

**Lake Local Agency
Formation Commission**

**BUTLER-KEYS
COMMUNITY SERVICES DISTRICT
MUNICIPAL SERVICE REVIEW**

**Adopted
February 17, 2010
Resolution 2010-0001**

TABLE OF CONTENTS

1	INTRODUCTION	1
1.1	LAFCO's Responsibilities	1
1.2	Municipal Service Review Requirements	1
1.3	Lake LAFCO Policies and Procedures Related to Municipal Services	2
1.4	Preparation of the MSR	2
1.5	Description of Public Participation Process	2
1.6	California Environmental Quality Act (CEQA)	3
2	LOCAL GOVERNMENT ISSUES	4
2.1	Municipal Financial Constraints	4
2.1.1	California Local Government Finance Background	4
A.	Proposition 13	4
B.	AB 8	5
C.	Proposition 98	5
D.	Proposition 172	5
E.	Proposition 218	5
F.	Mello-Roos Community Facilities Act	5
G.	Development Impact Fees	6
2.1.2	Financing Opportunities that Require Voter Approval	6
2.1.3	Financing Opportunities that Do Not Require Voter Approval	7
2.2	Public Management Standards	7
2.3	Public Participation in Government	8
3	BUTLER-KEYS SERVICE AREA.....	9
3.1	Butler-Keys CSD Location	9
3.2	Clearlake Oaks Population Data	9
3.3	Butler-Keys Area Description	10
4	BUTLER-KEYS COMMUNITY SERVICES DISTRICT	11
4.1	District Background	11
4.2	District Finances	11
4.3	District Government	11

5 BUTLER-KEYS COMMUNITY SERVICES DISTRICT

MUNICIPAL SERVICE REVIEW	13
5.1 Growth and Population Projections for the Butler-Keys Area	13
5.1.1 Butler-Keys Area Population Projections	13
5.1.2 MSR Determinations on Growth and Population Projections for the Butler-Keys Area	13
5.2 Capacity and Infrastructure for Butler-Keys Community Services District	14
5.2.1 Butler-Keys Community Services District Infrastructure . . .	14
5.2.2 MSR Determinations on Infrastructure for the Butler-Keys Community Services District	14
5.3 Financial Ability	15
5.3.1 Financial Considerations for Butler-Keys Community Services District	15
5.3.2 MSR Determinations on Financing for the Butler-Keys Community Services District	15
5.4 Opportunities for Shared Facilities	16
5.4.1 Butler-Keys Community Services District Facilities	16
5.4.2 MSR Determinations on Shared Facilities for the Butler-Keys Community Services District.	16
5.5 Government Structure and Accountability	16
5.5.1 Butler-Keys Community Services District Government Structure	17
5.5.2 MSR Determinations on Local Accountability and Governance for the Butler-Keys Community Services District	17
ABBREVIATIONS	18
DEFINITIONS	19
REFERENCES	22
PREPARERS	22
APPENDIX A Butler-Keys CSD Fiscal Year 2009 (July 1, 2008 to June 30, 2009) Financial Report as of 05/25/09	23
APPENDIX B Butler-Keys CSD Audit 2008	24
FIGURE 1 – Butler-Keys District Boundary	28

1 INTRODUCTION

This Municipal Service Review is prepared for the Butler-Keys Community Services District in Lake County. This District provides street maintenance service within a fixed Sphere of Influence. The Municipal Service Review (MSR) includes the following information:

- 1) LAFCO requirements for MSRs
- 2) Butler-Keys Area background
- 3) Description of services provided by Butler-Keys Community Services District
- 4) Analysis of Butler-Keys Community Services District's capability to serve existing and future residents in the CSD

1.1 LAFCO's Responsibilities

Local Agency Formation Commissions are quasi-legislative local agencies created in 1963 to assist the State in encouraging the orderly development and formation of local agencies. The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Government Code §56000 et seq.) is the statutory authority for the preparation of an MSR, and periodic updates of the Sphere of Influence of each local agency.

This MSR adheres to the procedures set forth in the MSR Guidelines provided by the Governor's Office of Planning and Research for preparation of MSRs.

A Sphere of Influence report is a plan for the probable physical boundaries and service area of a local agency, as determined by the affected Local Agency Formation Commission (Government Code §56076).

Government Code §56425(f) requires that each Sphere of Influence report be updated not less than every five years, and §56430 provides that a Municipal Service Review shall be conducted in advance of the Sphere of Influence report update.

1.2 Municipal Service Review Requirements

The statute as amended by AB1744 and regulations call for a review of the municipal services provided in the county or other appropriate area designated by the LAFCO. The LAFCO is required, as part of the MSR, to prepare a written statement of findings of its determinations with respect to each of the following:

1. *Growth and Population*
2. *Capacity and Infrastructure*
3. *Financial Ability*
4. *Shared Facilities*
5. *Government Structure and Accountability*

1.3 Lake LAFCO Policies and Procedures Related to Municipal Services

The Lake LAFCO adopted policies and procedures related to municipal services on March 20, 2002. These policies and procedures were amended by action of the Lake LAFCO on July 16, 2003, November 28, 2007 and on May 20, 2009.

