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August 13, 2008 (Agenda)

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

West County Water/Wastewater Municipal Service Reviews

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 prepare 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. Recently enacted legislation (AB 1744) 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 nine 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 service reviews and SOI updates for over 60 special districts; baseline reviews are currently underway covering the 19 cities and a number of other special districts.

A team of consultants and LAFCO staff are preparing the service 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 Commission has made significant progress, having completed reviews for over 60% of the agencies. The time required preparing 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 agency boundary 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 East County Water/Wastewater MSR and in April 2008, the Commission approved the Central County Water/Wastewater MSR. In addition, the Commission updated SOIs for a number of single purpose agencies (i.e., districts) based on these MSRs.

On June 11, 2008, LAFCO held a workshop, at which time Dudek presented the West County Preliminary Draft Water/Wastewater MSR report and SOI options (for single-purpose agencies only). This report covers the following agencies: cities of Hercules, Pinole and Richmond, Crockett Community Services District (CCSD), Rodeo Sanitary District (RSD), Stege Sanitary District (SSD) and West County Wastewater District (WCWD). At the workshop, the project team provided an overview of water and wastewater services provided in West 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. In addition, public comment was received.

The project team made revisions to the MSR report based on comments received at the June LAFCO meeting. The report was circulated for a public review comment period and posted on the LAFCO website at www.contracostalafco.org. LAFCO received additional comments from West County Wastewater District, noting various corrections as shown in the Final Draft MSR report.

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

DISCUSSION

The West County Water/Wastewater MSR provides a review of services provided by agencies under LAFCO's purview, including those agencies listed above. In addition, various private entities and other

service providers including 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 EBMUD is a multi-county district that serves Alameda and Contra Costa counties. As the principal LAFCO, Alameda LAFCo prepared the MSR/SOI updates for EBMUD.

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
West County Water/Wastewater Services**

Actions Subject to LAFCO Approval	Recommended Action
1. City of Hercules a. Maintain status quo b. Consolidate sewer service with City of Pinole c. Consolidate sewer service with WCWD	- None identified
2. City of Pinole a. Maintain status quo b. Consolidate sewer service with City of Hercules c. Consolidate sewer service with WCWD	- None identified
3. City of Richmond	- None identified
4. Crockett Community Services District a. Maintain status quo b. Annex parcel currently receiving service into the District boundaries	- Annex parcel currently receiving service into the District boundaries
5. Rodeo Sanitary District a. Maintain status quo b. Consolidate sewer service with a portion of the City of Hercules c. Annex areas currently receiving service into the District boundaries	- Annex areas currently receiving service into the District boundaries
6. Stege Sanitary District a. Maintain status quo b. Annex areas currently receiving service into the District boundaries	- Maintain status quo - Encourage the District to study potential annexation of these areas

Actions Subject to LAFCO Approval	Recommended Action
7. West County Wastewater District a. Maintain status quo b. Annex areas currently receiving service into the District boundaries c. Annex islands within the District's SOI d. Consolidate sewer service with the City of Richmond's Municipal Sewer District e. Consolidate sewer service with the cities of Hercules and Pinole	- Annex areas currently receiving service into the District boundaries - Annex those islands within the District's SOI needing sewer service

The West 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.
- In general, consolidation of two or more agencies 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. It should be noted that the cities of Hercules and Pinole along with the WCWD are currently studying the potential for sharing and consolidating facilities and services.

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 West 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:

- Each of the agencies has set up, or is in the process of establishing, programs to reduce FOG (deposits of Fat, Oil and Grease) blockages within the systems and use technology to improve the operations of the Wastewater Treatment Plants.

- All of the agencies participate in the sharing of resources, facilities and services.
- The City of Richmond has implemented aggressive capital improvements and preventative maintenance programs funded by recent bond measures to address infrastructure issues and ensure adequate services for the future.
- RSD is implementing a multi-phased collections system rehabilitation program which has resulted in significant improvements to infrastructure and operations. In February 2008, RSD received the San Francisco Bay California Water Environmental Association's *Small Plant of the Year Award* in recognition of improvements and for environmental stewardship.
- SSD is implementing a collection system rehabilitation plan which has resulted in a reduction in the number of overflows related to broken or failed mainlines.
- WCWD is leveraging several opportunities that will result in costs savings, some of which represent green strategies which support sustainability. In 2007, the District broke ground on a 1.0 megawatt solar electricity generating system. The District is also working with EBMUD to implement an advanced recycled water project. Also, WCWD has a number of community outreach programs involving the schools, participation in community events and distribution of a community calendar.

