



LOCAL AGENCY FORMATION COMMISSION

455 COUNTY CENTER, 2ND FLOOR • REDWOOD CITY, CA 94063-1663 • PHONE (650) 363-4224 • FAX (650) 363-4849

September 8, 2011

Honorable President Carole Groom
Honorable Supervisor Don Horsley
San Mateo County Board of Supervisors
400 County Center
Redwood City, CA 94063

Dear President Groom and Supervisor Horsley:

As Executive Officer of San Mateo Local Agency Formation Commission (LAFCo)¹ you have asked me to comment on the June 27, 2011 MidCoast Community Council (MCC) letter to the Board of Supervisors that requests the County take the following actions:

- 1) Re-evaluate the 1998 "Mid-Coast Incorporation/Annexation Fiscal Study", to include the scenario of combining incorporation/annexation with dissolution of the Granada Sanitary District and Montara Water and Sanitary District and possibly Coastside County Water District, with their functions assumed by the new city and District property tax revenue transferred to the new city/cities.
- 2) Analyze how the City of Half Moon Bay's Beachwood lawsuit settlement payments factor into an annexation scenario

In addition, your August 18 letter requests information on the process for initiating an incorporation or annexation study and an approximation of the cost and potential funding sources.

Background

The urbanized coastside of San Mateo County includes the City of Half Moon Bay (Census 2010 population of 11,324) and the urban Midcoast communities to the north that include Miramar, El Granada, Princeton, Moss Beach, and Montara (Census 2010 population of 11,479). This area is in the Coastal Zone and under the jurisdiction of the California Coastal Commission. The County of San Mateo has an adopted Local Coastal Program (LCP) as does the City of Half Moon Bay. The Urban Rural boundary in these documents delineates where urban services can be provided and the County's LCP recommends that special district boundaries be redrawn to reflect the Urban Rural boundary. The region is served by three sewer agencies that operate under a joint powers agreement, two water districts, one fire district and several County-governed districts. The City of Half Moon Bay has 6,180 registered voters and the unincorporated area for which the MCC is elected has 6,933

¹ LAFCo is an independent commission created by State law to regulate the boundaries of cities and special districts, prepare municipal service reviews and sphere of influence updates and process boundary change applications including annexation, detachment, consolidation, formation, dissolution and incorporation. LAFCo is funded by interagency revenue from the County, cities and special districts and application fees. (Please see attached fact sheet.)

registered voters. In the unincorporated area the County provides municipal services that include Sheriff operating from a local substation, Road Maintenance, Street Lights, Park Planning and Regional Park Operation, and Planning and Building including development review, code enforcement and long range planning. The County also operates the Half Moon Bay Airport and a Public Works Corporation Yard in Princeton. In addition to municipal type services, the County Human Services Agency and Health System serve residents through a variety of programs and partnerships at facilities on the coast.

In 1998, the County Planning and Building Department in partnership with LAFCo prepared the "Mid-Coast Incorporation/Annexation Fiscal Study." As noted in the MCC letter, the study did not comprehensively analyze dissolution of existing districts and transfer of district operations and revenues to the newly incorporated city or City of Half Moon Bay. However, it did include useful information about economic development necessary to make incorporation or annexation fiscally viable and identified potential locations that would be suitable for revenue-generating development. Absent revenue enhancement, the 1998 Study indicated that incorporation would result in an \$887,000 deficit and annexation would result in a \$1.44 million deficit.²

Most recently in 2008, LAFCo completed a municipal service review and sphere of influence update that reaffirmed the City of Half Moon Bay's sphere as a single-coastside city and amended spheres of influence for Montara Water and Sanitary District, Granada Sanitary District and Coastside County Water District as "consolidation" in recognition of the benefits of regional service delivery.

