

SAN DIEGO LAFCO



**SPECIAL DISTRICTS ADVISORY
COMMITTEE MEETING
JANUARY 16, 2026**

SAN DIEGO LAFCO

Agenda Item No. 5a
LAFCO 201: Beyond the Basics



1/16/2026

LAFCO 201

Discretion by Design

Special Districts Advisory Committee

San Diego LAFCO

January 16, 2026

Genesis

WHY DISCRETION IS STRUCTURAL

THE DEAL

LAFCO serves as the alternative to a Statewide Commission

THE TENSION

LAFCO is governed by those it regulates; occasional tension...

These dynamics shape every decision

Independent Agency

LAFCO operates as a political subdivision of the State

Quasi-Legislative Authority

LAFCO acts as final decision-maker

Balanced Representation

No single local member interest – county, city, or district – dominates

The Takeaway

Structure requires balancing competing interests + exercising discretion

Less is More

LAFCO IS DEFINED MORE BY WHAT'S NOT DEFINED

What is "orderly growth"?

When is a jurisdictional change "timely"?

What is an "efficient" + "effective" service?

What is a "current or future community need"?

What is a "municipal service"?

What is a "sprawl"?

What is "accountable"?

When is it "premature" to covert agriculture"?

What is a "public health or safety threat"?

What is a "new" or "extended" municipal service

Regulatory Powers

WHERE DISCRETION CONSTANTLY PLAYS OUT...

1963

Jurisdictional Changes

Annexations, detachments, incorporations, dissolutions, and more

1994

Out-of-Agency Services

Authorizing service extensions beyond boundaries

2001

Special District Restructuring

Initiating formations, consolidations, mergers, dissolutions

2008

Latent Powers

Determining, activating, and divesting special district powers

ONGOING

School District Boundaries

Initiating boundary changes involving local school and college districts

KEY INSIGHT

Each power evolved over time – LAFCO's authority has expanded, not diminished

Discretionary Nature

LAFCO doesn't just approve or deny – it weighs factors and exercises judgment

CKH Act

§56000+

Modifying + Conditioning Powers

DISCRETION EXTENDS BEYOND THE APPLICANTS' REQUEST

MODIFYING POWERS

Perfecting the Action

Once initiated, LAFCO can modify the proposed jurisdictional action itself

EXAMPLES

Adjust proposed boundaries
Expand or reduce territory
Modify effective dates

CONDITIONING POWERS

Resolving the unresolved

Indirect Land Use

Pre-zoning requirements, development agreements, agricultural preservation

Governance

Successor agency, board composition, transition timelines, service agreements

Financial

Property tax exchange, special taxes, debt assumption, fee payments, exit fees

Other Matters

"Any other matters necessary..."

Why This Matters

Modifications and conditions allow LAFCO to approve proposals that might otherwise fail – turning "no" into "yes, if..."

Planning Powers

EVOLVING DISCRETION

1972

Spheres of Influence

Setting agencies' current and future service areas

WHAT LAFCO DETERMINES

- Probable ultimate boundary
- Logical growth patterns
- Service capacity projections
- Regional coordination needs

SOIs are the foundation for all boundary + service extension decisions

2001

Municipal Service Reviews

Independent assessment of service, governance, and fiscal efficiency relative to community needs

REQUIRED EVALUATION TOPICS

- Growth + population projections
- Present + planned service adequacy
- Financial ability to provide services
- Shared service + resource opportunities
- Accountability + alternative government structure options
- Environmental justice (local policy)

MSRs must precede SOI updates – they inform boundary planning

Municipal Service Reviews

EXPANDING DISCRETION IN ACTION

SURFACE ISSUES

Identify baseline service, fiscal, and governance conditions relative to current and future community needs

PROMPT CONVERSATIONS

Create neutral ground for discussion + develop determinations that serve the narrative rather than *being* the narrative

INFORM PUBLIC + POLICY

Inform sphere updates, near-term boundary changes, and - if merited, fundamental government restructuring

Compliance Exercise...

Routine reviews on statutory cycle

What it is...

Check-up



Strategic Platform...

Targeted reviews set to real-time priorities

What is and what can be...

Telegraphing tool



Recent Examples...

Julian Region MSR to Julian FPD Dissolution

Valley Center MSR to Reorg of Valley Center CSD

Ramona Region MSR to Reorg of Ramona MWD

Escondido Region MSR to SANDAG MSR

Oceanside Region MSR to SCHED Governance Study

Key Takeaways

- 1 Discretion is the Design**
The Legislature intentionally left core terms undefined – LAFCO expected to exercise good judgment
- 2 Discretion Extends Beyond Approve/Deny**
LAFCO modify proposals, attach conditions, and shape outcomes consistent with its growth management goals
- 3 SD LAFCO's MSR Program is Expanding + More Discretion Involved**
Beyond compliance, MSRs are surfacing issues, prompting conversations, and driving actions – directly and indirectly
- 4 Special District Advisory Committee Plays a Role**
Members are expected to draw on expertise in offering discretionary advice and recommendations to Commission

SAN DIEGO LAFCO

**Agenda Item No. 5a
Comments/Questions?**



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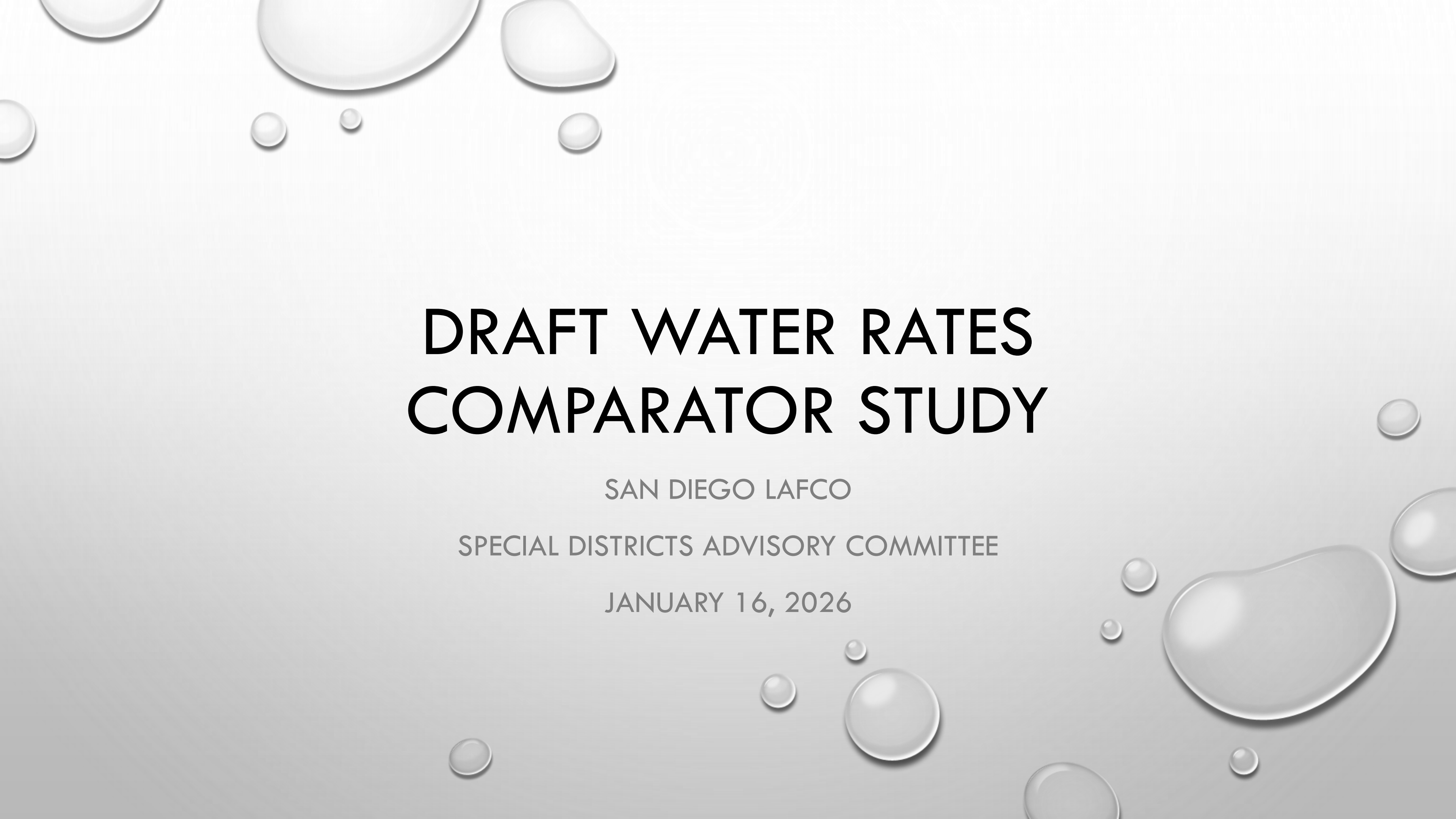
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Agenda Item No. 5b

