TO: MEMBERS, FORMATION COMMISSION

FROM: DAVID CHURCH, EXECUTIVE OFFICER
      MIKE PRATER, DEPUTY EXECUTIVE OFFICER

DATE: MAY 21, 2020

SUBJECT: STATUS REPORT-SOUTH COUNTY AGENCIES SPHERE OF INFLUENCE UPDATE/MUNICIPAL SERVICE REVIEWS (NO ACTION REQUIRED)

Recommendation. It is respectfully recommended that the Commission consider the information provided at this status report and provide comments to staff as appropriate.

Summary. This status report is to provide the Commission and public with information regarding the City of Arroyo Grande, Grover Beach, Oceano CSD and South San Luis Obispo County Sanitation District Sphere of Influences (SOI) and Municipal Service Reviews (MSR) Update. The Public Review Draft SOI/MSR Update describes the various population trends, water supply and demand, and governmental structure for each jurisdiction as required by the Cortese-Knox-Hertzberg Act (CKH). The Public Review Draft Chapters for each jurisdiction can be found on the San Luis Obispo Local Agency Formation Commission (LAFCO) website by March 21, 2020: www.slolafco.com. Chapter one is an Introduction and Executive Summary to the document. Chapter two contains the proposed Sphere of Influence Updates for each jurisdiction. Chapter three discusses the City of Arroyo Grande. Chapter four discusses City of Grover Beach. Chapter five discusses Oceano CSD. Chapter six discusses the South San Luis Obispo County Sanitation District. The addition of a new chapter, Chapter seven discusses the Five Cities Fire Authority updates for their Municipal Service Reviews. A Categorical Exemption was determined to be appropriate and can be found in Appendix A. The Draft Memorandum of Agreement for the City of Arroyo Grande can be found in Attachment B.

Background. The Sphere of Influence Update and Municipal Service Reviews for the South County jurisdictions have been drafted and released for public review starting May 21. The Public Review includes a 30-day period for all interested parties to comment on the documents. The comment period for the Draft documents ends on June 22, 2020. The documents are available online at www.slolafco.com or a CD can be obtained.

Attachments
B: Draft Memorandum of Agreement (MOA)
C: Recommended Sphere of Influence Maps
for free by calling the LAFCO office.

**Status Report.** During this status report, staff will brief the Commission and the public with regard to the Sphere of Influence Update and Municipal Service Review prepared for the South County jurisdictions. Staff will summarize the information and determinations found in the draft documents. The report is informational in nature and provides an opportunity to identify issues and questions prior to the public hearing. Also the public is invited to provide any feedback or questions about the documents or the process. No action is requested by the Commission at this time. Please provide us with any comments, insights and questions you may have about the documents or the process.

The Five Cities Area Sphere of Influence was last updated in 2012. Under this update no additional study areas are being considered with the small exception of Virginia Drive in City of Arroyo Grande.

A Sphere of Influence Update and Municipal Service Review have been prepared in accordance with the CKH Act. The Sphere Update contained in Chapter Two of the document proposes a status quo Sphere of Influence for the City of Grover Beach, Oceano CSD, and South County Sanitation District. The Municipal Service Review addresses the service capabilities of each jurisdiction and the seven factors found in the CKH Act.

**Chapter 1 - Introduction and Executive Summary.** This chapter introduces terms and definitions, summarizes the purpose of the documents and describes the process of updating the SOI. The Executive Summary provides a summary of each of the factors for each jurisdiction considered in the Municipal Service Reviews and the recommendation regarding the SOI for each jurisdiction.

**Chapter 2 - Sphere of Influence Update.** The Sphere of Influence Chapter describes the requirements of the Cortese-Knox-Hertzberg Act and provides background regarding the existing SOI for each jurisdiction. It also identifies the Study Areas that were evaluated in determining the SOI, the City-County draft agreement between Arroyo Grande and the County, and the LAFCO staff recommendation for each jurisdiction. The draft MOA found in Attachment B is also summarized in this chapter. Also covered are the factors that are required by CKH for establishing a SOI. The Staff Recommendation is to maintain the existing SOI for the City of Grover Beach, Oceano CSD, and South County Sanitation District. With the exception of six existing parcels located south of Virginia Drive and east of Halcyon with single family residences are recommended to be added to the City of Arroyo Grande’s SOI.

