

# CHAPTER 12

## MUNICIPAL SERVICE REVIEWS

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### 12.010 Background

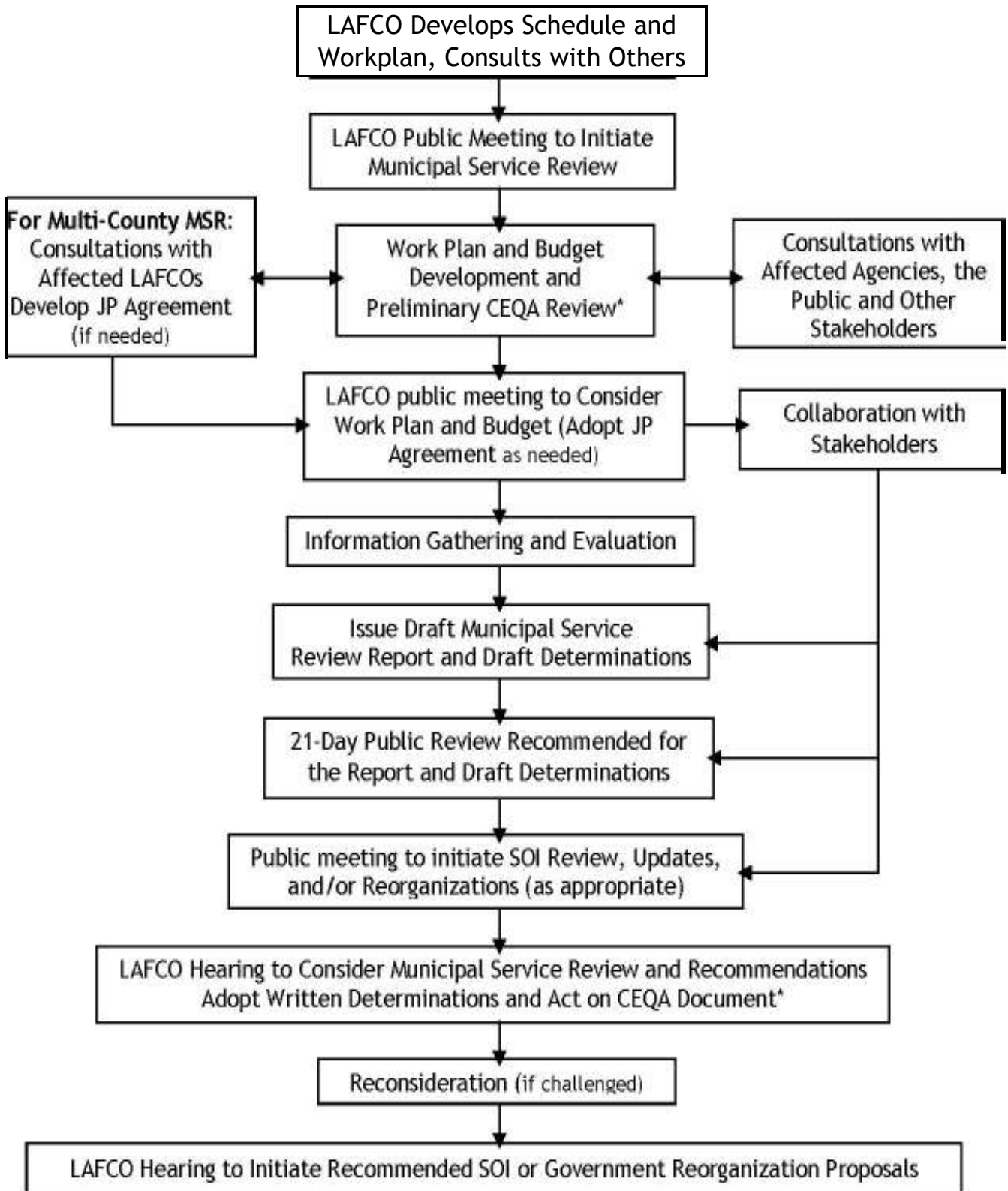
The Cortese-Knox-Hertzberg Local Reorganization Act of 2000 (CKH Act) establishes procedures for local government changes of organization. The CKH Act also requires LAFCo to review and as necessary update the Spheres of Influence (SOI) of all local agencies within the county. A local agency is defined as any city, county, or district or special district. A Sphere of Influence is defined as a plan for the probable physical boundary and service area of a local agency or municipality. A Municipal Service Review (MSR) must be conducted for each local agency to update the SOIs.