**Update on Development of Weighted
Water Rate Comparison**



1/16/2026

The background of the slide is a light gray gradient with several realistic water droplets of various sizes scattered across it. The droplets have highlights and shadows, giving them a three-dimensional appearance. The main title is centered in a large, bold, black sans-serif font.

DRAFT WATER RATES COMPARATOR STUDY

SAN DIEGO LAFCO

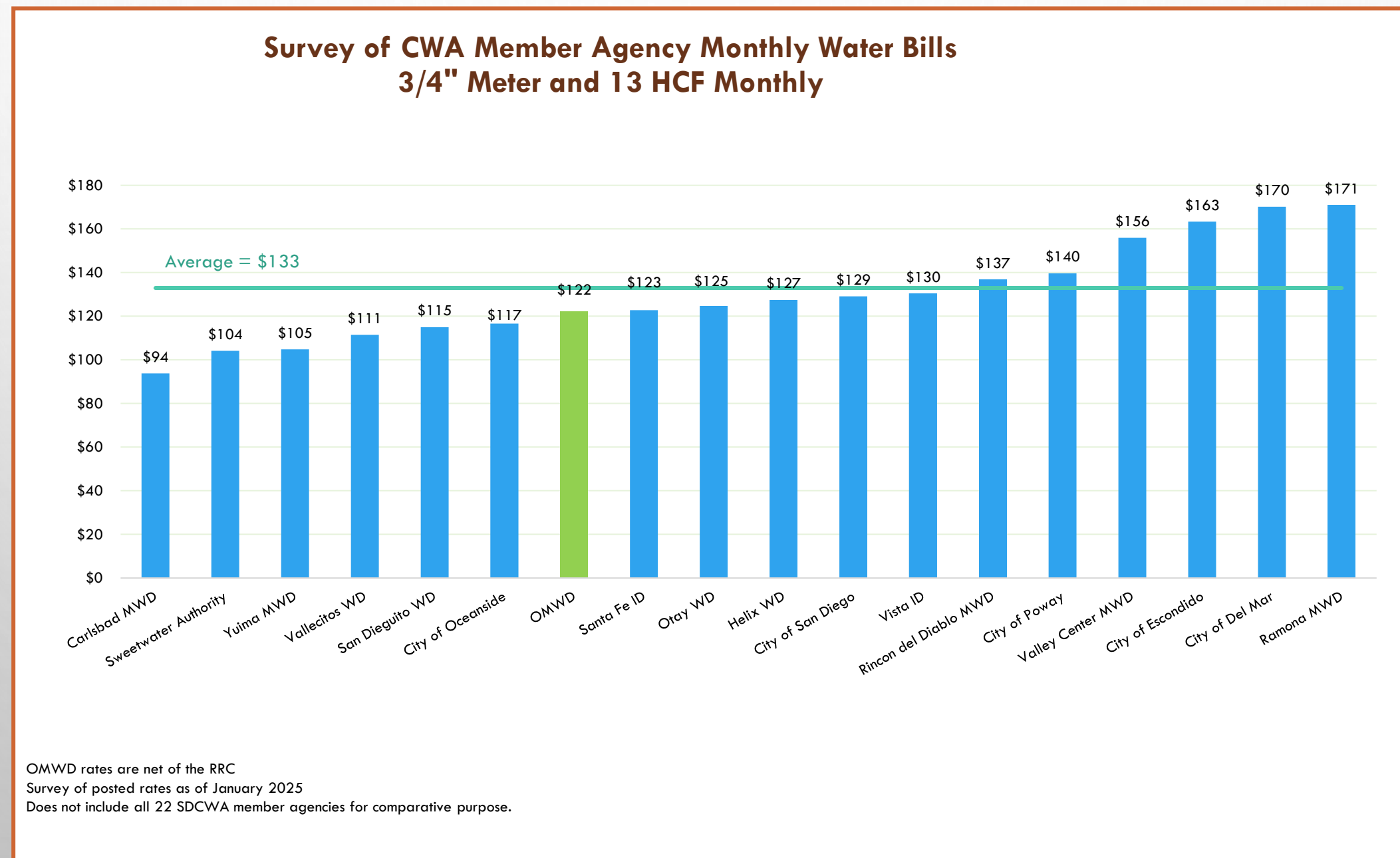
SPECIAL DISTRICTS ADVISORY COMMITTEE

JANUARY 16, 2026

HOW DO WE EVALUATE WATER RATES?

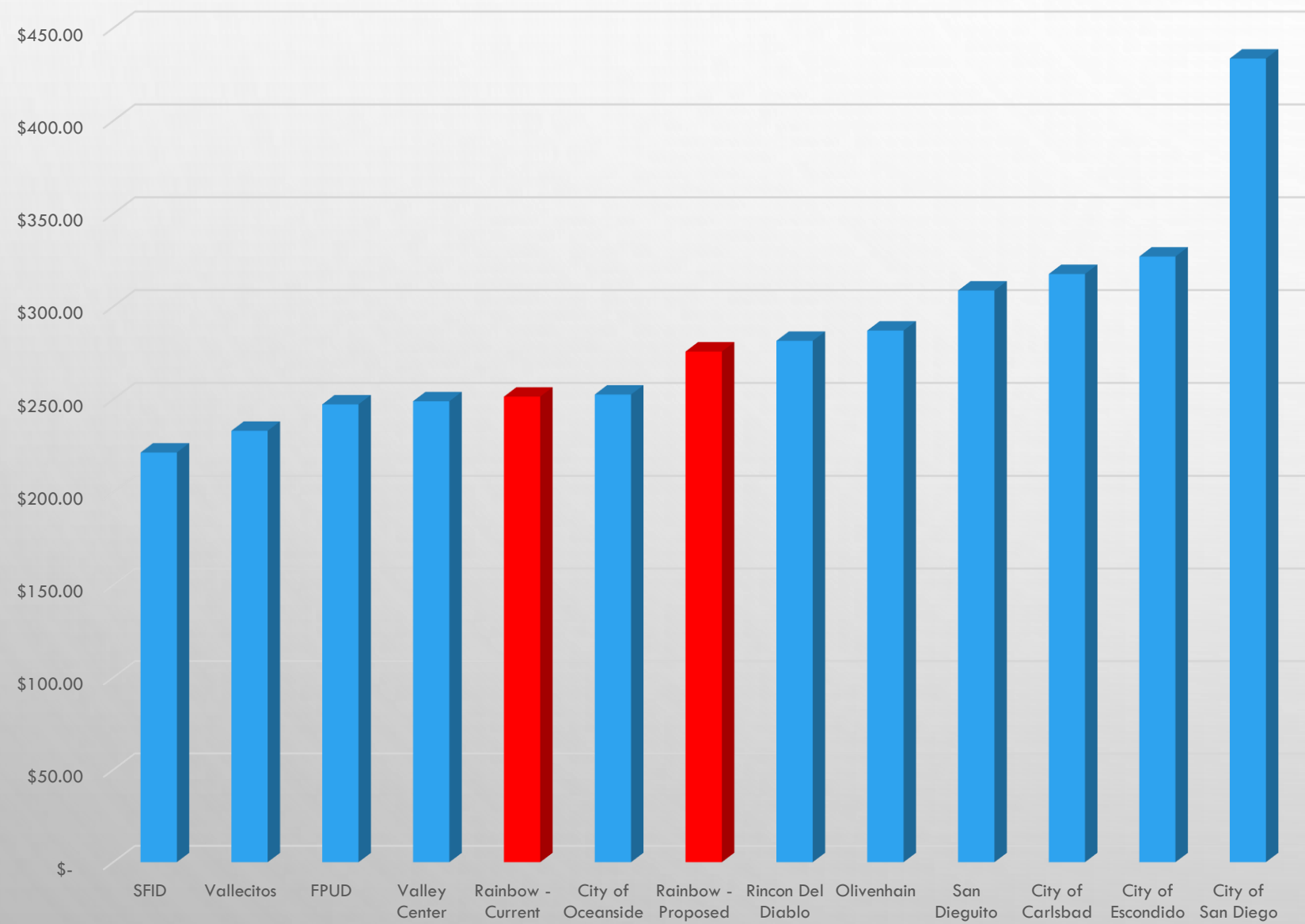
- ARE THERE “GOOD” RATES OR “BAD” RATES?
 - SHORT ANSWER: NO
 - RATE STRUCTURES THAT HAVE FIXED REVENUES THAT ARE CLOSER TO FIXED COSTS ARE “BETTER”
- WATER RATES ARE **VERY** AGENCY SPECIFIC
 - NO TWO AGENCIES ARE IDENTICAL
 - ALL HAVE DIFFERENT COST DRIVERS
- WATER RATE SETTING IS TIGHTLY CONTROLLED
 - COST OF SERVICE PRINCIPLES ARE MANDATED BY THE CA CONSTITUTION
 - COTTAGE INDUSTRY OF LAW FIRMS MONITOR THIS CLOSELY

