

HOMESTEAD VALLEY SANITARY DISTRICT

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August 25, 2026

The Honorable Judge Stephen P. Freccero

Marin County Superior Court

P.O. Box 4988

San Rafael, CA 94913-4988

Subject: Response to the 2025–2026 Marin County Civil Grand Jury Report, “Better Service at Lower Cost — Optimizing Essential Services for the Future of Marin”

Dear Judge Freccero,

The Homestead Valley Sanitary District Board of Directors has reviewed the 2025–2026 Marin County Civil Grand Jury Report, “Better Service at Lower Cost — Optimizing Essential Services for the Future of Marin” and adopted the following response at our regularly scheduled meeting held August 25, 2026

INTRODUCTION

The Homestead Valley Sanitary District (“HVSD”) appreciates the Marin County Civil Grand Jury’s continuing attention to the efficiency, accountability, and long-term resilience of the special districts that serve Marin residents. HVSD shares the Grand Jury’s interest in ensuring that public agencies operate cost-effectively and transparently, and HVSD already participates actively in collaborative arrangements with its fellow member agencies of the Sewerage Agency of Southern Marin (SASM), a Joint Powers Authority formed for exactly the kind of shared, mission-specific cooperation the Report encourages.

The Report draws many of its central examples — shared equipment purchasing, unified dispatch, standardized training, and consolidated command structures — from fire protection and emergency medical agencies. HVSD respectfully notes that wastewater collection agencies operate under a fundamentally different service model, funding structure, and regulatory regime than emergency-response agencies, and that these differences bear directly on which of the Report’s findings and recommendations are applicable to a small, geographically defined sanitary collection district such as HVSD. These distinctions are discussed further in the General Comments section below and are incorporated by reference into HVSD’s responses to individual Findings and Recommendations.

HVSD’s overriding priority, consistent with its statutory mandate, is to provide cost-effective, operationally efficient, environmentally responsible, and permit-compliant wastewater collection service to a small, geographically fixed service area with a limited and rate-constrained customer base. HVSD evaluates every proposal — including consolidation — against that standard, not against an assumption that larger scale is inherently preferable.

FINDINGS

Finding F1

The current fragmented structure of special districts results in unnecessary duplication of administrative services and operational inefficiencies.

Response: Partially Disagrees.

HVSD agrees that opportunities exist for shared administrative services where they produce demonstrable savings, and HVSD already participates in shared arrangements with its SASM partner agencies for treatment, and with the County and outside providers for select administrative functions. However, HVSD disagrees that the existence of multiple sanitary districts is itself the source of inefficiency.

Wastewater collection infrastructure is fixed in place and geographically bound to the customers it serves. Unlike an administrative back-office function, a collection system cannot be relocated, shared, or reassigned — nor can its maintenance and improvement — across district boundaries the way dispatch or purchasing can be shared among fire agencies. HVSD's administrative footprint is already minimal relative to its infrastructure responsibilities, and the Report does not identify specific duplicative costs borne by HVSD that a merger would eliminate.

Finding F2

Some districts perform competently but lack sufficient scale to support long-term strategic investment in infrastructure, technology, staffing, and resilience.

Response: Partially Disagrees.

HVSD agrees that scale can matter for some categories of investment — specialized equipment, workforce depth, and technology platforms among them. Where shared technology platforms offer genuine benefit, HVSD utilizes County systems for billing sewer service charges on the County tax bills and their finance department for paying HVSD monthly warrants. We also work with the County building department on coordinating permitting and with County Public Works on opportunities to coordinate County paving projects with HVSD sewer replacement, with varying degrees of success due to priorities and scheduling issues. HVSD disagrees that scale is the primary determinant of a district's ability to plan responsibly for its infrastructure.

HVSD's capital and rehabilitation priorities are driven by pipe condition assessments, SASM's conveyance and treatment capacity, and Sewer System Management Plan requirements — not by HVSD's size relative to other agencies. A small district with a well-maintained capital improvement plan and adequate reserves can meet its long-term obligations without consolidation; conversely, consolidation does not automatically confer better asset management practices on a combined entity.

