



Transition Process and Transfer of Assets, Formation of Scotia Community Service District

Town of Scotia Company, LLC (TOS) submitted the Town of Scotia Community Service District (CSD) Municipal Service Review (MSR) in May 2009, in support of an application to the Humboldt County Local Agency Formation Commission (LAFCo) for the formation of the CSD. In October 2010, the commissioners voted to approve the formation of the SCSD.

The updated final MSR is available for review at the link marked "MSR" and the LAFCo Approval Resolutions for CSD formation are found at the link marked "LAFCo CSD Resolutions" both on the townofscotia.com website at the Scotia Community Governance news page.

As requested by LAFCo staff, we created this outline of the transition process to describe the steps in the transfer of assets and service infrastructure from private ownership by TOS to the SCSD. This outline includes the following elements, as requested by LAFCo:

- description of assets to be transferred from TOS to the CSD
- additional transfers and deposits that will be granted or deeded by TOS to the CSD
- transfers of service responsibilities
- description of the proposed transition sequence for financing, infrastructure improvements, final map approval, formation of the CSD, and transfer of powers and assets; and
- details of the long-term financing to be assumed by the SCSD.

Real Property Assets

The real property assets to be transferred from TOS to the SCSD at no cost to the CSD include the following:

- the water intake structure along the Eel River and associated appurtenances and piping
- the raw water supply for firefighting located on the east side of Highway 101, including the firefighting water storage and associated appurtenances and piping
- the water treatment plant located on the east side of Highway 101, including the buildings and furnishings, water storage, operational equipment, and associated appurtenances and piping
- the wastewater treatment plant located along Railroad Avenue, including the buildings and furnishings, wetland treatment ponds, log pond, log pond clarifier, and operational equipment
- the former Carpenter Shop, including the portions of the building known as the Paint Shop, the parking and yard areas, and associated tools and equipment, to be used as a corporation yard
- the linear underground infrastructure including water transmission and distribution system, wastewater collection system, and storm water drainage system, after improvements and relocation to right-of-way, and associated appurtenances and piping

- the street lighting system including the period replica lampposts
- the Scotia Volunteer Fire Department building located at the intersection of Main Street and First Street, including office equipment, furniture, and fire-fighting equipment, and the Pipe Shop located in the basement with its contents
- the Scotia Museum located between Main Street, B Street, and Eddy Street, including the museum building, its contents, and the landscaped grounds, picnic area, and various railroad and logging artifacts surrounding the building
- the historic Winema Theatre located at the intersection of Main Street and Bridge Street, including the building, its contents, state-of-the-art audio-visual systems and cable television, and the landscaped grounds surrounding the building
- the Carpenter's Field, the Baseball Park (a regulation irrigated and lighted baseball field with electric scoreboard, permanent bleachers, and a snack bar) located between Williams Street and Railroad Avenue, including installations, bleachers, and parking area
- the Community Soccer Park (a regulation irrigated soccer field with goals and a bleacher system) located between Railroad Avenue and the Eel River, south of the wastewater treatment facility and northwest of the baseball field, including installations, bleachers, and parking area
- the Firemen's Park picnic area located in the vicinity of the Community Soccer Park, including pit barbecue, permanent tables, and restrooms
- pocket parks located along Main Street associated with the Winema Theater and the Scotia Museum, and
- the Scotia Community Forest, a wooded buffer area along the Eel River at the north end of Scotia.

Phased Transfers

As a general rule, individual properties identified on an approved Tentative Subdivision Map may not be transferred or conveyed until all subdivision conditions of approval are met or bonded, the Final Subdivision Map is recorded, and parcel maps are available.

However, there is a special exception to this rule which permits the conveyance of certain interests in lands to a public utility or agency – such as the CSD. Given this special provision, TOS plans to convey certain assets and interests to the CSD as soon as the CSD is operative (following Board elections) and such transfers are otherwise practicable. The interests conveyed will range from easements and licenses to ownership interests.