“TRADITIONAL” RATE COMPARISONS

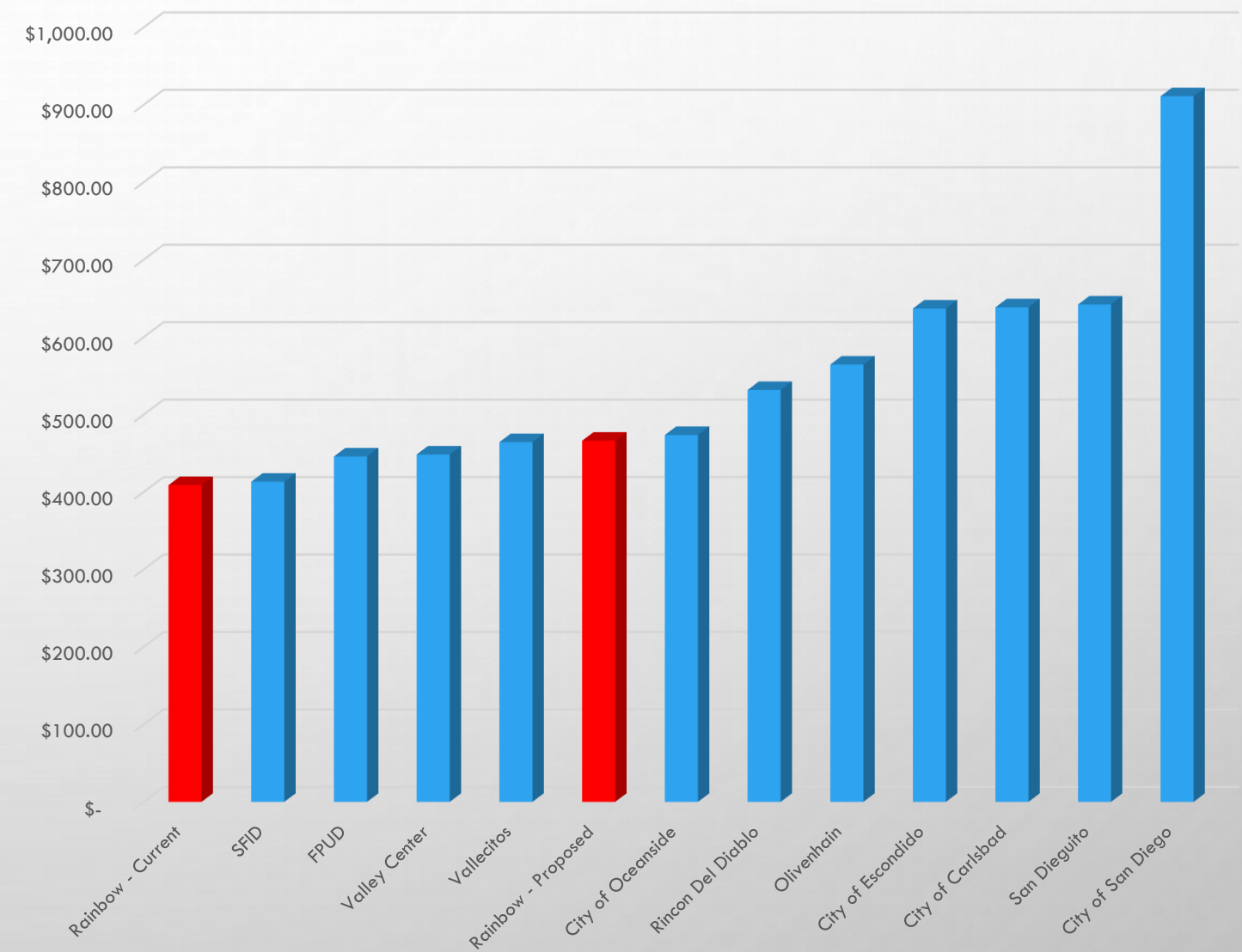


THESE CAN BE MISLEADING

Monthly Bill Comparison for 1" SFR 50 units



Monthly Bill Comparison for 1" SFR 100 Units



SDAC WATER RATES AD-HOC COMMITTEE APPROACH

- GOAL
 - PRODUCE INFORMATION THAT CAN HELP THE PUBLIC AND THE COMMISSION UNDERSTAND WHY WATER RATES VARY
 - HAVE A TOOL TO INFORM LAFCO AND THE PUBLIC AS TO WHETHER RATES ARE SUSTAINABLE
- CONSTRAINTS
 - WE WILL NOT DEFINE ANY RATES AS “GOOD” OR “BAD”
 - WE ARE WORKING WITH PUBLICLY AVAILABLE DATA
 - WE CHOSE METRICS THAT USE DATA THAT ALL AGENCIES PUBLISH
 - WE CHOSE METRICS THAT ARE EASY TO UNDERSTAND FOR THE PUBLIC AND THE COMMISSION
- CAVEATS
 - NOT ALL DATA IS PREPARED FOR THIS USE – THIS IS DERIVATIVE WORK THAT WILL CONTAIN ERRORS
 - THE METRICS ARE NOT EXACT – THESE ARE RELATIVE COMPARISONS
 - WE ONLY LOOKED AT A FEW OF MYRIAD POSSIBLE METRICS

INITIAL GROUP OF METRICS

- **SYSTEM DENSITY**

- HIGHER DENSITY SYSTEMS HAVE MORE ACCOUNTS TO SPREAD FIXED COSTS ACROSS WHICH TENDS TO LOWER RATE IMPACTS – MEASURED IN CONNECTIONS PER MILE OF PIPELINE

- **SYSTEM TOPOGRAPHY**

- SYSTEMS WITH LARGE ELEVATION CHANGES HAVE MORE PUMPING, TANKS, AND PRESSURE REGULATION STATIONS WHICH TENDS TO INCREASE RATE IMPACTS – MEASURED IN TOTAL ELEVATION CHANGE IN SYSTEM

- **LOCAL WATER TREATMENT**

- MOST AGENCIES WITH THEIR OWN TREATMENT PLANTS PRODUCE WATER AT A LOWER MARGINAL TREATMENT COST THAN WHOLESALE TREATMENT WHICH LOWERS RATE IMPACTS

