

**Municipal Service Review
and Sphere of Influence Review
Mid-Peninsula Water District
March 11, 2011**

Introduction

This municipal service review and sphere of influence update for the Mid-Peninsula Water District is being completed as required by Government Code Sections 56425 and 56430. Section 56430 requires that in order to prepare and update spheres of influence in accordance with Section 56425, the Local Agency Formation Commission shall conduct a service review of the municipal services provided in the county or other appropriate area. A municipal service review is an analysis of public services in which determinations are made in the following areas:

- (1) Growth and population projections for the affected area.
- (2) Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies.
- (3) Financial ability of agencies to provide services.
- (4) Status of, and opportunities for, shared facilities.
- (5) Accountability for community service needs, including governmental structure and operational efficiencies.
- (6) Any other matter related to effective or efficient service delivery, as required by commission policy.

Following District input on a draft service review, recommended determinations have been revised and are included for Commission consideration at a public hearing. Once adopted, service review determinations are used in renewing or amending a sphere of influence. The municipal service review and sphere of influence reviews are not proposals for organizational change; rather they are state-mandated studies that identify strengths, weaknesses and opportunities for efficiencies and resource sharing.

Local Agency Formation Commission (LAFCo)

Created by the State legislature in 1963, the Local Agency Formation Commission (LAFCo) is a State-mandated, independent commission with countywide jurisdiction over the boundaries and organization of cities and special districts including annexations, detachments, incorporations, formations, consolidations and dissolutions. LAFCo adopts spheres of influence as plans for probable boundaries of cities and special

districts. LAFCo operates pursuant to the Cortese Knox Hertzberg Local Government Reorganization Act of 2000 (Government Code Section 56000 and 57000 et seq.) LAFCo has two members of the Board of Supervisors, two city council members of the cities in the county, two directors of independent special districts in the county, a public member, and four alternate members (county, city, special district and public). LAFCo adopts its own budget and contracts with the County of San Mateo for staff, facilities and legal counsel. The Executive Officer serves in the administrative capacity, which includes staff review of proposals, municipal service reviews and sphere of influence studies and assistance to local agencies and the public. LAFCo's net operating budget is apportioned in thirds to the County of San Mateo, the 20 cities and the 22 independent special districts. For additional information on LAFCo, please visit www.sanmateolafco.org.

Mid-Peninsula Water District

Mid-Peninsula Water District (MPWD) is an independent special district operating pursuant to State Water Code Section 30000¹ and was formed in 1929. As written on the District's website, Mid-Peninsula Water District, formerly Belmont County Water District, was formed to consolidate seven independent systems. The District purchases all water from the City of San Francisco Water Department and supplies water to consumers in an area slightly larger than the city limits of the City of Belmont, including portions of San Carlos, Redwood City, and the unincorporated Harbor Industrial Area. The District's service territory covers approximately 5 square miles and serves approximately 26,130 persons. In the event of an emergency, the district can serve or be served with inter-ties between neighboring utilities. The district has 1 inter-tie with Foster City, 3 with San Carlos, 1 with Redwood City and 3 with San Mateo (Please see Attachment A - map of service area).

The District is a member of the Bay Area Water Supply and Conservation Agency (BAWSCA), which represents the interests of 26 cities and water districts, and two private utilities that purchase water wholesale from the San Francisco regional water system. A profile of the District is found on the following page.

¹ Section 30000 of State Water Code provides for provision of water, sanitary sewer, garbage collection, fire protection and recreation services related to district owned lands

MID-PENINSULA DISTRICT

3 Dairy Lane • P.O. Box 129
Belmont, CA 94002

Contact Person: Paul Regan, General Manager
650) 591-8941 650) 591-4998
Website: www.midpeninsulawater.org

Date of Formation: July 2, 1929

Enabling Legislation: Section 30000 State Water Code

Governing Board: Five-member board of directors elected to four-year terms

- a. Membership: Betty L. Linvill, President; David Altscher; Albert Stuebing; Louis J. Vella; Matthew P. Zucca
- b. Compensation: \$100 per meeting, health benefits, travel reimbursement
- c. Public Meetings: Fourth Thursday of the month at 6:30 p.m.
3 Dairy Lane, Belmont

Services Provided: Public water supply for domestic service and fire suppression.

