CAMBRIA COMMUNITY SERVICES DISTRICT

MEETING	TIME & DATE	LOCATION
Finance Committee	10:00 AM Tuesday, February 27, 2024	Cambria Veterans' Memorial Hall 1000 Main Street, Cambria, CA 93428

AGENDA

Regular Finance Committee Meeting

Tuesday, February 27, 2024 10:00 AM

In person at:
Cambria Veterans' Memorial Hall
1000 Main Street, Cambria, CA 93428
AND via Zoom at:
Please click the link to join the webinar: HERE
Webinar ID: 818 9135 4260
Passcode: 504651

Copies of the staff reports or other documentation relating to each item of business referred to on the agenda are on file in the CCSD Administration Office, available for public inspection during District business hours. The agenda and agenda packets are also available on the CCSD website at https://www.cambriacsd.org/. In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting or if you need the agenda or other documents in the agenda packet provided in an alternative format, contact the Confidential Administrative Assistant at 805-927-6223 at least 48 hours before the meeting to ensure that reasonable arrangements can be made. The Confidential Administrative Assistant will answer any questions regarding the agenda.

1. OPENING

1.A Call to Order

1.B Establishment of Quorum

1.C Chair Report

1.D Ad Hoc Subcommittee Report(s)

1.E Committee Member Communications

2. PUBLIC COMMENT

Members of the public may now address the Committee on any item of interest within the jurisdiction of the Committee but not on its agenda today. Future agenda items can be suggested at this time. In compliance with the Brown Act, the Committee cannot discuss or act on items not on the agenda. Each speaker has up to three minutes.

3. CONSENT AGENDA

3.A Consideration to Approve the January 23, 2024 Regular Meeting Minutes

4. REGULAR BUSINESS

4.A Discussion and Consideration of Report and Recommendations from Ad Hoc Subcommittee on Revenue Enhancement

4.B Discuss, Review and Receive the Investment Report for the Quarter Ended December 31, 2023 and Provide Feedback to the CCSD Board of Directors

4.C Discuss, Review and Approve the Reserve Policy Revisions and Approve Recommendations to the CCSD Board of Directors

5. FUTURE AGENDA ITEM(S)

6. ADJOURN

CAMBRIA COMMUNITY SERVICES DISTRICT

MINUTES OF JANUARY 23, 2024
REGULAR FINANCE COMMITTEE MEETING OF THE FINANCE COMMITTEE
OF CAMBRIA COMMUNITY SERVICES DISTRICT

A regular meeting of the Finance Committee of the Cambria Community Services District was held Cambria Veterans' Memorial Hall 1000 Main Street, Cambria, CA 93428 on Tuesday, January 23, 2024, at 10:00 AM

1. OPENING

1.A Call to Order

Chairman Gray called the meeting to order at 10 a.m.

1.B Establishment of Quorum

A quorum was established.

Committee members present: Chairman Tom Gray, Cheryl McDowell, David Pierson, Karen Chrisman, and Scott McCann. Keith Hinrichsen was absent.

Staff present: Matthew McElhenie, General Manager (via Zoom); Denise Fritz, Administrative Department Manager.

1.C Chair Report

Chair Gray stated the late Revenue Enhancement Ad Hoc committee documents are a preliminary draft and were sent out for discussion only.

1.D Ad Hoc Subcommittee Report(s)

Reserve Policy Committee reported some progress and will be ready to present a final draft next month.

Budget Policy Committee reported no progress but will meet in February to attempt to move forward.

Revenue Enhancement Committee reviewed their progress evidenced by the documents. Public Comment was made by Crosby Swartz, Laura Swartz, Jeff Hellman, and Tina Dickinson. General Manager McElhenie also comment on his discussions with LAFCO. The committee will meet again in February and have a final draft with supporting documents ready for the meeting next month.

1.E Committee Member Communications

Committee member Pierson asked if Brown Act training could be scheduled for those new members of the standing committees. Chairperson Gray stated he would look into getting it scheduled.

2. PUBLIC COMMENT

Public Comment: None

3. CONSENT AGENDA

3.A Consideration to Approve the November 28, 2023 Special Meeting Minutes

Mr. McCann moved to approve the minutes.

Vice Chair McDowell seconded.

Motion passed 4-0.

4. REGULAR BUSINESS

4.A Review of the Second Quarter Budget Report and Staff Recommendation

Ms. Fritz reviewed the changes to the budget recommended in her report. The updated CIP format will be introduced as part of next years budget.

Ms. Chrisman moved to approve the second quarter budget report and recommend it to the Board.

