2. *COUNTY SANITATION DISTRICT 2-3*

AGENCY OVERVIEW

County Sanitation District 2-3 (CSD 2-3) is a dependent special district of the County that provides sewer collection services in three unincorporated islands surrounded by the City of San Jose. The District contracts with the San Jose-Santa Clara Regional Wastewater Facility for wastewater treatment and disposal. Santa Clara LAFCO last conducted a service review covering CSD 2-3 in 2006.

The District was consolidated in December 1977 by the merger of County Sanitation Districts 2 and 3, which were originally formed in May 1948 and May 1953, respectively.

The principal act that governs the District is the County Sanitation District Act.[21] The principal act empowers the District to own, control, manage, and dispose of any interest in real or personal property necessary or convenient for the construction, maintenance, and operation of a sewerage system and sewage disposal or treatment plant, or a refuse transfer or disposal system, or both and to acquire, construct, and complete sewage collection, treatment and disposal works, and refuse transfer or disposal.[22] Districts must apply and obtain LAFCO approval to exercise services authorized by the principal act but not already provided (i.e., latent powers) by the district at the end of 2000.[23]

Boundaries

The District's bounds encompass three non-contiguous unincorporated islands largely surrounded by the City of San Jose, consisting of two neighborhoods—Alum Rock and the County Fairgrounds. The District's existing bounds encompass approximately 3.76 square miles.

Since the last service review was conducted for CSD 2-3, seven areas have been annexed into the City of San Jose and detached from the District.

Sphere of Influence

LAFCO adopted a zero SOI for CSD 2-3 in 1982. This was done to recognize the long-term policy of LAFCO and the County that unincorporated islands within city Urban Service Areas (USAs) should be annexed to cities and receive city services. As LAFCO and County policies regarding island areas and service provision have remained the same since adoption of the SOI, LAFCO reaffirmed the zero SOI for CSD 2-3 in 2006.

[21] California Health & Safety Code, Div. 5, Pt. 3, §§ 4700-4858.

[22] California Health & Safety Code §§ 4738-4767.5.

[23] Government Code §56824.10.

Type and Extent of Services

Services Provided

CSD 2-3 provides wastewater collection services, including owning, operating, and maintaining the collection system within its bounds. Wastewater that is collected within the District flows to the City of San Jose's facilities for treatment and disposal.

The District contracts with the San Jose-Santa Clara Regional Wastewater Facility (RWF) for wastewater treatment and disposal. Wastewater is conveyed from the areas within the District to the RWF in Alviso for treatment and then either used as recycled water or discharged through Artesian Slough and into South San Francisco Bay.

Service Area

With regard to wastewater services, CSD 2-3 serves only areas within its bounds, and does not presently provide these services outside of its bounds. The District serves the unincorporated areas of East San Jose in the vicinity of the Alum Rock area (District 2) and unincorporated areas including the County Fairgrounds and southern areas (District 3).

There are some parcels within CSD 2-3's bounds that are not connected to the district wastewater system, as they rely on private septic tanks. The District does not track the number of septic systems within its bounds and SOI. Properties relying on septic systems are generally required to connect to the district system when owners apply for building permits or when the septic system fails. However, the District reported that there were often constraints to these areas connecting to the district system, such as topography requiring a pump station instead of gravity flow.

Services to Other Agencies

The District does not provide services to other agencies.

Contracts for Services

The District receives contract services in the form of wastewater treatment and discharge from RWF, which is co-owned by the cities of San Jose and Santa Clara. CSD 2-3 entered into an agreement with these cities for wastewater treatment in 1984. The agreement establishes capacity rights and obligations for the operation, maintenance and capital costs of the plant. CSD 2-3 operates under a separate agreement than the other agencies.

It should be noted that the District identified certain deficiencies with regard to the agreement with the Cities of San Jose and Santa Clara, which may warrant an engineering review and update in the near future to ensure consistency and clarity in the document. Currently, CSD 2-3 reportedly continues to pay the debt payment to the cities for those annexed areas, even upon transfer of related capacity at the treatment plant, where improvements and expansion were financed by the debt in question. Finally, the District reported that the extent of its capital obligations with regard to master plan improvements at the plant are not fully described and are outdated. The City disagrees, and maintains that most of the planned master plan projects are similar in type to those covered in the Master Agreement.