The Governors Office of Planning and Research (OPR) has prepared guidelines for LAFCo to conduct reviews of California municipal services. OPR published the Final Guidelines in August 2003. The CKH Act, together with OPR's guidelines, requires LAFCo to conduct a comprehensive review of all agencies that provide services within the county. The service reviews must prepare a written statement of LAFCo's determination with respect to each of the following items, as amended by Assembly Bill 1744 in September, 2007, and by Senate Bill 244 passed in 2011:

- Growth and population projections
- The location and characteristics of any disadvantaged unincorporated communities, as defined by Government Code Section 56033.5, within or contiguous to the sphere of influence
- Present and planned capacity of facilities and adequacy of services, including infrastructure needs and deficiencies
- Financing ability of agencies to provide services
- Status of and opportunities for shared facilities
- Accountability for community services needs, including Government structure and operational efficiencies
- Any other matter related to effective and efficient service delivery, as required by commission policy

The guidelines include an example of a recommended MSR review process that can help clarify the role and the steps that might be taken in the preparation of a MSR and subsequent actions on a SOI.

# EXAMPLE OF OPR RECOMMENDED MUNICIPAL SERVICE REVIEW PROCESS



## **12.020 Local Agency Formation Commission Jurisdiction, Administrative Requirements and Responsibilities**

The Municipal Service Review (MSR) is a tool that can be used by LAFCo to collect information and evaluate service provisions and service providers from a broader perspective. As mentioned elsewhere in this document, an approved MSR is required before LAFCo can adopt or update a SOI. It should be noted that the MSR process and approval will not always result in adopting or updating a SOI. While State law does provide that a MSR can be conducted in conjunction with an action to establish or update a SOI, the two processes and actions are distinct and separate functions under the LAFCo authorities.

According to the MSR Guidelines, prepared by the State Office of Planning and Research, a MSR can be used to:

- Promote orderly growth and development in appropriate areas with consideration for service feasibility, costs, the preservation of open space, agricultural lands, and finite natural resources;
- Encourage infill development and direct growth to areas that are planned for growth in General Plans;
- Learn about service issues and needs;
- Plan for provisions of quality infrastructure needed to support growth;
- Develop a structure for dialog among agencies that provide services;
- Develop strategies to avoid unnecessary costs, eliminate waste, and improve public service provisions;
- Provide ideas on opportunities to streamline service provisions through the use of shared facilities, joint service agreements, or integrated planning and service delivery; and
- Promote shared resource acquisition and joint funding requests or strategies.

The information, recommendations and determinations contained in a MSR are intended to guide and inform SOI decisions for both the local agency and LAFCo. Therefore, for the MSR to be relevant to SOI decisions, it needs to discuss the SOI for any local agency being reviewed. However, the statutory determinations (Section 12.010 above) mandated on LAFCo for the MSR process do not include any specific determination on the SOI of a local agency.

Section 65430 of the Government Code provides the statutory requirements for the preparation of a MSR by the LAFCo. The LAFCo has sole responsibility and jurisdiction in the preparation, review and approval of the MSR. The adoption of an MSR is a separate and distinct process from such actions as adopting or updating a SOI, annexations, or modifying agency boundaries by the LAFCo.

