

# MEMORANDUM

**TO:** Local Agency Formation Commission

**FROM:** Stephen Lucas, Executive Officer

**SUBJECT:** 23-09 – Paradise Irrigation District Municipal Service Review Update

**DATE:** January 25, 2024, for the meeting of February 1, 2024

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## BACKGROUND / SUMMARY

The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 requires LAFCo to review and update, *as necessary*, local agency Spheres of Influence (SOIs) (California Government Code Section 56425(g)). In addition, LAFCo is required to conduct a Municipal Service Review (MSR) for each agency prior to, or in conjunction with, an agency's SOI update (California Government Code Section 56430(a)).

MSRs are intended to provide a comprehensive analysis of services provided by each of the special districts and other service providers identified within an MSR and that fall under the legislative authority of the LAFCo. With this MSR Update, Butte LAFCo can make informed decisions based on the best available data for the service provider and area. LAFCo is ultimately the decision maker on approval or disapproval of any determinations, policies, boundaries, and discretionary items. This review provides technical and administrative information to support Butte LAFCo's future evaluation of the existing boundary and sphere of influence of the Paradise Irrigation District.

This Municipal Service Review (MSR) examines how municipal water services are delivered to the residents of the Town of Paradise (Town) by the Paradise Irrigation District (PID) (**Attachment A**).

Service provided by PID had been previously reviewed by LAFCo in the Municipal Service Review for Butte LAFCO Domestic Water and Wastewater Service Providers. Additionally, LAFCo approved an MSR for the Town of Paradise in August 2007 which discusses domestic water services provided by the PID.

Much has changed for the PID over the past few years as the District, has been impacted by the 2018 Wall Fire, 2018 Camp Fire, ongoing Public Safety Power Shutoffs and the 2020 COVID-19 Stay-at-Home Executive Order, which made recovery even that more challenging.

The key takeaway from the MSR is the substantial recovery of the District over the past five years since the Camp Fire in two important metrics:

- Water Quality/Availability - Near complete restoration of treated water to the District's/Town's population. At present, the PID has 4,881 active customers receiving water and another 5,758 "stand-by" customers who expect to need water in the near future.
- Fiscal Solvency - The District has a net financial position of \$163,612,296 which combined with the connection revenues/water sales, places the District in a sound financial position.

## **RECOMMENDATION**

Staff recommends that the Commission adopt Resolution No. 2 2023/24 (**Attachment B**), approving the Public Review Draft of the Paradise Irrigation District Municipal Service Review Update at the February 1, 2024, meeting, subject to any changes that the Commission may direct, and further direct staff to prepare the Final MSR including the adopting resolution and copies of any comments received at the public hearing.

### **Municipal Service Review Plan Organization**

#### Data Collection

The MSR has been compiled using a three-step data gathering process. This process included a comprehensive review of pre-existing plans and data, a Request for Information (RFI) distribution to the service provider (PID), in-person interviews, and other periodic discussions with agency staff, LAFCo staff, and the consulting team. Key references and information sources for this study were gathered and include published reports; review of agency files and databases (agendas, minutes, budgets, contracts, audits, etc.); master plans; capital improvement plans; engineering reports; environmental impact reports; finance studies; general plans; and state and regional agency information (permits, reviews, communications, regulatory requirements, etc.).

#### Municipal Service Review Format

The Paradise Irrigation District MSR Update document consists of an executive summary, introductory chapter, a review of the service categories, a glossary, acknowledgments, and multiple appendices providing supporting information. The MSR includes a data sheet, map of jurisdictional and SOI boundaries, district characteristics, and a description of services provided.

The *Introduction* chapter discusses the MSR process and provides statutory requirements that the Commission must follow to review and approve the MSR update. The chapter provides an explanation for the methodology used to accurately collect data used in the MSR, including names and dates of adoption for various state and local plans. Various websites, oral interviews, and previous MSR information were used to provide a comprehensive analysis of each provider.

An executive summary is provided in Chapter 1. This chapter provides details about Butte County in general, factors that have contributed to the status of the services provided in the County, as well as an overview of how water services are regulated. A detailed summary of the findings and determinations is included for each service review category. Multiple appendices are included. The appendices provide additional details and background information for information used to make determinations.

While a SOI amendment is not proposed for the PID at this time, Appendix I offers options to consider moving forward. The presented options are informational only and may assist the Commission in considering future informational needs and next steps. Further information about the SOI options is provided in this report.