Collaboration

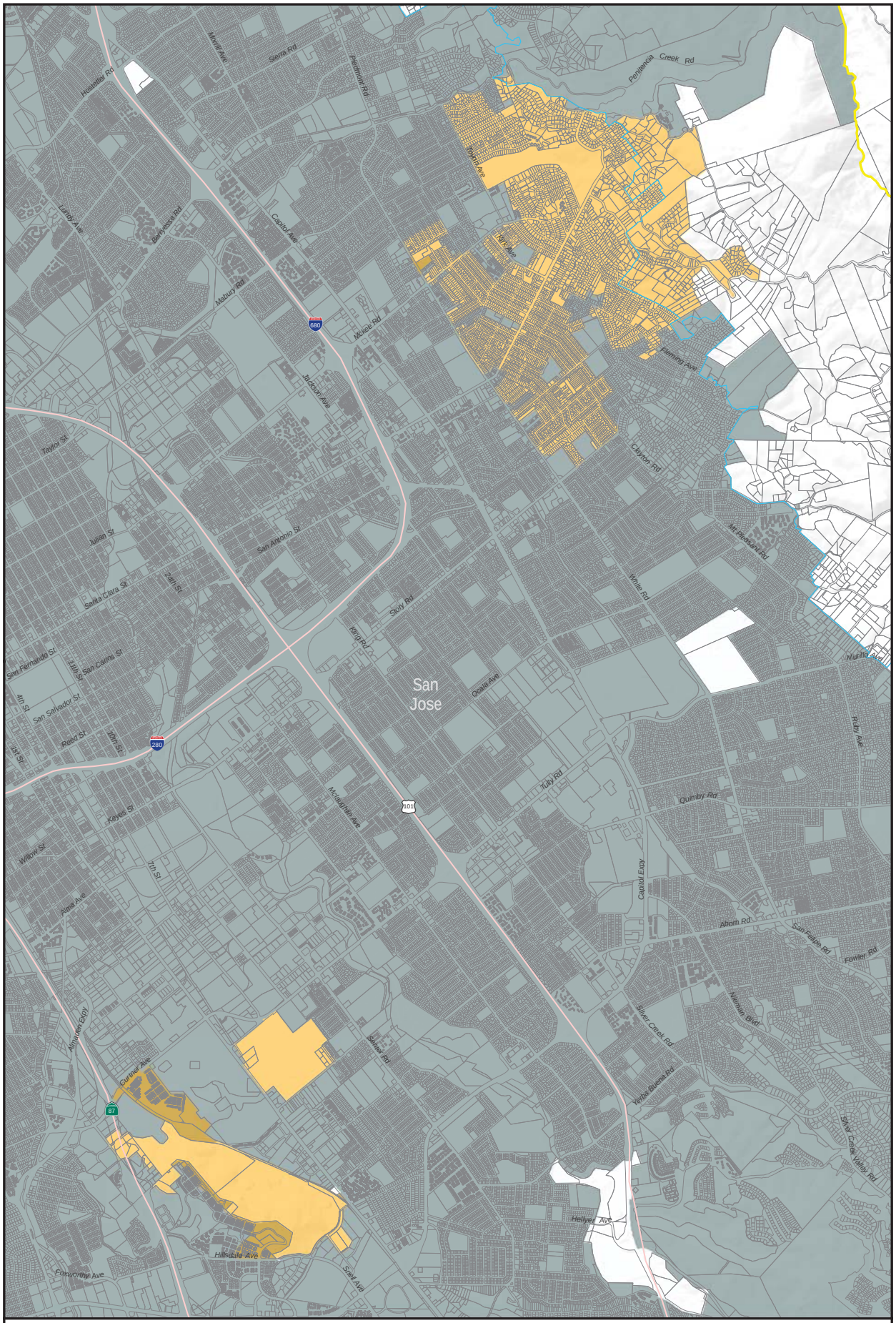
CSD 2-3 collaborates and partners with other agencies in providing services. CSD 2-3 participates in the South Bay Water Recycling (SBWR) in conjunction with the Cities of San Jose, Milpitas and Santa Clara, and several special districts. In 1998, the facility and pipeline was constructed in response to discharge requirements at the RWF. The facility provides recycled water to wholesale water providers for irrigation, landscape and industrial uses. Wastewater treatment is provided by the RWF, while recycled water delivery is provided by SBWR. The City of San Jose manages and administers SBWR.

The collected wastewater from both areas within CSD 2-3 is conveyed to the RWF through mains and interceptor lines shared with the City of San Jose. The District previously maintained a joint use agreement with the City, which expired in 2009. The agreement defined how operations, maintenance and capital improvements were to be funded. As of the drafting of this report, the two agencies were working to negotiate terms for a new agreement.

Additionally, the District is a member of associations, which promote information sharing and collaboration, including the California Association of Sanitation Agencies (CASA), and the Bay Area Clean Water Agencies (BACWA).

Overlapping and Neighboring Service Providers

Services are not duplicated by other providers within CSD 2-3's bounds.



County Sanitation District No. 2-3

- Incorporated Areas
- Cities Urban Service Area
- Cities Sphere of Influence (SOI)
- Parcels
- County Sanitation District 2-3

District has a zero Sphere of Influence

0 0.25 0.5
Miles

LAFCO
Local Agency Formation Commission of Santa Clara County

June 2013

This map created by the Santa Clara County Planning Office. The GIS data was compiled from various sources. While deemed reliable, the Planning Office assumes no liability.
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ACCOUNTABILITY AND GOVERNANCE

Being a dependent special district, the County Board of Supervisors serves as the District's governing Board of Directors. The five county supervisors are elected to four-year terms of office with a three-term limit. Current board member names, positions, and term expiration dates are shown in Figure 2-2.

Figure 2-2: CSD 2-3 Governing Body

County Sanitation District 2-3					
District Contact Information					
Contact:	Richard Tanaka, District Manager				
Address:	20863 Stevens Creek Boulevard #100, Cupertino, CA 95014				
Telephone:	408-255-2137				
Website:	http://www.csd2-3.org/index.html				
Board of Directors					
Member Name	**Position**	**Began Serving**	**Term Expires**	**Manner of Selection**	**Length of Term**
Mike Wasserman	District 1	2010	11/2014	Elected	4 years
Cindy Chavez	District 2	2013	11/2016	Elected	4 years
Dave Cortese	District 3	2008	11/2016	Elected	4 years
Ken Yeager	District 4, President	2006	11/2014	Elected	4 years
Joe Simitian	District 5	2012	11/2016	Elected	4 years
Meetings					
Date:	Tuesdays at 9:00 am (Every other Tuesday)				
Location:	County of Santa Clara Board of Supervisors' Chambers at 70 West Hedding Street, San Jose				
Agenda Distribution:	Posted online and at the County Government Center				
Minutes Distribution:	Posted online and at the County Government Center				

The Board of Supervisors meets every other Tuesday morning at the Board of Supervisors' chambers in the County Government Center located at 70 West Hedding Street in San Jose. When the District has public matters to be heard at the meetings, the Chair of the Board announces that they are now acting as directors of the District. On more routine matters, the Chair announces at the beginning of the meeting that they are sitting as the County Board of Supervisors and the governing board for the various special districts in the County.

Each member of the Board of Supervisors receives $143,000 annually in salary. Government Code §53235 requires that if a local government provides compensation or reimbursement of expenses to its board members, that local government must establish a written policy on reimbursements, and the board members must receive two hours of training in ethics at least once every two years. The County has adopted policies related to expense reimbursements, and the members of the Board of Supervisors have completed biennial ethics training as required. Additionally, the District is required to make available to the public a list of reimbursements over $100 made to board members and employees

over the last year.[24] The County was able to provide a list of reimbursements made to each Supervisor in 2012.

Agendas and minutes for the meetings are posted on the bulletin board at the County Government Center, and are published online on the county website. If special noticing is required, a local newspaper is also utilized. The website also contains video archives of previous Board of Supervisors' meetings.

