

**TO: MEMBERS, FORMATION COMMISSION**

**FROM: PAUL L. HOOD, EXECUTIVE OFFICER**

**DATE: July 31, 2008**

**SUBJECT: APPROVAL OF EXPANDED MUNICIPAL SERVICE REVIEW FOR THE CAMBRIA COMMUNITY SERVICES**

**Recommendation:** It is respectfully recommended that the Commission take the following actions:

1. Approve the CEQA Exemption and Environmental Checklist found in Attachment A. The MSR reviews the service capability of the CCSD and qualifies for a Statutory Exemption under the California Environmental Quality Act (CEQA) Guideline 15262, Feasibility and Planning Studies; and
2. Approve the Municipal Service Review with the changes proposed in Attachment B of this report. This action will incorporate by reference the written determinations addressing the six factors stated in the Cortese-Knox-Hertzberg Act and found in the Municipal Service Review.

## **SUMMARY**

In December 2007, the Local Agency Formation Commission (LAFCO) approved the Sphere of Influence (SOI) Update and Municipal Service Review (MSR) for the CCSD. A limited Municipal Service Review was prepared and approved by the Commission. In response to public input and a number of service issues faced by the CCSD, the Commission directed LAFCO Staff to complete a more comprehensive Municipal Service Review for the Cambria Community Services District (CCSD) in 2008. The expanded Municipal Service Review was completed for the CCSD in June 2008. It was released for public review on June 5, 2008 with the comment period closing on July 11, 2008.

### **ATTACHMENTS**

**A: Exemption and Environmental Checklist**

**B: Comment Letters**

This Service Review is an informational document that expands on the work approved by LAFCO in December 2007. It is not intended for use in updating

the CCSD's existing Sphere of Influence. The CCSD's Sphere of Influence will remain unchanged from what was determined in December 2007.

The purpose of this Municipal Service Review is to provide additional information about the CCSD's services. The MSR is advisory and not a regulatory document that requires a jurisdiction to comply with a particular set of legal requirements.

The Cortese/Knox/Hertzberg Local Government Reorganization Act of 2000 (CKH Act) required the Local Agency Formation Commission to update the Spheres of Influence for all applicable jurisdictions in the County by January 2008. No expansion or reduction to the CCSD's Sphere of Influence was made by LAFCO. The table below identified the Active Powers of the CCSD and the recommendation adopted by LAFCO in December 2007:

**Cambria CSD – LAFCO 2007 Recommendation**

<b>Special District</b>	<b>Active Powers</b>	<b>Recommendation</b>
Cambria Community Services District	Water, Sewer, Solid Waste, Fire Protection, Street Lighting, Parks and Recreation, Transit, and Veterans Memorial	No changes to the SOI are recommended, however a more comprehensive Municipal Service Review should be completed in 2008 because of the growth and development issues in Cambria.

**MUNICIPAL SERVICE REVIEW**

The Municipal Service Review is normally used to help determine the Sphere of Influence and the jurisdiction's ability to provide services to an expanded area or, in some cases, a reduced SOI area. The MSR is an informational document that summarizes the CCSD's existing service situation. It is not a detailed audit of a jurisdiction's operations or financial status, nor is it intended to be used as such. The Service Review is a summary-level analysis of information provided by the CCSD to LAFCO. Information from the County Planning Department and Auditor's Office is also used to prepare the MSR. LAFCO Staff reviews the various information provided by the CCSD and compiled from other sources.

The Municipal Service Review for the Cambria Community Services District is prepared in accordance with Section 56430 of the California Government Code. This code section was updated in 2008 to include six factors instead of the original nine factors. The Service Review contains written determinations that address the following six factors. Information and written determinations regarding each of the factors is provided in the Service Review. The six service review factors are addressed in Chapter Two of the Pubic Review Draft MSR and include:

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 opportunity 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