Economic Downturn, Fiscally Distressed Local Government & Senate Bill 89

The MCC letter cites changes in circumstances since the 1998 study that merit a new study. The letter includes among these, substantially higher property values, significantly larger population, completion of the Oceana Hotel, which the letter states is expected to provide hundreds of thousands of dollars in hotel tax revenue when the economy recovers and various tax allocations to cities due to changes in state law. The letter states that since the LAFCo process of incorporation or annexation is lengthy it is reasonable to assume the economy will be back to "normal" by the time a new city would be formed. The letter also cites the County's current practice of full cost recovery for Planning Department applications, which was not in place in 1998.³

Since the 1998 Incorporation/Annexation study and even more so since the 2008 San Mateo LAFCo Sphere Update, the prolonged recession combined with the State's siphoning of local government revenues have resulted in multi-year structural budget deficits for even well established cities with broad revenue bases. Cities with diverse revenue sources around the County and the State are resorting to drastic cost cutting measures to mitigate structural

² The deficit for incorporation was lower than for annexation because the formula in place at the time allocated new cities VLF revenue based on three times registered voter count.

³ Long Range Planning Services, including updates to the Local Coastal Program, are primarily funded with General Fund appropriations.

budget shortfalls and maintain essential city services. While the MCC letter correctly identifies that assessed valuations have grown since the 1998 study, the letter does not take into consideration continued practices by the State to redirect local revenues. Nor does the letter acknowledge that the rate of growth in assessed value has slowed considerably and the resultant property tax revenue has not kept pace with growth of local government expenditures, in particular, personnel costs including public safety salary and benefits and post retirement liabilities.

The most recent and egregious example of a State take-away and hindrance to incorporation and inhabited annexation is Senate Bill 89, a budget trailer bill signed by the Governor that eliminated per capita **general fund** vehicle license fee (VLF) revenue and replaced it with \$100,000 public safety grants. The law also eliminates General Fund VLF revenues for newly incorporated cities and VLF revenues for inhabited annexations. Prior to SB 89, newly incorporated cities by State law were allocated a special per capita VLF revenue formula for the first five years of incorporation⁴ and therefore lose a significant general fund revenue source as a result of SB 89. It is estimated that a newly incorporated city with a population of 12,000 would lose approximately \$900,000 annually on average for the first five years of incorporation and then lose approximately \$670,000 annually thereafter, offset by a \$100,000 public safety grant.⁵ A city that annexed an area with a population of approximately 12,000 persons is estimated to experience an annual net General Fund loss of approximately \$600,000 as a result of SB 89. As written by Michael Coleman for League of California Cities:⁶ “...VLF is an especially critical revenue source for these new cities. The elimination of discretionary VLF revenue for cities and these special allocations has the effect of making these new cities fiscally unviable.”

In light of the challenges discussed above, a timely alternative to conducting studies and analyses requested by the MCC would be to implement consolidation of water and sewer providers in accordance with the 2008 LAFCo Municipal Service Review and Sphere of Influence Update. Consolidation of the districts would be an appropriate first step towards future annexation to Half Moon Bay, or a request for sphere amendment and application for incorporation of a new city at such time that the economy has rebounded and local government revenues are stable. The 2008 LAFCo adopted municipal service review and sphere of influence determinations offer a framework for consolidation alternatives and are attached.

When circumstances improve sufficiently and a feasibility study is prepared, there are several issues a study on annexation and/or incorporation would need to address. In addition to dissolution of the districts and transfer of service responsibility and revenues to the receiving city(ies), the study would take into consideration the Local Coastal Program's Urban/Rural

⁴ The revenue formula for the first five years serves as 'seed money' while the City implements revenue generating development or other revenue sources such as special taxes or assessments.

⁵ Estimated losses based on VLF formulas in place prior to SB 89.

⁶ The Vehicle License Fee (Motor Vehicle In-Lieu Tax): Background, July 10, 2011, www.californiacityfinance.com

boundary which limits city and district boundaries, thereby resulting in some but not all of the dissolving districts' territory and revenues being transferred to the new/existing city. The study would also need to address the fact that the Montara Water and Sanitary District's General Obligation bonds for acquisition of the CalAm System were levied District-wide even though the water system is limited to the urban area and the LCP prohibits domestic water provision in rural areas. However, even if the district is dissolved and service and revenues of urban designated areas are transferred through incorporation or annexation, the rural parcels currently subject to the bond lien would continue to be subject to the lien. Analysis should include how the lien funds in the rural area excluded from the city would be accounted for and transferred to the city that would be successor to the bond obligation. The study would also take into account new Census 2010 data and the current distribution of local government revenues, ideally with provisions in place that correct for the losses created by SB 89 discussed above.

