

MARIN LOCAL AGENCY FORMATION COMMISSION

RESOLUTION NO 05-07

**ADOPTION OF DETERMINATIONS
FOR THE SOUTHERN MARIN SEWER SERVICE REVIEW**

WHEREAS, Section 56430 of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 requires that Local Agency Formation Commissions (LAFCOs) conduct service reviews prior to, or in conjunction with, consideration of actions to establish a Sphere of Influence (SOI) as defined in Section 56076, and in accordance with Section 56425 or 56426.5, or update an SOI pursuant to Section 56425; and

WHEREAS, as part of such reviews, LAFCOs must compile and evaluate service-related information and make written determinations regarding infrastructure needs or deficiencies, growth and population projections for the affected area, financing constraints and opportunities for shared facilities, government structure options, including advantages and disadvantages of consolidation or reorganization of service providers, evaluation of management efficiencies, and local accountability and governance; and

WHEREAS, Marin Local Agency Formation Commission initiated a service review of local government services in the Southern Marin area concurrently with a review of adopted spheres of influence in the Southern Marin area as described in the *Southern Marin Service Review and Spheres of Influence* on April 26, 2004; and

WHEREAS, Marin LAFCO consulted with affected and interested agencies, interested parties; and

WHEREAS, Marin LAFCO gathered and compiled the information necessary to conduct the required review and independently evaluated such information; and

WHEREAS, Marin LAFCO issued a the Southern Marin Sewer Services Alternatives Study on July 29, 2005 and provided a 21-day public review of said document; and

WHEREAS, Marin LAFCO considered the data, recommendations and determinations contained in the *Southern Marin Service Review and Spheres of Influence* report and the *Southern Marin Sewer Services Alternatives Study Report* at noticed public hearings on September 13, 2005 and October 13, 2005 and received all oral testimony and evidence, which were made, presented or filed, and all persons present were given

the opportunity to hear and be heard in respect to any matter relating to the review, its data, recommendations and determinations; and

WHEREAS, Marin LAFCO considered project related environmental factors and determined that the subject project is Exempt from provisions of the California Environmental Quality Act (CEQA) pursuant to Section 15061 of the State CEQA Guidelines;

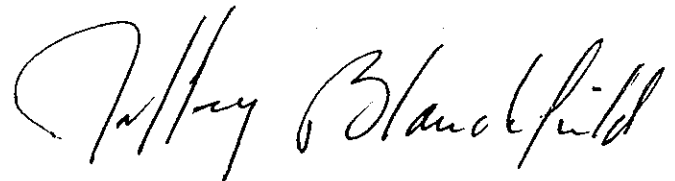
NOW, THEREFORE, BE IT RESOLVED, that pursuant to powers provided in Section 56430 of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, the Marin Local Agency Formation Commission adopts written determinations as set forth in Exhibit A.

PASSED AND ADOPTED by the Marin Local Agency Formation Commission on this 13th day of October, 2005, by the following vote:

AYES: Commissioners Asbo, Adams, Blanchfield, Heller, McGlashan, Rodoni and Slavitz

NOES: None

ABSENT: None



JEFFRY BLANCHFIELD, Chairperson

ATTEST:


PETER V. BANNING, Executive Officer

EXHIBIT A

Statement of Written Determinations Southern Marin Sewer Service Review

1. Regarding infrastructure needs or deficiencies, the Commission determines:

Functional collaboration and political consolidation both afford financial and service level benefits in addressing infrastructure needs. Collection system assets include the gravity and forced main sewers, manholes and pump stations. The major drivers for these future investments are the new California Sanitary Sewer Overflow/Sanitary Sewer Management Plan regulations and parallel EPA/state enforcement actions for correcting sewer hydraulic capacity and/or structural deficiencies that lead to excessive wet weather inflow and sewer overflows. Debris, roots, oils/fats/grease and deteriorated sewer condition are all contributors to reduce gravity sewer capacity. Aging sewers and pump stations require periodic investments. The following table illustrates an order-of-magnitude reinvestment rate assuming a 75 year service life for sewers and a 25-year service life for pump station mechanical, electrical and instrumentation systems.

