



PROCEEDINGS OF THE LOCAL AGENCY FORMATION COMMISSION SANTA CRUZ COUNTY

Room 525

Wednesday, March 4, 2015
9:30 a.m.

701 Ocean Street
Santa Cruz, California

The March 4, 2015 Santa Cruz Local Agency Formation Commission meeting is called to order by declaration of Chairperson Zach Friend.

ROLL CALL

Present and Voting:	Commissioners Smith, J. Anderson, R. Anderson, Bottorff, Coffman-Gomez, Coonerty, and Chairperson Friend
Absent:	None
Alternates Present:	Bobbe, Leopold
Alternates Absent:	Lind
Staff:	Patrick M. McCormick, Executive Officer Brooke Miller, LAFCO Counsel Debra Means, Secretary-Clerk

MINUTES

MOTION AND ACTION

Motion: J. Anderson Second: R. Anderson	To approve January 7, 2015 minutes. Motion carries with Commissioners Coffman-Gomez and Coonerty abstaining.
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PUBLIC HEARING

WORK PROGRAM AND PROPOSED BUDGET FOR FISCAL YEAR BEGINNING JULY 1, 2015

Mr. McCormick says State law requires a two-phased budget process. The first phase is the proposed budget which is being considered at this hearing. There will be a subsequent public hearing later this spring to adopt a final budget. The proposed budget must be adopted by May 1st. A final budget has to be adopted by June 15th.

LAFCO must review boundary change applications and perform certain studies. This Commission is behind in their round of sphere of influence and service review studies. The Commission got behind during the recession and during a period of a high application load. The application load is now down considerably. Staff is looking at ways to catch up on sphere of influence and service reviews.

He suggests a work program which is Attachment E in the agenda packet. It suggests priorities for the next fiscal year and one year beyond. Between staff and consulting resources, the goal is to get all of the sphere of influence and service reviews up to date by June 30, 2017.

Most of the service reviews will be done in-house by staff. There is a consulting budget and he explored whether the districts, cities, or the County were interested in a LAFCO sponsored consultant study that would help other agencies deal with some major organizational issues. Given that this is the third or fourth year of a drought, water reorganization was his first thought of such a study. All of the managers were contacted and none of them expressed any interest in participating in such a LAFCO sponsored reorganization study that would help them solve their problems. He received a similar answer from the fire districts.

At this point, a potential study using a consultant could be sanitation based. He has not yet come to the point of recommending that a request for proposals be issued. He wants to talk more with the County Sanitation District about consolidating many of the sanitation agencies, most of which are operated by the County Public Works Department. One small sewer system is operated by the San Lorenzo Valley Water District. There may or may not be an advantage to folding all these agencies into a single agency. The smaller agencies, such as Davenport and the Boulder Creek Country Club, have high unit costs. The question is if the agencies are consolidated, whether the unit costs would go down. He thinks he will have a recommendation within the next couple of months.

There are six items in the proposed budget worth noting because they are different from previous budgets. One recommendation is to increase the reserve in the regular pay line item significantly from \$17,450 to \$50,050. There is an existing unfunded liability of cumulated staff leave, and the Commission has never booked that as a liability. It will have to be spent when one or both staff members leave, so it is fiscally prudent to book it.

Commissioner Roger Anderson asks what the present amount of that liability is.

Mr. McCormick answers about \$52,000.

Commissioner Coffman-Gomez says there is a balance of \$127,748 under the CalPers item. She understands a partial payment is proposed. She asks what the terms and the balance would be, and what would be done to take care of the CalPers balance.

Mr. McCormick There is a 7.5% interest charged on the side fund liability. The Commission previously asked staff to start working on decreasing the amount owed. The current liability is \$127,748 and it has 21 or 22 years left to be paid off. There is not enough money in the budget to pay off the whole amount. He asked CalPers if LAFCO could pay it off over two or three years. He recommends that he come back on April 1st with one or two options to either pay it off or not.