The District conducts constituent outreach in addition to legally required agenda posting via its website (separate from the County's website) and by sending its annual report to district residents. CSD 2-3's website contains information on the District's services, annual reports, and sewer system management plan. It is recommended that the District also make available its rates, budget and audited financial statement on its website, as well as provide a link to the County Board of Supervisor's website where constituents can access board meeting agendas and minutes pertaining to CSD 2-3.

Complaints to CSD 2-3 are received in person or via phone, email, or letter. The District tracks all complaints to resolution. The district manager is responsible for ensuring that all complaints are addressed. The District reported that it had received five complaints in 2012 related to rate increases.

The Board of Supervisors has adopted a policy manual that articulates the ethical standards and administrative policies for the Board. This policy manual was updated in April 2013 and is published on the county website. The rules of the Board includes policies requiring observance of Brown Act requirements. The policies also include a code of ethics, as well as requirements regarding the Public Records Act.

The Political Reform Act (Government Code §81000, et seq.) requires state and local government agencies to adopt and promulgate conflict of interest codes. The Fair Political Practices Commission has adopted a regulation (California Code of Regulations §18730), which contains the terms of a standard conflict of interest code, which can be incorporated by reference in an agency's code. The County adopted a resolution regarding conflicts of interest in 1997.

Government Code §87203 requires persons who hold office to disclose their investments, their interests in real property and their incomes, and file these forms with the Fair Political Practices Commission each year. All four of the current members of the Board of Supervisors have filed the Form 700 Statement of Economic Interest forms in 2013.

[24] Government Code 53065.5

MANAGEMENT AND STAFFING

The District does not have any employees of its own. Management services are provided by contract with Mark Thomas & Company, Inc. The district manager, provided by Mark Thomas & Company, is responsible for the day-to-day operations of the District. Operation of the District is overseen by the Board of Directors. Repairs and maintenance activities are provided as scheduled or needed with outside contractors and overseen by Mark Thomas and Company field inspection personnel. Maintenance is provided by contracting companies, including Able Construction, Rotor Rooter, and S&M Construction. Currently, Mark Thomas & Company, Inc. dedicates 2 full-time equivalents (FTEs) to administration, management, and inspection of the District. The number of personnel dedicated to maintenance of the District's system through the contractors is dependent on the need at any given time; however, the District estimated that there were roughly two FTEs regularly maintaining the system.

Vendors, administrators and engineers report to the deputy district manager/engineer, who is managed by the district manager. The district manager reports to the Board at regular meetings.

CSD 2-3 has retained a certified public accountant to audit the District's Comprehensive Annual Financial Report and prepare the annual financial transaction reports, which are required by the State Controller under Government Code §53891. Additionally, the District retains Mr. Mark Bernal with County Counsel's Office as legal counsel.

CSD 2-3 maintains several plans and documents to guide district efforts. The District adopts an annual budget, annually audits its financial statements, has developed a sewer system management plan, and conducts capital improvement planning in a five-year plan.

The District reviews its operations in its annual report, which assesses what has been completed and accomplished over the last fiscal year. Additionally, the District conducts benchmarking with other similar agencies, particularly with regard to rates. The District also regularly monitors and reviews monthly the following performance criteria: total number of sanitary sewer overflows (SSOs), number of SSOs categorized by cause (roots, grease, debris, pipe failure, capacity, pump station failure, and others), portion of sewage contained compared to total volume spilled during an SSO, volume of spilled sewage discharged to surface water, and miles of sanitary sewer lines cleaned.

As the District does not have any staff, there are no formal staff evaluations. Administrative services are reviewed through invoices to the District's Board and regular reports at the Board of Supervisors' meetings. District and contractor workload are tracked in timesheets, which include the tasks completed for both, administrative and maintenance activities. Inspectors are issued weekly duty lists to be completed. Maintenance services are also tracked in a daily maintenance log.

Government Code §53901 states that within 60 days after the beginning of the fiscal year each local agency must submit its budget to the county auditor. These budgets are to be filed and made available on request by the public at the county auditor's office. The County has reported that in recent years, it has not been the practice for special districts to

file their budgets with the County. CSD 2-3 has not yet submitted its budget to the County for FY 14.

Special districts must submit a report to the State Controller of all financial transactions of the district during the preceding fiscal year within 90 days after the close of each fiscal year, in the form required by the State Controller, pursuant to Government Code §53891. If filed in electronic format, the report must be submitted within 110 days after the end of the fiscal year. The District has complied with this requirement.

All special districts are required to submit annual audits to the County within 12 months of the completion of the fiscal year, unless the Board of Supervisors has approved a biennial or five-year schedule.[25] In the case of CSD 2-3, the District must submit audits annually. CSD 2-3 has submitted its audit to the County for FY 12.

POPULATION AND PROJECTED GROWTH

Land Uses

The unincorporated District area is primarily surrounded by the City of San Jose. The District is an urban area that is predominately developed with a mix of industrial, commercial, and varied residential uses. Planned land uses throughout the District area are generally similar to those of the existing uses.

Current Population

Based on 2010 Census data, the District's population as of 2010 was approximately 19,257.

Disadvantaged Unincorporated Communities

LAFCO is required to evaluate disadvantaged unincorporated communities as part of this service review, including the location and characteristics of any such communities. A disadvantaged unincorporated community is defined as any area with 12 or more registered voters, or as determined by commission policy, where the median household income is less than 80 percent of the statewide annual median.[26]

The California Department of Water Resources (DWR) has developed a mapping tool to assist in determining which communities meet the disadvantaged communities median household income definition.[27] DWR did not identify any disadvantaged communities within Santa Clara County.[28]

[25] Government Code §26909.

[26] Government Code §56033.5.

[27] Based on census data, the median household income in the State of California in 2010 was $57,708, 80 percent of which is $46,166.

[28] DWR maps and GIS files are derived from the US Census Bureau's American Community Survey (ACS) and are compiled for the five-year period 2006-2010.

However, DWR is not bound by the same law as LAFCO to define communities with a minimum threshold of 12 or more registered voters. Because income information is not available for this level of analysis, disadvantaged unincorporated communities that meet LAFCO's definition cannot be identified at this time.

