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February 13, 2007 (Agenda)

Local Agency Formation Commission
651 Pine Street, Sixth Floor
Martinez, CA 94553

Water/Wastewater Municipal Service Reviews – Central County

Dear Members of the Commission:

BACKGROUND

The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH Act) requires that not less than every five years LAFCO conduct municipal service reviews (MSRs) prior to or in conjunction with sphere of influence (SOI) updates.

In accordance with the MSRs, LAFCO must prepare written determinations on a range of issues. Legislation (AB 1744) was recently enacted which streamlines these determinations, as summarized below. Municipal service reviews initiated after January 1, 2008 will be subject to the new provisions. However, the countywide water and wastewater MSR is subject to the prior determinations.

Prior MSR Determinations

1. Infrastructure needs or deficiencies
2. Growth and population projections for the affected area
3. Financing constraints and opportunities
4. Cost avoidance opportunities
5. Opportunities for rate restructuring
6. Opportunities for shared facilities
7. Government structure options, including advantages and disadvantages of consolidation or reorganization of service providers
8. Evaluation of management efficiencies
9. Local accountability

New Determinations

1. Growth and population projections for the affected area
2. Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies
3. Financial ability of agencies to provide services
4. Status of, and opportunities for, shared facilities
5. Accountability for community service needs, including governmental structure and operational efficiencies
6. Any other matter related to effective or efficient service delivery, as required by commission policy

In 2003-04, the Commission initiated the MSR/SOI update program. To date, the Commission has completed reviews and SOI updates for 56 special districts; baseline reviews are currently underway covering the remaining 19 special districts and all 19 cities.

A team of consultants and LAFCO staff are preparing the reviews and SOI updates. The Dudek firm is preparing a majority of the MSRs. The approach involves countywide and sub-regional reviews. The MSRs provide an assessment of the range and adequacy of municipal services provided in the County, and serve as an important tool for LAFCO in fulfilling its legislative mandate to coordinate the logical development of local government agencies and services.

The statutory deadline for completing baseline MSRs was January 1, 2008. The Commission has made significant progress, having completed reviews for over 60% of the agencies. The time required to prepare comprehensive MSRs/SOI updates, and the level of detail and analysis needed is greater than anticipated given the complexity of issues we are discovering. Further, we have used the MSR process as a means for correcting and digitizing the maps in GIS format. This work provides a foundation that should make future MSRs and SOI updates easier.

SUMMARY

The countywide water/wastewater review covers 23 agencies (i.e., county, cities, special districts). Due to the complexity and magnitude of this review, the project team is presenting the MSR in three parts – East County, West County and Central County.

In December 2007, the Commission approved the first of three water/wastewater MSRs/SOI updates covering East County.

On December 19, 2007, LAFCO held a workshop, at which time Dudek presented the Central County Preliminary Draft Water/Wastewater MSR report and SOI options (for single-purpose agencies only). This report covers the following agencies: cities of Concord and Martinez, Contra Costa Water District (CCWD), Central Contra Costa Sanitary District (CCCSD), County Sanitation District No. 6 (SD No. 6), and Mt. View Sanitary District (MVSD). At the workshop, the project team provided an overview of water/wastewater services provided in Central County, along with key issues relating to each of the service providers, and a summary of government structure and SOI options. The Commission was asked to review the report, provide comment, and direct staff to circulate the Public Review Draft MSR report.

The project team made minor revisions to the preliminary draft report based on comments received at the December LAFCO meeting. The report was circulated for a 21-day public review comment period and posted on the LAFCO website at www.contracostalafco.org. LAFCO received additional comments from the Dublin San Ramon Services District (DSRSD), and from all of the agencies covered in the report (except SD No. 6), noting various corrections as shown in the Final Draft MSR report. Copies of these communications are available in the LAFCO office.

The purpose of the hearing on February 13 is to present the Final Draft MSR report, receive additional comments, and request that the Commission accept the MSR report, adopt determinations and update the SOIs (presented in a separate agenda item).

