

**Sacramento Local Agency Formation Commission
Municipal Service Review Policy
WORKSHOP**

Purpose of the Municipal Service Review

The Cortese-Knox-Hertzberg requirement for Municipal Service Reviews was drafted in response to California’s projected population growth and the need for a coordinated and efficient public municipal service structure to meet that need, as published in Growth Within Bounds.¹ It appears that LAFCo’s have been asked to evaluate not only the service providers but also the overall service delivery system within its jurisdiction.

The Municipal Service Review process does not require LAFCo to initiate changes of organization based on its findings; it requires that LAFCo make determinations regarding the provision of public services per the provisions of Government Code Section 56430. However, LAFCo, local agencies, and/or the public may subsequently use LAFCo’s determinations to pursue changes of organization in city or special district boundaries or to amend Spheres of Influence.

Proposed Study Area

Factors that may be considered in a Municipal Service Review include, but are not limited to, an agency’s ability to provide service; its relationship to the county, a city, or special district jurisdictional boundary or Sphere of Influence; tax/assessment zones; geography; community boundary; infrastructure; transportation and road systems; social and economic communities of interest; topography; and other relevant factors.,

¹ Growth Within Bounds, Report of the Commission on Local Governance for the 21st Century, State of California, January 2000.

A Municipal Service Review must analyze the service pattern, service cost, service level, financing structure and governance accountability of an agency's provision of service as well as its relationship to other service providers.

Draft Municipal Service Review Guidelines
Prepared by Office of Planning and Research

The Governor's Office of Planning and Research (OPR) has prepared Draft Comprehensive Guidelines for Municipal Service Reviews. At this time, these Guidelines are advisory, not mandatory. Many LAFCo's are adopting local guidelines for Municipal Service Reviews, based on OPR Guidelines, but intended to include policy statements that meet local jurisdictional issues and circumstances.

Each Commission has discretion concerning the creation of policies and/or guidelines to fit local circumstances and conditions for its review of current municipal services. However, the Commission is required by law to make certain determinations regarding Municipal Service Reviews. The Commission must make determinations regarding:

- The infrastructure needs or deficiencies of an agency;
- The agency's capacity for growth in meeting population projections within the service agency's territory;
- Any financing constraints the agency may experience and any opportunities the agency may be able to create to overcome them;
- An agency's opportunity for the use of shared facilities with other agencies;
- Any cost avoidance opportunities the agency may be able to create through restructuring service provision without a change of organization;
- The advantages and disadvantages of a change of organization through consolidation and/or reorganization with other agencies;
- The evaluation of management efficiencies within the agency; and

The agency's local accountability and governance to the public regarding the provision of service.

Sacramento's LAFCO's Challenge

Sacramento County's unincorporated area is highly urbanized and consequently, municipal services in Sacramento County are provided by a large number of different service providers and entities (the county, cities and special districts).² The process of evaluating this service delivery system is likely to be multi-faceted, with a great variety of different aspects that require careful analysis. I believe that the Municipal Service Review process will be an iterative multi-dimensional, comparative process of service delivery rather than separate analyses of either municipal providers or geographic areas.

The current delivery system has evolved over many decades and may be affected by the incorporation of new cities. The process of service delivery is dynamic and changing; it is responsive to population growth as well as governmental changes of organization. The potential for new cities to take over the provision of municipal services currently provided by special districts further complicates this analysis. In analyzing service providers in Sacramento County, service provision by type of service, by area served, by proximity of one provider to another, and by other factors, are issues that may lead this Commission to more questions than answers.

A basic analysis of how services are currently provided must be examined to fulfill the Hertzberg requirement. However, the more difficult policy questions your Commission must address are: **What criteria defines the optimum service delivery model, or governmental structure, for the provision of municipal services within the County of Sacramento?** **What criteria defines the optimum service delivery model, or governmental structure, for the provision of municipal services within a region that is**

² Not all municipal services are subject to LAFCo purview. LAFCo's purview extends to dependent and independent special district service providers (which may include county service providers) and cities.

broader than the County of Sacramento? The answer to these questions requires that the criteria defined for the analysis of an optimum service model cannot be limited to the financing structure of an agency, the geographic area of an agency, or the provision of similar services by two adjacent agencies, but must also include other subjective factors. These issues are challenging, as well as inherently controversial. It will be difficult to determine the most efficient model of service delivery for any specific service or for any combination of services. However, your Commission might consider the issues that define the optimum service delivery model in the context of the public interest. Public interest is assumed, from the Municipal Service Review mandate, to mean quality service at a reasonable cost.