1.4 Preparation of the MSR

Research for this Municipal Service Review (MSR) was conducted during 2009.

This MSR is intended to support preparation and update of Sphere of Influence reports, in accordance with the provisions of the Cortese-Knox-Hertzberg Act. The objective of a Municipal Service Review is to develop recommendations that will promote more efficient and higher quality service patterns; identify areas for service improvement; and assess the adequacy of service provision as it relates to determination of appropriate sphere boundaries.

While LAFCO prepared this MSR document, LAFCO did not engage the services of experts in engineering, hydrology, law, fire protection and other specialists in related fields, but relied upon reports from Lake County and the Butler-Keys CSD Board for information.

Therefore, this MSR reflects LAFCO's recommendations, based on available information during the research period and provided by Butler-Keys Community Services District Board to assist in its determinations related to promoting more efficient and higher quality service patterns; identifying areas for service improvement; and assessing the adequacy of service provision for the Butler-Keys Community Services District.

1.5 Description of Public Participation Process

Lake LAFCO is a legislative body authorized by the California Legislature and delegated powers as stated in the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (the Act). LAFCO proceedings are subject to the provisions of California's open meeting law, the Ralph M. Brown Act (Government Code Sections 54950 et seq.)

The Brown Act requires advance posting of meeting agendas and contains various other provisions designed to ensure that the public has adequate access to information regarding the proceedings of public boards and commissions. Lake LAFCO complies with the requirements of the Brown Act.

The State MSR Guidelines provide that all LAFCOs should encourage and provide multiple public participation opportunities in the municipal service review process. Local MSR policies have been adopted by the Lake LAFCO.

Lake LAFCO has discussed and considered the MSR process in open session. Each municipal service review will be prepared as a draft, and will be subject to public and agency comment prior to final consideration by the Lake LAFCO.

1.6 California Environmental Quality Act (CEQA)

The Municipal Service Review is a planning study that will be considered by Lake LAFCO in connection with subsequent proceedings regarding the Butler-Keys CSD and its Sphere of Influence. The Sphere of Influence review or update report that accompanies this MSR has not been approved or adopted by LAFCO.

This MSR is funded in the Lake LAFCO's 2009-2010 Budget. This MSR includes an analysis, to the extent required by Section 15262 of the CEQA Guidelines, of the environmental factors that may be affected by the Municipal Service Review process, but will not include the preparation of an environmental review document.

2 LOCAL GOVERNMENT ISSUES

2.1 Municipal Financial Constraints

Municipal service providers are constrained in their capacity to finance services by the inability to increase property taxes, requirements for voter approval for new or increased taxes, and requirements of voter approval for parcel taxes and assessments used to finance services. Municipalities must obtain majority voter approval to increase or impose new general taxes and two-thirds voter approval for special taxes.

Limitations on property tax rates and increases in taxable property values are financing constraints. Property tax revenues are subject to a formulaic allocation and are vulnerable to State budget needs. Agencies formed since the adoption of Proposition 13 in 1978 often lack adequate financing.

2.1.1 California Local Government Finance Background

The financial ability of cities and special districts to provide services is affected by financial constraints. City and special district service providers often rely on a variety of revenue sources to fund operating costs as follows:

- Property Taxes
- Benefit Assessments
- Special Taxes
- Proposition 172 Funds
- Other contributions from city or district general funds.

As a funding source, property taxes are constrained by statewide initiatives that have been passed by voters over the years and special legislation. Seven of these measures are explained below:

A. Proposition 13

Proposition 13 (approved by California in 1978) has the following three impacts:

- It limits the *ad valorem* property tax rate.
- It limits growth of the assessed value of property.
- It requires voter approval of certain local taxes.

Generally, this measure fixes the *ad valorem* tax at one percent of the value at most recent sale except for taxes to repay certain voter approved bonded indebtedness. In response to the adoption of Proposition 13, the Legislature enacted Assembly Bill 8 (AB 8) in 1979 to establish property tax allocation formulas.

B. AB 8

AB 8 allocates property tax revenue to the local agencies within each tax rate area based on the proportion each agency received during the three fiscal years preceding adoption of Proposition 13. This allocation formula benefits local agencies which had relatively high tax rates at the time Proposition 13 was enacted.

C. Proposition 98

Proposition 98 (approved by California voters in 1988) requires the State to maintain a minimum level of school funding. In 1992 and 1993, the Legislature began shifting billions of local property taxes to schools in response to State budget deficits.

Local property taxes were diverted from local governments into the Educational Revenue Augmentation Fund (ERAF) and transferred to school districts and community college districts to reduce the amount paid by the State general fund.

Local agencies throughout the State lost significant property tax revenue due to this shift. Proposition 172 was enacted to help offset property tax revenue losses of cities and counties that were shifted to the ERAF for schools in 1992.

D. Proposition 172

Proposition 172, enacted in 1993, provides the revenue of a half-cent sales tax to counties and cities for public safety purposes, including police, fire, district attorneys, corrections and lifeguards. Proposition 172 also requires cities and counties to continue providing public safety funding at or above the amount provided in FY 92-93.

