

**EXECUTIVE OFFICER'S AGENDA REPORT
AUGUST 24, 2016**

TO: LAFCO Commissioners

FROM: Javier Camarena, Assistant Executive Officer

SUBJECT: MSR NO. 16-03, SOI UPDATE 2016-03: MUNICIPAL SERVICE REVIEW AND SPHERE OF INFLUENCE UPDATE FOR THE KNIGHTS FERRY COMMUNITY SERVICES DISTRICT.

INTRODUCTION

This proposal was initiated by the Local Agency Formation Commission in response to State mandates that require the Commission to conduct municipal service reviews and sphere of influence updates for all cities and special districts every five years, as needed. The current review covers the Knights Ferry Community Services District in Stanislaus County. The previous update for the district was adopted July 22, 2009.

DISCUSSION

The Knights Ferry Community Services District (KFCSD) was organized under §61000 et. seq. of the Government Code to provide domestic water service to the residents in Knights Ferry, an unincorporated area. The District is considered a "registered voter district," as board members are elected by the registered voters residing in the District's boundaries.

The Municipal Service Review and Sphere of Influence Update process provides an opportunity for districts to share accurate and current data, accomplishments and information regarding the services they provide. LAFCO Staff sent the KFCSD requests for information and researched District reports. Once this data was collected, a revised Municipal Service Review and Sphere of Influence Update document was drafted and circulated for comments. As of preparation of this staff report, no comments have been received.

Minor changes have been made to the document since the previous update to reflect recent additions to State law, including the requirement that LAFCOs identify "disadvantaged unincorporated communities" within or contiguous to city and district spheres of influence. Pursuant to Government Code §56033.5, a "disadvantaged unincorporated community" is defined as inhabited territory (12 or more registered voters), or as determined by commission policy, that constitutes all or a portion of a community with an annual median household income that is less than 80% of the statewide annual median household income (AMI). Staff utilizes available information from the Census, including American Community Survey data, as well as a mapping tool developed by the Department of Water Resources that identifies known Census Designated Places that meet the income criteria for disadvantaged communities. Based on the KFCSD's AMI being above 80% of the statewide level, it is not identified as a Disadvantaged Unincorporated Community.

The proposed Municipal Service Review and Sphere of Influence document is attached to this report as Exhibit 1. The relevant factors as set forth by the Cortese-Knox-Hertzberg Act are discussed for the KFCSD. No changes are being proposed for the KFCSD's Sphere of Influence at this time. The document serves to affirm the KFCSD's current Spheres of Influence. This is the third Municipal Service Review and Sphere of Influence Update that the Commission has approved for the District.

The Knights Ferry CSD has experienced staffing issues which presented challenges with documentation for the completion of an audit. As a result, the District is currently 10 years delinquent with their financial statements. Staffing issues have also impacted the District's accounts receivable billing ultimately affecting their cash flow. The Stanislaus County Auditor's Office is currently working close with the district to provide resources, options, and alternatives for compliance.

As a municipal service review is considered a "snapshot in time," LAFCO Staff will continue to monitor the KFCSD, as it does with all of the special districts, and offer itself as a resource to the District where possible.

ENVIRONMENTAL REVIEW RECOMMENDATIONS

Pursuant to the California Environmental Quality Act (CEQA), the adoption of a municipal service review is considered to be categorically exempt from the preparation of environmental documentation under a classification related to information gathering (Class 6 - Regulation §15306). Further, LAFCO's concurrent reaffirmation of an existing sphere of influence qualifies for a General Exemption as outlined in CEQA Regulation §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.

As there are no land use changes, boundary changes, or environmental impacts associated with the Municipal Service Review and Sphere of Influence Update, an exemption from further environmental review is appropriate.

ALTERNATIVES FOR COMMISSION ACTION

After consideration of this report and any testimony or additional materials that are submitted, the Commission should consider choosing one of the following options:

- Option 1:** APPROVE the Municipal Service Review and Sphere of Influence Update for the Knights Ferry Community Services District.
- Option 2:** DENY the update.
- Option 3:** If the Commission needs more information, it should CONTINUE this matter to a future meeting (maximum 70 days).