**Chapter 3, 4, 5, 6, & 7 - Municipal Service Reviews.** The purpose of the Municipal Services Review is to provide the Commission with information to update a jurisdiction’s Sphere of Influence. The preparation of a Municipal Service Review is an information-driven activity. We have been assisted by City and District staff in gathering the information needed to prepare the Sphere Update and MSR for each jurisdiction. LAFCO staff has taken this information and reviewed, analyzed and summarized the data. The MSR along with the analysis and determinations called for by the Government Code is used as the
information base for the Sphere of Influence Update. The MSR addresses the seven factors that are required to be evaluated.

**Notice of Exemption (Appendix A).** The purpose of the environmental review process is to provide information about the environmental effects of the actions and decisions made by LAFCO and to comply with the California Environmental Quality Act (CEQA). In this case, it has been determined with certainty that there is no possibility that the project will have a significant environmental effect on the environment and therefore it is found to be exempt from CEQA pursuant to section 15061(b)(3) of the State Guidelines. The Local Agency Formation Commission will file this Notice of Exemption upon approval of the Sphere of Influence Update.

**Draft Memorandum of Agreement (Appendix B).** The process of updating the Sphere of Influence and Municipal Service Review for the City of Arroyo Grande also involved meetings to revise the City-County Memorandum of Agreement (MOA). The MOA between the City of Arroyo Grande and the County of San Luis Obispo will be scheduled when recovered from COVID-19. The Board of Supervisors will schedule the MOA after the City's adoption. In the MOA, the City and County agreed to maintain the existing SOI and add Virginia Drive residences. The major addition would be the inclusion of property tax negotiation provision. Other formatting and wording that does not change the intent are included. The principles incorporated into the Draft MOA include:

**Orderly Development/Phasing.** In general, the SOI areas shall be developed in a phased manner, with the SOI area closest to the City (Fredericks) being considered first and the Williams property being considered after the Frederick project receives approval and is annexed into the City. Alternatively, a different phasing plan may be considered if it enhances the orderly and logical development of the area.

**Agriculture and Open Space.** The City and the County will work together to permanently preserve agricultural and open space resources in the SOI area using the City’s and County’s Agricultural Element policies, Strategic Growth principles, and the Conservation and Open Space Element (COSE) policies. The criteria contained in the COSE and Agriculture Element, and the pertinent policies in the City’s General Plan, shall be used in developing the preservation policies and programs. A Transfer of Development Credits program may be used to encourage a density bonus as an incentive to property owners and developers.

**Guiding Principles for Future Development.** The City and County agree that the following principles should help guide development that is proposed within the City’s Sphere of Influence. The following goals shall be considered:

a. **Direct development toward existing incorporated areas and unincorporated urban areas with logical infrastructure connections**

Phase urban development in a well designed manner, first using vacant or underutilized “infill” parcels and lands next to or near existing development and adjacent infrastructure. Include a range of land uses and housing types and densities.
affordable to a wide range of incomes.

b. **Create walkable and transit friendly neighborhoods that have logical connections to other parts of the City**
   Area proposed for future growth should address roadway distances that would connect the new areas of development together with the existing City and would promote maximum connectivity between different land uses through walkways, bike paths, transit, or other means.

c. **Provide for a variety of transportation choices that are feasible and financially viable**
   Insure adequate densities of development that are conducive to supporting transit service.

d. **Create a range of housing opportunities and choices**
   Future development plans should clearly define a program for including a balanced variety of housing types; one that includes multi-family development and options for higher-density housing. The development should maximize the opportunities to offer a greater range of housing choices that are affordable to people with a variety of income levels.

e. **Use land more efficiently**
   The proposed development should be designed in a way that encourages transit, walkability and connectivity to existing city infrastructure within the areas proposed for development. The goals are to 1) develop compact neighborhoods that contain residential uses that are affordable by design and efficient in land and energy consumption and 2) minimize the number of large lots by encouraging a variety of housing densities.

f. **Improve the regional or sub-regional jobs/housing balance**
   Plan for land uses that provide opportunities for employment and in particular, explore creating opportunities for head-of-household jobs.

**Property Tax Agreement.** Prior to processing an annexation the City and County are required to approve a property tax agreement. The City and County may use the existing Master Agreement for negotiations, or they may consider a separate agreement that specifies a different property tax allocation formula. This is allowed under the revenue and tax code of the State of California.

**City of Arroyo Grande Summary** - Arroyo Grande’s existing Sphere of Influence includes approximately 185-acre agricultural parcel (Fredericks) and 200-acre Williams property (agricultural parcel) located adjacent to the Fredericks property and Highway 101 along the City’s southeastern border which was added in 1998 and 2003 respectively. Tract 1724 was also added to the City’s Sphere of Influence in 2003. The Newsome Springs area (Tract 1551) was added in 2012. These sites are already developed subdivision with single-family residences on larger lots. LAFCO staff evaluated the existing sphere properties as well as the following new Study Area #5 Virginia Drive. These six parcels are located south of...
Virginia Drive and east of Halcyon. This area contains approximately 0.48 acres of already developed parcels. The homes have already been built and receive services from the City of Arroyo Grande. The area is essentially the back yards of the homes fronting Virginia Dr. Attachment C shows the recommended Sphere of Influence for the City of Arroyo Grande.