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 West 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 WEST 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 June 11, 2008, the Commission conducted a workshop to review the Preliminary Draft *Water and Wastewater Services MSR for West Contra Costa County*, received comments, and directed staff to circulate the MSR for public review,

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

WHEREAS, on August 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 August 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 West Contra Costa County Determinations attached hereto as Exhibit A and incorporated herein by reference are hereby adopted.

* * * * *

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

AYES:

NOES:

ABSTENTIONS:

ABSENT:

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: August 13, 2008

Lou Ann Texeira, Executive Officer

EXHIBIT A
WEST COUNTY WATER/WASTEWATER MUNICIPAL SERVICE REVIEW
DETERMINATIONS

1. *GROWTH AND POPULATION*

- According to the projections prepared by the Association of Bay Area Governments (ABAG), the population within the West Contra Costa County is expected to increase from 146,774 (2007) to 170,000 by 2030, reflecting an annual rate of increase of approximately .65% over the 2007 population.
- The City of Richmond is expected to show the highest growth rate of approximately .8 % annually.
- There will be an ongoing need for cost effective water and wastewater services in West County, given the current urban land uses, anticipated growth, aging wastewater collection systems and increasingly stringent water quality and environmental standards. These factors will impact and challenge the service providers. Agencies will need to continue to maintain and improve the water and wastewater systems to ensure sustained service levels while avoiding impacts to existing customers.

2. *INFRASTRUCTURE NEEDS OR DEFICIENCIES*

- The primary sources of potable water supply for West Contra Costa County are the Mokelumne River and the Pardee Reservoir through EBMUD. Any new water service demands may require supplies from the U.S. Bureau of Reclamation's (USBR) Central Valley Project (CVP). Any CVP water allocations to EBMUD are based upon hydrologic projections and are subject to a 25% reduction in dry years in accordance with the USBR Municipal and Industrial water shortage policy. The 2005 Urban Water Management Plan adopted by EBMUD indicates that water supplies will be adequate to meet projected demands in normal yearly conditions as well a single and multiple year dry conditions through 2030.
- With regard to CVP water supplies, EBMUD looks at using CVP water supplies only for growth in demand. Should the need arise, LAFCO, EBMUD and the USBR should coordinate with regard to any potential future approvals, recognizing that LAFCO must make a determination regarding the available and timely supply of water.
- Long range planning for infrastructure needs is based on a combination of projected growth, existing infrastructure including age and condition, changing regulatory and environmental requirements and the fiscal condition of the agency.
- 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 required to maintain adequate service levels with future development.
- Long term wastewater service planning may require the agencies to explore consolidation of services to ensure the ability to provide cost effective service while continuing to meet increasingly restrictive regulatory requirements. One such solution may be to consolidate wastewater treatment services by expanding EBMUD's SD-1 to include all of the agencies covered in the MSR report. It may be more cost effective to build a large wastewater interceptor line running from Crockett south

through Richmond and connecting with the existing EBMUD system utilized by Stege Sanitary District. EBMUD has the current capacity to treat the additional effluent. This approach would have the added benefit of closing several existing treatment facilities with their associated outfalls.

- The City of Hercules is facing challenges to its wastewater collection system in terms of capacity and Inflow/Infiltration (I/I). The San Francisco Regional Water Quality Control Board has ordered Pinole, which operates the joint wastewater treatment facility, to consider options for expanding its legal authority to reduce I/I from the Hercules system.
- The City of Richmond should continue its efforts to update its sewer system and infrastructure.
- The Rodeo Sanitary District should continue efforts to update its sewer system and infrastructure.
- The Stege Sanitary District should continue efforts to update its sewer system and infrastructure.

3. *FINANCING CONSTRAINTS AND OPPORTUNITIES*

- Each of the service providers charge fees for services, based on usage with cost factors included to cover upkeep and maintenance of the system infrastructure. For long term capital needs, agencies may use a pay as you go approach for new development, seek governmental grants and loans or borrow from private capital markets through voter approved bond issues.
- The cities and special districts operate their water and wastewater services as enterprise activities, in that service charges are intended to cover operating cost. Some agencies receive a portion of the one percent ad valorem property tax. Special Districts receiving some of their funding through property tax include: Rodeo Sanitary District, Stege Sanitary District, West County Wastewater District and EBMUD.
- Agencies can avoid costs by reducing infiltration and inflow, which reduces the impacts on treatment capacity and compliance with discharge requirements.
- Agencies are encouraged to maintain adequate reserves.