**ANALYSIS**

**Key MSR Determinations, Findings, and Recommendations**

*Shared Purpose*

Municipal water service for the Town of Paradise is provided by PID as an independent, self-governing special district. The two agencies share the same population/constituent base, and both draw their elected bodies from this population. The agencies are co-dependent in that Town of Paradise establishes the land uses within the town that predicts the population of customers that will require municipal water service from the PID. To this extent, they are codependent and therefore benefit from a cooperative relationship to find the greatest efficiencies. Stated in a more obvious manner, the more homes and businesses that are rebuilt equates to more water customers for the PID and more property and sales taxes for the Town. The Options Study Report (GEI, 2022) reached preliminary findings that reorganizing the PID into the Town would allow the two entities to leverage existing managerial and technical capabilities, funding, and optimize operating expenses. While there was consideration in the Options Study (2022) of a jurisdictional reorganization with the Town following the Camp Fire, this was largely driven by concerns for the District’s financial solvency/recovery based on lost revenues. As the MSR has demonstrated, PID is now fiscally capable of recovering without outside assistance. This, however, is not the only metric to consider when evaluating potential reorganization. A future reorganization study would largely focus on the efficiencies that could be possible that reduce costs for constituents and the benefit of all growth and service decisions vested in a single governing body.

<b>Number</b>	<b>Indicator</b>	<b>Determination</b>
PID-SHA-4	Reorganization	<ul style="list-style-type: none"> <li>• It is recommended that when LAFCO considers updates to MSR/SOIs, service expansion, or other applications from PID, the Town of Paradise, Paradise Park &amp; Recreation District, or other nearby service providers, LAFCO and the subject provider should review the reorganization options and the SOI update options listed in Appendix I.</li> <li>• In addition, PID should periodically review its relationship with the Town of Paradise and consider if a reorganization is appropriate.</li> </ul>

*Fiscal Matters*

The PID is classified as an enterprise district, charging fees for water supply, treatment, and distribution services. However, the PID does collect property tax revenue, which comprised five percent of its total revenues in FY21/22. Any revenues collected in excess of operational needs are utilized to invest in capital projects within the District.

The District has multiple sources of revenue, including service fees, fees and adjustments, outside water sales, recreation fees, backflow charges, meter charges, and non-operating revenues. In FY21/22, the PID’s total revenue was \$6,973,013. Additionally, the PID received revenue from extraordinary items relating to disaster recovery, totaling approximately \$127 million. The PID’s total expenses for FY21/22 were \$8,964,238. A comparison of the PID’s annual total revenue to total expenses shows that annual expenses exceeded total revenue in seven of the eight study years (i.e., FY14/15 to FY21/22). Given the complexity of the Camp Fire recovery and its many variables, a comparison of the PID’s annual total revenue to total expenses should be recalculated in LAFCo’s next MSR. While the budgeted revenues are well short of expenses by two million dollars, the District

has a current net position of \$163,612,296 (Net Position is the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources). This is possible given the extraordinary revenues shown below:

Insurance reimbursements	28,607
Government grants	13,876,334
PG & E settlement	113,691,000
Total extraordinary items	127,595,941

Table 8.2: FY21/22 PID Extraordinary items, *Source: PID, 2023*

<b>Table 8.14: MSR Determination: Financial Ability to Provide Service</b>		
Number	Indicator	Determination
FIN-5	Revenues, Description of	The District has multiple sources of revenue, including service fees, fees and adjustments, outside water sales, recreation fees, backflow charges, meter charges, and non-operating revenues. In FY21/22, PID's total revenue was \$6,973,013. Additionally, PID received revenue from extraordinary items relating to disaster recovery, totaling approximately \$127 million.
FIN-6	Expenses, Description of	In FY21/22, PID had both operational and nonoperational expenses. Adding operating expenses (8,858,907) and non-operating expense (\$105,331) brings PID's total expenses for FY 21/22 to \$8,964,238. A comparison of PID's annual total revenue to total expenses shows that annual expenses exceeded total revenue in seven of the eight study years (i.e., FY14/15 to FY21/22). A comparison of PID's annual total revenue to total expenses should be recalculated in LAFCo's next MSR.

### *Disadvantaged Communities*

The focus on disadvantaged communities and economic considerations has become an integral part of most state mandated planning metrics. From general plan safety and housing elements to public works infrastructure to disaster planning and public health policies, the evaluation of disadvantaged communities is not only required, but is often one significant basis for state grants and loans.