Collection System Component	Amount/Units	Cost Factor Replacement*	Replacement Rate	Projected Increase (\$millions)*
Gravity Sewers	221 miles	\$200/ft	3 miles per year	\$3.20
Pressurized Mains	21 miles	\$500/ft	0.28 miles per year	\$0.70
Pump Stations	69	\$250,000/PS	2.75/year	\$0.70
Annual Incremental Capital Spending Increase				\$4.60

* Baseline Year -- 2005; all costs in 2005 Dollars

Based on differences in system age and additional information on individual agency levels of historic capital investment to maintain sewers, manholes and pump stations, the Commission's consultants forecasted that the Southern Marin sewer agencies will need to spend an additional \$3.3 million per year over the baseline \$12.2 million per year for FY 2004/2005. The combined \$3.3 million of infrastructure-related cost increase forecasts include both maintenance and capital investment (\$2005, no inflation included) and the capital investment component for replacement/rehabilitation of aging infrastructure was forecast at \$2.0 million per year.

The three (3) treatment agencies all have future capital investments planned for replacement/rehabilitation as well as modernization and efficiency improvements of the treatment plant facilities.

2. Regarding growth and population projections for the affected area, the Commission determines:

The April 2004 Draft Sphere of Influence Report projected a less than 1% annual growth rate in the urbanized areas of Southern Marin County. Sanitary District No. 5 has the greatest potential for modest future growth in areas like Paradise Drive where there are plans to extend the sewers and pump to the Tiburon Main Plant. There are similar future plans for the Muir Woods Park area which would be added to the City of Mill Valley collection system and the SASM treatment plant. With these exceptions, most of the urbanized areas in Southern Marin County are built out and have limited future development potential. This means that financing of future capital improvement investments will need to be borne largely by existing ratepayers and that future sewer rate increases will be based on infrastructure reinvestment requirements, inflation and limited growth in rate base.

3. Regarding financing constraints and opportunities, the Commission determines:

Compounding the challenges of providing funding for major capital expenditures are the restrictive financing options available to many of the current agencies. The smaller agencies in Southern Marin are not candidates for issuing revenue bonds using public finance methods as they have "reviewed" rather than audited financial statements and do not have established bond agency ratings. Moreover, the transaction cost of bond issuance for underwriters and attorneys fees would be prohibitively expensive relative to the size of the bond offerings. In short, some of the eleven agencies are not able to approach the bond markets on an individual basis. The smaller Southern Marin agencies will be more inclined to pay-as-you-go financing of capital improvements.

The mature rate base and limited growth forecasts in Southern Marin also contribute to future financial challenges. Higher operating and capital costs will be borne largely by existing ratepayers.

Southern Marin Sewer agencies do have capital financing mechanisms available through collaborative organizations such as the California Special Districts Association (CSDA) and/or low interest rate loans through state revolving funds (SRF). SRF funding pool is limited. CSDA does bond financing transactions on behalf of coalitions of participating special districts. Coalition members in a bond offering can involve dozens and even hundreds of sanitary districts. The CSDA

capital projects collaboration provides participating sanitary districts with market-rate financing. This option is available to the ten agencies – either in concert or individually.

The study identified opportunities for capital program collaboration efficiencies, both through economies of scale for shared design, construction and construction management services and pooled financing. Joint Powers Agencies such as SASM have legal standing to establish credit and sell bonds.

4. Regarding cost avoidance opportunities, the Commission determines:

Both functional collaboration and political consolidation offer opportunities for achieving some cost avoidance through economies-of-scale and the service and operational efficiencies gained through collaborative efforts. The tables from the executive summary of the Study report are illustrative of the cost avoidance potential. The first table below summarize cost avoidance potential for current operations. The second table illustrates cost avoidance potential for the implementing the future SSO/SSMP and infrastructure replacement and rehabilitation program on a collaborative basis. Note that the functional collaboration and political consolidation savings potential were analyzed independently, when in fact they should be a least partially additive.

Potential Cost Savings – Current Cost Basis

Option	Current Cost Basis Operating & Capital Budget (\$000)*	Annual Potential Savings (\$000)*	Annual Potential Savings
Functional Collaboration	\$12,300	\$1,330	11%
Integrated SASM Sanitary District	\$5,700	\$490	8.5%
Integrated SMCSO Sanitary District	\$3,700	\$275	7.5%

* Baseline Year – 2005; all costs in 2005 Dollars

Potential Cost Savings – Future Cost Basis

Option	Future Cost Basis Operating & Capital Budget (\$000)*	Annual Potential Savings (\$000)*	Annual Potential Savings
Functional Collaboration	\$15,500	\$1,830	12%
Integrated SASM Sanitary District	\$7,400	\$750	10%
Integrated SMCSO Sanitary District	\$4,700	\$375	8%

* Baseline Year – 2005; all costs in 2005 Dollars

The Study also identified opportunities where collaboration can reduce legal risk and thus provide some potential future cost avoidance. Collaborative efforts on the SSO/SSMP program will reduce costs through economies of scale and also reduce the risks for future enforcement actions for sewer overflows and through

citizens' suits. A shared dispatch/emergency response center will help assure uniform effective response to an incident that meets the requirements.

