



LOCAL AGENCY FORMATION COMMISSION

455 COUNTY CENTER, 2ND FLOOR • REDWOOD CITY, CA 94063-1663 • PHONE (650) 363-4224 • FAX (650) 363-4849

January 10, 2001

TO: Members, Formation Commission

FROM: Executive Officer

SUBJECT: LAFCo File No. 00-14--Proposed Reorganization of the East Palo Alto County Waterworks District, dissolving the district and transferring service to the Cities of East Palo Alto and Menlo Park

Summary

This proposal was filed by resolution of the City of East Palo Alto and requests dissolution of the East Palo Alto County Waterworks District (EPACWD) and transfer of service responsibility to the Cities of East Palo Alto and Menlo Park for territory within each city's boundaries. As an application submitted and accepted in 2000, it is subject to the laws of the Cortese Knox Act of 1985. Approval is recommended.

Departmental Reports

County Assessor: The net assessed valuation shown in the records of the County Assessor is \$829,408,097. The boundaries of the proposal conform to lines of assessment and ownership.

County Clerk: The territory has 5,927 registered voters. The proposal would not conflict with any political subdivision boundaries.

Public Works, Drafting Services: The present jurisdiction of East Palo Alto County Waterworks District consists of 1,550 acres. The map and legal description submitted with the proposal satisfy the requirements of the State Board of Equalization. Natural boundaries, drainage basins or other topographical features would not affect and would not be affected by this proposal.

San Mateo County Public Works:

The Bay Area Water Users Association (BAWUA) is lobbying the San Francisco Public Utilities Commission to improve the water transmission facilities that provide water to member BAWUA agencies, including EPACWD. No matter who the water purveyor is, the cost of wholesale water will increase. The capital improvements for the transmission facilities will either have to be reflected in increased rates for water or paid for by the cities using other funds. The status of the Menlo Business Park water distribution system should be resolved, as it has never been formally dedicated to the EPACWD. The City of East Palo Alto

LAFco File No. 00-14

January 10, 2001

Page 2

may need to obtain a permit from the State Department of Health Services. Reallocation of EPACWD's Hetch Hetchy Water allocation may also require an agreement with the San Francisco Public Utilities Commission.

Environmental Health:

Water service in the area is provided by the City of Menlo Park and several small mutual water companies. Sanitary sewer service is provided by the West Bay Sanitary District and East Palo Alto Sanitary District. The proposal appears to have no adverse environmental health impact.

Recommendation: Approve

Menlo Park Fire Protection District: No Comment

West Bay Sanitary District: No Comment

East Palo Alto Sanitary District: No Comment

Staff Report from City of Menlo Park: The City of Menlo Park has no objection to approval of the proposal conditioned upon dedication of water lines located within Menlo Business Park to the City of Menlo Park and Execution of the Agreement for Dissolution and Assumption of Service between the Cities of Menlo Park and East Palo Alto. Water rates for service provided by Menlo Park will be the same as rates for other customers of the Menlo Park Water District. Rates may be modified from time to time to reflect costs of maintaining the system and rate increases by the SFPUC. The City has a \$0.35/unit water capital surcharge that has been in effect for 10 years. The Menlo Park Council has approved in concept to charge the new water customers an additional 0.35/unit capital charge in addition to the existing capital charge of \$0.35. If terms and conditions are met and the dissolution is approved, the City anticipates assuming service in April 2001. Provision of service to additional territory in Menlo Park will have little effect on service elsewhere as the city already serves adjacent areas.

Report and Recommendation

By resolution, the City of East Palo Alto requests dissolution of the East Palo Alto County Water District serving portions of East Palo Alto and Menlo Park, and transfer of service to the two

cities for areas within their respective jurisdictional boundaries. The application states that:

The two cities mutually desire to assume ownership of the portions of EPACWD located within each of their respective corporate boundaries. The City of East Palo Alto will use a private water purveyor, California-American Water Company, to operate and maintain its portion of the system and Menlo Park will operate the Menlo Park portion. The transfer of ownership to the Cities of East Palo Alto and Menlo Park will consolidate a small inefficient water district into larger efficient service operations. Lastly, the City of East Palo Alto also desires to make approximately \$10 million in needed facility improvements over the next ten years. California-American Water company will provide the financing for these needed facility improvements (See Exhibit D to application). The proposed transfer will result in improved and enhanced customer service, improved operation and maintenance and stabilized rates. With the exception of the potential for a capital charge, the City of East Palo Alto and California-American do not anticipate any change in rates for the first three years of operation.

The service area of East Palo Alto County Water includes all territory in East Palo Alto (with the exception of areas served by O'Connor Mutual Water Company and Palo Alto Park Mutual Water Company) and the industrial/commercial properties in eastern Menlo Park as well as a school and 14 residences west of U.S. 101. The District's sphere of influence which was adopted by the Commission in 1985 is zero with the plan that water service be transferred to respective cities.

Proposed Reorganization

The County of San Mateo has long proposed dissolution of EPACWD because it is a small, inefficient water system serving territory located entirely within the boundaries of cities. The reorganization proposal achieves the dissolution of the District and transfers service responsibility to the Cities of East Palo Alto and Menlo Park, eliminating overlapping service boundaries and duplication of service provision within the same territory. The application submitted for this proposal requests that approval be conditioned on a number of events (Exhibit C of the Application). Proposed conditions include:

1. The City of East Palo Alto shall assume ownership of two EPACWD Hetch Hetchy turnout facilities located within the corporate limits of the City of Menlo Park.