District boundaries: See Map. District boundaries include primarily City of Belmont, Harbor Industrial Area Estimated Population: 26,130

Contractual Arrangements: Contracted legal and engineering
Number of Personnel: 18 full time and 1 Part Time
Sphere of Influence: Coterminous with District boundaries, with recommendation that the district be established as subsidiary district of the City of Belmont

Fiscal Data

Revenues:

	<u>Adopted</u> 2010-11	<u>Adopted</u> 2009-10
Water Charge	6,106,000	6,337,000
Service Charge	1,467,000	879,000
Capital Expense Charge*	*	636,000
Fire Charge	14,000	14,000
Property Tax	140,000	157,369
Buckland (COB)	9,000	9,481
Cell Site Revenues	184,000	197,778
LAIF	18,000	80,000
TOTAL REVENUES	\$7,938,000	\$8,310,628

Expenditures:

Water Purchase	2,605,000	2,559,000
Employee & Labor Related Costs	1,967,000	1,942,000
Depreciation	860,000	960,000
Maintenance & General	607,000	668,960
Miscellaneous	394,000	427,500
Purchased Power	226,000	225,000
Customer Accounts	190,000	200,000
Outside Services	197,000	215,000
Directors	151,000	142,000
Dairy Note	160,000	150,426
TOTAL EXPENDITURES	\$7,357,000	\$8,749,886

Revenues Less Expenditures **\$581,000** **\$820,742**

*Capital Expense charge appears on each customer's bill. For 2010-11, revenues are included in Service Charge category.

Please see District budget documents at www.midpeninsulawater.org for additional detail on capital expenditures and reserves.

The following section examines the State mandated Service review criteria as set forth in Government Code Section 56430.

(1) Growth and population projections for the affected area

The District cites an estimated service area population of 26,130. The service area consists primarily of residential uses, and significant commercial, institutional and industrial development.

The following table from the Mid-Peninsula Water District Urban Water Management Plan indicates that the District's service area population is projected to grow by 3,300 persons or 12.8% by the year 2030. The District is in the process of updating the Urban Water Management Plan, which will include updated population data and projected growth.

TABLE 3 POPULATION PROJECTIONS Mid-Peninsula Water District Service Area						
Total Population	2005	2010	2015	2020	2025	2030
Belmont	25,500	26,000	26,700	27,500	28,100	28,800
San Carlos area	130	130	130	130	130	130
Total District Population	25,630	26,130	26,830	27,630	28,230	28,930
Source: ABAG, <i>Projections 2005</i> , pp. 194. Includes all of the Belmont Sphere of Influence area plus 56 residential connections in San Carlos.						

(2) Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies

As reported in the District's Urban Water Management Plan, the District purchases all of its water from the San Francisco Public Utilities Commission (SFPUC). The SFPUC water is delivered to the District in two ways: via a 20-inch water transmission pipeline that is connected to the SFPUC system in Redwood City and via a 24-inch pipeline connected to a pump

station on the SFPUC watershed property near the Pulgas Water Temple. Water from the regional system² is treated before delivery to the District.

The District operates and maintains a complex distribution system that includes 9 pressure zones, 19 pumps, 11 water tanks, 20 water regulating valves, 790 fire hydrants, 94 miles of water mains and lands on which district tanks, pumps, etc. are located. The District has the ability to transfer water between pressure zones either in a pump up or flow down mode. The District also has redundancy built into the distribution system so that it can, if necessary, supply all customers from either one of the San Francisco Public Utilities Commission connections.

Each fiscal year, the District's Capital Improvement and Facility Maintenance Budget identifies priority capital improvement projects for funding. The 2010-11 budget includes \$850,000 for repair of two storage tanks and replacement of aging water meters with advanced water meters that will provide for better customer service and alert customers of undetected leaks on service lines. Facility maintenance expenditures of \$250,000 include: water main replacement; vehicle smog checks to comply with State law; fire hydrant replacement and addition of hydrants essential for fire fighting; pump and regulator maintenance essential for extending the service life of water mains and reduce the amount of water main breaks; and maintenance of valves throughout the system.³

In terms of supply capacity, the most recent Bay Area Water Supply and Conservation Agency (BAWSCA) survey shows that MPWD purchased 80% of the District's 3.89 million gallon capacity in 2008-09, a reduction of 3% from 2007-08, an indicator that the District has an effective water conservation program.