The statewide annual Median Household Income (MHI) in California for 2022 was \$88,930 (ESRI, 2022). The DUC threshold is 80-percent of the MHI, which calculates to less than \$71,144. The United States Census Bureau lists the 2022 Median household income for Paradise at \$54,842 and the per capital income at \$34,255. There are Disadvantaged Unincorporated Communities within or contiguous to the PID boundary and sphere of influence. Nine individual census blocks intersect with PID's SOI and have a MHI below the threshold, indicating status as a disadvantaged community.

LAFCo staff has received indications of concern about PID's \$21.46/month Stand-by Charges from PID constituents who lost their homes and retained vacant lots, but are unable to rebuild due to inadequate or no insurance, inadequate PGE claims, the high cost of construction and prohibitive unsustainable insurance rates. These same concerns are also documented in the Town's November 2022 Long-Term Recovery Plan update. There are 5,758 Standby customers (compared to 4,881 active customers) generating \$1.4 million/year into the PID operating budget. More simply stated, the Standby charge is both a significant and legitimate revenue source for the District and a potential burden on the disadvantaged population of vacant lot owners whose income is far below the MHI.

Those landowners who cannot afford to pay the monthly standby charge or build on their lots, are likely to sell the lots and abandon their rebuild options. It should be noted that no members of the public attended the noticed public workshop on January 16, 2024, to express this concern in person.

**Table 8.14: MSR Determination: Financial Ability to Provide Service**

Number	Indicator	Determination
FIN-12	Recommendation Regarding Rate Structure	<p>The District reports Stand-by Customers pay \$21.49 per month, generating \$1.4 million/year, which is allocated towards fixed costs and estimated annual expenses of \$7.8 million and contributing to the Net Position of \$163,612,296 (Net Position is all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources.)</p> <p>LAFCO staff has received indications of concern about PID's Stand-by Charges from members of the public. LAFCO recommends that PID study and carefully consider reducing or removing the stand-by charges for the following reasons:                      (continued)</p> <ul style="list-style-type: none"> <li>• The PG&amp;E Fire Settlement provides a financial cushion that allows the District to now be fiscally sustainability. Ideally, PID will continue to remain viable even if it does not receive additional new customers. Given the large PG&amp;E financial settlement and the District's fiscal stability, it is possible that the District can function with a reduced level of stand-by fees.</li> <li>• The District currently maintains a very high Net Position and reserve funds.</li> <li>• To address the community concerns described in this MSR. PID should submit a report to LAFCO about the Stand-by Rates within one year (i.e., prior to December 2024).</li> </ul>

*Water Supply*

The PID provides several municipal water-related services to its customers, including water storage, treatment to drinking water standards, distribution to its customers, infrastructure maintenance, vegetation management for fire protection and water conservation purposes. PID provides sufficient services to meet current and future demand as follows: Based on the water supply and water demand assessments conducted by the District, the PID believes that its sources of developed water supply will be sufficient to meet current and future demands in the foreseeable future. The PID's water supply is derived from surface water diverted from the Little Butte Creek watershed and stored in Paradise Lake and Magalia Reservoir, permissible through the PID's three water rights. The PID prepared an Urban Water Management Plan in 2021 and a 2021 Water Shortage Contingency Plan. Based on the data described in these plans and historic weather patterns, the PID believes the local watershed is a reliable, sustainable water source. In 2023, water supply exceeded demand. The PID estimates in their 2020 UWMP that supply in 2040 could outweigh demand by up to 16,100 ac-ft. This water surplus would be reduced during multiple dry year scenarios.

The District's water quality can be characterized as good; it meets all state and federal regulations for water quality. The District conducts preventative maintenance on its infrastructure. Additionally, sufficient funds have been allocated towards Capital Improvement Projects (CIP), as detailed in Chapter 8 of the MSR.

Number	Indicator	Determination
PID-PUB-2	Does the District provide sufficient services to meet current and future demands with water supply in relation to water demand?	PID provides sufficient services to meet current and future demand as follows: Based on the water supply and water demand assessments conducted by the District, PID believes that its sources of developed water supply will be sufficient to meet current and future demands in the foreseeable future.
PID-PUB-3	Does the District have a reliable, sustainable source of water? Can the District and its partners develop additional local and regional water sources through wastewater reclamation, stormwater capture, and/or environmentally sustainable desalination projects?	PID's water supply is derived from surface water diverted from the Little Butte Creek watershed and stored in Paradise Lake and Magalia Reservoir, permissible through PID's three water rights. PID prepared an Urban Water Management Plan in 2021 and a 2021 Water Shortage Contingency Plan. Based on the data described in these plans and based on historic weather patterns, PID believes the local watershed is a reliable, sustainable source of water. In 2023, water supply exceeds demand.
PID-PUB-5	The District has preventative maintenance measures and has planned for the replacement of aging infrastructure.	The District's water quality can be characterized as good; it meets all state and federal regulations for water quality. The District conducts preventative maintenance on its infrastructure. Additionally, sufficient funds have been allocated towards Capital Improvement Projects (CIP) as detailed in Chapter 8.