5. Regarding opportunities for rate restructuring, the Commission determines:

Political consolidations afford the greatest potential for future rate restructuring but must be approached with caution to assure fairness. The following table is an excerpt from a Marin County sewer rate survey conducted by SASM in December 2004. There is a broad range of rates among the eleven agencies at the time of the survey.

Marin County Sewer Service Charge Survey June 2005										
Agency	Annual sewer service charge per EDU					2003/2004 property tax revenue	Current EDU count	Current SSC + [tax / EDU]	Revenues	EDUs by Region
	Current	increase(s)		5 years ago	Projected 5 years from now					
		Year	Amount							
Southern Marin										
Almonte SD	\$250			\$275	\$250	\$47,250	789	\$310	\$244,500	
Alto SD	\$285			\$285	\$285	\$10,000	508	\$305	\$154,780	
Belvedere, City of	\$700	2005-06	\$890	\$875		\$0	1,126	\$700	\$788,200	
Homestead Valley SD	\$250			\$100	\$250	\$32,000	1,064	\$280	\$298,000	
Mill Valley, City	\$297			\$243	\$325	\$0	7,204	\$297	\$2,139,588	
Richardson Bay SD	\$246			\$246	\$246	\$887,484	4,664	\$436	\$2,034,828	
Sausalito, City of	\$473					\$0	6,115	\$473	\$2,892,395	
Sausalito/Marin City SD	\$349			\$160	per CPI	\$302,965	2,133	\$491	\$1,047,382	
SD #5 of Marin County	\$300	2005-06	\$351	\$300	\$700	\$380,000	2,740	\$439	\$1,202,000	
		2006-07	\$411							
		2007-08	\$480							
Tamalpais Valley CSD	\$301	2005-06	\$421	\$301		\$0	2,560	\$301	\$770,560	
		2006-07	\$573							
		2007-08	\$711							
Average charge per EDU:								\$400	\$11,572,233	28,903
SASM	\$142			\$142	\$156	\$0	14,484	\$142	\$2,056,728	
Belvedere. Annexation to SD #5 effective 7-1-05. Thereafter, SD #5 will set the rates.										

Terms and conditions of any political consolidation will require careful analysis to assure rate payer equity. The use of separate rate zones to temporarily segregate costs and allocate the use of reserves is central to maintaining ratepayer equity in consolidating sewer agencies. Eventually the consolidated utility may be able to move toward a unified rate structure.

6. Regarding opportunities for shared resources, the Commission determines:

The Study methodology screened a broad cross-section of potential functional collaboration areas for the Southern Marin Agencies and selected the following three collaboration areas for more detailed evaluation. Shared resources and staffing in areas like laboratory operations, pump station maintenance and so on

are one of the targeted areas, but the SSO/SSMP and capital program collaboration areas will also achieve savings through shared resources (e.g., integrated cleaning and inspection, pooled capital projects and construction management).

- **Sanitary Sewer Overflow(SSO)/Sanitary Sewer Management Plans (SSMP) Program Activities:** collaboration on the development of the required plan(s) and implementation of specific elements of the plan(s) to prevent and manage SSO events, including cleaning, TVing, and inspection of collection systems.
- **Capital Projects:** collaboration on the identification of and planning for capital projects; financing of capital projects, delivering design, construction services and construction management.
- **Shared Resources and Staffing:** collaboration on the sharing of specialized equipment and staff resources; access to resources and staff expertise not currently available to all agencies.

Shared resources savings represent a significant opportunity. The ten southern Marin agencies are in the process of adopting resolutions that commit sources and participation of each agency in collaboration efforts. Shared resources through collaboration have the potential to save up to \$1.3 million annually or 11% from the current \$12.3 million combined annual operating expenses and capital spending costs. Shared resources have the potential to save up to \$1.8 million or 12% annually from the projected \$15.5 million combined annual operating expense and capital spending budget.

In addition, there are non-financial benefits that may be achieved through shared resources. Examples include improved employee career paths, improved staff skills and knowledge, better customer service levels and more rigorous inspection of field construction and service activities.

7. Regarding government structure options, including advantages and disadvantages of consolidation or reorganization of the service providers, the Commission determines:

The Study methodology also screened a number of political consolidations. The following two were selected for a more detailed evaluation. Modeled after the City of Belvedere annexation by Sanitary District No.5, the GSO-1 and GSO-2 consolidated sanitary districts would be responsible for the collection sewers sending wastewater to the SASM and SMCSO treatment plants respectively. The advantages and disadvantages of Alternatives GSO-1 and GSO-2 are summarized in the tables below.