DISCUSSION

The Central County Water/Wastewater MSR provides a review of services provided by agencies under LAFCO's purview, including the cities of Concord and Martinez, CCWD, CCCSD, SD No. 6 and

MVSD. Various private entities and other service providers including DSRSD and EBMUD are also discussed in the report. Reference to these agencies is included in the MSR to provide a comprehensive overview of services. It should be noted that both DSRSD and EBMUD are multi-county districts which serve both Alameda and Contra Costa counties. Alameda LAFCo prepared the MSR/SOI updates for these districts as the principal LAFCO.

In general, the MSR report focuses primarily on municipal agencies and their ability to provide water and wastewater services. The report also provides recommended MSR determinations, which are summarized in the Executive Summary of the MSR report and presented in the attachment, along with SOI options and recommendations, which are presented as a separate LAFCO agenda item.

The MSR determinations are based on the nine factors, one of which is Government Structure Options (GSOs). This factor considers the advantages and disadvantages of various government structures to provide public services. The MSR identifies various potential GSOs, as summarized in Table 1 below. Some of the GSOs may ultimately require LAFCO approval, while others can be implemented without LAFCO involvement. It should be noted that a number of the potential GSOs identified in the report would require additional study.

LAFCO may, but is not obligated to, initiate changes of organization or reorganization (i.e., consolidations, mergers, dissolutions) based on the MSR findings. In addition, pursuant to recently enacted legislation (SB 819), LAFCO now has the authority to initiate proposals for the formation of a new district or districts.

**Table 1 – Summary of Government Structure Options
Central County Water/Wastewater Services**

Actions Subject to LAFCO Approval	Recommended Action
1. City of Concord <ul style="list-style-type: none"> a. Maintain status quo b. Annex unincorporated areas currently receiving wastewater service into the City boundaries c. Consolidate sewer service with CCCSD 	-Annex unincorporated areas currently receiving wastewater service into the City boundaries, as appropriate -Annex areas within the City’s SOI where there are public health issues related to water and wastewater
1. City of Martinez <ul style="list-style-type: none"> a. Maintain status quo b. Annex unincorporated areas currently receiving service water into the City boundaries c. Consolidate water service with CCWD 	- Annex unincorporated areas currently receiving water service into the City boundaries, as appropriate
2. Contra Costa Water District (CCWD) <ul style="list-style-type: none"> a. Maintain status quo b. Consolidate water service with DWD c. Consolidate water service with City of Martinez 	- Maintain status quo
3. Central Contra Costa Sanitary District (CCCSD) <ul style="list-style-type: none"> a. Maintain status quo b. Annex areas currently receiving service into the District boundaries c. Annex islands within District’s SOI d. Consolidate sewer service with adjacent wastewater providers, including City of Concord, DDS, DSRSD, MVSD and/or SD No. 6 	- Annex areas currently receiving service into the District boundaries as appropriate -Annex islands within District’s SOI as appropriate -Consider consolidating or annexing SD No. 6, when feasible

Actions Subject to LAFCO Approval	Recommended Action
4. County Sanitation District No. 6 (SD No. 6) a. Maintain status quo b. Dissolve SD No. 6 and annex are to CCCSD	-Maintain status quo -Consider dissolution and being annexed to CCCSD, when feasible
5. Mt. View Sanitary District (MVSD) a. Maintain status quo b. Consolidate sewer service with CCCSD	- Maintain status quo

The Central County Water/Wastewater MSR provides an analysis, advantages and disadvantages regarding each of the options identified in Table 1. Any option involving reorganization through dissolution, consolidation, merger or formation of a district will require additional study to determine the level of benefit in terms of service and anticipated costs.

In support of the above recommendations, we offer the following:

- Annexation of islands, those areas currently receiving out of agency service, as well as those areas with identified public health and safety issues, would support orderly growth and development through logical boundaries and the appropriate extension of municipal services in accordance with the CKH Act.
- The Waste Discharge Requirements issued by the RWQCB for SD No. 6 require that the parcels connect to a sanitary sewer line at the earliest possible time when services are available, and that the onsite wastewater treatment and disposal system be closed. CCCSD’s facilities are now less than one mile to the east of the Stonehurst subdivision. When feasible, SD No. 6 should be dissolved and the area annexed to CCCSD per the Regional Board requirements.
- In general, consolidation of two or more districts offers advantages such as potential service level improvements and administrative and overhead cost reductions. Disadvantages include expenses associated with consolidation, negligible cost savings and political opposition. Several potential consolidations identified in the MSR would require a further study, which is beyond the scope of this MSR. Such analysis would typically include a fiscal impact report to determine costs/benefits of consolidation, an inventory of assets and liabilities, and other analyses, including detailed analysis of institutional impediments.