4. *COST AVOIDANCE OPORTUNITIES*

- Each of the cities and districts reviewed in this MSR attempts to control costs through the use of master planning studies, capital planning and service related studies on shared or joint facilities. Additionally, the cities of Hercules and Pinole along with the WCWD are studying consolidation of service provision as a cost saving measure.
- All of the agencies are involved in system improvements and rehabilitation to their wastewater collection systems. Each of the agencies has set up, or is in the process of implementing, programs to reduce FOG (deposits of Fat, Oil and Grease) blockages within the systems and use technology to improve the operations of their wastewater treatment plants.

5. *OPPORTUNITIES FOR RATE RESTRUCTURING*

- Most agencies evaluate their water and sewer rates annually factoring in operational costs and infrastructure needs. Additionally the agencies have developed capital facility plans to assure that new development pays its share of the capital improvement cost associated with serving their development.

- Agencies are encouraged to regularly evaluate rates and fees, including connection fees, to ensure adequate revenues to fund operational costs as well as ongoing costs and capital needs. The City of Pinole should consider reviewing its sewer connection fees to ensure cost recovery.
- Those agencies which do not set non-residential wastewater loading rates based on type of account should consider doing so.
- Agencies should implement customer incentives for such efforts as those who reduce discharge of fats, oil and grease (FOG) and have regular inspections.

6. *OPPORTUNITIES FOR SHARED FACILITIES*

- The cities of Hercules and Pinole share and jointly operate a wastewater treatment plant located in Pinole. The City of Hercules provides for one-half of the operational cost of the facility. Both cities and WCWD are studying the fiscal impacts of consolidation. Additionally, the cities of Hercules and Pinole have a Joint Powers Agreement with Rodeo Sanitary District for use of a combined deep water outfall.
- The City of Richmond through an agreement with WCWD, accepts the treated WCWD effluent for discharge into the deep water outfall maintained by Richmond into San Francisco Bay. The City of Richmond dechlorinates the effluent from WCWD and blends it with their treated effluent before it is discharged into the outfall.
- The Stege Sanitary District utilizes EBMUD's north sewer interceptor line to transport wastewater for treatment at EBMUD's regional wastewater treatment plant located in the City of Oakland.
- There may be an additional opportunity for shared facilities by expansion of EBMUD's SD-1 to include most or all of West Contra Costa County.

7. *EVALUATION OF MANAGEMENT EFFICIENCIES*

- Each of the agencies are overseen by elected governing boards and appointed managers. The agencies manage these water and wastewater utilities through the use of various planning and management tools to ensure that services are delivered in an efficient, cost effective manner. These plans include Master Service Plans, Urban Water Management Plans, Sewer System Master Plans, Capital Improvement Plans, city and county General Plans. These plans help to ensure that the systems are managed and funded in a transparent fashion for greater accountability. All agencies appear to be functioning well; no structural management issues are identified in this MSR.
- One of the significant issues identified in this MSR is that several of the agencies have a practice of providing service outside of their existing boundaries and/or sphere of influence (SOI) and are not in compliance with Government Code §56133. These practices should be reviewed and updated to ensure compliance with the Government Code. Agencies are encouraged to apply to LAFCO to amend their SOIs and/or service boundaries to correct out of agency service issues.

8. *GOVERNMENT STRUCTURE OPTIONS*

- Several government structure options were identified, including annexing areas to address boundary issues with out of agency service extensions, and possible consolidation of services.

- LAFCO encourages all agencies to continue their efforts and to explore new opportunities to share resources, facilities and services.
- For the City of Hercules, three Government Structure Options were identified, including possible consolidations.
- For the City of Pinole, three Government Structure Options were identified, including possible consolidations.
- For the City of Richmond, no Government Structure Options were identified.
- For the Crockett Community Services District, two Government Structure Options were identified. LAFCO encourages the District to annex the one parcel currently receiving out of agency service.
- For the Rodeo Sanitary District, three Government Structure Options were identified. LAFCO encourages the District to annex the areas, including the Bayo Vista apartment complex and the single family homes located along Viewpoint Blvd., currently receiving out of agency service.
- For the Stege Sanitary District, two Government Structure Options were identified. LAFCO encourages the District to study the potential annexation of those areas, including the 97 parcels within the City of Richmond, currently receiving out of agency service.
- For the West County Wastewater District, five Government Structure Options were identified. LAFCO encourages the District to annex those areas currently receiving out of agency service; and to consider annexing those islands within the District's SOI needing sewer service.

9. LOCAL ACCOUNTABILITY AND GOVERNANCE

- Most of the agencies reviewed in this MSR encourage public participation by making service information and documents available on their websites and holding noticed public meetings that are open and accessible to the public.
- Agencies are encouraged to maximize the use of websites to post specific information related to water and wastewater services, finances and user fees.
- The Rodeo Sanitary District is encouraged to complete its website development.