HVSD's own Capital Improvement Program for collection-system pipe replacement has been financed entirely on a pay-as-you-go basis through Proposition 218-compliant rate revenue — without HVSD incurring any loans or bond indebtedness of its own (see General Comments, below) — demonstrating that a small district can successfully plan for and finance substantial long-term infrastructure investment without external grant support or debt financing.

That capacity for sustained investment is borne out across SASM's small sanitary district members generally, not just HVSD. HVSD, Richardson Bay, Almonte, and Alto Sanitary Districts have each independently sustained clay-pipe replacement at a pace of roughly 3.7% to 5.1% of their respective collection systems per year since 2008, and each has now replaced at least 62%, and in some cases over 85%, of its system — a level of sustained capital commitment inconsistent with the Report's premise that smaller districts lack the capacity for long-term strategic investment.

Finding F3

Smaller districts are disproportionately vulnerable to staffing disruptions and catastrophic events that could rapidly impair service delivery.

Response: Disagrees.

HVSD disagrees that its size makes it disproportionately vulnerable to service disruption. HVSD's collection system operations are already supported through contracted and shared staffing and mutual-aid relationships with SASM member agencies, which provide practical redundancy without requiring a change in governance structure.

The comparison the Report draws to fire and emergency medical staffing models — where a single-employee agency may struggle to maintain 24-hour response coverage — does not transfer cleanly to wastewater collection, where service continuity depends primarily on infrastructure condition, emergency response protocols, and contracted support, not on a large in-house headcount.

Finding F4

Although consolidation is a popular idea among many elected board members, current governance structures, absence of board member term limits, and fear of loss of political influence discourage boards and administrators from initiating consolidation even when they recognize its benefits.

Response: Disagrees.

HVSD is not aware of evidence that board tenure, governance structure, or fear of lost influence has been the operative obstacle to sanitary district consolidation in southern Marin. HVSD further notes that sanitary district board members are elected officials who may be replaced by the residents they serve during any election cycle, which already provides ratepayers a direct and recurring check on board tenure independent of any mandated term-limit policy. The record instead shows that voters themselves have directly and recently weighed in on this question: in 2013, a ballot measure to consolidate four SASM member agencies was defeated by a substantial margin, including within HVSD's own service area. That outcome reflected a considered judgment by HVSD's ratepayers, not board or administrative resistance.

Infrastructure condition, differing capital obligations, rate structures, and service-area characteristics — not board tenure — are the considerations that most directly bear on whether consolidation would benefit a given district's ratepayers.

Finding F5

Service and pricing inequities currently exist across Marin and may increase if consolidation and functional collaboration do not accelerate.

Response: Disagrees.

Differences in sewer service charges across Marin districts reflect differences in infrastructure age and condition, topography, treatment arrangements, debt service, capital program status, collection-system type (gravity-only versus pumped, which carry materially different capital and operating cost profiles), and each member agency's share under SASM's cost-partitioning (EDU allocation) formula — not inefficiency or lack of consolidation. A district with recently completed capital improvements and manageable debt will typically show a different rate than a district facing deferred rehabilitation needs, regardless of whether either district is standing alone or consolidated.

HVSD further notes that a uniform countywide rate structure, without regard to these underlying cost drivers, could require ratepayers in one service area to subsidize infrastructure needs in another — an outcome that itself raises equity concerns rather than resolving them.

HVSD's own recent rate increases illustrate this point directly: they finance both HVSD's collection-system pipe replacement program and its proportionate share of SASM's approximately \$38 million bond for rehabilitation and replacement of the regional treatment plant — a cost borne entirely by today's ratepayers. When this same infrastructure was originally built beginning in 1979, federal and state Clean Water Act construction grants covered the great majority of the cost, leaving a local share of only approximately \$5 million to be financed locally. No comparable grant program exists today (see General Comments, below).