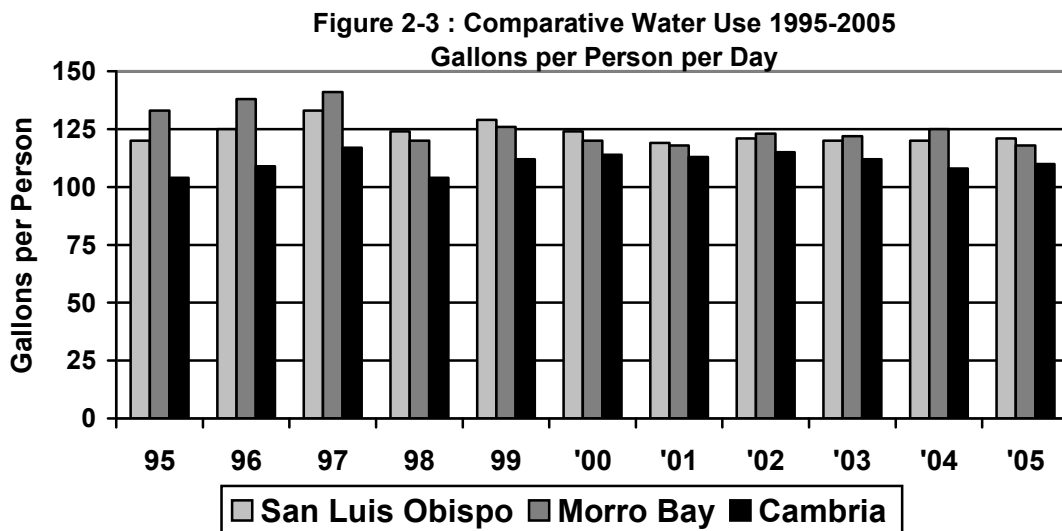
**Process.** LAFCOs compile a variety of information in preparing a Service Review. Also, administrative and organizational information is collected and evaluated. In order to complete this review LAFCO relied on Audit Reports submitted to the County Auditor-Controller's Office pursuant to state law, original formation filing documents, State Controllers Special Districts Annual Financial Reports, and information from various websites. The entire list of references is included in Attachment B of the Public Review Draft. The District has hired professional consultants to complete a number of planning studies and reports that have helped the Board of Directors make decisions on a variety of important service issues. Included below is a partial list of key documents used to help prepare the MSR:

1. Development of a Long-term Financial Management Plan Waste & Wastewater Utilities, prepared by Black & Veatch, August 23, 2007.
2. Proposed CCSD Board Goals & Objectives for 2008.
3. Final Report Assessment of Long-term Water Supply Alternatives, June 2004 prepared by Kennedy-Jenks Consultants
3. North Coast Area Plan, County of San Luis Obispo
4. San Luis Obispo County Department of Planning and Building 2007 Annual Resource Summary Report.
5. Buildout Reduction Program Report, Buildout Reduction Program Citizens' Finance Committee, May 16, 2006 & brochure.
6. Cambria Community Services District Urban Water Management Plan, December 2005.
7. FY 2008-2010 Draft Budgets and Rates Proposal.
8. Draft Cambria Community Services District 2008-2009 and 2009-2010 Fiscal Years Operating and Capital Outlay Budget.
9. Cambria Community Services District Interim Operating Budget for Fiscal Year July 1, 2007-June 30, 2008
10. Draft Water Master Plan and EIR

This level of information completed by a jurisdiction provides a substantial information base for the public and for the District's Board of Directors. Decision makers and the public have benefited from a thorough analysis of the issues facing the District. While the District continues to face service delivery challenges, they have done so by hiring professional consultants and staff to analyze various issues. The approach appears to be comprehensive and provides for the analysis and implementation of various options that may resolve some of the issues the CCSD is currently managing.

**Growth.** Future growth of the CCSD's Boundaries is also regulated by an ordinance that requires a vote of the residents within the CSD to extend potable water service outside the CCSD's boundaries as they currently exist. The ordinance was placed on the November 2006 ballot and was approved by the residents of the CCSD with 80% of the registered voters favoring the ordinance. The ordinance requires that a majority of the residents of the CCSD vote in favor of extending water service to any properties/areas outside the existing boundaries that would like water service from the CCSD. Also, the North Coast Area Plan (NCAP) recently certified by the California Coastal Commission provides policies, standards and programs for the future growth and development of the Community of Cambria. In terms of managing growth the District's Buildout Reduction Program (BRP) is an innovative approach to a complex situation. The BRP's goal is to retire existing lots that exist within the District's service area and limit connections to 4,650 units.

