the delivery point to each of the connections. The rate of loss prior to the pipeline replacement project was reportedly significantly worse. There were no main breaks or leaks in 2010.

Infrastructure Needs

The District reported that it had recently finished replacing all of the original pipes and fire hydrants, and is in the process of replacing bad water meters as required; therefore, there are no further infrastructure needs or deficiencies that must be addressed in the short-term.

Capital Improvement Plans

The District has two planned infrastructure improvement projects. A smaller well, that will be able to have a back-up generator for emergency purposes, is expected to be

constructed by 2013. A new one million-gallon storage tank is projected to be completed around 2020 when funds become available. These projects combined are estimated to cost about \$500,000.

Shared Facilities

The District shares facilities and collaborates with multiple entities:

- SMCWD pays a fee to the Air Museum to use its facilities for district meetings.
- The District has the potential to purchase water from West San Martin Water Works when necessary.
- SMCWD makes use of contract employees that serve other water systems in that area as well.
- SMCWD purchases supplies, such as chlorine, in bulk with other purveyors.

WATER QUALITY

Source Water

As identified in the 2005 Water Service Review, perchlorate contamination of groundwater in the Llagas subbasin is still an issue of concern for some groundwater users. Olin Corporation's (Olin) signal flare manufacturing plant in southern Morgan Hill, closed since 1997, released perchlorate that affected many wells in the South County area. Perchlorate contamination at the site occurred primarily from an unlined evaporation pond that received wastes from the cleaning of the ignition material mixing bowls, on-site incineration of manufacturing wastes, and accidental spills. The perchlorate leached through the soil into the groundwater, creating a 9.5-mile perchlorate plume in the South County area. Perchlorate is a chemical that affects the normal function of the thyroid gland if consumed by humans at sufficiently high doses. Water containing more than 6 parts per billion (ppb) perchlorate is considered unsafe to drink and to cook with by the California Department of Public Health, which has set the Maximum Contaminant Level (MCL) for perchlorate at 6 ppb. When the extent of perchlorate contamination in the Llagas subbasin was first delineated, perchlorate detections above the 4 ppb action level in effect at that time were found in hundreds of wells. Some of the wells in South County initially contaminated with perchlorate were found to have concentrations of perchlorate up to 50 ppb. Presently, only eight private wells in the County exceed California's 6 ppb MCL.

The Central Coast Regional Water Quality Control Board (Regional Board) has regulatory oversight over the cleanup of the groundwater plume. The Olin Corporation began soil remediation and groundwater treatment on the Tennant Avenue site in 2004. Since that time, the Regional Board has directed Olin to perform treatment to address the off-site perchlorate plume. Construction of the off-site groundwater extraction system is

scheduled to begin in July 2011. Perchlorate levels have decreased significantly and the size of the plume is decreasing; however, some wells still contain perchlorate above the MCL and remediation is ongoing. Olin continues a comprehensive well-sampling program to monitor the perchlorate plume.

The groundwater in South County also suffers from high nitrate levels. The presence of nitrates in groundwater is commonly associated with septic systems, livestock waste, and fertilizer use. The District's well regularly meets nitrate level standards for potable water.

According to DPH's Drinking Water Source Assessment, which evaluates the vulnerability of water sources to contamination, the District's groundwater is susceptible to potential contamination from septic tanks and chemical/petroleum processing.

Treated Water

Quality of treated water can be evaluated according to several measures. For the purposes of this report, the following indicators are used: the number of violations as reported by the EPA since 2000, the number of days in full compliance with Primary Drinking Water Regulations in 2010, and any deficiencies identified by DPH as prioritized health concerns.

According to the EPA Safe Drinking Water Information System, SMCWD has had no health or monitoring violations within the last 10 years with regard to its water treatment system.

SMCWD was not out of compliance with Primary Drinking Water Regulations throughout 2010.

During its most recent inspection in 2010, DPH identified three operational concerns regarding the District's system and operating plans. DPH found that the District had not collected the perchlorate mid-point sample ever since the water system began monitoring and operating the treatment facility in summer 2009, and was therefore out of compliance with one of the original 2004 permit conditions. DPH also directed the District to appoint a person trained in cross connection control to carry out the cross connection program and to establish a schedule and procedures to flush the water mains and exercise the distribution valves.

