
**FRESNO LOCAL AGENCY FORMATION COMMISSION (LAFCo)
EXECUTIVE OFFICER'S REPORT**

AGENDA ITEM No. 9

DATE: August 12, 2009

TO: Fresno Local Agency Formation Commission

FROM: Rick Ballantyne, Executive Officer
Darrel Schmidt, Deputy Executive Officer

SUBJECT: **Consider Request – Waive LAFCo Filing Fees for James Irrigation District.** A request to waive filing fees for consolidating the James Irrigation District and Reclamation District No. 1606 and detaching the successor district from territory located within the City of San Joaquin.

Petitioner: James Irrigation District

Representative: John Mallyon, General Manager

Background:

The James Irrigation District (JID) encompasses 26,418 acres and is located within the central portion of Fresno County (see Exhibit “A”). The District’s boundaries surround the City of San Joaquin. JID’s facilities include a main canal and lateral canals, wells, and other facilities used in providing surface and groundwater for irrigation purposes.

Reclamation District No. 1606 (RD 1606) encompasses 18,521 acres of territory. It also surrounds the City of San Joaquin, but includes properties within the City. The District owns and maintains the Fresno Slough and Fresno Slough Bypass—including levees protecting the sloughs. The sloughs main purpose is to act as a conveyance for Kings River flood water and local storm waters. RD 1606 also obtains and provides water for agricultural uses within its boundaries.

While JID and RD 1606 were formed under different principal acts—California Water Code Sections 20500 and 50000, respectively, the Districts are closely affiliated. Both Districts provide similar services and share infrastructure for conveyance of water. RD 1606 contracts with JID for staffing and other necessary services including management of RD 1606. JID’s boundaries overlap almost all of RD 1606s excepting a small portion that lies within the City of San Joaquin and a small area near the Mc Mullin Grade (see Exhibit “A”).

Proposal:

The James Irrigation District is requesting that LAFCo waive its filing fees (see Exhibit “B”) for the following actions: (1) Consolidate JID and RD 1606; and (2) Detach the successor district from territory located within the City of San Joaquin’s boundaries.

Pursuant to Fresno LAFCo’s adopted *Policies, Standards and Procedures—Section 350* (Fee Schedule), filing fees for these two actions total \$10,500. In support of their request JID has provided a letter (see Exhibit “B”) that sets forth the following justification:

1. In 2007, the Commission approved the findings of the Municipal Service Reviews (“MSR”) performed on both JID and RD 1606. Those MSR’s identified several efficiency gains that could be realized if JID and RD 1606 were to consolidate. Both MSR’s also noted that a consolidation had been considered in the past but did not proceed due to the high costs associated with it. Both MSR’s also recognized that LAFCo related consolidation costs were a... small portion of the total consolidation costs (JID MSR, page 2; RD 1606 MSR, page 2).
2. Imposing the LAFCo fees would put consolidation financially out of reach. The districts would effectively forfeit the costs of the work already performed by its counsel and consultants. More importantly, the detriment to the public would be that the efficiency gains from the streamlined operation of the consolidated districts would not be achieved.

The districts have also submitted their Fiscal Year 2009–2010 budgets that indicate total anticipated revenues for both districts of \$6,484,987 (RD 1606’s revenues represent only \$114,183 of this total). The primary revenue source for JID is water sales. Other significant income sources include assessments and operation and maintenance fees for a water-banking storage project. Revenue sources for RD 1606 include rental income, dirt sales, and assessments.

Total anticipated expenses for both districts equal \$7,478,714. These expenses include pumping, water source supply, transmission and distribution costs, weed control, debt payments, asset purchases, and administrative costs. The districts estimate a combined net loss of \$993,728 for the current fiscal year.

Total Revenues:	\$6,484,987
Total Expenses:	<u>\$7,478,714</u>
Net Gain (Loss):	(\$993,728)

Discussion:

The Commission has approved consolidation and change of organization actions stemming from recommendations of District Municipal Service Reviews and Sphere of Influence Updates. The MSR’s often recommended amending SOIs and consolidating districts to improve service efficiencies or reflect actual service boundaries. Such actions have included recommendations to waive LAFCo processing fees.

These recommendations were consistent with Commission policies that generally support consolidation where the affected districts overlap (or are in the same general area) and where the districts provide the same/similar services and where consolidation would provide for more efficient delivery of services.

In the case of JID and RD 1606, the MSR/SOI Updates and staff reports prepared for the respective districts discussed the possibility of consolidation based on their geographic proximity to each other, provision of similar services, and interrelated operations and staff. The MSR/SOI Update report prepared for JID states that consolidation had previously been considered, but no action had been taken, due in part to the costs for consolidation of which LAFCo fees represented only a part. The RD 1606 staff report states that consolidation had been considered, but the resulting savings could not be justified due to consolidation costs, again, of which LAFCo fees represented only a part.