- **Government Structure Option 1 (GSO-1): SASM Integrated Sanitary District**
 Consolidation of current SASM agencies into a single integrated sanitary district, including the portion of TCSD collection system that flows to the SASM wastewater treatment plant

- **Government Structure Option 2 (GSO-2): SMCSM Integrated Sanitary District**
 Expansion of the Sausalito Marin City Sanitary District (SMCSM) to include the City of Sausalito's collection system and that portion of the TCSD service area that flows to the SMCSM wastewater treatment plant.

Advantages and Disadvantages of GSO-1 Political Consolidation

Advantages	Disadvantages/Issues/Barriers
<ul style="list-style-type: none"> ▪ Higher resource productivity for sewer collection maintenance, cleaning, inspection and SSMP program management ▪ Higher resource productivity for Pump Station Maintenance and related mechanical, electrical/instrumentation maintenance ▪ Potential for staff specialists/crews if cost savings over contractor – higher work volume (e.g., electrical/instrumentation maintenance and sewer inspection) ▪ Consolidation of GM positions ▪ Career path resulting from expanded staff ▪ More efficient 24/7 off-shift coverage, relief staffing and emergency response capability from larger staff. ▪ Better regional sewer service integration for Southern Marin as well as coordinated management of watershed environmental impacts ▪ Builds on successful SASM JPA ▪ More staff and financial resources to address future program needs and capital investments (e.g., SSO/SSMP, regional water quality) 	<ul style="list-style-type: none"> ▪ Staff transitions issues (salaries, tenure, role in new organization, retirement) ▪ Differences in infrastructure condition and future capital investment requirements for replacement/rehabilitation ▪ Sewer rate differences, including phase out of property tax contribution ▪ Stakeholder opinion- perceived loss of local control ▪ Transition of existing debt/bond issue obligations ▪ LAFCO cannot enact consolidations ▪ Implementation issue of multiple corporate yards must be addressed ▪ Treatment of reserves and dispensation must be addressed ▪ Disparity of geographic rate assignments for different needs, e.g. TCSD ▪ Retention of local area expertise & knowledge becomes a potential issue ▪ Likelihood of existing boundaries continuing despite the consolidations

The potential capital and operating costs savings (future basis) with GSO-1 SASM Agency Consolidation (2005\$ per Equivalent Dwelling Unit.) is up to \$50/EDU.

Advantages and Disadvantages of Potential Political Consolidation GSO-2

Advantages	Disadvantages/Issues/Barriers
<ul style="list-style-type: none">▪ Higher resource productivity for sewer collection maintenance, cleaning, inspection and SSMP program management▪ Higher resource productivity for Pump Station Maintenance and related mechanical, electrical/instrumentation maintenance▪ Potential for staff specialists/crews if cost savings over contractor – higher work volume (e.g., electrical/instrumentation maintenance and sewer inspection)▪ Career path resulting from expanded staff▪ More efficient 24/7 off-shift coverage, relief staffing and emergency response capability from larger staff.▪ Better regional sewer service integration for Southern Marin▪ Provide TCSD ratepayers with board representation▪ More staff and financial resources to address future program needs and capital investments (e.g., SSO/SSMP, regional water quality)▪ Move toward integrated regional management of sewage collection and treatment	<ul style="list-style-type: none">▪ Staff transition issues (salaries, tenure, role in new organization, retirement)▪ Differences in infrastructure condition and future capital investment requirements for replacement/rehabilitation▪ Sewer rate differences, including phase out of property tax contribution▪ Stakeholder opinion regarding possibility for loss of local control▪ Transition of existing debt/bond issue obligations▪ TCSD staffing transition because of multi-functional roles▪ Stranded management and costs in both the City of Sausalito and TCSD▪ Negotiation of equitable asset transfer costs and/or stranded asset investments (e.g., cleaning equipment if activities is outsourced and not staffed)

The potential capital and operating costs savings (future basis) with GSO-1 SMCSO Agency Consolidation (2005\$ per Equivalent Dwelling Unit.) is up to \$30/EDU.

It should be noted that political consolidation is very unlikely unless there is successful prior functional collaboration. There are clearly major issues/barriers to overcome as illustrated in the above tables. The pathway to political restructuring is through a track record of successful collaborations that builds trust and relationships among the stakeholders.