**Water.** The CCSD's most challenging matter in terms of providing services is the provision of water to its residents in a manner that is cost effective and reliable manner. The CCSD has taken a number of approaches to carefully manage its water resources, including; a graduated rate structure that increases significantly as consumption increases, an aggressive water conservation program, and preparation of a number of studies to consider future water supply sources. The figure below shows that Cambria is the Countywide leader in conserving water resources:



**North Coast Area Plan.** The North Coast Area Plan was certified by the Coastal Commission in November 2007. It contains an information base that has been commented on by the Public, the California Coastal Commission, the Cambria CSD, and other stakeholders. The Area Plan has been reviewed and vetted at public hearings and workshops. It contains a substantial discussion of the CCSD's past, current and future water situation. The MSR included a good portion of this discussion in the document. The North Coast Area Plan provides the policy base for coordination between the County and the Cambria CSD regarding development and the provision of Public Services, especially water. It also has a set of standards for future development of a Desalination Plant as a supplemental water supply.

**Water Master Plan.** The CCSD is in the process of updating the Water Master Plan. The Water Master Plan Update process is a series of documents that address various issues regarding Cambria's Water situation. Included are the following the documents:

- Final Report Assessment of Long-Term Water Supply Alternatives, June 2004, prepared by Kennedy/Jenks Consultants
- Final Report: Potable Water Distribution System Analysis, July 2004, prepared by Kennedy/Jenks
- Final Report: Recycled Water Distribution System Master Plan, July 2004, Recycled Water

Each report studies a component of the CCSD's strategy to provide an adequate, sustainable, and reliable water supply to the residents of Cambria. This approach has been undertaken by the CCSD to evaluate a number of alternatives in an organized and methodical manner. The purpose of the Water Master Plan is to try and concurrently implement the potable water distribution system improvements, the recycled water project, and seawater desalination program. The time frame for completing these projects depends on funding availability and priorities assigned by the CCSD. The Water Master Plan provides the Community with an analysis of the water issues facing Cambria and identifies several water supply alternatives. The Board of Directors has directed staff to pursue the development of a desalination facility.

**Draft Program EIR.** The CCSD contracted with RBF Consulting to prepare a Program Environmental Impact Report that studies the environmental impacts of the Water Master Plan (WMP). The Program EIR covers the impacts associated with the WMP in a more general manner with the intent that future environmental studies will use this information base to focus specific project-level environmental analyses on project related impacts and mitigation.

The Public Review Draft of the Program EIR was released on February 26, 2008 with the comment period ending on April 14, 2008. Comments have been received by the CCSD

and responses are being prepared by the consultant. A Final Program EIR will likely be considered by the CCSD in the upcoming weeks/months. The CEQA process allows interested parties and agencies several opportunities to provide input and comments. It also discloses the potential environmental impacts of the proposed projects and programs to the public.

It should be noted that two commenter's on the MSR (Sierra Club and Greenspace) expressed concern that the Draft Water Master Plan and EIR were used as documentation in the MSR. These comments are addressed more specifically in a following section; however, it should be noted that these reports and studies were identified as significant pieces of information that were professionally prepared and are in the process of being commented on. The MSR summarizes these reports and notes that they have yet to be approved by the CCSD. The MSR does not render an opinion on the adequacy of the CEQA documentation, the Draft Program EIR.

**Finances.** The Financial situation for the CCSD is summarized in *Factor 3. Financial ability of agencies to provide services, of the MSR*. The CCSD is facing what could be termed a "structural deficit", meaning that in the short term the District has adequate reserves and revenues to cover expenses. The long-term view however, is less predictable as was indicated in a Note 11 to the CCSD's 2005 annual audit and Note 12 of the 2006 Annual Audit:

**Note 11- Deficit Spending** *The District in the past fiscal year incurred significant losses in Enterprise Funds (Water and Wastewater). The water Fund realized a deficit change in net assets of \$193,608 and the Wastewater Fund \$505,745. If the District continues to incur these deficits it will be unable to meet their ongoing obligations.*

**Note 12 – Deficit Spending** *To address the deficit spending condition, the District contracted with an outside consultant in May 2006 to prepare a comprehensive cost of service study of its water and wastewater utilities. The data obtained by the study will be incorporated in a long-range financial plan that will be used to revise the current rate structure such that the existing deficit situation is corrected and future rates can be determined to avoid similar deficit conditions.*

Continued use of reserves to fund costs associated with water and wastewater services is a trend that, if continued, could place the CCSD in a difficult financial situation. A Structural Deficit is usually addressed in the following manner: expenses can be reduced, revenues can be increased, or a combination of the two can be implemented. The CCSD is in the process of trying to increase rates; however a proposition 218 protest vote by the residents may terminate the current proposal. The protest votes are being tabulated and results should be available in the next few weeks.