In regard to how the City of Half Moon Bay's Beachwood lawsuit settlement payments factor into an annexation scenario, when a preliminary annexation fiscal feasibility analysis is prepared, that analysis would include any potential impacts related to the City of Half Moon Bay's judgment obligation bond liability. This question underscores the importance of any discussion or study of annexation by the MCC and the community it represents to also include representatives of the City of Half Moon Bay.

Recommendation:

For the reasons stated above it is not recommended that the proponents initiate a study of potential incorporation or large-scale annexation under current economic conditions and subject to the elimination of significant VLF general fund revenues resulting from SB 89. It is recommended that a study be conducted once the economy and housing market show clear signs of recovery, there is a reversal or correction of SB 89 and there is demonstration of broad community support for incorporation or annexation recognizing that a successful incorporation or annexation is dependent upon voter support.

In regard to funding of the study, it should be noted that the County's action to fund the 1998 "Midcoast Incorporation/Annexation Fiscal Study" is uncommon. In surveying other LAFCOs, common practice for incorporation efforts is that based on demonstrated community support for incorporation or annexation, proponents form an incorporation or annexation committee, raise funds locally and hire a consultant to complete an initial feasibility study to determine feasibility. If found feasible and assuming community support, the Committee would then do further fundraising in order to fund the LAFCo application for sphere amendment and annexation which includes a LAFCo commissioned comprehensive fiscal analysis. Costs for an initial feasibility study vary. An estimated range for an initial feasibility study is \$15,000 to \$40,000 and from polling other LAFCOs, costs for the Comprehensive Incorporation Fiscal Analysis range from \$75,000 to \$100,000. The California Office of Planning and Research has published a Guide to Incorporation, which can be a useful tool for incorporation committees. The Guide can be found at www.opr.ca.gov.

In summary, I recommend the following:

1. That a study of annexation or incorporation be deferred until such time that it would be based on stable economic and fiscal conditions.
2. That based on demonstrated community support, proponents form a committee, raise funds and hire a consultant to prepare an initial feasibility study.
3. That in the meantime the MCC, Midcoast districts, City of Half Moon Bay, and County of San Mateo collaborate regarding consolidation alternatives outlined in the attached LAFCo Municipal Service Review and Sphere of Influence Determinations.

Sincerely,



Martha Poyatos
Executive Officer

- C: Members, Board of Supervisors
Members, Formation Commission
David Boesch, County Manager
Laura Snideman, City Manager, City of Half Moon Bay
Len Erickson, Chair, Midcoast Community Council
Bob Feldman, President, Coastside County Water District
Kathryn Slater-Carter, President, Montara Water and Sanitary District
Ronald Fenech, President, Granada Sanitary District
Greg Hosfeldt, President, Coastside Fire Protection District

SAN MATEO LOCAL AGENCY FORMATION COMMISSION

455 County Center, 2nd Floor
Redwood City, California 94063

Martha Poyatos
Executive Officer
(650) 363-4224

PURPOSE

Created by the State legislature in 1963, the Local Agency Formation Commission (LAFCo) is a State-mandated, independent commission with countywide jurisdiction over changes in organization and boundaries of cities and special districts including annexations, detachments, incorporations and formations. As required by State law, LAFCo adopts a net operating budget, which is apportioned in thirds to the County of San Mateo, the 20 cities in the County and the 22 independent special districts. The Commission has responsibility in the following areas affecting local government in the county:

1. To discourage urban sprawl and encourage the orderly growth and development of local government agencies;
2. To prevent premature conversion of agricultural and open space lands;
3. To review and approve or disapprove proposals for changes in the boundaries and organization of the 20 cities, 22 independent special districts and 33 county-governed special districts plus incorporations of cities and formations of special districts;
4. To conduct municipal service reviews and establish and periodically update spheres of influence--future boundary, organization and service plans--for the county cities and special districts; and
5. To perform and assist in studies of local government agencies with the goal of improving efficiency and reducing costs of providing urban services.

