

October 6, 2003

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TO: Local Agency Formation Commission  
Municipal Service Review Working Group  
Special Districts Advisory Committee

FROM: Executive Officer  
Chief, Policy Research

SUBJECT: Update on the Southern San Diego County Water and Sewer  
Municipal Service Review (MSR) and Review of the Fiscal  
Section of the MSR

### **Executive Summary**

This is an update report on the Southern San Diego County Water and Sewer Services Municipal Service Review. The report (1) provides a brief history on the municipal service review (MSR) and summarizes San Diego LAFCO MSR activity for the benefit of several new and returning meeting participants; (2) summarizes the *Strategy For Conducting and Using Municipal Service Reviews*, which the Commission, in consultation with the Municipal Service Review Working Group and the Special Districts Advisory Committee, adopted on April 7, 2003; and (3) presents the first half of the Draft Analysis: *Southern San Diego County Water and Sewer Services Municipal Service Review* for comment and direction. Please note that the draft analysis provides a basis for interpreting the information submitted by participating agencies and to evaluate the status of water and sewer services in southern San Diego County. The analysis does not yet culminate in conclusions regarding operation of the region's agencies. At the close of the MSR project, conclusions and determinations, as required by State Law, will be submitted to the Commission in a Final Report.

### **1. A Brief History of the Municipal Service Review**

In 1997, AB 1484 (Hertzberg) established the Commission on Local Governance for the 21<sup>st</sup> Century. The Local Governance Commission evaluated local government organization and operational issues and developed a statewide vision for defining how the State should grow. The Local Governance Commission placed special attention on the Cortese-Knox Local Government Reorganization Act of 1985 and the 57 Local Agency Formation Commissions governed by the Act.

Over a period of 16 months, the Local Governance Commission held hearings throughout the State to hear testimony and collect data concerning the need for governmental reform. Representatives from the San Diego region—including your Executive Officer, San Diego LAFCO commissioners, and a number of elected officials—provided testimony to the Local Governance Commission. In issuing its final report, the Local Governance Commission identified four recurring issues, which frame the debate about the future of California:

- *The future will be shaped by continued phenomenal growth;*
- *California does not have a plan for growth;*
- *Local government budgets are perennially under siege; and*
- *The public is not engaged.*

Within this context, the Local Governance Commission concluded that LAFCO powers needed to be strengthened and that LAFCOs should be an integral participant in all regional growth and planning forums. The Local Governance Commission recommended that State Law be amended to require that spheres of influence are regularly reviewed and updated and that LAFCOs initiate periodic regional or sub-regional service reviews to help ensure the efficient provision of local governmental services.

## **Legislation**

The State Legislature recognized the validity of the Local Governance Commission's conclusions and approved AB 2838 (Hertzberg). AB 2838 (Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000) became effective in 2001. Among other requirements, AB 2838 requires LAFCOs to review adopted spheres—and update them if necessary—not less than once every five years. The five-year timeline is advisory, not mandatory; however, many LAFCOs throughout the state, including the San Diego LAFCO, have embarked on aggressive sphere update and service review programs. AB 2838 also requires the Commission to conduct countywide, regional or sub-regional reviews of municipal services either before, or in conjunction with, sphere updates. The Office of Planning and Research (OPR) was instructed by AB 2838 to develop guidelines, not later than July 1, 2001, to assist LAFCOs in conducting service reviews. The OPR Guidelines were adopted in 2003. Copies of the guidelines will be available at the October 6 joint meeting.

## **San Diego LAFCO response**

The Commission responded immediately to the new mandates by adopting a schedule for conducting the first round of sphere reviews, possible sphere updates, and municipal service reviews and appointing a MSR Working Group to advise the Commission on issues related to individual MSRs. OPR did not publish guidelines by the July 1, 2001 deadline, however, and in February 2002, when state guidelines were still not forthcoming, the San Diego LAFCO adopted its own *Municipal Service Review Guidelines* after extensive review and comment from the Commission's Special Districts Advisory Committee, Ad hoc Cities Advisory Committee, the Service Review Working Group, and the public (Attachment 2). The primary purpose of the local guidelines is to assist San Diego LAFCO in making the nine determinations required by the Municipal Service Review statute:

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
8. Evaluation of Management Efficiencies
9. Local Accountability and Governance

The Office of Planning and Research released its Final Municipal Service Review Guidelines in August 2003. The San Diego LAFCO's adopted MSR Guidelines are consistent with OPR's guidelines. The San Diego LAFCO's MSR Guidelines have become a template throughout California for the adoption of local guidelines. In April 2003, the Commission, in consultation with the Municipal Service Review Working Group and the Special Districts Advisory Committee, adopted an implementation policy for the preparation of Municipal Service Reviews. This policy is referred to as the *Strategy for Conducting and Using Municipal Service Reviews* (See Attachment 3). The Strategy, which establishes a framework to assist the Commission in preparing MSRs, is reviewed later in this report.