RECOMMENDED ACTION

Approve Option 1. Based on the information presented, Staff recommends approval of Municipal Service Review and Sphere of Influence Update for the Knights Ferry Community Services District. Therefore, Staff recommends that the Commission adopt Resolution No. 2016-18, which:

1. Determines that the Municipal Service Review and Sphere of Influence Update qualifies for a General Exemption from further California Environmental Quality Act (CEQA) review based on CEQA Regulations Sections 15306 and 15061(b)(3).
2. Makes determinations related to the Municipal Service Review and Sphere of Influence Update as required by Government Code Sections 56425 and 56430.
3. Determines that the Sphere of Influence for Knights Ferry Community Services District should be affirmed as it currently exists.
4. Directs Staff to circulate the subject resolution depicting the District's adopted Sphere of Influence to all affected agencies.

Attachments:

Exhibit 1 - Draft Municipal Service Review and Sphere of Influence Update for the Knights Ferry Community Services District

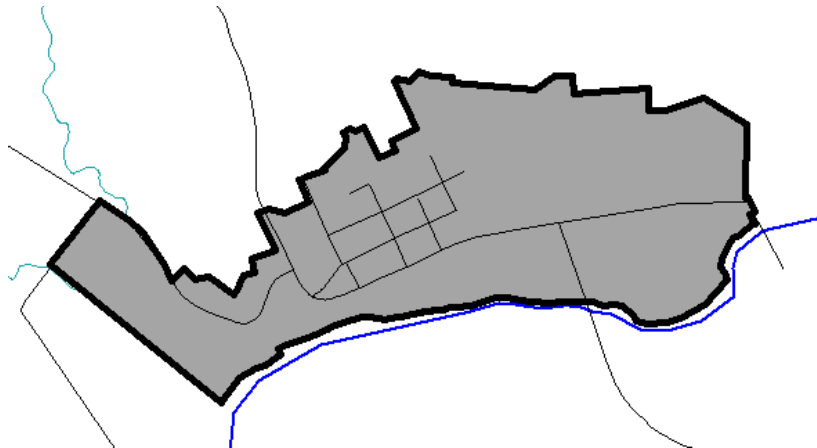
Exhibit 2 - Draft Resolution No. 2016-18 (Knights Ferry Community Services District)

EXHIBIT A

Draft MSR & SOI Update for Knights Ferry Community Services District

**MUNICIPAL SERVICE REVIEW AND
SPHERE OF INFLUENCE UPDATE FOR THE:**

**KNIGHTS FERRY
COMMUNITY SERVICES DISTRICT**



Prepared By:

**Stanislaus Local Agency Formation Commission
1010 Tenth Street, Third Floor
Modesto, CA 95354
Phone: (209) 525-7660**

Adopted: _____

STANISLAUS

LOCAL AGENCY FORMATION COMMISSION

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Terry Withrow, County Member

William O'Brien, Alternate County Member

Amy Bublak, City Member

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STAFF

Sara Lytle-Pinhey, Executive Officer

Javier Camarena, Assistant Executive Officer

Jennifer Goss, Commission Clerk

Robert J. Taro, Legal Counsel

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Municipal Service Review and Sphere of Influence Update For the Knights Ferry Community Services District

Introduction

The Cortese/Knox/Hertzberg Local Government Reorganization Act of 2000 Act (CKH Act) requires the Local Agency Formation Commission (LAFCO) to update the Spheres of Influence (SOI) for all applicable jurisdictions in the County. A Sphere of Influence is defined by Government Code 56076 as "...a plan for the probable physical boundary and service area of a local agency, as determined by the Commission." The Act further requires that a Municipal Service Review (MSR) be conducted prior to or, in conjunction with, the update of a Sphere of Influence (SOI).