**City of Grover Beach Summary** - Grover Beach is bordered by the cities of Pismo and Arroyo Grande to the north and east respectively, by the Oceano Community Services District to the south and the Pacific Ocean to the West. The City is providing its residents with adequate services and is striving to improve and increase the level of services. The City is continuing to improve its service delivery system by reviewing how services are provided and how the systems can be improved. No changes are recommended to Grover Beach’s Sphere of Influence because of the well-defined area of land occupied by the City. Attachment C shows the recommended Sphere of Influence for the City of Grover Beach.

**Oceano CSD Summary** - The District is providing its residents with adequate services and is striving to improve and increase the level of services, particularly for fire service. A ballot measure to increase assessment fees to increase participation and continue to be part of the Five Cities Fire Authority was scheduled in March 2020. Unfortunately, this ballot measure did not receive the required two-thirds approval. Oceano CSD will continue to part of the JPA until 2021. The District is considering its options including divestiture. No changes are recommended to Oceano CSD’s Sphere of Influence. Attachment C shows the recommended Sphere of Influence for the Oceano CSD.

**South County Sanitation District Summary** - The District is continuing to improve its service collection system by building a redundancy system and continuing to reviewing how services are provided and how the systems can be improved. No changes are recommended to South County Sanitation Districts Sphere of Influence. Attachment C shows the recommended Sphere of Influence for the South County Sanitation Districts.
Attachment A

Public Review Draft SOI/MSR/NOE can be found at (www.slolafco.com)
Attachment B

Draft Memorandum of Agreement (MOA) between
the City of Arroyo Grande and
the County of San Luis Obispo
MEMORANDUM OF AGREEMENT
BETWEEN THE CITY OF ARROYO GRANDE AND
THE COUNTY OF SAN LUIS OBISPO
REGARDING THE CITY’S SPHERE OF INFLUENCE

This Agreement between the City of Arroyo Grande (hereafter “City”) and the County San Luis Obispo County (hereafter “County”) is entered into by the City on this _____ day of ____, 2020, and by the County on this _____ day of ____, 2020.

This Agreement is entered into on this _____ day of ______________________, 2012, by and between the City of Arroyo Grande (hereafter “City”) and the County San Luis Obispo County (hereafter “County”).

WITNESSETH

WHEREAS, the Cortese/Knox/Hertzberg Act (“the Act”) requires the Local Agency Formation Commission (LAFCO) to update the Spheres of Influence for all applicable jurisdictions in the County every five years, as needed; and

WHEREAS, the City and County entered into this Memorandum of Agreement (MOA) in 2003, and 2012 as part of updating the City’s Sphere of Influence (SOI) Update; and

WHEREAS, the City and County have been working together to implement the existing MOA with regard to the SOI and specifically the Fredericks and Williams sites; and

WHEREAS, this updated MOA assists in clarifying the roles, responsibilities, and intentions of each jurisdiction and identifies the processes for working together in the future; and

WHEREAS, a Sphere of Influence is defined by Government Code 56076 as a plan for the probable physical boundaries and service area of a local agency, and pursuant to Government Code 56425 has been identified by the County of San Luis Obispo and the City of Arroyo Grande as contained in Exhibit A; and

WHEREAS, the Act further requires that a Municipal Service Review be conducted prior to or, in conjunction with, the update of a Sphere of Influence and such a Municipal Service Review has been prepared by LAFCO staff in accordance with Section 56430 of the California Government Code as a means of identifying and evaluating public services provided by the City.
of Arroyo Grande and changes to the City’s Spheres of Influence; and

WHEREAS, the Act strongly encourages the City and County to reach agreement regarding the boundaries (Exhibit A), development standards, and zoning requirements (Exhibit B) to ensure that development within the sphere occurs in an orderly and logical manner; and

WHEREAS, the City and County have reached an agreement regarding the Sphere of Influence boundaries (Exhibit A), and Terms and Provisions (Exhibit B); and

WHEREAS, LAFCO is required by Government Code 56425 (b) to give great weight to this agreement in making its final determination of the city’s Sphere of Influence.