SAN MARTIN COUNTY WATER DISTRICT SERVICE REVIEW DETERMINATIONS

Growth and Population Projections

- ❖ The estimated population of San Martin County Water District (SMCWD) is 450.
- ❖ Little or no change in demand for water services is anticipated within SMCWD's existing boundaries over the next 20 years with the addition of approximately three new connections. There are currently two known proposed commercial projects that may potentially bring additional demand.
- ❖ There is potential for growth through expansion of the District as SMCWD is anticipating expanding its services to eventually encompass the San Martin community east of Monterey Road.
- ❖ A few mutual water companies have expressed interest in connecting to the District's system. However, the potential for any water system to merge with SMCWD is constrained by the cost of extending existing water mains, which would be entirely borne by these small water systems with few service connections.

Present and Planned Capacity of Public Facilities and Adequacy of Public Services, Including Infrastructure Needs and Deficiencies

- ❖ SMCWD appears to have more than adequate water supply to serve existing and near-term demand; only four percent of the District's well pumping capacity was made use of on average.
- ❖ The District has sufficient system capacity. Excess capacity was designed into the system to ensure adequate fire flow.
- ❖ Should the main well that does not have a generator ever go out of commission due to power outage, the District does not have a backup water source. By 2013, SMCWD is anticipating acquiring a small well with a backup generator that will serve the current potable needs of the District's service area during an emergency outage.
- ❖ SMCWD has minimal water storage for emergency purposes and needs additional storage capacity to handle any interruptions in service. In lieu of the additional storage, the District shares an intertie with West San Martin Water Works.
- ❖ The District recently finished replacing all pipes and water meters, and therefore, the distributions system is considered in good condition, with no further infrastructure needs or deficiencies that must be addressed in the short-term.

- ❖ Groundwater users in the San Martin vicinity face challenges related to groundwater contamination, specifically by perchlorate and nitrate. SMCWD's water has regularly tested within the legal limits for both contaminants and perchlorate levels appear to be on the decline.
- ❖ District management methods appear to meet certain accepted best management practices. The District prepares a budget before the beginning of the fiscal year, maintains relatively current transparent financial records, regularly evaluates rates and fees, and has an established process to address complaints. It is recommended that the District begin operating within State legal requirements when extending services and institute a regular auditing schedule and a means to track workload handled by the agency and its staff.
- ❖ It is recommended that if the District desires to extend its boundaries to eventually encompass the San Martin community east of Monterey Road, that the District begin operating within State law, prepare a water system master plan, and make projections for future water demand and storage capacity needs within this area.
- ❖ The District has failed to submit its annual audit to the County for the last five fiscal years. SMCWD could improve upon transparency and accountability by submitting annual audits within the legally required time frame.

Financial Ability of Agency to Provide Services

- ❖ The District reported that the current financing level was sufficient to provide an adequate level of service. Similar to other water providers, the District reported an increase in delinquent accounts, as a result of the recession. SMCWD's operating reserves appear to be adequate to handle contingencies as they arise.
- ❖ SMCWD has made efforts to minimize costs and maximize efficiency by re-piping the entire system to avoid water loss and installing accurate meters to minimize unbilled water use.
- ❖ The District plans for capital improvements for a ten year period, but does not have a formal capital improvement plan. The District uses a "pay as you go" approach, financing the majority of infrastructure projects out of the capital improvement reserve. It is recommended that all water agencies have a multi-year capital improvement program, which may be used to identify timing and funding for the projects

Status and Opportunities for Shared Facilities

- ❖ The District makes use of space at the Air Museum and shares an intertie with West San Martin Water Works. SMCWD shares employees and supplies with other water purveyors.

- ❖ The District does not see further opportunities for facility sharing.

