

MEMORANDUM

TO: Local Agency Formation Commission

FROM: Shannon Costa, Deputy Executive Officer

SUBJECT: 20-08 – City of Oroville Municipal Service Review Update

DATE: April 23, 2024, for the meeting of May 2, 2024

BACKGROUND

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 service providers identified within an MSR that falls 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. This review provides technical and administrative information to support Butte LAFCo's future evaluation of the existing boundary and sphere of influence of the City of Oroville.

This Municipal Service Review Update (MSR) examines how municipal services are delivered to the residents of the City of Oroville (City). Services provided by the City of Oroville had been previously reviewed by LAFCo in the 2014 Municipal Service Review Update. Due to changes in the City of Oroville government structure, operations, and finances brought about by the passage of the City's 1% transaction use tax ("Measure U"), it was determined that the 2014 MSR needed to be updated to reflect current City service capabilities.

Municipal Service Review Organization

Data Collection

Data collection for the MSR began in early 2020 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 (City of Oroville), 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; environmental impact reports; finance studies; general plans; and state and regional agency information (permits, reviews, communications, regulatory requirements, etc.).

The information gathering process encountered several hurdles which delayed the completion of the document for several months/years, including the COVID-19 pandemic, significant staff changes, leadership changes, and government structure changes within the City of Oroville. It is believed that many of these delays have ultimately benefitted the resulting document, as the City of Oroville as a government entity is, in general, better-off today than in 2020.

Format

The City of Oroville MSR Update document consists of a preface, executive summary, overview of the MSR process and guiding state legislation, overview of the City of Oroville including its context within Butte County, a review of the service categories, and multiple figures. The MSR includes a map of jurisdictional and SOI boundaries, district characteristics, and a description of services provided. A compilation of all determinations is found in Chapter 14 of the MSR. Determinations found in the MSR have been color-coded based on their level of priority. High priority determinations (found in red) are those that should be immediately acted upon in order for the City to continue to meet its service goals or consider an amendment to its Sphere of Influence.

Consistent with Government Code Section 56430(a)(7), this MSR examines “other matters” related to effective or efficient service delivery which have not customarily been examined in prior MSR documents but are unique to the circumstances of the City of Oroville. These matters include *Disaster Preparedness and Mitigation, Climate Change Adaptation, and Affordable Housing and Homelessness*.

Chapter 16 of the MSR includes Government Structure Options. This chapter is intended to identify challenges facing the City of Oroville and consider alternative government structure options that could enhance efficiency and reduce costs. The MSR process does not require LAFCo to initiate changes of organization based on service review findings, determinations, or proposed options, only that LAFCo identify potential government structure options. It is recognized that the proposed government structure options would require substantial study, stakeholder participation, financial investment, and agency cooperation, all of which LAFCo must coordinate to successfully initiate any such reviews.

DISCUSSION AND ANALYSIS

The City of Oroville provides a wide variety of municipal services. Reviewed in this study are services provided by the City directly to its residents, including general administration, airport, fire protection, parks and open space (including street trees), law enforcement, solid waste, street maintenance and transportation (including road repair and cleaning, street lighting, and traffic safety activities), stormwater, and wastewater collection services. Two essential services not provided by the City are wastewater treatment and domestic (potable) water, which is provided through a combination of service providers—South Feather Water and Power Agency (SFWPA), Thermalito Water and Sewer District (TWSD), and California Water Service Company (CalWater). Wastewater treatment is provided by the Sewerage Commission – Oroville Region; a joint powers agreement (JPA) formed in 1973 of which the City of Oroville is a member of.

The updated MSR determined that the City is currently providing municipal services to its residents in a generally effective and efficient manner. For this to continue, the City must prioritize the completion of a number of key planning documents to effectively forecast future funding and infrastructure needs. The City has made substantial progress towards investments in infrastructure, staffing, and public safety since the passage of the City’s 1% transaction use tax (“Measure U”).

The key takeaways from the MSR include are discussed below.

Plan Needs

Long-range planning is crucial to efficiently funding and implementing municipal services now and into the future. Due to years of budget constraints, the City has several key planning documents that

are in need of updating. Determinations made in the MSR recommend that the City prioritize the update of these plans. Plans include, but are not limited to, sanitary sewer services master plan, master drainage plan, climate action plan, comprehensive roadway condition assessment, pavement management plan, annexation plan, vacant parcel inventory and a related absorption study, airport master plan and airport capital improvement plan.

