

LAKE LOCAL AGENCY FORMATION COMMISSION

September 25, 2013

Lake County Grand Jury
P.O. Box 1078
Kelseyville, CA 95451

RE: Response to the 2012-2013 Grand Jury Report

Dear Members of the Grand Jury,

The 2012-2013 Grand Jury Report included a section on “**Lake LAFCo Oversight**” on page 64 prepared by the Grand Jury Planning and Public Works Committee. An explanation of LAFCo was provided along with a background of Lake LAFCo and LAFCo’s in general. The report focuses upon Lake LAFCo’s progress on completing the “Municipal Service Reviews” or “Service Reviews” (MSR) and “Spheres of Influence” for agencies in Lake County subject to LAFCo’s jurisdiction.

In 2001 the legislature mandated new requirements for LAFCo’s including preparation of Service Reviews and update Sphere of Influence Updates, if determined necessary. To update a Sphere of Influence a Service Review is required. After the initial update of a Sphere of Influence, the Commission may make a determination that additional updates are not necessary. Making that determination is very difficult since the Legislature has amended the required content of a Service Review several times since 2001. Today the required determinations are as follows:

- Growth and population projections for the affected area
- The location and characteristics of any disadvantaged unincorporated communities (DUC) within or contiguous to the sphere of influence
- Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies
- Financial ability of agencies to provide services
- Status of, and opportunities for shared facilities
- Accountability for community service needs, including governmental structure and operational efficiencies

Likewise, the mandated content of a Sphere of Influence has changed. Today the required determinations are as follows:

- Present and planned land uses in the area, including agricultural and open-space lands
- Present and probable need for public facilities and services in the area
- Present capacity of public facilities and adequacy of public service that the agency provides or is authorized to provide
- Existence of any social or economic communities of interest in the area if the Commission determines these are relevant to the agency

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- For an update of a sphere of influence of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence.

The 2001 legislation also mandated guidelines to be promulgated by the Governor's Office of Planning and Research. These guidelines have detailed discussion and suggested methodologies in completing a Service Review. Ultimately, the endgame is LAFCo's are required to adopt Spheres of Influence, which has been in the LAFCo law since 1971. Most LAFCo's including Lake LAFCo did not complete their Spheres of Influence until the mid to late 1980's.

Discussion and Facts:

We are concerned that content in the Grand Jury Report will be considered as accurate for use by the public and various agencies as correct source documentation in their decision making process. There are several errors throughout the report that can lead to unnecessary or inaccurate conclusions. The purpose of the following comments is to correct some of the items within the "Discussion and Facts" section enumerated on pages 65, 66 and 67 of the Grand Jury report.

- a. There is no specific requirement for the preparation of a LAFCo Service Review for the County of Lake (#2).
- b. The Commission establishes an annual work program and the Executive Officer carries out that work program, as feasible. No specific quantity for reports has ever been determined (#5). There is conflicting information as to the number of reports that have been prepared. See the attached chart at the end of this letter.
- c. A comprehensive analysis in a LAFCo Service Review has proven to be invaluable for the public, LAFCo and the affected agencies. In LAFCo's review of a specific agency the Commission routinely finds questionable source documentation and has endeavored to correct incorrect source information from time to time (#6).
- d. Most LAFCo's enter into specialized contracts with consultants to prepare Service Reviews. Lake LAFCo has refrained from doing this due to a bad experience with a consultant and the high cost (#17).

The Grand Jury findings are summarized as follows:

F-1 Since 2002 a total of 73 MSR's and SOI's have been completed averaging six per year. Twelve are pending or not completed for various reasons. Expectations for Service Reviews have increased significantly over the past 10 years, requiring additional research, time and costs. Due to budget limitations LAFCo does not engage specialized analysts, such as Professional Hydrologists or Engineers. The Commission believes it is more important to prepare a meaningful service review, and as a result the quality is paramount as opposed to the quantity of reviews prepared. Expectations in service reviews have also increased. As a result it take more time to prepare a service review document.

F-2 The Grand Jury report references LAFCo has not completed eighteen reports as shown in an "Appendix A", which is not included the Grand Jury report. There appears to be inconsistencies in the numbers stated in the report. Nevertheless, LAFCo has an inventory of the Service Reviews and Spheres completed to date and it is attached.

F-3 Within the constraints of annual budgets LAFCo has been able to complete most of the reviews and all of the Service Reviews where changes of organization have occurred. For this

fiscal year, the Commission is working on completion of the Lakeport Sphere of Influence, as practicable, the Service Review (update) and Sphere of Influence for the City of Clearlake (depending upon the progress of the City in adopting its General Plan) the Watershed Protection District service review (depending upon responses provided by the District) and the Fire and Emergency Medical Services Reviews.

