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

AGENDA ITEM No. 17-A

DATE: **October 10, 2007**

TO: **Fresno Local Agency Formation Commission**

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

SUBJECT: **Consider Adoption – Municipal Service Review and Sphere of
Influence Update prepared for the Malaga County Water District**

Summary / Background

The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 requires LAFCo to review and update, as necessary, city and special district Spheres of Influence (SOI) before January 1, 2008, and every five years thereafter. Prior to, or in conjunction with an agency's SOI update, LAFCo is required to conduct a *Municipal Service Review* (MSR) for each agency.

On December 13, 2006, the Commission directed staff to enter into a contract with Pacific Municipal Consultants (PMC) to prepare MSRs and SOI Updates for numerous special districts. The attached MSR has been prepared for Malaga County Water District.

Municipal Service Reviews provide a comprehensive review of the services provided by a city or special district and present recommendations with regard to the condition and adequacy of these services and whether or not any modifications to a city or district's SOI is necessary. MSRs can be used as informational tools by LAFCo and local agencies in evaluating the efficiencies of current district operations and may suggest changes in order to better serve the public.

SOI updates may involve an affirmation of the existing SOI boundaries or recommend modifications to the SOI boundary. LAFCo is not required to initiate changes to an SOI based on findings and recommendations of the service review, although it does have the power to do so. Such updates are required by State law to be conducted every five years. MSRs are required to be prepared prior to or in conjunction with SOI updates.

State law requires that the Commission in its consideration of the MSRs adopt written determinations for each of the following nine criteria:

1. Infrastructure needs or deficiencies
2. Growth and population projections for the affected area
3. Financing constraints and opportunities
4. Cost avoidance opportunities
5. Opportunities for rate restructuring
6. Opportunities for shared facilities
7. Government structure options, including advantages and disadvantages of the consolidation or reorganization of service providers
8. Evaluation of management efficiencies
9. Local accountability and governance

As part of the SOI update, if the Commission determines that modifications to a district's SOI boundary is appropriate, it is required to consider the following four criteria and make appropriate determinations in relationship to each of the following criteria:

1. The present and planned land uses in the area, including agricultural and open-space lands.
2. The present and probable need for public facilities and services in the area.
3. The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.
4. The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency.

There are three County Water Districts (CWDs) within the County of Fresno. These Districts include: Freewater CWD, Malaga CWD, and Pinedale CWD. This report addresses Malaga CWD. Pinedale CWD also appears on today's agenda. A MSR and SOI Update prepared for Freewater CWD will be presented at a later hearing.

Environmental Determination

The California Environmental Quality Act ("CEQA") requires that the Commission undertake and review an environmental analysis before granting approval of a project, as defined by CEQA. The MSR is categorically exempt from the preparation of environmental documentation under a classification related to information gathering (Class 6 - Regulation section 15306), which states: "Class 6 consists of basic data collection, research, experimental management, and resource evaluation activities which do not result in a serious or major disturbance to an environmental resource. These may be strictly for information gathering purposes, or as part of a study leading to an action which a public agency has not yet approved, adopted, or funded." Indeed, this MSR collects data for the purpose of evaluating municipal services provided by the agency. There is no land use change or environmental impact created by such a study.

Furthermore, the MSR qualifies for a general exemption from environmental review based upon CEQA Regulation section 15061(b)(3), which states: "The activity is covered by the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. Additionally, the SOI update qualifies for the same general exemption from environmental review based upon CEQA Regulation section 15061(b)(3).

There is no possibility that this MSR or SOI update may have a significant effect on the environment because there are no land use changes associated with either document. If the Commission approves and adopts the MSR and SOI update and determines that the project is exempt from CEQA, staff will prepare and file a notice of exemption with the County of Fresno, as required by CEQA Regulation section 15062.

Discussion & Summary of Determinations

Malaga County Water District is an independent special district located adjacent to the south of the City of Fresno. The District encompasses approximately 1,424 acres (2.22 square miles). Its SOI encompasses approximately 2,642 acres (4.13 square miles). A small portion of the District overlaps with the City of Fresno.

The District provides domestic water, irrigation water, wastewater, parks, and recreation services. Solid waste services are provided via contract with a private hauler. The District is

governed by an elected Board of Directors and administered by a General Manager. It has 11 full-time and three part-time staff. The District's mission is to "manage the natural resources entrusted to the District, to provide reliable, high quality water supply, to provide healthy and sanitary wastewater services, and to provide safe, accessible recreation and park facilities."

District infrastructure includes two active wells, two inactive wells, and two wells designated for "stand-by", a wastewater treatment plant and related facilities, recreation center, softball fields, and caretaker residence. The District is permitted to discharge up to 1.65 million gallons per day (mgd) of tertiary treated effluent from the wastewater treatment plant to the Fresno Irrigation District's Central Canal.

The District states it monitors potential development within its SOI and reviews capacity of the required water and sewer infrastructure to determine its ability to provide services. The District had a Master Plan at its inception, but it has not been updated since that time. The District prepares and updates its *Capital Facilities Plan* annually.

The District is in the process of constructing water system upgrades including stand by power at Well 7, an additional well west of SR 99, and sewer system upgrades including sludge bed improvements and UV disinfection at the wastewater treatment plant. The District states its existing infrastructure is adequate to meet current demands. Future demands are unknown and may require infrastructure improvements or upgrades.

The County of Fresno has expressed some concerns related to groundwater overdraft in the Fresno/Clovis Metropolitan Area, among other areas on the County, in that groundwater overdraft has been occurring for a number of years. The County has further expressed concern that groundwater overdraft in the area may affect the ability of smaller service providers with more limited resources to continue to provide water service to their customers.

LAFCo recognizes that groundwater is a vital, but finite resource for the Fresno/Clovis Metropolitan Area, including the Malaga County Water District, as well as the region as a whole. It is acknowledged that individual agencies each have their own interests, which sometimes compete with the interests of others for this limited resource. Needs are such that the Fresno/Clovis Metropolitan Area, among other areas in the County, has been experiencing groundwater overdraft for many years. LAFCo encourages the District and other affected local governmental agencies to:

- As per State law, address and mitigate as required, groundwater overdraft impacts during the mandated environmental review process for all "projects" as defined by CEQA, that would result in new or increased demands on water resources and/or intensification of urban uses; and
- Work together to collectively identify and implement feasible strategies to eliminate groundwater overdraft in the Fresno/Clovis Metropolitan Area, including territories that may be the subject of future applications to LAFCo for a change of organization and reorganization.

The provision of a dependable water supply for municipal use (i.e. residential, commercial, and industrial) will be a significant issue LAFCo will carefully consider when reviewing proposed Sphere of Influence and boundary changes.