THE COMMISSION

The Commission is made up of two members of the county Board of Supervisors, two members of city councils of the cities in the county, two board members of independent special districts in the county, a public member, and four alternate members (county, city, special district and public). The Commission contracts with the County of San Mateo for staff, facilities and legal counsel. The Executive Officer serves in the administrative capacity which includes staff review of each proposal, sphere of influence studies and assistance to local agencies and the public.

LAFCo Member

Term

David Altscher	Special District Member	May, 2014
Linda Craig	Public Member, Vice Chair	May, 2014
Iris Gallagher	Special District Member, Chair	May, 2012
Don Horsley	Board of Supervisors	May, 2012
Naomi Patridge	City Member	May, 2013
Sepi Richardson	City Member	May, 2014
Adrienne Tissier	Board of Supervisors	May, 2012
Rose Jacobs Gibson	Alternate for Supervisors	May, 2012
Richard Garbarino	Alternate for City Member	May, 2015
Joseph Sheridan	Alternate Special District Member	May, 2012
Maureen Morton	Alternate for Public Member	May, 2014

COMMISSION MEETINGS:

1. LAFCo meetings are on the third Wednesday of odd-numbered months at 2:30 p.m. in the Board of Supervisors Chambers at the Hall of Justice in Redwood City. Extra meetings may be held as needed.
2. If an item of interest to you is on the agenda, the Chairman will call for comments from the audience when the item is ready for discussion from the floor. Please complete a speaker slip available just inside the door and give it to the Clerk to assist the Chairman in organizing the progress of the hearing.
3. When addressing the Commission, please proceed to the microphone and state your name and address for the Clerk..

For more information about San Mateo LAFCo: www.sanmateolafco.org

Board of Supervisors



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COUNTY OF SAN MATEO

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WEB PAGE ADDRESS: <http://www.co.sanmateo.ca.us>

BOARD OF SUPERVISORS
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COUNTY MANAGER/
CLERK OF THE BOARD

(650) 363-4653
(650) 599-1027 FAX

August 18, 2011

Martha M. Poyatos
Executive Officer
San Mateo Local Agency Formation Commission
455 County Center, 2nd Floor
Redwood City, CA 94063

Re: Midcoast Community Council request for Incorporation/ Annexation Fiscal Study

Dear Martha,

The Board received a letter from Chair of the MCC, Len Erickson, dated July 27, 2011 (attached) related to an incorporation / annexation fiscal study. The MCC specifically requested that San Mateo County re-evaluate the Midcoast Incorporation/ Annexation Fiscal Study prepared in July 1998 using current fiscal data.

As this study was done as a collaborative effort with LAFCo, and as any application for incorporation or annexation request would be processed by LAFCo, we request that LAFCo review MCC's request and provide an analysis to us. In addition to the analysis, could you also comment on the process for initiating a study such as the one requested, and an approximation of the cost and potential funding sources?

Thank you for your assistance in this matter.

Sincerely,

Carole Groom

Carole Groom
Supervisor, District 2
President

Don Horsley
Don Horsley
Supervisor, District 3

cc: Len Erickson, Chair Midcoast Community Council

Midcoast Community Council

An elected Municipal Advisory Council to the San Mateo County Board of Supervisors
Serving 12,000 coastal residents

Len Erickson
Chair

Bill Kehoe
Vice-Chair

Neil Merrilees
Secretary

David Vespremi
Treasurer

Bob Kline

Deborah Lardie

Leonard Woren

July 27, 2011

San Mateo County Board of Supervisors
400 County Center
Redwood City, CA 94063

Re: Incorporation/Annexation Fiscal Study

Dear President Groom and Members of the Board,

In June 1998 San Mateo County published a report titled "Mid-Coast Incorporation/Annexation Fiscal Study" prepared for the Midcoast Community Council. (This study is available on the documents page in the Planning and Building section of the County's web site.) As stated in the cover letter to the study:

The study provides fiscal data in the form of a full fiscal year's budget for two potential forms of government: the incorporation of the communities of Montara, Moss Beach, Princeton, El Granada, and Miramar; or annexation of these communities to the City of Half Moon Bay." The study also includes general information on alternative revenue sources available to cities and specific revenue generating land use alternatives for the study area.

As recently requested by community members, the Midcoast Community Council agrees it is time to revisit this topic, and hereby requests that San Mateo County re-evaluate the study using current fiscal data and also correct various deficiencies in the 1998 study.