After a public hearing this year (FY 2013-2014) the Commission adopted a work program that included preparation Service Reviews and Spheres of Influence some of which were carried over from the prior fiscal year (e.g. the City of Lakeport Sphere of Influence). Due to the cooperative nature of the Commission, agencies and the use of volunteers the Commission and staff believe this funding is adequate provided there is no undue controversy or a demand for information requiring specific expertise. Many LAFCo's have budgeted significantly more to prepare service reviews and Spheres of Influence not to mention the costs of complying with the California Environmental Quality Act.

In March 2014, the Commission will hold a public hearing on its proposed budget and work program for FY 2014-2015. During which time the public and commissioners will be invited to provide input for priorities for the next fiscal year. As normal, LAFCo will discuss priorities for service reviews in light of the constraints previously mentioned.

F-4 The Executive Officer's role is to make recommendations to the Commission. The LAFCo commission establishes priorities and an annual budget after the conclusion of a public hearing. The Commission establishes its budget and a work program for a fiscal year based on priorities (see discussion and facts#13), which have been based on need, financial resources, and the likelihood of organizational changes in a given part of the county.

F-5 Due to city-county conflicts with Lakeport's Sphere of Influence, the Commission suggested the City and County retain a facilitator. LAFCo sent a letter to both agencies requesting facilitation take place. No action was taken to have a facilitated meeting to discuss specific issues.

WATER WATER EVERYWHERE

The Grand Jury Report also asked LAFCo to respond to a Section entitled "**Water Water Everywhere**" beginning on page 22, which was prepared by the Grand Jury Budget and Finance Committee. Included in the recommendations (Recommendation R-1) is that the "Local Agency Formation Commission prepare and adopt a special study: Municipal Service Review (MSR) concluding that annexation of the districts is feasible". LAFCo will consider this recommendation in the preparation of the 2014-2015 budget. However, the conclusions of such a study are unknown at this time. If a budget were to be approved, LAFCo would need to retain an independent consultant with expertise in fiscal analysis to prepare the study. Costs and benefits would need to be identified and analyzed. The draft study would be reviewed by the public, individual agencies as well as County staff and the Board of Supervisors. There is no guarantee regarding the conclusions or findings in the study. Depending upon the conclusions of the study,

LAFCo may wish to encourage an application for a change of organization or may initiate a specific consolidation itself (budget would have to be included to pay the costs). Support of the citizens and landowners receiving the services would also be required.

Item F1- A Local Agency Formation Commission has the authority to initiate studies and request information from other governmental agencies as stated in Government Code Section 56378 as well as to request specific information in the preparation of a service review. LAFCo has no specific authority to mandate districts to comply with recommendations contained in financial reports excepting to document deficiencies in a Service Review and to not approve any future changes of organization or Sphere Expansions until compliance is achieved.

Item F2- While costs may be duplicated in various water districts, as budgets become larger covering multiple areas, costs to prepare and administer budgets will also increase. Individuals who also have specific operator certificates and operators who are able to repair infrastructure, which results in significant cost savings, manage many districts. Among the purpose of an outside audit and the preparation of a Service Review by LAFCo is to identify deficiencies in checks and balances and to ensure these deficiencies are corrected. LAFCo has had success in identifying deficiencies and has seen positive results through the service review process.

Item F3- While County Special Districts has the infrastructure in place to handle multiple service areas, no CSA's have been consolidated in Lake County. Special Districts administers multiple administrative units. It is not clear Special Districts has the infrastructure in place to manage and operated consolidated water districts without significant increases in its budget for administration, maintenance and certified personnel.

There are many considerations for a successor agency to consider when assuming new responsibilities. For example, an analysis of the outstanding debt, deficiencies in infrastructure, compliance with state and federal laws, adequacy of current rates, etc. In addition, consideration must be given to the type of governance desired by the citizens of an area. Many districts also provide services other than water. What happens to the other services currently provided by a specific district such as recreation, lighting, etc.? Do the residents of an area prefer the Board of Supervisors serve as the Board of Directors or do they wish to elect their own representatives who reside within their community? Should decisions be made in Lakeport or within a specific community whose residents receive the service? A question also arises; it is more cost effective to consolidate functions into one agency? Another question is the County willing to assume financial liability upon the assumption of a service.

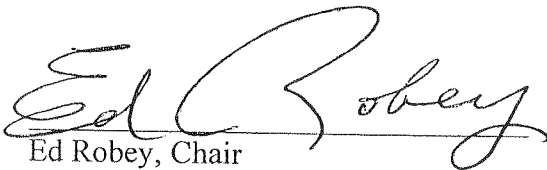
Item F4- An analysis of regulatory requirements is included in subsequent service reviews.

Item F5- LAFCo communicates with the Yolo County Flood Control District and considers water availability in its Service Reviews.