Accountability for Community Services, Including Governmental Structure and Operational Efficiencies

- ❖ The District is operating outside of State law by extending services outside of bounds without LAFCO approval. The District should not allow any future connections outside its bounds without first seeking LAFCO approval.
- ❖ Accountability is best ensured when contested elections are held for governing body seats, constituent outreach is conducted to promote accountability and ensure that constituents are informed and not disenfranchised, and public agency operations and management are transparent to the public. Based on these indicators, SMCWD appears to lack accountability and transparency to the public and regulatory agencies. In particular, those customers that are served outside of the District are considered disenfranchised as they cannot hold office, cannot effectively influence rates, or vote in a district election. Additionally, the District 1) has not had recent contested elections and two board positions are vacant, indicating a lack of constituent interest in district activities, 2) does not have a website to keep customers informed, and 3) has failed to properly complete annual audits and submit the audits to the County for the last five years.
- ❖ It is recommended that SMCWD, as a public agency, maintain a website where information can be made available to the public.

Governance Structure Options

Governance structure options for SMCWD include the annexation of extraterritorial service areas and consolidation with nearby small water systems.

SMCWD is serving at least 13 parcels outside its boundaries, and with the exception of one connection, these parcels are being served without LAFCO approval. Since 1994, service providers have been required by law to obtain LAFCO approval to serve territory outside their boundaries.⁷⁴ LAFCO has informed the District about this issue and expanded the District's SOI to facilitate annexation of parcels receiving service outside its boundaries. The District, however, has not applied to LAFCO to annex these areas. Annexation of these extraterritorial service areas is an option that would promote logical boundaries. The District should work with LAFCO to determine a means to make annexation feasible for these property owners, perhaps by conducting several annexations at once.

A few mutual water companies (MWCs) have expressed interest in connecting to the District's system. Specifically, Mecchi MWC and Candy Ranch MWC have considered

⁷⁴ Government Code §56133.

consolidating into SMCWD's system at one point. None of the previously mentioned companies are within the District's current SOI. The District reported that the potential for any water system to merge with SMCWD is restricted by the cost of extending existing water mains and LAFCO fees, which would be entirely borne by these small water systems. The benefits of consolidation of these MWCs into a larger water system may include greater efficiencies of scale, reduced cost, heightened regulation by a regulatory health agency, higher quality of service and enhanced transparency and accountability related to a public agency. However, this may not presently be the case, given the numerous concerns identified regarding the SMCWD's accountability and transparency, including illegal service connections with disenfranchised customers, failure to comply with audit requirements, board vacancies, lack of contested elections, and lack of a district website. LAFCO should not consider expansion of SMCWD's service area favorably until these concerns have been addressed.

- ❖ Governance structure options for SMCWD include 1) consolidation of systems with nearby small water systems and 2) annexation of current extraterritorial service areas.

SAN MARTIN COUNTY WATER DISTRICT SPHERE OF INFLUENCE UPDATE

Existing Sphere of Influence Boundary

The District's sphere of influence is larger than its bounds. The SOI was last updated in December 2007 to include parcels that had been outside of District's boundaries but were receiving service and/or were surrounded by parcels served. Five separate areas totaling to 173 acres were added to the District's SOI in 2007.

At the time of the SOI update, one extraterritorial connection (APN 825-09-034), north of the District's bounds east of Llagas Avenue, was not included within the expanded SOI, as it was not contiguous to the District's bounds and had intervening parcels that were not served.

According to the District, as of 2005, it provided services to Coyote Lake-Harvey Bear Ranch County Park at the east end of the District's service area. The area was outside of District boundaries. LAFCO determined that there was a need to verify which facilities were being served. The area was not included in the 2007 SOI expansion and was postponed to be addressed during the next round of updates. Since that time, it has been determined that water from that particular connection is used to provide potable water for use in a horse trough, dog fountain, and drinking fountain at the "Bear Staging Area," just off San Martin Avenue within the park. The remainder of the 4,595-acre park is served off of county wells.

Since the District's SOI update in 2007, SMCWD has added three additional out of bounds service connections—two outside of the District's SOI (APNs 825-03-001 and 825-03-010). These properties are outside of the District's SOI to the north—located on the west side of Llagas Avenue adjacent to the District's SOI.