The legislative authority for conducting Service Reviews is provided in Government Code Section 56430 of the CKH Act. The Act states, that "in order to prepare and to update spheres of influence in accordance with Section 56425, the commission shall conduct a service review of the municipal services provided in the county or other appropriate area..." A Service Review must have written determinations that address the following factors:

Service Review Factors to be Addressed

1. Growth and population projections for the affected area
2. The location and characteristics of any disadvantaged, unincorporated communities within or contiguous to the sphere of influence
3. Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies including needs or deficiencies related to sewers, municipal and industrial water, and structural fire protection in any disadvantaged, unincorporated communities within or contiguous to the sphere of influence.
4. Financial ability of agencies to provide services
5. Status of, and opportunities for, shared facilities
6. Accountability for community service needs, including governmental structure and operational efficiencies
7. Any other matter related to effective or efficient service delivery, as required by commission policy

State Guidelines and Commission policies encourage cooperation among a variety of stakeholders involved in the preparation of a Service Review. This Service Review will analyze the existing and future services for the Knights Ferry Community Services District. The Service Review will also provide a basis for the District and LAFCO to evaluate, and if appropriate, make changes to the Sphere of Influence.

Sphere of Influence Update Process

A special district is a government agency that is required to have an adopted and updated Sphere of Influence. Section 56425(g) of the CKH Act calls for Spheres of Influence to be reviewed and updated every five years, as necessary. Stanislaus LAFCO processes the Service Review and Sphere of Influence Updates concurrently to ensure efficient use of resources. For rural special districts, which do not have the typical municipal level services to review, this Service Review will be used to determine what type of services each district is expected to provide and the extent to which they are actually able to do so. The Sphere of Influence will delineate the service capability and expansion capacity of the agency, if applicable.

Service Review – Knights Ferry Community Services District

Authority

This review will cover the Knights Ferry Community Services District, which was organized under Section 61000 et. seq. of the Government Code. In addition, the District is considered a “registered voter district”, as the board members are elected by the registered voters residing within the district’s boundaries.

Background

Special districts are local governments that are separate from cities and counties, yet provide public services such as fire protection, sewers, water, and street lighting. California has over 3,300 special districts, which provide over 30 different types of services. There are 50 major types of special districts ranging from airports to fire protection to mosquito abatement to water conservation. To date, there are 325 Community Services Districts (CSDs) in California.

Purpose

Community Services Districts may be formed to provide water, sewer, garbage services, fire protection, public recreation, street lighting, mosquito abatement, police services, library services, street improvements, conversion of overhead electric and communication facilities to underground locations, ambulance services, airport facilities, flood control and transportation services.

Governance

Five Board members, elected by the registered voters within the District boundaries, govern the District. Meetings are held on the fourth Thursday of each month at 7:00 p.m., at the Knights Ferry Community Club House, Main Street in Knights Ferry.

Formation

The Knights Ferry Community Services District (CSD) was formed on August 5, 1970. The District was originally formed to supply the inhabitants of the district with water for domestic use, irrigation, sanitation, industrial use, fire protection and recreation.

Location and Size

The District is located in the historic unincorporated community of Knights Ferry, in northeast Stanislaus County, and encompasses approximately 92 acres. The community is located on the adjacent to and north of the Stanislaus River. Sonora Road bisects the community.

Sphere of Influence

The District’s Sphere of Influence is coterminous with its current boundaries.

Personnel

The District employs three part-time persons: secretary, water operator and maintenance manager. In addition, the District contacts for financial (auditing) and engineering services.

Classification of Services

As part of this service review, the District has provided a listing of the services provided within their boundaries. The District is authorized to provide the functions or classes of services (e.g. domestic water) as identified in this report. Due to recent changes in the Cortese-Knox-Hertzberg Act, the District would have to seek LAFCO approval to exercise other latent powers not currently provided

Services

The District provides domestic water service connections to approximately 65 customers, which include residential units, several businesses, and the Knights Ferry Elementary School District.

The District's distribution lines are Knights Ferry CSD facilities and assets. The District connects to a single supply line to a water treatment plant. The treatment supply line and water treatment plants are Knights Ferry CSD facilities.

The CSD is a part of the historic water rights that OID acquired through its purchase of the San Joaquin Water Company at the turn of the century. OID delivers surface water through a pipeline that is operated and maintained by OID to the Knights Ferry's water treatment plant from March to October. In the winter months (November through February) a river pump on the Stanislaus River exists to meet the CSD's demands. The pump, intake pipeline and associated facilities between the pump and the Stanislaus River were installed by OID as a temporary measure during major a reconstruction project on the Joint Main Canal. It was never removed and exists today.