Further, recognizing the historic nature of groundwater overdraft, LAFCo encourages the Malaga County Water District and other concerned public agencies including, but not limited to Fresno County, the Cities of Fresno and Clovis, Fresno Irrigation District, and the Fresno Metropolitan Flood Control District to cooperatively investigate and implement strategies, to the extent feasible, that will result in a net increase in groundwater in the Fresno/Clovis Metropolitan Area.

The District provided financial statements from an independent auditor's report for the Fiscal Year ending June 30, 2006, its current budget for FY 2007, and a schedule of its current fee rates, updated March 1, 2006. Operating revenues for FY 2005-06 were \$1,825,394. Expenses for the same period totaled \$1,792,164. Operating revenue sources include service charges for sewer and water service and use of recreational facilities. Other funds were derived from grants and taxes. As of June 30, 2006, the District had net assets totaling \$5,511,094. Liabilities totaled \$2,734,776.

The District engages in cost avoidance opportunities through the use of contracted service providers and volunteers. No other significant cost avoidance measures have been identified by the District.

The District shares facilities in that it discharges its treated wastewater into the Fresno Irrigation District's Central Canal. There may be other opportunities for sharing of facilities with the City of Fresno, due to its proximity to the District, but specific opportunities have not been identified.

The District currently has two "Out of District" Service Agreements with the City for providing water and wastewater service beyond the District's boundary. The MSR notes that there are some overlapping areas between the District and the City of Fresno in an area south of Central Avenue between Cedar and Maple Avenues (see District map). The City does not have water and sewer lines in the overlapping areas. Therefore, these areas are being served by the District. Given their proximity to each other, there is a possibility that the District could be absorbed into the City's service area at some point in the future. Neither the District nor the City have analyzed the possibility of consolidating or indicated a desire to do so.

In its review of the MSR prepared for the District, the City submitted comments recommending the "staffs of both agencies meet to consider mutual areas of concern regarding City and District boundaries (including SOI boundaries)." The City suggested it may be appropriate to consider adjusting boundaries (i.e. trading territory) to create more logical boundaries with the concept that the property tax revenues would remain roughly the same for each agency.

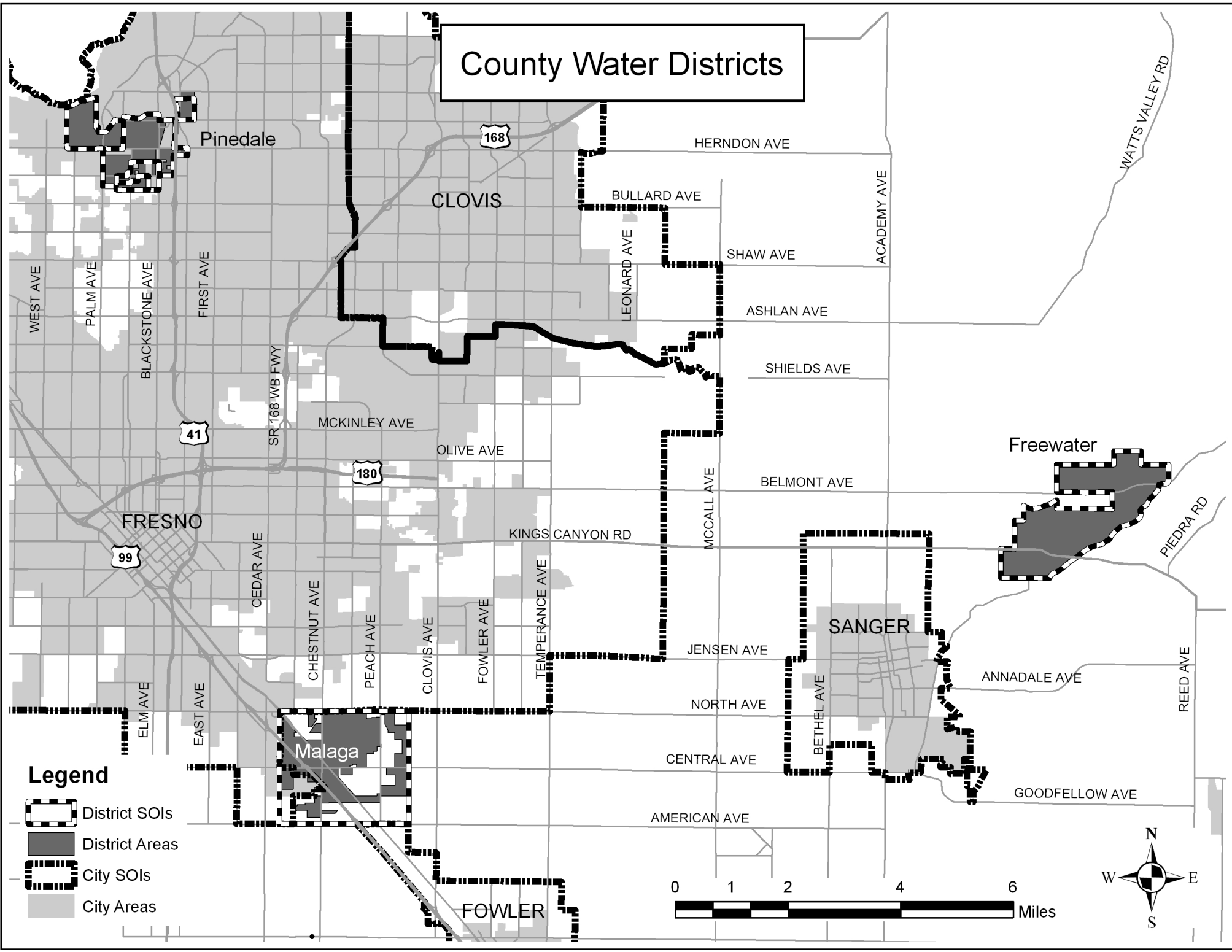
LAFCo staff notes that the District currently provides solid waste service to that portion of the District located within the City of Fresno. Given that the District provides this service to a very limited area, greater economy and efficiency in solid waste services may be achieved by having this service provided by the City of Fresno. Staff has recommended that the Commission authorize staff to confer with the City and District concerning these possibilities.

The District has not indicated a desire to revise its Sphere of Influence at this time, nor is staff aware of any need to do so. Staff recommends the Commission affirm the District's existing SOI.