NOW, THEREFORE, the parties agree as follows:

1. The Sphere of Influence boundary contained in Exhibit A provides for the orderly and logical growth for the City of Arroyo Grande and represents an appropriate 20-year growth boundary based on existing information and current circumstances.

2. The Terms and Provisions contained in Exhibit B provide a framework for completing updates to the General Plans of both the City and the County for the areas in the Sphere of Influence.

3. The Terms and Provisions contained in Exhibit B are intended to provide the City and the County with the basis for developing specific land use policies and standards for the areas in the City of Arroyo Grande’s Sphere of Influence and do not supersede or limit the planning or environmental review process of either jurisdiction or legally bind either jurisdiction.

4. The City and County shall use their General Plans to guide the logical and orderly development of these Sphere Areas while protecting agricultural and open space lands.
CITY OF ARROYO GRANDE

Mayor, City Council
City of Arroyo Grande

APPROVED AS TO FORM AND LEGAL EFFECT:

____________________________
City Counsel
Dated:_______________________

ATTEST:

____________________________
City Clerk
Dated:_______________________
COUNTY OF SAN LUIS OBISPO

Chair, Board of Supervisors
County of San Luis Obispo

ATTEST:

WADE HORTON
Ex-Officio Clerk of the Board of Supervisors

By: ______________________________________
Deputy Clerk

APPROVED AS TO FORM AND LEGAL EFFECT:

RITA L. NEAL
County Counsel

By: ____________________________
________________________
Deputy County Counsel
Dated:________________________

ATTEST:

____________________________
________________________________
County Clerk
Dated:________________________
EXHIBIT A
SPHERE OF INFLUENCE BOUNDARY MAP

City of Arroyo Grande
City Limits & Sphere of Influence Recommendation

Legend

- Major Roads
- Service Area
- Sphere of Influence
EXHIBIT B
TERMS AND PROVISIONS

The following Terms and Provisions are agreed to and shall be used by the City of Arroyo Grande and the County to develop the proposed Sphere of Influence as described in Exhibit A and to update their General Plans.

1. **Intent.** It is the intent of the County and the City to work cooperatively towards the goal of developing the agreed upon Sphere of Influence (as shown in Exhibit A) in an orderly and logical manner consistent with the Cortese/Knox/Hertzberg Act, the City and County General Plans, the California Environmental Quality Act and any other applicable laws and regulations.

2. **Interagency Cooperation.** The City and the County shall work cooperatively to plan for future land uses, public services and facilities needed to improve and maintain area circulation connections, and to preserve agricultural land and open space. The County and City will consider the creation and implementation of various assessment and financing mechanisms for the construction and maintenance of public improvements, such as roads, utilities, recreation and trail improvements, parks and open space, and similar improvements that could serve visitors and residents of the City and the County. Discretionary development projects and General Plan Amendments (GPA’s) that may affect each agency’s jurisdiction shall be referred to the other for review and comment as early as possible in the land use process. The County shall seek the City’s comments regarding these projects or GPA’s in the referral area map found in Exhibit C. The City shall seek the County’s comments regarding projects or GPA’s that affect the unincorporated area found in Exhibit C. All such referrals shall be sent to the following contact person(s) for early review and comment:

   Director of Planning and Building  
   County of San Luis Obispo  
   Department of Planning and Building  
   County Government Center  
   San Luis Obispo, CA 93408

   Community Development Director  
   City of Arroyo Grande  
   Community Development Dept.  
   214 East Branch Road  
   Arroyo Grande, CA 93421

Projects and activities that affect agricultural lands and resources shall be referred to the County Agricultural Commissioner’s office at the following address:
The provisions mentioned above shall not supersede other methods of commenting or providing feedback regarding a proposal or project.

**Development Review Coordination.** Projects or GPA’s proposed within the referral area shown in Exhibit C, and subject to an Initial Study under CEQA, shall cause the City and County representatives to request a meeting prior to completion of the Initial Study. The purpose would be to discuss the City’s and County’s General Plan policies with regard to the proposal and to identify any key issues that may need special attention during the CEQA process.

3. **Interim Development.** To the extent possible, the County shall limit the development in the Northern Arroyo Grande Fringe Area to what is allowed under current land use designations. This includes compliance with the standards regarding the Residential Rural and Residential Suburban land use categories found in the County’s San Luis Bay Area Plan.

4. **City/County Shared Services, Infrastructure, and Facilities.** The County and City will evaluate the creation and implementation of various assessment and financing mechanisms to provide for the construction and maintenance of public improvements and services, such as; roads, storm water, Fire and Police emergency response, utilities, recreation and trail improvements, historical and cultural parks, and similar improvements that could serve visitors and residents of the City and the County. Special consideration shall be given to the possible development of impact fees that could assist both the County and the City in maintaining roads and other transportation infrastructure in the unincorporated area adjacent to the City where impact fees are not currently charged.