Determination 2-2: Plan Needs

Plans that the City should consider updating or compiling prior to requesting a sphere of influence expansion include a comprehensive roadway condition assessment, a vacant parcel inventory, and a related absorption study.

Determination 2-3: Plan Needs

The City should update its Climate Action Plan to ensure compliance with updated legislation and State policies. The City should routinely evaluate its progress towards meeting its GHG emission reduction goals.

Determination 2-4: Plan Needs

The City struggles to maintain senior and seasoned employees that whom carry historical knowledge about the City’s functions. To combat the loss of employees to other higher-paying jurisdictions, the City reports that it is implementing an updated Compensation Study to be considered an adopted in 2024. Offering higher wages would allow the City to remain competitive.

Growth Rate and Annexation

In recent years, annexation has been a key factor in the increasing City population, accounting for about one-third of the City’s growth. In 2015, the City annexed South Oroville, the county’s largest disadvantaged unincorporated community which consists of approximately 2,400 persons, 819 parcels covering 200 acres. Since that time, the City has invested a significant amount of time and resources into the rehabilitation of this socioeconomically depressed area. Public facilities in the area, built to County standards, had been poorly maintained. Studies completed in 2021 by the City showed that thirty-percent of the structures in the neighborhood are in need of rehabilitation and that the area lacked infrastructure for proper drainage. The City, through grant funding and pro bono work by planning consultants, intends to invest millions of dollars into the overall improvement of the South Oroville neighborhood in the coming years. Incidentally, South Oroville is an example of how the LAFCo focus on the annexation of unincorporated islands and disadvantaged communities can have very meaningful results as cities invest in these communities and integrate them into the social and economic fabric of the larger community.

The Thermalito area continues to be an area of interest for future development, and the City is in the process of developing a plan for annexation of the area. The entire Thermalito area has a population of approximately 7,200 (three times the population of South Oroville) people and is considered a DUC with household incomes below \$69,680, which is 80 percent of the State median income. This

area generally has inconsistent land use patterns, less developed transportation infrastructure than incorporated areas of the City and has known issues with stormwater drainage. The area does benefit from the water and sewer services provided. The annexation of the area would result in a significant shift in population from unincorporated to incorporated areas of the SOI. The City will need to evaluate its plans for annexation of the larger Thermalito area in order to successfully annex the Thermalito and/or the Wilbur Road area including the substantial public outreach and financial investment that would be needed.

Determination 3-15: Annexation Plan

Several developed areas that are populated by low-income and minority populations remain unincorporated immediately adjacent to the city limits and contribute to an irregular pattern of city boundaries. Annexation of these areas as well as existing island areas should be a priority and would begin to address social equity and social justice within the community and contribute to a more regular boundary area. Future annexation proposals for vacant or underdeveloped territory submitted by the City should be reviewed within the context of an overall annexation strategy that includes incorporating existing fringe communities and island areas.

Determination 3-16: Annexation Plan

The City should develop a comprehensive annexation plan to provide guidance to its staff, LAFCo, affected local agencies as well as provide the general public within its SOI a reasonable understanding of the City's intention to annex certain areas on a certain schedule. The creation of the Annexation Plan should include public outreach to affected communities and agencies well in advance of adoption or future annexations. Consultation with LAFCo staff is highly recommended.

Financial Stability

In 2019, voters approved a 1% transaction use tax ("Measure U") for the purpose of restoring, maintaining, and preserving public services including police protection, fire suppression, vehicle repair and maintenance, finance, and human resource services with the City of Oroville. Fiscal Year (FY) 19-20 was the first full year of a new one percent sales tax, and it outperformed original estimates of \$3.7 million by \$1.8 million and an additional \$1.5 million in FY 20-21. For FY 21-22, the City reports nine new police cars, new equipment and several new positions funded by sales tax revenue. The City continues to focus addressing its deferred road and infrastructure maintenance. While the City's fiscal health and sustainability is greatly improved with the enhanced revenue from the new one percent sales tax, the City, like many public agencies, faces challenges associated with pension contribution requirements and related unfunded liability. The City recognizes this as an ongoing challenge and continues to evaluate alternative strategies to address the issue.

Overall, the City's fiscal health appears to be adequate. Total citywide revenues were higher than expenditures in each of the last five fiscal years, and total General Fund revenues exceeded expenditures in the last three fiscal years. The enhanced revenue from the new one percent sales tax has strengthened the City's financial position in each fiscal year since FY 18-19.