Support Agencies

The District maintains collaborative relationships with other agencies, as necessary. These agencies include: Oakdale Irrigation District, Stanislaus County (Department of Environmental Resources, Public Works and Chief Executive Office); Knights Ferry Municipal Advisory Council; Stanislaus Economic Development and Workforce Alliance; State Economic Development Bank; State Department of Health Services (DHS); and the Regional Water Quality Control Board.

Funding Sources

The District derives its revenue from; monthly user and connection fees, overuse penalties, as well as a very small portion of the shared property tax revenues from Stanislaus County.

The Knights Ferry CSD has experienced staffing issues which presented challenges with documentation for the completion of an audit. As a result, the District is currently 10 years delinquent with their financial statements. Staffing issues have also impacted the District's accounts receivable billing ultimately affecting their cash flow. The Stanislaus County Auditor's Office is currently working close with the district to provide resources, options, and alternatives for compliance.

The District is working on a complete audit of the last two most recent fiscal years (2013-2014 and 2014-2015). The District is on a two-year audit cycle.

Service Review Determinations:

The following provides an analysis of the six categories or components required by Section 56430 for a Service Review for the Knights Ferry Community Services District:

1. Growth and Population Projections for the Affected Area

The District serves the unincorporated historic community of Knights Ferry. The entire area is designated as "Historical" in the Stanislaus County General Plan. However, due to limited service capacity, it is not expected that any significant population growth will occur within the District boundaries in the near future. The District currently serves approximately 65 customers with domestic water.

2. The location and characteristics of any disadvantaged, unincorporated communities within or contiguous to the sphere of influence.

Based on annual median household income, the area within the Knights Ferry Community Services District is not identified as a Disadvantaged Unincorporated Community (DUC) as defined in Section 56033.5 of the Cortese-Knox-Hertzberg Act of 2000.

3. Present and Planned Capacity of Public Facilities and Adequacy of Public Services, Including Infrastructure Needs or Deficiencies Including Needs or Deficiencies Related to Sewers, Municipal and Industrial Water, and Structural Fire Protection in Any Disadvantaged, Unincorporated Communities Within or Contiguous to the Sphere of Influence.

In partnership with Stanislaus Alliance, the County's Chief Executive Office and Department of Environmental Resources, the District recently received a loan of \$83,450 from the State Economic Development Bank for engineering and construction funding to upgrade the surface water treatment facility. The project will be done in phases in order to bring the facility into compliance with the State Regional Water Quality Control Board and to allow for the continued delivery of safe drinking water to the community. In addition, District representatives indicate that additional infrastructure needs include replacement of the original tank and replacing chlorine treatment with ozone.

4. Financial Ability of Agencies to Provide Services

The District is currently making payments on a loan in the amount of up to \$83,450 from the Economic Development Bank for system upgrades. The District is required to make payments to the County Auditor-Controller at the rate of \$278.00 per month. The loan must be paid back on or before December 21, 2028. Loan payments received from the District will be reimbursed to the Economic Development Bank.

In April 2002, the District increased water rates, connection fees and overuse penalties in an effort to generate increased revenues for the effective long-term operation of the water system. The new rate structure puts the District as having one of the highest water rates of any comparable water district in the surrounding area. There is no overlapping or duplication of services within the District boundaries.

The District is 10 years delinquent with its financial statements and is currently in the process of completing a financial audit for the two most recent fiscal years.

5. Status of, and Opportunities for, Shared Facilities

The District does not share any facilities with any other District or agency.

6. Accountability for Community Service Needs, Including Governmental Structure and Operational Efficiencies

A five member Board of Directors, elected by the registered voters, governs the District. The District conforms to the provisions of the Brown Act requiring open meetings. The District has a very small, yet adequate part-time staff to provide the necessary services to its customers. The District also contracts out for financial (auditing) and engineering services.

7. Any Other Matter Related to Effective or Efficient Service Delivery, as Required by Commission Policy

It is reasonable to conclude that the District can adequately serve the areas under its jurisdiction.

Sphere of Influence Update for the Knights Ferry Community Services District

In determining the Sphere of Influence (SOI) of each local agency, the Commission shall consider and prepare determinations with respect to each of the following factors pursuant to Government Code Section 56425:

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 they are relevant.
5. For an update of a sphere of influence of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence.