A number of options and alternatives for service delivery may, upon examination, become evident based on the Municipal Services Reviews. For example, a Municipal Service Review may indicate that two districts providing the same, or similar, services would function more efficiently consolidated, that district boundaries could be adjusted to improve the delivery of services, or that a city could take over all, or part, of a district's service provision.

Municipal Service Reviews are inherently complex because no rigid standards of assessment and no existing performance measures exist. There are a variety of service delivery models that can work. Choosing a service provision model from a variety of possibilities will, most likely, be a process of the identification of inefficient service provision, and the process of negotiated change.

Types of Service Providers

Municipal services are provided by the county, cities, special districts, investor owned corporations, and private companies. Sacramento County has six cities, however, the Cities of Sacramento, Folsom, and Galt are the only “full-service” cities, i.e., cities that rely on relatively few special districts for the provision of service within the city.³

³ One special district service provision that is relied on by all jurisdictions is Sacramento Regional County Sanitation District. Infrastructure costs for the development of a sanitation system are so extremely high

Full service cities have the fiscal flexibility for the provision of services by city departments. The flexibility allows cities to control, coordinate, and reallocate financial resources from one service to another, based on priorities and needs. For example, general fund revenue can be shifted from fire service to park service or vice versa. Within the corporate structure of a city, funding sources are not exclusively limited to property tax revenues that are legally dedicated to specific programs. Cities have many different funding sources. Cities operate as self-contained units and may be better able to meet changing community needs for municipal services than other forms of government.

In Sacramento County, many services provided by special districts to “contract” cities, as well as the unincorporated area, typically rely on dedicated property tax revenues (often the only district revenue source). Revenues cannot be reallocated to other services without amending formal agreements between the County and a special district. Thus, as community needs change, there is no opportunity for the governing body of a territory served largely by special districts to shift financial resources from one service to another service. As a result, *contract cities, as well as the Sacramento County Board of Supervisors, and special districts must cooperate and collaborate to achieve the delivery of municipal services.*

The appearance of a lack of coordination for the provision of service in Sacramento County is directly connected to both district boundaries and the ability of the County, the districts, and cities to cooperatively negotiate the provision of service for land use decisions. Lack of coordination for service provision may not be true in Sacramento County.

that it is considered by its users a highly valuable and efficient use of government funding that Sacramento Regional County Sanitation District has the capacity to serve the entire urbanized area of Sacramento County.

Since the governing body of a county or a city does not have the ability to control or regulate services provided by special districts,⁴ the large, amorphous special district delivery model of Sacramento County contains the perception of a fragmented service delivery system.

Efficient, coordinated municipal service provision may not be the public's desire. A little over a decade ago, the City and County of Sacramento jointly created the City-County Consolidation Commission which carefully studied the advantages and disadvantages of a consolidated city-county government in Sacramento County. A city-county consolidated government could have created an efficient, seamless, coordinated municipal service delivery system. The Commission recommended the creation of a consolidated city-county government. In 1990, the ballot measure proposing city-county consolidation was soundly defeated by the electorate. Subsequently, there have been three incorporations in Sacramento County. The electorate in this county appears to desire local governmental control over land use, and with that, control over the delivery of municipal services.

The provision of services by special districts, on the other hand, provides for governance at the most local level. Special districts usually have elected officials that are accountable to citizens within a specific geographic boundary. The public may find access to decision-makers for district service provision easier to address than addressing the County Board of Supervisors or a City Council. The issue is complicated for citizens in that they are often confronted with a myriad of Boards of Directors, each of whom provides a single service. To address a different Board of Directors for fire service, water service, recreation and park service, cemetery service, could be more burdensome than addressing a single body of decision-makers.