Determination 4-2: Fiscal Health

While the City’s fiscal health and sustainability are greatly improved with the enhanced revenue from the new one percent sales tax, the City, like many public agencies, faces challenges associated with pension contribution requirements and related unfunded liability. The City recognizes this as an ongoing challenge and continues to evaluate alternative strategies to address the issue.

Determination 4-6: Long-term Debt

The City’s long-term debt primarily consist of pension liability, OPEB, and bonds to stabilize unfunded liability rates. The City’s strategies to address this liability include the bonds issued to stabilize growth in the unfunded liability, paying off high interest loans faster to free up funding to make larger annual payments towards the unfunded liability, and use of a portion of the new sales tax revenue towards annual lump-sum payments. The City continues to consider other options for decreasing its liability associated with pension benefits.

Domestic Water and Wastewater Providers Reorganization

Domestic water services within the City’s boundaries and SOI are provided by a combination of three agencies/companies—South Feather Water and Power Agency (SFWPA), Thermalito Water and Sewer District (TWSD), and California Water Service Company – Oroville Region (CalWater). The City of Oroville provides wastewater collection services to a portion of the City’s boundary area. In addition, two other agencies provide wastewater collection services within the City consisting of the Lake Oroville Area Public Utility District (LOAPUD) and the Thermalito Water and Sewer District (TWSD). Wastewater treatment is provided by the Sewerage Commission-Oroville Region (SC-OR) formed through the Joint Powers Agreement (JPA) of these three agencies.

The Sewer and Water Providers for the Oroville Area Municipal Service Review (2023) identifies several restructuring options that would facilitate the consolidation of these services. One such option includes the reorganization of three domestic water providers into one agency. California Water Service (CAL Water), a public utility regulated by the California Public Utilities Commission (CPUC) supplies water to the core of Oroville south of the Feather River, including the Historic Downtown and South Oroville. SFWPA supplies water to the eastern and southern portions of the City and SOI. TWSD serves areas of the City of Oroville to the north and west of the Feather River as well as adjacent unincorporated areas of Butte County. Residents not supplied with water from these three purveyors obtain water through private wells. Cal Water domestic water services have been the subject of much discussion and community dissatisfaction as its water rates are substantially higher than the corresponding public agency water providers. In 2017 the City of Oroville requested LAFCo to prepare the Oroville Regional Water Study which was completed in 2018 and confirmed the rate disparities. While the study found no indication of excessive costs or expenses that could be targeted for cost reduction, the typical CAL Water residential customer in the Oroville area is paying nearly twice the rate when compared to rates realized by customers of South Feather Water and Power Agency or by Thermalito Water and Sewer District. While this reorganization does not necessarily

involve the City of Oroville as an affected agency in this scenario, the resulting reorganization would certainly benefit the residents of Oroville.

Another proposal includes the reorganization of wastewater service providers. The Oroville Area currently receives wastewater service from four agencies including COOR, LOAPUD, TWSD, and SC-OR. Under this option, the provision of wastewater services would be reorganized into one agency. This option includes several structural alternatives, such as SC-OR taking on a lead role for all sewage collection and treatment services. The reorganization would result in the City of Oroville transferring its sewer collection infrastructure to another service provider. This option is discussed further in Chapter 13 of the MSR.

Determination 12-5: Wastewater Planned Capacity

City's Sanitary Sewer Master Plan update found that 35 percent of the manholes and 11 percent of the sewer pipes are undersized to convey anticipated flows in 2030. It is further recognized that the City sewage collections system is not large enough to support additional growth and may impede future annexations until capacity issues are mitigated.

Determination 12-6: Wastewater Planned Capacity

It is acknowledged that the City's inflow and infiltration (I/I) problems in the Collection section were identified in the City's 2014 MSR, and it is concerning that seven years later, identified deficiencies continue to exist.

Determination 12-7: Wastewater Infrastructure Needs

The City has appropriately outlined sewer infrastructure needs in its CIP and SSMP. It should be a high priority for the City to actively implement these plans to make improvements to address rehabilitation of deficient portions of the system, particularly areas subject to excessive infiltration and inflow, and areas where there are capacity constraints.

Determination 13-1: Sewer and/or Water Service Consolidation Governance Structure Options

The save money, avoid future overhead costs, and increase efficiency, the City of Oroville should consider evaluating the opportunity to reorganize its collection system with TWSD in areas north of the Feather River and with LOAPUD in areas south of the Feather River.

