



LOCAL AGENCY FORMATION COMMISSION

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August 5, 2015

To: LAFCo Commissioners

From: Martha Poyatos, Executive Officer

Subject: Municipal Service Review (MSR) and Sphere of Influence (SOI) Study for North County Cities and Special Districts (*Continued from July 15, 2015*)

Hearing Date: September 16, 2015, 2:30 pm
Hall of Justice and Records, 400 County Center, Redwood City

Summary

At the July 15, 2015 meeting, you opened the public hearing on the above-noted regional study, received the consultant's presentation and staff comment, opened the public hearing, and continued it to allow additional time for revisions to the report. Attached please find the revised North County Municipal Service Review and Sphere of Influence Study (Attachment A) and Draft Recommended MSR/SOI Determinations for North County Cities and Special Districts (Attachment B). The August 5, 2015 North County Cities and Special Districts Municipal Service Review and Sphere of Influence Study is the product of agency review of administrative draft chapters, written and oral comments on the May 21, 2015 Circulation Draft, and subsequent comment on the July 8, 2015 Public Hearing Draft that incorporated previous comments. Significant changes from the May 21 and July 8 draft documents are shown in **bold**. The Executive Summary in the report summarizes key issues identified for each agency and the recommended sphere of influence and is contained below. At the September 16, 2015 meeting, it is recommended that the Commission receive the report and receive additional public comment, accept the North County MSR/SOI Study, adopt the recommended determinations and adopt the recommended sphere of influence designations.

Background

The North County MSR/SOI Study has been prepared by consultants in the context of State and local policies that encourage annexation of urbanized areas in need of municipal services and favor multipurpose agencies or regional agencies over several layers of limited-purpose agencies, particularly in urban areas. As noted above, it was circulated once to agencies as an administrative review document and twice as a circulation document. Over the course of the municipal service review preparation and circulation, LAFCo has received significant expression of concern about recommendations in the report that merit a clarification of the purpose and effect of LAFCo studies and spheres of influence.

As a regional study, the North County MSR/SOI Study examines four cities and six special districts that are diverse yet share service delivery through joint power agreements, share

resources, or share constituencies. The municipal service review studies individual agencies and expands the discussion of maximizing resources beyond agency boundaries. It can be a standalone informational tool that provides an assessment of the effectiveness of an agency's operations, governance, accountability and the agency's fiscal health. A sphere of influence is a plan for boundaries and governance of an agency.

A sphere designation placing unincorporated territory in a city's sphere or indicating that a special district be dissolved and its services be assumed by another entity has no effect *unless* there is an application submitted to LAFCo to annex territory or dissolve a district and that application is approved by LAFCo. In the case of Unincorporated Broadmoor and Unincorporated Colma, which are in the City of Daly City sphere, the City has a stated policy that it will not initiate annexation but will accept pre-zoning applications from property owners that wish to annex. It is also important to note that resulting recommendations for annexation to a city or dissolution of a district respond to State policies and are not intended to question the value or dedication of agency personnel. Zero spheres of influence for districts such as Broadmoor Police Protection District, Colma Fire Protection District, and Bayshore Sanitary District do not affect the districts' continued operation.

Determination of a city's sphere of influence indicates which city can best provide the full range of municipal services to an unincorporated area. The sphere analysis takes into consideration the location of unincorporated areas in relationship to city boundaries and State and local policies that encourage annexation of unincorporated areas to cities when there is a need for the full range of municipal services. The sphere designation also recognizes the challenges the County of San Mateo faces in providing efficient and effective municipal services to multiple non-contiguous unincorporated pockets throughout the County. Some cities have spheres of influence that are identical (coterminous) with city boundaries indicating there is no unincorporated area eligible for annexation to that city. Other cities have spheres of influence that include surrounding unincorporated areas or, in the case of Daly City, the unincorporated Broadmoor Village that is wholly surrounded by the City. The report acknowledges the strong support the community has for the fire and police districts, but the sphere of influence does not change the boundaries of a city, an unincorporated area, or districts – it serves as a planning tool to determine the logical future municipal service provider. It is the formal reorganization application to LAFCo by landowners, voters, or a public agency that implements the sphere of influence. *Absent an application by a public agency, landowners, or voters, there is no change to boundaries or governance.*