2. The City of East Palo Alto shall assume the operations and maintenance responsibilities for that portion of EPACWD located within its corporate limits and the two EPACWD Hetch Hetchy turnout facilities located in Menlo Park.
3. The City of Menlo Park will assume operation and maintenance responsibilities for that portion of the EPACWD located within its corporate limits, with the exception of the two Hetch Hetchy turnouts.
4. Operation and maintenance costs of facilities jointly used by the Cities of East Palo Alto and Menlo Park shall be allocated to the cities in proportion to the actual use of those facilities by the respective water departments of the respective cities.
5. The EPACWD fund balance shall be distributed to the two cities in proportion to the percentage of annual revenues generated by the customers located within the corporate limits of the respective cities as allowed by Government Code Sections 56844 and 57450 of the Government Code.
6. The Cities of East Palo Alto and Menlo Park shall revise the EPACWD's Hetch Hetchy water allocation in accordance with the 1984 agreement between the Bay Area Water Users Association and the San Francisco Public Utilities Commission.
7. The Cities of East Palo Alto and Menlo Park shall execute agreements regarding the proposed Reorganization of EPACWD and said agreement shall contain all of the terms and conditions described in Items 1-4 above.

An additional condition requested by the City of Menlo Park includes:

1. Dedication of the water system serving the Menlo Business Park to the City of Menlo Park.

Existing Water Service

EPACWD is a county water district formed in 1961 under Section 55000 of the California Water Code. Governed by the San Mateo County Board of Supervisors, the District is operated by the San Mateo County Public Works Department, which contracts with California-American Water Company to operate and maintain the system including meter reading and customer billing. The District owns a corporation yard on Gloria Way in East Palo Alto. Water supply is purchased from the San Francisco Water Department under the terms of a wholesale water supply contract between the County of San Mateo and the San Francisco Water Department. The District provides water to approximately 3,850 customers for commercial and domestic use and fire flow. The EPACWD system includes three water connections to the SFPUC water main with pressure reducing valves and a network of water mains.

The District system has no storage. However, a water supply well is located on Bay Road but not in use due to color and odor in the water. The State Department of Health requires that the District provide a plan to address minimum storage requirements. A master water plan prepared for the County in 1996 identified storage needs for the District to be 3.7 million gallons. Both Cities will need to address these storage requirements and have discussed the possibility of a joint storage facility. East Palo Alto includes a 3.75 million gallon storage facility in its proposed facility improvements (Exhibit D of the application).

Proposed Service:

The two cities have submitted rate plans. In the case of East Palo Alto, rates are based on current rates of EPACWD with the commitment that they will remain the same for three years with the exception of the potential for a capital charge. Menlo Park's rates are tiered in that unit price for water increase as consumption increases.

Tables A and B show the current and proposed rates for residential and commercial use.

Table A - Residential

| | Monthly Service Charge | Water charge per Unit* |
|------------------------|------------------------|---|
| EPACWD | \$4.50 | \$1.53 |
| City of East Palo Alto | \$4.50 | \$1.53 |
| City of Menlo Park | \$5.00 | 1 st 5 units: 0.80/unit 6-10 units: 1.00/unit 11-25 units: 1.20/unit 25+ units: 1.60/unit *plus capital charge of \$0.35/unit |

Table B - Commercial

| | Monthly Service Charge | | Water charge per Unit |
|------------------------|------------------------|---------|--|
| | 1" | 1.5" | |
| EPACWD | \$27.00 | \$37.00 | \$1.53 |
| City of East Palo Alto | \$27.00 | \$37.00 | \$1.53 |
| City of Menlo Park | \$8.00 | \$16.50 | 1 st 5 units: 0.80/unit 6-10 units: 1.00/unit 11-25 units:1.20/unit 25+ units: 1.60/unit *plus capital charge of \$0.35/unit |

Notes: Unit is 100 cubic feet
 East Palo Rates do not reflect 5% utility users tax.
 Menlo Park capital charge reflects only current 0.35/unit paid by current customers

Menlo Park's water rates are tiered rates favoring conservation with the cost per unit going up as consumption rises. Menlo Park indicates that it may charge an additional \$0.35/unit capital charge to customers transferring to Menlo Park water service in order to recoup the capital charge that current customers have been paying for ten years.

Table C displays what monthly residential charges would be based on average residential consumption of 13 Units (Bay Area Water Users Association).

Table C

| | Monthly Service Charge | Water charge per Unit* |
|------------------------|------------------------|------------------------|
| EPACWD | \$4.50 | \$19.89 |
| City of East Palo Alto | \$4.50 | \$19.89 |
| City of Menlo Park | \$5.00 | \$17.15 |

It is anticipated that all suburban retailers purchasing water wholesale from the San Francisco Public Utilities Commission will be facing increased rates as the SFPUC implements much needed capital improvements to the Hetch Hetchy System. The estimate for needed capital improvements is \$2.5 billion. While California American and East Palo Alto do not anticipate rate changes in the next three years, information is not available as to how improvements to the Hetch Hetchy System will impact rates for all Peninsula Customers. It can be noted that whether the operation of the District remains a county function, rates will be impacted for necessary capital improvements.

As stated above, improvements to the East Palo Alto portion of the water system are listed in Exhibit D of the East Palo application. The current estimated value of the improvements is approximately \$10,000,000. California American Water Company, as operator for the City of East Palo Alto anticipates Prop. 13 funding and Federal grants to offset the costs of improvements. The system in the Menlo Park portion of the District is less than twenty years old and no immediate maintenance needs are anticipated.