E. Proposition 218

Proposition 218 (approved by California voters in 1996) requires voter- or property owner-approval of increased local taxes, assessments, and property-related fees. A two-thirds affirmative vote is required to impose a Special Tax (for example, a tax for a specific purpose such as a fire district special tax).

However, majority voter approval is required for imposing or increasing general taxes such as business license or utility taxes, which can be used for any governmental purpose. These requirements do not apply to user fees, development impact fees and Mello-Roos districts.

F. Mello-Roos Community Facilities Act

The Mello-Roos Community Facilities Act of 1982 allows any county, city, special district, school district or joint powers authority to establish a Mello-Roos Community Facilities District (CFD) which allows for financing of public improvements and services. The services and improvements that Mello-Roos CFDs can finance include streets, sewer systems and other basic infrastructure, police protection, fire protection, ambulance services, schools, parks, libraries, museums and other cultural facilities. By law, the CFD is also entitled to recover expenses needed to form the CFD and administer the annual special taxes and bonded debt.

A CFD is created by a sponsoring local government agency. The proposed district will include all properties that will benefit from the improvements to be constructed or the services to be

provided. A CFD cannot be formed without a two-thirds majority vote of residents living within the proposed boundaries. Or, if there are fewer than 12 residents, the vote is instead conducted of current landowners.

In many cases, that may be a single owner or developer. Once approved, a Special Tax Lien is placed against each property in the CFD. Property owners then pay a Special Tax each year.

If the project cost is high, municipal bonds will be sold by the CFD to provide the large amount of money initially needed to build the improvements or fund the services.

The Special Tax cannot be directly based on the value of the property. Special Taxes instead are based on mathematical formulas that take into account property characteristics such as use of the property, square footage of the structure and lot size. The formula is defined at the time of formation, and will include a maximum special tax amount and a percentage maximum annual increase.

If bonds were issued by the CFD, special taxes will be charged annually until the bonds are paid off in full. Often, after bonds are paid off, a CFD will continue to charge a reduced fee to maintain the improvements.

G. Development Impact Fees

A county, cities, special districts, school districts, and private utilities may impose development impact fees on new construction for purposes of defraying the cost of putting in place public infrastructure and services to support new development.

To impose development impact fees, a jurisdiction must justify the fees as an offset to the impact of future development on facilities. This usually requires a special financial study. The fees must be committed within five years to the projects for which they were collected, and the district, city or county must keep separate funds for each development impact fee.

2.1.2 Financing Opportunities that Require Voter Approval

Financing opportunities that require voter approval include the following:

- Special taxes such as parcel taxes
- Increases in general taxes such as utility taxes
- Sales and use taxes
- Business license taxes
- Transient Occupancy Taxes (TOT).

Communities may elect to form business improvement districts to finance supplemental services, or Mello-Roos districts to finance development-related infrastructure extension. Agencies may finance facilities with voter-approved (general obligation) bonded indebtedness.

2.1.3 Financing Opportunities that Do Not Require Voter Approval

Financing opportunities that do not require voter approval include imposition of or increases in fees to more fully recover the costs of providing services, including user fees and Development Impact Fees to recover the actual cost of services provided and infrastructure.

Development Impact Fees and user fees must be based on reasonable costs, and may be imposed and increased without voter approval. Development Impact Fees may not be used to subsidize operating costs.

Agencies may also finance many types of facility improvements through bond instruments that do not require voter approval.

Water rates and rate structures are not subject to regulation by other agencies. Utility providers may increase rates annually, and often do so. Generally, there is no voter approval requirement for rate increases, although notification of utility users is required. Water providers must maintain an enterprise fund for the respective utility separate from other funds, and may not use revenues to finance unrelated governmental activities.

2.2 Public Management Standards

While public sector management standards do vary depending on the size and scope of an organization, there are minimum standards. Well-managed organizations do the following eight activities:

1. Evaluate employees annually.
2. Prepare a budget before the beginning of the fiscal year.
3. Conduct periodic financial audits to safeguard the public trust.
4. Maintain current financial records.
5. Periodically evaluate rates and fees.
6. Plan and budget for capital replacement needs.
7. Conduct advance planning for future growth.
8. Make best efforts to meet regulatory requirements.

Most professionally managed and staffed agencies implement these Best Management Practices.

LAFCO encourages all local agencies to maintain timely financial record-keeping for each municipal service function and to make financial performance information available to the public.

2.3 Public Participation in Government

The Brown Act (California Government Code Section 54950 et seq.) is intended to insure that public boards shall take their actions openly and that deliberations shall be conducted openly.

The Brown Act establishes requirements for the following:

- Open meetings
- Agendas that describe the business to be conducted at the meeting
- Notice for meetings
- Meaningful opportunity for the public to comment
- Specified exceptions for meeting in closed sessions and reporting of decisions made in closed sessions.

According to California Government Section 54959:

“Each member of a legislative body who attends a meeting of that legislative body where action is taken in violation of any provision of this chapter, and where the member intends to deprive the public of information to which the member knows or has reason to know the public is entitled under this chapter, is guilty of a misdemeanor.”

Section 54960 states the following:

“(a) The district attorney or any interested person may commence an action by mandamus, injunction, or declaratory relief for the purpose of stopping or preventing violations or threatened violations of this chapter by members of the legislative body of a local agency or to determine the applicability of this chapter to actions or threatened future action of the legislative body.”