Finding F6

Performance metrics for essential, mission-specific services exist but they are not readily available and standardized, which prevents meaningful public comparison of district effectiveness and undermines accountability.

Response: Partially Agrees.

HVSD supports transparency and is willing to work with SASM member agencies and peer sanitary districts to develop performance measures appropriate to wastewater collection operations — for example, measures tied to Sanitary Sewer Overflow rates, SSMP compliance, and capital program execution, which are more meaningful indicators of collection-system performance than generalized administrative metrics borrowed from other service types. HVSD notes that its independently audited annual financial statements already provide standardized, publicly available financial performance information consistent with this goal.

HVSD cautions that metrics standardized across dissimilar services (e.g., fire response times versus sewer collection performance) risk producing comparisons that are misleading rather than clarifying.

Finding F7

Without proactive reform, future consolidations are more likely to occur through crisis-driven intervention, resulting in greater disruption and higher costs.

Response: Disagrees.

HVSD's participation in SASM, its compliance with numerous state permit and reporting obligations, and its ongoing capital planning are themselves the proactive tools available to address future operational and financial pressures. HVSD does not agree that the absence of a mandated consolidation timeline creates meaningful crisis risk, and notes that regulatory oversight by the Regional Water Quality Control Board already provides an external, enforceable check on collection system performance independent of governance structure.

RECOMMENDATIONS

Recommendation R1

By January 1, 2027, all special district boards should have conducted their first semiannual consolidation exploration meeting with similar districts and will have established a regular meeting schedule moving forward.

Response: Will Not Be Implemented.

HVSD already meets regularly with its SASM partner agencies on shared operational and capital matters, and will continue to do so as part of its ordinary governance. HVSD does not believe a countywide mandate requiring a fixed, semiannual "consolidation exploration" meeting schedule is necessary or an appropriate use of a small district's limited staff time, and will not adopt a separate mandated schedule beyond its existing collaborative engagement with SASM and its member districts.

Recommendation R2

By October 1, 2026, the Board of Supervisors should direct the development of comprehensive, cost-efficient shared services (such as IT, legal, finance, HR/payroll, harmonized compensation/benefits package, insurance) for special districts to optimize expenses and secure a Marin-wide acceptable quality standard. First limited-service offerings are encouraged to be made available by January 1, 2027.

Response: Requires Further Analysis.

HVSD supports voluntary shared services where a specific, demonstrated cost-benefit case exists, and already relies on shared or contracted arrangements for several County-provided administrative functions, such as building inspection permit inspection and holds, sewer service charge billing, warrant processing, and County investment services. HVSD is not in a position to commit to countywide shared-service offerings developed on the Report's timeline without first seeing the specific service design, cost allocation methodology, and governance terms, and reserves judgment on whether any particular offering would benefit HVSD's ratepayers until that analysis is available.

Recommendation R3

By January 31, 2027, with the assistance of the County, all districts should develop and publish on their website standardized, comparable Key Performance Indicators (KPIs) with regard to service pricing, finance, staffing, operations, and customer satisfaction.

Response: Will Be Implemented in Part.

HVSD supports increased transparency and will evaluate collection-system-specific performance measures (such as SSO rates and SSMP compliance status) for publication, consistent with its response to Finding F6. HVSD does not commit to adopting metrics designed for dissimilar service types or to a standardization process led outside of the wastewater sector.

Recommendation R4

By January 31, 2027, each district should publicly update findings and progress regarding consolidation opportunities, and share those findings with the Board of Supervisors and the public on a semi-annual basis.

Response: Will Not Be Implemented.

HVSD does not believe a mandated semi-annual public reporting obligation specific to consolidation is warranted, given that HVSD has not identified a consolidation proposal expected to benefit its ratepayers at this time. HVSD will continue to report on its collaborative activities with SASM and its member Districts through its normal public board process.

Recommendation R5

By January 31, 2027, the Board of Supervisors should oversee compliance with R1–R4 and update the public on the districts' performance.

