

September 23, 2008

SEP 24 2008

Bruce Wolfe, Executive Officer
California Regional Water Quality Control Board
San Francisco Bay Region
1515 Clay Street, Suite 1400
Oakland, CA 94612

SUBJECT: Complaint No. R2-2008-0070 - Sewerage Agency of Southern Marin

Dear Mr. Wolfe:

The purpose of this letter is to reiterate Marin Local Agency Formation Commission's policy interests and research findings regarding southern Marin sewer agencies as those agencies and the Regional Water Quality Control Board make critical decisions on their response to sewage spills from the SASM treatment plant to Richardson Bay earlier this year.

As you may know, the State Legislature created a local agency formation commission (LAFCO) in each county in California to plan and regulate local government boundaries and organization. LAFCOs are empowered to approve or disapprove changes to local government boundaries and organization such as annexations of territory to cities, or formation, dissolution or consolidation of special districts. Each LAFCO is also required to adopt boundary plans (spheres of influence) for the boundaries and organization of each city and special district. In 2000, the Legislature required that LAFCOs also perform special studies or service reviews of how municipal services are provided by all local government agencies providing each service in a given geographic area.

Marin LAFCO initiated its service review process for cities and special districts in southern Marin County in 2004. The initial staff report, Southern Marin Service Review and Sphere of Influence Update (April 26, 2004) described the 11 different agencies providing sewer service to the study area which is about the same size and population as that served by the Novato Sanitary District. The study area included the service area of the Sewerage Agency of Southern Marin (SASM) and its six member agencies which range in population size from 939 to 13,600. The report describes the complexity of sewer service relationships in a complex of small agencies and resulting problems of lack of political accountability, disbursed management control and high costs.

Chairperson: Jeffrey Blanchfield

Members: Susan Adams, Einar Asbo, Barbara Heller, Charles McGlashan, Dennis J. Rodoni, Jeffrey Slavitz

Alternates: Judy Arnold, Christopher Burdick, Carla Condon, Fred Hannahs

Executive Officer: Peter V. Banning

Marin Local Agency Formation Commission

165 N. Redwood Drive, Ste. 160 • San Rafael, California 94903
Telephone (415) 446-4409 • Facsimile (415) 446-4410 • Email lafco@marin.org
Website <http://lafco.marin.org>

In 2005, the Commission retained PB Consult to study the cost implications of consolidating sewer agencies in southern Marin (executive summary attached). This study (*Southern Marin County Sewer Service Alternatives Study*, July 29, 2005) focused on cost saving opportunities from either the functional consolidation of existing southern Marin sewer agencies operating cooperatively, or from full political consolidation of SASM agencies to form a single sanitary district. The following table summarizes potential cost savings under these two scenarios.

Table ES-2: Potential Cost Savings – Future Cost Basis

Option	Future Cost Basis Operating & Capital Budget (\$000)*	Annual Potential Savings (\$000)*	Annual Potential Savings
Functional Collaboration	\$15,500	\$1,830	12%
Integrated SASM Sanitary District	\$7,400	\$750	10%
Integrated SMCSD Sanitary District	\$4,700	\$375	8%

* Baseline Year - 2005; all costs in 2005 Dollars

Following publication of the report, southern Marin sewer agencies met several times to discuss various modes of cooperative operations aimed at attaining cost savings identified in the PB Consult report. These efforts resulted in sharing of laboratory facilities and costs, but the working group has not met since 2006 and was never the beneficiary of concerted and committed effort among the affected agencies.

LAFCO's legislative mandates and adopted policies have led to Marin LAFCO's active involvement in this issue. Marin LAFCO's policy on consolidation of special districts reads:

Where provision of a service by a general purpose local government is not practical, LAFCO favors the consolidation or reorganization of small, single purpose special districts when such consolidation can be shown to reduce aggregate costs of service and/or improve local government accountability.