⁴ However, the Board of Supervisors, as well as LAFCo, does have the ability to modify boundaries to unify a group of special districts by creating coterminous boundaries within a specific community plan area. For example, the Fair Oaks Park and Recreation District, Fair Oaks Water District, and Fair Oaks Cemetery District do not currently have coterminous boundaries. Moreover, cities can take over the provision of services currently provided by special districts.

Multiple special districts providing the same type of service, while they do not directly compete with one another as do businesses, can create a sense of competition for property tax dollars within a specific community or territory. Thus, boundaries determine revenue source and they are defended. One district's expansion is usually another district's loss of revenue when the districts provide the same service. Community identity often determines district boundaries.

Special District Financing

Special district service delivery is provided by two distinctly different types of districts: Enterprise and Non-Enterprise Districts.

Enterprise Districts

Water, sewer and electric service providers are examples of enterprise special districts. Enterprise districts deliver services that are able to run like a business enterprise. Enterprise districts charge their customers for their services. For example, a water district charges a connection fee for capital improvements and sends a monthly bill to the customer for operation and maintenance expenditures.

Non-Enterprise Districts

Non-enterprise districts provide services which do not lend themselves to charging fees. Park, fire, cemetery, urban levee maintenance, mosquito abatement and conservation districts are examples of non-enterprise special districts. The property tax base the districts receive is based on the accident of the percentage of property tax it received at the time Proposition 13 was passed. These districts do not have the ability to raise or increase property tax revenue. Typically, property tax growth is based on new construction, the sale of developed property that can be revalued, or an annual increase in

existing property that cannot exceed 2 percent. However, Proposition 218 allows property tax based districts to obtain voter approval for either special taxes or special benefits, subject to either a simple, or super, majority vote. Property tax based districts have very limited ability to control their revenue stream. In addition, the State of California reduced their revenue stream by shifting a portion of their property tax income back to the State General Fund, commonly known as the Education Relief Augmentation Fund (ERAF) shift.

Fire protection services and mosquito abatement programs provide services which benefit the entire community rather than services to single individuals for which they might be charged. Fire districts provide insurance protection to the community in case there is an emergency; mosquito abatement districts provide insurance protection to a community by attempting to eliminate the carriers of disease. No direct cost-benefit relationship exists to a single individual for the services provided by non-enterprise districts. Consequently, non-enterprise districts generally do not charge user fees for their services. No district wants to put a meter on a park swing or charge residents to put out a fire. Non-enterprise districts rely overwhelmingly on property tax revenue to meet their operational expenses.

These two fundamental and distinctly different means of special district financing structure must be factored into your Commission consideration for the creation of an effective Master Services Review program.

Municipal Service Review Factors

Based on the complexity of current service delivery, there are many factors to consider as part of a comprehensive Municipal Service Review. The following discussion will illustrate my perception of some of the complexities involved in the Municipal Service Review process.

Macro versus Micro Analysis

There are two approaches LAFCo may use to analyze the provision any municipal service: a macro analysis and a micro analysis. A macro analysis approach entails a broad overview of operations but assumes, for the most part, that the elected Board of Directors of a district, for example, is a well informed decision-making body in charge of reasonably efficient district operations. Rather than examine specific budget and management details, a macro analysis broadly examines interrelationships between similar service providers, as well as other entities, that could provide the service. The macro analysis approach attempts to identify duplication of services, overlaps of service responsibility, or gross inefficiencies. For the most part, a macro analysis assumes that the governing body manages the agency well, that agency personnel are competent, and that the agency operates under industry norms, standards, and practices.

A micro analysis approach consists of an operations and management audit and a review of very specific details regarding how a district or city operates. Unless there appears to be gross inefficiency or mismanagement, I do not believe that a micro analysis approach with a detailed focus on financial issues to the degree of audits would be either a cost effective approach to fulfill our Municipal Service Review requirement or produce a significant body of comparable information that could be used to analyze the factors of service provision in terms of the whole of Sacramento County, and potentially the provision of services within a yet to be defined region.

Funding Constraints

Municipal Service Reviews can analyze service delivery on the basis of funding sources:

1. Enterprise Districts: Municipal services, funded by fees and charges for service (water, sewer and electric service), recover costs for service provision by setting rates. These agencies have the ability to raise rates without a public vote.⁵

⁵ However, these districts may be subject to the public Utilities Commission.