INITIAL GROUP OF METRICS

- **DEVELOPMENT ACTIVITY**

- AGENCIES WITH HIGH DEVELOPMENT ACTIVITY RECEIVE LARGE AMOUNTS OF CAPACITY FEE REVENUE WHICH LOWERS NEED FOR OPERATING REVENUE AND THUS RATES

- **HIGH-COST LOCAL SUPPLY**

- AGENCIES WITH LOCAL SUPPLIES THAT REQUIRE DESALINATION OR POTABLE REUSE SUPPLIES REQUIRE marginally higher rates to support this local supply

- **LOW-COST LOCAL SUPPLY**

- AGENCIES WITH LOWER COST LOCAL SURFACE OR GROUNDWATER SUPPLIES REQUIRE marginally lower costs to support this local supply

REVISED DEVELOPMENT ACTIVITY METRIC

- FEEDBACK FROM SDLAFCO STAFF AND THE WORKING GROUP IDENTIFIED ROOM FOR IMPROVEMENT
 - PREVIOUS METRIC WAS BASED ON SUBJECTIVE FACTORS
- NEW METRIC WAS DEVELOPED TO ASSESS RELATIVE LEVELS OF DEVELOPMENT AND ASSOCIATED REVENUE

$$\text{Development Activity Score} = 1 + 9 * \frac{(Pa - Pmin)}{(Pmax - Pmin)}$$

Where Pa = Agency capacity fee revenue as a percentage of operating revenue

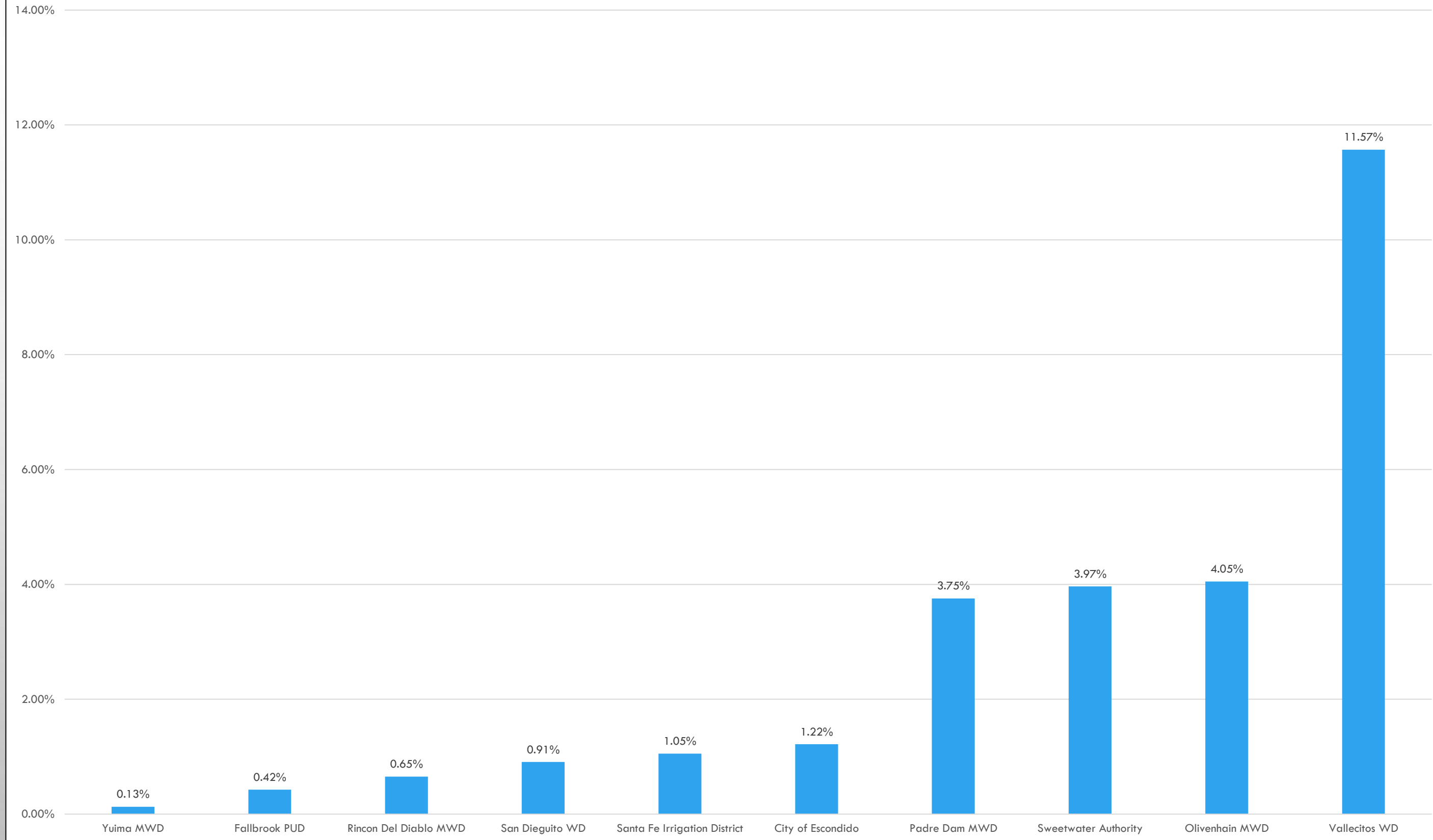
Pmin = lowest percentage of all agencies evaluated

Pmax = highest percentage of all agencies evaluated

REVISED DEVELOPMENT ACTIVITY METRIC

- ACFRS FOR 24 AGENCIES WERE REVIEWED, BUT ONLY 10 PROVIDED CAPACITY FEE AS A LINE ITEM IN THE FINANCIAL STATEMENTS
- 5-YEAR AVERAGES WERE USED
- OF THE THREE NORTH COUNTY MSR AGENCIES, CARLSBAD MWD WAS THE ONLY AGENCY THAT DID NOT HAVE DETAILED CAPACITY FEE REVENUE IN THEIR ACFR

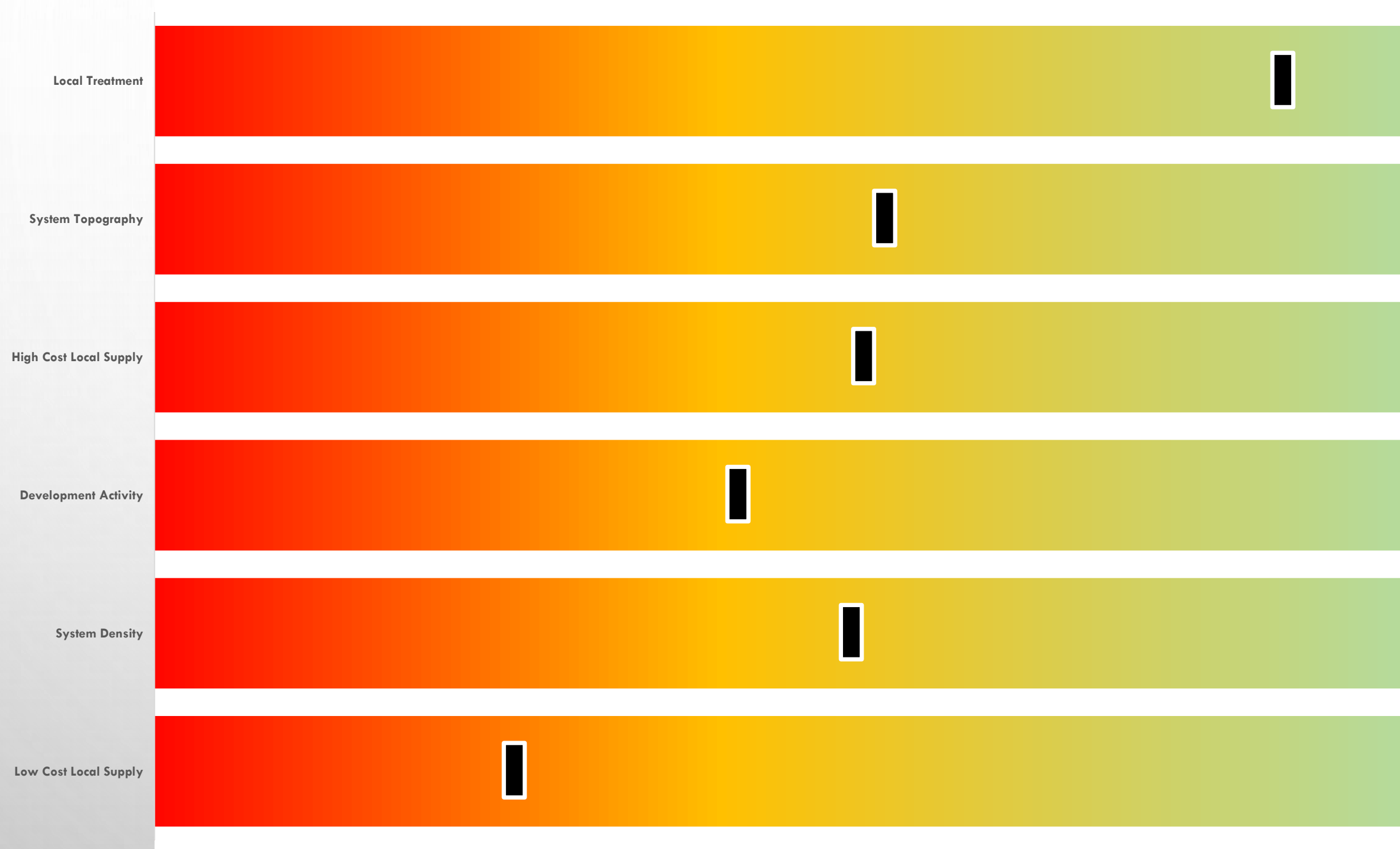
Capacity Fees as a Percentage of Operating Revenues