This document proposes no changes to the District's existing Sphere of Influence. Rather, it serves to reaffirm the existing SOI boundary. As part of this process, Staff researched the history of the establishment of the District's SOI. A map of the current District boundary and Sphere of Influence is attached in Appendix "A".

The following determinations for the Knights Ferry Community Services District's Sphere of Influence update are made in conformance with Government Code §56425 and Commission policy.

Determinations:

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

The District's Sphere of Influence (SOI) encompasses a land area of approximately 92 acres. Territory within the District boundaries consists of historically designated residential and commercial land uses. These uses are not expected to change. In addition, the District does not have the authority to make land use decisions, nor does it have authority over present or planned land uses within its boundaries. The responsibility for land use decisions within the District boundaries is retained by the County.

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

The most critical need for the District at this time is complete the upgrade of the surface water treatment plant.

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

The District currently has sufficient capacity to meet existing demands for domestic water services within its sphere of influence. However, based on current infrastructure, the District has indicated limitations on providing new connections for water services.

4. The existence of any social or economic communities of interest in the area if the Commission determines they are relevant.

The unincorporated historic community of Knights Ferry is considered a community of interest within the District boundaries.

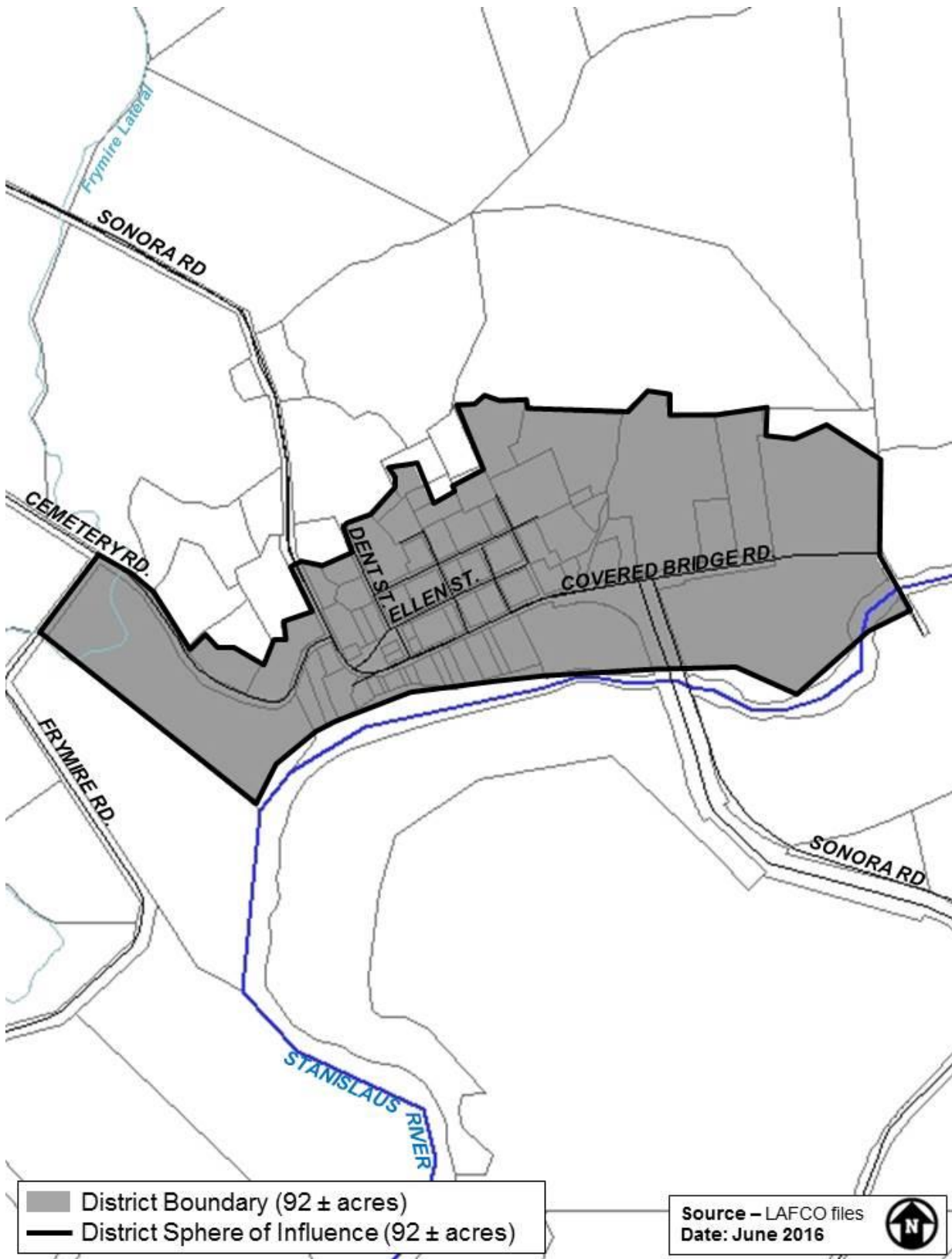
5. For an update of a sphere of influence of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence.