(3) Financial ability of agencies to provide services

The primary revenues for MPWD include water and service charges and a capital expense charge. Inclusion of a capital expense charge allows the District to operate on a "pay as you go" basis and thereby avoids incurring debt for capital improvements or drastic rate increases to fund capital improvements. The District's budget is shown on page 3 above.

² The terms "Hetch Hetchy System" and "Regional System" are used interchangeably and are intended to refer to the entire SFPUC system.

³ Pumps are used to move water from lower elevations. Regulators reduce water system pressure. Valves serve to shut down sections of water main while work is completed on a section.

As noted in the Mid-Peninsula Water District Basic Financial Statements for the Years Ended June 30, 2010 and 2009, the District's operating revenues decreased by \$200,731 (or 2.92%) from \$6,874,734 during fiscal year ended June 30, 2009 to \$6,674,003 during fiscal year ended June 30, 2010. The decrease in operating revenue was primarily due to decrease in the District customer usage. Non-operating revenues decreased by \$56,659 during the year. The District's total operating expenses increased by \$428,031 (or 6.53%) from \$6,555,472 during the fiscal year ended June 30, 2009 to \$6,983,503 during fiscal year ended June 30, 2010. Increases in total operating expenses comprised normal water purchase increases, insurance premium increases, and wages and benefit increases.

As a district formed prior to implementation of Proposition 13, the District receives a share of the 1% property tax. This amounts to approximately \$140,000 annually (approximately 2% of total revenues) and provides an offset to overall cost of service. This revenue source has diminished in recent years, most recently due to the continued economic distress in residential, commercial and business property assets during calendar year 2009 and an increase in the number of properties in the Assessor's decline in value program. As an enterprise district, the MPWD has the ability to set rates that do not rely on property tax revenue which is a volatile revenue source.

Long Term Debt:

Because the District has set rates to include capital improvement expenditures, the District has no outstanding debt other than a promissory note collateralized on the District's property located at 3 Dairy Lane. Due October 1, 2011, the total payments due as of June 30, 2010 were \$118,312 in principal and \$15,452 in interest.

Reserves:

The 2010-11 Adopted Budget Reserve is \$2,448,000 and Fund Balance is \$2,548,400.

Water Rates:

The District's adopted tiered rate schedule (attached) is designed to allow gradual increases over the next five years, rather than less frequent, drastic increases. The District relies solely on water from the SFPUC, which has commenced a \$4.3 billion seismic Capital Improvement Project on the Hetch Hetchy distribution system. Costs for the capital improvements are passed on to water retailers through wholesale water prices,

requiring that District water rates be adjusted upward to account for increasing wholesale water rates. Other factors affecting water rates include size of rate base and reduced volume in water sales due to conservation and cost of operations.

In May 2010, following completion of a water rate study, the District approved new water rates for Fiscal Years 2010 through 2014 that provide for a phased approach to raising rates to keep pace with increasing wholesale water rates and operational costs. The tiered rate model also encourages conservation by increasing unit rates for higher consumption. The following table provides comparative data for the current fiscal year for MPWD, CalWater and City of Redwood City.

MPWD 8,020 customers		Calwater 53,424 Customers		Redwood City 23,110 Customers	
Service Charge (5/8" Meter)	\$13.30 includes CIP	Service Charge (5/8" Meter)	\$8.75	Service Charge (5/8" Meter)	\$18.02
0-2 units (residential)	\$2.40	0-9 units	\$3.3132	0-10 Units	\$2.40
3 to 10 units	\$4.60	10-22 units	\$3.4876	11-25 Units	\$3.05
11 to 25 units	\$5.45	Over 22 Units	\$4.1851	26-50 Units	\$4.98
Sample Monthly bill:				51+ Units	\$7.03
10 Units	\$54.90		\$42.05		\$42.42
20 Units	\$73.30		\$77.04		\$72.07

The District comments that rate comparison with agencies of comparable size to the District would be more meaningful. In San Mateo County, two water agencies of similar size include City of Burlingame (9,108 Customers) and Coastside County Water District (6,765 Customers). As requested, rate information is provided below. Of note however, is that one benefit of comparing rates with larger nearby organizations is to illustrate potential for reduction of rates through economies of scale.

