

**LAFCO**

**Meeting Date:** 10/29/2020

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**Information**

**SUBJECT**

Continued Public Hearing to consider **Resolution 2020-05**, adopting the Municipal Service Review (MSR) and approving a Sphere of Influence (SOI) Update for the Dunnigan Water District (LAFCo No. S-055)

**RECOMMENDED ACTION**

1. Receive staff presentation on the MSR and SOI Update.
2. Open the Public Hearing for public comments on this item.
3. Close the Public Hearing and consider the information presented in the staff report and during the Public Hearing. Discuss and direct staff to make any necessary changes.
4. Approve Resolution 2020-05 adopting the Municipal Service Review (MSR) and Sphere of Influence (SOI) Update for the Dunnigan Water District.

**FISCAL IMPACT**

No fiscal impact. The MSR and SOI Update were prepared "in-house" and appropriate funds were budgeted.

**REASONS FOR RECOMMENDED ACTION**

The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH Act), is LAFCo's governing law and outlines the requirements for preparing periodic Municipal Service Reviews (MSRs) and Sphere of Influence (SOI) updates. MSRs and SOIs are tools created to empower LAFCo to satisfy its legislative charge of "discouraging urban sprawl, preserving open space and prime agricultural lands, efficiently providing government services, and encouraging the orderly formation and development of local agencies based upon local conditions and circumstances".

An MSR is conducted prior to, or in conjunction with, the update of an SOI. LAFCos are required to review an agency's Sphere of Influence every five years.

An MSR evaluates the structure and operations of district services and includes a discussion of the capability and capacity of the district to ensure the provision of municipal services to the existing service area and any future growth of the district's boundaries. The SOI indicates the probable future physical boundaries and service area of a district and lays the groundwork for potential future annexations.

Yolo LAFCo staff utilizes a checklist format for MSRs that allows staff to streamline the assessment of each district's municipal services. Based on the findings of the MSR checklist staff can recommend whether a SOI update is warranted.

## **BACKGROUND**

Dunnigan Water District (DWD) is an independent special district formed in 1956 by landowners in the Dunnigan area to access Central Valley Project (CVP) water through the Tehama-Colusa Canal. DWD provides irrigation to 91 farm customers, primarily agricultural uses with limited distribution for landscaping and habitat land management. When the Dunnigan Water District's longtime General Manager retired in 2018, after a brief replacement with an Assistant General Manager district employee, it ultimately contracted with Reclamation District (RD) 108 for district management and administrative services (DWD still has one employee that operates and maintains the water system). This is called a "functional consolidation" where the District remains legally separate, but functionally is operated by another agency. In addition, the DWD is well-connected to the surrounding water community. It shares services via its memberships in the Tehama-Colusa Canal Authority JPA, Yolo Subbasin Groundwater Agency JPA, Sites Project Authority JPA and Water Resources Association. RD 108 has the resources and staff capacity to manage DWD very effectively and LAFCo staff have no concerns about the finances and operation of the DWD. The MSR includes minor recommendations, but nothing overly concerning.

DWD is also requesting an increase to its SOI area from approximately 8,000 acres to 18,000 acres in size. SOIs are used as a tool to curb urban sprawl and control growth, but in the case of the DWD, expansion of the SOI actually serves to greater protect agricultural land and protect groundwater resources. Staff also confirmed with the General Manager of the Yolo Subbasin Groundwater Agency JPA the expansion of DWD's SOI will support the overall Yolo Subbasin groundwater protection strategy. Therefore, staff recommends approval of the SOI Update.

### MSR Determinations and Recommendations

Minor edits are requested to the Draft MSR/SOI Update released on September 2, 2020 based on DWD staff review. Changes have been formatted in the attached draft report as **additions** and ~~deletions~~ for transparency purposes. Staff

recommends these edits are included in the MSR/SOI adoption.

There are seven determinations LAFCo is required to make for an MSR. The DWD's determinations and recommendations for Commission review and consideration are as follows:

### **Growth and Population MSR Determination**

The unincorporated areas of Yolo County are estimated to have a 1.0% increase in growth from January 1, 2018 to January 1, 2019. Dunnigan Water District provides non-potable agricultural irrigation water on rural land surrounding the town of Dunnigan. Therefore, local population growth and any associated development will not have an impact on the subject agency's service needs and demands.

