

EL DORADO LAFCO

LOCAL AGENCY FORMATION COMMISSION

AGENDA OF JANUARY 30, 2008

REGULAR MEETING

TO: Ted Long, Chairman, and
Members of the El Dorado County Local Agency Formation
Commission

FROM: José C. Henríquez, Executive Officer

**AGENDA ITEM #10: PUBLIC HEARING TO CONSIDER AND ADOPT THE
PROJECT PLAN FOR THE NEXT CYCLE OF MUNICIPAL
SERVICES REVIEWS**

RECOMMENDATIONS

Staff recommends that the Commission

1. Receive the following information regarding possible ways to fund the next cycle of municipal service reviews;
2. Receive information regarding adding to the list of determinations that must be covered in the next round of MSR's; and
3. Provide direction for staff on the Commission's preference, if any, on the following recommendations:
 - Staff is directed to conduct studies on a "per agency" basis for the next cycle of MSR's;
 - The Commission retains the discretion of requiring applicants to pay for the full costs of an MSR/SOI if their proposals require "moving up" an agency's MSR/SOI ahead of schedule;
 - Staff is directed to calculate an incremental MSR/SOI fee that will be added to applications for changes of organization that impact the following agencies:
 - El Dorado Irrigation District
 - Cameron Park Community Services District
 - El Dorado Hills Community Services District
 - All fire districts
 - The City of Placerville
 - A "Study Reserve Fund" would be established that would be incrementally funded each budget year and used in case the Commission needs to outsource a

study and direct the budget ad hoc committee to recommend the appropriate annual funding level and/or limit to the fund

- Establish any additional determination what would be covered in each new MSR

REASON FOR RECOMMENDED ACTIONS

Staff presented a proposed project plan for the next five-year MSR cycle at the October, 2007 meeting. The project plan encompassed four dimensions: Process, Scope, Timing and Funding Mechanism. The Commission has stated its preference in three out of the four dimensions. This item is to determine the last dimension. In addition, the Legislature opened the door for a LAFCO to add to the list of determinations that will be covered by an MSR.

BACKGROUND

As noted above, the Commission was presented with a project plan in October 2007 covering the second cycle of municipal services reviews. Over the course of two meetings, the Commission has indicated its preferences for three of the four dimensions in the proposed project plan, including:

- Process: Create MSRs on a per-agency basis (no formal action was taken, but the Commission seemed to lean in this direction at the October meeting)
- Scope: Prioritized the study of 42 out of 57 agencies (Commission adopted its preference in December)
- Timing: The Commission adopted a schedule of agency review in December (please refer to Attachment A)

Funding Mechanism

The issue is that LAFCO not only has to incorporate MSRs into its workload but also find ways to fund them. Currently, LAFCO absorbed the cost of the MSRs into its budget, resulting (in some cases), in increased costs for the funding agencies. The Commission was interested in a project plan for the next round of MSRs so that there was a proactive and methodical process now that this MSR work continues. In essence, the question on funding hinges on two questions (for a complete discussion, please refer to the October 2007 staff report, which is summarized in Attachment B):

- The definition of “total cost” for producing an MSR, and
- Which MSR, if any, would need to be outsourced.

Tackling the second point, there are two reasons why an MSR would need to be outsourced: 1) a lack of time and/or 2) a lack of expertise among LAFCO staff. Indeed, both of these were the reasons half of the MSRs during the inaugural cycle were outsourced. Staff, at this point, does not believe that contracting out MSRs would automatically be required. The adopted MSR Schedule should allow for staff to accommodate and incorporate MSRs into the workload. The technical expertise might be more difficult to correct, however. While the first round of MSRs created a foundation of information to build upon, additional training may be required for staff to adequately address certain highly technical services. Because of that, the Commission

may want to consider the option of outsourcing an MSR when discussing the options below.