City of Burlingame 9,108 Customers		Coastside County Water 6,765 Customers		Mid-Peninsula Water 8,020 Customers	
Service Charge (5/8" Meter)	\$31.10 (includes first 2000 Gallons)	Service Charge (5/8" Meter)	\$13.72	Service Charge (5/8" Meter)	\$13.30
		0-8 units	\$4.48	0-10 Units	\$2.40
Per 1000 Gallons	6.77 per 1000 Gallons	9-25 units	\$4.94	11-25 Units	\$3.05
		26-40 Units	\$6.42	26-50 Units	\$4.98
Sample Monthly bill:		41+ units	\$7.93	51+ Units	\$7.03
10 Units	\$ 68.20		\$ 58.52		\$42.42
20 Units	\$118.84		\$112.52		\$72.07

(4) Status of, and opportunities for, shared facilities and cost avoidance

While the MPWD does not duplicate services provided by the City of Belmont or County of San Mateo, District infrastructure is located in City and County roads requiring the District to coordinate the timing of infrastructure improvements and capital expenditures with City or County road improvement projects.

The District shares territory with the City of Belmont, the Belmont Fire Protection District (a subsidiary district of the City of Belmont), County of San Mateo and City of San Carlos. District staff interact with these agencies on matters relating to water infrastructure and capital improvements. Opportunities exist for District staff to collaborate with staff of these agencies to examine areas in which both agencies may be able to share resources and cut costs.

(5) Accountability for community service needs, including governmental structure and operational efficiencies

In regard to accountability to the public, as a special public agency, the District is subject to the Ralph M. Brown Act governing public meetings. As noted above, the District has a five-member board elected by district voters. District meetings are held on the fourth Thursday of the month at 6:30 p.m. at the District Offices at 3 Dairy Lane, Belmont. The agenda is prepared and circulated prior with posting at District offices and on the District's website. The District website includes information on the board of directors, service, rates, billing, water conservation, financial data, rebate programs and other information. The District adopts a budget annually and publishes an Annual Water Quality Report.

For the purpose of this report, discussion of government structure relates to alternative forms of government for service delivery that would promote efficiencies in service delivery. This discussion takes into consideration the existing sphere of influence designation for the agency as well as other possible governance models. Identifying governance structure options does not suggest that an agency under study is ineffective nor does it represent a proposal for reorganization.

The District shares boundaries with California Water Service Company and the Cities of Redwood City and Foster City. The District's service area includes the majority of the City of Belmont, the unincorporated Harbor Industrial Area and the portion of the Harbor Industrial Area in City of San Carlos. The District has 1 inter-tie with Foster City, 3 with CalWater/San Carlos, 1 with Redwood City and 3 with CalWater/San Mateo. The LAFCo adopted sphere of influence for Mid-Peninsula Water District is that it be established as a subsidiary district of the City of Belmont.

In addition to continued operation as an independent water district, governmental structure and operational efficiency alternatives include establishing the District as a subsidiary district of the City of Belmont, with the Belmont City Council serving as governing body of the water district. Another alternative includes transfer of the water system to California Water Service Company (CalWater). While CalWater is not a public agency, discussion of such a transfer is not beyond the scope of LAFCo analysis. Two independent water districts in San Mateo County have successfully reduced water rates by transferring the District-owned water system to CalWater. As noted in the recommended determinations below, the District has the ability to analyze economies of scale and potential benefits to rate payers in the two alternative operational and governance models discussed below.

Establishment of the District as a subsidiary district of the City of Belmont

Because Mid-Peninsula Water District boundaries include territory outside the City of Belmont, transfer of service responsibility to the City of Belmont would require that the district be established as a subsidiary district⁴ of the City, with the City Council acting as ex officio board of directors of the District.

In the subsidiary district scenario, water service responsibility would be transferred to the City as a public works function. It would be necessary to transfer the Mid-Peninsula Water District water supply assurance agreement with the San Francisco Public Utilities Commission to the City of Belmont as successor. The City Public Works Director would oversee water operations and positions that do not exist as public works positions at the City such as water maintenance, billing or water quality positions would be created as city positions to perform these functions. The City Council as governing body would adopt the budget and set rates.