With respect to SASM agencies, the prospect of functional and political consolidation would meet both criteria of reducing aggregate cost and improving political accountability. Cost savings are available through cooperative action that southern Marin sewer agencies initially supported when the study was published. Improvements to government accountability are more demanding and require significant planning effort for permanent changes to the structure of the 6 independent local agencies, one joint powers agency, 30 elected board members, 6 appointed board members, and 7 general managers currently engaged in the operation of this single system.

The sewage spills from the SASM plant last January which involved a combination of problems at the treatment plant operated by SASM and overwhelming inflow and infiltration from deteriorated collection systems operated by SASM's six member agencies, show that both the physical facilities and the organizations providing sewer service need significant improvement. LAFCO's studies and disbursed agency responsibilities strongly suggest that SASM agencies, the public interest and the environment would be better served by a reorganization of the SASM agencies' administrative structure.

It appears that SASM and its member agencies will have to raise their rates or appropriate reserve funds to pay for the costs of implementing U.S. Environmental Protection Agency (EPA) enforcement orders and the \$1.6 million in fines levied by the Regional Board. The Regional Board and SASM agencies should consider the long-term, cost-effectiveness of actively pursuing annual cost savings identified in the 2005 study if they seek rate increases in the context of the fines and development of supplemental environmental projects (SEPs).

Proposed SEPs should include allocations to costs of planning and preparation for organizational reform. SASM agencies and the Regional Board should consider allocating a substantial portion of the \$1.6 million fine toward organization improvement to develop a long-range strategy of improving sewage collection and treatment in southern Marin on a comprehensive southern Marin watershed basis.

Commitment to organizational reform would show effort to minimize rate impacts while working to improve facilities and management systems. Failure to include organizational strategies would detract from the effectiveness of the Regional Board's regulatory actions and the public's confidence in the local agencies providing this vital service.

Respectfully submitted,

A handwritten signature in black ink, reading "Jeffrey Blanchfield". The signature is written in a cursive, flowing style.

Jeffrey Blanchfield, Chairman
Marin Local Agency Formation Commission

SEP 24 2008

Cc: Members, Marin LAFCO
Assemblymember Jared Huffman
Assemblymember Mark Leno
Marin County Civil Grand Jury
Ken Greenberg, U.S. Environmental Protection Agency
Amy Chastain, Baykeeper
Harry Seraydarian, North Bay Water Association
Marin County Board of Supervisors
Amy Belser, Mayor, City of Sausalito
Shawn Marshall, Mayor, City of Mill Valley
Jeff Slavitz, Mayor, Town of Tiburon
Tom Cromwell, Mayor, City of Belvedere
Jerry Butler, Chairman, Richardson Bay Regional Agency

Southern Marin County Sewer Service Alternatives Study Report

Submitted to:

Marin Local Agency Formation Commission

Submitted by:

PB Consult Inc.



Final Report: July 29, 2005

Executive Summary

Study Objective

This report summarizes the study conducted by the PB Consult Team. The objective of the study was to identify feasible options for improving the efficiency and effectiveness of sewer services currently provided to Southern Marin County by the eleven (11) agencies that presently serve the area. The report provides an analysis of three (3) functional collaborations and two (2) political consolidations. Functional collaborations, as referenced in this study, are arrangements that can be implemented through Joint Powers Agreements (JPAs) or similar contractual mechanisms without changing the current agency governance structures. Political consolidations, as referenced in this study, are formal restructuring transactions that would combine two or more agencies into a single organization and would require a formal LAFCO review and approval process. The three (3) functional collaboration and two (2) political consolidation options were selected and approved for further study by the LAFCO Commissioners on December 8, 2004, as the follow-on phase resulting from the study's evaluation of a broad spectrum of collaboration and consolidation options and possibilities.