Commissioner Jim Anderson says he remembers they looked at other entities taking over the loan to lower the interest. They would have supplied a loan over a shorter term and that would not work.

Mr. McCormick asked some larger local agencies whether they would be willing to supply an agency to agency loan at a greater interest rate than their investment pool, so it would be a win for both parties. Some were happy to supply a loan over a short number of years, but they did not want to supply a loan for more than 20 years at a low interest rate. This is a relatively small amount of money, but the interest rate is what hurts.

Alternate Leopold likes the idea of trying to retire this loan in two or three years. It is nice to charge LAFCO's funding agencies less money than the year before, but some of the funding agencies have asked LAFCO to retire this side debt because it contributes to the long term liability of the Commission. He does not think it is worth lowering the funding agencies' contribution in order to achieve this over three years.

Commissioner Roger Anderson wants to know what would happen if \$5,000 more was paid each year, and how much that would shorten the overall term of the loan. He is also curious about an intermediate option besides paying it off in two or three years. This could be difficult to do considering the problem with municipal service reviews and other mandated expenses.

Mr. McCormick's recommendation requires the cities, the County and the special districts to contribute 5.9% less to next year's budget than they did this fiscal year. Another option is to keep the contribution level the same as last year and dedicate the entire difference to paying off the side fund faster.

He recommends that the Commission conduct a final budget hearing, adopt the proposed budget Resolution 2015-4, and adopt a proposed budget of \$652,600. The new funding requirement from the public agencies would be \$311,500, which is 5.9% below the current year.

He proposes that the Commission confirm or give alternative direction to the work program he outlined, direct that the side fund analysis be presented for potential action on April 1st, set a public hearing for April 1st to adopt a final budget, and provide additional direction for research before the next budget hearing.

Alternate Leopold asks if the municipal service reviews need to be done every five years.

Mr. McCormick says State law requires that the Commission update spheres of influence every five years. An update could be concluding that the last review is still accurate, or it could be a major event. In order to update a sphere of influence, the Commission has to have a current municipal service review for that agency. A municipal service review (MSR) is a bigger study than a sphere of influence study. A sphere of influence study identifies what service area an agency is best able to provide service, and what areas are eligible for those services. A service review provides a much bigger picture and it looks at reorganization options, shared facilities, and shared services among agencies. It tries to rend some efficiencies out of government by looking at cross-agency issues.

When the Commission has completed these reviews in the past, they have been small, contained, minimal, and often done by staff; or they have been major studies due to the complexity of the issue, and the need to work through a complicated set of numbers and options. These major studies looked into whether to combine fire districts, split up an agency and move some services, or whether there are enough benefits to justify a change in governmental structure. A service review should be every five years, but it can be a few years old and still be useful for a sphere of influence update. These reviews can be done together or separately.

Most of this LAFCO's reviews have not been updated in the last five years. During the recession, if there was an individual application for an annexation or a reorganization, they were prioritized, and studies were completed as needed.

Alternate Leopold is concerned that most MSRs have not been done since 2007-08. The proposed schedule shows the MSRs not being completed until June 30, 2017, when it will soon be time to do them again. He does not want to use consultant time and money to do a sanitation agency consolidation study. He would rather use the money to get the MSRs completed.

Mr. McCormick adds that the people in sanitation could do their own consolidation study and get LAFCO staff assistance if necessary. The consulting budget can be used to work on as much of the service reviews as possible even before June 30, 2017. This would be a fair direction from the Commission.

Alternate Leopold notices some of the reviews have not been done since the 1990s and wonders why.