Stormwater

Necessary storm drainage system improvements were identified in the 2003 Master Facilities Plan for the City of Oroville. It is important to note that the storm drainage improvement projects identified

in the 2003 Master Facilities Plan are based on the 100-year flood analyses contained in the 1991 Drainage Master Plan, which was completed prior to the construction of the City's six regional detention ponds in 2002. As such, the drainage projects listed in the 2003 Master Facilities Plan are obsolete. Therefore, the City's drainage system needs to be re-analyzed for the 100-year flood, recognizing the benefit of the regional detention ponds, in order to establish the current drainage improvement needs. During the 2014 MSR process, the City indicated a plan to update the Master Drainage Plan by 2016; however, financial constraints caused delays and the update was not completed. Given the additional sales tax revenue the City has started receiving, funding is sufficient to now carry out the comprehensive update and fully identify all infrastructure needs and deficiencies throughout the City's drainage system.

Determination 11-6: Stormwater Infrastructure Needs

The City does not maintain a comprehensive list of drainage infrastructure needs, as the citywide Master Drainage Plan is outdated and obsolete. Specific area drainage plans identify certain deficiencies; however, further detailed analysis is necessary to compile a complete list of all existing drainage needs within the City and its SOI.

Determination 11-7: Stormwater Infrastructure Needs

An update to the Master Drainage Plan should be a high priority for the City and is fundamentally necessary to properly evaluate current budget projections, development proposals, and future annexations.

CONCLUSION

Generally, municipal services provided by the City meet the needs of its residents. While the City lacks updated guiding documents and plans that promote transparency and orderly improvement to services, this does not come at the expense of progress. The City continues to invest its dollars into capital improvements, affordable housing opportunities, and rehabilitation of park facilities. This City intends to invest in the South Oroville area, improving infrastructure like streets, sidewalks, and storm drain facilities while offering low interest housing rehabilitation loans to enable homeowners to make health and safety repairs to their homes.

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.

Public Notice and Comments

A copy of the public review draft MSR was provided directly to all affected agencies including the County of Butte, City of Oroville, Feather River Parks and Recreation District, South Feather Water and Power District, Thermalito Water and Sewer District, Lake Oroville Public Utility District, CAL Water – Oroville Region, Sewerage Commission – Oroville Region, and Oroville Cemetery District for review and comment.

A public review period for the City of Oroville Municipal Service Review Update was published in the *Chico Enterprise-Record* and extended from April 2, 2024 to May 2, 2024. The notice and the Draft

MSR were placed on Butte LAFCo's webpage as well as placed in the Oroville Library for public review. The notice was also posted on Butte LAFCo's Bulletin Board. The document is publicly available for view at the Butte County Library – Oroville Branch, and on the Butte LAFCo website at [City of Oroville MSR Update](#).

No comments were received by staff as of the printing of this report. Any comments received after printing would be included as **Attachment B** of this report.

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 City of Oroville Municipal Service Review Update.

The Municipal Service Review for the City of Oroville 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 AND RECOMMENDATION

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 City of Oroville 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. 04 2023/24

- A. Approving the City of Oroville 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 City of Oroville 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. 04 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 Update for the City of Oroville incorporating any comments received.

Attachments:

Attachment A: Draft LAFCO Resolution No. 04 2023/24

Attachment B: Comments Received

Distribution:

City of Oroville
County of Butte, Administration
Feather River Parks and Recreation District
South Feather Water and Power District
Thermalito Water and Sewer District
Lake Oroville Public Utility District
CAL Water – Oroville Region
Sewerage Commission – Oroville Region
Oroville Cemetery District

ADOPTION OF A MUNICIPAL SERVICE REVIEW UPDATE AND WRITTEN DETERMINATIONS FOR THE CITY OF OROVILLE

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 City of Oroville's Municipal Service Review was heretofore requested by the City of Oroville 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 City of Oroville 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 Oroville as projected in the Butte County 2030 General Plan; and

WHEREAS, a service review mandated by Government Code Section 56430 was last conducted by the Local Agency Formation Commission of the County of Butte (hereinafter referred to as "the Commission") for the City of Oroville on December 4, 2014, 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 the City of Oroville government structure, operations, and finances brought about by the passage of the City's transaction use tax ("Measure U"), it was determined that the 2014 MSR needed to be updated to reflect current City 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 May 2, 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 City of Oroville 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 City of Oroville, dated May 2, 2024.

PASSED AND ADOPTED by this Local Agency Formation Commission of the County of Butte, on the 2nd day of May, 2024, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAINS:

ATTEST:

Clerk of the Commission

Bill Connelly, Chair
Butte Local Agency Formation Commission