No Disadvantaged Unincorporated Communities (DUCs) have been identified within or contiguous to the District's Sphere of Influence as defined in Section 56033.5 of the CKH Act.

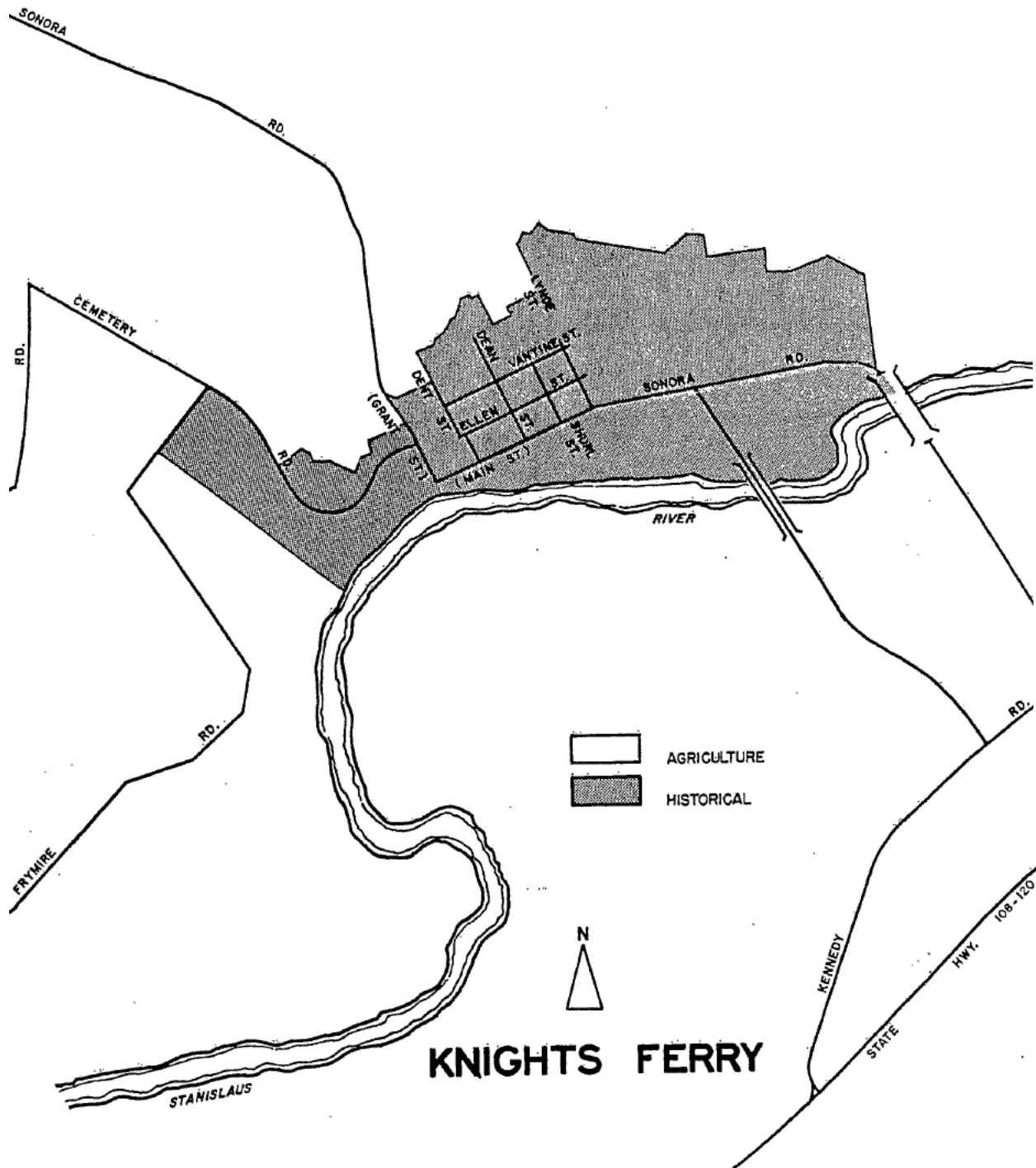
**APPENDIX “A”
DISTRICT SUMMARY PROFILE**