Mr. McCormick uses Pajaro Valley Water Management Agency (PVWMA) as a good example. Spheres of influence are subject to the California Environmental Quality Act (CEQA). Some spheres of influence do require environmental impact reports (EIRs). Neither PVWMA nor LAFCO has been willing to fund an EIR. The value of getting a sphere of influence study done versus the cost and the political effort to do the review was not deemed worthy by either agency. The effect of not having an adopted sphere of influence means LAFCO cannot act on an application concerning PVWMA because the principle of State law requires any action LAFCO takes on such as an annexation or other boundary change has to be consistent with an adopted sphere of influence. This effectively freezes that agency's boundary until this Commission, or some third party has the initiative. A property owner petition would trigger a set of studies. There are several other agencies besides PVWMA where there is a major cost, neither LAFCO nor the agency has been willing to fund, and there has been no application that has triggered the need.

Alternate Leopold notices Scotts Valley Water District's review has not been done since 1993. He wonders if that impacts the ability to make a recycled water transfer with the City of Santa Cruz.

Mr. McCormick talked recently with them and he expects they will want a sphere action sooner rather than later. They need to make some in-house decisions before they come to LAFCO. He believes their issues are resolvable.

Alternate Leopold thinks consolidation studies are interesting, but the need to get the MSR done by law is clear. He thinks using the consultant money to get the MSR done earlier would be helpful to all of the special districts. Keeping the agencies' dues at the same level to take care of the side fund liability is also worthwhile.

Commissioner Coonerty likes Alternate Leopold's suggestion. If completing the MSR are done earlier by June of 2016, he asks if they have to redo them again in 2018.

Mr. McCormick answers that the reviews are good for five years. It has the potential to help speed up the process of an application anytime during those five years.

Commissioner Coffman-Gomez asks about the Pippin application. This is a project on Atkinson Lane where half of it is in the City of Watsonville and half of it is in the County. Having it annexed is part of the condition for its extraterritorial approval. She asks what kind of fees LAFCO collects from this project.

Mr. McCormick answers that it is an apartment project on Atkinson Lane. He would ask the Commission if they want to move it up on their program so the Commission would be bearing the cost of the MSR. The fees charged to the Pippin applicants would be the annexation processing costs, and he guesses it will cost about \$20,000.

Commissioner Roger Anderson wonders what the cost is to do all of the MSR and how much money they will have to save to complete them sometime in 2016. He does not believe some MSR should be done in isolation with respect to one project, specifically the water agencies. There are a number of agencies which draw from the Santa Margarita, the Purisima, or the Aromas aquifers. How wonders how the MSR can be apportioned so all of the relevant water reviews can be done at the same time.

He appreciated the water activities report from the County in the agenda packet. He would like LAFCO to contribute something constructive as an overall effort and satisfy the legal requirement to do the MSR at the same time. He does not want to do just a minimum requirement if something useful can be done.

Mr. McCormick says State law gives LAFCOs tremendous discretion as to what level of detail goes into those studies. If it is a road service area in the mountains with no growth, a paving program, and enough money in their budget, the work to complete the reviews is pretty minimal.

Doing similar work for a city is possible such as updating the budget, the population, the metrics, and some options for changing services that do not require much expertise and time. Hold a public hearing and the study is good for five years. If a study is done of substance, a single service review involving one or more agencies could cost \$40,000 to \$150,000, depending on the level of complexity and detail done by a consultant. If the County is divided by services into three or four major issues, a study could cost \$300,000 if three major studies are done over the next five years.

There has been discussion about using the consulting budget to do either one major study, or to partner with other agencies and share the cost of maybe two major studies, such as water, fire, or sanitation issues.

One of the alternatives is not to do as major of a study on any issue, maybe more than minimal but not that exhaustive, and use a consultant to do them.

A consultant was used with the last service reviews and staff time was dedicated to help keep the costs down. It cost about \$75,000 in consulting costs and about \$50,000 in staff costs totaling \$125,000. A fairly minimal service review was done for almost all of the agencies. There were several metrics for each service that were compared. There were observations about strengths and weaknesses.