The study evaluated the potential financial savings from functional and political consolidation options and attempted to quantify the maximum potential savings that could result if all Agencies in the study achieved or needed the same level of service performance. This report acknowledges that the likely financial savings and service improvements, while significant, will most likely be less than the "maximum potential savings" and/or the maximum levels of "service improvement specified in the report. Two methodologies were utilized to develop the maximum potential savings:

- 1) Current Costs Basis: Potential opportunities for improving the resource productivity and quality of service for current operations (i.e., the areas where near-term improvements can be achieved).** The eleven agencies collectively have a 2005 combined capital and operating budget of approximately \$12.3 million (\$8.7 million operating expenses and \$3.6 million in capital expenditures). The study evaluated potential savings in current operating costs and capital spending and candidate areas for improved efficiency and effectiveness.
- 2) Future Costs Basis: Potential opportunities for improving the resource productivity and quality of service based on the additional impacts of future agency requirements (i.e., adding the effects of future requirements to the analysis).** Future requirements will impose significant financial needs (i.e., incremental increases in operating and capital expenditures) over and above current budgets. Future requirements such as the Sanitary Sewer Management Plan/Sanitary Sewer Overflow (SSMP/SSO) regulatory program and upcoming capital expenditures for treatment systems and the replacement of aging sewer collection infrastructure will drive a projected annual budget increase of as much as 26% to a combined capital and operating budget of approximately \$15.5 million annually (2005 dollars) as they go into effect over the next 5-10 years. The study also evaluated the possibilities for the potential reduction of these future spending requirements through functional collaboration and political consolidations.

Once completed in draft form, the report was shared with the representatives from the eleven agencies. Factual correction feedback was received and has been incorporated into the Report. Based upon the comments received, representatives of some of the agencies do not share the Report's viewpoint or analysis on the need or feasibility of achieving either the maximum potential savings or the cost increases associated with the current structure's future performance requirements. Additional comments at the workshop resulted in additional gathering of financial information, particularly historic and projected capital expenditures. The inputs received, and a summary of the inputs, are provided in Appendix J of this Report. Understanding and reconciling these inputs and the differences between the inputs and the Report becomes a logical next step but is beyond the scope and resources of the current Study. It



should also be noted, that the overriding findings of the Report remain fundamentally unchanged under either scenario (Report estimates or Agency adjusted estimates). In short, significant financial benefits, service level responsiveness, and managerial improvements can be obtained through implementation of the functional collaborations and political consolidations discussed in the Report.

The potential savings from functional collaborations and political consolidations were analyzed independently. However, since we anticipate the agencies pursuing functional collaboration first and then considering political consolidations after successfully working together, it is likely that the potential savings would be at least partially additive.

Summary of Functional Consolidation Options

It is important to immediately acknowledge that functional collaborations will share resources and expertise but retain the current eleven (11) agency governance structures and local control. It is envisioned that Joint Powers Agreements (JPAs) and / or similar mechanisms will be the contractual vehicle through which functional collaborations are structured. As such, individual agencies can agree to participate, or not participate, in specific functional collaboration activities. Based upon the actual experience of successful functional collaborations by sewer services agencies, the JPA and / or similar contract mechanisms can also accommodate the addition or withdrawal of an agency from the collaboration agreement or, in the extreme circumstance, the collaboration may be ended for all agency participants.

The proposed functional collaborations analyzed in this study are expected to provide access to operational expertise that improves resource productivity, enhances levels of service, and delivers overall financial benefits. Successful functional collaborations offer the possibility of reducing future year budget increases for the participating agencies. As the collaborations demonstrate successful results, they will provide a vehicle for building additional trust and positive working relationships among the participating agencies.

Summarized below are the three functional collaboration opportunities that are presented in Section 4 of the report:

- 1) Sanitary Sewer Overflow(SSO)/Sanitary Sewer Management Plans (SSMP) Program**
Activities: collaboration on the development of the required plan(s) and implementation of specific elements of the plan(s) to prevent and manage SSO events, including cleaning, TVing, and inspection of collection systems.
- 2) Capital Projects:** collaboration on the identification of and planning for capital projects; financing of capital projects, delivering design, construction services and construction management.
- 3) Shared Resources and Staffing:** collaboration on the sharing of specialized equipment and staff resources; access to resources and staff expertise not currently available to all agencies.