3 BUTLER-KEYS CSD AREA

3.1 Butler-Keys CSD Location

The Butler--Keys CSD currently encompasses 183 single lots. These lots were originally created as part of the larger "Keys Subdivision". The district was formed in 1981 to provide funding for road improvements. At that time, residents of the Butler-Keys CSD area (named for Butler and Keys streets) elected to create the district in order to provide road service to their parcels. In 1983, 26 lots along Highway 20 were detached from the Butler-Keys CSD. The Keys Subdivision, including the Butler-Keys CSD area, is part of the community of Clearlake Oaks.

Clearlake Oaks is a small community located on the shores of Clear Lake, described more fully in Lake County's "Shoreline Area Plan" (draft, 2009). Began as a lake-front subdivision in the 1920's, Clearlake Oaks had grown into a community of 2,402 residents in 2000.

3.2 Clearlake Oaks Population Data

There is no separate US census data specifically for the Butler-Keys Community Services District. Data for Clearlake Oaks is shown below:

As of the US Census of 2000, there were 2,402 people, 1,194 households, and 655 families residing in the Clearlake Oaks community identified as a Census Designated Place (CDP).

There were 1,194 households out of which 15.2% had children under the age of 18 living with them, 42.0% were married couples living together, 9.5% had a female householder with no husband present, and 45.1% were non-families. 38.0% of all households were made up of individuals and 20.2% had someone living alone who was 65 years of age or older. The average household size was 2.01 and the average family size was 2.58.

In the Clearlake Oaks CDP the population was spread out in age as follows:

Under the age of 18	17.0%
18 to 24 years of age	3.5%
25 to 44 years of age	17.6%
45 to 64 years of age	28.6%
65 years of age or older	33.3%

The Clearlake Oaks median age was 55 years. For every 100 females there were 96.4 males. For every 100 females age 18 and over, there were 94.1 males in Clearlake Oaks.

The median income for a household in the Clearlake Oaks CDP was \$24,449, and the median income for a family was \$30,044. Males had a median income of \$30,227 versus \$17,011 for females.

The per capita income for the Clearlake Oaks CDP was \$14,297. About 15.0% of families and 21.9% of the population were below the poverty line, including 31.2% of those under age 18 and 9.7% of those aged 65 or over.

3.3 Butler-Keys Service Area

According to the Butler-Keys CSD, there are 183 single lots (50 feet by 100 feet in size) in the district. Most of the lots have houses on them, some houses are on two lots and there about a dozen vacant lots.

There are 96 registered voters in the district. An estimate of the total population would be approximately 200 residents.

There are seven streets as follows:

First, Second, Third, Fourth, Fifth, Sixth and Hoover Streets.

There is approximately one mile of paved streets.¹

¹ Butler Keys CSD, James Evans, Secretary, mamosa@mchsi.com, July 18, 2009.
Butler Keys MSR
Adopted February 17, 2010
LAFCO Resolution 2010-0001

4 BUTLER-KEYS CSD

4.1 District Background

The Butler-Keys Community Services District is a very small district formed November 4, 1980.² The primary responsibility is the maintenance of the approximately one mile of neighborhood streets that the district had paved in 1982. Every five or six years the district contracts with an asphalt construction company through a bid process to have the streets resealed. That is the largest expense for the district.

Board members volunteer their time to conduct the business of the district and occasionally fill a pot hole or replace street name or traffic control signs.

On four occasions since 1982 the district has hired a person or company to trim or remove a trees. Every two years the district pays the County Registrar of Voters for the expense of placing two or three of the board members on the ballot. Every eight years, the district pays the County to place a tax measure on the ballot.

The district also pays the County Counsel to review and approve the tax measure ballot documents and the reseal bid documents.

The only consistent annual expense is the Post Office Box rental and an independent CPA review and filing of the financial reports with the State Controller.

4.2 District Finances

The district keeps an ongoing accurate record of the district finances. The report is updated four times a year prior to each board meeting. The Butler-Keys CSD Fiscal Year 2009 (July 1, 2008 to June 30, 2009) Financial Report of 05/25/09 is shown in Appendix A at the end of this MSR.

Because the district's economic activity is minimal, the major expense occurs only every five or six years. The district develops a budget as needed to determine what level of taxes are needed from the property owners in the district to fund the next reseal project and the minimal operations expenses for the next eight years.

The district's audit report dated October 17, 2008 found that the financial statements "were prepared on the modified accrual basis of accounting".³ The district's audit report is shown in Appendix B at the end of this MSR.

4.3 District Government

The Butler-Keys CSD board meets on the second Wednesday of the month in March, June, September and December. The meetings are most often held at the Clearlake Oaks Fire

² Butler Keys Community Services District, Audit, October 17, 2008, Melissa Fanning CPA, 14215 Lakeshore Drive, PO box 3830, Clearlake Ca 95422, Phone 707-995-1166, Fax 707-995-0851, melissaf@sonic.net.

³ Butler Keys Community Services District, Audit, October 17, 2008, Melissa Fanning CPA, 14215 Lakeshore Drive, PO box 3830, Clearlake Ca 95422, Phone 707-995-1166, Fax 707-995-0851, melissaf@sonic.net.