Circumstances have changed since the 1998 study was prepared including substantially higher property values resulting in higher property tax collections, significantly larger population, construction of the Oceana Hotel which can be expected to provide hundreds of thousands of dollars in TOT when the economy recovers, and various changes in tax allocations to cities due to changes in State law. Due to the lengthy process of building community support for incorporation or annexation and the LAFCo process itself, it seems reasonable to assume that the economy will be back to "normal" by the time a new city could be formed. Also, the County now charges full cost-recovery for Planning Department applications; this approach was not allowed as a consideration in the 1998 Study.

In addition to the scenario of simply incorporating a new city of the listed communities, the Council requests an additional scenario also be evaluated which would combine such an incorporation with dissolution of Granada Sanitary District and Montara Water and Sanitary District, and possibly

Coastside County Water District, with their functions to be assumed by city departments in the new city and transfer of those districts' existing property tax revenue to the general fund of the new city. (For CCWD, the responsibility and the property tax revenue would be proportioned between Half Moon Bay and the new city).

An analysis should be included addressing how Half Moon Bay's Beachwood lawsuit settlement payments factor into an annexation scenario.

The Council recommends that a steering committee of the community and county provide guidance to frame the launch of this effort and provide guidance for the review. The MCC has council and community members who can participate in this process.

Thank you for your consideration.

Sincerely,
s/Len Erickson
Chair, Midcoast Community Council

Exhibit A

Municipal Service Review Determinations City of Half Moon Bay and Unincorporated MidCoast Adopted June 18, 2008

Determinations pursuant to Government Code Section 56430:

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

1.1 Sewer Infrastructure:

- a) The Montara Water and Sanitary District, Granada Sanitary District and City of Half Moon Bay are member agencies of Sewer Authority Mid-Coastside (SAM) for Sewage Treatment and contract separately with SAM for sewer system maintenance.
- b) Sewer infrastructure identified in the Municipal Service Review includes approximately 104.5 miles of sewer pipelines and 17 lift stations owned by member agencies and the SAM wastewater treatment plant, three pumping stations, eight-mile transmission line and ocean outfall.
- c) Member agencies budget for capital improvements to respective sewer systems and member agencies fund SAM capital improvements related to sewage treatment infrastructure pursuant to the Joint Powers Agreement creating Sewer Authority Mid-Coastside.
- d) SAM Member agencies are jointly preparing a Sewer System Master Plan.
- e) Member agencies and SAM have adopted capital improvement plans and infrastructure needs are identified in these plans.

1.2 Water Infrastructure

- a) Water providers include Coastside County Water District (CCWD) and Montara Water and Sanitary District (MWSD).
- b) CCWD water infrastructure includes 10 water storage tanks (8.1 million gallon capacity), five pump stations, two water treatment plants, 100 miles of transmission and distribution line, and Denniston Wells and surface water.
- c) CCWD has an adopted capital improvement plan and Urban Water Management Plan that indicate capital assets are upgraded appropriately and there are not significant infrastructure deficiencies.
- d) MWSD water infrastructure, acquired by MWSD through eminent domain, includes one water treatment plant,

Exhibit A

Adopted MSR Determinations-City of Half Moon Bay and Unincorporated Midcoast

- three miles of distribution line, 28.6 miles of water mains, three storage tanks and ten producing wells.
- e) The MWSD system was acquired from CalAm with significant deficiencies in the areas of distribution, supply, storage and water quality, including a long-standing moratorium on new connections, which the District identifies in the Water System Master Plan. The Master Plan identified over \$10.4 million in improvements. The District began addressing deficiencies upon acquisition and a summary of District efforts since acquisition is attached to the Municipal Service Review Report.
 - f) While there is no projected date for completion of improvements and additional water supply, the Implementation Plan indicates implementation to supply the build-out population may be expected in twenty years.