Staff also believes that detaching the successor district from territory included within the City of San Joaquin is appropriate. Detachment from the City is desired simply because the districts

serve agricultural rather than urban uses and JID has regularly detached its territories as they are annexed by the City of San Joaquin. This could be considered almost a “housekeeping” measure.

Staff Analysis

Section 350.08 of Fresno LAFCo’s adopted Policies, Standards, and Procedures (Fee Schedule-Exceptions to Required Fees), states that the Commission may take action on a four-fifths affirmative vote to waive filing fees if the imposition of such fee(s) would be detrimental to the public interest, as determined by the Commission.

Whether the imposition of LAFCo fees to consolidate JID and RD 1606 and detach the successor district from the City of San Joaquin would be “detrimental to the public interest” is somewhat subjective. The Districts’ budgets anticipate a \$993,728 loss for the current fiscal year. The Districts have stated that an additional \$10,500 in LAFCo fees would not be affordable at this time given their current financial situation.

A major portion of the Districts’ revenues are derived from water and soil sales, property rental, and bank interest—rather than from general property taxes. It is the Districts’ customers that will ultimately benefit from reduced operational costs associated with creation of a successor district. While it is possible that the cost of LAFCo fees could be passed on to the Districts’ customers through higher water rates such additional costs might be considered a detriment to the “public” in general—especially in these financially challenged times on the County’s West Side.

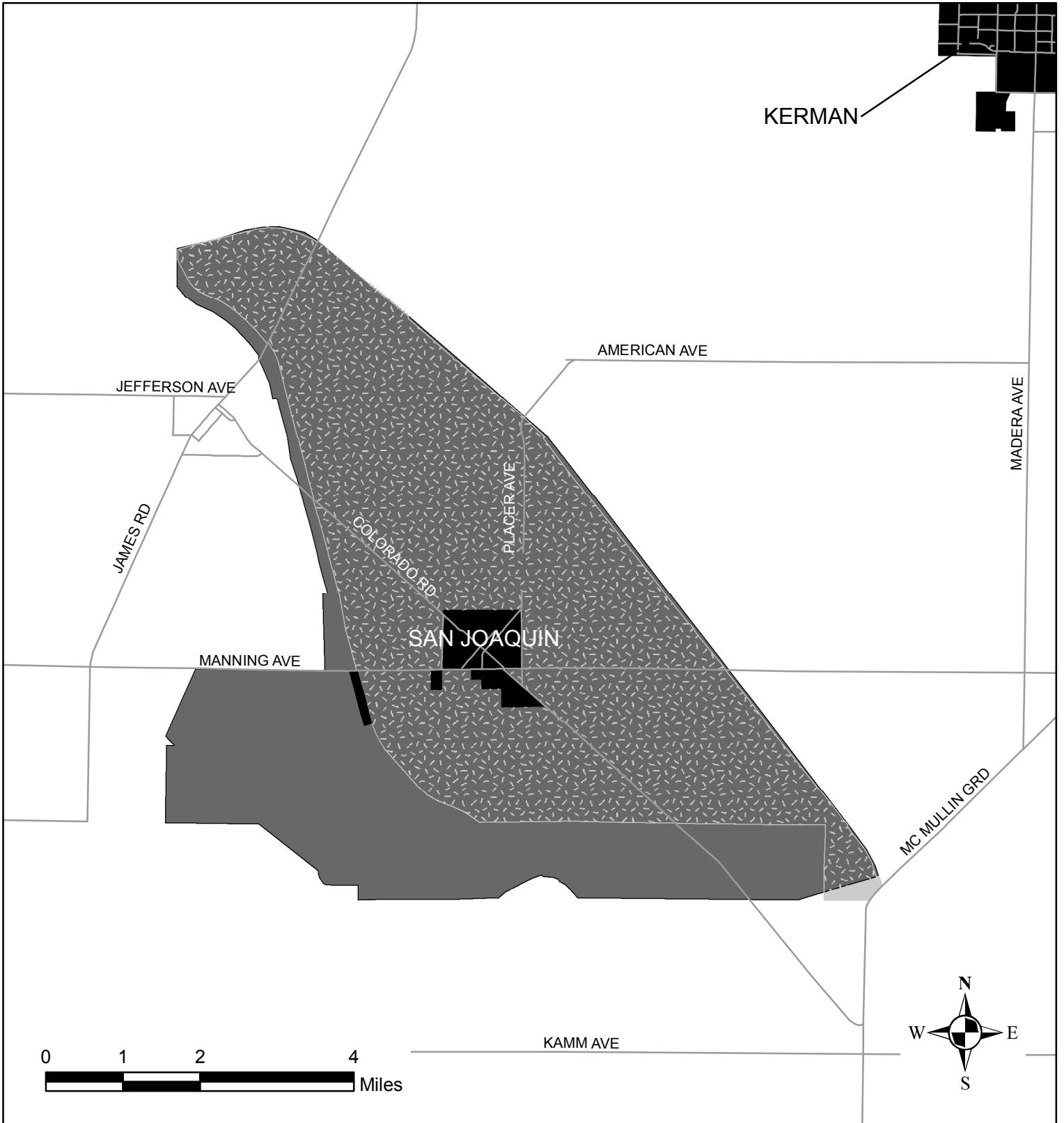
Recommended Actions:

Based upon budget information submitted by the Districts and the benefits that may be gained through consolidation, staff believes that the Districts have provided sufficient justification to grant the fee waiver.

Staff recommends the following actions:

1. Find that imposition of the \$10,500 filing fee to consolidate the Districts and detach the successor district from the territory included within the City of San Joaquin would be detrimental to the public interest and waive the filing fee.
2. Initiate a Sphere of Influence Revision proposal to be conducted concurrently with the consolidation proposal that reflects the boundaries of the new successor district.

EXHIBIT "A"



James Irrigation District and Reclamation District No. 1606 "Proposed Consolidation and Detachment"

Legend

- James Irrigation District
- Reclamation District No. 1606
- Overlapping Boundary Area-JID & RD 1606
- City Areas

Note: James Irrigation District does not include territory within the City of San Joaquin.
Reclamation District No. 1606 does include territory within the City of San Joaquin.

JAMES IRRIGATION DISTRICT

BOARD OF DIRECTORS
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George Ayerza, Sr.
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July 31, 2009

FRESNO LOCAL AGENCY FORMATION COMMISSION

2115 Kern Street, Suite 310
Fresno, CA 93721

SUBJECT: REQUEST FOR FEE WAIVER IN CONNECTION WITH JAMES IRRIGATION DISTRICT CONSOLIDATION APPLICATION

Dear Commissioners:

Consultants of James Irrigation District ("JID") have held discussions in recent days with Commission staff concerning the possible consolidation of Reclamation District No. 1606 ("RD 1606") and JID. In a meeting earlier this month, JID's consultants were informed that the Commission's fees would amount to \$10,500.00.

We understand the Commission's policy to be that a fee can be waived upon approval by four-fifths (4/5) of the Commission's members, which approval would be based on a finding that the fee would be detrimental to the public interest.

In 2007, the Commission approved the findings of the Municipal Service Reviews ("MSR") performed on both JID and RD 1606. Those MSRs identified several efficiency gains that could be realized if JID and RD 1606 were to consolidate. Both MSRs also noted that a consolidation had been considered in the past but did not proceed due to the high costs associated with it. Both MSRs also recognized that "LAFCo related consolidation costs were a . . . small portion" of the total consolidation costs. (JID MSR, page 2; RD1606 MSR, page 2).

That said, LAFCO-related costs remain a barrier to consolidation and to the realization of the efficiencies that could be gained as a result. The MSRs reflect statements made in reference to a \$5,000.00 consolidation fee, which is less than half of the \$10,500.00 fee being quoted now that the proposed

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consolidation would also involve a detachment. In that context, it is inappropriate to reply on statements from the MSRs attributable to JID and RD 1606 to suggest that the fees would not preclude a consolidation.

Further, on or about June 13, 2007, we were informed by Rick Ballantyne of the Commission's staff and the Commission's consultant, Bob Braitman, that the Commission had interest in facilitating the consolidation of the districts and would, therefore, waive any LAFCo-related fees. Our preliminary estimates showed that a fee waiver would make the consolidation affordable to the point of warranting further consideration. In reliance on the Commission's representation that LAFCo fees would not be charged, JID and RD 1606, its legal counsel and its engineer consultants expended considerable time and resources researching and evaluating the proposed consolidation.

The reality is that imposing the LAFCo fees would put the consolidation financially out of reach. The districts would effectively forfeit the costs of the work already performed by its counsel and consultants. More importantly, the detriment to the public would be that the efficiency gains from the streamlined operation of the consolidated districts would not be achieved.

For these reasons, we respectfully urge you to stand by your representations from June, 2007, and agree to waive the Commission's fees.

Respectfully yours,



John Mallyon
GENERAL MANAGER

JM:dh