



DATE: February 18, 2015

TO: LOCSD Board of Directors

FROM: Kathy A. Kivley, General Manager

SUBJECT: **Agenda Item 12B-2 – 3/5/2015 Board Meeting**
Authorize an Interfund Loan from Fund 500 to Fund 200

President
R. Michael Wright

Vice President
Marshall E. Ochylski

Directors
Charles L. Cesena
Jon-Erik G. Storm
Louis G. Tornatzky

General Manager
Kathy A. Kivley

District Accountant
Michael L. Doyel

Fire Chief
Robert Lewin

Battalion Chief
Phill Veneris

Mailing Address:
P.O. Box 6064
Los Osos, CA 93412

Offices:
2122 9th Street, Suite 102
Los Osos, CA 93402

Phone: 805/528-9370
FAX: 805/528-9377

www.locsd.org

DESCRIPTION

Approval of a Resolution authorizing an Interfund Loan to the Bayridge Fund 200 from the Water Fund 500 Capital Outlay Reserve in an amount not to exceed \$125,000 to cover Phase 1 Maintenance Improvement Projects for the community septic system.

STAFF RECOMMENDATION

Staff recommends that the Board adopt the following motion:

Motion: I move that the Board adopt Resolution No. 2015-08 authorizing an interfund loan to Fund 200 Bayridge to construct Phase 1 Maintenance Improvement Projects.

DISCUSSION

Bayridge is a subdivision in Los Osos that has a dedicated residential community septic system. There are 147 parcels in this subdivision. The fund provides septic management, storm water drainage, streetlight, and open space management. The key source of funding is assessments for service charges on property owners within the specific boundary of the subdivision. With the implementation of the community-wide sewer system currently under construction by San Luis Obispo County, this subdivision will be connected. This connection is estimated for spring of 2016.

In FY 2013/2014, the District Board adopted and funded a Septic System Decommission Reserve of \$8,000 annually. Recognizing this transition is rapidly approaching District staff met with County staff in December 2014. This meeting based on the recent pipeline video inspections, staff discussed possible required improvements prior to the County allowing connection or assuming responsibility for the existing septic system. The deficiencies were rate in three categories: High, Medium and Low.

It is necessary for the Fund 200 to borrow from another fund to cover the estimated cost for the Phase 1 Improvement Projects. Attached with this packet is a memo from Wallace Group, Kari Wagner, PE, outlining in detail the necessity for this work and the related urgency.

Once the improvements are completed and upon completion of the County project providing sewer collection services to the subdivision, the septic system

will be abandoned at a cost. The assessments will remain on the parcels until the fund settles all liabilities due to the District for providing the Phase 1 Maintenance Improvement Projects, on-going operating expenditures, septic transition and abandonment services.

FINANCIAL IMPACT

The recommended action will have no significant financial impact on the daily operations of Water Fund 500. Currently the Water Capital Outlay Reserve has an estimated balance as of June 30, 2015 of \$564,072. In June 2013, a Prop 218 Protest Hearing was unsuccessfully challenged. This allowed the District to increase the annual assessment from \$201/parcel to \$373/parcel. The current charge per parcel is \$373/parcel with 147 parcels which equates to receipts of \$54,831. This fund receives General Property Taxes which were grandfathered into the Proposition 13 allocation since the Fund was receiving general taxes before the proposition passed. The County of San Luis Obispo Auditory/Controller/Treasurer/Tax Collector's office estimates the revenue for FY 2014/2015 at \$7,227. Total revenue estimate for FY 2014/2015 is \$62,058. Repayment of the interfund loan will begin after the transition and abandonment of the community septic system is complete. Staff estimates the repayment will take approximately two years.

The Loan Agreement states Fund 200 will borrow the funds at the time of construction. Presently, as addressed in the Financial Impact for the formal bid process, there are funds available for the engineering from the current fiscal year budget from two categories totaling approximately \$16,744. Using the existing budget will allow staff to reduce the total dollars necessary from an interfund loan. All terms and conditions are outlined in the attached Interfund Loan Agreement.

The assessment will remain in full force and effect until all funds are repaid to the Water Fund 500.

Attachment – Resolution 2015-08 w/Exhibit A

RESOLUTION NO. 2015 – 08

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE LOS OSOS COMMUNITY SERVICES DISTRICT
APPROVING AN INTERFUND LOAN FROM THE DISTRICT'S WATER FUND
TO THE BAYRIDGE FUND TO COVER ENGINEERING AND CONSTRUCTION COSTS
FOR PHASE 1 OF MAINTNEANCE PLAN FOR FY2014/2015 AND FY2015/2016**

WHEREAS, the Board of Directors of the Los Osos Community Services District (District) acknowledges the need for Phase 1 Maintenance Improvement Projects s to the Bayridge Estates Septic System; and

WHEREAS, the Board of Directors understands the LOCSD must make every effort possible to provide healthy and viable septic system operations; and

WHEREAS, the Board of Directors recognizes that certain improvements are required prior to the transition to the County and connection to the new sewer system; and

WHEREAS, the Board of Directors acknowledges that Bayridge Fund 200 does not have sufficient reserves to finance the Phase 1 Maintenance Improvement Projects; and

WHEREAS, the Board of Directors has taken previous action to use Reserves to support an interfund loan; and

WHEREAS, the Board of Directors hereby finds that there are sufficient reserves in the Water Fund Capital Outlay Reserve to accommodate this Phase 1 Maintenance Improvement Projects interfund loan; and

WHEREAS, the Board of Directors recognizes the assessments will remain on the 147 parcels until the Fund 200 settles all the liabilities due to the LOCSD for providing Phase 1 Maintenance Improvements, on-going operating expenses, septic transition and abandonment costs; and

WHEREAS, the Board of Directors understands according to Government Code Section 66006 and 66013 the LOCSD may provide interfund loans and according to Government Code Section 6116 (b) allows for borrowing.