1.3 Parks & Recreation

- a) In the Unincorporated Area, while the Municipal Service Review identifies existence of regional park facilities, it identifies a lack of active playfields for organized sports, pocket parks or community parks (except for four acres at Quarry Park) and the lack of a community center.
- b) The County has developed and adopted the Midcoast Action Plan for Parks and Recreation that includes identification of priorities for facilities.
- c) In the City of Half Moon Bay, the Municipal Service Review identifies 24 acres of developed park facilities, which falls below both a standardized national average and the City General Plan Standard of 8 acres per 1,000 of population or 98 acres.
- d) In both the City of Half Moon Bay and the Unincorporated Area, the Cabrillo Unified School District facilities provide virtually all playing fields for organized sports and merit inclusion in the broader discussion of park and recreation facilities.

1.4 Streets, Street lighting and Stormwater Drainage

- a) The County of San Mateo and the City of Half Moon Bay are the responsible agencies for street and street lighting within their respective boundaries.
- b) Agencies with enabling legislation or general powers that authorize stormwater activities include the County of San Mateo, City of Half Moon Bay, Granada Sanitary District and Montara Water and Sanitary District.

- c) The County of San Mateo maintains roads in all unincorporated areas including 47 centerline road miles in the study area. The County has an adopted Pavement Management Program and faces a significant backlog of deferred maintenance due to inadequate funding.
- d) The City of Half Moon Bay maintains 28 centerline miles of roads, has an adopted Pavement Management Program and faces a significant backlog of deferred maintenance due to inadequate funding.
- e) The majority of the City of Half Moon Bay has stormwater infrastructure that was constructed as new subdivisions were constructed.
- f) There is a significant lack of stormwater drainage infrastructure on the unincorporated Midcoast resulting in flooding in some areas. The County of San Mateo's Midcoast Stormwater Drainage Committee is identifying priorities for projects to address the most apparent problem areas and is also considering the need for a stormwater master plan for the Midcoast area. There are no existing funding sources for improvements or maintenance.

1.5 Law Enforcement

- a) The City of Half Moon Bay's public facilities fund includes annual appropriations for improvements to the existing Police Station located at 537 Kelly Avenue and the station will be included in upcoming capital improvement planning.
- b) The County of San Mateo provides law enforcement services from the Moss Beach substation and there are no significant infrastructure needs or deficiencies identified.

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

- a) Population estimates for 2007 include 12,308 persons for City of Half Moon Bay and 11,152 persons for the unincorporated Midcoast for a total of 23,460 for the study area.
- b) Based on Association of Bay Area Governments (ABAG) Projections 2007, the study area population is estimated to grow by at least 4,640 person to 28,100 by 2035.
- c) San Mateo County Local Coastal Program estimates indicate that the *unincorporated* midcoast population growth associated with build-out ranges from 18,340 to

19,440, or 5,940 to 7,040 persons greater than ABAG 2035 projections for the unincorporated area.

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

3.1 Sewer

- a) The City Council and District boards are rate-setting bodies for their respective enterprise services and opportunities exist for cost recovery through revision of existing fees.
- b) The City of Half Moon Bay current year sewer revenues are less than current year operating and capital expenditures and the City indicates the Finance Committee has begun analysis of appropriate sewer rate revision.
- c) Sewer districts offset sewer rates with property tax and would need to increase rates in the event that property tax revenues are redistributed for other purposes.
- d) Financing of needed improvements and of infrastructure replacement for each agency is constrained by the relatively small size of their customer bases and by very low or no growth rates.

3.2 Water

- a) Principal revenue sources for both CCWD and MWSD include water fees with augmentation by property tax.
- b) Financing of needed improvements and of infrastructure replacement for MWSD and CCWD is constrained by the relatively small size of their customer bases and by very low or no growth rates.
- c) MWSD voters approved \$19 million in general obligation bonds for acquisition and rehabilitation of the water system and the District has successfully obtained grants and loans for individual District projects.
- d) As the rate setting bodies for water service, the Districts have the ability to set rates to reflect the cost of providing service and capital improvements.
- e) Water districts would need to increase rates in the event that property tax revenues are redistributed for other purposes.
- f) There may be opportunities for additional financing, including grant funding for regional projects such as regional water recycling or integrated regional water management planning.