Executive Summary of Agencies

The following provides an overview of each agency and the recommended MSR and SOI determinations:

City of Brisbane: The City of Brisbane, San Mateo County's second-smallest city, has 4,443 residents and is expected to grow by 1,000 residents over the next 25 years. The City has managed to stabilize revenues and expenditures over the past five years and has a reasonable

unrestricted reserve of funds. Staffing levels have been adjusted to control personnel costs and future benefit expense liabilities. The City has engaged in a number of cooperative and contractual arrangements to increase management and /or operational efficiencies. The Bayshore Sanitary District (BSD) serves small portions of both the City of Brisbane and the City of Daly City. The Cities of Brisbane and Daly City and BSD should consider pursuing a joint study to evaluate the fiscal and operational impacts of dissolving BSD and becoming successor agencies within their respective city boundaries. Reaffirmation of the City's current sphere of influence is recommended at this time.

Guadalupe Valley Municipal Improvement District: The Guadalupe Valley Municipal Improvement District (GVMID) water and sewer systems serves an area within the Brisbane city limits comprised of an industrial park (Crocker Park) and a small residential enclave (Northeast Ridge). Currently, the GVMID serves a population of approximately 973. At build-out, expected to be on or before 2035, the service area population will grow to approximately 1,817 persons. The GVMID's revenues are primarily derived from water and sewer service charges (95 percent) and property taxes and interest income (five percent). The District's revenue and expense management over the past five years has improved the financial condition of the agency and set aside adequate reserves for future needs. A full merger of GVMID with the City of Brisbane could result in long-term operational and administrative cost savings to the City and customers. A study of potential efficiencies and savings should be undertaken to determine the feasibility of this government structure alternative. Reaffirmation of GVID's current zero sphere of influence is recommended at this time.

Bayshore Sanitary District: The Bayshore Sanitary District (BSD) serves a population of approximately 5,152 with only limited growth projected for the District in the near future. However, increased development in the two cities served by BSD (Daly City and Brisbane) may increase the District's service population in the longer range future. The District has more than adequate financial reserves for operations and currently identified capital replacement needs. Reserves are approximately 300 percent of the annual operating expenses. The District is staffed at minimal levels and contracts out several functions, including District Engineer, Clerk, and Legal Counsel. A joint study should be undertaken by BSD, Daly City, and Brisbane to determine the operational and fiscal feasibility of governance/management structure opportunities for the provision of sewer service in the area. Reaffirmation of the District's current zero sphere of influence (indicating the District should be dissolved and the Cities of Brisbane and Daly City would become "successor agencies") is recommended at this time.

City of Daly City: Daly City has 104,739 residents, making it San Mateo's largest city by population. Daly City is projected to add approximately 19,000 more residents between 2010 and 2030. The City appears to be moving forward with improved revenues and controlled expenditures resulting in net positive year-end balances in Fiscal Years 2013-14 and 2014-15. Although Redevelopment Agency payments and other employee benefit obligations are expected to be challenging, the City shows progress in addressing these liabilities.

Government structure alternatives worthy of further study include: (1) annexation of the unincorporated islands of Broadmoor and Colma with concurrent detachment from Broadmoor Police Protection District, Colma Fire Protection District and Colma Highway Lighting District; (2) City provision of street sweeping, streetlight, and pavement maintenance services to unincorporated Broadmoor and Colma through a contract with the County of San Mateo; and (3) a reorganization which would include the formation of a County Service Area (along with the dissolution of the Broadmoor Police Protection District and the Colma Fire Protection District and detachment from Colma Highway lighting District) to consolidate service provision by contract with City of Daly City. The alternative of consolidation with an adjacent city included in previous drafts is no longer recommended for study. Reaffirmation of the City's current sphere of influence (which includes the unincorporated islands of Colma and Broadmoor) is recommended at this time.