In addition to the Government Structure options summarized above, the MSR report and attached resolution of determinations include recommendations relating to the nine MSR factors. These recommendations take into consideration various external factors, such as changing hydrologic and climatic conditions, regulatory requirements, and funding challenges; as well as a host of local factors including the growth (current and anticipated) in Central Contra Costa County, land use changes, aging infrastructure, and needed service expansions and other improvements to meet future demands.

Such actions as consideration of partnerships and regional efforts focusing on water conservation and consolidation of wastewater services, conducting regular rate reviews and consideration of alternative rate structures, as appropriate, are recommended.

The MSR also showcases a number of best practices in terms of operations and regional partnerships which can serve as models. Several examples are presented below:

- City of Concord and CCCSD are constructing a new gravity flow connection that will allow the City to decommission its pump station, resulting in significant cost savings.
- MVSD's wastewater disposal system, which discharges to constructed wetlands and adjacent marshland, is an alternative to deep-water discharge; the marshlands provide regional environmental benefits.
- CCCSD and MVSD work cooperatively to coordinate services to their respective areas.
- CCWD partners with other agencies for water treatment as well as water supply planning.
- CCWD and the Diablo Water District jointly own the Randall-Bold Treatment Plant; and CCWD will also construct, operate and maintain the new water treatment plant for the City of Brentwood.

Environmental Analysis

The municipal service review is a study, intended to serve as an informational tool to help LAFCO, local agencies and the public better understand the public service structure in Contra Costa County.

The service review and determinations are Categorical Exempt under §15306, Class 6 of the California Environmental Quality Act (CEQA) Guidelines.

RECOMMENDATIONS

1. Determine that the MSR project is Categorical Exempt pursuant to §15306, Class 6 of the California Environmental Quality Act (CEQA) Guidelines,
2. Consider comments presented prior to and during the public hearing and any revisions to the Central County Water/Wastewater MSR report,
3. Accept the report with any desired changes,
4. Adopt the MSR determinations by resolution attached hereto, and
5. Direct staff to prepare the Final MSR report and make available to all affected agencies and interested parties.

Sincerely,

LOU ANN TEXEIRA
EXECUTIVE OFFICER

c: Distribution

Attachment - Draft Resolution with MSR Determinations

RESOLUTION OF THE CONTRA COSTA LOCAL AGENCY FORMATION COMMISSION

**ADOPTING DETERMINATIONS OF THE
2008 CENTRAL COUNTY WATER/WASTEWATER MUNICIPAL SERVICES REVIEW**

WHEREAS, Government Code §56430 requires the Commission to conduct municipal service reviews (MSRs) in order to prepare and update spheres of influence (SOIs) pursuant to Government Code §56425;

WHEREAS, the Commission previously authorized the countywide water/wastewater services MSR to be prepared;

WHEREAS, on December 19, 2007, the Commission conducted a workshop to review the Preliminary Draft *Water and Wastewater Services MSR for Central Contra Costa County*, receive comments, direct staff to circulate the MSR for public review, and set a public hearing for February 13, 2008 to receive the Final Draft MSR;

WHEREAS, following the workshop the Public Review Draft MSR was circulated for a 21-day public comment period;

WHEREAS, on February 13, 2008, the Commission conducted a public hearing to receive the Final Draft MSR;

WHEREAS, the Commission considered all comments, written and oral, received prior to and during the hearing on February 13, 2008; and

WHEREAS, the MSR report and determinations are Categorical Exempt from the California Environmental Quality Act (CEQA) pursuant to §15306 Class 6 of the CEQA Guidelines.

NOW, THEREFORE, BE IT RESOLVED that the Contra Costa Local Agency Formation Commission does hereby resolve, determine and order as follows:

The Water and Wastewater Services MSR for Central Contra Costa County Determinations attached hereto as Exhibit A and incorporated herein by reference are hereby adopted.