Station, 12655 E Highway 20, Clearlake Oaks, CA 95423, but may be held at a board member's house on occasion. All meeting agendas are posted at three locations in the district at least three days before each meeting. The board rarely has members of the public attend the meetings.⁴

The Butler-Keys CSD board members are as follows:

Chairman:

Margaret Medeiros 998-9563
13193 3rd Street, PO Box 1748
Clearlake Oaks, CA. 95423
mmedeiros1@mchsi.com

Vice Chairman:

Sue Burton 998-3355
13160 1st Street, P.O. Box 441
Clearlake Oaks, Ca. 95423
jsburton@mchsi.com

Secretary/Treasurer:

James Evans 998-9243
13155 4th Street, PO Box 994
Clearlake Oaks, CA. 95423
mamosa@mchsi.com

Director:

Frank Gillespie 998-9294
13118 4th Street, P.O. Box 511
Clearlake Oaks, CA. 95423
fgill2@sbglobal.net

Director:

Jeanne Renli Schiele 998-1887
13104 4th Street, P.O. Box 1193
Clearlake Oaks, CA. 95423
oaksgal@copper.net

The district is not interested in changing the form of government to a County Road CSA or merging with such a district because it would be too expensive. The district maintains a high standard for street conditions and street repair.

The district board chairman and secretary represented the district at the Lake County Planning Commission meeting on October 12, 2006 to comment on a general plan amendment and a zone change application for land within the district. The Lake County Community Development Department agreed that the staff would coordinate with the Lake County Public Works Department to inform the district of encroachment permits within the District.⁵

⁴ Butler Keys CSD, James Evans, Secretary, mamosa@mchsi.com.

⁵ Lake County, Planning Commission Minutes October 12, 2006.

5 BUTLER-KEYS COMMUNITY SERVICES DISTRICT MUNICIPAL SERVICE REVIEW

Lake LAFCO is responsible for determining if an agency is reasonably capable of providing needed resources and basic infrastructure to serve areas within its boundaries and, later, within its Sphere of Influence.

LAFCO will do the following:

- 1) Evaluate the present and long-term infrastructure demands and resources available to the district.
- 2) Analyze whether resources and services are, or will be, available at needed levels.
- 3) Determine whether orderly maintenance and expansion of such resources and services are planned to occur in line with increasing demands.

The Final Municipal Service Review Guidelines prepared by the Governor's Office of Planning and Research recommends that issues relevant to the jurisdiction be addressed through written determinations called for in the Cortese-Knox-Hertzberg Act.

Determinations are provided for each of the five factors, based on the information provided in this Municipal Service Review.

5.1 Growth and Population Projections for the Butler-Keys Area

Purpose:

To evaluate service needs based on existing and anticipated growth patterns and population projections.

5.1.1 Butler-Keys CSD Area Population Projections

The Butler-Keys Community Services District is almost entirely built out so little population growth is expected.

5.1.2 MSR Determinations on Growth and Population Projections for the Butler-Keys CSD Area

- 1-1) The district has adequate capacity to serve existing residents.
- 1-2) The district has adequate capacity to serve future development within its boundaries.
- 1-3) Approval of new projects which require encroachment permits must be reviewed by the district so that existing infrastructure will not be adversely impacted.
- 1-4) The district should work together with the Lake County Community Development Department to do the following:

Butler Keys MSR
Adopted February 17, 2010
LAFCO Resolution 2010-0001

- a) understand the zoning and general plan designations for the area
- b) ensure proper notification of development proposals within the district boundaries by the LCCDD and appropriate response by the district board of directors.

5.2 Capacity and Infrastructure for Butler-Keys Community Services District

Purpose: To evaluate the infrastructure needs and capacity in terms of adequate resources, condition of facilities, and service quality.

LAFCO is responsible for determining that an agency is reasonably capable of providing needed resources and basic infrastructure to serve areas within its boundaries and in its Sphere of Influence.

It is important that such determinations of infrastructure availability occur when revisions to the Sphere of Influence and annexations occur.

5.2.1 Butler-Keys Community Services District Infrastructure Background

The infrastructure in the Butler-Keys Community Services District consists of approximately one mile of paved streets.

5.2.2 MSR Determinations on Infrastructure for the Butler- Keys Community Services District

- 2-1) The district should develop a Master Plan to show the existing infrastructure and how the street maintenance service capacity will be provided in the future.

5.3 Financial Ability

Purpose: To evaluate factors that affect the financing of needed improvements and to identify practices or opportunities that may help eliminate unnecessary costs without decreasing service levels.

LAFCO should consider the ability of the district to pay for improvements or services associated with potential annexed sites.

This planning can begin at the Sphere of Influence stage by identifying what opportunities there are to identify infrastructure and maintenance needs associated with future annexation and development, and identifying limitations on financing such improvements, as well as the opportunities that exist to construct and maintain those improvements. In the case of the Butler-Keys CSD, all expenses are borne by proponents seeking service.

LAFCO should consider the relative burden of new annexations to the community when it comes to its ability to provide public safety and administrative services, as well as capital maintenance and replacements required as a result of expanding district boundaries.