Recommendations:

- A. Acting as Lead Agency pursuant to California Environmental Quality Act (CEQA) Guidelines, find that prior to adopting the written determinations, the Municipal Service Review and Sphere of Influence determinations under consideration are Categorically Exempt from the provisions of the California Environmental Quality Act (CEQA) under Section 15306, "Information Collection" and the general exemption from environmental review, CEQA Regulation Section 15061(b)(3), and find that the SOI Update qualifies for the same general exemption from environmental review based upon CEQA Regulation Section 15061(b)(3).
- B. Find the Municipal Service Review and Sphere of Influence Update prepared for the Malaga County Water District are complete and satisfactory.
- C. Find that the written determinations within the Municipal Service Review and Sphere of Influence Update satisfy State Law.
- D. Pursuant to Government Code Sections 56425 and 56430 make the required determinations for the Municipal Service Review and District Sphere of Influence Update, adopt the Municipal Service Review prepared for the Malaga County Water District by PMC, and update the Sphere of Influence for said District by reaffirming its current boundaries.
- E. Authorize the LAFCo staff to confer with the Malaga County Water District and the City of Fresno with respect to mutual areas of concern regarding City and District boundaries-- including SOI boundaries.
- F. Authorize the LAFCo staff to confer with the Malaga County Water District and the City of Fresno regarding the possible transfer of obligations to the City to provide solid waste services for that portion of the District located within the City of Fresno.
- G. LAFCo encourages the Malaga County Water District, Cities of Fresno and Clovis, the County of Fresno, and other appropriate local governmental agencies to:
 - As required by State law, consider and mitigate groundwater overdraft during the CEQA mandated environmental review process for all "projects" as defined by CEQA, which would result in new development and/or intensification of urban uses; and
 - Work together to collectively identify and implement feasible strategies to eliminate groundwater overdraft in the Fresno/Clovis Metropolitan Area, including those territories subject to applications to LAFCo for a change of organization and reorganization.
- H. LAFCO encourages affected agencies, including but not limited to the Malaga and County Water District, Cities of Fresno and Clovis, the Fresno Irrigation District, and the Fresno Metropolitan Flood Control District, to cooperatively investigate and implement strategies that, to the extent feasible, will result in a net increase in groundwater in the area served by the Fresno/Clovis Metropolitan Area.

County Water Districts





Fresno Local Agency Formation Commission Malaga County Water District

- District SOI
- District Area
- Fresno SOI
- City of Fresno
- City Overlapping District

District Formed: 1958
 SOI Adopted: April 23, 1975
 SOI Updated: December 15, 1993

Map Date: August 2007
 District Area: 1,424 Acres
 Sphere Area: 2,642 Acres

RESOLUTION NO. MSR-07-35A

**FRESNO LOCAL AGENCY FORMATION COMMISSION
FRESNO COUNTY, CALIFORNIA**

In the Matter of

LAFCo Determination

RESOLUTION MAKING DETERMINATIONS)	MAKE DETERMINATIONS AND ADOPT
AND ADOPTING MUNICIPAL SERVICE; AND)	MUNICIPAL SERVICE REVIEW; AND
MAKING DETERMINATIONS AND UPDATING)	MAKE DETERMINATIONS AND
THE SPHERE OF INFLUENCE FOR MALAGA)	UPDATE THE SPHERE OF INFLUENCE
COUNTY WATER DISTRICT)	FOR MALAGA COUNT WATER DISTRICT

WHEREAS, pursuant to the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Government Code Section 56425 et. Seq.) the Fresno Local Agency Formation Commission is required to review and update, as necessary, Spheres of Influence of local agencies not less than once every five years; and

WHEREAS, Government Code Section 56430 directs the Commission to conduct a review of municipal services not later than the time it considers an action to establish or update a Sphere of Influence (SOI); and

WHEREAS, the Executive Officer prepared a Municipal Service Review and Sphere of Influence Update (MSR) for the Malaga County Water District; and

WHEREAS, notice of this Commission's hearing of said request was duly given in a publication of general circulation as required by the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 and State law, and at the time and in the form and manner provided by law; and

WHEREAS, the Commission has heard, discussed and considered all relevant evidence, including but not limited to the Executive Officer's *Municipal Service Review and Sphere of Influence Update Report*, environmental documentation, applicable land use plans and all testimony, correspondence and exhibits received during the public hearing process, all of which are included herein by reference.

WHEREAS, the Commission heard public testimony from Neal Costanzo during the hearing for the City of Fresno Municipal Service Review and Sphere of Influence Update, said testimony also providing comments relative to the Malaga and Pinedale County Water Districts; and

WHEREAS, the Commission also considered Mr. Costanzo's comments in their consideration of the Malaga County Water District Municipal Service Review and Sphere of Influence Update proposals.

NOW, THEREFORE, BE IT RESOLVED that the Local Agency Formation Commission of the County of Fresno does HEREBY STATE, FIND, RESOLVE, DETERMINE, AND ORDER as follows:

Section #1. Acting as Lead Agency pursuant to California Environmental Quality Act (CEQA) Guidelines, this Commission finds that prior to adopting the written determinations, the Municipal Service Review and Sphere of Influence determinations under consideration are Categorically Exempt from the provisions of the California Environmental Quality Act (CEQA) under Section 15306, "Information Collection" and the general exemption from environmental review, CEQA Regulation Section 15061(b)(3), and find that the Sphere of Influence Update qualifies for the same general exemption from environmental review based upon CEQA Regulation Section 15061(b)(3).

Section #2. This Commission finds the Municipal Service Review and Sphere of Influence Update prepared for the Malaga County Water District are complete and satisfactory.

Section #3. This Commission finds that the written determinations within the Municipal Service Review and Sphere of Influence Update satisfy State Law.

Section #4. This Commission, pursuant to Government Code Sections 56425 and 56430, makes the required determinations for the Municipal Service Review and District Sphere of Influence Update, adopts the Municipal Service Review prepared for the Malaga County Water District by Pacific Municipal Consultants, and updates the Sphere of Influence for said District by reaffirming its current boundaries.

Section #5. This Commission authorizes the LAFCo staff to confer with the Malaga County Water District and the City of Fresno with respect to mutual areas of concern regarding City and District boundaries-- including Sphere of Influence boundaries.

Section #6. This Commission authorizes the LAFCo staff to confer with the Malaga County Water District and the City of Fresno regarding the possible transfer of obligations to the City to provide solid waste services for that portion of the District located within the City of Fresno.

Section #7. LAFCo encourages the Malaga County Water District, Cities of Fresno and Clovis, the County of Fresno, and other appropriate local governmental agencies to:

- As required by State law, consider and mitigate groundwater overdraft during the CEQA mandated environmental review process for all "projects" as defined by CEQA, which would result in new development and/or intensification of urban uses; and
- Work together to collectively identify and implement feasible strategies to eliminate groundwater overdraft in the Fresno/Clovis Metropolitan Area, including those territories subject to applications to LAFCo for a change of organization and reorganization.