5. **Environmental Constraints.** The City and the County shall base their recommendations and decisions for the 180 acre Frederick site and the 200 acre Williams site (already within the City’s SOI) on an environmental constraints analysis that studies resources such as, but not limited to, sensitive habitats, 100
year flood plain areas, agricultural lands with class I, II or III soils, open space resources, cultural resources, and areas of greater than 30% slopes. The Constraints Analysis shall be used to help prepare future plans for these SOI areas.

6. **Phasing.** In general, the SOI areas shall be developed in a phased manner, with the SOI area closest to the City (Fredericks) being considered first and the Williams property being considered after the Frederick project receives approval and is annexed into the City. Alternatively, a different phasing plan may be considered if it enhances the orderly and logical development of the area.

7. **Agriculture and Open Space.** The City and the County will work together to permanently preserve agricultural and open space resources in the SOI area using the City’s and County’s Agricultural Element policies, Strategic Growth principles, and the Conservation and Open Space Element (COSE) policies. The criteria contained in the COSE and Agriculture Element, and the pertinent policies in the City’s General Plan, shall be used in developing the preservation policies and programs. A Transfer of Development Credits program may be used to encourage a density bonus as an incentive to property owners and developers.

8. **Land Uses.** The SOI as described in Exhibit A may include, but is not limited to residential, mixed-use, public facilities, visitor-serving, agricultural uses, and/or recreational uses. The following goals shall guide future development:

   a. *Direct development toward existing incorporated areas and unincorporated urban areas with logical infrastructure connections*
   Phase urban development in a well designed manner, first using vacant or underutilized “infill” parcels and lands next to or near existing development and adjacent infrastructure. Include a range of land uses and housing types and densities affordable to a wide range of incomes.

   b. *Create walkable and transit friendly neighborhoods that have logical connections to other parts of the City*
   Areas proposed for future growth should address roadway distances that would connect the new areas of development together with the existing City and would promote maximum connectivity between different land uses through walkways,
bike paths, transit, or other means.

c. Provide for a variety of transportation choices that are feasible and financially viable
   Insure adequate densities of development that are conducive to supporting transit service.

d. Create a range of housing opportunities and choices
   Future development plans should clearly define a program for including a balanced variety of housing types; one that includes multi-family development and options for other types of housing. The development should maximize the opportunities to offer a greater range of housing choices that are affordable to people with a variety of income levels.

e. Use land more efficiently
   The proposed development should be designed in a way that encourages transit, walkability and connectivity to existing city infrastructure within the areas proposed for development. The goals are to 1) develop compact neighborhoods that contain residential uses that are affordable by design and efficient in land and energy consumption and 2) minimize the number of large lots by encouraging a variety of housing densities.

f. Improve the regional or sub-regional jobs/housing balance
   Plan for land uses that provide opportunities for employment and in particular, explore creating opportunities for head-of-household jobs.

9. General Plan Amendment. The City intends to complete pre-zoning, pre-annexation, and any necessary pre-general plan amendment activities prior to or concurrent with an annexation proposal being processed by LAFCO. The County intends to complete any necessary amendments to its General Plan in the San Luis Bay Area Plan to reflect the annexation of territory to the City of Arroyo Grande. The County shall also consider policies for the northern part of the City/County boundary, currently zoned Residential Suburban, that limit the intensification of land uses in the area.
10. **Zoning Requirements/Specific Plan.** A land use plan, which identifies land uses within the Sphere of Influence areas, shall be prepared and adopted by the City prior to the annexation of the property into the City. The Plan shall be prepared in accordance with the City’s General Plan and subject to environmental review which shall include analysis of issues related to completing the annexation, such as a reliable and adequate water supply, sewer capacity, and other services for the proposed project. Policies in the City’s General Plan may apply to the SOI area.

11. **Property Tax Agreement.** Prior to processing and annexation the City and County are required to approve a property tax agreement. The City and County may use the existing Master Agreement for negotiations, or they may consider a separate agreement that specifies a different property tax allocation formula. This is allowed under the revenue and tax code of the State of California.
Attachment C

Recommended Sphere of Influence Maps
Attachment C City of Arroyo Grande Recommended Sphere of Influence

City of Arroyo Grande
City Limits & Sphere of Influence
Recommendation

Legend

- Major Roads
- Service Area
- Sphere of Influence

B-3-20
Attachment C Oceano CSD Recommended Sphere of Influence