While fiscal analysis of establishing a subsidiary district is beyond the scope of a municipal service review, potential advantages include savings in the cost of providing service through economy of scale and elimination of redundant administration and governance in overlapping areas. In the case of service provided in City of Belmont boundaries, comprehensive oversight by a single city for both water and water utilities as it relates to growth and development in the City would provide for more comprehensive planning of water and sewer. Salary and benefit savings by including water service under the governance, management and administration of the City would depend upon the level to which existing city positions could absorb additional duties or would be augmented to handle administration, billing, etc. Potential savings also include elimination or reduction of the cost of governance (Board of Directors) budgeted at \$151,000 in the Adopted 2010-11 Budget. Under subsidiary district status, offices currently used exclusively for water administration and

⁴ A subsidiary district may be established when both 70% of the territory of a district and 70% of the population of the district are located within the City. An example of such a subsidiary district is the Belmont Fire Protection District which serves City of Belmont and unincorporated Harbor Industrial area. An example of a water and sewer subsidiary district include North San Mateo County Sanitation District serving Daly City, Broadmoor, Colma and Unincorporated Colma.

operations, could under City governance potentially be used for additional city functions.

Also, because MPWD collects property tax as an enterprise district, an alternative to the subsidiary district subsidizing water rates with property tax would be to transfer property tax to respective agencies including: City of Belmont, City of San Carlos for areas in San Carlos and the County in unincorporated Harbor Industrial Area. Agencies could then allocate revenues for the purpose of non-enterprise municipal services such as police, parks and administration, with water rates being increased to eliminate the property tax subsidy.

The effect of establishing a subsidiary district would be to transfer all assets and liabilities to the City. Establishing the District as a subsidiary district of the City would also give the City authority over the majority of the water service in the City, enhancing the City's ability to coordinate water supply and capital improvements related to new development.

Potential disadvantages include costs of the transition from an independent special district to subsidiary of the City. A subsidiary district would also result in the territory located in San Carlos and Unincorporated San Mateo County being part of the service territory of the subsidiary district but registered voters outside the City of Belmont would not have the ability to vote for the Belmont City Council Members who would serve as the governing body of the district.

The process for establishment as a subsidiary district would involve application by either 10% of the MPWD registered voters or by resolution of the City or the District. If an application is submitted by resolution of either the District or the City and both the City and the District consent to establishment of a subsidiary district, LAFCo may approve the proposal without an election if less than 25% of the registered voters submit protest at conducting authority proceedings. However, if the City or the District adopts a resolution of opposition, the LAFCo approved application must be submitted to the voters of the agency that has submitted a resolution of opposition, and would require simple voter majority approval at the election.

As noted above, the identification of a subsidiary district as an alternative service delivery model or sphere designation is not intended to serve as a feasibility analysis of establishment of the water district as a subsidiary district of the City of Belmont. It recognizes that with overlapping service area, the existence of a relatively small, single-purpose special district

duplicates governance and management that could be provided by the City as a multi-purpose agency.

Transfer of Water System to CalWater

In San Mateo County, the systems of one County-governed district and two independent water districts have been transferred to CalWater. Transfer is achieved through sale of the system and transfer of water supply assurance pursuant to the agency's agreement with SFPUC. Sale of the system would therefore require approval by the SFPUC, and because CalWater is regulated by the California Public Utilities Commission (CPUC) it would also require CPUC approval. Actual dissolution of the District requires application to LAFCo by resolution of the board of the district or by landowner or voter signature petition. If approved by LAFCo, a protest process and possible election would be required, depending upon the results of the protest process.

The District serves approximately 28,000 customers, has 13 million gallons of storage capacity and 3.6 days of storage capacity. The District has 18 full-time employees and one part-time employee, including 8 maintenance workers and contracts for legal, engineering and accounting services. CalWater serves over 123,000 customers in nearby areas, has over 20.3 million gallons of storage capacity or 1.3 days of storage capacity. CalWater Mid-Peninsula District is located administratively on North Delaware in San Mateo.

A fiscal analysis of transfer of service is beyond the scope of a municipal service review. Potential advantages of transfer of service responsibility to CalWater would include the benefit of economy of scale by joining a larger system and eliminating overhead costs associated with governance and operation of a smaller water system. Disadvantages include lack of representation by an elected body that sets rates and a broader multiple-city focus on water service delivery compared to the focused and localized approach afforded by a single-purpose special district serving a population of approximately 26,000.