Section #8. LAFCO encourages affected agencies, including but not limited to the Malaga County Water District, Fresno County, Cities of Fresno and Clovis, the Fresno Irrigation District, and the Fresno Metropolitan Flood Control District, to cooperatively investigate and implement strategies that, to the extent feasible, will result in a net increase in groundwater in the area served by the Fresno/Clovis Metropolitan Area.

Section #9. - The Executive Officer is hereby authorized and directed to mail certified copies of this resolution as provided in Government Code Section 56882 and to file, as appropriate, in the office of the Fresno County Clerk all environmental documents, if any, pertaining to the approval of this Proposal, as required by State law.

* * * * *

ADOPTED THIS 10th DAY OF OCTOBER, 2007, BY THE FOLLOWING VOTE:

AYES: Commissioners Rodriguez, Fortune, Anderson, Larson, Lopez

NOES: None

ABSENT: None

**STATE OF CALIFORNIA)
COUNTY OF FRESNO)**

CERTIFICATION

I, Victor Lopez, Chairman of the Fresno Local Agency Formation Commission (LAFCo), Fresno County, State of California, hereby certify that the foregoing resolution was adopted by the Commission on the 10th day of October, 2007.



**Victor Lopez, Chairman
Fresno Local Agency Formation Commission**

MALAGA COUNTY WATER DISTRICT

MUNICIPAL SERVICE REVIEW AND SPHERE OF INFLUENCE UPDATE

Report to the
Fresno Local Agency Formation Commission

Prepared by:

PMC
2729 Prospect Park Drive
Rancho Cordova, CA 95670

October 2007

0.1 EXECUTIVE SUMMARY

I. ROLE AND RESPONSIBILITY OF LAFCO

The Cortese-Knox-Hertzberg (CKH) Local Government Reorganization Act (Government Code Section 56000 *et seq*) requires all Local Agency Formation Commissions (LAFCOs), including Fresno LAFCo, to conduct municipal service reviews (MSR) prior to updating the spheres of influence (SOI) of the various cities and special districts in the County, excluding community facility districts and school districts (Government Code Section 56430). The fundamental role of a LAFCo is to implement the CKH Act, providing for the logical, efficient, and most appropriate formation of local municipalities, service areas, and special districts. The focus of this MSR is to provide LAFCo with all necessary and relevant information related to the provision of services by County Water Districts within the County.

II. MUNICIPAL SERVICE REVIEW PROCESS

The Municipal Service Review (MSR) and Sphere of Influence Update (SOI Update) process is a comprehensive assessment of the ability of government agencies to effectively and efficiently provide services to residents and users. The form and content of the MSR/SOI Update is governed by requirements of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH Act) and the State of California's LAFCo MSR Guidelines (Guidelines), published in August 2003.

This MSR/SOI Update evaluates the structure and operation of the service providers and discusses possible areas for improvement or coordination. Key sources for this study were information gathered through research and interviews, as well as the Municipal Service Review Guidelines published by the Governor's Office of Planning and Research (OPR). This MSR/SOI Update has been prepared for Fresno LAFCo in accordance with the requirements of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 as a means of identifying and evaluating public service providers within Fresno County and possible changes to their Sphere of Influence (SOI).

III. PURPOSE OF THE MUNICIPAL SERVICE REVIEW

The MSR contains analysis and conclusions, referred in this document as determinations, regarding nine topic areas set forth in the CKH Act. These areas of analysis contain the essential operational and management aspects of each service provider, and together constitute a review of the ability of each provider to meet the service demands of the residents within their existing and potentially expanded boundary. The topic areas represent the nine required topic areas set forth in the CKH act. Each report contains the following sections:

Growth and Population

This section reviews projected growth within the existing service boundaries of the special district and analyzes the growth potential within the service area and surrounding areas.

Infrastructure

This section analyzes whether sufficient infrastructure and capital are in place, and reviews capabilities for accommodating future growth in service demands.

Financing Constraints and Opportunities

This section evaluates the way the district is funded and possible opportunities to increase funding if needed.

Cost Avoidance Opportunities

This section evaluates factors affecting the financing of needed improvements, including outstanding opportunities and utilized opportunities for service providers to reduce costs.

Rate Restructuring

The fiscal history of the service provider and rate structure is evaluated to determine viability and ability to meet existing and expanded service demands.

Opportunities for Shared Facilities

This section evaluates the existing sharing of facilities and the ability to share facilities with other service providers.

Evaluation of Management Efficiencies

This section evaluates the overall managerial practices.

Government Structure

This section evaluates the ability of the service provider to meet its demands under its existing government structure. This includes discussion of potential reorganizations or other forms of governance that may result in the more efficient provision of services to local residents. Consideration of boundaries and their adequacy is also a key component of this analysis.

Local Accountability

This section examines how well the service provider makes its processes transparent to the public and invites and encourages public participation.

IV. SERVICE PROVIDERS

This document contains MSRs/SOI Updates for County Water Districts within Fresno County. The determinations and findings reached are based upon surveys of agency representatives, meetings, and assessments of existing documents.

County Water Districts

County Water Districts are independent special districts formed pursuant to Division 12 of the California Water Code for the purposes of furnishing imported water to the area within its boundaries. The Malaga County Water District is analyzed in this MSR.

MALAGA COUNTY WATER DISTRICT*Water, Sewer, Park & Recreation Operation*Contact Information

Address: 3580 S. Frank St
Fresno, CA 93725

Phone: (559) 485-7353

Website: <http://www.malagacwd.org>

Management Information

Manager: Russ Holcomb

Governing Body: Board of Directors

Board Members: John R Leyva Elected 2005, Expires 2009
Frank C Soto Elected 2005, Expires 2009
Salvador A. Cerrillo Elected 2005, Expires 2009
Charles Garabedian, Jr. Elected 2003, Expires 2007
Erma M Castaneda Elected 2005, Expires 2007

Board Meetings: Twice a month, on the 2nd and 4th Tuesdays at 7:00 pm

Staffing: 11 full-time staff and three part-time

Service Information

Empowered Services: Water, sewer, park & recreation operation

Services Provided: Water, sewer, park & recreation operation

Latent Powers: None

Area Served: Area immediately south of the City of Fresno

Population Served: Unknown

Infrastructure: Recreation center, park, swimming pool, two softball fields, six active wells, four inactive wells, water lines, wastewater treatment plant, lift stations, sewer lines, disposal ponds, several buildings

Fiscal Information

Budget: \$1,825,394

Sources of Funding: Service charges, fees for service, grants, taxes

Rate Structure: Fees varies, see Master Fee Schedule for latest rates
water: \$12.66 per ESU, sewer: \$24.80 per ESU

Administrative Policies

Master Plan: Yes **Policies/Procedures:** No **By-laws:**
No

2.1 MALAGA COUNTY WATER DISTRICT

I. SETTING

The Malaga County Water District (CWD) provides water, sewer, solid waste disposal and parks and recreation services to the residents of the community of Malaga. The mission of the Malaga County Water District is to manage the natural resources entrusted to the District, to provide reliable, high quality water supply, to provide healthy and sanitary wastewater services, and to provide safe, accessible recreation and park facilities.