The reviews did provide some value to the agencies without being too expensive. One larger study was also done about fire protection in the Pajaro Valley. This was a second phase that cost about \$40,000, and it looked at different ways that fire protection might be provided in the Pajaro Valley. It had the cooperation of all the fire agencies and the fire unions. Everyone agreed with the numbers in the study. It had some interesting conclusions. None of the agencies have decided to implement any of the possibilities offered in the study. This was a moderate study with willing parties and LAFCO paid the full bill.

Commissioner Roger Anderson thinks the cost for all the reviews with one major study will be about \$200,000.

Mr. McCormick agrees. It would include more than descriptive information about each of the agencies. There could be one or two side projects with a level of detail that has some big picture thinking. These reviews can have questions that can push people and be uncomfortable to bring up. The previous reviews approached questions in a non-threatening way, but the content is getting old. Future reviews can have value for the agencies and the community.

Commissioner Roger Anderson wonders which special studies should be done and when to do them. He thinks a water study should be done. He asks if there is \$200,000 available to do such studies.

Mr. McCormick answers they do not have \$200,000. If the budget is adopted, there is \$100,000 available for consulting, but it does not have to be spent. If a project is identified, he will prepare a Request for Proposals (RFP), the Commission would review it, it would be released, and after 60 days, and he would present the proposals received to the Commission.

Commissioner Jim Anderson remembers that if there was a future annexation for Atkinson Lane, Mid-Peninsula Housing would be willing to pay for some of those fees.

Mr. McCormick expects Mid-Peninsula to apply. He will ask the Commission whether they are willing to pay for the studies, and for staff to do them. This project does not require a sphere of influence amendment from Watsonville, but it would require an MSR. The review would look at a range of services from potholes to police.

Alternate Bobbe agrees with Commissioner Roger Anderson that water is about the most important issue LAFCO could contribute to, especially since there is so much going on with integrated water plans and groundwater sustainability. It is unknown whether the County will step in to form its own groundwater sustainability association.

She read in the water report that the formulation of local groundwater sustainability agencies must be done by June 30th, 2017. Single agencies or joint power authorities would conduct them. In the absence of the single agencies not opting to create them, then the County steps in. There is a lot going on legislatively and physically with water. She believes any extra time should be spent on water.

She is disappointed that a \$40,000 study was not used. She thinks any water study LAFCO could come up with would contribute and be used.

Alternate Leopold says that Santa Cruz County is further ahead than many other communities regarding basin management. The groundwater sustainability legislation that was passed last year requires the formation of a new organization to manage basins. Because of the work in the County and the Soquel Creek and Central Water Districts, there is a Basin Implementation Group (BIG) that was formed. At their last meeting, they added representatives from the County, the City of Santa Cruz, and another agency. There is active work happening about basin management, including the Purissima Basin. He is not sure what LAFCO could contribute about water.

Alternative Bobbe thinks that because of the tapestry of knowledge within this Commission, there would be some way they could assist. She thinks it is worth considering the possibility of contributing some of LAFCO's expertise toward moving some of the water issues further along. She was on the County Water Advisory Commission from 2000 to 2006. The Santa Margarita aquifer was and is on the agenda every month. It was obvious then that water needs to be integrated. There is talk about consolidating all of the water agencies.

Alternate Leopold remembers that LAFCO cannot force consolidations. The water agencies have said that they are not interested in consolidating. Even a friendly water report about consolidating water does not help. Many local water agencies are working on this Basin Implementation Group. He is wary of putting money into a study that may not make a difference.

Chairperson Friend would like to keep the contributions flat. It is a negligible amount for the contributing agencies, but it is a real amount for the LAFCO budget. He does not think the 5.9% reduction is worth it.

MOTION

Motion: Coonerty Second: Smith	To approve the proposed budget as recommended by staff with additional direction to keep the agencies' contributions flat, and use that money towards paying down PERS liability.
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Commissioner Roger Anderson does not want to specify that the additional money go towards paying down PERS. There are other possible options for spending the money. He wants staff to come back with all of the PERS information and wait until the next hearing to make that decision.