Recommended LAFCo Determinations Pursuant to Government Code Section 56430 regarding Mid-Peninsula Water District:

- (1) Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies, the Commission determines:
 - a) Mid-Peninsula Water appropriately plans and budgets for water system upgrades and maintenance to meet needs of customers.

- (2) Regarding growth and population projections for the affected area, the Commission determines:
 - a) The service area consists of predominantly developed residential land use and commercial land use and is projected to experience growth of by 3,300 persons or 12.8% by the year 2030. The District is in the process of updating the Urban Water Management Plan, which will include updated population data and growth projections.
- (3) Regarding financial ability of agency to provide services, the Commission determines:
 - a) The Mid-Peninsula Water District sets rates to cover the cost of service, including capital costs and increasing wholesale water costs associated with significant San Francisco Public Utilities Commission seismic infrastructure improvements.
- (4) In regard to status of, and opportunities for, shared facilities, the Commission determines:
 - a) The District serves areas receiving service from the City of Belmont and County of San Mateo offering potential opportunities for partnering or sharing resources or facilities.
- (5) Regarding accountability for community service needs, including governmental structure and operational efficiencies, the Commission determines:
 - a) The District is governed by a locally elected board that meets monthly, posts the District agenda at District offices and in the community and maintains a website informing the public of District services and activities including water conservation programs.
 - b) Opportunities exist for the District and the City of Belmont to evaluate potential benefits to ratepayers that would result from the establishment of the District as a subsidiary district of the City of Belmont or transfer of the water system to CalWater.

Sphere of Influence Determinations:

Section 56425 requires the Commission to make determinations concerning land use, present and probable need for public facilities and services in the area, capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide and existence of any social or economic communities of interest in the area if the Commission determines that they are relevant to the agency. The following section discusses these areas of determination.

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

Consisting primarily of residential, commercial, and institutional land use designations, land use in district boundaries is varied. District territory is primarily under the jurisdiction of the City of Belmont. Service area also includes territory in unincorporated San Mateo County and in the City of San Carlos.

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

The area within District boundaries is substantially developed with residential land use requiring basic municipal services and there is a demonstrated need for continued service and in some areas expanded sanitary sewer services.

Services provided by other agencies include: Sewer, police, contract garbage collection by City of Belmont, City of San Carlos and County of San Mateo in respective jurisdictional boundaries, and fire and emergency response by Belmont-San Carlos Fire Department.⁵

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

Services provided by MPWD include water service throughout District boundaries. Other services authorized by water district enabling legislation are inactive and would require LAFCo approval application and approval to activate.⁶ The Board of Directors approves a Capital Plan for replacement of water infrastructure, regularly updates an Urban Water Management Plan and implements a water conservation program that has successfully reduced water use.

The existence of any social or economic communities of interest in the area if the Commission determines that they are relevant to the agency:

The District serves primarily the City of Belmont, the Harbor Industrial Area in the City of Belmont sphere of influence and

⁵ Belmont SanCarlos Fire Department is a joint power agency comprised of the Belmont Fire Protection District, a subsidiary district of the City of Belmont, and the City of San Carlos. The BFPD and City of San Carlos have issued notice to separate and City of San Carlos has issued a request for proposal for service by contract.

⁶ Water Code Section 30000 authorizes a water district to provide the following services: sewer, recreation facilities ancillary to water facilities, waste collection and disposal, fire protection and land reclamation.

the portion of the Harbor Industrial Area in the City of San Carlos. While the service area includes customers served by a single water distribution system that draws water from a single source, areas served share a community of interest with their respective municipal service providers⁷ and an economic interest in a long-term plan for efficient and affordable municipal services.

⁷ City of Belmont, County of San Mateo for Unincorporated Harbor Industrial Area and City of San Carlos for balance of Harbor Industrial area.

Discussion:

The Mid-Peninsula Water District was formed to provide reliable water service to developing areas by consolidating existing water providers. The Commission subsequently adopted a sphere of influence for MPWD indicating that MPWD could be dissolved and the City of Belmont could assume water service. Since that time, one County-governed water district and two independently governed water districts have been transferred to CalWater resulting in stabilized rates and economies of scale.