### **Disadvantaged Unincorporated Communities MSR Determination**

The Dunnigan Water District does not provide municipal services related to sewer, potable water, or structural fire protection. Although DWD provides some municipal and industrial water (approximately 75-80 acre feet per year), per the United States Bureau of Reclamation (USBR) contract it only includes water used for purposes such as landscaping or water for animals. It is non-potable water. Therefore, this determination is not applicable to the Dunnigan Water District.

### **Capacity and Adequacy of Public Facilities and Services MSR Determination**

DWD has agency capacity to meet the service needs of existing agricultural lands within the district boundary. DWD pipelines were constructed in 1981-1982 and have a lifespan of approximately 100 years. During drought years of limited allocation, DWD has policies in place on how it fairly allocates scarce water supplies among landowners. DWD is working on increasing the agency's water capacity and is appropriately planning for it. The Sites Reservoir Project recently went through a Value Planning session where they have revised where the water from the reservoir will be discharged into the river, it will now be run down the Tehama-Colusa Canal, into a proposed pipeline at Dunnigan that conveys the water down to the Colusa Basin Drain and into the Sacramento River. In addition to the Sites Project, DWD would like to drill and operate its own well to pump into the system during dry years and to install a small reservoir near the canal or on the eastern portion of the District for supplemental water and groundwater recharge. The DWD is a member of the Yolo Subbasin Groundwater Agency, a joint powers agency formed in order to comply with the Sustainable Groundwater Management Act. DWD is interested in pursuing grant funding for conjunctive use of groundwater from the eastern portion of the District that could be pumped into the Tehama-Colusa Canal for water users. If the District could use wells on the eastern portion of the District which has high water table a pump into the canal during drought years or low allocation, the District could have more reliable water supply for users and better protect the groundwater aquifer.

## **Financial Ability MSR Determination**

Overall Dunnigan Water District (DWD) is in good financial shape. DWD has an available/unencumbered balance of \$1.638M as of December 31, 2019 and manageable debt. Expenditures and revenues have been fairly stable with revenues significantly exceeding expenditures the last three years. To mitigate financial instability attributable to future droughts DWD is in process to secure reliable future water sources. DWD has been participating as an investor in the Sites Reservoir Project to secure additional supply and is working on refinancing its Central Valley Project share of cost liability to prepay the USBR under the Water Infrastructure Improvements for the Nation Act (WIIN Act). As part of the repayment the District will secure water rights that do not have to be renegotiated at specific intervals. As long as DWD is able to adapt to changing weather conditions by securing reliable and consistent water supplies it should remain financially stable.

## **Recommendations**

- The District should discuss with the new auditors whether there is an asset that could be capitalized related to the Central Valley Project liability. If there is, the addition of a capital asset would significantly improve the District's net position.
- The District should continue to review and develop policies related to governance, general administration, payroll processing, finance and accounting to help guide its decision making in a rational and consistent manner. Policies the District should consider are as follows:
  - Governance policies. These would include the Brown Act requirements, director attendance and conduct at meetings.
  - General and administrative policies. These would include design, content and maintenance of websites, whistleblower policy, email and internet policy, conflict of interest policies.
  - Payroll policies. These would include frequency of payroll, method of processing payroll, staff involved and approval of payrolls, use of time sheets or other time keeping system, etc.
  - Accounting policies. These would include a chart of accounts, basis of accounting, recording of all transactions, the use of estimates, segregation of duties, transaction approval, recording and control of inventory and the fiscal year closing process.
  - Financial policies. These would include banking, use of reserves, collection of accounts receivable, rate and fee setting, allowable expenditures, employee and director travel reimbursements, capital assets, budget, debt, use of credit cards and accountability and audit.
- As part of the Strategic Planning process, the District should develop a capital improvement plan (CIP) and a mechanism to set aside funds to finance future system improvements and eventual replacement.
- The District should consider developing a catastrophic reserve to fund unforeseen events. The reserve policy should include a calculated target

and funding strategy.