INITIAL ROUND OF ANALYSIS

- ROUGH DATA WAS COLLECTED FOR ALL AGENCIES, BUT THE NORTH COUNTY COASTAL MSR UNDERWAY CURRENTLY PROVIDED MORE DATA
- THREE SUBJECT AGENCIES WILL BE REVIEWED TODAY
 - OLIVENHAIN MWD
 - CARLSBAD MWD
 - SAN DIEGUITO WATER DISTRICT
- THE WORK PRODUCT CONSISTS OF “SLIDER BAR” CHARTS

Olivenhain MWD



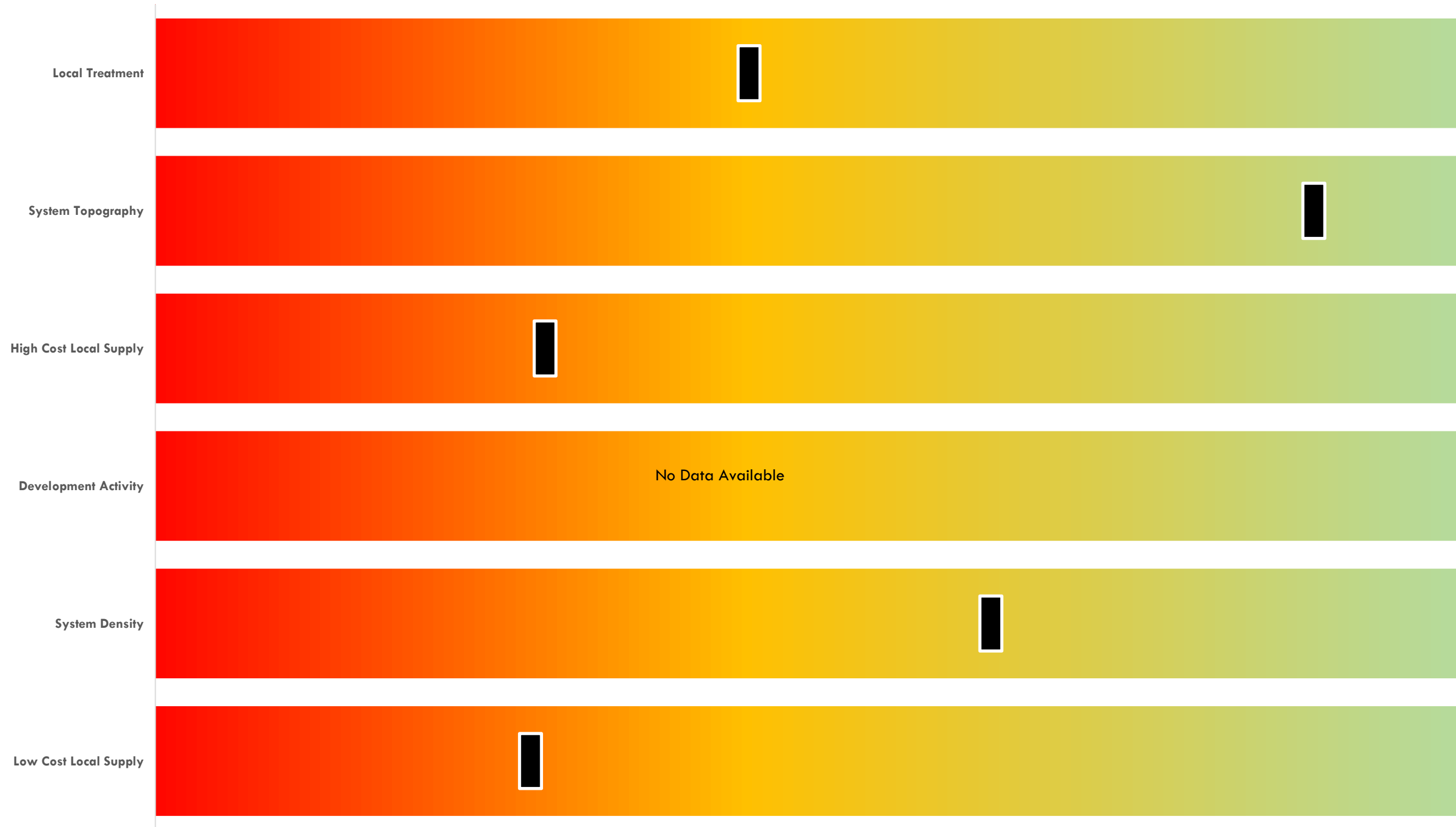
Rate Impacts

Higher



Lower

Carlsbad MWD



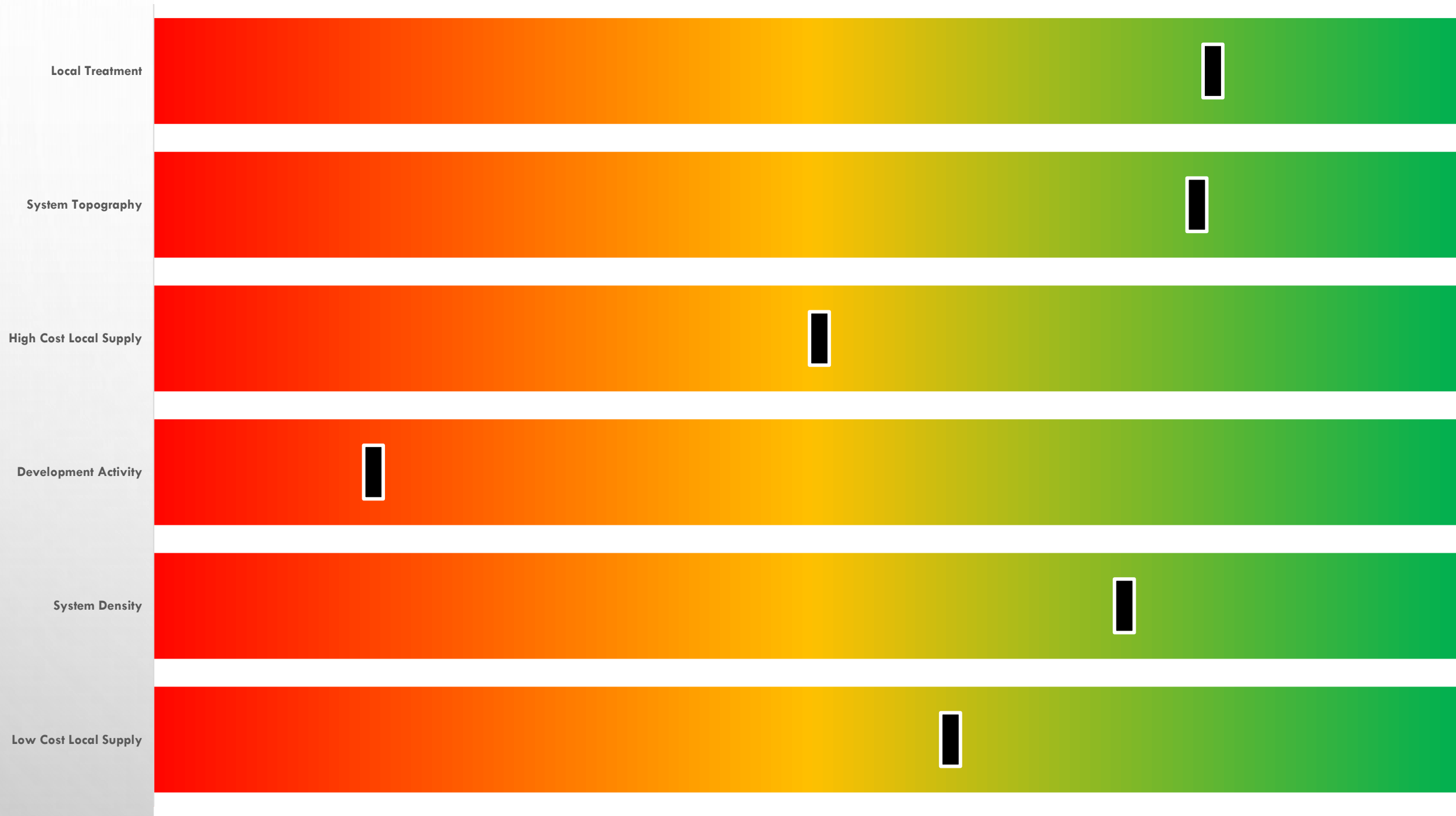
Rate Impacts

Higher



Lower

San Dieguito WD



Rate Impacts

Higher



Lower

WHAT IS THE OPTIMAL WATER RATE?

- TO RATEPAYERS THE OPTIMAL RATE IS THE LOWEST RATE
 - GOOD FOR SHORT TERM, NOT SO GOOD IN THE LONG TERM
- FOR AGENCIES, THE OPTIMAL RATE SUPPORTS THEIR FINANCIAL STABILITY
 - DEBT SERVICE, RESERVES, ETC.
- FOR LAFCO THE QUESTION IS MORE NUANCED
 - WILL RATES SUPPORT THE PROVISION OF THE ASSIGNED MUNICIPAL SERVICE NOW **AND** FOR THE FORESEEABLE FUTURE?