Commissioner Coonerty thinks that is fine as long as it is one of the options with the budget.

MOTION AND ACTION

Motion: Coonerty Second: Smith	To approve the proposed budget as recommended by staff with additional direction to keep the agencies' contributions flat. Motion carries with a unanimous voice vote.
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OTHER BUSINESS

STATUS OF PROPOSALS

Mr. McCormick reports that he has been communicating with Mid-Peninsula Housing staff. Their approval for extraterritorial water and sewer service is about to expire and they need more time to proceed with their grant application. They will also be submitting an annexation application soon as part of their agreement to annex the back part of their property to the City.

The Lompico merger lost by one vote. It would have taken one of the negative votes to change to a positive vote for the bond to pass. They would have complied with all of LAFCO's conditions to record the merger. It would have probably happened by the end of the fiscal year. The Lompico County Water District (LCWD) would not exist and the people of Lompico would have been served by the San Lorenzo Valley Water District (SLVWD). There would have been a County sponsored 30-year bond and there was an agreement to give the money to SLVWD to fix up the deteriorating infrastructure in Lompico.

LAFCO's authorization for Lompico expires in August. Staff thought they would be completing the Lompico paperwork, but now that time has been freed up to work on other projects.

LEGISLATION

Alternate Leopold reports that it is still unknown what Senate Bill 239 from Herzberg and firefighters is about. The issue seems to be giving unions a say in reorganizations and/or extensions of services.

AB 402 will be complicated for CALAFCO. There was never a good consensus among all the Commissions. CALAFCO dropped it, but Bill Dodd, a former Napa Commissioner, was pushing it and now he is on the Assembly.

Commissioner Coffmann-Gomez says that five members of the Watsonville City Council went to Sacramento yesterday to defend the City retaining their redevelopment funds that the State wants to take back. It is trailer bill that is being assigned by the Department of Finance, so they were successful with letting the Committee know how strongly they oppose losing that money.

She wonders about SB 184.

Mr. McCormick says he can include that in an expanded report in next month's agenda.

Alternate Leopold adds that this type of bill usually contains non-controversial items that are small changes to LAFCO law.

STATUS OF ELECTION TO SELECT SPECIAL DISTRICT MEMBER ON LAFCO

Mr. McCormick reports that the Commission has no direct role in selecting a special district representative. The first round of elections has been completed to fill Mr. Rapoza's seat. None of the five candidates received a majority vote to be elected. Two of the nominees, Thomas LaHue of the Soquel Creek Water District and Eric Hammer from the San Lorenzo Valley Water District will be in a runoff election that will occur over the next six weeks. The new Commissioner will be seated in May.

APPOINTMENT OF PERSONNEL COMMITTEE

Mr. McCormick says this committee is for his evaluation. The committee will also have to look into staff's personnel rules and compensation packages.

Chairperson Friend asks if this is generally a two-person committee.

Mr. McCormick replies that in the past, the committee has been two people, but it can consist of three people.

Commissioner Jim Anderson says that in previous years, the Committee consisted of one member from the previous committee and one new member.

MOTION AND ACTION

Motion: Smith Second: Coffmann-Gomez	To have Alternate Leopold, Commissioner Jim Anderson, and Commissioner Roger Anderson be on the Personnel Committee. Motion carries with a unanimous voice vote.
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NOMINATIONS TO SPECIAL DISTRICT RISK MANAGEMENT AUTHORITY (SDRMA)

Mr. McCormick says the Commission has never made a nomination. This Commission gets their insurance from SDRMA and they have the ability to send in a nomination.

Hearing no nominations, Chairperson Friend concludes they will not send in a nomination this year either.

Meeting is adjourned at 10:36 a.m.

CHAIRPERSON ZACH FRIEND

Attest:

Patrick M. McCormick, Executive Officer