- The District should consider using the Yolo County Treasury to invest surplus funds to increase investment earnings.

### **Shared Services MSR Determination**

In 2018, the Dunnigan Water District contracted with Reclamation District 108 for staff and management services, which is very capable of providing this service. Therefore, the Dunnigan Water District is already sharing services with a neighboring district. It also shares services via its memberships in the Tehama-Colusa Canal Authority JPA, Yolo Subbasin Groundwater Agency JPA, Sites Project Authority JPA and Water Resources Association.

### **Accountability, Structure and Efficiencies MSR Determination**

The DWD's Board seats are all filled and have some longevity in their positions. The Board meets monthly and members stay current with Form 700s and required ethics/harassment training. The District has contracted with RD 108 for staff and management since 2018, which is a capable organization with expertise and capacity to operate DWD. DWD routinely has audits performed annually and completed within two months after the close of the fiscal year, which is extraordinary. However, a new auditor should be selected as the current one has audited DWD for over 10 years. The DWD had a 90% website transparency score in 2018 but it fell to 36% in 2019 because the previous content needed to be taken down because it was not ADA compliant. This District is currently working with its website provider to resolve. DWD recently completed a records digitizing project to backup hard copy records. The DWD has an employee handbook and purchasing policies. All digital records are also backed up for redundancy.

### **Recommendation**

- The District should develop an audit procurement policy that at a minimum would include the following: establishment of an audit committee, audits are to be performed in accordance with generally accepted government auditing standards (GAGAS), auditing agreements should be multiyear and require a rotation of auditors after a specific number of years, and the audit procurement process should be structured so that the principal factor in the selection of an independent auditor is the auditor's ability to perform a quality audit and that price should not be allowed to serve as the sole criterion.
- Improve the District's website content and keep current per the latest Web Transparency Scorecard posted on the Yolo LAFCo website.

### **Other Issues MSR Determination**

There are no other issues related to effective or efficient service delivery, as required by Commission policy.

### SOI Update and Recommendation

LAFCo policies (Criteria for Spheres of Influence Policy 6.3) require consideration

of the following criteria when studying and determining the spheres of influence for the cities and special districts within the County of Yolo:

- 1. Retention and strengthening of community identities, as well as increasing efficiency and conserving resources, by providing essential services within a framework of controlled growth;*
- 2. Identification of the county's prime agricultural land and protection of this land through all available devices, such as including controlling the provision of services, requiring infill development first, and preferring non-prime land for growth. Other open-space resources such as stream banks, flood plains, and present and future recreation areas should also be protected for public benefit;*
- 3. Creation of realistic and controlled, yet flexible, planning areas into which anticipated services can be expanded as growth requires and as the communities' resources provide;*
- 4. Provision of infrastructure systems such as streets, sewers, water, open space for parks and recreation as a product of growth, rather than growth inducing;*
- 5. Encouragement of city annexation or incorporation as a means of supplying the full range of urban services as required; and*
- 6. Evaluation of the availability and need for basic services in each community and forecast these to meet anticipated population growth, and recommend creation, expansion, consolidation and/or reorganization of districts when need for such change is indicated.*

As mentioned previously, these policies are largely not applicable to a district that provides non-potable water supporting continued agricultural use. The proposed SOI Update will serve to retain the rural agricultural farming community. It will provide a flexible planning area where services can be expanded as resources allow. The conveyance systems are either already existing or, if extended, would not be growth inducing because the water supports agricultural uses and is non-potable. District expansion is anticipated for agricultural use, not population growth.

There are five determinations LAFCo is required to make for an SOI Update. The DWD's determinations for Commission review and consideration are as follows:

### **Present and Planned Land Uses SOI Determination**

The Dunnigan Water District provides non-potable irrigation water to agricultural land. The agricultural land already exists and is not a result of new development. Landowners are merely seeking District resources to irrigate with surface water instead of ground water. The proposed SOI includes rural agricultural areas outside of urban areas/communities and would not conflict with any man-made obstructions or other types of boundaries. The SOI is proposed to be expanded by approximately 10,000 acres because the Sites Project is expected to be in service as soon as 2027 but not later than 2030 and landowners will have the opportunity

to sign up as early as September 1st of this year and into the future, pending availability. This additional water source could serve the additional landowners, especially those in the previous Yolo-Zamora Water District territory that never acquired a water allocation.