Water Allocation of the Dissolved District

The East Palo Alto County Water District is signatory to the 1984 Settlement Agreement and Master Sales Contract with the SFPUC. As part of that agreement the District has entitlement to water allocation from SFPUC. Changes in assignment of the allocation require approval by SFPUC. The City of Menlo Park requests that the allocation associated with the Menlo Park portion of the District be transferred to the City of Menlo Park. Correspondence from the SFPUC indicates that this can only take place if the portion of the system in Menlo Park is separated. It appears that if SFPUC does not agree to transfer the Menlo Park share of the EPACWD allocation at this time, all allocation would be transferred to East Palo Alto and East Palo Alto would act in a trust capacity providing water to customers in Menlo Park until the Menlo Park water system is extended to the area.

East Palo Alto County Water District Fund Balance

The District's fund balance as of June 30, 2000 was \$1,971,023. The estimated fund balance after paying a loan with the State and account activities when the billing was transferred to California American Water, the current contract operator, is approximately \$1,300,000. Distribution of district assets upon dissolution are governed by Section 56457 or alternatively by any condition of approval set by LAFCo pursuant to Section 56844. The formula for distribution of assets set forth in Section 56457 is based on the assessed value of the territory located in each city. This formula assumes that the fund balance is a function of property tax revenue collected by the District. As an enterprise district, EPACWD's fund balance accumulated as a function of rates paid to the district and not property tax collected. An alternative formula agreed upon by the cities is that distribution of fund balance based on rates paid by customers in the two distinct areas. The District reports that this method would result in a distribution of 90% of the fund balance to East Palo Alto and 10% to the City of Menlo Park.

Section 56463 further directs that funds may be distributed once the necessary expenses of winding up the affairs of the district are paid and that the funds shall be used for the benefit of the affected territory of the dissolved district.

Successor Agency

Section 57451 provides that for the purpose of winding up the affairs a dissolved district located within the boundaries of two or more cities, the successor agency shall be the city containing the greater assessed value of territory of the district. In this case the City of East Palo Alto is the city with the greater assessed value. As successor agency, the City of East Palo Alto will be responsible for winding up the affairs of the dissolved EPACWD which will include distribution of funds, assets and facilities as directed by Section 57463 and any conditions set by LAFCo.

Effective Date of Dissolution

Section 57202 specifies that if no effective date is fixed in the terms and conditions of the Commission resolution, the effective date is the date the Certificate of Completion is filed with the County recorder. The certificate of completion can not be filed until all conditions are met and conducting authority proceedings have been completed. In this case, if LAFCo approval is granted at the January 17 meeting, it is recommended that the effective date be April 1, 2001 as the beginning of a new fiscal quarter.

Execution of Agreements

The two cities agree that, once dissolved, the cities can jointly and efficiently operate the water system in their respective areas. In order to implement joint operation, the two cities have drafted agreements (Operating Agreement and Dissolution, Assignment Assumption Agreement) setting conditions of joint operation and maintenance of shared facilities, ownership of turnout facilities and other related matters. The initial draft Dissolution, Assignment and Assumption Agreement (attached) includes the EPACWD as a party to the agreement. It has since been established that many of the issues addressed in the draft agreement will be determined by provisions of Cortese Knox pertaining to disposition of fund balance and it is not appropriate for the County to be party to the agreement. Also, the two cities will be meeting on January 16 to further discuss terms of the agreement. Among the issues yet to be resolved in drafting the agreements are water allocation and ownership of the Hetch Hetchy turnout facilities. SFPUC has commented that turnout facilities are owned by the SFPUC and water allocation is

determined by SFPUC in addition. It is anticipated that a revised agreement removing the County as party to the agreement and agreed upon by the cities and Operating Agreement will be made available at the Commission meeting. Section 56844 permits the Commission to approve the reorganization conditioned upon execution of agreements by the two cities.

Conducting Authority Proceedings

Section 56029 designates the Board of Supervisors as conducting authority for proposals for the dissolution of districts. If the proposal is approved, the Board of Supervisors would hold a hearing to measure protest from within the affected area. Section 56839.1 sets forth that dissolution proposals which are not submitted by the Commission and where an affected city or district has not objected by resolution, the Conducting authority can order a dissolution without election if protest is submitted representing less than 25% of the registered voters or less than 25% of the landowners owning 25% of the assessed value in the territory.

Recommendation

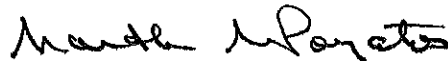
LAFCo File 00-14 proposing dissolution of EPACWD and transfer of service to the Cities of East Palo Alto and Menlo Park is consistent with the Commission's policies discouraging overlapping boundaries of agencies providing the same services and policies favoring elimination of single, purpose special districts when service can be provided by cities. The proposal is also consistent with the adopted sphere of influence of the district. Dissolution of the District would transfer all assets and obligations to the two cities. In the case of Menlo Park, the city is an existing water retailer with the capacity to maintain and provide customer service to the Menlo Park portion of EPACWD. In the case of East Palo Alto, the City will contract with California-American Water Company, the current contract operator of the District with the ability and resources to provide a municipal level of customer service and maintenance. The proposed agreement between the two cities would govern the joint operation of the water system and provide the opportunity for collaboration in meeting storage facilities needs for areas east of U.S. 101.

Staff recommends approval of the reorganization, subject to the condition that the Cities of East Palo Alto and Menlo Park execute the proposed agreement, dedication of the water system serving the Menlo Business Park to the City of Menlo Park and necessary approvals and permits from the San Francisco Public Utilities Commission and California Department of Health.

Recommended Commission Action, by Resolution: Approve LAFCo File No. 00-14 and authorize the County Board of Supervisors to conduct subsequent proceedings pursuant to Government Code Section 57000 subject to the following conditions:

1. Execution of the Dissolution, Assignment and Assumption Agreement and Operating Agreement between the Cities of East Palo Alto and Menlo Park.
2. Dedication of the water system serving the Menlo Business Park to the City of Menlo Park.
3. Required approval from SFPUC for the dissolution of East Palo Alto County Water District and Transfer of Water Allocation to Successor Agencies.
4. Required permits from California Department of Health Services.