3.3 Park & Recreation

Exhibit A

Adopted MSR Determinations-City of Half Moon Bay and Unincorporated Midcoast

- a) Revenue sources for park and recreation in the City of Half Moon Bay include program fees, development impact fees and City general fund contribution.
- b) The City's program fees include a fee for non-residents and the City has the ability to adjust both resident and non-resident fees for better cost recovery.
- c) The County of San Mateo Parks Department Budget includes approximately \$300,000 annually for services on the Midcoast, including approximately \$30,000 for maintenance at Quarry Park. The County also collects development impact fees on the Midcoast for parks.
- d) While the County has developed and adopted the Midcoast Action Plan for Parks and Recreation that includes identification of priorities for facilities, implementation requires new funding sources.

3.4 Streets, Street lighting and Stormwater Drainage

- a) Revenue sources for streets include primarily intergovernmental (state and federal) revenues distributed to jurisdictions for the purpose of street maintenance.
- b) The City of Half Moon Bay has a development impact fee for traffic mitigation and the County of San Mateo has a development impact fee for road maintenance.
- c) In the unincorporated area, there are no existing funding sources for stormwater improvements or maintenance.

3.5 Law Enforcement

- a) Primary funding sources for law enforcement include County and City General fund revenues such as property tax, sales tax, transient occupancy tax.
- b) The City of Half Moon Bay recently successfully increased the transient occupancy tax to augment general fund revenues to fund programs such as police.

4. Regarding cost avoidance opportunities and shared facilities, the Commission determines:

- 4.1 Sewer Agencies practice cost avoidance and shared facilities through regional participation in the Sewer Authority Mid-Coastside (SAM) for joint operation of the sewage treatment plant and through separate contracts with SAM for system maintenance.

4.2 Water:

- a) The area that includes City of Half Moon Bay and the unincorporated midcoast constitutes a

separate subregion of the County with combined water supplies that are limited.

- b) The area can benefit from regional cost avoidance and shared resource practices to ensure a reliable, safe, sustainable, and fiscally viable water supply for domestic, commercial, agricultural and fire protection for the current and future health, safety and economic well-being of all coastside residents, landowners and businesses.
- c) Such practices include, but are not limited to, an inclusive integrated regional water management plan for the study area, a joint effort that includes Sewer Authority Mid-Coastside Member Agencies and the Coastside County Water District by formal agreement in a regional recycling program, system interties to provide for emergency water exchange between agencies, and mutual assistance agreements.

4.3 Parks & Recreation

- a) Existing cost avoidance and shared facilities practice includes participation of unincorporated residents in existing City of Half Moon Bay Park and Recreation programs and use of school facilities for park and recreation purposes.
- b) Potential opportunities for cost avoidance and shared facilities include coordinated efforts by the City of Half Moon Bay, County of San Mateo and Cabrillo Unified School District to fund and provide for facility improvements on Cabrillo Unified School District facilities for recreation purposes.
- c) Opportunities for partnership between the City of Half Moon Bay, County of San Mateo and other agencies in pooling resources to jointly provide park and recreation that could be explored by the agencies include but are not limited to a contract or agreement with the City of Half Moon Bay in which the City of Half Moon Bay provides expanded active recreation programs within the unincorporated area, with the County focusing on resource management of passive recreational lands.

4.4 Streets, Street lighting and Stormwater Drainage

- a) There are no apparent cost avoidance or shared facility opportunities in these areas.

4.5 Law Enforcement

- a) The County of San Mateo and City of Half Moon Bay are encouraged to examine potential savings and economies of scale for both agencies if the City contracts with the County sheriff for law enforcement.

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

- a) Sewer and water provision for a population of 23,460 comprised of approximately 8,600 sewer connections and 7,370 water connections is carried out by one city, one joint powers authority, one sanitary district, one water and sanitary district and one water district, each with separate office space, attorneys, engineers, management and administrative personnel dedicated to the activities of five separate agency operations, meeting agenda preparation, and board meeting attendance by management, clerical and legal counsel.
- b) In addition to potential economies of scale that are indicated by the summary in (a) above, the number of agencies reduces effectiveness of decision making for regional or subregional projects, whether they involve, water, sewer, park and recreation or storm drain improvements.
- c) Specifically, while Sewer Authority Mid-Coastside and the separate contracts for system maintenance minimize costs for member agencies while meeting the service needs of respective ratepayers, the composition and voting structure of SAM requires decision-making by four separate entities which impedes and delays funding and implementation of essential projects.