Projected Growth

Association of Bay Area Government (ABAG) has projected a population growth rate of 41 percent from 2010 to 2035, or 1.4 percent annually, for the City of San Jose. As CSD 2-3 is an unincorporated island within the City, this growth rate could be applied to the District as well. However, the territory within the District is generally built out, and most future growth would be limited to infill development and redevelopment, which can only occur following annexation to San Jose. Therefore, actual growth within the District is expected to be minimal. For the purposes of this report it is assumed that the population of the District will remain the same through 2035.

CSD 2-3 encompasses unincorporated islands within the City of San Jose and will shrink in size as portions are annexed to the City. Hence, the maximum service area of the District is defined by its current boundaries.

The District reported that growth has been minimal and is not affecting demand for services. The area within the District is largely built out, and most future growth would be limited to infill development and redevelopment. Therefore, actual growth within the District's boundaries is anticipated to be low. The District is not aware of any potential significant developments within its bounds.

CSD 2-3 forecasts service needs based on historical demand and growth data and current census information. The District has stated that the existing infrastructure has the ability to accommodate infill development within the District's service area. However, overall growth is expected to be minimal, as the District lands are generally built out. In 2012, the District made use of 47.56 percent of its treatment plant capacity allocation of 2.26 million gallons per day.

FINANCING

Financial Adequacy

CSD 2-3 reported that the current financing level was generally adequate. The District reported that there have been minimal impacts on the District's revenues from the recent recession, however, the District's revenues have been reduced as a result of the annexation of approximately 1,500 parcels to the City of San Jose and subsequent detachment from the District between 2008 and 2010, reduced water use by non-residential accounts, as well as lower interest returns on District's investments.

Additionally, the District anticipates its capital budget will need to increase threefold, due to rising operating and capital improvement costs for upgrades at the treatment plant, the more aggressive State and Regional Board compliance mandates, and an environmental

group's legal enforcement to construct/replace aging infrastructure. Consequently, there will be a need for enhanced revenues in the coming years.

The City of San Jose is facing a major rebuild of the wastewater treatment plant during the next decade, which is projected to be $680.9 million in capital improvement projects that will be constructed over the next five years. The District's share of capital costs of future improvements and operation and maintenance costs are 0.6 percent and 1.003 percent, respectively. As this project is implemented, CSD 2-3's payments for the plant are anticipated to take up a significantly greater portion of the District's annual expenditures. It is unknown how the City of San Jose is planning to allocate the district charges for the treatment plant upgrade and whether the City will be bonding or utilizing a "pay as you go" scenario for the improvements. The tributary dischargers are recommending that the City use bonds to fund the improvements to stabilize rates for all member agencies over a given period of time.

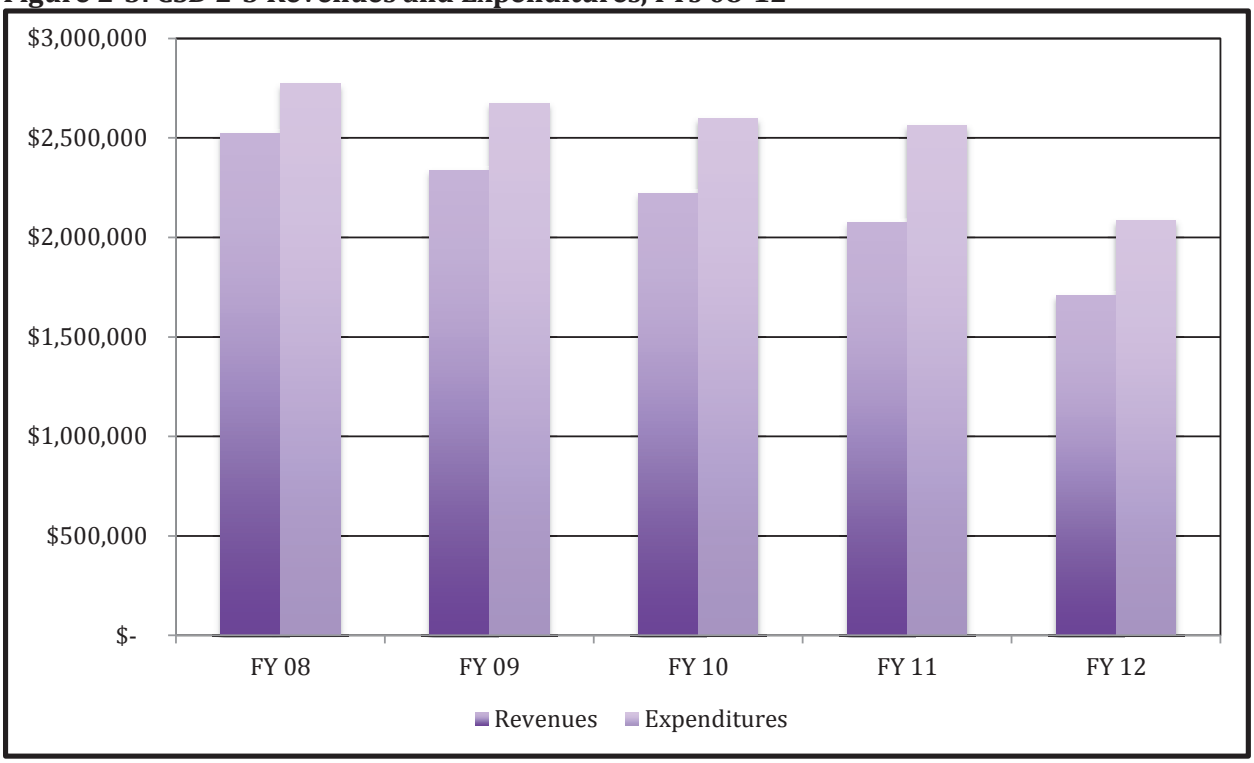
In addition, there are plans to make enhancements to the plant through the Master Plan Update to improve operations, enhance use of renewable energy sources, and develop habitat and open space areas, among other improvements. These improvements are anticipated to cost approximately $1.52 billion over a period of 30 years. As many of these improvements are considered supplemental to the operations of the sewer treatment plant by the Districts, and not essential to the proper functioning of the plant, member agencies have sent letters to the City of San Jose in opposition of financing these improvements. The City has reported that it is pursuing third party funding for the habitat projects. Depending on the City's final financing plan for these capital improvements, the District may need to further enhance its revenue sources to finance its obligations.