Respectfully submitted,



Martha M. Poyatos
Principal Management Analyst

/mp

Attachments

10-16-2000

APPLICATION

RESOLUTION NO. 1815

City of East Palo Alto, County of San Mateo

State of California

* * * * *

A Resolution of Application by the City of East Palo Alto requesting that the Local Agency Formation Commission take proceedings for the reorganization of the East Palo Alto County Water District, dissolving the District and transferring service to the cities of East Palo Alto and Menlo Park for areas within their corporate boundaries

* * * * *

RESOLVED, by the City Council of the City of East Palo Alto, County of San Mateo, State of California, that:

WHEREAS, the City of East Palo Alto desires to initiate proceedings pursuant to the Cortese-Knox Local Government Reorganization Act of 1985, commencing with Section 56000 of the California Government Code, for the proposed reorganization of the East Palo Alto County Water District, dissolving the District and transferring service to the cities of East Palo Alto and Menlo Park for areas within their corporate boundaries; and

WHEREAS, notice of intent to adopt this Resolution of application has been given to each interested and each subject agency; and

WHEREAS, the territory proposed to be dissolved is inhabited, and a description of the boundaries of the territory is set forth in Exhibit "A" attached hereto and by this reference incorporated herein; and

WHEREAS, the proposal is consistent with the sphere of influence of the East Palo Alto Water District and successor agencies; and

WHEREAS, it is desired to provide that the proposed reorganization be subject to the following terms and conditions;

WHEREAS, the reasons for the proposed annexation are as follows: to transfer water service from the County of San Mateo to to the cities of East Palo Alto and Menlo Park so that they can provide water service to areas in their jurisdiction; and

WHEREAS, this Council certifies that this proposal is exempt from the provisions of the California Environmental Quality Act under Section 15320 of the State CEQA Guidelines.

NOW, THEREFORE, this Resolution of Application is hereby adopted and approved by the City Council of the City of East Palo Alto and the Local Agency Formation Commission of San Mateo County is hereby requested to take proceedings for the dissolution of the East Palo Alto County Water District and transfer of service to the cities of East Palo Alto and Menlo Park for areas in their jurisdiction subject to the terms and conditions set forth above and in the manner provided by the Cortese-Knox Local Government Reorganization Act of 1985.

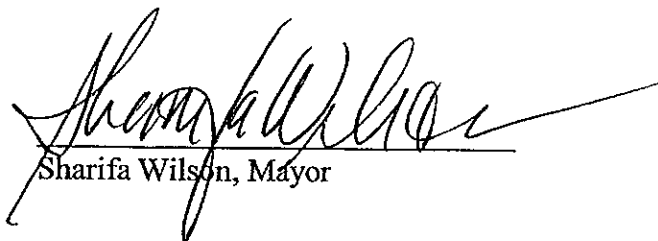
PASSED and ADOPTED this 16th day of October, 2000 by the following roll call vote:

AYES: BAY, JONES, FOSTER


NOES: WILSON

ABSENT: WALKER

ABSTAIN: NONE


Sharifa Wilson, Mayor

Attest:


City Clerk

Resoapp_EPA.doc
(10/16/2000)

**APPLICATION FOR A CHANGE OF ORGANIZATION OR REORGANIZATION
TO THE LOCAL AGENCY FORMATION COMMISSION**

A. GENERAL INFORMATION

1. Briefly describe the nature of the proposed change of organization or reorganization.

This application proposes a reorganization of the East Palo Alto County Waterworks District ("EPACWD") that would dissolve EPACWD and transfer service to the Cities of East Palo Alto and Menlo Park for the service territory located within each of their respective corporate boundaries.

2. An application for a change of organization or reorganization may be submitted by individuals in the form of a petition or by an affected public agency in the form of a certified resolution. This application is submitted by (check one):

 Landowners or registered voters, by petition
 X An affected public agency, by resolution

(If this application is submitted by petition of landowners or registered voters in the affected territory, complete the petition form.)

3. What are the reasons for the proposal?

The Cities of East Palo Alto and Menlo Park mutually desire to assume ownership of the portions of EPACWD located within each of their respective corporate boundaries. The City of East Palo Alto will use a private water purveyor, California-American Water Company, to operate and maintain its portion of EPACWD, whereas the City of Menlo Park will use its existing water division to operate and maintain its portion EPACWD. The Cities of East Palo Alto and Menlo Park both will be able to operate more efficiently than the County of San Mateo. Lastly, the City of East Palo Alto also desires to make approximately \$10 million in needed facility improvements over the next ten years. California-American Water Company will provide the financing for these needed facility improvements.

4. Does this application have 100% consent of the landowners in the affected area?

 Yes X No *

* Landowner consent is not required under the proposed reorganization described herein, since two public agencies will be assuming ownership and responsibility for EPACWD. However, it should be noted that a large landowner, Lorrin C. Tarlton, in the affected area is in support of the proposed reorganization.

5. Estimated acreage: 1,550

B. SERVICES

1. List the name or names of all existing cities and special districts whose service area or service responsibility would be altered by the proposed change or organization or reorganization.