For example, upon formation, the SCSD will receive grants of easements and licenses to the linear infrastructure scheduled for realignment and replacement throughout Scotia (pipes, lines and conduits). In this way, the SCSD may promptly employ the infrastructure, pipes, lines, and facilities to deliver services to the District customers, charging appropriate fees for service delivery and raising funds for operations and maintenance.

However, during the infrastructure improvement process, TOS will retain the ownership, as well as the responsibility to maintain and repair these features until such time as they have been relocated, realigned and replaced or repaired within the street rights-of-way. At that time, orderly conveyance

may be made to the SCSD of new linear infrastructure, as well as the easement rights necessary for access to these realigned facilities in the right-of-way.

In other instances where relatively less improvement or repair is required, and where ownership of the facilities may be an important benefit to the community, some transfers may occur earlier. For example where ownership of property or assets may be a prerequisite to qualify for grant funding, or needed for important community activities or CSD business, TOS may promptly convey to SCSD the ownership interest in certain facilities.

Early transfer will probably occur of Fire Department facilities and possibly the cultural and recreational facilities (parks, theater, museum) for which no significant repairs or upgrades are required and for which there is little maintenance needed. These are truly community properties.

Additional Transfers and Deposits

In addition to the real property listed above, the following will also be transferred from TOS to the SCSD:

- the rolling stock, or vehicles, and operational equipment associated with the water and wastewater treatment facilities
- the rolling stock and operational equipment associated with the Fire District
- all other rolling stock and operational equipment attached to road maintenance, parks, street lighting services and general CSD operations and maintenance, including backhoe, pickup trucks, generators, and hand tools from the Carpenter Shop, Paint Shop, and Pipe Shop to be conveyed to the SCSD, plus equipment located in the Garden Shop which will be relocated to the Carpenter Shop.
- one of the most valuable privately held water rights and licenses in California, which will be conveyed to the SCSD to put to any beneficial use allowed by law (This water right allows a diversion of up to 7.1 cubic feet per second from the Eel River, 24/7 year-round, for domestic and industrial uses)
- all rights to access, employ, and use the infrastructure and collect service fees as soon as the CSD is formed, even as TOS continues to assume responsibility for the infrastructure improvements
- a start-up fund of \$20,000 for initial office set-up and initial costs
- an initial CSD contingency fund of \$135,000
- easements/dedications for the new linear infrastructure.

Responsibilities to be Transferred to the CSD

The services for which responsibility will be transferred from TOS to the SCSD include:

- water supply, treatment, storage and distribution
- wastewater collection, treatment and disposal
- storm water drainage

- road maintenance and street lighting
- fire protection
- parks and recreation.

Proposed Transition Sequence

Key steps in the transition process (many of which will coincide and are underway now) include:

- CSD approval (approved September 2010, LAFCO Resolution Oct. 2010)
- Set up financial guarantees and bonding
- Finalize base mapping of existing utilities
- Hydraulic study
- Design of phased infrastructure improvements
- Phased infrastructure improvements, funded by TOS
- Appointment of an interim SCSD Manager
- Form a CSD Board: Elect a five-member board with staggered terms
- Negotiate tax agreement with Humboldt County
- Appropriate interests conveyed to SCSD; SCSD starts using infrastructure and collecting user fees instead of TOS.
- One-year transition period (transfer services and finances)
 - Transfer of titles and permits continues
 - Humboldt County certifies that conditions of approval have been met
 - Linear infrastructure conveyed to SCSD (in phases, after upgrades are made and accepted by Humboldt County or a third party retained by the County)
 - Humboldt County accepts phased subdivision map
 - Concurrently with phased infrastructure improvements and phased Final Map certification, prepare Final Public Report (“white paper”) for the California Department of Real Estate
- TOS markets private properties, with preference and right of first offer to current residents and Scotia workers.

Current TOS employees will continue to man and operate services during and after the transition process. Logically, the services staff and operators will be considered and hired by the CSD when facilities transfer. The transfer of assets will occur progressively over the course of the multi-year transition, in a logical and orderly fashion as the phases of infrastructure improvements take place.