CAPITAL SPENDING AND WATER RATES

- THE PROVISION OF WATER/WASTEWATER SERVICES IS HIGHLY DEPENDENT ON CAPITAL ASSETS
 - PIPELINES, TANKS, TREATMENT PLANTS, ETC.
- ALL ASSETS HAVE FIXED LIFE SPANS AND WILL REQUIRE REHABILITATION OR REPLACEMENT AT SOME POINT
- AGENCIES NEED TO CONTINUOUSLY REINVEST IN CAPITAL ASSETS TO MAINTAIN SERVICE LEVELS
- **APPROPRIATE CAPITAL SPENDING INCREASES WATER RATES**

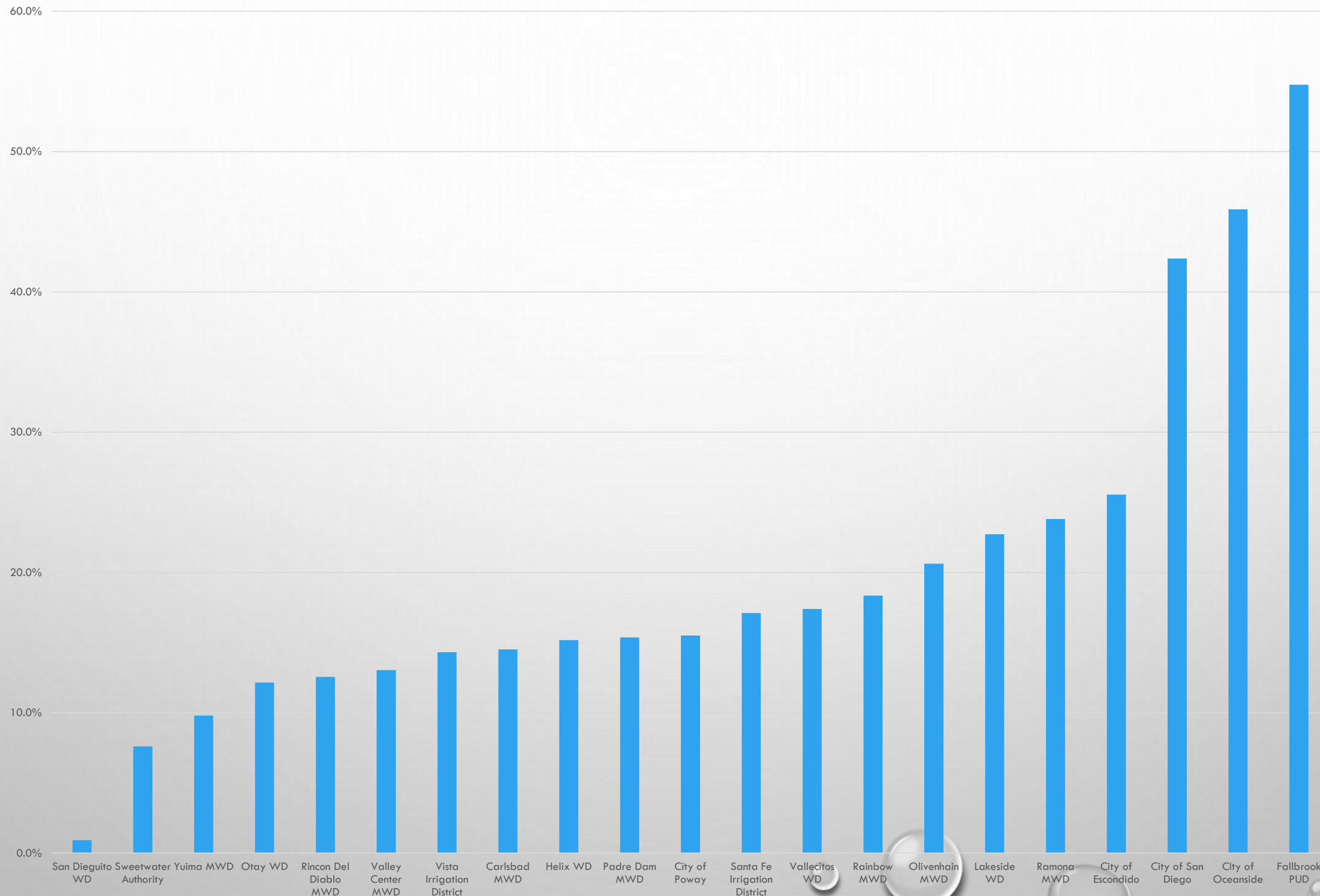
HOW TO ASSESS CAPITAL SPENDING?

- THERE IS NO SIMPLE METRIC THAT USES BROADLY AVAILABLE INFORMATION
- WE LOOKED AT TWO IMPERFECT METRICS
 - CAPITAL SPENDING AS A PERCENTAGE OF OPERATING EXPENSES
 - CAPITAL SPENDING AS A PERCENTAGE OF DEPRECIATION EXPENSE
- BOTH HAVE FLAWS
 - CAN'T ACCOUNT FOR SINGLE LARGE PROJECTS THAT DISTORT AVERAGES
 - CAN'T ACCOUNT FOR CIP PROJECTS NOT RELATED TO ASSET MANAGEMENT (NEW HQ BUILDINGS, ETC.)