East Palo Alto County Waterworks District ("EPACWD")

2. List all changes to the pattern of delivery of local services to the affected area. For each service affected by the proposed change (s) of organization, list the present sources of service (state "none" if service is not now provided), the proposed source of service and the source of funding for construction of necessary facilities (if any) and operation. Examples are given the first two lines of the space provided for your response.

| SERVICE | PRESENT SOURCE | PROPOSED SOURCE | FUNDING SOURCE | |
|-------------|----------------|------------------------|--------------------|-----------|
| | | | CONSTRUCTION | OPERATING |
| Water – EPA | EPACWD | City of East Palo Alto | Private Investment | Fees |
| Water – MP | EPACWD | City of Menlo Park | Fees & Assessments | Fees |

C. PROJECT PROPOSAL INFORMATION

1. Please describe the general location of the territory that is the subject of this proposal. Refer to major highways, roads and topographical features.

The territory is located in the Cities of East Palo Alto and Menlo Park. It is bounded by San Francisquito Creek on the south, San Francisco Bay lands on the east, the northerly boundary of Menlo Park on the north and Willow Road and Bayshore Freeway on the west. Attached as Exhibits A and B are respectively the legal description of the territory described above and a map of EPACWD.

2. Describe the present land use (s) in the subject territory.

Residential, both Single and Multi-Family
Commercial / Industrial

3. How are adjacent lands used?

North: Commercial / Industrial
South: Residential
East: Recreational (Golf Course)
West: Residential

4. Will the proposed change of organization result in additional development? If so, how is the subject territory to be developed?

No.

5. What is the general plan designation of the subject territory?

Medium Density Residential, Medium to High Density Residential, High Density Residential, General Commercial, Neighborhood Commercial, General Industrial, Heavy Industrial, Office, Public Recreation, General Open Space, Institutional. The City of East Palo Alto is in the process of updating its General Plan and is in the Environmental Review stage.

6. What is the existing zoning designation of the subject territory?

R1 5000, OR, RM, R2, COSC, C1, C2, M1, M2, MB, PUD

7. What rezoning, environmental review or development approvals have already been obtained for development in the subject territory:

N / A

8. What additional approvals will be required to proceed?

San Francisco Public Utilities Commission (Water Allocation)
Other Terms and Conditions regarding proposed reorganization of EPACWD (see Exhibit C)

9. Does any portion of the subject territory contain any of the following—agricultural preserves sewer or other service moratorium or wetlands subject to the State Lands Commission jurisdiction?

No.

10. If no specific development projects are associated with this proposal, will the proposal increase the potential for development of the property? If so, how?

No.

LAFCo will consider the person signing this application as the proponent of the proposed action (s) .
Notice and other communications regarding this application (including fee payment) will be directed to the proponent at:

Name: Monika Hudson
Address: City of East Palo Alto Phone: 650/853-3100
2415 University Avenue
East Palo Alto, California 94303

ATTN: Monika Hudson

Monika Hudson
Signature of Proponent

D. AFFECTED PUBLIC AGENCIES

Please complete this section if this application is submitted by resolution of one or more affected public agencies. Certified copies of resolutions listed below must accompany this application.

1. The names and resolutions of agencies applying for the change of organization or reorganization described above are as follows:

| AFFECTED AGENCY | RESOLUTION NO. | DATE ADOPTED |
|------------------------|----------------|------------------|
| City of East Palo Alto | 1815 | October 16, 2000 |
| | | |

2. Does this application have 100% consent of landowners in the affected area?

Yes No (If yes, include proof of consent)

PLAN FOR PROVIDING SERVICES

1. Enumerate and describe the services to be extended to the affected territory.

Water service currently provided by EPACWD would be provided by the City of East Palo Alto/California-American Water Company and the City of Menlo Park to the portions of the affected territory located within their respective corporate boundaries.

2. Describe the level and range of those services.

The City of East Palo Alto/California-American Water Company and the City of Menlo Park will provide water service for domestic use and fire protection to all property owners and residences located within their respective corporate boundaries of the affected territory. The services will be equal to or better than the water service currently provided.

3. Indicate when those services can feasibly be extended to the affected territory.

Upon the dissolution of EPACWD, the City of East Palo Alto/California-American Water Company and the City of Menlo Park will immediately extend water service to the affected territory. There will be no interruption in service.

4. Indicate any improvements or upgrading of structures, roads, sewer or water facilities, or other conditions to be imposed or required within the affected territory.

Attached as Exhibit D is a list of the facility improvements to be made by the City of East Palo Alto/California-American Water Company within 10 years after the dissolution of EPACWD.

5. Describe financial arrangements for construction and operation of services extended to the affected territory. Will the affected territory be subject to any special taxes, charges or fees? (If so, please specify.)

The City of East Palo Alto will set charges and fees for operation of services. The City of East Palo Alto and California-American Water Company will jointly arrange private financing for the

proposed facility improvements described in Exhibit D. With exception of the creation of a capital charge, the City of East Palo Alto does not anticipate any changes in the existing rate structure for water service for the first three years of operations. The proposed capital charge will pay for the proposed facility improvements described in Exhibit D. The City of Menlo Park will set charges and fees for operation of services and finance future facility improvements.

6. In as much detail as required to give a clear explanation, explain why this proposal is necessary at this time.

The transfer of ownership of the EPACWD to the Cities of East Palo Alto and Menlo Park will consolidate a small inefficient water district into larger efficient water service operations. Notably, the proposed transfer will also result in (a) improved and enhanced customer service; (b) improved system operations and maintenance; and (c) stabilized service rates. The Cities of East Palo Alto and Menlo Park both possess the financial and technical capabilities to make all necessary facility improvements to EPACWD. Lastly, the proposed transfer is consistent with and supports LAFCo's general policy of encouraging service districts that are located within a single political jurisdictional boundary.