* * * * *

PASSED AND ADOPTED THIS 13th day of February 2008, by the following vote:

AYES:

NOES:

ABSTAINS:

ROB SCHRODER, CHAIR, CONTRA COSTA LAFCO

I hereby certify that this is a correct copy of a resolution passed and adopted by this Commission on the date stated above

Dated: February 13, 2008

Lou Ann Texeira, Executive Officer

EXHIBIT A
WATER AND WASTEWATER
MUNICIPAL SERVICES REVIEW FOR CENTRAL CONTRA COSTA COUNTY
DETERMINATIONS

1. Growth and Population

- According to the projections prepared by the Association of Bay Area Governments (ABAG), the population within the 10 cities in central Contra Costa County is expected to increase to 505,300 by 2030, an 18% increase over the 2007 population.
- The City of San Ramon will experience the highest growth rate at approximately 1.5% per year (on average) with population increasing by 41% by 2030.
- There will be an increased need for cost-effective water and wastewater services within central Contra Costa County given the current urban land uses, anticipated growth, aging wastewater collection systems and septic systems, and increasingly stringent water quality standards. This will impact the water and wastewater service providers. Agencies will need to continue to maintain and improve the water and wastewater systems as needed to ensure minimal impacts to existing customers.

2. Infrastructure Needs or Deficiencies

- The primary source of water supply for central Contra Costa County is the US Bureau of Reclamation (USBR) Central Valley Project (CVP). Annual CVP water allocations to CCWD are based on hydrologic projections and are subject to up to 25% reductions in dry years in accordance with the USBR Municipal and Industrial water shortage policy.
- The 2005 Urban Water Management Plans adopted by CCWD and the City of Martinez indicate that water supplies will be adequate to meet demand in normal conditions as well as single-year and multiple-year dry conditions through 2030.
- The agencies are planning for infrastructure needs based on projected growth, aging infrastructure, and changing regulatory requirements. The cost of improvements is allocated between existing users and new development. Some districts further allocate costs based on service zone. Several of the agencies have developed master plans and completed rate studies that factor in the recommended capital improvements.
- Infrastructure needs were identified for several agencies as discussed in the MSR report. Agencies will need to implement phased improvements and pursue other system improvements to ensure that there are no service impacts to existing customers. Water and sewer system improvements will be needed to maintain adequate service levels with future development.
- With regard to CVP water supply, LAFCO, the affected water district, CCWD, and the USBR should coordinate with regard to their respective approvals, recognizing that LAFCO must make a determination regarding the timely and available supply of water.

3. Financing Constraints and Opportunities

- The service providers covered in this MSR all charge service fees based on usage for water service; wastewater service charges include a base charge and non-residential customers pay based on usage. Some agencies are using a pay-as-you-go approach where feasible; others are using a variety of financing mechanisms including loans, grants, and bond issues.
- The cities and special districts operate their water and wastewater services as enterprise activities, such that service charges are intended to cover the cost of service. Some agencies receive a portion of the one percent property tax; this source of revenue augments user fees and charges. Special districts receiving property tax funding include CCWD, CCCSD, and MVSD.
- SD No. 6 does not have reserves to address extraordinary or emergency capital needs. The District should establish reserves.

4. Cost Avoidance Opportunities

- CCWD is controlling costs for its services through master planning studies, capital planning, and the biennial budgeting process. CCWD also proactively pursues grant funding for programs. The District collaborates with wastewater agencies to implement recycled water projects where cost effective and offers an extensive water conservation program to reduce demand.
- The wastewater agencies are controlling service costs by rehabilitating mains and laterals to maintain the integrity of the system, reducing infiltration from storm and groundwater and avoiding sanitary sewer overflows.
- The regional Household Hazardous Waste Collection Facility, operated in cooperation with CCCSD, MVSD, the cities of Concord and Clayton, and the City of San Ramon (for southern San Ramon), is part of a broad effort to prevent toxic products from entering the sewer system, which could increase treatment costs and require significant capital investment.