In the Determinations for Factor 3, it is recommended that the CCSD improve its budget documentation to enhance public understanding of the budget and CCSD activities. The

recommendations are found in Determination 7 on page 33 of the Public Review Draft of the MSR.

## **OUTREACH AND REVIEW**

The Public Review Draft Municipal Service Review was released for review on June 5, 2008 with the comment period closing on July 11, 2008. LAFCO staff presented the MSR at the June 26, 2008 Board of Directors of the CCSD. The MSR was sent to interested parties and was available on several websites: [www.aboutcambria.com](http://www.aboutcambria.com), [www.cambriacsd.org](http://www.cambriacsd.org), and [www.slolafco.com](http://www.slolafco.com). LAFCO Staff also consulted with CCSD staff on a regular basis in the preparation of the MSR and clarify questions or obtain more information.

## **CEQA**

The MSR reviews the service capability of the CCSD and qualifies for a Statutory Exemption under the California Environmental Quality Act (CEQA) Guideline 15262, Feasibility and Planning Studies. This exemption indicates that a planning or feasibility study of this nature is exempt from a Negative Declaration and/or EIR, but must consider the environmental factors. This initial study and environmental checklist considers the environmental factors as discussed in CEQA Guideline 15262.

### ***CEQA Guideline 15262. Feasibility and Planning Studies***

*A project involving only feasibility or planning studies for possible future actions which the agency, board, or commission has not approved, adopted, or funded does not require the preparation of an EIR or Negative Declaration but does require consideration of environmental factors. This section does not apply to the adoption of a plan that will have a legally binding effect on later activities.*

The Service Review is an informational document that supports an Update of the Sphere of Influence. The SOI Update and MSR for the Cambria CSD was approved by LAFCO in December, 2007. Today's MSR is an expanded version that covers the District's Service issues in a more comprehensive manner. It is not intended to be used for updating the SOI. Nor does it recommend updating the Sphere of Influence which was completed in December 2007.

LAFCO Staff has prepared the Initial Study/Checklist found in attachment A to consider the environmental factors as called for in the Statutory Exemption 15262. The Notice of Exemption will be filed upon approval of the MSR.

## RESPONSE TO COMMENTS

A total of four comment letters were received and are found in Attachment C of this report. The letters were submitted by the Sierra Club, Greenspace, Amanda Rice-Private Citizen and Lynda Auchinachie-County Agriculture Commissioner's Office.

### Sierra Club

**Comment 1.** The comments submitted by the Sierra focus the use of the Draft Program EIR the Water Master Plan as part of the MSR information base. In the letter, the Sierra Club states their view that that the Program EIR has serious defects and should not be used to determine the CCSD's Sphere of Influence. The letter indicates that the Water Master Plan and Draft Program EIR are summarized on pages 16-22 of the MSR. The Commenter also asserts that use of the Water Master Plan and Program EIR affect the Determination on Page 10 of the MSR. The Commenter views LAFCO's use of the Water Master Plan and Draft Program EIR as problematic to addressing several of Service Review Factors.

**Response.** The Water Master Plan and Public Review Draft Program EIR represent a significant body of professionally completed analysis. LAFCO recognizes that these documents have yet to be finally approved and adopted by the CCSD, however; the documents do include the type of analysis and information that should be completed by a jurisdiction in making decisions about a complex water supply situation. Also, these documents are not the sole documents used to evaluate the water situation. The MSR summarizes the Water Master Plan and Draft Program EIR on pages 16-17 of the MSR. Starting on page 17 and ending on page 22 the North Coast Area Plan (NCAP) which was certified by the Coastal Commission in November 2007, is quoted in regard to the water resources issue. This provides for a robust and well documented discussion of water resources in Cambria. On page 10, the determinations for *Factor 1. Growth and Population Projections*, the Water Master Plan and Program EIR is used in conjunction with the NCAP and Urban Water Management Plan to characterize the growth and population issues. In the Determinations on page 10, the NCAP is the main reference document used to support determinations. LAFCO also uses the County Resource Management System Annual Summary Report and the Districts Urban Water Management Plan. The use of all of these documents provides for a balanced discussion of the water resources situation in Cambria. The MSR summarizes existing information from various sources. In this case, the CCSD and County have a significant amount of data that has been summarized. Also, the Sphere of Influence is not being updated using this MSR. The MSR is an expanded version of one completed in December 2007. The SOI remains unchanged and no changes are proposed by the expanded MSR.