| | |
|--------------------|---|
| District: | KNIGHTS FERRY COMMUNITY SERVICES DISTRICT |
| Location: | Unincorporated historic community of Knights Ferry, northeast Stanislaus County |
| Service Area: | Approximately 92 acres |
| Population: | 92 persons |
| Land Use: | Residential and commercial, designated as historical on the Keyes Community Plan |
| Date of Formation: | August 5, 1970 |
| Enabling Act: | California Government Code, Section 61000, et. seq. |
| Governing Body: | Five Member Board of Directors, elected by the registered voters within the District |
| Administration: | 3 Part-time employees – Secretary, Maintenance Manager and Water Operator |
| District Services: | Domestic Water |
| Total Revenues: | \$60,797 (Fiscal year 2011-2012) |
| Revenue Sources: | Service and connection fees overuse penalties, and a very small share of county property tax revenues |

**MAP 1:
KNIGHTS FERRY COMMUNITY SERVICES DISTRICT
BOUNDARIES AND SPHERE OF INFLUENCE**



MAP 2: KNIGHTS FERRY COMMUNITY PLAN



Source: Stanislaus County General Plan
 For Illustrative Purposes Only. Check with
 County Planning to Verify Designations

**APPENDIX “B”
NOTICE OF EXEMPTION**

TO: Lee Lundrigan – County Clerk-Recorder
1021 “I” Street
Modesto, CA 95354

FROM: Stanislaus LAFCO
1010 Tenth Street, 3rd Floor
Modesto, CA 95354
(209) 525-7660

Title: Municipal Service Review (MSR) No. 2016-03 and Sphere of Influence (SOI) No. 2016-03 Update for the Knights Ferry Community Services District

Description: The Stanislaus Local Agency Formation Commission has prepared a Municipal Service Review (MSR) and Sphere of Influence (SOI) Update for the Knights Ferry Community Services Districts. The District is legally authorized to provide domestic water service and as a special district, it is required to have an adopted and updated SOI. The Cortese-Knox-Hertzberg Act of 2000 calls for the Service Review to be completed prior to or concurrent with the SOI Update. The Service Review evaluates the public services provided by the District and provides the information base for updating the District’s Sphere of Influence. It is recommended that the SOI boundary for the District remain unchanged.

Public Agency Approving Project: The Stanislaus Local Agency Formation Commission (LAFCO). The date of the LAFCO hearing on this proposal is scheduled for August 24, 2016. Contact Person: Javier Camarena, Assistant Executive Officer, (209) 525-7660.

Environmental Determination: The purpose of the environmental review process is to provide information about the environmental effects of the actions and decisions made by LAFCO and to comply with the California Environmental Quality Act (CEQA). In this case it has been determined that this project is exempt from CEQA pursuant to Section 15061 (b)(3) of the State Guidelines. The Stanislaus Local Agency Formation Commission will file this Notice of Exemption upon approval of the MSR and SOI Updates for the District.

Reasons for Exemption: It has been determined with certainty that there is no possibility that the project may have a significant effect on the environment and therefore it is found to be exempt from CEQA pursuant to Section 15061(b)(3) of the State Guidelines. The proposed Sphere of Influence Update and Municipal Services Review do not involve, authorize or permit the siting or construction of any facilities associated with the District. No changes to the Sphere of Influence of the District are recommended.