Sphere of Influence Considerations

The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 requires that LAFCo review and update the Sphere of Influence (SOI or Sphere) for each of the special districts and cities within the county. In determining the Sphere of Influence for an agency, LAFCo must consider and prepare written determinations with respect to four factors. These factors relate to the present and planned land uses including agricultural and open-space lands, the present and probable need for public facilities and services, the present capacity of public facilities and adequacy of public services, and the existence of any social or economic communities of interest in the area.

Appendix I of the MSR presents potential SOI options for informational purposes only as no formal request to amend the SOI of any of the agencies has been presented for Commission consideration. In the future, at such a time that the Commission does consider a request to amend the SOI of an agency, the MSR and SOI options may assist the Commission in considering future informational needs and next steps. A summary of the potential future options is presented that include:

*Retain status quo:* The existing boundary and SOI for the PID would remain in their current configuration and remain substantially aligned with the jurisdictional boundaries of the Town of Paradise as this is the likely growth area.

*Expand SOI:*

- Any future expansion of the SOI would evaluate the larger natural conditions that exist in relationship to the District such as hydrological conditions, natural resources management, fire suppression, and other geographic and/or geologic conditions/constraints.
- Consideration of future "Place of Use" boundaries established by the State Water Board and seek alignment between where the State allows the District to serve and where LAFCo believes the District services are necessary.
- Regional water supply issues that may impact the Districts resources and boundaries.
- Assistance to adjacent private water service providers that may require assistance and could potentially benefit from PID services.

*Possible Reorganizations:*

- Reorganization with the Town of Paradise would allow the two entities to leverage existing managerial and technical capabilities, existing funding, and optimize operating expenses, which would assist the PID to overcome the financial (operational) deficit until their customer base returns.
- In addition, reorganization to merge/consolidate the PID and the Town can address the following: 1) the agencies serve the same customer base/population, 2) there is some duplicate services, 3) cost efficiencies, and 4) reduced number of elected officers needed.

**Public Notice and Comments**

A copy of the public review draft MSR was provided directly to all affected agencies including the County of Butte, Town of Paradise, Paradise Recreation and Park District for review and comment.

A legal notice regarding the 21-day public review period for the Paradise Irrigation District Municipal Service Review Update was published in the *Chico Enterprise-Record* on January 8, 2024. The notice and the Draft MSR were placed on Butte LAFCo's webpage as well as placed in the Paradise Library and posted to the Paradise Irrigation District website for public review. The notice was also posted on Butte LAFCo's office door. As of the date of this report, no written comments have been received regarding the public review draft.

In addition, LAFCo and PID staff held a notice public workshop on January 16, 2024, at the PID offices to present the Draft MSR to the public.

**Environmental Determination**

The California Environmental Quality Act (CEQA) requires that the Commission undertake and review an environmental analysis before granting approval of a project, as defined by CEQA. Butte LAFCO is the Lead Agency for environmental review for the proposed Water and Wastewater Service in Oroville Area Municipal Service Review Update.

The Municipal Service Review for the Paradise Irrigation District is categorically exempt from the preparation of environmental review under a classification related to information gathering (Class 6 - Regulation Section 15306), which states: "Class 6 consists of basic data collection, research, experimental management, and resource evaluation activities which do not result in a serious or major disturbance to an environmental resource. These may be strictly for information gathering purposes, or as part of a study leading to an action which a public agency has not yet approved, adopted, or funded." The MSR collects data for the purpose of evaluating municipal services provided by the agency. There is no land use change or environmental impact created by such a

study. There is no possibility that the MSR update will have a significant effect on the environment because there are no land use changes associated with the MSR update.

## **CONCLUSION**

The proposal substantially conforms to the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 and with Butte LAFCo policy. The Executive Officer recommends approval of the Paradise Irrigation District Municipal Service Review Update as presented.

## **ALTERNATIVES FOR COMMISSION ACTION**

After reviewing this report, the Draft MSR, and any testimony or materials that are presented, the Commission can take one of the following actions:

### **OPTION 1** Adopt Resolution No. 2 2023/24

- A. Approving the Paradise Irrigation District Municipal Service Review Update, as may be modified by the Commission, and;
- B. Acting as Lead Agency pursuant to the California Environmental Quality Act (CEQA) Guidelines, find that the Paradise Irrigation District Municipal Service Review Update is categorically exempt from the provisions of CEQA under Section 15306, "Information Collection."
- C. Find that the MSR Update satisfies State Law.
- D. Direct staff to prepare Final MSR, which will include the adopting resolution and any comments received with regards to the public review draft MSR.