Area Served

The CWD serves an area adjacent to and overlapping with the southern edge of the City of Fresno (City)'s boundaries. The CWD's northern boundary is roughly along East North Avenue, with the western boundary roughly along the railroad running from north to south between the Maple and Cedar Avenue alignments with the eastern boundary along South Minnewawa Avenue, and the southern boundary along East American Avenue. As illustrated in **Figure 6.2-1**, the District boundaries overlap with the City of Fresno, as well as additional areas within the City of Fresno Sphere of Influence.

The CWD is currently serving two parcels which are out of the CWD's boundaries. These parcels are APN Nos. 331-100-32S and 330-210-57, also known as Westin Hathaway and Highland Disposal, respectively. The District had requested an expansion of the Sphere of Influence to Sunnyside Avenue, in the past.

The CWD's service boundary and the City of Fresno overlap in areas south of Central Avenue between Maple Avenue and South Chestnut Avenue. The City limits also currently extend over the CWD boundaries south of Central Avenue, near Maple Avenue. However, the City is not serving the overlapping areas, as the City does not have water and sewer lines existing near this overlapping boundary area. The Malaga CWD currently provides water and sewer to the existing developments in this overlapping boundary area. Should the City continue to expand to the south and further into the SOI of the District, there may be uncertainties regarding service provision.

Services Provided

The Malaga County Water District provides water and sewer services to both residential and business customers; and parks and recreation services to all citizens of the community of Malaga. The CWD is authorized to provide solid waste service for residential customers. Solid waste services are currently contracted to a private company, IWS.

II. GROWTH AND POPULATION

The CWD stated that it monitors potential development within the SOI, and reviews the capacity of the required water and sewer infrastructure to determine its ability to provide services. At its inception, the CWD had prepared a Master Plan, which appears to have not been updated since. However, each year the CWD prepares and updates the Capital Facilities Plan to aid in identifying near term improvement projects and to assist with annual budgeting for implementation. The CWD then coordinates with the appropriate regulatory agencies for the construction of infrastructure as needed.

III. INFRASTRUCTURE

Existing Infrastructure Facilities and Conditions

The CWD currently has two active wells, two inactive wells, and two wells designated as “stand-by”. It is planning to build an additional well. The CWD owns its water distribution system.

The CWD owns its wastewater treatment plant (WWTP), and related facilities, including three lift stations, sewer lines, disposal ponds, and two buildings. In addition, the CWD owns the Water Manager’s office and a storage building.

The CWD owns and operates a recreation center, complete with a kitchen, full gym, dance room, senior room, office, arts and crafts room, park, swimming pool, pool office, storage rooms, two softball fields, playground equipment, and caretaker residence.

The CWD staff has stated that its infrastructure is currently acceptable to provide said services; however future demands are unknown and may require infrastructure improvements or upgrades beyond those already planned.

The CWD has a permit from the California Department of Health Services to supply domestic water to the CWD’s residents (permit number 80-070 which became effective December 11, 1980). The Department of Health Services also granted a permit amendment (number 03-11-02PA-002), which allows the CWD to build an additional well. In addition, the CWD has a permit from the California Regional Water Quality Control Board (CRWQCB) for the Central Valley Region (permit number CA0084239). This permit allows the CWD to discharge the tertiary-treated effluent from the WWTP to the Fresno Irrigation District’s Central Canal. Waste Discharge Requirements (WDRs) Order No. 85-157 adopted by the CRWQCB on June 28, 1985 allows the CWD to discharge up to 1.65 million gallons per day (mgd) from the WWTP to the Central Canal. Permits are updated as needed.

The County of Fresno has expressed some concerns related to groundwater overdraft in the Fresno/Clovis Metropolitan Area, among other areas on the County, in that groundwater overdraft has been occurring for a number of years. The County has further expressed concern that groundwater overdraft in the area may affect the ability of smaller service providers with more limited resources to continue to provide water service to their customers.

Water is a vital, but finite resource for the entire Fresno region. It is acknowledged that individual agencies each have their own interests, which sometimes compete with the interests of others for this limited resource. The Fresno/Clovis Metropolitan Area, among other areas of the County, has been experiencing groundwater overdraft for many years.

LAFCo encourages the Malaga County Water District and other affected local governmental agencies to:

- As required by State law, consider and mitigate groundwater overdraft during the mandated environmental review process for all “projects” as defined by CEQA, that would result in new or increased demands on water resources and/or intensification of urban uses; and

- Work together to collectively identify and implement feasible strategies to eliminate groundwater overdraft in the Fresno/Clovis Metropolitan Area, including territories that may be the subject of future applications to LAFCo for a change of organization an reorganization.

The dependable availability of water resources will be one of the issues LAFCo carefully considers when reviewing proposed Sphere of Influence and boundary changes.

Further, recognizing the historic nature of groundwater overdraft, LAFCo encourages the Malaga County Water District and other concerned public agencies, including, but not limited to Fresno County, the City of Clovis, Fresno Irrigation District and Fresno Metropolitan Flood Control District, to cooperatively investigate and implement strategies, to the extend feasible, that will result in a net increase in groundwater in the Fresno/Clovis metropolitan area.

Planned Facilities

The CWD is presently constructing water system upgrades that would enable stand by power at Well 7. The CWD recently completed construction of a water main in North Avenue between Chestnut and Willow Avenues. The CWD is also planning for a new well west of State Route 99 (SR 99).

Proposed sewer system upgrades include sludge bed improvements and UV disinfection at the WWTP and an increased tertiary effluent to the Central Canal. Financing for facilities improvements comes primarily from grants and CWD funds.

These planned facilities are anticipated to improve the level of service currently provided.

IV. FINANCING AND RATE RESTRUCTURING

This section of the MSR provides a review of the District's financial information to determine if the District has sufficient revenues and financial systems to allow for the continued provision of services to its residents. The following information and analysis sections are based on financial statements, annual budgets, and other supporting documents provided by the Malaga CWD in response to an initial questionnaire survey mailed in February 2007, information requests, and follow-up phone conversations and interviews with District personnel.

The CWD provided financial statements from an independent auditor's report for the Fiscal Year (FY) ending on June 30, 2006. Additionally, the CWD provided an annual Capital Facilities Plan dated January 28, 2006. The CWD has provided its budget for FY 2007 and a summary of current fee rates, as updated on March 1, 2006. Additional information was provided in response to PMC's questionnaire.