In FY 13, the District was approached by Northern California River Watch (River Watch) to review the statistics, operations and maintenance of the system. River Watch found several areas of concern including alleged violations of the Clean Water Act and the Federal Resource Conservation and Recovery Act associated with the District's operation of its collection system. The Parties, through counsel, engaged in negotiations following that meeting, which subsequently lead to resolution of all claims and disputes made by River Watch through a settlement agreement rather than pursuing an extended lawsuit. The items that the District will address are items that are in the existing workplan, but the implementation schedule has been accelerated beyond the planned budget. The District will need to spend approximately $500,000 each year over the next seven years to address the terms in the River Watch agreement.

As a result of these anticipated increased costs, the Board chose to raise rates by 15 percent for FY 14 to ensure continued adequate financing to cover RWF costs.

Over the past five fiscal years (FYs 08 to 12), district expenditures have exceeded district revenues in five years, as shown in Figure 2-3. In an effort to keep rates lower, the District has been using some of its reserves each year to cover operating and capital expenditures. Revenues have declined since FY 08, due to the reasons previously discussed. Similarly, expenditures have declined over the past five years as well.

Figure 2-3: CSD 2-3 Revenues and Expenditures, FYs 08-12



Source: Financial Statements, FYs 08-12.

Revenue Sources

In FY 12, the District received $1.7 million in revenue. The District's revenues are derived principally from sewer service charges, which consisted of 96 percent of revenue sources. Other fees for services consisted of approximately two percent of the District's income, while interest and sales of assets made up the remaining revenue. Figure 2-4 below provides the District's sources of revenue in FY 12.

Figure 2-4: CSD 2-3 Revenues, FY 12

Type of Revenue	Amount of Revenue	% of Total
Charges for Services	$ 1,634,662	95.7%
Other fees	$ 30,290	1.8%
Interest and Investment Income	$ 42,681	2.5%
TOTAL	**$ 1,707,633**	100.0%

Source: Financial Statements, FY 12.

Rates

The District's revenue is gained solely from service charges and connection fees. Service charges are collected as part of the property tax bill. Service charges are evaluated annually along with preparation of the budget.

The District sets its rates to its users to cover the costs of operations, maintenance, and repair, plus any increments for known or anticipated changes in program costs. In FY 13, the District's service charges were increased by 25 percent in anticipation of 1) building

funds for system capital improvements and the District's share of the capital improvements at RWF, 2) increasing the maintenance frequency of the sanitary sewer system, and 3) the State's requirement to increase system reliability. The District has determined that in FY 14 an additional increase of 15 percent is needed to cover the capital improvements, operation expenditures and to comply with the mandates set by the State and Regional Water Quality Control Boards.

Residential customers are charged a set monthly rate for services, while commercial and industrial customers are charged rates that are based on the type of business and the percentage of sewage compared to the amount of water used.

The District charges a flat rate for each residential connection. Commercial connections pay a minimal flat rate of $1.44 per year for infiltration and inflow and fees for each hundred cubic feet of flow. The rates for residential and commercial connections are shown in Figure 2-5.

Figure 2-5: CSD 2-3 Wastewater Rates, FY 14

Rate Category	Rate
Residential (Monthly Rate)	
SFR/Condo/Townhome Per Unit	$41.12
Duplex/Apartment Per Unit	$23.15
Mobile Home Per Unit	$23.23
Church Premise	$41.12
Commercial (per hundred cubic feet)	
Retail or Profession Office	$3.68
Domestic Laundry	$3.32
Restaurant	$6.34
Auto repair shops and Service Stations	$3.94
Motels/hotels	$3.92
Medical	$3.71
Convalescent homes	$3.97
Other commercial or industrial uses	$3.68
Recreation and Country Clubs	$4.61
County fairgrounds	$24.70

Expenditures

In FY 12, the District's total expenditures amounted to $2.1 million, as depicted in Figure 2-6. Payments to RWF for treatment constituted 33 percent of expenditures in that year. Other significant expenditures included repairs and maintenance (37 percent) and management and engineering (11 percent).

Figure 2-6: CSD 2-3 Expenditures, FY 12[29]

Type of Expenditure	Amount	% of Total
Treatment	$677,647	32.5%
Joint Use Lines	$160,000	7.7%
County agenda fees	$10,000	0.5%
Management and Engineering	$228,328	11.0%
Repairs and Maintenance	$768,194	36.8%
Accounting and clerical	$74,335	3.6%
Legal Services	$43,401	2.1%
Audit Services	$13,890	0.7%
Office	$7,601	0.4%
Depreciation	$58,299	2.8%
Membership Fees	$12,391	0.6%
Travel and meetings	$1,330	0.1%
Insurance	$29,431	1.4%
Utilities	$208	0.0%
TOTAL	**$ 2,085,055**	**100.0%**

Source: Financial Statements, FY 12.

Capital Outlays

The District has a five-year capital improvement plan (CIP) for FY 12 through FY 17. Total planned capital outlays over that period were planned to be approximately $1.2 million, with a large proportion of expenditures on capacity improvements in the Alum Rock area of the District, the district-wide video inspection and pipe improvement program, and repair and replacement of root infested lateral connections at mains. Since the time this CIP was created, the District entered into the settlement agreement with River Watch, and has agreed to accelerate its workplan and plans to now spend approximately $500,000 annually over the next five years.

Reserves

The District has a management practice to maintain approximately $1.5 million in reserves for contingencies. The District also maintains a separate reserve for capital improvements, as well as cash tax collection to be used for six months of operations. At the end of FY 12, the District had $6 million in unrestricted net assets. Of the unrestricted net assets, the District needs approximately $1.6 million to pay for operations and maintenance from July of each year to as late as January for the revenues to be received from tax collection. Therefore, the lowest cash available to District generally occurs in December-January time frame prior to the receipt of the revenues from tax collection. It is the District policy to maintain $1 million minimum in cash account. This leaves a balance of $3.4 million, which consists of capital improvement and emergency reserves. With an estimated

[29] Expenditures include business-type activities and governmental activities.

emergency reserve in the amount of $0.5 million, this leaves a balance of $2.9 million for capital projects for both treatment plant upgrades and district's collection system upgrades. District finances collection system upgrades from this reserve fund . District plans to dedicate $500,000 annually for district's infrastructure/collection system upgrades, estimated over next 5 years. The District finances infrastructure upgrades by utilizing reserve funds.