### **Need for Public Facilities and Services SOI Determination**

This SOI would provide for annexation so additional agricultural lands could be irrigated by District surface water resources. The SOI area would include rural areas, is not growth-inducing, and, therefore, questions regarding controlled growth are not applicable. The services cannot be better provided by another agency. Increased water supply is anticipated due to the Sites Reservoir Project moving forward. An increased SOI would support agricultural lands and provide for more sustainable water resources.

### **Capacity and Adequacy of Provided Services SOI Determination**

The USBR has sufficient water allocation to serve the SOI territory. The USBR and the Dunnigan Water District have agreed to serve these parcels subject to LAFCo annexation. Each parcel will be able to connect to the Dunnigan Water District distribution system diverted from the Sacramento River and delivered via the Tehama-Colusa Canal. In addition, increased water supply is anticipated in year 2027-2030 due to the Sites Reservoir Project moving forward. An increased SOI would support agricultural lands and provide for more sustainable water resources.

### **Social or Economic Communities of Interest SOI Determination**

The Dunnigan Water District provides non-potable agricultural irrigation water only. The existence of any social or economic communities of interest are not relevant to this agency's municipal service.

### **Disadvantaged Unincorporated Communities SOI Determination**

The Dunnigan Water District provides non-potable agricultural irrigation water only. The existence of any disadvantaged unincorporated communities is not applicable to this agency's services.

### **Public/Agency Involvement**

The primary source of information used in this MSR has been information collected from agency staff and adopted plans, budgets, reports, policies, etc. On September 2, 2020 a "Notice of Availability of Draft MSR/SOI and Public Hearing" was released by LAFCo and published in the Woodland Democrat, which requested written comments from the public and stakeholders. In addition, notices were sent to every "affected agency", meaning all other agencies and schools with overlapping service areas. LAFCo has not received any comments so far on the MSR/SOI. Any comments received after publication of this staff report will be provided to the Commission in a supplemental packet.

## **CEQA**

Approval of the SOI Update for the Dunnigan Water District does not have the potential to cause a significant effect on the environment, and is therefore not subject to the California Environmental Quality Act (CEQA) in accordance with CEQA Guidelines Section 15301 (Existing Facilities) and Section 15061(b)(3) (common sense exemption). The SOI Update could allow for future annexation of additional territory into the Dunnigan Water District and, therefore, may result the USBR permitting usage of the District's existing conveyance facilities and water allocation imported via the Tehama-Colusa Canal. This additional territory would be served by the existing USBR Central Valley Project water allocation of up to 19,000 acre feet per year. It also may allow existing agricultural landowners to be served by a future allocation from the proposed Sites Reservoir project. However, this project is speculative at this time and will be required to undergo its own National Environmental Policy Act (NEPA)/CEQA review process. Regardless, future annexation would potentially allow the permitting of existing agricultural lands to be served by surface water supplies instead of relying on groundwater pumping, however, the key consideration is the fact that the SOI Update involves no expansion of the existing agricultural use and is exempt under CEQA Guidelines Section 15301. The Dunnigan Water District does not supply potable drinking water and, therefore, the SOI Update will not be growth inducing or otherwise result in any expansion of use. Conjunctive surface and groundwater use is an environmental benefit as compared to the current practice of solely pumping groundwater.

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### **Attachments**

ATT A-Dunnigan Water District MSR-SOI Reso 2020-05

ATT B-Draft Dunnigan Water District MSR-SOI 9-15-2020

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### **Form Review**

#### **Inbox**

#### **Reviewed By**

#### **Date**

Christine Crawford (Originator) Christine Crawford 10/15/2020 12:47 PM

Form Started By: Christine Crawford

Started On: 10/15/2020 12:19 PM

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