6. In regard to government structure options, including the advantages and disadvantages of consolidation or reorganization of service providers, the Commission determines:

- a) Fragmentation of local government organized around historic agency boundaries and the quantity of agencies has limited ability to plan regionally for the benefit of municipal services essential to the health and economic well-being of the communities in the region and a failure to augment water supplies in a timely manner.
- b) Given the geographic separation of the study area from other areas in the County, the limitations on water resources and the need to provide for regional planning, the area is best governed by a limited number of regional agencies specifically, a regional water and sewer agency, or a regional water district and a regional sewer district, as opposed to the current government structure of multiple individual water and sewer entities.
- c) Governance alternatives that include the provision of regional sewer and water service delivery, could also include a community services district for the unincorporated midcoast to better provide for local

Exhibit A

Adopted MSR Determinations-City of Half Moon Bay and Unincorporated Midcoast

governance and a more focused approach to recreation and community services.

- d) Based on the number of existing agencies and inherent challenges to government reorganization including individual agency rate setting policies, infrastructure condition, fiscal resources and lack of broad consensus or support by elected boards for consolidation, the Commission recognizes that reorganization may best be achieved in phases that would include a combination of the alternatives enumerated in f) below.
- e) In general, advantages of consolidation include efficiencies and economies of scale for operations and rates, streamlined planning for regional infrastructure, maximizing resources including water supply and personnel and efficient and timely decision making by a fewer number of elected boards. In general disadvantages of consolidation identified by the Districts include loss of local control, inadequate evidence of significant savings that would result from economies of scale, and obstacles to achieving consolidation disparate rate structures, infrastructure conditions, reserve and debt levels of individual districts.
- f) Governance Alternatives for the study area include:
 - 1) Independent regional sewer district
 - 2) Independent regional water district
 - 3) Consolidation of Granada Sanitary District and Montara Water and Sanitary District
 - 4) Community Services District for Unincorporated Midcoast
 - 5) Reorganization of Granada Sanitary District as a community services district and status quo for Montara Water and Sanitary District
 - 6) Incorporation of the Midcoast
 - 7) Implementation of current sphere of influence involving annexation to City of Half Moon Bay and consolidation of water and sewer operations
 - 8) A consolidated, regional water and sanitary district

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

- a) Agencies adopt budgets that account for expenditures and revenues and these budgets are accessible to the public.
- b) Agencies publish meeting agenda, financial and other information as required by the Brown Act, and post this information on agency websites.

Exhibit A

Adopted MSR Determinations-City of Half Moon Bay and Unincorporated Midcoast

- c) While district public meetings are not broadly attended, meetings are televised on local cable television.
- d) While agencies fulfill mandated responsibilities related to public meetings and information, the number and diversity of limited purpose agencies providing service in the study area inhibit regional planning, in particular for water supply and infrastructure including efforts such as recycling which can best be achieved with efforts by both sewer and water agencies, and require that the public stay informed of a multiple agency agenda, budgets, etc. in order to influence and participate decision making.

Exhibit A: Coastside Spheres of Influence

- A single regional water and sewer district to serve the unincorporated and incorporated study area delineated by the urban/rural boundary
- A community services district to serve the unincorporated midcoast to provide park and recreation, street lighting and other services as determined
- Associated with this sphere designation for service delivery and governance, the following sets the sphere of influence designations for existing agencies:
 - City of Half Moon Bay - coterminous with existing corporate boundaries and the unincorporated area within the urban rural boundary of the County of San Mateo Local Coastal Program
 - Coastside County Water District - "Consolidation" with sphere of influence territory to include current District boundaries eligible for service under LCP and eligible urban areas previously included in CCWD sphere and not currently in the jurisdictional boundaries of Montara Water and Sanitary District
 - Montara Water and Sanitary District - "Consolidation" and coterminous with current district boundaries to include areas eligible for service under LCP and eligible rural residential areas as determined by LCP
 - Granada Sanitary District - "Consolidation" with sphere of influence to include areas eligible for service under LCP
 - County Service Area 6 - "Consolidation" - with service responsibility transferred to a Midcoast community services district and the district dissolved
 - County Service Area 10 - "Dissolution"
 - County Service Area 12 - "Dissolution"