Debt

Based on CSD 2-3's agreement with the City of San Jose, the District reimburses the City for a proportionate share of debt service on bonds issued in 1995 for the construction and expansion of the treatment plant to satisfy state and federal permit requirements. The outstanding balances of the bonds were refinanced in 2005 and in 2009. The District has no ownership interest in the plant, but makes the above payments on a calculated schedule based on flow capacity.

In September 2005, the District entered into a financing agreement with the Cities of San Jose and Santa Clara and the other tributary agencies of the RWF whereby $54 million of revenue refinancing bonds were issued. The Series A bonds have a fixed interest rate. The Series B bonds in the amount of $21.4 million were refinanced in 2009. The proceeds from both bonds were used to fully refund the 1995 Series A and B bond issue. The agreement calls for semi-annual payments to the City of San Jose.

In FY 99, the District entered into a financing agreement with the Cities of San Jose and Santa Clara and the other tributary agencies of RWF whereby $73,566,018 in State Revolving Fund (SRF) Loan program funds were received, in addition to other federal and state sources. These funds have a fixed interest rate of 1.803 percent. The proceeds were used to additionally finance the SBWR Project. The agreement calls for semi-annual payments in April and October to the City of San Jose.

INFRASTRUCTURE AND FACILITIES

The District operates a collection system, consisting of 46 miles of mains and sewers and one pump station. The oldest sewer lines are over 60 years old. The sewer lines are composed of vitrified clay pipes, polyvinyl chloride pipes and cast iron pipes. Generally, the mains are considered in fair to poor condition.

The District's sewage is collected, then transmitted through joint-use mains, interceptors and trunk lines by contractual agreement with the City of San Jose to the RWF for treatment and disposal. The District's contract gives the District rights to a percentage of the capacity of their sewage treatment facilities. The contract requires the District pay its share (based on its capacity ratio) of debt service, operation, maintenance, and improvement costs. The District has a fixed capacity allocation of the plant of 2.26 mgd, of which the District used 1.077 mgd or 47.65 percent in 2012.

Infrastructure Needs

The District's facilities have existing infrastructure deficiencies, including several mains that need to be upgraded and a pump station that the District has planned to replace.

The District's facilities have existing infrastructure deficiencies, which include several mains that need capacity enhancements. This increase in main size is needed based on a Capacity Assessment Study conducted by the City of San Jose's Sanitary Sewer Master Plan staff in the East Area of the City's sanitary sewer system that showed the existing mains to be deficient.. The City of San Jose has proposed a joint venture with the District to increase the line size, because it would ensure proper functioning of the wastewater system and allow for increased densities when the area is ultimately annexed into the City. This project is estimated to cost approximately $2 million.

The State and Regional Board Water Quality Control Boards have been implementing a more aggressive campaign to reduce the number of SSO's in all collection and treatment sanitary sewer systems throughout California. This means that all treatment and collection agencies will be required to enhance maintenance activities and more aggressively replace sanitary sewer mains, manholes and laterals in the system that have been less efficient. All agencies are expected to increase their maintenance and capital budgets and construct pipeline replacement projects on a five to ten-year cycle until all problematic pipelines have been addressed. Given that the District suffers from a particularly high rate of SSOs, there are likely significant required capital improvements to minimize the occurrence of overflows.

The District is still in the process of inspecting the system and identifying and prioritizing issues. The District is planning to CCTV the entire system over seven years, and rate sections based on the National Association of Sewer Service Companies (NASSCO) conditions, which ranks sewer mains on a scale of one (excellent condition) to five (worst condition). Those mains rated as fours or fives will be repaired or replaced.

The District also identified a particular challenge related to access to lower laterals. Many properties lack property line cleanouts. Those without cleanouts are hard to enter in order to perform maintenance and inspections. There are no plans to address this issue in the near future.

Shared Facilities

As previously mentioned, the District practices extensive facility sharing by receiving wastewater treatment from RWF and as a member of SBWR. Additionally, CSD 2-3 shares some mains and pump stations that lead to the treatment plant with the City of San Jose.

No additional opportunities for facility sharing were identified.

DEMAND FOR SERVICES

The District provides sewer service to approximately 4,722 customers—4,684 residential customers and 38 commercial customers. The District maintains an inventory of connections throughout the service area.

The District reported that flow had declined over recent years due to annexations to the City of San Jose, which detached approximately 1,500 connections from the District's system. The District's average daily flow over the last four years is shown in Figure 2-7.

Figure 2-7: CSD 2-3 Average Daily Flow (mgd), 2009-2012

Service Level	2009	2010	2011	2012
Average Daily Flow	1.52	1.474	1.436	1.077

Source: As reported by CSD 2-3.

SERVICE ADEQUACY

This section reviews indicators of service adequacy, including regulatory compliance, sewer system overflows (SSOs), and collection system integrity. These service adequacy measures are outlined in Figure 2-8.

CSD 2-3 has had 29 violations related to sewer system overflows in the period from January 1, 2010 to July 7, 2013. All violations were related to SSOs and did not result in enforcement actions by the RWQCB.

Wastewater agencies are required to report sewer system overflows (SSOs) to SWRCB. Overflows reflect the capacity and condition of collection system piping and the effectiveness of routine maintenance. One way of measuring collection system performance is to calculate an annualized sewer overflow rate. Some collection system agencies only have a responsibility to maintain sewer mains, while others are similar to the District and are responsible for both sewer mains and laterals. To provide a universally comparable sewer overflow rate, the sewer overflow rate is calculated as the number of overflows per 100 miles of mainline collection piping. CSD 2-3 reported 43 overflows (all mainline) during the period from January 1, 2010 thru July 1, 2013, and consequently the annual overflow rate during this 3.5 year period is 26.7. This overflow rate is exceptionally high compared to other providers in the area. A majority of the SSOs appear to be caused by root intrusions and grease deposits. It is anticipated that the District's planned inspection and repair efforts will greatly enhance the integrity of the system.