### **OPTION 2** CONTINUE this proposal to a future meeting for additional information.

### **OPTION 3** DIRECT Staff to make any Commission-identified changes to the Draft MSR and CONTINUE this proposal to a future meeting to allow time for staff to make the needed changes and return with revised draft documents for further Commission review.

## **PROPOSED MOTION:**

I recommend that the Commission adopt Resolution No. 2 2023/24, finding that the project is exempt from environmental review pursuant to CEQA Guidelines section 15306, that the MSR satisfies State Law and directing staff to prepare a final MSR for the Paradise Irrigation District Municipal Service Review Update incorporating any comments received.

### **Attachments:**

Attachment A: Municipal Service Review Update for the Paradise Irrigation District

Attachment B: Draft LAFCO Resolution No. 2 2023/24



Distribution: Town of Paradise  
Paradise Irrigation District  
Paradise Recreation and Park District

**Attachment A  
Paradise Irrigation District  
Draft Municipal Service  
Review Update**

Given the very large file size of the Paradise Irrigation District Public Review Draft Municipal Service Review Update document, the file can be viewed and downloaded from the Butte LAFCo website at [www.buttelafco.org](http://www.buttelafco.org) or click on the link below.

**Attachment A  
Paradise Irrigation  
District Draft Municipal  
Service Review Update**

**DRAFT RESOLUTION NO. 2 2023/24**

**ADOPTION OF A MUNICIPAL SERVICE REVIEW UPDATE AND WRITTEN DETERMINATIONS FOR THE PARADISE IRRIGATION DISTRICT**

**RESOLVED**, by the Butte Local Agency Formation Commission of the County of Butte, State of California, that:

**WHEREAS** a proposal for an update to the Paradise Irrigation District's Municipal Service Review was heretofore requested by the Paradise Irrigation District and accepted by the Executive Officer of this Local Agency Formation Commission pursuant to Title 5, Division 3, commencing with Section 56000 of the Government Code; and

**WHEREAS** the Paradise Irrigation District identified a need to update the Municipal Service Review in anticipation of possible amendments to the District's Sphere of Influence to accommodate the anticipated growth of the unincorporated community of Paradise as projected in the Butte County 2030 General Plan; and

**WHEREAS**, a service review mandated by Government Code Section 56430 was conducted by the Local Agency Formation Commission of the County of Butte (hereinafter referred to as "the Commission") for the Paradise Irrigation District on November 6, 2006, in accordance with the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Government Code Sections 56000 *et seq.*) and due to recent changes in Paradise Irrigation District management, operations, and finances brought about by the 2018 Camp Fire, it was determined that the 2006 MSR needed to be updated to reflect current District service capabilities; and

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

**WHEREAS**, the Executive Officer, pursuant to Government Code Section 56430 has reviewed this proposal and prepared a report, including his recommendations thereon, and has furnished a copy of this report to each person entitled to a copy; and

**WHEREAS**, a public hearing by this Commission was duly published and called for February 1, 2024, and at the time and place specified in the notice of public hearing; and

**WHEREAS**, Acting as Lead Agency pursuant to the California Environmental Quality Act Guidelines, the Commission finds that the Municipal Service Review Update for the Paradise Irrigation District is Categorically Exempt from the provisions of CEQA under Section 15306, "Information Collection"; and

**WHEREAS**, at the hearing, this Commission heard and received all oral and written protests; the Commission considered all plans and proposed changes, objections and evidence which were made, presented, or filed; and all persons present were given an opportunity to hear and be heard

in respect to any matter relating to the proposal, in evidence presented at the hearing; and

**NOW, THEREFORE, BE IT RESOLVED**, that pursuant to powers provided in §56430 of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, the Local Agency Formation Commission of the County of Butte adopts the Municipal Service Review Update for the Paradise Irrigation District, dated December 23, 2023.

**PASSED AND ADOPTED** by this Local Agency Formation Commission of the County of Butte, on the 1<sup>st</sup> day of February 2024, by the following vote:

**AYES:**

**NOES:**

**ABSENT:**

**ABSTAINS:**

**ATTEST:**

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Clerk of the Commission

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**Bill Connelly**, Chair  
Butte Local Agency Formation Commission