### 12.030 Procedures for Adopting Municipal Service Reviews

- A. A formal public review period on the draft municipal service review report will be established, and at least one public meeting and/or workshop should be held prior to the report being considered by LAFCO. It may be helpful to conduct a stakeholder meeting during the review period to obtain constructive input from those who helped shape the municipal service review.
- B. Comments received during the public review period should be considered and incorporated in the final report as appropriate. Any person or entity that submits comments should receive a copy of the final municipal service review report and a mailed notice of the public meeting or hearing at which the municipal service review determinations will be considered by the Commission.
- C. The determinations will still be draft until they are accepted/adopted by the Commission. The Final Municipal Service Review Report, at a minimum, will be issued 21 calendar days in advance of the hearing or public meeting at which the determinations will be adopted/accepted. If the determinations will be adopted at a hearing, the issuance of the final report should be concurrent with the 21 calendar day hearing notice.
- D. The Final Municipal Service Review Report is required to be considered by the Commission at a noticed public meeting. GC §56150-§56160 include public notice provisions. GC §56154 and §56156 require that published and mailed notice be provided at least 21 calendar days prior to the public hearing. All affected and interested agencies, and persons and entities requesting notice, should receive a mailed notice.

### 12.040 Actions at Meetings and Hearings

The meeting or hearing should be conducted consistent with LAFCO's adopted written procedures. If LAFCO chooses to make its determinations at a hearing, here are some additional actions that the Commission could take, include the following:

- **Adoption of Resolution of Written Determinations**

Service review determinations should be adopted by Resolution.

- **Adoption of Municipal Service Review Recommendations**

The Commission may adopt staff recommendations and direct staff to take follow up actions as appropriate.

- **Adoption of City or District SOI Updates or Amendments**

If the municipal service review supports a particular action such as an SOI update or amendment, and LAFCO has complied with required processes, those actions could be approved at the same hearing.

**• Initiation or Adoption of Other Proposals**

If the municipal service review supports a particular action such as an initiation or adoption of an organization or reorganization proposal, and LAFCO has complied with required processes, those actions could be approved or initiated at the same hearing.

If the Commission accepts the determinations at a public meeting, then existing law does not require a reconsideration process. This lack of a reconsideration process and its potential for correcting and/or modifying the determinations, is one reason the Office of Planning and Research (OPR) recommends that the determinations be formally adopted at a public hearing.

**12.050 Municipal Service Review Contents and Written Determinations:****A. The Municipal Service Review Report will have the following contents at a minimum:**

- An Executive Summary
- Review of baseline data and information related to the service or services being reviewed
- A description of the public participation process
- An analysis of services, service providers and other issues consistent with the intent of the CKH Act (GCs §56001, §56300, §56301), and including, but not limited to, factors to be considered (§56668), areas of required determination (§56430), SOI concerns (§56425, §56425.5) and environmental justice issues, if any
- Draft Determinations. (see Section B below for more information)
- Follow-up recommendations, if any
- Appropriate maps that identify service areas, and clearly delineate overlapping areas using GIS generated maps, if available, to ensure consistency among agencies

**B. The Municipal Service Review Guidelines require written determinations in nine categories. These categories are:****1. Infrastructure Needs and Deficiencies**

In identifying an agency's infrastructure needs and deficiencies, LAFCO may wish to address the following factors in its review:

- a) Government restructure options to enhance and/or eliminate identified infrastructure needs and/or deficiencies.

- b) Expansion of services to eliminate duplicate infrastructure construction by other agencies.
- c) Condition of infrastructure and the availability of financial resources to make necessary changes.
- d) Level of service and condition of infrastructure in light of revenue and operating constraints.
- e) Infrastructure capabilities to accommodate future development with flexible contingency plans.
- f) Reserve capacity for properties not served within current boundaries and estimate of properties within current boundaries not eligible for service.
- g) Provisions for adequate service for properties not currently being served within current boundaries.
- h) Location of existing and/or planned facilities.
- i) Location of existing and/or planned facilities in relation to area demographics.
- j) Location of existing and/or planned infrastructure in relation to affordable housing programs.
- k) Compliance with environmental and safety standards.
- l) Income levels of existing households and earnings of businesses within the study area.
- m) Current placement of infrastructure in the county as a whole and in the study area.
- n) Applicable permit status.
- o) Consistency with service and/or capital improvement plans and local and regional land use plans/policies.