Figure 2-8: CSD 2-3 Wastewater Service Adequacy Indicators

Wastewater Service Adequacy and Efficiency			
Regulatory Compliance Record, 2010-13			
Formal Enforcement Actions	0	Informal Enforcement Actions	0
Enforcement Action Type		***Description of Violations***	
None		N/A	
Total Violations, 2010-13			
Total Violations	29	Priority Violations	0
Service Adequacy Indicators			
Total Employees (FTEs)	2.0	Sewer Overflows 2010 - 2013[2]	43
MGD Collected per FTE	0.539	Sewer Overflow Rate[3]	26.7
Sewer Miles per FTE	23.0	Peaking Factor	2.1
Infiltration and Inflow			
The most recent Flow Monitoring and Inflow/Infiltration Study was completed in June 2009. Additional CCTV is needed to assess the exact location of the I/I sources. The District is in the midst of developing an I/I reduction program. Once the follow-up analysis and CCTV is completed, the rehabilitation program will be compiled.			
Collection System Inspection Practices			
The District is planning to CCTV inspect its entire system over a seven year period. The inspection will aid the District in rating all pipelines with a National Association of Sewer Service Companies (NASSCO) score, which ranks sewer mains between one (excellent condition) and five (worst condition). In addition to this inspection program, the District is required to video inspect all sewer mains within 200 feet of a creek within one year, as part of a settlement agreement with River Watch. The District plans to comply with this requirement within one year.			
Notes:			
(1) Order or Code Violations include sanitary sewer overflow violations.			
(2) Total number of overflows experienced (excluding those caused by customers) from January 1, 2010 to July 1, 2013 as reported by the agency.			
(3) Sewer overflows from January 1, 2010 to July 1, 2013 (excluding those caused by customers) per 100 miles of collection piping.			

There are several measures of integrity of the wastewater collection system, including peaking factors, efforts to address infiltration and inflow (I/I), and inspection practices. Peaking factor is defined as the ratio of peak flow (peak wet weather flow of 2.02 mgd) to average dry weather flow (0.96 mgd). A peaking factor of about 3.0 is a generally accepted factor for the design of small diameter pipe. The District's system has a peaking factor of 2.1 during wet weather periods, meaning wet weather flow is 2.1 times greater than flow during dry periods, due to infiltration and inflow. A peaking factor of 2.1 is generally considered within industry standards, and recent flow study found minimal issues with I/I.

GOVERNANCE STRUCTURE OPTIONS

While CSD 2-3 faces the same challenges as Burbank Sanitary District in terms of consisting of islands of unincorporated lands within the City of San Jose that are anticipated to eventually be annexed into the City, there is a small portion of the District that lies outside of the City's Urban Service Area and as such is not likely to be annexed in the near term. Given that an area is outside the Urban Service Area, residents will continue to require services from CSD 2-3, and there are limited options as to how these services may be provided. In the case of Burbank Sanitary District, LAFCO may support the City of San Jose temporarily providing services to an unincorporated area outside of the City's limits in

anticipation of annexation. However, as areas outside of the Urban Service Area are not planned to be annexed into the City in the foreseeable future, urban services outside of its bounds would be contrary to LAFCO policy. Consequently, it is anticipated that there will be a need for CSD 2-3 to continue to exist and provide services with certain improvement to those services.

In particular, the District needs to address structural integrity issues that have resulted in a particularly high rate of sewer system overflows. The District has plans to accelerate its capital improvement schedule, based on the settlement agreement with River Watch. The District anticipates that these improvements will enhance the integrity of the system. Simultaneously, these improvements will spend down the District's high level of reserves.

COUNTY SANITATION DISTRICT 2-3 SERVICE REVIEW DETERMINATIONS

Growth and Population Projections

- Based on GIS analysis of 2010 Census data, County Sanitation District 2-3 (CSD 2-3) encompasses a population of approximately 19,257.
- As the area is entirely built-out, it is anticipated that the District will experience no to minimal growth over the next 25 years.
- CSD 2-3 encompasses unincorporated islands within the City of San Jose and will shrink in size as portions are annexed to the City. Hence, the maximum service area of the District is defined by its current boundaries.

Location and Characteristics of any Disadvantaged Unincorporated Communities Within or Contiguous to the Sphere of Influence

- There are no disadvantaged unincorporated communities within or adjacent to the District's service area based upon mapping information provided by the State of California Department of Water Resources. However, given the large size of the defined community in the census data used, it cannot be discounted that a smaller community that meets the required income definition and has 12 or more registered voters may exist within or adjacent to the District.

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

- In 2012, the District used approximately 48 percent of its treatment capacity allocation. The District appears to have sufficient capacity at present and for the minimal anticipated growth well into the future.
- Although the agreement has not yet expired and is still legally in effect, it is recommended that CSD 2-3 and the cities of San Jose and Santa Clara update the agreement with regard to the treatment plant in the near future to describe in detail the extent of the District's capital obligations with regard to master plan improvements.
- CSD 2-3 and the City of San Jose share a portion of their sewer systems and lines that lead to the treatment plant. As of the drafting of this report, the joint-use agreement had been expired for four years and the two agencies were negotiating terms for a new agreement. It is recommended that the two agencies expedite contract negotiations and adopt an agreement in the near future.
- There are opportunities for enhanced collaboration and coordination with the City of San Jose, with respect to financing the upgrading of mains that flow into and

affect the city system, as well as coordination of access and maintenance as small sections of the District's system are annexed and transferred into the City.