**Comment 2.** The Commenter provides information about the gallons per capita per day water use by the District and (90 gpcd) and the national average (95-100 gpcd). The

Commenter provides a discussion of the quality of life proposal increase proposed in the Draft Water Master Plan, increasing water use to 135 gpcd. The commenter provides a number of comments pertaining specifically to the Public Review Draft Program EIR for the Water Master Plan. The Commenter asserts that the CCSD has violated CEQA in the preparation of the Draft Program EIR by not addressing a number of issues.

**Response.** The nature of the MSR is to characterize existing information and present as comprehensive a discussion about the issues as possible. The CCSD is in the process of responding to the comments submitted by the Sierra Club and others regarding the Draft Program EIR. Pursuant to CEQA, the CCSD must respond to the comments received in the public review process. Regarding the water use per capita rates, these are policy decisions that are to be made by the CCSD Board of Directors with input from their staff, consultants, customers and other stakeholders. LAFCO does not regulate policy decisions by a jurisdiction through the preparation of a Municipal Service Review. These decisions are made by the local agency. If an annexation or an expansion of the Sphere of Influence were being considered by LAFCO, water resources would be a key consideration in making that decision. In this case, the CCSD's Sphere of Influence is not being expanded or modified. The expanded MSR is an informational document that does not propose any changes to the CCSD's boundaries. Comments submitted regarding the Draft Program EIR for the Water Master Plan will be attached to this Staff Report for consideration by LAFCO in reviewing the MSR.

**Greenspace.** The commenter submitted a cover letter with attached comment letters from a variety of people regarding the Draft Program EIR and Water Master Plan. These comment letters do not specifically relate to the MSR. The commenter indicates that the Initial Study Review Checklist does not adequately address CEQA requirements mandated by law. They also state that nearly all of the CCSD's "area of influence" is located in a state protected Environmental Sensitive Habitat Areas (ESHA). The commenter opines that it is odd that the initial study shows no impacts of any kind caused by the CCSD's influence on the Community. The Commenter would like LAFCO to take a wider view regarding the checklist analysis to include coastal ESHA environs.

**Response.** The Sphere of Influence (SOI) is a boundary that is established by LAFCO for all jurisdiction in the County. It is typically based on the future growth that is planned for in a particular area. The SOI is described on Page 5 of the MSR and includes a total of 37 acres. This area is shown on page 6 of the MSR. The SOI for the CCSD was confirmed on December 6, 2007. No changes were made to the SOI. In this case, the CCSD's Sphere of Influence is not being expanded or modified. The expanded MSR is an informational document that does not propose any changes to the CCSD's boundaries. As an informational document that does not have or propose boundary changes it qualifies for an exemption under CEQA as discussed in the above section. The Environmental Checklist was prepared to comply with the CEQA requirement that calls for environmental factors to be considered when applying this exemption to a study. ESHA's would be analyzed if they were to be impacted by a LAFCO action. The approval of the MSR does not change the

SOI or propose for any Boundary to be changed. It is a stand alone study of the CCSD's service capabilities consistent with the Cortese-Knox-Hertzberg Act.

**Amanda Rice.** Ms. Rice, a private citizen of Cambria, submitted detailed comments specific to the MSR. These comments and LAFCO Staff responses to each comment are found in Attachment B of this report. Several changes are proposed in response to these comments.

**Agricultural Commissioners Office.** The County Agricultural Commissioners Office submitted a letter indicating that they did not have comments or concerns regarding the Draft MSR.

## **CEQA**

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### ***CEQA Guideline 15262. Feasibility and Planning Studies***

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The Service Review is an informational document that supports an Update of the Sphere of Influence. The SOI Update and MSR for the Cambria CSD was approved by LAFCO in December, 2007. Today's MSR is an expanded version that covers the District's Service issues in a more comprehensive manner. It is not intended to be used for updating the SOI. Nor does it recommend updating the Sphere of Influence which was completed in December 2007. LAFCO Staff has prepared the Initial Study/Checklist found in attachment A to consider the environmental factors as called for in the Statutory Exemption 15262. The Notice of Exemption will be filed upon approval of the MSR.

## **CONCLUSION**

The MSR for the CCSD has been completed consistent with the requirements of the Cortese-Knox-Hertzberg Act. It qualifies for an exemption under CEQA as discussed in the above section.