Response: Requires Further Analysis.

HVSD notes that independent special districts are governed by their own locally elected boards under state law, and any expanded Board of Supervisors oversight role over an independent district's internal decision-making warrants further legal analysis regarding the scope of the Board of Supervisors' authority over independent special districts before HVSD can take a position on this recommendation.

Recommendation R6

By October 1, 2026, in the process of implementing R1 and R2, districts should prioritize functional consolidation in operations, procurement, training, and administration as a precursor to formal consolidation.

Response: Will Be Implemented in Part.

HVSD already participates in functional collaboration with its SASM partner agencies in treatment, and will continue to evaluate additional voluntary opportunities for shared procurement or training where a specific, demonstrated benefit to ratepayers exists. HVSD does not treat such collaboration as a precursor or commitment toward formal consolidation, and will evaluate each opportunity independently on its own merits.

Recommendation R7

By October 1, 2026, the district's board compensation, benefits, length of service, date of term end, and expenses related to board work should be clearly and prominently posted on each district's website and updated annually.

Response: Has Been Implemented or Will Be Implemented.

HVSD supports transparency regarding board compensation and will ensure the information described in this recommendation is clearly posted on HVSD's website and updated annually, subject to resolution of any applicable privacy concerns regarding the posting of individual board members' compensation detail.

Recommendation R8

By June 1, 2027, special districts should adopt term limits of two consecutive four-year terms for all board members. Staggered implementation of term limits to avoid disruptions is encouraged.

Response: Will Not Be Implemented.

HVSD does not support mandatory board term limits. HVSD's directors are elected directly by HVSD voters, who already have the ability to evaluate incumbents' performance and choose new representation at each election. Given HVSD's small size and the value of institutional knowledge in overseeing a specialized collection system and its regulatory compliance obligations, HVSD believes voters — not a countywide mandate — are best positioned to decide whether an incumbent should continue to serve.

Recommendation R9

By June 1, 2027, board compensation structures should be reviewed across districts, and considered for adjustment. All components of board compensation should be posted on their website (see best practice example in Appendix B).

Response: Will Be Implemented in Part.

Board compensation at HVSD is set in accordance with applicable state law and is a matter of public record. HVSD will continue to ensure that compensation information is transparently disclosed, consistent with its response to R7, but does not believe a countywide review-and-adjustment mandate on a fixed timeline is necessary, as compensation levels for a small district are appropriately evaluated locally against HVSD's own workload and budget.

GENERAL COMMENTS

The following comments provide context applicable to several of HVSD's responses above and are incorporated by reference throughout this response.

Sanitary Districts Are Not Emergency-Response Agencies

The Report's central examples of successful consolidation — Southern Marin Fire District, shared self-contained breathing apparatus purchasing, unified dispatch — arise from agencies whose service model depends on mobile personnel and equipment that can be deployed across jurisdictional lines through

mutual aid and automatic aid agreements. Wastewater collection districts operate a fundamentally different model: a fixed, buried, geographically bound network of pipes and structures serving a defined service area. That infrastructure cannot be reassigned, shared, or redeployed across district boundaries — nor can its maintenance and capital improvement program — the way a fire engine or a battalion chief can. The efficiencies available to emergency-response consolidation — shared personnel deployment, shared equipment utilization across a wider footprint — do not transfer directly to a sewer collection system whose costs are driven by pipe condition, topography, and regulatory compliance obligations specific to its own service area.

Small Sanitary Districts Are Built for Cost-Effective, Compliant Operation — Not Scale

HVSD's statutory purpose is narrow and specific: to collect wastewater within a defined, geographically constrained service area and convey it for treatment in compliance with State Water Resources Control Board and Regional Water Quality Control Board permit requirements, at the lowest reasonable cost to a limited and rate-sensitive customer base. HVSD's small size is not incidental — it is a direct reflection of the small, geographically compact community it was formed to serve. Judging HVSD's effectiveness against a scale-based standard borrowed from countywide or regional agencies risks mistaking a design feature for a deficiency.