Rate restructuring may be forced by shortfalls in funding, but the process may also reflect changing goals and views of economic justice or fairness within the community. LAFCO should evaluate the impact of SOI and Annexation decisions on existing community rates for public services.

5.3.1 *Financial Considerations for Butler-Keys Community Services District*

The Butler-Keys CSD Fiscal Year 2009 (July 1, 2008 to June 30, 2009) Financial Report of 05/25/09 is shown in Appendix A at the end of this MSR document.

5.3.2 *MSR Determinations on Financing for the Butler-Keys Community Services District*

- 3-1) Butler-Keys CSD funding is adequate to cover expenses.
- 3-2) The Butler-Keys Community Services District has an approved Purchasing Policy including a competitive bid requirement.
- 3-3) The district's budgeting process provides a forum for cutting unnecessary costs and placing resources where most needed.
- 3-4) The district's policies should state that any annexation to the district shall be cost neutral to the existing residents.
- 3-5) The district maintains acceptable accounting practices.

5.4 Opportunities for Shared Facilities

Purpose: To evaluate the opportunities for a jurisdiction to share facilities and resources to develop more efficient service delivery systems.

In the case of annexing new lands into a district, LAFCO can evaluate whether services or facilities can be provided in a more efficient manner if the district can share them with another agency. In some cases, it may be possible to establish a cooperative approach to facility planning by encouraging agencies to work cooperatively in such efforts.

5.4.1 Facilities

The Butler-Keys CSD has infrastructure that consists of one mile of paved streets. Because maintenance services are contracted to outside providers, the district does not own or maintain any facilities.

Sharing the administration of the district with another government entity (Lake County Public Works Department) would both increase the cost of maintenance services and contribute to the potential degradation of its infrastructure. As long as the district's parcel taxes are adequate to provide infrastructure maintenance and there are parcel owners willing to serve as board members, this is not a practical suggestion.

5.4.2 MSR Determinations on Shared Facilities for Butler-Keys Community Services District

- 4-1) Changes in government structure are harder to justify in small rural communities such as the Butler- Keys area.
- 4-2) Exploration and consideration of a reorganization should be considered to allow potential efficiencies to be realized if consolidation is found to be feasible.
- 4-3) A larger sphere of influence would simplify the consolidation process, but should be considered only after a proposal for annexation has been submitted.
- 4-4) There are no other similar districts in the same area providing the same level of service.

5.5 Government Structure and Accountability

Purpose:

- 1) *To consider the advantages and disadvantages of various government structures that could provide public services.*
- 2) *To evaluate the management capabilities of the organization.*
- 3) *To evaluate the accessibility and levels of public participation associated with the agency's decision-making and management processes.*

One of the most critical components of LAFCO's responsibilities is in setting logical service boundaries for communities based on their capacity to provide services to affected lands.

Lake LAFCO may consider the agency's record of local accountability in its management of community affairs as a measure of the ability to provide adequate services to the Sphere of Influence and potential annexation areas.

5.5.1 *Butler-Keys Community Services District Government Structure*

The government for the Butler-Keys Community Services District relies totally on volunteers. This could be a problem in the future if more administrative services have to be done by paid personnel.

5.5.2 *MSR Determinations on Local Accountability and Governance for the Butler- Keys Community Services District*

- 5-1) The district complies with necessary regulations and has regularly scheduled meetings to which the public is invited.
- 5-2) The district has maintained relationships with the local media and is available to the taxpayers and the public. For increased public outreach and interaction, an online website might be beneficial but would also be an unjustifiable expense.
- 5-3) The district operates on an eight year budget cycle that coincides with resurfacing projects. The budget is reviewed at least annually at regular meetings to which the public is invited to ensure sufficient funding for resurfacing projects and administrative expenses.
- 5-4) When building permits are considered for construction within district boundaries the County must include the District in the review process.
- 5-5) The district appears to have an efficient management structure, responsive to legal, administrative, and operational issues that arise in the provision of service.
- 5-6) There are no alternative management structures which offer significant improvement over the current structure, and no recommendations are made related to changes in management structure and operations.

ABBREVIATIONS

AB	Assembly Bill
CDP	Census Designated Place
CEQA	California Environmental Quality Act
CFD	Mello-Roos Community Facilities District
CKH Act	Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000
CSA	County Service Area
CSD	Community Services District
	District Butler-Keys Community Services District
ERAF	Educational Revenue Augmentation Fund
FY	Fiscal Year
GPS	Global Positioning System
LAFCO	Local Agency Formation Commission
MSR	Municipal Service Review (LAFCO)
OSHA	Occupational Safety and Health Administration (US)
SDD	Special Districts Department (Lake County)
SOI	Sphere of Influence (LAFCO)
USEPA	United States Environmental Protection Agency

DEFINITIONS

Bond: An interest-bearing promise to pay a stipulated sum of money, with the principal amount due on a specific date. Funds raised through the sale of bonds can be used for various public purposes.

California Environmental Quality Act (CEQA): A State Law requiring State and local agencies to regulate activities with consideration for environmental protection. If a proposed activity has the potential for a significant adverse environmental impact, an environmental impact report (EIR) must be prepared and certified as to its adequacy before taking action on the proposed project.