Mr. Pierson seconded.

Motion passed 4-0.

5. FUTURE AGENDA ITEM(S)

Chair Gray asked for any future agenda items.

The draft revised Reserve Policy will be reviewed for consideration.
A report will be made by the CCSD investment advisors.
The draft Revenue Enhancement report will be considered.

6. ADJOURN

Chair Gray adjourned the meeting at 11:19 a.m.

Report on Revenue Enhancement for the Cambria CSD

General Fund Revenue Challenge: On January 19, 2021, the CCSD Board of Directors adopted a strategic plan objective to "achieve and sustain adequate financial resources to sustain the mission." An Ad Hoc committee reported that all departments in the General Fund are currently underfunded. That committee found that the Facilities and Resources CIP list included $1.5M of unfunded projects. They concluded that the Fire Department and PROS were also underfunded and cannot provide the services needed by the community. The recent LAFCO Municipal Services Review stated, "the General Fund budgets for Fire, Facilities and Resources and Admin will continue to decline and impact operations and safety."

Recently the Fire Department had to use reserve funds to purchase needed equipment, uniforms, and a new fire truck. The department struggles to fulfill the fire protection service required by the CSD ordinance concerning fire fuel reduction each year. The fire department has no fire prevention officer or program. The SAFER grant currently provides for sufficient firefighters on duty, but this grant may not be renewed in the future.

The CSD Board recently provided minimal funding assistance to the Skate Park project and is currently reviewing community needs for additional recreation opportunities in the East Ranch Community Park. These projects are unfunded as is their maintenance.

The General Fund currently lacks the revenues to provide the community services being requested by the community, and this lack of funding will only get worse.

Revenue Opportunities: To make an informed decision on a path to increasing the revenue base for the General Fund, all opportunities need to be reviewed. These include:

- Fees, including franchise fees
- Assessments
- Taxes
- Grants
- Organizational changes
    - New Non-profit
    - Reducing CCSD scope
    - Incorporation

Each will be reviewed below in detail.

Fees: The District does collect fees for several activities. The most significant is solid waste disposal. The District receives a fee of 6% on all collections for solid waste disposal per the agreement with Mission Country Disposal. Other districts receive higher fees for this service of up to 10%. For fiscal year 23/24, this fee is budgeted at $185,000. Raising this fee to 10% would generate another $120,000.

Additional fees bring minor amounts of revenue and are set based on the cost associated with the fee. Fees for the use of local agency facilities and for services may not exceed the reasonable cost of providing those facilities and services.

Assessments: Special Districts can levy benefit assessments. These are charges on real property to pay for public facilities or services within an area which benefit either real property or businesses. The amount of the assessment must reflect the special benefit to the property that results from the improvements. Assessments on property are typically collected through the owner's annual property tax bill.

A local government must follow certain specific procedures to impose benefit assessments. When a local agency considers an assessment, a majority of property owners may defeat the assessment in a public hearing procedure. If the proposed assessment is not defeated in a public hearing procedure, then a **weighted** majority of the property owners subject to the charge must approve the assessment by a mailed ballot. The property owners' votes are weighted according to how much their property will be charged.

Benefit Assessments are complex and are limited in value. If a benefit also accrues to the "General Public" then some portion of the budgeted money to affect the benefit may not be assessed to the property owners and thus will not be realized by the District. This could impact up to 50% of the needed revenue.

Cambria has a benefit assessment passed in 1994 and renewed in 2003 for the Fire Department. See Attachment A: "2003 Fire Assessment final doc. updated 3-03". The assessment will generate revenue of $544,894 for FY 23/24 and is adjusted each year per the CPI.

A consulting firm will need to be hired to "engineer" the assessment ratios and to guide the balloting. We estimate the cost for this process to be $50,000.

Taxes: Property taxes and special axes are revenue sources for the District. General taxes and sales taxes can only be levied by the State, County or Cities.

Property taxes are collected by the County, and the District receives a portion of these revenues. The allocation of local property tax among a county, and cities, special districts and school districts within each county is controlled by the Legislature. The taxes are based on the assessed value of the properties in the District and as those rise the District receives more revenue.

Special taxes can be levied by the District. The tax must be designated for a specific purpose and must be approved by a 2/3 majority of the voters in an election. The District proposed a special tax in 2018 to pay for an additional firefighter for the fire department. The proposed tax garnered 53.4% of the vote and failed to pass.

The County would charge $16,700 to place a Special Tax measure on the 2024 November election ballot. The ballot initiative will need to be at the County in April.