HVSD's priorities — cost-effective operation, operational efficiency, environmental responsiveness, and permit compliance — are the same priorities that drive every wastewater agency in Marin, regardless of size. What differs across districts is not the priority but the local circumstances — infrastructure age, topography, population density, and revenue base — under which those priorities must be met. A geographically diverse, population- and revenue-constrained service area, such as HVSD's, requires solutions calibrated to those constraints, not a uniform structure designed around the needs of larger, more urbanized service areas.

Much of this history conflates two related but distinct questions: whether SASM's member agencies are structured efficiently, and whether their collection systems needed capital renewal. The consolidation question examined throughout this response originated substantially from a LAFCo examination in the early 2000s reflecting the consolidation-minded views of LAFCo's leadership at the time, which shaped the focus of both the 2004 Service Review and the 2005 PB Consult study discussed above.

Independently, EPA and the State Water Resources Control Board were developing statewide collection-system regulatory standards during the same period — a general regulatory evolution applicable to every wastewater agency in California, not a response to any deficiency specific to SASM or its members. The cost and difficulty of fully eliminating inflow and infiltration was well understood industry-wide by the time SASM's plant was designed, and applied to most Marin collection agencies alike, not to SASM's members alone.

The infrastructure issue behind that regulatory shift — inflow and infiltration into collection systems built largely in the 1940s and 1950s with vitrified clay pipe prone to cracking, root intrusion, and imperfect joints — had been understood by engineers for decades and was already anticipated in the design of SASM's own treatment plant, which used a convey-and-treat strategy for wet-weather flows rather than assuming collection-system I&I would be eliminated. The January 2008 spill that drew intensified regulatory attention to SASM originated at the treatment plant itself and was ultimately attributable to WWTP operational issues, with I&I a contributing but secondary factor; the EPA Administrative Orders that followed addressed the related but distinct collection-system problem directly, requiring both structural measures (pipe inspection and replacement) and operational measures (cleaning frequency and SSO monitoring).

What actually tells the story is not any single figure but the pace and sustained focus each district maintained over the full life of the order. HVSD, Richardson Bay, Almonte, and Alto Sanitary Districts

each undertook an aggressive pipe replacement program addressing both elements of the order — reducing SSOs through enhanced cleaning and monitoring, and reducing I&I through systematic pipe replacement — sustained consistently from 2008 through the order’s termination:

District	Collection System Replaced	Average Annual Pace
HVSD	72.2%	~4.3%/yr
Richardson Bay	68.0%	~4.0%/yr
Almonte	62.7%	~3.7%/yr
Alto	86.0%	~5.1%/yr

These figures measure replacement against each district’s total collection system, not against its clay pipe specifically — the actual population the order targeted. Where the underlying pipe material has been separately tracked, the results are stronger still: HVSD’s own inventory shows its remaining unreplaced footage at just 1.4% of its system, and Alto’s own reporting identifies its remaining unreplaced footage as non-VCP plastic pipe installed in 1986 — meaning both districts have effectively eliminated their clay pipe entirely. HVSD is unaware whether Richardson Bay and Almonte maintain comparable pipe-type inventories, but there is no reason to expect their underlying progress against clay pipe specifically to differ from this pattern. In addition to the concerted replacement of its own lines, HVSD and its fellow SASM member agencies each adopted their own version of a model private lateral ordinance developed through SASM — a further example of voluntary functional collaboration achieving a coordinated result without requiring formal consolidation. Richardson Bay adopted its ordinance first, on August 19, 2014, followed by Almonte (Ordinance 2014-1) and HVSD (Ordinance No. 2014-01, adopted September 23, 2014) later that year, with Alto’s following in 2015 (Ordinance 2015-01). In HVSD’s case, all private laterals connected to district pipes being replaced were inspected; residents were informed of condition-related defects requiring remediation, given a compliance timeline, and offered aid where available.