Community Facilities District: Under the Mello-Roos Community Facilities Act of 1982 (? Section 53311, et seq.) a legislative body may create within its jurisdiction a special tax district that can finance tax-exempt bonds for the planning, design, acquisition, construction, and/or operation of public facilities, as well as public services for district residents. Special taxes levied solely within the district are used to repay the bonds. (20)

Community Services District (CSD): A geographic subarea of a county used for planning and delivery of parks, recreation, and other human services based on an assessment of the service needs of the population in that subarea. A CSD is a taxation district with independent administration.

Impact Fee: A fee, also called a development fee, levied on the developer of a project by a county, or other public agency as compensation for otherwise-unmitigated impacts the project will produce. California Government Code Section 66000, et seq., specifies that development fees shall not exceed the estimated reasonable cost of providing the service for which the fee is charged. To lawfully impose a development fee, the public agency must verify its method of calculation and document proper restrictions on use of the fund.

Infrastructure: Public services and facilities such as sewage-disposal systems, water-supply systems, and other utility systems, schools and roads.

Land Use Classification: A system for classifying and designating the appropriate use of properties.

Leapfrog Development; New development separated from existing development by substantial vacant land.

Local Agency Formation Commission (LAFCO): A five-or seven-member commission within each county that reviews and evaluates all proposals for formation of special districts, incorporation of cities, annexation to special districts or cities, consolidation of districts, and merger of districts with cities. Each county's LAFCO is empowered to approve, disapprove, or conditionally approve such proposals. The LAFCO members generally include two county supervisors, two city council members, and one member representing the general public. Some LAFCOs include two representatives of independent special districts.

Mello-Roos Bonds: Locally issued bonds that are repaid by a special tax imposed on property owners within a community facilities district established by a governmental entity. The bond proceeds can be used for public improvements and for a limited number of services. These bonds are named after the program's legislative authors.

Ordinance: A law or regulation set forth and adopted by a governmental authority.

Proposition 13 (Article XIII A of the California Constitution): Passed in 1978, this proposition enacted sweeping changes to the California property tax system. Under Proposition 13, property taxes cannot exceed 1% of the value of the property and assessed valuations cannot increase by more than 2% per year. Property is subject to reassessment when there is a transfer of ownership or improvements are made.⁶

Proposition 218 (Article XIII D of the California Constitution): This proposition, named "The Right to Vote on Taxes Act," filled some of the perceived loopholes of Proposition 13. Under Proposition 218, assessments may only increase with a two-thirds majority vote of the qualified voters within the district. In addition to the two-thirds voter approval requirement, Proposition 218 states that effective July 1, 1997, any assessments levied may not be more than the costs necessary to provide the service, proceeds may not be used for any other purpose other than providing the services intended, and assessments may only be levied for services that are immediately available to property owners.⁷

Sphere of Influence (SOI): The probable physical boundaries and service area of a local agency, as determined by the Local Agency Formation Commission (LAFCO) of the county.

⁶ http://www.californiataxdata.com/A_Free_Resources/glossary_PS.asp#ps_08

⁷ http://www.californiataxdata.com/A_Free_Resources/glossary_PS.asp#ps_08

Butler Keys MSR

Adopted February 17, 2010

LAFCO Resolution 2010-0001

Urban: Of, relating to, characteristic of, or constituting a city. Urban areas are generally characterized by moderate and higher density residential development (i.e., three or more dwelling units per acre), commercial development, and industrial development, and the availability of public services required for that development, specifically central water and sewer service, an extensive road network, public transit, and other such services (e.g., safety and emergency response). Development not providing such services may be “non-urban” or “rural,” CEQA defines “urbanized area” as an area that has a population density of at least 1,000 persons per square mile (Public Resources Code Section 21080.14(b)).

Urban Services: Utilities (such as water, gas, electricity, and sewer) and public services (such as police, fire protection, schools, parks, and recreation) provided to an urbanized or urbanizing area.

Zoning: The division of a city by legislative regulations into areas, or zones, that specify allowable uses for real property and size restrictions for buildings within these areas; a program that implements policies of the general plan.

REFERENCES

Butler-Keys Community Services District, Audit, October 17, 2008, Melissa Fanning CPA, 14215 Lakeshore Drive, PO box 3830, Clearlake Ca 95422, Phone 707-995-1166, Fax 707-995-0851, E-Mail: melissaf@sonic.net.

Butler-Keys Community Services District, "Butler-Keys CSD Fiscal Year 2009 (July 1, 2008 to June 30, 2009) Financial Report as of 05/25/09".

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Lake County, Planning Commission Minutes October 12, 2006.