## **2. Growth and Population Projections for the Affected Area**

In identifying an agency's growth and population projections, LAFCO may wish to address the following factors in its review:

- a) Projected growth and demographic changes in and around the agency's service areas.
- b) Historic and expected land use absorption trends.
- c) Estimate of future service needs.
- d) Impact of land use plans and growth patterns on service demands.
- e) Impact of service plans and policies on growth and/or land use patterns for adjacent areas, on mutual or regional social and economic interests, and on the local governmental structure of the county.

- f) Relationship between an agency's boundary and SOI with the projected growth in the study area.
- g) Compatibility of service plan(s) with other local agency land use/development plans.
- h) Projected household size of new and existing residential dwellings.
- i) Compatibility between agency service plans, regional growth projections and efficient urban development.

### **3. Financing and Constraints and Opportunities**

In identifying an agency's financing constraints and opportunities, LAFCO may wish to address the following factors in its review:

- a) Implementation of appropriate financing/funding practices.
- b) Potential for shared financing and/or joint funding applications.
- c) Combination of enterprise and/or non-enterprise financing functions.
- d) Comparative analysis of financing rates among other agencies in study area.
- e) Bond rating(s).
- f) Ability to obtain financing.
- g) Existing and/or proposed assessment district(s).
- h) Debt-to-services ratio by area and subarea incomes.
- i) Opportunities for additional revenue streams, including joint agency grant applications, untapped resources, or alternative government structures.
- j) Methods to pay down existing debt(s), including using excess revenues.

### **4. Cost Avoidance Opportunities**

In identifying an agency's cost avoidance opportunities, LAFCO may wish to address the following factors in its review:

- a) Opportunity for joint agency practices, including shared insurance coverage opportunities.
- b) Availability of outsourcing for financial and administrative duties, and cost-benefits of outsourcing versus in-house management.
- c) Duplication of services.
- d) Impact of service practices and/or facilities in relation to land: available for infill; where excess capacity exists; planned for growth; easiest to serve; with the fewest topographic and geographic constraints; and in a manner that supports affordable housing objectives.



- e) Impact of service practices and/or facilities in relation to benefit/detriment of service cost.
- f) Impact of growth inducement measures on construction costs and near-term infrastructure deficiencies.
- g) Policies and/or plans to extend services to an area proposed for annexation or new development, particularly with respect to the impact of extending services on existing customers.
- h) Impact of service practices and/or facilities on affordable housing objectives.
- i) Impact of additional services/capacity on agency's fiscal viability, including cost and adequacy of services in existing or proposed service areas and/or areas served by other special districts, cities, or the county.
- j) Relationship between current level of service and customer needs and preferences.
- k) Opportunities for savings or augmentation in overhead, including employee salary or benefits, elected official compensation or benefits, equipment purchases, planning, etc.
- l) Pro-rata service costs for customer/ratepayer and/or taxpayer.
- m) Application and/or bid process for contractor assistance, including comparison of rates.

### **5. Opportunities for Rate Restructuring**

In identifying an agency's opportunities for rate restructuring, LAFCO may wish to address the following factors in its review:

- a) Agency's methodology for determining rates.
- b) Availability of revenue enhancement opportunities to lessen and/or stabilize rates.
- c) Relationship between rate differences among service providers and levels of service.
- d) Rate comparison between service providers with similar service conditions.
- e) Cost of services versus fees.
- f) Rate comparison between sub-regions based on demographic information.
- g) The services that ratepayers and/or assessed properties are receiving for which they are paying.
- h) Financial impacts on existing customers caused by the funding of infrastructure needed to support new development.

- i) Impacts of standby rates (charges assessed to under-or-undeveloped land used for rural, agricultural or open space uses) on open space and affordable housing plans.
- j) Relationship between rate and service polices and the provision of decent and affordable housing.
- k) Availability of reasonable emergency reserves.
- l) Use of annual savings.