HVSD’s own financial commitment illustrates the scale of investment this required: HVSD’s rate rose from \$250 to \$1,475 per EDU between FY2005/06 and FY2024/25 — roughly a sixfold increase — funding approximately \$4.6 million in qualifying pipe replacement over the six years preceding the order’s termination alone, all without HVSD incurring any loans, bonds, or other debt. That sustained commitment culminated in formal resolution: HVSD’s order (EPA Docket No. CWA-09(a)-08-030) was terminated by EPA on November 25, 2024, based on EPA’s review of HVSD’s quarterly and annual compliance reporting and its demonstrated replacement of the substantial majority of its collection system; the parallel orders issued to Richardson Bay, Almonte, and Alto Sanitary Districts have each likewise been terminated by EPA on the same basis. The Report’s suggestion that smaller districts lack the capacity for long-term investment repeats a version of the same conflation described above.

Two Decades of Review — By LAFCo and by Five Prior Grand Juries

HVSD and its fellow SASM member agencies are governed by boards of directors elected directly by the ratepayers they serve, and those elected boards have operated under sustained, recurring, and substantive external review: from the Regional Water Quality Control Board and the U.S. Environmental Protection Agency, from the State Water Resources Control Board’s evolving Sewer System Management Plan requirements, from Marin LAFCo’s own recurring statutory service reviews, and from five separate Marin Civil Grand Jury examinations of this same subject over the past twenty-two years. HVSD has been a named or required-responding party to every one of them. That record is public and consistent, and it is worth summarizing here.

SASM itself initiated the first such examination in 1984, following the successful completion of its original wastewater treatment plant construction — a voluntary, self-directed inquiry undertaken from a position of success, not external pressure. In April 2004, the Grand Jury's report *Southern Marin Sewers — So Many Districts, So Few Users* concluded, after interviewing district managers and board members directly, that the small size of these districts was not a material obstacle to attracting capable staff, and identified no large economies of scale available through combined management. That same month, Marin LAFCo completed its own comprehensive *Southern Marin Service Review* — the first of LAFCo's recurring, state-mandated reviews of this exact question. In July 2005, LAFCo's independent consultant, PB Consult Inc., quantified the available savings: voluntary functional collaboration, without any change in governance, could capture the substantial majority of what was achievable (an estimated 11–12% of the combined operating and capital budget), with full political consolidation of the four SASM-member districts adding a smaller increment on top of that (an estimated 8.5–10%).

In January 2008, SASM experienced a sewage spill that led to EPA and RWQCB administrative orders and a \$1.6 million settlement. SASM and its member agencies, including HVSD by name, implemented the corrective actions EPA and RWQCB had required; by the time the Grand Jury issued its May 2009 report, *Southern Marin Sewers: Cracks in the System*, most of those operational failures had already been addressed. That 2009 Grand Jury report again recommended consolidation, and later in 2009 the Legislature enacted a SASM-specific statute (former Government Code Section 56375.2) authorizing Marin LAFCo to force consolidation of SASM's like-agency sanitary district members — Almonte, Alto, HVSD, and Richardson Bay — without a ratepayer vote. The statute could not reach Tamalpais Community Services District or the City of Mill Valley, which are different types of governmental entities not subject to consolidation with sanitary districts under state law. LAFCo chose not to exercise that authority even as to the four districts it could reach.

That 2009 Grand Jury report's discussion of the underlying physical and engineering issues — wet-weather inflow and infiltration, aging clay pipe, the tradeoffs inherent in collection-system design, private lateral condition and responsibility — was substantive and remains a fair account of the problem. Its organizational conclusion, that a single consolidated agency would have addressed those issues more effectively than the individual member districts, was not independently tested at the time and has not been borne out since: the four small sanitary districts addressed the same physical problem the report described, on their own, without consolidating.