#### **Status of the Southern San Diego County Water and Sewer Services MSR:**

The Southern San Diego County Water and Sewer Service MSR involves seven local agencies in southern San Diego County (See Maps: Attachment 5). In February 2002, a *Request for Information* (RFI), designed to collect standardized information concerning sewer and water services within the boundary of the MSR, was mailed to each of the seven agencies. It is worth noting here, that the agencies themselves are not the object of the municipal service review; rather, service reviews are intended to survey the *adequacy of public services* within specific regions. Nevertheless, because public agencies are the mechanism for providing services, the review of individual agencies is unavoidable.

The information collected through the RFI process was published in a Data Summary and widely distributed for comment. The MSR Working Group received the initial Draft Data Summary in August 2002, and instructed LAFCO staff to circulate a second edition of the Data Summary containing additional and revised information. In December 2002, after receiving the second Draft Data Summary and responses to questions directed to the Otay Water District by the City of Chula Vista, the Working Group indicated that LAFCO staff should commence with analysis of the information. A draft of the first of four sections of the analysis was publicly circulated and then presented to the Working Group for comment and direction in February 2003. While the working group revised and commented on the first section of the analysis dealing with infrastructure and services at the February 2003 meeting, additional comments are still welcome. The October 6th report contains the second section (fiscal) of the analysis, plus technical updates to the first section.

## 2. Strategy for Conducting and Using Municipal Service Reviews

On April 7, 2003, the Commission, acting upon the advice of the Municipal Service Review Working Group and Special Districts Advisory Committee, adopted a strategy to guide the preparation of municipal service reviews (See Attachment 3). The Strategy is designed to facilitate the cooperation of agencies involved in municipal service reviews.

Although State Law requires local agencies to provide information requested by the Commission (Government Code § 56378), it is essential that the Commission receive the voluntary cooperation of agencies. The strategy provides direction for developing a scope of work; collecting information; adhering to a study timeframe; focusing on a programmatic view of service delivery; discerning appropriate levels and types of information required; and ensuring accuracy and relevancy of the data that is collected.

## 3. Draft Analysis: *Southern San Diego County Water and Sewer Services Municipal Service Review*

The *Southern San Diego County Water and Sewer Services Municipal Service Review* covers four areas: (1) Infrastructure, Facilities, and Services; (2) Fiscal Issues; (3) Administration, Management, and Operations; and (4) Governance. The Working Group reviewed and commented on *Infrastructure, Facilities, and Services* at its February meeting. The second section, *Fiscal Issues*, is presented here. The first section, which has some technical revisions, is also resubmitted (See Attachment 1).

The draft analysis provides a basis to organize and interpret the voluminous information involved in reviewing the status of water and sewer service provided by seven public agencies. The draft analysis does not culminate in conclusions regarding operation of the region's agencies. Conclusions and determinations, as required by State Law, will be submitted to the Commission in a Final Report at the close of the MSR project.

**RECOMMENDATION:** It is recommended that the Commission and the Commission's Committees:

*Review and provide comments on Chapter Two (Fiscal Issues) of the Draft Analysis: Southern San Diego County Water and Sewer Services Municipal Service Review. Joint meeting participants may provide comments on Chapter One (Infrastructure, Facilities, and Services); however, the primary focus of the October 6 meeting should be on Chapter Two (Fiscal Issues).*

Respectfully Submitted,

MICHAEL D. OTT  
Executive Officer

SHIRLEY ANDERSON  
Chief, Policy Research

Attachment 1: Draft Analysis: Southern San Diego County Water and Sewer Services  
Municipal Service Review

Attachment 2: SAN DIEGO LAFCO MUNICIPAL SERVICE REVIEW GUIDELINES

Attachment 3: STRATEGY FOR CONDUCTING AND USING MUNICIPAL SERVICE  
REVIEWS.

Attachment 4: UPDATED DRAFT DATA SUMMARY

Attachment 5: MAP 1: MSR WATER AGENCIES  
MAP 2: MSR SEWER AGENCIES