5. Opportunities for Rate Restructuring

- The agencies evaluate water and sewer rates periodically, factoring in operational costs and infrastructure needs.
- The agencies have developed capital facility fee programs such that “growth pays for growth.” These fees are updated periodically to reflect infrastructure needs as outlined in system master plans and construction cost increases.
- The City of Martinez updated its water service connection fees in 2000. The City should consider reviewing the connection fees to ensure they are appropriate given the condition of the water system and infrastructure needs.
- A parcel was annexed to SD No. 6 in 2001 (LAFCO 01-11). It appears that this parcel is not being assessed for District services. The County should review and correct, if applicable, the tax roll.

6. *Opportunities for Shared Facilities*

- Municipal water service providers (Antioch, Brentwood, CCWD, DWD, Golden State Water Company, Martinez, and Pittsburg) are sharing facilities through the use of the Contra Costa Canal which is owned by USBR and operated by CCWD as the region's wholesale water provider. Antioch, CCWD, DWD, and Brentwood share the Randall-Bold Water Treatment Plant (jointly owned by CCWD and DWD and operated by CCWD) through various contractual arrangements.
- There is a future opportunity for SD No. 6 to connect to CCCSD's new trunk sewer in the southern Alhambra Valley. CCCSD's nearest planned sewer main on Alhambra Valley Road will be less than one mile east of the entrance to SD No. 6. The San Francisco Bay RWQCB Waste Discharge Requirements for SD No. 6 mandates connection of the District's system to an Alhambra Valley sanitary sewer as soon as sewer services are available in the area. Upon connection the Stonehurst development's onsite wastewater treatment and disposal system is to be decommissioned. The future provision of CCCSD sanitary sewer service to Stonehurst was included in CCCSD's 2003 "Facilities Plan for Wastewater Utility Services to Alhambra Valley" and collection system and treatment capacity are available.

7. *Evaluation of Management Efficiencies*

- The agencies are managing the water and wastewater utilities through the use of a number of plans to ensure that services are delivered in an efficient, cost-effective manner, including master plans, Urban Water Management Plans, Sewer System Management Plans, Capital Improvement Programs, and city and county General Plans.
- One of the significant issues identified in this service review is that some agency practices related to out of agency service are not in compliance with Government Code §56133. These procedures need to be reviewed and updated to ensure compliance with the Government Code.

8. *Government Structure Options*

- Several government structure options were identified, including annexing areas to address boundary issues with out of agency service extensions or public health issues. Agencies are encouraged to annex islands and urbanized areas where services have been extended as specifically discussed in the agency chapters of this report.
- For the City of Concord, three Government Structure options were identified. LAFCO encourages the City to annex areas currently receiving City sewer services into the City boundaries, as appropriate; and in particular, developed islands and those areas with public health and environmental concerns.
- For the City of Martinez, three Government Structure options were identified. LAFCO encourages the City to annex areas currently receiving City water services into the City boundaries, as appropriate; and in particular, developed islands and those areas with public health and environmental concerns.
- For CCWD, three Government Structure options were identified. LAFCO recommends maintaining the status quo.
- For CCCSD, four Government Structure options were identified. LAFCO encourages the District to annex areas currently receiving sewer services into the District boundaries, as appropriate; and in particular, developed islands and those areas with public health and environmental concerns. In

addition, LAFCO encourages CCCSD to work with SD No. 6 to pursue future annexation of this district when feasible.

- For SD No. 6, there are two potential Government Structure options. LAFCO encourages SD No. 6 to work with CCCSD and pursue future annexation when feasible.
- For MVSD, two Government Structure options were identified. LAFCO recommends maintaining the status quo.
- Other options include reorganizations such as service consolidations between CCWD and Martinez and/or CCWD and the Diablo Water District.
- Wastewater service options include CCCSD reorganizing with the Delta Diablo Sanitation District, Dublin San Ramon Services District, Mountain View Sanitary District, and/or the City of Concord. Although reorganizations can provide some benefits, there is the potential for loss of efficiency, increased costs, loss of local control on capital improvements, etc. There may be significant institutional impediments to some consolidations, such as with DSRSD, a bi-county district that also provides water service. Further study would be needed to determine the level of benefit and cost associated with such reorganizations.

9. Local Accountability and Governance

- The cities and special districts encourage public participation by making water and wastewater service information and documents available on their websites and holding meetings that are open and accessible to the public.
- Agencies are encouraged to include meeting notices, minutes, and other financial and operational information on their websites.