North San Mateo County Sanitation District: The North San Mateo County Sanitation District's (NSMCSD) collection, treatment, and disposal systems serve the majority of the residents of Daly City, Broadmoor Village, a portion of the Town of Colma, the Westborough Water District in South San Francisco, and the San Francisco County jail in San Bruno. It currently serves a population of approximately 120,000 in its service area and is expected to grow to 126,074 by 2035. The NSMCSD maintains a positive net position of assets and cash reserves. The facilities are planned and maintained within a 20-year Master Plan and CIP plan that is currently funded. The merger of the NSMCSD within the City of Daly City could result in some efficiencies of administration and a single point of contact for city residents and businesses but could only be achieved if unincorporated areas served by the District are annexed to the City of Daly City. Reaffirmation of the District's current coterminous sphere of influence is recommended at this time.

Town of Colma: The Town of Colma has 1,492 residents and is expected to continue modest growth over the next 20 years to reach a projected population of 2,151 in 2035. Colma is highly dependent on sales taxes and cardroom taxes. The Town's reserve balance as of June 30, 2014 was \$34,429,833. The Town's leadership continues to look toward improving its financial situation through incorporating economic development as a key component of its Strategic Plan implementation. Deteriorating infrastructure and a delay of major maintenance over the past seven to eight years has built up a backlog of maintenance projects. Public pension and benefit liabilities have been calculated to be about \$8.2 million over the next five years. The government structure alternative of merging Colma and Daly City identified in previous draft reports is no longer recommended for study. Detaching territory in the Town from the Colma Highway Lighting District may realize operational and fiscal efficiencies and eliminate the obligation for the County to provide service within a city. Property tax could be transferred from the District to the Town as a Town-governed maintenance district separate from the Town's general property tax to fund the cost of service. Reaffirmation of the Town's coterminous sphere of influence is recommended at this time.

Colma Fire Protection District: The Colma Fire Protection District (CFPD) serves a population of approximately 6,925 which is expected to grow to 7,618 by 2035. The District maintains a

financial reserve roughly equal to one year of operating costs. The July 2014 Audit was not complete at the time of preparation of this report and it is recommended that audits be completed in a more timely manner. Additionally, based on previous recommendations, the District indicates it intends to upgrade the District website to include agenda, minutes, budgets and audits. The costs of operation are based upon a primary “volunteer” paid call staffing organization structure, thereby providing services at a relatively low cost. There are not adequate revenue sources to increase the level of service to full-time staffing of the department and the District’s Fire Station requires costly seismic retrofit to accommodate full time staffing. Over time, as additional annexations to Daly City occur, and territory is removed from the District, the District may incur additional fiscal stress which could impact service levels or create additional pressure to increase the special tax.

Two additional government structure options identified for further study include: (1) dissolution of Colma Fire Protection District (CFPD), with the County of San Mateo as the successor agency and service provided by contract by Daly City; and, (2) a reorganization which would include the formation of a County Service Area (along with the dissolution of the Broadmoor Police Protection District and the Colma Fire Protection District and detachment from Colma Highway Lighting District) to consolidate service provision by contract with City of Daly City. Development of this arrangement would require consideration of the effect on the Town of Colma also included in Colma Fire Protection District’s boundaries. Both alternatives have not been supported by agencies or residents in previous drafts and would require both agency and community support to pursue. Reaffirmation of the District’s current zero sphere of influence (which indicates that the District’s public service responsibilities and functions should be reallocated to another unit of government through annexation and that, ultimately, the District should be dissolved) is recommended at this time.

Broadmoor Police Protection District: The District’s current population of approximately 4,633 residents is expected to grow by approximately 10 percent to 5,096 in 2035. The District currently provides a minimum level of service, of two officers on duty, using a combination full-duty officers and reserve officer staffing model. The District indicates it will soon have a complete June 2013 audit and it is recommended that audits be completed in a more timely manner. Additionally, based on previous recommendations, the District indicates it intends to upgrade the District website to include agenda, minutes, budgets, and audits. In addition, the District must complete calculation and establishment of the annual appropriations (spending) limit as required by State law. Funding is adequate for the current level of service but may not be in the long term for the two patrol full-time staffing model. District finances, supported by property taxes and special tax, are generally stable.