Based on the financial information received, the CWD's operational funding is obtained from property taxes, service fees connection fees, events and other activities. Funding to complete capital improvements are dependent on grants and the availability of funds.

Fee Schedule

The CWD has a Master Fee Schedule, which was last revised on March 1, 2006.

According to the Master Fee Schedule, each residential unit is charged \$22.04 per month for solid waste service.

Each Equivalent Service Unit (ESU) is charged \$24.80 per month for sewer service. The formula used to determine commercial/residential sewer service units (SU) is based on the flow rate, biochemical oxygen demand and total suspended solids from the discharger. This formula is also used as the basis for monthly sewer rate charges for those customers who discharge more than 25,000 gallons per day (gpd).

The sewer connection fee per ESU is \$1,090. Residential and sewer permit fees are \$31.90 per connection. Non-residential applications for permits are submitted to the CWD along with processing fees, ranging from \$275 to \$365, depending on the specific development requirements. Additional charges are placed on sewer users when they exceed thresholds for biological oxygen demand, suspended solids, electric conductivity or surge loading.

Each single-family residence or ESU is charged \$12.66 per month for water service. Each additional ESU is \$12.66 per month. The CWD also has metered users. Each metered user pays a base rate, which defines the monthly minimum charge, and amount of water applicable to the base rate. The base rate for metered users is based on the pipe size for these users and ranges from \$15.51 per month for ¾ inch pipe to \$259.05 per month for 4 inch pipe. In addition to the base rate, all metered customers pay \$.88 per 100 cubic feet if they exceed the amount of water applicable to the base rate.

The CWD collects a monthly minimum fee for private fireline service which is based on pipe size, and square footage of the connection served. Fees are increased by \$2.11 per thousand square feet of building over the minimum allowance. Additional fees are charged for connection, permits, water-wasting, reconnection, late fees and pipe installation.

The CWD also collects fees for use of recreational facilities. These facilities include the multi-purpose room, kitchen, meeting room/gym area, dance room, picnic shelter, gazebo, softball diamond, caboose and swimming pool. These facilities are rented out for various rates, depending on the facility and the size of the group.

Financial Statements

The CWD's FY 2006-07 adopted budgets, the CWD's Capital Improvements Plan and the CWD's financial statements for FY 2005-06 were analyzed to determine fiscal status, assess financial practices, and review pertinent management findings.

CWD operational revenues come from charges for service as well as fees and grants. CWD operational revenues for FY 05-06 were \$775,447 for water, \$856,794 for waste disposal and \$193,153 for recreation. Total operating revenues for FY 05-06 were \$1,825,394. Operating expenses were \$626,039 for water, \$764,713 for waste disposal and \$371,412 for recreation; totaling \$1,792,164. Total operating income minus expenses was \$33,230. For FY 04-05, the CWD operated at a much greater income, totaling \$799, 810. The greater revenue in 2005 seems due to greater income from fees and grants.

Additional income from non-operational revenues included taxes; totaling \$173,694 in 2006 and \$123,564 in 2005. Interest income totaled \$35,334 in 2006 and \$22,431 in 2005. Total non-operating income was \$209,028 in 2006 and \$145,995 in 2005. Total net assets June 30, 2006 were \$5,511,094, increased from total net assets June 30, 2005 which were \$5,365,288; a gain of \$145,806 over the 05-06 Fiscal Year.

As of June 30, 2006, total fixed assets for the CWD were \$11,235,921. Due to depreciation, total assets were valued at \$8,245,870 for June 30, 2006. With liabilities totaling \$2,734,776, total net assets for the CWD, June 30, 2006 were \$5,511,094.

As of June 30, 2006, the CWD had a long-term debt consisting of three notes totaling \$1,747,945. This debt was incurred for improvements and additions to the water and sewer systems. The long-term debt is currently being repaid in installments payments from District funds.

Review of the CWD's budgets, audits, and financial information indicates that the CWD operates with a sound financial basis, and that revenues generated by user fees and other income are sufficient to cover the expenses of service provision. The CWD maintains accurate records and adopts budgets as part of its annual budget process. CWD funds are sufficient to cover the cost of providing services.

V. COST AVOIDANCE OPPORTUNITIES

This section considers the potential cost avoidance opportunities available to each service provider. Cost avoidance opportunities include any potential sources of reduction in costs associated with service provision, potential sharing of facilities, and any other capital or operational actions or programs which may result in a more efficient and streamlined provision of services to the properties within the service area. This analysis includes both potential and previously implemented cost avoidance measures.

The CWD engages in cost avoidance measures through the use of contracted service providers and volunteers. The CWD has outsourced solid waste services for residential users to a private firm; IWS. The CWD utilizes 20 recreation committee volunteers to assist with recreation events and activities. These cost avoidance measures utilized by the CWD has helped the CWD by providing services without hiring extra employees or maintaining solid waste services for a small service area.

No other significant cost avoidance measures have been identified by the CWD.

VI. OPPORTUNITIES FOR SHARED FACILITIES

This section considers the sharing of facilities utilized by the District, and identifies any additional opportunities which are known to the District but not currently utilized.

The CWD currently discharges a portion of its treated wastewater into Fresno Irrigation District's Central Canal. Besides that, the CWD is not currently sharing any facilities with other agencies or organizations. There may be additional opportunities to share facilities with the City, since the CWD is adjacent to the City, although those opportunities have not been identified.

VII. GOVERNMENT STRUCTURE AND MANAGEMENT EFFICIENCIES

This section of the MSR considers the appropriateness and adequacy of the legal structure of the service provider, as well as the adequacy of the existing physical boundaries and SOI of the District.