- Based on the District's unsatisfactory regulatory compliance history and significant sewer system overflow rate, it appears that services are inadequate and the system is in need of substantial improvements.
- The District's facilities have existing infrastructure deficiencies, which include several mains that need capacity enhancements. This increase in main size is needed due to a Capacity Assessment Study conducted by the City of San Jose's Sanitary Sewer Master Plan staff in the East Area of the City's sanitary sewer system that showed the existing mains to be deficient..
- CSD 2-3 is still in the process of inspecting the system and identifying and prioritizing issues. The District is planning to CCTV the entire system over seven years. It is recommended that the District accelerate its inspection plans in order to properly address the issues the system is facing.
- The District plans to spend approximately $500,000 annually on capital improvements over the next five years, with a large proportion of expenditures on capacity improvements, the district-wide video inspection and pipe improvement program, and repair and replacement of root infested lateral connections at mains.
- The District identified a particular challenge related to access to lower laterals. Approximately 15 to 20 percent of properties served by the District have property line clean outs. Those without cleanouts are hard to enter to perform maintenance and inspections. There are no plans to address this issue in the near future.

Financial Ability of Agency to Provide Services

- CSD 2-3 reported that the current financing level was generally adequate. The District reported that there have been minimal impacts on the District's revenues from the recent recession; however, the District's revenues have been reduced as a result of the annexations by the City of San Jose, reduced water use by non-residential accounts, as well as lower interest returns on District's investments.
- There are certain anticipated challenges to ensuring adequate revenues in the future. Greater maintenance and capital improvement costs at the San Jose-Santa Clara Regional Wastewater Facility, pressure by the State to upgrade collection systems, and a settlement agreement with environmental group requiring acceleration of the District's capital improvements will create a need for enhanced revenues in the coming years.
- In FY 13, the District's service charges were increased by 25 percent in anticipation of significant capital expenses. The District determined that in FY 14 an additional increase of 15 percent is needed to cover all expenses.
- Depending on the City of San Jose's final financing plan for projects identified in the Master Plan Update, there may be a need for enhanced revenues on the part of the District.

- In each of the past five fiscal years the District's expenditures exceeded revenues.
- CSD 2-3 maintains a high-level of reserves equivalent to almost three years of district expenditures. A significant portion of these reserves will be used to address the substantial capital needs of the system over the next five years.

Status and Opportunities for Shared Facilities

- CSD 2-3 practices extensive facility sharing by receiving wastewater treatment from the San Jose-Santa Clara Regional Wastewater Facility and as a member of South Bay Water Recycling. Additionally, CSD 2-3 and the City of San Jose share a portion of their sewer systems and lines that lead to the treatment plant.
- No additional opportunities for facility sharing were identified.

Accountability for Community Services, Including Governmental Structure and Operational Efficiencies

- CSD 2-3 demonstrated accountability and transparency in its various aspects of operations. The governing body updates constituents, solicits constituent input, and posts public documents on its website. While CSD 2-3 keeps its financial reporting and budgets up-to-date, it is recommended that the District also make available its rates, budget and audited financial statement on its website, as well as provide a link to the County Board of Supervisor's website where constituents can access board meeting agendas and minutes pertaining to CSD 2-3. The District fully cooperated with LAFCO requests for information.
- The Board of Supervisors has adopted a policy manual that articulates the ethical standards and administrative policies for the Board. All current members of the Board of Supervisors have filed the Statement of Economic Interest forms in 2013 and completed biennial ethics training. The County has adopted an ordinance on expense reimbursements for the Board of Supervisors.
- Improvements could be made to the District's operations in order to enhance accountability and transparency. The District should file a copy of its annual budget with the County Auditor as required by Government Code §53901.
- No governance structure options were identified for CSD 2-3.

COUNTY SANITATION DISTRICT 2-3
SPHERE OF INFLUENCE UPDATE

Existing Sphere of Influence Boundary

County Sanitation District 2-3 currently has a zero SOI.

Recommended Sphere of Influence Boundary

It is recommended that LAFCO adopt a zero SOI.

It should be noted that there are areas within the District that are outside the City of San Jose's USA. By definition land outside a USA will not be annexed to the City within the next five years, and thus will not be able to receive urban services. It is anticipated that the areas within CSD 2-3 that are within the USA will eventually be annexed by the City; however, those areas that are presently within CSD 2-3 but outside the USA will continue to require the services provided by the District or an alternative service provider.

Proposed Sphere of Influence Determinations

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

- County Sanitation District 2-3 (CSD 2-3) is a dependent special district of the County that provides sewer collection services in three unincorporated islands surrounded by the City of San Jose. The District contracts with the San Jose-Santa Clara Regional Wastewater Facility for wastewater treatment and disposal.

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

- The unincorporated District area is primarily surrounded by the City of San Jose. The District is an urban area that is predominately developed with a mix of industrial, commercial, and varied residential uses. Planned land uses throughout the District area are generally similar to those of the existing uses.
- There are no agricultural or open space lands located within the District.

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

- CSD 2-3 encompasses unincorporated islands within the City of San Jose and will shrink in size as portions are annexed to the City. Hence, the maximum service area of the District is defined by its current boundaries.
- The District reported that growth has been minimal and is not affecting demand for services. The area within the District is largely built out, and most future growth would be limited to infill development and redevelopment. Therefore, actual growth within the District's boundaries is anticipated to be low.
- The areas within CSD 2-3 that are outside the City of San Jose's Urban Service Area will continue to require the District's services.

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

- In 2012, the District used approximately 48 percent of its treatment capacity allocation. The District appears to have sufficient capacity at present and for the minimal anticipated growth well into the future.
- It is recommended that CSD 2-3 and the cities of San Jose and Santa Clara update the agreement with regard to the treatment plant in the near future to describe in detail the extent of the District's capital obligations with regard to master plan improvements.
- CSD 2-3 and the City of San Jose share a portion of their sewer systems and lines that lead to the treatment plant. As of the drafting of this report, the joint-use agreement had been expired for four years and the two agencies were negotiating terms for a new agreement. It is recommended that the two agencies expedite contract negotiations and adopt an agreement in the near future.
- There are opportunities for enhanced collaboration and coordination with the City of San Jose, with respect to financing the upgrading of mains that flow into and affect the city system, as well as coordination of access and maintenance as small sections of the District's system are annexed and transferred into the City.
- Based on the District's unsatisfactory regulatory compliance history and significant sewer system overflow rate, it appears that services are inadequate and the system is in need of substantial improvements.

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

- The District encompasses unincorporated islands that are predominately surrounded by the City of San Jose. The District is part of the social and economic community of San Jose.