### **6. Opportunities for Shared Facilities**

In identifying an agency's opportunities for shared facilities, LAFCO may wish to address the following factors in its review:

- a) Current shared activities with other service providers, including shared facilities and staff.
- b) Suggested existing and/or future shared facility opportunities by the agency.
- c) Opportunities for conjunctive and/or joint use projects, such as groundwater storage/parks, schools/parks, or flood detention/parks.
- d) Duplication of existing and/or planned facilities of other service providers.
- e) Availability of excess capacity to serve customers of other agencies.

### **7. Government Structure Options**

In identifying an agency's government structure options, LAFCO may wish to address the following factors in its review:

- a) Available government options to provide more logical service boundaries to the benefit of customers and regional planning goals and objectives.
- b) Recommendations by a service provider and/or an interested party for government options.
- c) Anticipated proposals to LAFCO that will affect the service provider.
- d) Prior proposals or attempts by the agency to consolidate and/or reorganize.
- e) Availability of government options that improve public participation, local accountability, and governance.
- f) Impacts of government structures on the potential for displacement of current residents.
- g) Opportunities to create definite and certain boundaries that conform to lines of assessment or ownership and/or eliminate islands, corridors of unincorporated territory, and other difficult or illogical service areas.
- h) Existing boundary disputes.

- i) Elimination of overlapping boundaries that confuse the public, cause service inefficiencies, unnecessarily increase in the cost of infrastructure, exacerbate rates and/or undermine good planning practices.
- j) Reevaluation of boundaries, including downsizing SOI boundaries and/or approving other boundary modifications that remove important open space and agricultural lands from urban services areas.
- k) Availability of government options that stabilize, steady and/or clarify the government process in order to reduce costs or increase customer satisfaction.
- l) Availability of government options that may produce economies of scale and improve buying power in order to reduce service and housing costs.
- m) Availability of government options that allow appropriate facilities to be shared and avoid the construction of extra and/or unnecessary infrastructure.
- n) Making excess capacity available to other service users in order to eliminate duplicate infrastructure construction by multiple agencies and reduce costs to customers.
- o) Opportunities to improve the availability of water rights and/or supplies (surface, reclaimed or groundwater) to a larger customer base through a change in government organization.
- p) Availability of government options that could facilitate construction, financing and/or eliminate the need for new facility construction.
- q) Cost-benefit of restructuring current governing body and/or administration to any proposed alternative.
- r) Cost-benefit of restructuring overhead, including staff, capital outlays, allocation of reserves or savings, loaded administrative charges for grant administration, accounting, and other contracted services.
- s) Cost-benefit of restructuring the direct distribution of costs or debts from shared facilities to a larger user population.
- t) Opportunities for the sale of surplus properties through a change in government organization.
- u) Availability of excess reserves for service improvements and/or rate reductions through a change in government organization.
- v) Opportunities to enhance capital improvement plans and programs through a change in government structure.
- w) Opportunities to streamline services through the reorganization of service providers that no longer provide services for which they were formed.
- x) Opportunities for early debt repayment and related savings through a change in government structure.

- y) Elimination of rate structures that impose growth pressures on open space resources.
- z) Identification of illogical boundaries and their effect on rates.
- aa) Impact of government structure options on an agency's financial stability.
- bb) Rationale for an agency's emergency and/or undesignated reserves (fund equity or balance), particularly in relation to their gross annual revenue.
- cc) Changes and/or modifications in boundaries in order to promote planned, orderly, and efficient patterns of urban development.
- dd) Changes and/or modifications in boundaries in order to avoid premature inducement, facilitation, or conversion of existing open space lands, including: the direction of growth away from prime agricultural and important open space lands towards infill areas or areas containing nonprime agricultural land; the development of vacant land adjacent to existing urban areas and within existing spheres of influence.
- ee) Boundary adjustments in order to minimize the amount of land needed to accommodate growth in the next 5-10 years within the spheres of influence of special districts and cities.
- ff) Prevention of extensions of urban services to important agriculture and open space areas not planned for growth or within the boundaries of the city or special district.
- gg) Impact of a change in government structure on the implementation of regional transportation, water quality, air quality, fair share housing allocation, environmental justice, airport land use, open space, agricultural, and other environmental polices or programs.
- hh) Impacts of government structures on fair housing programs.
- ii) Available government options that improve the ability to provide and explain budget and financial data.
- jj) Opportunities for improvement in the quality and/or levels of service through changes in government structure.
- kk) Impact of investment policies on service levels and quality.
- ll) Evaluation of bond rates, ability to borrow or obtain grants, budget practices and other aid.
- mm) Ability to gain environmental benefits (wetland restoration, water conservation, and other conservation policies) through government structure options.
- nn) Opportunities to integrate services without excessive cost.