Over time, as additional annexations to Daly City occur, and territory is removed from the Broadmoor Police Protection District (BPPD), the District may incur additional fiscal stress which could impact service levels or create additional pressure to increase the special tax. Merging BPPD with the City of Daly City (with concurrent annexation of BPPD’s service territory) has the potential benefit of reducing overall service costs by eliminating duplicative staffing, administrative, and facility expenses. Although such a merger may be politically infeasible at

this time, consideration could be given by both Daly City and the BPPD to jointly studying the long-term benefits of this government structure alternative. Absent annexation to the City of Daly City, a full-service provider, it is also recommended that the Broadmoor community or the County of San Mateo pursue a fiscal analysis study of the benefits of forming a County Service Area and contracting for services currently provided by single-purpose special districts or cities. Both alternatives have not been supported by agencies or residents in previous drafts and would require agency and community support to pursue. Reaffirmation of the District's current zero sphere of influence (which indicates that the District's public service responsibilities and functions should be reallocated to another unit of government through annexation and that, ultimately, the District should be dissolved) is recommended at this time.

City of Pacifica: Pacifica has 38,606 residents and is expected to grow to approximately 40,285 residents by 2040. The City's financial condition is not clear due to lack of verified data. The City indicates it is in the process of verifying and updating financial data. Unrestricted fund reserves are below levels generally considered acceptable to adequately address emergency or ongoing economic downturn conditions. Several specific funds are in a negative balance and should be corrected. A plan for improving revenues and containing expenditures should be prepared to address future financial needs. Two government structure alternatives have been identified: (1) merging the City of Pacifica and the North Coast County Water District; and (2) consider reducing the City's SOI to remove permanent open space areas south and southeast of the City's boundaries. At this time it is recommended that the City's current sphere of influence be reaffirmed.

North Coast County Water District: The North Coast County Water District (NCCWD) is an enterprise retail water delivery district with a service population estimated at 38,189. By 2035, the service area population is expected to grow to 42,400. The District's revenue sources are primarily service charges and property tax. NCCWD has established an unallocated reserve fund and has been investing in repair and upgrade of its infrastructure. The District appears to be operating in a positive financial manner overall. The District's boundaries are almost identical to the City of Pacifica. Reorganizing NCCWD as a subsidiary district of the City of Pacifica may have long-term operational and fiscal benefits by eliminating the District's Board of Directors expenses and associated administrative overhead. Placing the Pacifica City Council as the legal authority for the District's planning and operations may also benefit the City in aligning the City's long-term land use planning and water supply needs under one agency. The City of Pacifica and NCCWD should consider pursuing a joint study evaluating the long-term merits of this alternative once the City's audits are complete and the budget is balanced. NCCWD and the Shamrock Ranch landowner are in the process of negotiating extension of water by the District to the Ranch to abandon inadequate wells. Shamrock Ranch is located in the District's sphere of influence. Reaffirmation of the District's coterminous sphere of influence is recommended at this time.

California Environmental Quality Act (CEQA)

The municipal service review and sphere update is an activity covered by the general rule that the California Environmental Quality Act (CEQA) applies only to projects which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. Therefore, the Municipal Service Review and Sphere of Influence Update qualifies for a General Exemption from further California Environmental Quality Act (CEQA) review based on CEQA Regulation §15061(b)(3).

Recommendation:

Staff submits that the attached municipal service review and the sphere of influence update provide a framework for the agencies under study and the County of San Mateo to further study how they can best serve the study area through more efficient service delivery, resource allocation and governance. Staff believes that the attached municipal service review, sphere of influence update, and recommended determinations are consistent with Government Code Sections 56430 and 56425 and with LAFCo's mission to promote logical boundaries and efficient service delivery. It is therefore respectfully recommended that the Commission take the following actions:

1. Receive the staff report and public comment at the continued public hearing;
2. By Motion, accept the report and public comment;
3. By Motion, the Commission finds that the Municipal Service Review and Sphere of Influence Update, Reaffirming the Spheres of Influence of North County Cities and Special Districts, are Exempt from CEQA Based on CEQA Regulation §15061(b)(3).
4. By Resolution, adopt Municipal Service and Sphere of Influence Determinations with any desired changes and Reaffirm the Spheres of Influence of the North County Cities and Special Districts.

Respectfully submitted,



Martha M. Poyatos
Executive Officer

Attachments: Municipal Service Review and Sphere of Influence Study (Attachment A)
 Draft Recommended MSR/SOI Determinations (Attachment B)