While there now appear to be two (instead of one) potential successor agencies, there have been no significant changes that merit amendment of the sphere of influence of MPWD. As outlined in the municipal service review contained herein, as a single-purpose special district there are limited opportunities for cost savings and shared resources. Reaffirming the sphere of influence does not impede efforts by the District to pursue resource sharing or cost saving measures and promotes State policies that encourage economies of scale and orderly boundaries based on local conditions.

Draft Recommended Sphere of Influence Determinations

Based on the foregoing, the following section includes sphere determinations that could be adopted by the Commission.

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

Consisting primarily of residential, commercial, and institutional land use designations, land use in district boundaries is varied and under the jurisdiction of the Cities of Belmont and San Carlos and the County of San Mateo.

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

The area within District boundaries consists primarily of urbanized residential land use requiring basic municipal services and there is a demonstrated need for continued delivery of water services.

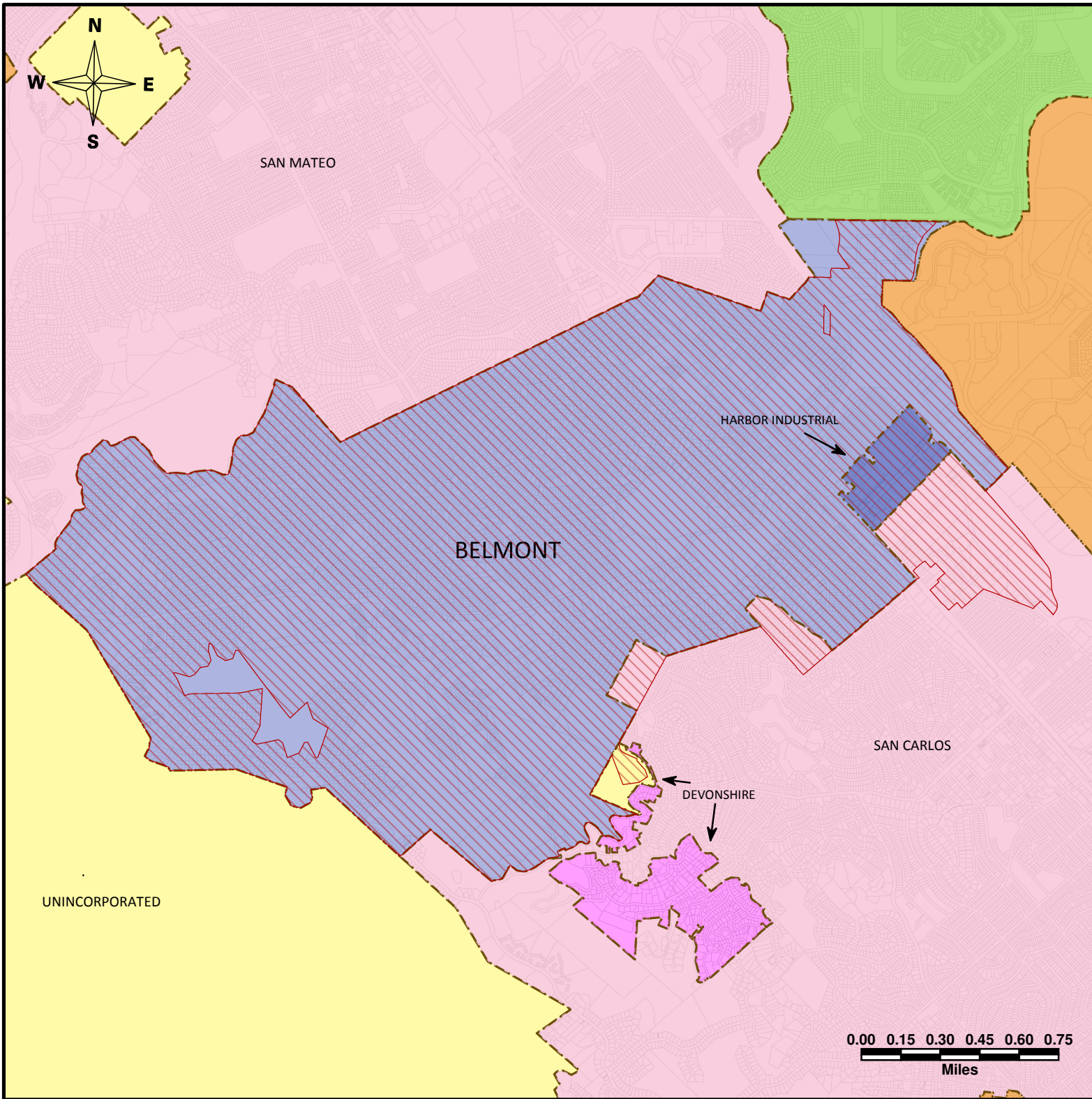
(3) The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.