Both individually and collectively, these functional collaborations have the potential to achieve significant improvements in both resource productivity and the effectiveness of the sewer services. Section 4 of the report covers the functional collaboration analysis.

Current Basis: The collaboration actions identified in this report have the potential to improve the resource productivity of current operations by \$1.3 million per year, an 11% savings from the \$12.3 million 2005 baseline operating and capital budget expenditures. At the same time, improvements in service delivery effectiveness and operational performance standards are achievable.

Future Basis: When these current budgets are increased by the projected \$4.5 million required for incremental future costs, the eleven agencies have the potential to save up to



\$1.9 million per year or over 12 % of the projected \$15.5 million combined operating and capital budget that will be necessary for wastewater collection and treatment services at that time.

Summary of Political Consolidation Options

Consistent with the study objectives of identifying opportunities for efficiency and effectiveness improvement, a variety of potential political consolidations of the eleven (11) Southern Marin County sewer services agencies were evaluated by the study team. Also consistent with the study objectives, the alternative of consolidating all eleven (11) agencies into a single, integrated agency was excluded from the study.

As a result, the study efforts were focused with the vision of agency consolidations structured around the three treatment plants and the collection systems that flow to each of these plants. Based upon the identification of such consolidation possibilities and the preliminary screening work performed by the study, two political consolidations were selected by the LAFCO Board for further study.

- 1) Consolidation of current SASM agencies into a single integrated sanitary district. (*SASM Integrated Sanitary District*)** Formation of the new integrated sanitary district would most likely involve a multi-step consolidation process. The four (4) independent sanitary districts currently served by SASM (Almonte, Alto, Homestead Valley and Richardson Bay) would be combined into a single sanitary district for provision of services to all four areas. The next steps would involve the annexation of the City of Mill Valley sewage collection system and the annexation of the portion of the Tamalpais Community Service District (TCSD) sewage collection system currently discharging to SASM. The existing JPA would be amended as interim consolidations occur. Once all the consolidations are complete, the final step would be the transfer of all SASM JPA assets and cash into the new integrated sanitary district and the dissolution of the JPA. Once completed, the SASM Integrated Sanitary District would be an integrated agency operating with one Board, representing all areas served, responsible for the provision of wastewater collection and treatment services.

Current Basis: We estimate the SASM Integrated Sanitary District can potentially achieve savings of approximately \$490,000 per year or approximately 8.6% of the combined budgets for operating and capital costs of \$5.7 million per year. These savings will be achieved through increases in resource productivity achieved through consolidated field maintenance activities and systems, shared staff resources for treatment plant operations/administrative services and pooled capital projects. These savings are at least partially additive to efficiency improvements already achieved through functional collaboration.

Future Basis: Adding in the incremental future costs projection of \$1.7 million, an integrated SASM Sanitary District has the potential to save up to \$750,000 per year or approximately 10% of the projected agency budgets totaling \$7.4 million per year that would otherwise be needed. These additional savings of future year cost increases will come from the economies of scale gained from implementing a consolidated SSMP/SSO program and pooled capital projects for infrastructure replacement and again, are potentially additive to savings already achieved by working collaboratively.

- 2) Expansion of the Sausalito Marin City Sanitary District (SMCSD) to include the City of Sausalito's collection system and that portion of the TCSD service area that flows to the SMCSD treatment plant. (*SMCSD Integrated Sanitary District*)** This consolidation involves the transfer of the City of Sausalito's collection system assets into the Sausalito-Marin City Sanitary District (SMCSD) and the annexation of the portion of the Tamalpais Community Services District that has its wastewater treated by the SMCSD treatment plant. This consolidation, with Board representation for all areas served, integrates the management of the collection systems, pump stations, and wastewater treatment facility serving these areas into a single, integrated organization.