Long-Term Financing

Improvements Covered

Typically, grant and low-interest funding is available for public agencies for water and wastewater infrastructure projects; therefore, the proposed transition process involves funding some improvements (less than 1/3 of anticipated transition costs) specific to wastewater treatment and disposal and water treatment facilities using a long-term low-interest loan or bond obtained by the SCSD.

TOS will be responsible for all other costs related to the project and particularly to the infrastructure improvements, in order to maintain the CSD's long-term financing at a theoretical maximum of \$5 million.

Specifically, TOS will cover the costs of design and construction of the linear infrastructure improvements throughout Scotia (water distribution, wastewater collection, storm drainage, and roads), as well as the design of the water and wastewater treatment facility improvements including plans, specifications, and related documents. This work is conservatively estimated to cost approximately \$12 million.

The \$5 million amount is likewise a very 'conservative' one, as the current estimate for construction costs of the water and wastewater treatment facility improvements is actually much lower, approximately \$3.6 million. The \$5 million amount has been used in planning to provide for contingencies, etc. If, as expected, a lower long-term funding amount is required, then the SCSD will be able to either charge *lower user fees* to cover its capital debt or accumulate a *larger contingency fund at a faster rate*. The local CSD Board would decide which policy to adopt.

Conclusion

We understand that the process of transition in our community -- from the private TOS operations to the delivery of services and community governance under the SCSD -- is complex, technical and at times both confusing and frustrating.

We at TOS pledge to keep Scotia residents, business owners and other interested parties better informed now that the process is coming to an end, and we can now set the schedule and frame the pace of improvements to facilitate the transition.

It is important for TOS to have your input and to know your preferences as we complete the CSD Formation, conduct the infrastructure improvements and upgrades required, and transfer assets and make deposits into the Scotia Community Services District. Together we are creating a local government to be controlled by our local residents, providing services to our local homes, businesses and institutions.

But the Scotia CSD will ultimately have only those authorities which the local residents and property owners want it to have. In the long term, how the CSD is formed and run will determine what kind of community Scotia will be. This is an exciting opportunity to write the 'constitution' upon which the first official Scotia community governance will be based.

Community Participation

Please consider participating as a member of the **Steering Committee** for CSD formation or standing for election as one of five members of the first **SCSD Board of Directors**. Elections will be held August 30, 2011. The Steering Committee can act as 'framers' of Scotia's governing documents, to help tailor widely used draft community bylaws and policies for adoption or amendment by the duly elected Board of Directors when the Board takes office.

In many cases, as CSDs form, members of the Steering Committee also stand for election and are elected to Board membership. TOS will provide support, assistance, facilities and resources to both the Committee and the Board to smooth the transition. (See the [CSD Candidates Guide](#) link on the Community Governance news webpage.)

We are currently investigating education and training opportunities for community members, prospective Board members and CSD staff -- conferences and seminars offered by such groups as the California Special District Association in Sacramento. As we find worthwhile programs, we hope to make them available free of charge to interested residents, local business owners and other community leaders willing to participate in the process of steering and governing our community.

We hope this could be both fun and fascinating for those who have the time and energy to attend such activities, in essence, those willing to take time to dedicate to their community at this formative stage. We will have more information on this part of the process very soon.

As always, we are happy to respond to inquiries or explain any of the information or analysis upon which this discussion is based, with any residents, at any time. We will be glad to provide additional information, answer questions or host community discussion of these important matters at what we expect will be regularly scheduled CSD/ Community meetings going forward. Please join us when you can.

In addition, please watch for announcements in the Scotia newsletter or posted on the Town of Scotia website (www.townofscotia.com). Scotia residents are always welcome to stop by, call or email Frank Bacik (fbacik@townofscotia.com), the Town of Scotia Company President, at the Town Legal Affairs Offices on Main Street between Hoby's Market and U.S. Bank.