The first point, determining the “total cost,” is trickier. LAFCO had no independent funding stream to fund the preparation of these studies; consequently they were funded out of the LAFCO budget. To add to the complexity of the matter, the inaugural set of MSRs were created by service, not by agency, so that it is not possible to determine the true cost of studying a multi-purpose agency. In the October discussion, staff indicated that this cost could be derived with some certainty. Upon further reflection, staff now thinks that an “educated guess” cost could be generated, but not an exact number.

In addition, decisions would have to be made whether the MSR funding line for outsourced studies should be separate from studies conducted in-house. In October, staff recommended only one line item for both in-house and outsourced. Staff now recommends keeping the in-house MSR costs as part of personnel salaries since the MSR project is part of staff’s workload.

Based on these points, as discussed in October, staff recommends using a combination of tools to finance the next round of MSRs. In summary, the recommended funding mechanisms would be:

- Now that there is an adopted MSR Schedule, the Commission retains the discretion to require developers with proposals that necessitate “bumping up” an MSR/SOI ahead of schedule to pay for the full costs. A fee for an MSR/SOI request has already been established in the LAFCO fee schedule; however, staff recommends tying this requirement with the adopted MSR Schedule so that there is ample documentation about the possibility that this fee will be imposed.
- An incremental MSR/SOI fee is set and adopted for projects impacting active agencies, such as EID, Cameron Park and El Dorado Hills CSDs, fire districts and the City of Placerville. The logic is that these agencies have sufficient activity to generate enough fees to adequately fund for their MSRs. MSR/SOI fees generated from petitions to these agencies will only be utilized on the studies for these agencies.
 - o Potential drawback: Any decrease in activity to any designated agency would undermine the Commission’s ability to fund their respective MSR.
- The Commission establishes a fund to cover the MSRs for the less active districts. A funding level target is set and budgeted for each year so that reserves are built up incrementally. If the Commission decides that the costs for in-house MSRs should be absorbed by the personnel cost budget line item, then setting up a funding level will determine the number and/or the types of MSRs that will be outsourced.
 - o Potential drawback: LAFCO receives funding from contributions from almost all agencies in the county. Setting up a fund for less-active districts could create a situation where active agencies are indirectly contributing to this fund. On the other hand, more active districts would have their MSRs partially or fully funded by private parties.

Additional Determinations

There were nine determinations to address in the inaugural cycle of MSRs. The original set in Government Code §56430(a) were:

- (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 and governance.

Effective January 1, 2008, the determinations in 56430(a) change to:

- (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.

The matrix below contains a summary of how the determinations are now aligned:

The new determinations...	...Is made up of these old determinations
<ul style="list-style-type: none"> ○ Growth and population projections for the affected area 	<ul style="list-style-type: none"> ○ Growth and population projections for the affected area
<ul style="list-style-type: none"> ○ Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies 	<ul style="list-style-type: none"> ○ Infrastructure needs or deficiencies
<ul style="list-style-type: none"> ○ Financial ability of agencies to provide services 	<ul style="list-style-type: none"> ○ Financing constraints and opportunities. ○ Cost avoidance opportunities. ○ Opportunities for rate restructuring
<ul style="list-style-type: none"> ○ Status of, and opportunities for, shared facilities 	<ul style="list-style-type: none"> ○ Opportunities for shared facilities
<ul style="list-style-type: none"> ○ Accountability for community service needs, including governmental structure and operational efficiencies 	<ul style="list-style-type: none"> ○ Government structure options, including advantages and disadvantages of consolidation or reorganization of service providers. ○ Evaluation of management efficiencies. ○ Local accountability and governance

The Legislature added the new determination number 6 so that LAFCOs can choose to study an area of public policy that is important at the local level based on local circumstances. Consequently, this sub-item was placed on the agenda so that the Commission may consider if there are any particular determinations they would like to add to the revised list of factors it must address under the revised §56430.

Staff recommends adding the following determination so that the MSR also addresses one of the seven factors in LAFCO Policy 4.4, which the Commission must address prior to making sphere of influence determinations:

- The potential effect of agency services on agricultural and open space lands