8. Regarding evaluation of management efficiencies, the Commission determines:

The management and staffing resources of the current decentralized sewer services agency are inefficiently deployed. Management, operations and administrative staffing redundancy are inherent in the existing decentralized, multi-agency structure. Some needed skills or agency capabilities are not available (e.g., human resources, training) to small organizations due to budget constraints. The same is true of the deployment of vehicle and equipment fleets. External services contracts such as Roto Rooter are negotiated from a disadvantageous contract size basis. Construction projects are smaller so the design, mobilization/demobilization and construction management costs are a higher percentage of total project cost. The Study estimated a management and staffing savings potential of over \$900,000 annually was feasible under alternative organizational alternatives.

Reaching this level of efficiency may require some significant capital investments, for example in Supervisory Control and Data Acquisition (SCADA) software to automate the treatment plants and permit unattended off-shift operations. Also, staffing consolidations in public sector organizations are best done through attrition rather than a planned workforce reduction.

9. Regarding local accountability and governance, the Commission determines:

The six independent sanitary districts in southern Marin are each governed by independent, five-member boards of directors. Board members receive stipends of \$75 to \$100 per monthly meeting for their service. The appointed members of the SASM board receive no additional compensation. City council and community service district board members receive no separate stipend for the sewer services provided by their general-purpose agencies.

The level of public participation in matters relating to sewer service in southern Marin is very low for the cities, special districts and SASM. Public attendance at board meetings is rare. Public information on sewer operations through budgets, audits, progress reports and websites is not widely distributed. Exceptions to this general pattern include recent capital improvement planning and rate review processes undertaken by Sausalito-Marín City, and Homestead Valley Sanitary Districts and the Tamalpais CSD in the last three years.

Since 1990, members of the six sanitary district governing boards have stood for election only five times in a total of 33 possible elections. In all other instances, seats were filled by appointment or re-appointment. At an election rate of 15%, sanitary districts have by far the lowest rate of contested elections among local governments in southern Marin as shown in the table below. Among collection-only sanitary districts (Alto, Almonte, Homestead Valley and Richardson Bay), the contested elections rate is under 10%. Political participation in selection of governing board membership is generally higher in other types of local government units as shown in the table. Some sanitary districts do not budget for election costs, given the infrequency of contested elections.

Table 15
Contested Elections Since 1990
by Agency Type

<u>Type of Agency</u>	<u>Possible Elections Since 1990</u>	<u>Contested Elections</u>	<u>Percent Contested</u>
Cities	23	18	78%
Community Service Districts	12	7	58%
Sanitary Districts	33	5	15%
Fire Districts	7	2	29%
Recreation Districts	6	3	50%
Water District	13	7	54%

The two cities, Tamalpais CSD and four of the six sanitary districts are collection-only sewer agencies. The greater part of their annual sewer service expenditures goes to the cost of contract treatment service by an external organization. The operation and maintenance of a collection system generally does not create issues requiring the policy guidance of an elected board on a month-to-month basis, particularly in areas of small area and population.

All eleven sewer agencies adopt budgets and hold regular public meetings. Three of the collection-only sanitary districts (Alto, Almonte and Homestead Valley) maintain no office facilities and are accessible only through a telephone answering machine. All agencies except SASM obtain billing services from the County of Marin as part of the County's property tax collection system.

Public communication and outreach with respect to sewer service is most critical during consideration of rate increases and funding for capital improvements. The Sausalito-Marín City Sanitary District undertook extensive public outreach efforts to communicate its recently adopted capital improvement program and the associated rate increase. Homestead Valley Sanitary District held a widely-noticed special meeting before adopting a rate increase to fund replacement of deteriorated portions of its collection system.

In the absence of rate increases or other special events, the implementation of newsletters and other means of customer communications media is not considered as justified by the six sanitary districts which rely on external local newspapers for meeting notices and other communications. The three cities and TCSD are able to include communication on sewer service matters as a part of their own more general customer outreach efforts.

The local control over a municipal service afforded by a special district board is meaningful if the scope of activities and decisions of that governing board are known to the public and attract participation by constituents. Where this is not the case because the district's service role is very limited or the budget is small or the governing board's discretion over spending is very narrow, local control has little practical meaning. The political accountability of agencies of very small size or limited scope of service may be improved if consolidation would create a larger, more capable organization with a more prominent presence in the community and an enhanced ability to communicate effectively with the public.

Fewer and larger organizations with full-time staff capabilities would be better able to maintain public awareness, access to information and increased participation at lower cost. Continued segmentation of sewer service between collection and treatment functions and between very small neighborhood areas no longer adds value to the provision of this service.