Services provided by MPWD include water service throughout District boundaries. The Board of Directors regularly approves a Capital Plan for replacement of water infrastructure.

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

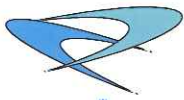
The District serves the City of Belmont and the Harbor Industrial Area located in unincorporated San Mateo County and City of San Carlos. While the service area includes customers served by a single water distribution system that draws water from a single source, neighborhoods served share a community of interest with their respective cities and an economic interest in a long-term plan for efficient and affordable municipal services.

MIDPENINSULA WATER DISTRICT



-  MIDPENINSULA WATER DISTRICT
-  PARCELS

SAN MATEO
COUNTY GIS



MID-PENINSULA WATER DISTRICT

3 DAIRY LANE – POST OFFICE BOX 129

BELMONT, CALIFORNIA 94002

PHONE (650) 591-8941

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February 10, 2011

Martha Poyatos
Executive Officer
Local Agency Formation Commission
455 County Center, 2nd Floor
Redwood City, CA 94063-1663

Dear Martha:

The Mid-Peninsula Water District ("District") submits this letter in response to your request for comments regarding the draft Municipal Service Review for the District that was circulated on January 18, 2011. First and foremost, we want to let you know how much we appreciate the time you have devoted to this effort, including the development of the Report, your timely responses to our inquiries regarding this Report, and your attendance at our Board meeting in December to explain the purpose and scope of a Municipal Service Review.

Our comments regarding this draft Report are set forth below.

1. We offer some corrections to certain factual statements in the attached Report concerning (a) the regular date of District Board meetings, (b) the number of its full-time employees, (c) the population of the District's service area, (d) the number of District water tanks, and (e) the number of gallons of water storage capacity. Our edits on these issues are noted in hand-written form on the attached Report.
2. In the third full paragraph of page 5 just preceding "(3) Financial ability of agencies to provide services," we believe that you are referencing the District's "Individual Supply Guarantee" from BAWSCA, which is 3.89 million gallons. Thus, we suggest revision of the pertinent part of this sentence to state: "...that MPWD purchased 80% of the District's 3.89 million gallon Individual Supply Guarantee in 2008-09..."
3. Water rate comparisons among agencies can be misleading. Every agency structures its rate schedule and calculates its individual charges differently. Moreover, variables such as the agency's size, the condition of its water system, and the amount of debt it has incurred, dramatically affect water rates. In the draft Report, the District's rates are compared with those of Redwood City and CalWater, two agencies that are much larger than the District and not that comparable to the District in light of the other variables mentioned. We believe rate comparisons among agencies more similar to the District would be more meaningful.

DIRECTORS

BETTY L. LINVILL
PRESIDENT

DAVID ALTSCHER
VICE-PRESIDENT

MATTHEW P. ZUCCA

AL STUEBING

LOUIS J. VELLA

OFFICERS

PAUL R. REGAN
GENERAL MANAGER

CATHY REMELEH
DISTRICT SECRETARY

JANINE O'FLAHERTY
ENGINEER

JOAN L. CASSMAN
ATTORNEY



Martha Poyatos
February 10, 2011
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4. The draft Report includes a discussion of a potential transfer of the District's system to CalWater. The complexities and consequences of such a privatization proposal cannot be adequately addressed in a few paragraphs. We further question the relevance of privatization in a Municipal Services Review intended to focus on public facilities and services.
5. Since the Report addresses the potential to establish the District as a subsidiary district of the City of Belmont, information from a Municipal Service Review of that city, which is not yet available, would be relevant to the discussion of this issue.

Representatives of the District's Board and staff plan to attend the meeting of the LAFCo Commission at which this draft Municipal Service Review will be discussed. We reserve the right at that time to provide additional comments on the Report.

Thank you again for your responsiveness regarding this Municipal Service Review of the District.

Sincerely,

Paul Regan

cc: Board of Directors