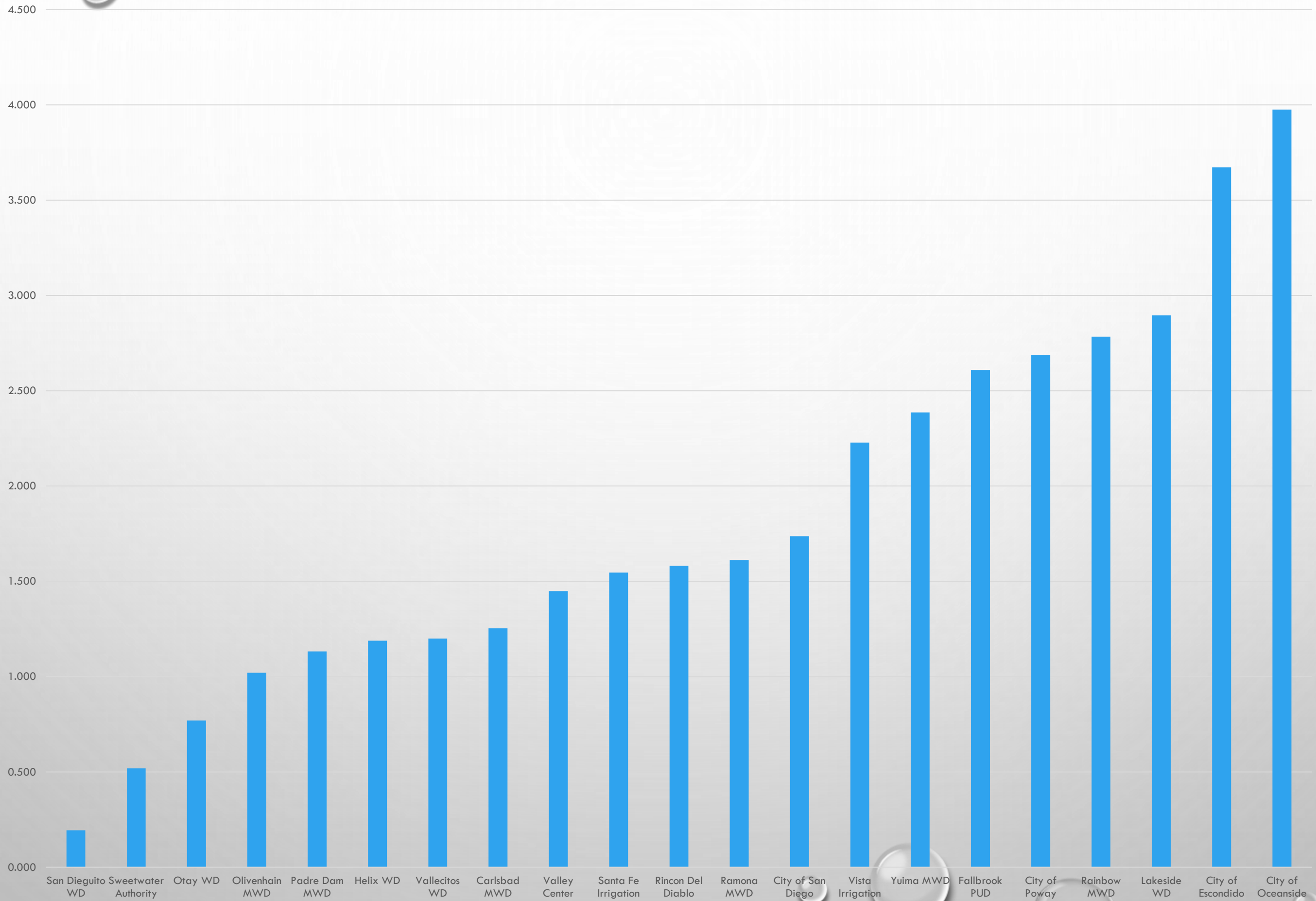
CIP SPENDING ANALYSIS

- LOOKED AT 5 YEARS' WORTH OF ACFRS FOR ALL AGENCIES
 - 2019-2023 (EXCEPT FOR SFID AND RAINBOW WHICH STARTED IN 2020)
 - SWEETWATER AUTHORITY ONLY HAD TWO YEARS' WORTH OF DATA ON WEBSITE
- CALCULATED 5-YEAR AVERAGES FOR
 - OPERATING EXPENSES
 - DEPRECIATION
 - CIP EXPENSES
- NO EVALUATION ON EXACTLY WHAT THE CIP SPENDING WAS FOR

5 Year Average Percentage of CIP Spending Compared to Operating Expenses



5 Year Average CIP to Depreciation Ratio



WHAT DO THESE CHARTS MEAN?

- THEY ONLY REPRESENT A COMPARISON TO OTHER AGENCIES, BUT SOME INFERENCES CAN BE DRAWN
 - IF YOU ARE SPENDING LESS THAN 15% OF YOUR OPERATING EXPENSES YOU ARE PROBABLY SPENDING TOO LITTLE
 - IF YOUR RATIO OF CIP TO DEPRECIATION IS LESS THAN 1.0 YOU ARE PROBABLY SPENDING TOO LITTLE
- SAN DIEGUITO STANDS OUT HERE – AND THEY HAVE ACKNOWLEDGED THE ISSUE AND HAVE MADE CHANGES SINCE THE STUDY PERIOD ENDED.

WHAT DO THESE CHARTS MEAN?

- THE REAL TAKEAWAY IS THAT FROM AN ASSET MANAGEMENT PERSPECTIVE MOST AGENCIES HAVE RATES THAT ARE **TOO LOW**, NOT TOO HIGH
 - BUDGET PROCESS “TRIAGE” GUTS CAPITAL PROGRAMS TO KEEP RATES DOWN
- AGENCIES SHOULD HAVE COMPREHENSIVE ASSET MANAGEMENT/PIPELINE REPLACEMENT PROGRAMS IN PLACE
 - DETAILED ASSET REGISTRY AND WORK ORDERS LINKED TO ASSETS
 - CONTINUOUS CONDITION ASSESSMENT PROCESSES
 - CAPITAL SPENDING INFORMED BY CONDITION ASSESSMENT
- IF AGENCIES WAIT UNTIL IT IS TOO LATE TO PERFORM PROACTIVE ASSET MANAGEMENT, THE PROVISION OF SERVICES WILL BE DISRUPTED
 - GARY ARANT: “YOU CAN REPLACE MAINS 3 FEET AT A TIME OR 3 MILES AT A TIME.” THE LATTER IS PREFERRED

WRITTEN REPORT DRAFT

- AT OCTOBER SDAC MEETING, SDLAFCO COMMISSIONED A WRITTEN REPORT ON THIS PROCESS
- FIRST DRAFT WAS REVIEWED BY WORKING GROUP AND SDLAFCO STAFF
- SECOND DRAFT IS AVAILABLE FOR REVIEW NOW – ON SDLAFCO WEBSITE
- THE REPORT HAS MORE GRANULAR DETAILS ON THE PROCESS AND CALCULATION METHODOLOGIES

WRITTEN DRAFT REPORT

- THE REPORT PROVIDES TWO RECOMMENDATIONS
 - AGENCIES SHOULD BE ACTIVELY USING OR DEVELOPING ADVANCED ASSET MANAGEMENT PRACTICES TO ENSURE THAT SCARCE FUNDING HAS BIGGEST IMPACT ON SERVICE RELIABILITY
 - ENSURES LONG TERM SERVICE PROVISION TO COMMUNITIES
 - IF POSSIBLE, SOME MECHANISM SHOULD BE DEVELOPED BY THE LEGISLATURE TO ALLOW WHOLESALE AGENCIES TO COLLECT THEIR COSTS DIRECTLY RATHER THAN THROUGH THE BILLING SYSTEMS OF RETAILERS
 - INCREASES ACCOUNTABILITY FOR WHOLESALERS AND REDUCES WHAT IS OFTEN THE LARGEST COST COMPONENT FOR RETAIL AGENCIES, FREEING UP FUNDS FOR ASSET MANAGEMENT

NEXT STEPS

- RECEIVE FINAL FEEDBACK FROM SDAC AND LAFCO STAFF
 - ANYONE GOT ANY IDEAS FOR DIFFERENT METRICS?
- IDENTIFY METHODS TO ADDRESS EQUITY ISSUES
 - LEGALLY
- IDENTIFY AND DEVELOP MESSAGING FOR THE COMMISSION AND PUBLIC
 - WHAT MESSAGE DO WE WANT TO SEND?
 - HOW DO WE DO THIS EFFECTIVELY?