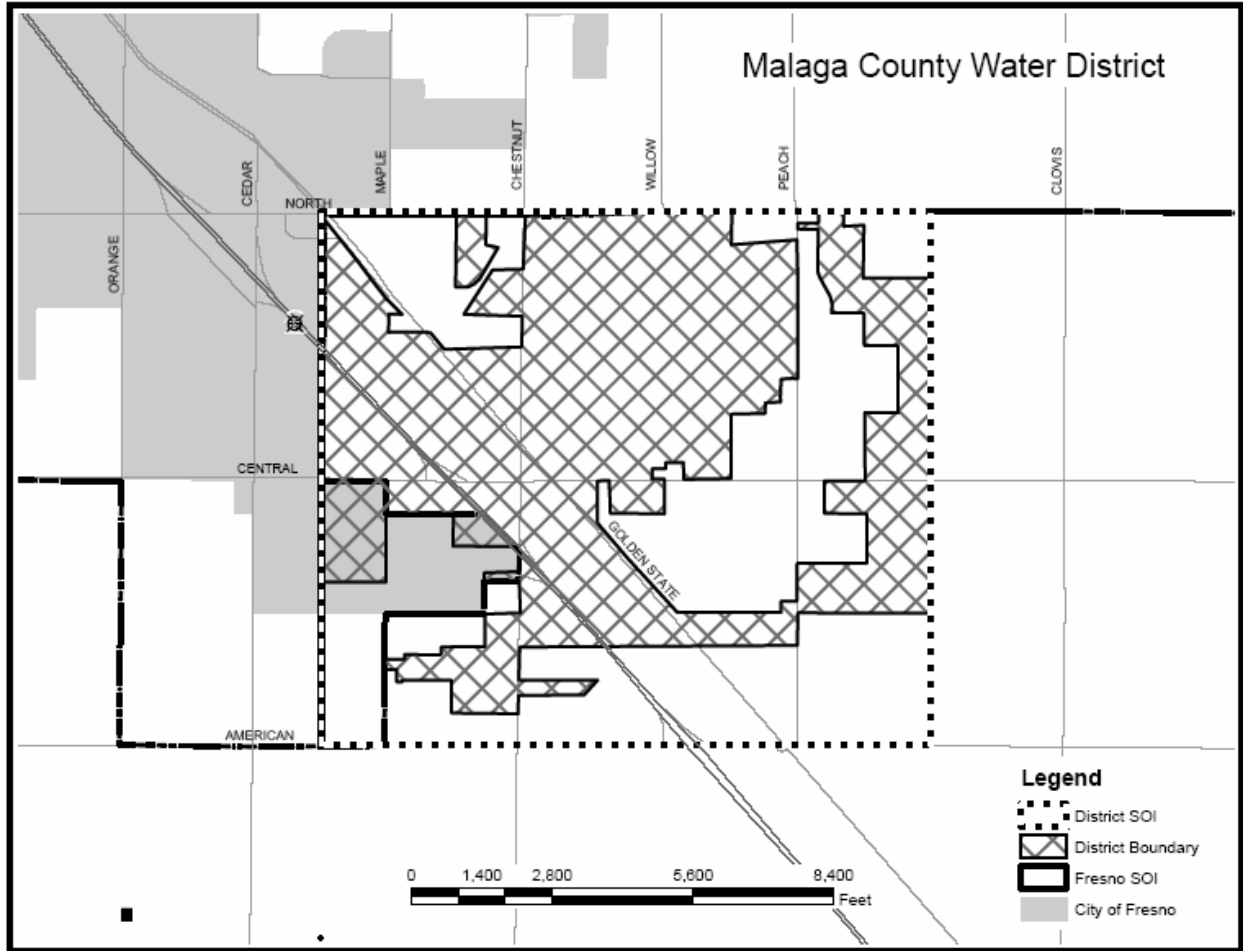
The CWD currently has two out-of-District service agreements with property owners for providing water and wastewater service. One is to provide water and sewer to the property located on APN 331-100-32S owned by Westin Hathaway, and the other is to provide only water service to the property located on APN 330-210-57 owned by Highway Disposal.

The District indicated there are three areas where the City of Fresno and the District overlap. Two of these areas are south of Central Avenue, just west of South Chestnut Avenue. The City and District also overlap south of Central Avenue, near Maple Avenue (see **Figure 2.1-1**). The City does not have water and sewer lines extending near this overlapping area. The CWD currently provides water and sewer to existing developments in this overlapping area. This overlap in boundaries has the potential to create confusion regarding the service provider to existing and especially newly-developing properties.

There is the possibility that the City can absorb the CWD into the City's Service area in the future. If so, then the CWD facilities would become part of the City's facilities to provide service to City water and sewer customers. While transition to the City may provide cost savings and potentially economies of scale, the full financial, social, and operational impacts of such a transition cannot be known at this time. A full analysis of such a transition would be necessary should the City be interested and actively pursue the CWD's service area.

As there are no infrastructure connections between the City system and the CWD's, another option is for the City to adjust its boundaries to eliminate the overlapping boundary, and for the CWD to continue to provide service within its current sphere and boundary. This boundary adjustment to reflect the current service provider would not affect the provision of water and sewer service, but could have the potential of limiting other city services such as police, fire and street lighting, to these existing City properties.

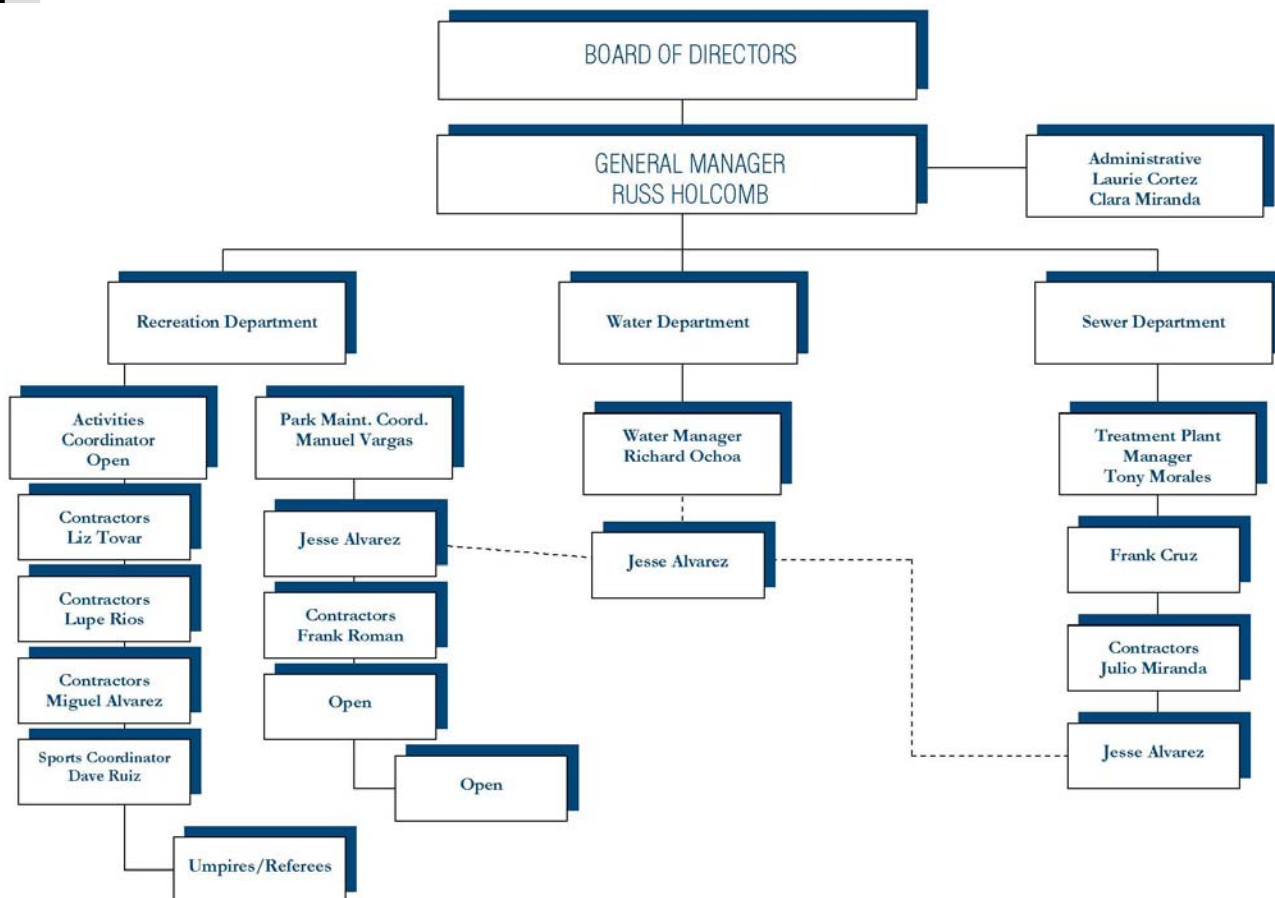
FIGURE 2.1-1: MALAGA COUNTY WATER DISTRICT BOUNDARIES