PREPARERS

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APPENDIX A

**BUTLER-KEYS CSD FISCAL YEAR 2009 (JULY 1, 2008 TO JUNE 30, 2009)
FINANCIAL REPORT AS OF 05/25/09**

REVENUES:	07/01/08	TO	05/25/09	Prepared by:	James Evans
4050 - TAXES			4,365.23		
4030 - INTEREST			61.05		
4000 - TOTAL REVENUES			\$4,426.28		
EXPENSES:	07/01/08	TO	05/25/09		
OFFICE EXPENSES			38.00		
PROFESSIONAL SERVICES (275+18)			293.00		
ELECTION EXPENSES			1,349.03		
ROAD MAINTENANCE					
TOTAL EXPENSES			\$1,680.03		
EXCESS/(DEFICIENCY) OF REVENUE OVER EXPENSES				\$2,746.25	
CASH AT BEGINNING OF YEAR	07/01/08		8,324.36		
CURRENT CASH BALANCE	05/25/09		11,070.61		
DIFFERENCE				2,746.25	
BANKING:					
SAVINGS ACCOUNT: BANK of the WEST					
CERTIFICATE OF DEPOSIT ACCOUNT # 166-000-302653					
BEGINNING BALANCE	07/01/08		6,804.14		
DEPOSITS	07/01/08	TO	05/25/09	0.00	
INTEREST	07/01/08	TO	05/25/09	58.69	
DEBITS	07/01/08	TO	05/25/09	0.00	
END BALLANCE			05/25/09	6,862.83	
CHECKING ACCOUNT: WESTAMERICA BANK					
LEGACY BUSINESS MMKT SAVE ACCOUNT # 534-40108-8					
BEGINNING BALANCE	07/01/08		1,520.22		
DEPOSITS	07/01/08	TO	05/25/09	4,365.23	
INTEREST	07/01/08	TO	05/25/09	2.36	
DEBITS	07/01/08	TO	05/25/09	1,680.03	
END BALLANCE			05/25/09	4,207.78	
FUND BALANCE					
FUND EQUITY AS OF	07/01/08		117,113.36		
REVENUES OVER EXPENDITURES			2,746.25		
FUND EQUITY AS OF			05/25/09	119,859.61	
CASH WITH FISCAL AGENTS AS OF			05/25/09		
(CHECKING PLUS SAVINGS)			11,070.61		
LESS UNPAID CHECKS #			0.00		
CASH FUND AVAILABLE			11,070.61		
GENERAL FIXED ASSETS			108,789.00		
'FUND EQUITY AS OF			05/25/09	119,859.61	
AMOUNT OUT OF BALANCE					0.00

APPENDIX B

MELISSA FANNING

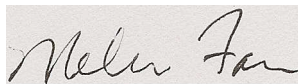
Certified Public Accountant

Board of Directors
Butler-Keys Community Services District
P.O. Box 868
Clearlake Oaks, CA 95423

I have compiled the accompanying statement of assets, liabilities and fund balance of Butler-Keys Community Services District as of June 30, 2008 and 2007, and the related statements of revenues collected, expenses incurred and changes in cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. I have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

The financial statements of Butler-Keys Community Services District were prepared on the modified accrual basis of accounting. Accordingly, they are not intended to present financial position and results of operation in conformity with generally accepted accounting principles.



Melissa Fanning
Certified Public Accountant

14215 Lakeshore Drive ~ P.O. Box 3830 ~ Clearlake, CA 95422
707-995-1166 ~ FAX 707-995-0851 ~ Email: melissaf@sonic.net

Butler Keys MSR
Adopted February 17, 2010
LAFCO Resolution 2010-0001

BUTLER-KEYS COMMUNITY SERVICES DISTRICT
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE
JUNE 30, 2008 and 2007

	June 30, 2008	June 30, 2007
ASSETS		
Current Assets		
Cash in Checking	\$1,520	\$1,917
Cash in Savings	6,804	9,397
Total Current Assets	8,324	11,314
Road Construction & Improvement	108,789	108,789
Total Assets	\$117,113	\$120,103

LIABILITIES AND FUND BALANCE

Liabilities	\$	0	\$	0
Fund Balance				
Balance Beginning of Year		120,103		121,621
Excess of Expenses over Revenues		(2,989)		(1,518)
Balance End of Year		117,113		120,103
				~
Total Liabilities and Fund Balance	\$	117,113	\$	120,103

**BUTLER-KEYS COMMUNITY SERVICES DISTRICT STATEMENT OF
REVENUES COLLECTED, EXPENSES INCURRED
AND CHANGES IN CASH FLOW
FOR THE YEARS ENDED JUNE 30, 2008 and 2007**

	June 30, 2008	June 30, 2007
Revenue:		
Interest Income	\$409	\$406
Tax Revenue	0	32
Total Revenue	\$409	\$438

Expense:

Election Expenses	144	1,135
Office Expenses	61	42
Professional Services	320	341
Maintenance	2,874	438
Total Expense	3,399	1,956
Excess Expenses over Revenues	(2,989)	(1,518)
Cash at Beginning of Year	11,314	12,832
Cash at End of Year	\$ 8,325	\$ 11,314

BUTLER-KEYS COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 and 2007

Accounting Method - Butler-Keys Community Services District was formed by election on November 4, 1980, for the purpose of improving the streets within the community area. The District uses the modified accrual basis of accounting which recognizes revenue when received and expenses when incurred with the following modification.

Capital Assets - Capital asset additions are recorded at cost. Normal annual maintenance items are expensed when paid. No provision for depreciation, repair or replacement is recorded in the financial statements.

Figure 1 – Butler-Keys District Boundary



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