- oo) Cost-benefit analysis of potential changes in government structure through merging staff, staff reduction by attrition, phasing out of elected or appointed positions, and management staff.
- pp) Opportunities for improved service delivery and/or an increase in system standards by system integration through changes in government structure.
- qq) Identify prohibitions in the affected Principal Acts that would affect government structure options, including pending litigation, court judgments, other legal issues, restricted assets, financial or other constraints.
- rr) Integration of debts and obligations analyses.
- ss) Potential successor agencies.
- tt) Impact on existing systems (upgrades) due to government structure changes.
- uu) Impact on operating cost (short and long term) due to government structure changes.
- vv) Evaluation of long term savings through government structure changes versus related transition costs.
- ww) Evaluation of permit status upon integration.

### **8. Evaluation of Management Efficiencies**

In evaluating an agency's management efficiencies, LAFCO may wish to address the following factors in its review:

- a) Evaluation of agency's capacity to assist with and/or assume services provided by other agencies.
- b) Evaluation of agency's spending on mandatory programs.
- c) Comparison of agency's mission statement and published customer service goals and objectives.
- d) Availability of master service plan(s).
- e) Contingency plans for accommodating existing and planned growth.
- f) Evaluation of publicized activities.
- g) Implementation of continuous improvement plans and strategies for budgeting, managing costs, training and utilizing personnel, and customer service and involvement.
- h) Evaluation of personnel policies.
- i) Availability of resources (fiscal, manpower, equipment, adopted service or work plans) to provide adequate service.
- j) Available technology to conduct an efficient business.

- k) Collection and maintenance of pertinent data necessary to comply with state laws and provide adequate services.
- l) Opportunities for joint powers agreements, Joint Powers Authorities, and/or regional planning opportunities.
- m) Evaluation of agency's system of performance measures.
- n) Capital improvement projects as they pertain to GC §65401 and §65103c.
- o) Evaluation of accounting practices.
- p) Evaluation of maintenance of contingency reserves.
- q) Written policies regarding the accumulation and use of reserves and investment practices.
- r) Impact of agency's policies and practices on environmental objectives and affordable housing.
- s) Review of environmental and safety compliance measures.
- t) Current litigation and/or grand jury inquiry involving the service under LAFCO review.

### **9. Local Accountability and Governance**

In evaluating an agency's local accountability and governance structure, LAFCO may wish to address the following factors in its review:

- a) Compliance with state disclosure laws and the Brown Act.
- b) Level of public participation (i.e. open meetings, accessible staff and elected officials, an accessible office open to the public, a phone and/or message center, a web site, customer complaint and suggestion opportunities).
- c) Agency representatives (i.e., board members, employees, and staff).
- d) Public outreach efforts (i.e. newsletters, bill inserts, TV, web site).
- e) Media involvement (i.e. meetings publicized, evening board meetings, evening or weekend public planning sessions).
- f) Accessibility of meetings (i.e. meetings publicized, evening board meetings, evening or weekend public planning sessions and translations for non-English speakers and the hearing impaired).
- g) Election process.
- h) Participation of service users in elections (i.e. elections publicized, day and evening voting).
- i) Public access to adopted budgets.
- j) Budget reports' compatibility with state law.

- k) Audits.
- l) Access to program progress reports.
- m) Current provision of service(s).