This section completed by

Rick Mao
(Name)

City Engineer / Public Works Director
(Title)

EXHIBIT A

LEGAL DESCRIPTION OF
THE EAST PALO ALTO COUNTY WATERWORKS DISTRICT

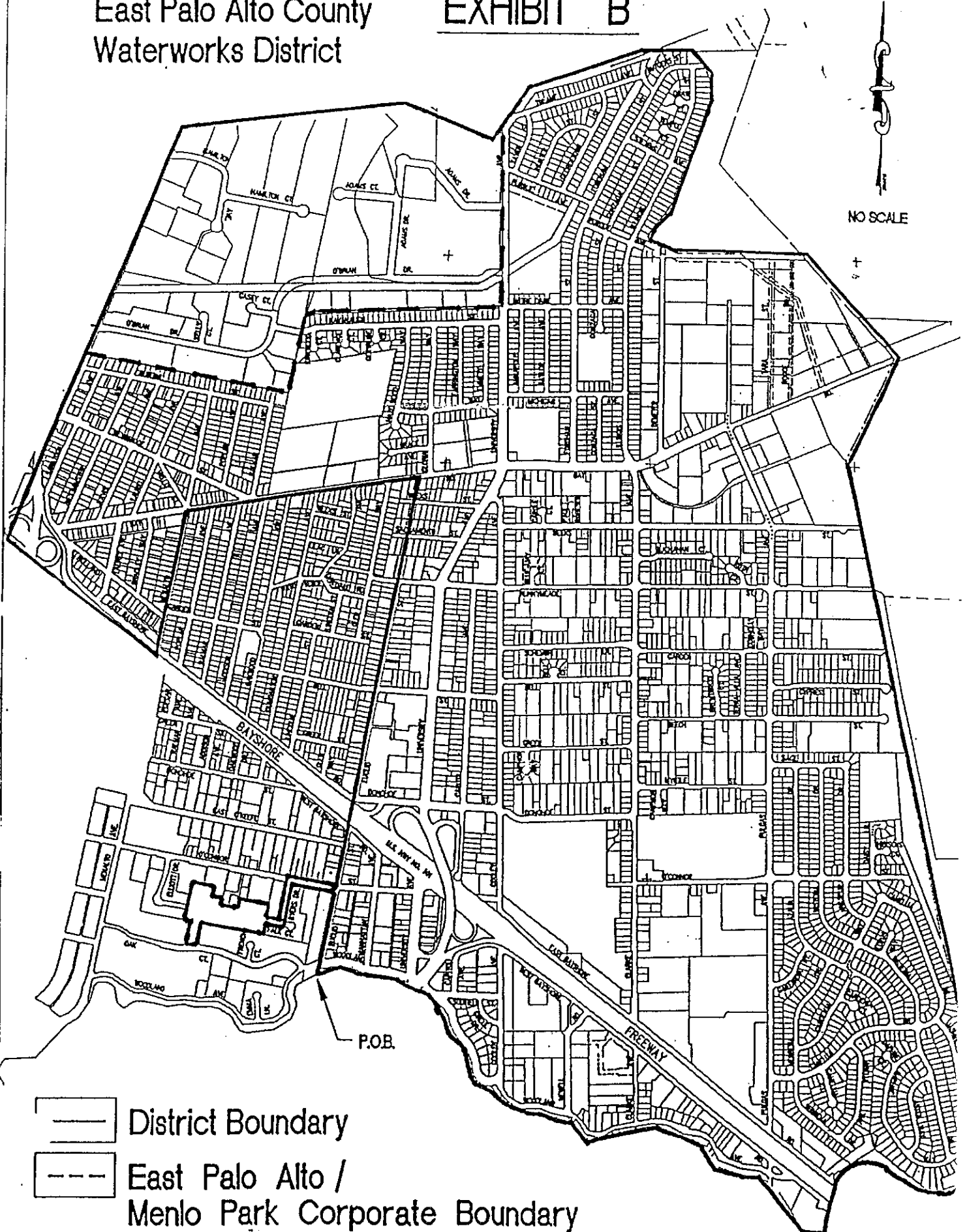
BEGINNING at the point of intersection of the center line of San Francisquito Creek with the westerly line of Woodland Place Subdivision as said San Francisquito Creek and Woodland Place are shown on that certain map entitled "MAP OF WOODLAND PLACE SUBDIVISION NO. ONE OF RAVENSWOOD SAN MATEO COUNTY CALIFORNIA" filed for record August 1st, 1910, in Book 7 of Maps at Page 24, Records of San Mateo County, California, and running thence from said point of beginning northerly along the westerly line of said Woodland Place to the intersection thereof with the southerly line of O'Connor Street as said O'Connor Street is shown on that certain map entitled "CHARLES WEEKS POULTRY COLONY FOURTH ADDITION TO RUNNYMEDE", recorded February 13, 1920, in Book 10 of Maps at Page 28, San Mateo County Records; thence westerly along the southerly line of said O'Connor Street to the intersection thereof with the northerly extension of the easterly line of Byers Drive as said Byers Drive is shown on that certain map entitled "TRACT NO. 629 FALK SUBDIVISION" filed for record April 26, 1956, in Book 44 of Maps at Page 50, San Mateo County Records; thence southerly along said northerly extension and said easterly line of Byers Drive and the southerly extension thereof to the southerly line of Falk Court as shown on said map of "FALK SUBDIVISION"; thence westerly along the southerly line of said Falk Court to the easterly line of Lot 42 as shown on said map of Charles Weeks Poultry Colony; thence southerly along the easterly line of said Lot 42 to the southeasterly corner of said Lot; thence northwesterly along the southerly line of Lots 42, 43, 44, 45 and 46 as said lots are shown on said map of CHARLES WEEKS POULTRY COLONY a distance of 631.76 feet to the northeasterly corner of that certain tract of land described in Deed to Ravenswood School District, recorded March 15, 1956, in Volume 2986 of Official Records at Page 315, (36854-N) San Mateo County Records; thence southerly along the easterly line of the last said tract of land (36854-N) to its intersection with the northerly line of that certain 60.00 foot strip of land described in Deed to the County of San Mateo recorded September 22, 1949, in Volume 1717 of Official Records at Page 178; thence westerly along the northerly line of said 60.00 foot strip of land to the intersection thereof with the westerly line of last said tract of land (36854-N); thence northerly along the westerly line of said tract of land (36854-N) to the northwesterly corner thereof which is also in the southerly line of that certain tract of land described in Deed to the Ravenswood School District, recorded March 15, 1956, in Volume 2986 of Official Records at Page 319 (36856-N), San Mateo County Records; thence westerly, northerly, easterly, northerly and easterly along the southerly, westerly, and northerly boundary lines of last mentioned tract of land to a point in the westerly line of that certain tract of land described in Deed to the Ravenswood School District, recorded January 18, 1957, in Volume 3161 of Official Records at Page 274 (20569-P), San Mateo County Records; thence northerly, easterly, southerly, easterly and southerly along the westerly, northerly and easterly boundary lines of last mentioned tract of land to the northwesterly corner of that certain tract of land describe in Deed to the Ravenswood School District, recorded March 15, 1956, in Volume 2986 of Official Records at Page 317 (36855-N), San Mateo County Records; thence along the northerly line of last mentioned tract of land South 79° 43' East 154.899 feet to the northeasterly corner thereof and a point in the westerly line of that certain tract of land described in Deed to the Ravenswood School District, recorded January 18, 1957, in Volume 3161 of Official Records at Page 271 (20567-P), San Mateo County Records; thence along the westerly line of last mentioned tract of land North 10° 19' East 90.00