Signature: *Javier Camarena*

Date: 7/20/2016

Name & Title: Javier Camarena
Assistant Executive Officer

APPENDIX “C”

REFERENCES

1. California State Controller’s Office, “Special Districts Annual Report for Fiscal Year Ending June 30, 2012, November 22, 2013”.
2. Economic Development “Bank” project agreement between Stanislaus County and the Knights Ferry Community Services District.
3. Municipal Service Review and Sphere of Influence Update for the Knights Ferry Community Services District, Adopted July 22, 2009.
4. Newspaper Articles from The Oakdale Leader, dated November 20, 2003 and June 8, 2003, regarding funding approved for the Knights Ferry Community Services District for improvements to its water treatment plant.
5. State of California Legislative Analyst’s Office Report – “Water Special Districts: A Look at Governance and Public Participation, March 2002”.
6. Stanislaus County Department of Planning and Community Development, Initial Study for Vesting Tentative Subdivision Map No. 2006-06 & Exception No. 2008-02, Dated April 30, 2008.
7. U.S. Environmental Protection Agency website (www.epa.gov/safewater).

EXHIBIT B

**Draft Resolution No. 2016-18
Knights Ferry Community Services District**

DRAFT

**STANISLAUS COUNTY LOCAL AGENCY
FORMATION COMMISSION**

RESOLUTION

DATE: August 24, 2016

NO. 2016-18

SUBJECT: MSR No. 16-03 and SOI Update No. 16-03 – Making Written Determinations and Approving the Municipal Service Review and Sphere of Influence Update for the Knights Ferry Community Services District

On the motion of Commissioner _____, seconded by Commissioner _____, and approved by the following vote:

Ayes: Commissioners:
Noes: Commissioners:
Absent: Commissioners:
Ineligible: Commissioners:

THE FOLLOWING RESOLUTION WAS ADOPTED:

WHEREAS, a Service Review mandated by California Government Code Section 56430 and a Sphere of Influence Update mandated by California Government Code Section 56425, has been conducted for the Knights Ferry Community Services District, in accordance with the Cortese-Knox-Hertzberg Reorganization Act of 2000;

WHEREAS, at the time and in the form and manner provided by law, the Executive Officer has given notice of the August 24, 2016 public hearing by this Commission on this matter;

WHEREAS, the subject document is exempt from the provisions of the California Environmental Quality Act (CEQA) pursuant to Section 15061(b)(3) of the State CEQA Guidelines;

WHEREAS, Staff has reviewed all existing and available information from the District and has prepared a report including recommendations thereon, and related information as presented to and considered by this Commission;

WHEREAS, the Commission has duly considered the draft Municipal Service Review and Sphere of Influence Update on the Knights Ferry Community Services District and the determinations contained therein;

WHEREAS, the Knights Ferry Community Services District was established to provide domestic water services within its boundaries;

WHEREAS, pursuant to Government Code Section 56425(h), the range of services provided by the Knights Ferry Community Services District are limited to those as identified above, and such range of services shall not be changed unless approved by this Commission; and

WHEREAS, no changes to the District's Sphere of Influence are proposed or contemplated through this review.

NOW, THEREFORE, BE IT RESOLVED by the Commission:

1. Certifies that the project is statutorily exempt under the California Environmental Quality Act (CEQA) pursuant to Section 15061(b)(3) of the State CEQA Guidelines.
2. Approves the Service Review prepared in compliance with State law for the review and update of the Knights Ferry Community Services District Sphere of Influence, and written determinations prepared by the Staff and contained herein.
3. Determines that except as otherwise stated, no new or different function or class of services shall be provided by the District, unless approved by the Commission.
4. Determines, based on presently existing evidence, facts, and circumstances filed and considered by the Commission, that the Sphere of Influence for the Knights Ferry Community Services District should be affirmed as it currently exists, as more specifically described on the map contained within the Service Review document.
5. Directs the Executive Officer to circulate this resolution depicting the adopted Sphere of Influence Update to all affected agencies, including the Knights Ferry Community Services District.

ATTEST: _____
Sara Lytle-Pinhey, Executive Officer