In May 2013, a consolidation proposal covering four SASM member agencies, including HVSD, was instead put directly to the ratepayers themselves. It was defeated, including within HVSD's own service area. That remains the one occasion on which residents were asked this exact question directly, rather than having it answered on their behalf.

The 2013–2014 Grand Jury's two-part report, *The Scoop on Marin County Sewer Systems*, again surveyed every wastewater agency in Marin in detail and again recommended further collaboration, much of which districts including HVSD were already pursuing voluntarily. In April 2018, a further Grand Jury report, *Consolidation of Sanitation Districts*, again proposed the same full merger of SASM's member agencies that ratepayers had already rejected five years earlier.

In 2021, the Legislature repealed the special SASM-consolidation authority it had created in 2009, identifying it — alongside several other long-dormant, single-purpose provisions — as obsolete.

In September 2023, Marin LAFCo completed its own most recent *Southern Marin Wastewater Study*, a scheduled municipal service review that included an individual profile of HVSD. That review confirmed AB 1232's repeal, found HVSD's infrastructure and service levels sufficient to meet current and anticipated needs, found HVSD's finances sound — including an increasing net position in each of the

preceding five fiscal years and no long-term debt — and described HVSD's public transparency through its website as "exemplary."

Marin LAFCo has continued this recurring statutory review throughout the entire period addressed above — in 2004, again in 2011, and most recently in September 2023, barely two and a half years before this Report. That process exists precisely to answer the question this Report raises, on a recurring cycle, with the actual state-law authority to act on its findings. The current Report, however, does not include LAFCo among its required or invited respondents, and does not engage with LAFCo's own review at all. HVSD respectfully questions whether a sixth examination of this same subject, disconnected from LAFCo's own parallel and legally operative review process, is the most effective use of the Grand Jury's investigative resources.

Any consolidation of SASM's member agencies would also force a reexamination of SASM's governance structure, which is democratic in a specific and deliberate sense: each member agency holds a single vote on the SASM Board regardless of its population, while SASM's operation and maintenance budget is apportioned among members according to their relative size, measured in Equivalent Dwelling Units (EDUs), so that the cost of SASM's operations is apportioned as equitably as possible among its members. Neither this Report nor prior consolidation studies have specified how a consolidated entity's governing board would be composed — population- or parcel-weighted representation, an expanded board, or some other structure — leaving a foundational governance question unresolved before any merger could responsibly proceed.

A full, six-member merger encompassing SASM's four sanitary district members together with the City of Mill Valley and Tamalpais Community Services District would, moreover, require an affirmative request from SASM itself to assume service responsibilities currently held by a municipality and a community services district under an entirely new organizational structure — a fundamentally different undertaking than consolidating like-agency sanitary districts with one another, and one SASM has never formally proposed.

HVSD offers this history not as an argument for complacency, but because it bears directly on the Report's premise: this is not an unexamined question. It has been studied repeatedly, by multiple independent bodies, for more than two decades, and every time the question was either studied rigorously or put to ratepayers directly, the result has pointed the same direction. HVSD collaborates with SASM, the County, and its neighboring districts wherever collaboration produces a demonstrated benefit to its ratepayers, as reflected throughout this response. Beyond that, HVSD's task — and its consistent practice — is to keep operating a small, permit-compliant, and financially sound collection system as efficiently as its scale allows.

Enterprise Funding and Proposition 218 Constraints

As an enterprise-funded agency, HVSD's revenue is generated directly from sewer service charges on its own ratepayers, subject to Proposition 218's cost-of-service requirements. This funding structure means that any additional administrative or transition costs associated with consolidation — whether from new management layers, integration of systems and policies, or expanded reporting obligations — would necessarily be borne by HVSD's own ratepayers through higher sewer charges, not absorbed elsewhere. HVSD accordingly evaluates any proposed structural change, including the recommendations in this Report, against its direct effect on the rates paid by a small and fixed customer base.