The CWD monitors potential development within the SOI, and reviews the capacity of the required water and sewer infrastructure to determine its ability to provide services. Each year, the CWD prepares and updates the Capital Facilities Plan to aid in identifying near term improvement projects and to assist with annual budgeting for implementation. The CWD then coordinates with the appropriate regulatory agencies for the construction of infrastructure.

The CWD currently employs 11 full-time staff and three part-time staff members. CWD staff has stated that the current staffing levels are adequate to serve CWD customers. The current organizational chart is shown in **Figure 2.1-2**. The CWD has demonstrated an ability to function properly with a balanced budget, and an ability to provide adequate service. Currently, the management structure is appropriate and adequate to ensure service provision.

**FIGURE 2.1-2
MALAGA COUNTY WATER DISTRICT ORG CHART**



VIII. LOCAL ACCOUNTABILITY

Citizen vote is an essential component of local accountability. A body of five elected officials serves as the Board governing the CWD. The five board members are elected by voters within the CWD boundaries, with terms for two of the current members expiring in November of 2007, and terms for the remaining three expiring in 2009. Board members are subject to recall by District voters through the recall procedures set forth in Chapter 2, Division 13 of the Elections Code.

The Board creates policies by adopting resolutions or ordinances through duly noticed public hearings. CWD board meetings are held twice a month, on the 2nd and 4th Tuesdays at 7:00 pm, at the CWD offices, located at 3580 South Frank Street in Fresno. Meetings appear to be noticed consistent with Brown Act requirements, as meeting notices are posted at the CWD offices, on the office window, and at the recreation center. There appears to be ample opportunities for public involvement and input at regularly scheduled meetings.

The CWD measures customer satisfaction via surveys. All services are provided equally to all customers in the District.

IX. SPHERE OF INFLUENCE RECOMMENDATIONS

The District's service area boundary is within its SOI. State law requires SOIs to be updated at least once every five years. As part of this update, State law requires the Local Agency Formation Commission to prepare written statements assessing the District's capacity to serve its customers with regard to the following four areas:

- 1) The present and planned land uses in the area, including agricultural and open space lands.

Land uses within the CWD are primarily residential. There is future residential development planned both in and around the District, but the planned growth is currently undefined.

- 2) The present and probable need for public facilities and services in the area.

Existing infrastructure is adequate for existing demands. The CWD has plans for expansions and upgrades for current service usage. Future growth is undefined and will require expansions or upgrades of the CWD's facilities. Additional information is needed by the CWD to ascertain the increased need for services.

- 3) The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.

Water, sewer, parks, and solid waste collection capacity are adequate to meet the demands of the existing residents of the District. The District maintains sufficient levels of service to meet its mission statement and the needs of its residents.

- 4) The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency.

The CWD is located adjacent to and overlapping with the City of Fresno. Areas of the City are within the District's SOI and there are potential issues of uncertainty associated with the overlap.

X. MUNICIPAL SERVICE REVIEW DETERMINATIONS

Growth and Population

The Malaga County Water District monitors potential development within its SOI and reviews the capacity of the required infrastructure to determine its ability to provide service to new development. Existing infrastructure is currently adequate for existing demands. Future residential development may occur both in and around the District, but is currently undefined. Additional information is needed by the CWD to ascertain the increased need for services, if any.

Infrastructure

Malaga County Water District's existing infrastructure is adequate for existing demands. There are plans for upgrades to both the water and sewer systems. Major infrastructure and facilities includes two active wells, water lines, wastewater treatment plant, related

wastewater facilities, and a recreational center. The CWD has plans for water system upgrades, a new well, and sewer system upgrades.

Financing Constraints and Opportunities

Malaga County Water District is financed through property taxes, service fees, connection fees, events, activities fees and grants. Funds are sufficient to cover the costs of providing service. The District is repaying outstanding debts through installment payments from District funds.

Rate Restructuring

Malaga County Water District last revised their user fees on March 1, 2006. Rates appear to be sufficient for providing adequate services.

Cost Avoidance Opportunities

Malaga County Water District outsources solid waste services and utilizes volunteers for recreational services when possible, particularly in the coordination of events and the use of the community center. No other significant cost avoidance measures have been identified by the CWD.

Opportunities for Shared Facilities

Malaga County Water District currently discharges a portion of its treated wastewater into Fresno Irrigation District's Central Canal. The CWD does not currently share existing buildings with other agencies. No additional opportunities for shared facilities have been identified by the CWD.

Government Structure Options

The Malaga County Water District is an independent special district governed by its own board of directors. An opportunity for restructuring may exist with regards to lands within both the District and the City of Fresno, but there are currently no water or sewer connections between the two providers. The CWD is currently providing water and sewer services to an area within the City's boundary. It may be appropriate to revise the boundaries to eliminate the overlapping boundaries.

Evaluation of Management Efficiencies

Malaga County Water District appears to be operating efficiently with a balanced budget and regularly updating its Capital Facilities Plan. The CWD currently employs 11 full-time staff and three part-time staff members, sufficient to provide adequate service. The overall management structure of the District is sufficient to account for necessary services and maintain operations in an effective manner.

Local Accountability

Malaga County Water District maintains local accountability by holding regularly scheduled meetings. Meeting times are posted at various locations at the CWD's office and recreation center. Meetings are held and noticed, consistent with the Brown Act. No

significant issues regarding Malaga County Water District's local accountability were noted.

XI. BIBLIOGRAPHY

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