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**Agenda Item No. 5b
Comments/Questions?**



1/16/2026

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**SPECIAL DISTRICTS ADVISORY
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JANUARY 16, 2026**

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Agenda Item No. 5c

**Workplan Update on Legislative Proposal
Implementing Report Recommendations from
UC Berkeley to Expand LAFCOs' Effectiveness**



1/16/2026

U.C. Berkeley Report



LAFCO and Water Systems Consolidation:

Bridging The Gap Between Local And State Regulators
To Stop And Reverse Water System Fragmentation

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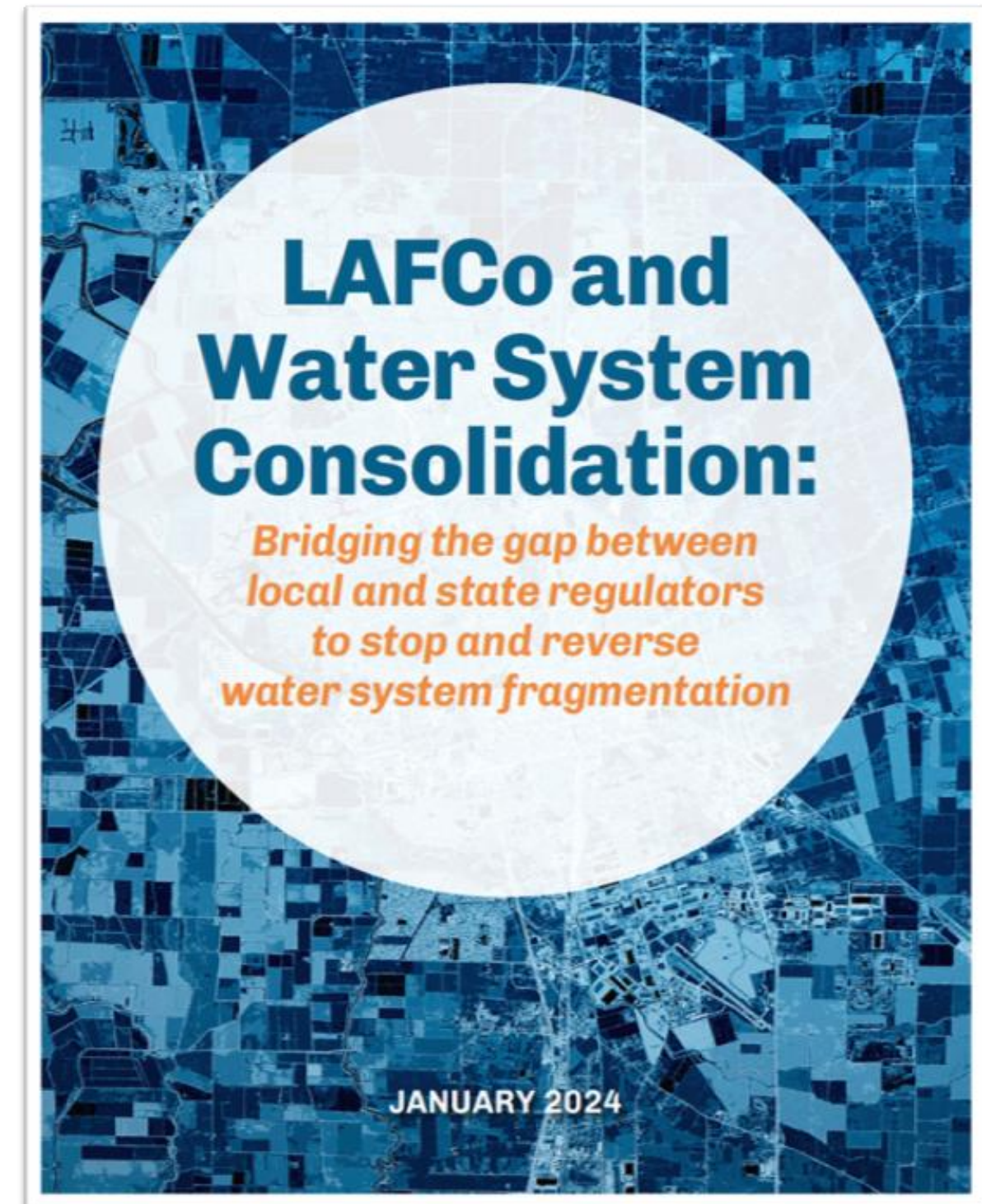
Report Focus: Improve public water systems through consolidations with emphasis on underserved communities.



Key Recommendations: Regular communications between LAFCOs and State water regulators.



MSR Importance: Well-funded MSRs to identify and prioritize consolidations, small system mergers, and seek annexation authority.





Joint Legislative Group

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- **Kristin Dobbin**, Assistant Professor of Cooperative Extension, U.C. Berkeley and the Division of Agriculture and Natural Resources
- **Justin McBride**, PhD Candidate in Urban Planning, U.C. Los Angeles
- **Orange** LAFCO
- **Napa** LAFCO
- **Sacramento** LAFCO
- **Alameda** LAFCO
- **Butte** LAFCO
- **Santa Cruz** LAFCO
- **Community Water Center**
- **Leadership Counsel for Justice and Accountability**

Work Completed To Date



- **Ongoing Meetings with Internal Working Group**

- 15 virtual meetings between April 2024 and January 2026
- **Kristin Dobbin**, Assistant Professor of Cooperative Extension, U.C. Berkeley and the Division of Agriculture and Natural Resources
- **LAFICOS**: Alameda, Sacramento, San Diego, Butte, Napa, Santa Cruz, Orange
- **Other**: UC Berkeley, UCLA, Community Water Center, Leadership Counsel for Justice and Accountability, Public Advocates

- **Outreach to External Partners:**

- Southern Region of California LAFICOSs, CALAFICO, Alliance of LAFICOSs
- San Joaquin, Santa Cruz, Napa, and other LAFICOSs

- **Draft language first developed Dec. 2024; refined through Nov. 2025**

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Legislative Proposals



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Expand LAFCOs Ability to Initiate jurisdictional changes or **Out-of-Agency Service Agreements** to Support Timely Water Or Wastewater Services Consistent With Community Needs.

(Amend GCS 56375)

2

Amplify MSR's Role in Communicating Community Needs. Requiring Publicly Noticed Hearing (LAFCO + local agencies).

(Amend GCS 56430)

3

Address Service Barriers for Mutual Water Companies and Mobile Home Parks by making them subject to LAFCO.

(Amend GCS 56430 and Health and Safety Code)



Current Focus + Next Steps

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- **Outreach to External Partners:**

- CALAFCO Legislative Committee – seeking sponsorship
- Alliance of LAFCOs – seeking sponsorship
- Individual LAFCOs seeking Commission support

- **San Diego:**

- Seeking Committee feedback ahead of going to San Diego LAFCO Commission in February seeking support on legislative proposal

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**Agenda Item No. 5c
Comments/Questions?**



1/16/2026

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**SPECIAL DISTRICTS ADVISORY
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Agenda Item No. 5d

Special District Spotlight:

Leucadia Wastewater District Highlights



1/16/2026

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**SPECIAL DISTRICTS ADVISORY
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Agenda Item No. 5e Selection of Chair and Vice Chair



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