Recommended Sphere of Influence Boundary

Given SMCWD's failure to come to LAFCO to annex existing extraterritorial service areas, it is recommended that the current SOI be retained until such time as the District complies with State law. After the annexation of current extraterritorial service areas, it is recommended that LAFCO work with the District to determine what a logical SOI would be, based on need and which areas can feasibly be served by existing infrastructure.

Areas that could potentially be included in a future SOI expansion consist of 1) the three parcels (APNs 825-09-034, 825-03-001 and 825-03-010) where the District is presently providing services outside of its existing SOI and 2) parcels that are feasibly served by

existing pipelines extending outside the District's bounds.⁷⁵ Established pipelines from the period just following the formation of SMCWD extend outside of the District. Those parcels that lie adjacent to one of these pipelines outside of the District's bounds and presently receive water through private individual wells could feasibly be connected to the District's system and may be considered for inclusion in SMCWD's SOI in the future. Also for future consideration, may be expanding the SOI to include nearby small water systems. In particular, Mecchi MWC is struggling with water quality issues, and may benefit by consolidating into SMCWD.

It is recommended that the Coyote Lake-Harvey Bear Ranch County Park continue to be excluded from the District's SOI. The park encompasses 4,595 acres, of which a small fraction receives potable water from the District. The County does not intend to expand use of the water supplied by San Martin CWD to any other portions of the park.

Proposed Sphere of Influence Determinations

Present and planned land uses in the area, including agricultural and open-space lands

SMCWD's service area, centered along San Martin Avenue east of Monterey Road, covers approximately 0.71 square miles and includes an estimated 184 connections. Land uses within the area include residential, industrial, commercial, institutional, and open space. Land use within the District's boundaries is subject to the County's growth and development policies relating to rural unincorporated areas as well as those policies specific to the San Martin Planning Area. The Santa Clara County General Plan land use designations within the vicinity of the San Martin County Water District include rural residential with transportation uses for the South County Airport and the area adjacent to Highway 101 and regional parklands to the east (Santa Clara County Land Use Plan August 2005). Future land use within the District is anticipated to remain similar to the present uses.

Present and probable need for public facilities and services in the area

There is a clear and present need for SMCWD domestic water services within the existing service area, as shown by demand for domestic water and fire flow services. The District serves a developed area, and water services are needed to serve the existing homes and future development on existing parcels. The present need for water service is currently being met solely by the District.

It is anticipated that demand for SMCWD domestic water services will remain relatively the same within its bounds, as the area is largely built out. It is anticipated that demand for district services outside its bounds will grow, as small water systems and single private

⁷⁵ APNs 825-09-031, 825-09-032, 825-09-033, 825-09-047, 825-38-006, 825-38-005, 825-14-003, 825-14-004, 825-14-005, 825-14-006, and 825-14-007.

connections are impacted by groundwater contamination and search for alternative water sources. The water produced at individual and shared wells frequently does not meet drinking water quality standards. The State Department of Health is not in favor of point-of-use treatment systems as they require significantly more oversight and must be managed by a certified water treatment operator.

Present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide

SMCWD appears to have more than adequate water supply to serve existing and near-term demand; only four percent of the District's well pumping capacity was made use of on average in 2010. The District has sufficient system capacity. Excess capacity was designed into the system to ensure adequate fire flow.

Water facilities and services appear to be adequate based on State inspection reports, recent regulatory compliance, and management methods. The primary infrastructure need related to the SMCWD water system is a backup well with a generator for emergency purposes. It is recommended that the District initiate formal capital planning.

Existence of any social or economic communities of interest in the area if the Commission determines that they are relevant to the agency

The ratepayers have participated in purchasing the system and funding the infrastructure upgrades for the District's water delivery system; therefore the ratepayers have an economic interest in the services provided by the District. No other communities of interest were identified. The SOL update will not affect the existence of any social or economic communities of interest in the area that are relevant to the District.

The nature, location, extent, functions, and classes of services provided

SMCWD provides water services to a portion of the unincorporated San Martin community, east of Monterey Road and centered along San Martin Avenue. The District provides potable water from groundwater for a variety of uses, including residential, commercial, and industrial. The District does not provide water for agricultural purposes, nor does the District have a water conservation program. The District provides water for fire suppression as there are no other providers in the area.