Item F6- Without a comprehensive fiscal analysis showing savings and expenses, LAFCo cannot provide adequate comment on this item. Assuming the cost savings in the Grand Jury Report are correct, a consolidated or successor agency would need to have adequate budget for additional administrative personnel, maintenance, certified water operators, meter readers, etc. Experience has been that consolidated districts are fiscally revenue neutral. As previously mentioned, other considerations must be analyzed and include but are not limited to fiscal impacts relating to the following: Agencies normally hire general managers who also provide operational and maintenance services for the district and are certified. Is adequate, compliant and reliable infrastructure in place? Are there adequate reserve funds for capital improvements and maintenance? Governance issues including the desire of a community to manage its own water system needs to be evaluated? Other functions an existing water district provides should be identified. Coordination efforts with local fire agencies needs to be examined.

Thank you for the opportunity to provide a response to this year's Grand Jury Report. We sincerely appreciate your dedication in improving Lake County, the Cities and its districts. Should you have any questions please do not hesitate to call our Executive Officer at (707) 592-7528.

Very Truly Yours,



Ed Robey, Chair
Lake LAFCo

cc: Stephan O. Hedstrom, Presiding Judge

LAKE LAFCO MSR and SOI UPDATE STATUS

DISTRICT (CITY)	MSR	SOI	NOTES
City of Clearlake	Complete 8/17/2005		
City of Lakeport	Complete July 2004 & July 18, 2012		Update PENDING revision
Hidden Valley Lake CSD	Complete April 27, 2005	Complete Jan 19, 2005	SOI PENDING & MSR updated
Anderson Springs CSD	complete February 17, 2010	complete Feb 17, 2010	
Adams Springs Water District			
Buckingham Park County Water	Completed 9.15.2010	Completed 9.15.2010	
Butler-keys CSD	Completed February 17, 2010	Completed February 17, 2010	
Callayomi Co. Water District	Completed Dec 18, 2002	Completed Dec 18, 2002	Revisions adopted July 17, 2013
Clearlake Oaks County Water District	Completed Nov 28, 2007	Completed Nov 28, 2007	Revisions adopted July 17, 2013
West Lake RCD			
Glenbrook Cemetery District	Completed September 16, 2009	Completed September 16, 2009	
Hartley Cemetery district	Completed September 16, 2009	Completed September 16, 2009	
Hidden Valley Lake CSD			
Kelseyville Cemetery District	Completed September 16, 2009	Completed September 16, 2009	
Kelseyville Fire Protection District	Completed 10/19/2007	Completed 10/19/2007	Update Pending
Kelseyville County Water District	Completed Dec 20, 2006	completed December 20, 2006	
Konocti County Water District	Completed Nov 28, 2007	Completed Nov 28, 2007	
Lake County Vector Control			
Lake Pillsbury FPD	Completed 10/19/2007	Completed 10/19/2007	
East Lake RCD			
Lakeport Fire Protection District	Completed 10/19/2007	Completed 10/19/2007	Update Pending
Lake County Fire Protection District	Completed 10/19/2007	Completed 10/19/2007	Update Pending
Lower Lake Cemetery District	Completed September 16, 2009	Completed September 16, 2009	
Lower Lake County Waterworks District No. 1	Completed May 18, 2011	Completed May 18, 2011	
Cobb Area County Water District	Completed September 16, 2009	Completed September 16, 2009	
Middletown Cemetery District	Completed September 16, 2009	Completed September 16, 2009	
Northshore Fire Protection District	Completed 10/19/2007	Completed 10/19/2007	Update Pending
Reclamation District # 2070			
Reclamation District # 695			
Redbud Healthcare	Completed March 21, 2012	Completed March 21, 2012	
South Lake County Fire Protection District	Completed 10/19/2007	Completed 10/19/2007	Update Pending
Upper Lake Cemetery District	Completed September 16, 2009	Completed September 16, 2009	
Upper Lake County Water District	Completed Nov 28, 2007	Completed Nov 28, 2007	
Villa Blue Estates Water District			
Lake County Water Protection District			PENDING
Lake Co. Sanitation District	Completed November 17, 2010	Completed March 20, 2013	
CSA #2 Spring Valley	Completed 12/17/2008	Completed Dec 17, 2009	
CSA #6 Finley	Completed 12/17/2008	Completed Dec 17, 2009	
CSA #7 Bonanza Springs	Completed 12/17/2008	Completed Dec 17, 2009	
CSA #13 Kono Tayee	Completed 12/17/2008	Completed Dec 17, 2009	
CSA # 16 Paradise Valley	Completed 12/17/2008	Completed Dec 17, 2009	
CSA #18 Soda Bay	Completed 12/17/2008	Completed Dec 17, 2009	
CSA #20 Soda Bay	Completed 12/17/2008	Completed Dec 17, 2009	
CSA #22 Mt. Hannah	Completed 12/17/2008	Completed Dec 17, 2009	
CSA #23 Konocti Bay	Completed 12/17/2008	Completed Dec 17, 2009	
CSA 21 North Lakeport	Completed February 18, 2009	Completed February 18, 2009	