feet to the northwesterly corner of said tract of land; thence South 79° 43' East 309.80 feet to the easterly line of Lot 42 as shown on said map of CHARLES WEEKS POULTRY COLONY; thence along the easterly line of said Lot 42, South 10° 19' East 137.28 feet to the intersection thereof with the northerly line of Falk Court as shown on the hereinbefore referred to map of the Falk Subdivision; thence easterly along the northerly line of Falk Court and northerly along the westerly line of Byers Drive, as said Falk Court and Byers Drive are shown on said map of Falk Subdivision and continuing northerly on the northerly prolongation of said Byers Drive to the northerly line of O'Connor Street as shown on the hereinbefore referred to map of CHARLES WEEKS POULTRY COLONY; thence easterly along the northerly line of said O'Connor Street to the intersection thereof with the westerly line of said Woodland Place Subdivision; thence northerly along the westerly line of said Woodland Place Subdivision and continuing northerly along the westerly line of Ravenswood Villas and continuing northerly along the northerly prolongation of the westerly line of Ravenswood Villas to the center line of Bay Road as said Ravenswood Villas and Bay Road are shown on that certain map entitled "RAVENSWOOD VILLAS SAN MATEO COUNTY, CALIF." filed for record February 5th, 1927, in Volume 15 of Maps at Pages 21 and 22, Records of San Mateo County; thence westerly along the center line of said Bay Road to the intersection thereof with the southerly prolongation of the easterly line of that certain tract of land shown on the map entitled "BAY SHORE PARK SAN MATEO COUNTY, CALIFORNIA", filed for record December 22nd, 1926, in Volume 14 of Maps, at Pages 60, 61 and 62, Records of San Mateo County; thence southerly along the southerly prolongation of the easterly line of said Bay Shore Park to the southerly line of said Bay Road; thence westerly along the southerly line of said Bay Road to the easterly line of Menalto Avenue, as said Menalto Avenue is shown on that certain map entitled "MENALTO PARK MAP NO. 3 SAN MATEO COUNTY, CALIF." filed for record December 1st, 1927, in Volume 16 of Maps at Page 52, Records of San Mateo County; thence southerly along the easterly line of said Menalto Avenue to the intersection thereof with northeasterly line of Bayshore Highway as shown on last said map; thence northwesterly 1,929.33 feet, more or less, along the northeasterly line of said Bayshore Highway to the easterly line of Willow Road as shown on said map of Menalto Park No. 3; thence northerly along the easterly line of said Willow Road as shown on the hereinbefore referred to map of Bayshore Park and continuing northerly along the easterly line of Willow Road to the southerly line of the right-of-way of the Southern Pacific Company's Dumbarton cut-off; thence easterly along said southerly right-of-way line to the intersection thereof with the northerly boundary line of the Rancho de las Pulgas; thence along said boundary of the Rancho de las Pulgas, South 70° East and North 35° East to the westerly line of that certain 50 foot strip of land described in Deed to the Spring Valley Water Company, recorded May 4th, 1912, in Book 210 of Deeds at Page 202, San Mateo County Records; thence along the northwesterly boundary of said 50-foot strip as described in Book 153 of Deeds at page 576 North 35° East 170 feet, more or less, to the intersection thereof with the westerly prolongation of the northerly line of Tulane Avenue, as said Avenue is shown on map entitled "Tract No. 654 University Village Subdivision No. 4" filed in Volume 35, Subdivision Maps of San Mateo County, pages 19 and 20; THENCE easterly along said prolongation 90 feet, more or less, to a point in the southeasterly line of said 50-foot strip; thence northeasterly along said southeasterly line to the southerly right-of-way line of the Southern Pacific Company; thence easterly along said right-of-way on a curve to the left, tangent to a line which bears North 74° 52' 45.5" East, said curve having a radius of 11,559.19 feet, a central angle of 6° 22' 42.2" and an arc length of 1,286.81 feet to a point in the northerly line of "TRACT NO. 649 UNIVERSITY VILLAGE SUBDIVISION NO. 3 SAN MATEO COUNTY, CALIF." filed for record February 21, 1952, in Volume 34 of Maps at Pages 27 to 30 inclusive, Records of San Mateo County; thence easterly and southerly along the northerly and easterly line of said TRACT NO. 649 to the intersection thereof with the westerly prolongation of the northerly line of that certain tract of land shown on