NOW THEREFORE, THE BOARD OF DIRECTORS OF THE LOS OSOS COMMUNITY SERVICES DISTRICT DOES HEREBY RESOLVE, DECLARE AND DETERMINE THAT:

1. An interfund loan from the Water Fund to Bayridge Fund is approved in the amount not to exceed \$125,000.
2. The interfund loan is approved subject to the terms of the Agreement incorporated herein as Exhibit A.

ADOPTED this 5th day of March 2015 by the Governing Body of the Los Osos Community Services District by the following roll call votes:

Upon motion of Director _____, seconded by Director _____
and on the following roll call vote, to wit:

AYES: _____
NOES: _____
ABSENT: _____
ABSTAIN: _____

The foregoing resolution is hereby passed and adopted this 5th day of March 2015.

R. Michael Wright
President, Board of Directors
Los Osos Community Services District

ATTEST:

APPROVED AS TO FORM:

Kathy A. Kivley
General Manager and Secretary to the Board

Michael W. Seitz
District Legal Counsel

Interfund Loan Agreement

The interfund loan agreement, made and entered into this the _____ effective _____ for FY 2014/2015 and FY 2015/2016 by and between the Water Fund 500 and the Bayridge Fund 200;

WITNESSETH:

WHEREAS, the Board of Directors of the Los Osos Community Services (LOCS) has determined that the LOCS must continue to provide public services Bayridge Fund 200; and

WHEREAS, the Board of Directors recognizes the employees of the LOCS provide storm water drainage, street, septic and open space management services; and

WHEREAS, the Board of Directors recognized certain pipelines were identified as deficient to the on-going operations; and

WHEREAS, the Board of Directors recognizes there are not sufficient funds available from the current budget or Reserves to cover the cost of engineering and construction repairs related to the maintenance of the septic system services; and

WHEREAS, the Board of Directors recognizes the importance of street re-pavement and overlay work and the timing of both; and

WHEREAS, the Board of Directors desires for the benefit of the residents to keep engineering and construction expense at the lowest and most reasonable costs and therefore needs to work within San Luis Obispo County schedule; and

WHEREAS, the Board of Directors understands the LOCS must make every effort possible to provide healthy and viable septic system operations; and

WHEREAS, the Board of Directors realizes when the Los Osos Recycling Facility built by San Luis Obispo County County) is complete the Bayridge subdivision will connect to the County System; and

WHEREAS, the Board of Directors recognizes the current septic system will be abandoned at a cost to the residents and expensed through this fund; and

WHEREAS, the Board of Directors recognizes the assessments will remain on the parcels until Fund 200 settles all the liabilities due to the LOCS for providing the Phase 1 Maintenance Improvement Projects, on-going operating expense, septic transition and abandonment costs; and

WHEREAS, the Board of Directors understands according to Government Code Section 66006 and 66013 the LOCS may provide interfund loans and according to Government Code Section 61116 (b) allows for borrowing; and

WHEREAS, the Board of Directors agrees to provide an interfund loan to the Bayridge Fund, in an amount not to exceed \$125,000 associated with the construction of the Phase 1 Maintenance Improvement Projects.

NOW THEREFORE, in consideration of the mutual covenants therein contained, the Board agrees as follows:

1. The Water Fund will transfer an amount not to exceed of \$125,000 from the Water Capital Outlay Reserve (3160) to Bayridge Fund 200 Infrastructures (9006).
2. The borrowing is for Phase 1 of the maintenance projects identified as Exhibit 1
3. The borrowing may occur over two fiscal years: 2014/2015 and 2015/2016
4. The Bayridge Fund will pay back the Water Fund principal and interest with the payment to begin after connection to San Luis Obispo County Water Recycling System and abandonment of the septic system.
5. The interest rate will be based on West Coast Prime plus 1% at the time of borrowing/transfer from the Water Fund General Contingency Reserve to the Bayridge Fund.
6. Transfers will only occur as necessary to cover the cost of the Phase 1 Maintenance Improvement Projects.
7. Any discrepancy between the closing balance and Audit Financial Statement will be reconciled based on the year end Audit Financial Statements for the Fiscal Year with the appropriate adjustments to follow.
8. This interfund loan agreement may be amended, modified or terminated by the Los Osos Community Services Board of Directors by Resolution.

9. The necessity for any funding in excess of \$125,000 requires a separate action by the Board of Directors.
10. This interfund loan will be recorded according to the guidelines as established by GABS Summary of Statement No. 34.

The Board of Director hereby agree with all the terms and conditions as outlined. This agreement was passed by Resolution No. 2015-08 passed on 5th day of March 2015 and incorporated therein by reference.

R. Michael Wright
President, Board of Directors
Los Osos Community Services District

ATTEST:

Kathy A. Kivley
General Manager and Secretary to the Board

Bayridge Estates Phase 1 Maintenance Improvement Projects

The following project encompass Phase 1 of the engineering and construction maintenance plan:

- Bay Oaks Drive: Between Manholes 5 and 6 (~190 feet). The inspection noted one high priority sag and two medium priority sags along with root intrusion.
- Bay Oaks Drive: At Manhole 7. The inspection noted a high priority pipe offset.
- Del Mar Drive: Between Manholes 21 and 22 (~250 feet). The inspection noted two high priority sags, three medium priority sags and a pipe offset.
- Green Oaks Drive: Between Manholes 10 and 11 (~200 feet). The inspection noted one high priority sag and three medium priority sags.