Loss of Federal Clean Water Grant Funding

SASM's original treatment facilities, constructed beginning in 1979, were financed under the federal Clean Water Act Construction Grants Program on a cost-sharing formula that covered approximately 75% of eligible project costs through the U.S. Environmental Protection Agency and 12.5% through the State of California, leaving SASM and its member agencies — including HVSD — responsible for the

remaining 12.5% of eligible costs, plus 100% of any grant-ineligible costs. That local share was financed through SASM's founding bond issuance of approximately \$5 million. That founding bond was retired years before SASM's current financing program began, and its purpose was narrowly limited to bridging the gap left after federal and state grants covered the substantial majority of the original project cost.

No comparable federal or state grant program exists today. As a direct consequence, the full cost of maintaining, rehabilitating, and replacing that same infrastructure — decades later — now falls entirely on HVSD's own ratepayers, with no equivalent cost-sharing arrangement to offset it. HVSD has adopted the Proposition 218-compliant rate increases required to finance two major categories of this work: (1) HVSD's own Capital Improvement Program for pipe replacement within its collection system, and (2) HVSD's proportionate share of SASM's 2016 bond program (approximately \$38 million; HVSD Resolution No. 2016-05, adopted September 22, 2016; SASM Financing Agreement dated October 1, 2016), which refunded then-outstanding prior debt and financed the capital improvements identified in the December 2014 SASM facilities master plan. Where the original 1979-era project was financed locally only to the extent of roughly \$5 million after federal and state grants covered the balance, today's ratepayers are financing the entire cost of the plant's renewal — an approximately \$38 million obligation — without any comparable outside support.

It bears emphasis that HVSD has financed the entirety of its own district-specific capital obligations — including its Capital Improvement Program for collection-system pipe replacement — on a pay-as-you-go basis through Prop 218-compliant rate revenue, without incurring any loans or bond indebtedness of its own. HVSD's only debt-financed obligation is its proportionate share of SASM's 2016 bond program, a financing decision made at the SASM (JPA) level to fund treatment plant rehabilitation, which HVSD's ratepayers fund through their share of the SASM assessment rather than through any borrowing undertaken directly by HVSD. HVSD, Alto, and Almonte Sanitary Districts additionally carry no retirement or post-retirement (OPEB) obligations, and, as gravity-only collection systems, none of the ongoing pump station operation, maintenance, and replacement costs that a pumped collection system necessarily carries — a further structural simplicity that reduces long-term financial risk independent of any consolidation. HVSD offers this distinction as evidence of the fiscal discipline with which a small district can manage its own obligations, notwithstanding the Report's general suggestion that smaller districts lack the capacity for sound long-term financial planning.

HVSD raises this history because it bears directly on the Report's discussion of rate disparities among Marin sanitary districts (see Finding F5, above). A district's current rate level reflects, among other things, where that district's infrastructure sits in its capital replacement cycle and how much of that replacement cost was originally offset by now-unavailable federal grant funding, versus how much must now be recovered entirely from a small, fixed ratepayer base. Rate differences of this kind are not evidence of inefficiency, and they are not a structural argument for consolidation; they are the direct and foreseeable consequence of the end of federal construction grant support for environmentally mandated infrastructure that now must be renewed, decades later, solely at ratepayer expense — an obligation that governance structure or district size does not change.

Implementation Timeframes

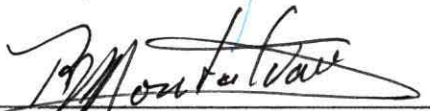
HVSD is concerned that several of the Report's implementation deadlines do not allow sufficient time for the board consideration, public process, and interagency coordination that responsible evaluation of these recommendations would require, particularly for a small district with limited staff capacity. Where HVSD has indicated a recommendation will be implemented in part or requires further analysis, that work will proceed on a timeline appropriate to HVSD's resources and its obligation to its ratepayers, rather than the timeline contemplated by the Report.

Thank you for the opportunity to provide HVSD's response to the Grand Jury's findings and recommendations.

Sincerely,



Al Leibof, President



Rick Montalvan, Secretary