2. Non-Enterprise Districts: Municipal services (park, fire, cemetery), funded by General Fund Revenue or property tax, are limited by the amount of funding that is available in any particular year. A fixed revenue source requires careful planning for capital outlay projects, increase in personnel, or any other factor, i.e., population growth, that an increased demand for service might make difficult to meet.

Each type of agency has different financing constraints and parameters from which it must operate based on the type of funding resources it possesses.

Qualitative versus Quantitative Analysis **Cost-Benefit Analysis**

This type of analysis is useful, however, many times it is difficult to determine or agree upon the value of social benefits because they are not easily quantified.

Supply and Demand for Services

It is difficult to assess the public's value for certain types of general government services such as the provision of park, cemetery, mosquito abatement and fire protection services. The public value of these types of services appears to be more intangible and provide general benefits to the community as a whole than the more direct, clear-cut, demand and supply relationship of a consumer to water, sewer and electric service. General government services appear to be valued by the public on the basis of community priorities related to the quality of life, health and safety issues, and a perception of the welfare of the community.

Cost versus Quality

It is difficult to assess whether or not a low cost of service, or the purchase of an item that may be used to provide the service, is in the best interest of the public without taking into

account the size, uniqueness, need for the service, requirements for capital improvements, and those things that define the value and quality of the service provided. Costs do not equal quality. Capital outlay may create high expenditures that are actually long-term quality investments and, in the long run, may prove cost-effective over a period of many years. A comparison of cost of service provided, even between districts providing the same service, may have no obvious objective criteria with which to make a comparison.

Cost Effective and Efficient Delivery System

Cost effectiveness is defined as economical spending in terms of tangible benefits. Efficiency is defined as the productive use of manpower, supplies and equipment without waste. Efficiency is a comparison of production with cost (energy, time, money). These definitions are qualitative descriptions and are subjective, rather than objective. For example, every analyst can interpret cost effectiveness and efficiency of service provision differently. An exclusive high priority focus on finance, on the comparison of similar service provision, on management style, on the reputation of management's goodwill in the community, on the issue of coterminous boundaries, on community identity, or on any other specific factor, will not create a whole picture. Your Commission is mandated to consider current service provision, possible countywide service provision, and the determination of whether or not, and if so how, to create a future regional municipal service delivery system.⁶

In The Government of Metropolitan Sacramento,⁷ the authors discuss the subjectivity of any analysis of governmental service provision. The authors concluded that it is very difficult to determine whether or not a district is cost-effective or efficient because there are such a myriad of different variables to analyze. The following quote illustrates this conclusion:

⁶ Government Code Section 56430 states "The commission shall include in the area designated for service review, the county, the region, the sub-region, or any other geographic area as is appropriate for an analysis of the service or services to be reviewed...."

⁷ Public Administration Service, The Government of Metropolitan Sacramento, 1957.

“In view of the variety and number of agencies providing services to various sections of the county, and the uneven pattern of services, it may be assumed that the costs of services will show considerable variation. There is one major obstacle to a fair analysis of the cost in different areas—the difficulty in measuring levels of service. There are no established means for ranking water, sewer, or storm drainage systems; the evaluation systems have been devised involve assumptions, variables, and value judgements that largely invalidate them. The standards that have been developed to test the quality of police, fire, transit and park and recreation services in a given area are very rough at best.”

Standards may be impossible to determine. Outside of federal and state requirements for standards of materials and equipment used in building infrastructure for service provision, the level of service in any district, county service area, or city is determined by the needs and values of the public receiving the service and the financing resources, responsibility and integrity of their use by those individuals who provide the service.

For example, it may be impossible (without the investment of years of staff research and data collection) to make a direct comparison of Park A, with Park B and Park C. Any comparison must take into account varying types of improvements based on local needs, an unequal property tax base, period of park development (old versus new), population, age, and the interests and priorities of the citizens within the boundaries of the agency. However, I believe that by a systematic macro analysis of current service providers and discussion with affected stakeholders, it may be possible to make broad value assessments and determine findings that are not absolute but that may become the development of a model for an efficient negotiated future service provision within Sacramento County, and potentially, a regional service provision system. In addition, during the process, ideas and issues may surface that require additional investigation or analysis, additional public discussion, and creative new concepts for the provision of service may emerge.