the "MAP OF GARDEN ACRES SITUATE IN RANCHO DE LAS PULGAS SAN MATEO COUNTY, CALIF." filed for record May 7th, 1931, in Book 19 of Maps at Pages 53 and 54, Records of San Mateo County; thence easterly along said westerly prolongation, continuing easterly along the northerly line of said GARDEN ACRES to the northeasterly corner thereof, and continuing easterly along the easterly prolongation of the northerly line of said Subdivision to its intersection with the boundary of the Rancho de las Pulgas; thence southerly along the easterly line of said Rancho de las Pulgas to the most easterly corner of Lot 2, Block 21, as said lot and block are shown on that certain map entitled "TRACT NO. 634, PALO ALTO GARDENS MAP NO. 2 SAN MATEO COUNTY, CALIFORNIA", filed for record February 9th, 1951, in Volume 32 of Maps at Page 50, Records of San Mateo County; thence continuing southerly, along the easterly line of said Rancho de las Pulgas and the southerly prolongation thereof, South 13 $\frac{1}{2}$ " East 1,383.25 feet to the most easterly corner of Lot 1, Block 30, as said lot and block are shown on that certain map entitled "TRACT NO. 636 PALO ALTO GARDENS MAP NO. 3 SAN MATEO COUNTY, CALIFORNIA" filed for record June 22, 1951, in Volume 33 of Maps at Page 33, Records of San Mateo County; thence along the southerly line of said Block 30, South 72 $\frac{1}{2}$ 54' West 18.67 feet, South 66 $\frac{1}{2}$ 27' West 471.00 feet, South 12 $\frac{1}{2}$ 09' East 200.96 feet, North 69 $\frac{1}{2}$ 35' West 119.60 feet and North 53 $\frac{1}{2}$ 35' West 726.00 feet to the most westerly corner of Lot 22 in said Block 30; thence leaving the southerly line of said Block 30, South 56 $\frac{1}{2}$ 55' West 462.00 feet and South 10 $\frac{1}{2}$ 00' West 136.00 feet to a point in the centerline of San Francisquito Creek, said centerline being the dividing line between San Mateo and Santa Clara counties, where said centerline is intersected by the centerline of the Bayshore Highway, as said Highway existed in April, 1951; Thence southerly and westerly along said Creek centerline to the Point of Beginning.

East Palo Alto County
Waterworks District

EXHIBIT B



- District Boundary
- - - East Palo Alto / Menlo Park Corporate Boundary

EXHIBIT C

OTHER TERMS AND CONDITIONS REGARDING PROPOSED REORGANIZATION OF EAST PALO ALTO COUNTY WATERWORKS DISTRICT ("EPACWD")

A. Ownership

1. The City of East Palo Alto shall assume ownership of all of the EPACWD assets located within its corporate limits and the two EPACWD Hetch Hetchy turnout facilities located within the corporate limits of the City of Menlo Park.
2. With the exception of the two Hetch Hetchy turnout facilities, the City of Menlo Park shall assume ownership of all of the EPACWD assets located within its corporate limits.

B. Operations and Maintenance

1. The City of East Palo Alto shall assume the operations and maintenance responsibilities for that portion of EPACWD located within its corporate limits and the two EPACWD Hetch Hetchy turnout facilities located within the corporate limits of the City of Menlo Park.
2. With the exception of the two EPACWD Hetch Hetchy turnout facilities, the City of Menlo Park shall assume the operations and maintenance responsibilities for that portion of EPACWD located within its corporate limits.
3. The operations and maintenance costs of facilities jointly used by the Cities of East Palo Alto and Menlo Park shall be allocated to the Cities in proportion to the actual use of those facilities by the respective water departments of the Cities.

C. Fund Balance

The EPACWD fund balance shall be distributed to the Cities of East Palo Alto and Menlo Park in proportion to the percentage of annual revenues generated by the customers located within the respective corporate limits of the cities.

D. Water Allocation

The Cities of East Palo Alto and Menlo Park shall revise EPACWD's Hetch Hetchy water allocation in accordance with the 1984 Agreement between the Bay Area Water Users Association and the San Francisco Public Utilities Commission.

E. Agreement

The Cities of East Palo Alto and Menlo Park shall execute an agreement regarding the proposed reorganization of EPACWD. This agreement shall contain all of the terms and conditions described above in sections A through D.

EXHIBIT D

FACILITY IMPROVEMENTS TO MADE BY
CITY OF EAST PALO ALTO / CALIFORNIA-AMERICAN WATER COMPANY

| | |
|---|---------------------|
| 3.75 MG Storage Tank (Including Land Costs) | 4,000,000 |
| Booster Station for 3.75 MG Storage Tank | 100,000 |
| Rehabilitation of Gloria/Bay Well | 100,000 |
| Treatment System for Gloria/Bay Well | 350,000 |
| New Well | 500,000 |
| Treatment System for New Well | 350,000 |
| Main Replacement Program | 3,400,000 |
| Annual Recurring Improvements (10 years) | 1,200,000 |
| Total Facility Improvements | \$10,000,000 |