Current Basis: We estimate the SMCSD Integrated Sanitary District can potentially achieve savings of over \$275,000 per year or approximately 7.5% of the current operating and capital budgets of \$3.7 million per year. These savings are anticipated to be obtained from more cost effective field maintenance and operations functions (improved systems, single system development costs, increased staff productivity, shared staff resources, and consolidated decision making and management. In addition, integrated capital project planning and implementation will also contribute to lower capital costs for capital projects.

Future Basis: Consolidation of the current SMCSD organizations into the SMCSD Integrated Sanitary District can potentially achieve savings of \$380,000 per year or approximately 8% of the projected future budget needs (capital and operations) of \$4.7 million per year (based on incremental future combined costs of \$1.23 million necessary for the individual agencies to effectively meet new regulatory requirements and infrastructure investment needs. These additional savings of approximately \$102,000 per year will come from economies of scale implementing the SSMP/SSO program and pooled capital projects for infrastructure replacement. Again as with the SASM Agency political consolidation, savings are potentially additively to those already achieved through successful collaborative arrangements.

Section 5 of the report provides the analysis of these political consolidation options and provides the rationale for the envisioned improvements in the efficient and effective provision of wastewater services. Both political consolidation options have the same rationale as the pending annexation of the Belvedere collection system into Sanitary District No. 5. Each would combine all the collection system assets served by the respective SASM and SMCSD treatment plants. The successful implementation of these two political consolidations, if fully implemented, will consolidate the current eleven Southern Marin sewage treatment agencies into three sanitary districts. A single Board would establish policy for each District. Each District would operate a wastewater treatment plant (i.e., integrated SASM, integrated SMCSD and Sanitary District No 5 with Belvedere annexation) and have responsibility for the collection systems and pump stations connected to the plant. Again, significant benefits, including improved coordination and integration of decision-making, cost effectiveness, and service level and quality are identified by the study as benefits from these actions.

Conclusions and Recommendations

Based upon our study analysis, the inputs received from the member agencies, and the LAFCO Study Committee, we believe these proposed collaborations and consolidations provide a workable blueprint for the achievement of the stated objectives of improving the efficiency and effectiveness of wastewater service in Southern Marin County. The JPA Agreement provides a practical framework for functional collaboration and requires no changes in agency governance restructure, thus retaining local control. The proposed political consolidations are a logical outgrowth of current service arrangements and would result in three integrated full-service sanitary districts, each providing full sewage collection, treatment and residuals management.

Table ES-1 summarizes the current cost basis combined operating and capital expenditure budgets and potential savings for functional collaboration and the two political consolidation options.



Table ES-1: Potential Cost Savings – Current Cost Basis

Option	Current Cost Basis Operating & Capital Budget (\$000)*	Annual Potential Savings (\$000)*	Annual Potential Savings
Functional Collaboration	\$12,300	\$1,330	11%
Integrated SASM Sanitary District	\$5,700	\$490	8.5%
Integrated SMCSO Sanitary District	\$3,700	\$275	7.5%

* Baseline Year – 2005; all costs in 2005 Dollars

Table ES-2 summarizes the future cost basis combined operating and capital expenditure budgets and potential savings for functional collaboration and the two political consolidation options.

Table ES-2: Potential Cost Savings – Future Cost Basis

Option	Future Cost Basis Operating & Capital Budget (\$000)*	Annual Potential Savings (\$000)*	Annual Potential Savings
Functional Collaboration	\$15,500	\$1,830	12%
Integrated SASM Sanitary District	\$7,400	\$750	10%
Integrated SMCSO Sanitary District	\$4,700	\$375	8%

* Baseline Year – 2005; all costs in 2005 Dollars