Competition

Competition between public service providers can either be beneficial or costly, depending on the service. Historically, services that require a large investment in

infrastructure such as the provision of sewer, storm drain and electric service, are more efficient without direct competitors in order to avoid costly duplication of generation facilities, equipment, distribution and transmission facilities. However, even though a provider may only serve a specific geographical area, there may be a sense of competition between like providers of a service based on costs and services provided. For example, two park districts, each operating a municipal golf course, may compete for the same market. Other recreational programs provided by two adjacent park districts may be similar and the districts may be considered to be in competition with one another.

This kind of competition creates pride in the provision of service, it becomes a business practice to attract potential service users; public usage creates financial resources for district maintenance, repair and development of new programs and services. These competitive issues are based solely on community interests and values. Consequently, it may be difficult to evaluate whether or not combining multiple service providers is, indeed, in the best interest of the public in Sacramento County.

Governmental Structures

The problem of uneven service levels, gaps in services, and variations in the cost of services in different parts of any metropolitan area call attention to the inability of any single governmental agency with the jurisdictional power to comprehensively handle area-wide problems and to plan the overall provision of municipal services. This inability to create comprehensive planning characterizes almost every metropolitan complex in the country. The inability to plan efficient metropolitan communities is caused by jurisdictional division of powers, legal mandates and functions between affected agencies. However, if the reality of the 21st century is that Sacramento County is to remain a multitude of jurisdictions that control service delivery, responsibility for a regional vision may become the process of negotiation between the County Board of Supervisors, City Councils, and Independent Special Districts.

Local versus Regional Needs

It is important to analyze services in terms of future population growth and the demand for service that will occur in terms of a local, countywide and regional basis. Certain services may best be provided on a regional level, while others may best be provided in a local community or on a countywide basis.

Communities

Community identity and social interests are connected to geographic areas. Municipal service levels vary from area to area based on the demographic needs and characteristics of the community. It is hard to quantify and measure whether or not a community with specific interests is best served by a single or a multi-purpose service provider.

Conclusion

Neither the process nor the solution is absolute. There are advantages and disadvantages of the current service delivery system in Sacramento County. *The Commission's goal should become the assessment of the current system of service delivery and making determinations regarding whether or not, and if so how, improvements can be made to achieve a more integrated service delivery system.* Based on the myriad of issues and variables, it appears that the Municipal Service Review process is inherently subjective. The criteria and factors outlined above indicate the potential difficulty of comparing like service providers. These factors are part of large continuum that have many different potential service delivery alternatives, all of which will be affected by population growth and the timing of that growth. LAFCo's challenge is a matter of finding the right balance between community needs and an optimum service provision system.

Municipal Service Review Principles

I propose that the following principles be used to guide Sacramento LAFCO's Municipal Service Review process. Using a macro analysis approach, Municipal Service Reviews will be prepared by Sacramento LAFCO staff that make every effort to:

- (a) Assume that the public desires and expects an adequate level and seamless delivery of quality municipal services at a reasonable cost.
- (b) Involve the affected agencies, stakeholders, and the public in the Municipal Service Review process.
- (c) Build on existing agency information.
- (d) Respect the mission and function of existing providers.
- (e) Assess economic, environmental, social, and political issues regarding the agency's capacity of service provision.
- (f) Achieve analysis with a reasonable outlay of staff resources and time.
- (g) Encourage a collaborative and consensus approach with all jurisdictions to examine the potential development of a regional view for service provision.

**Commission Policy Statements Regarding
The Evaluation of Municipal Service Reviews**

1. This Commission will assess the ability and the capacity of municipal service providers to provide an adequate level of service based on community standards, local needs, available resources and projected growth.
2. This Commission will determine whether or not services overlap, duplicate one another, and whether or not there are public, economic, social, environmental, political and/or other benefits for proposing the reorganization or modification of the existing service delivery system.
3. This Commission will enter into community discussions to determine whether or not the public is best served by the existing service delivery system, a countywide service delivery system, or a new regional vision for the provision of services.
4. This Commission will determine whether or not this body should encourage, or mandate, changes of organization when the Commission determines they are in the best interest of the public.

PB:Maf