Grants: Grants are available from the State and Federal governments and from private sources. Cambria has used grants in the past to pay or help pay for numerous projects including the WRF and the restrooms soon to be built on the East Ranch. Cambria is somewhat at a disadvantage because it is not an official "disadvantaged" community (San Simeon is). Continued use of grants is encouraged but they are not a source for continuous revenue.

New Non-Profit: Formation of a new Non-Profit (501 3c) organization to assume the maintenance and management of District owned properties is a method to reduce the amount of resources -- revenue and time --spent on the property. An agreement with the newly formed organization would outline the responsibilities of the organization. Possible properties are the Fiscalini Ranch and the Vets' Hall. A recent meeting on the Vets' Hall identified that as a solution, but the lack of a passionate advocate for a new organization was noted as a barrier. In discussions with the Friends of the Fiscalini Ranch, they cited a new organization would be in competition with them for funds and would not be welcome. They indicated their funding would not allow them to take on the Ranch maintenance.

Reducing CCSD Powers: The CCSD currently is a Special District with power over the following services within the District's boundaries:

- Water
- Wastewater
- Fire Protection
- Parks and Recreation
- Street Lighting
- Solid Waste
- Transit
- Veteran's Memorial

The County would have to approve the change as they would have to assume those powers. The only powers that would have a significant impact on District finances are Fire Protection and Parks and Recreation. For reference, San Simeon recently voted to return their power over wastewater to the County.

Negotiating with the County: It is possible to sit down with the County and get a revised amount of property taxes allocated to the CCSD. Since the County is experiencing a revenue shortfall to provide the services in the County, this is likely a dead end. The County is considering raising the Transient Occupancy Tax (TOT) and would then have more revenue; this negotiation might then make more sense. Increasing the CCSD's powers could be a way of negotiating more funding -- for instance taking on Shamel Park and Lampton Park.

An area of current County revenue that might be negotiable is the distribution of the Tourism Business Improvement District (TBID) TOT tax. The County collects a 2% fee to improve tourism in the District. The TBID Board then distributes 1% (an average of $440,000 the last 3 years) of the collected monies in the Cambria community to the Cambria Tourism Board. This Board is appointed by the County and in the past has not been very generous in its appropriations to local organizations (for instance, the FFRP has not received any money for several years). Perhaps the TBID could be revised to provide the 1% to a CCSD appointed Board. The Board could then provide money to the FFRP for Ranch "improvements" and to the CCSD for needed improvements to the Vet's Hall. With other expenditures being considered this could amount to upwards of $250,000 per year.

Incorporation: The District could pursue incorporation as a town or city. This would allow for revenues from Transit Occupation Taxes (TOT) and sales taxes. The process is complex and will need the assistance of LAFCO to pursue. LAFCO's preliminary discussion on incorporation asks that that a questionnaire be completed (see attached for possible reply). There are some issues that will help District and county will need to agree to revenue sharing for several years. All revenues will not immediately be received by the new city/town. The County will continue to provide services within the new city/town.

Services Which A New City May Assume

- Law enforcement
- Fire protection and paramedics
- Water and sewer
- Planning (land use, environmental review, zoning, building inspection, etc.)
- Public works (streets, engineering, traffic signals, streetlights, drainage, etc.)
- Local parks and recreation
- Libraries (in some cases)
- Animal control

Services that the County Must Continue to Provide

- Special services (welfare, child protective services, etc.)
- Health services (medical care, mental health, public health)
- Criminal justice (courts, prosecution, jails, probation, etc.)
- Regional parks (in some cases)
- Elections and voters services
- General government (assessor, treasurer, recorder, tax collector, etc.)
- Planning and environmental services

- Sales tax revenues will be revenue of the new city pending the agreement above. Currently the county receives 1% of the 7.25% collected in Cambria. The District may raise the sales tax and all the tax above 7.25% will revenue to the new city/town.
- Like sales tax, the TOT will also bring revenue to the new city/town pending the agreement with the county as stated above. The city will be able to raise the TOT and accrue all the new tax. In Cambria, lodging businesses are required to collect 9% TOT from their guests. Additionally, lodging operators are also required to collect 1.5% for the Tourism Marketing District (TMD) assessment, which goes to promote tourism in the County as a whole, along with a 2% Tourism Business Improvement District (TBID) assessment. Half of the TBID is allocated to the local Cambria Tourism Board to promote tourism in Cambria. The remainder is used by the County Tourism Board to promote tourism in the Improvement District, which includes the North Coast area. The new city would collect all of the TOT tax and would share with the County based on the revenue neutrality negotiations, but no more than 10.5% of the 12.5% currently collected. The 2% left over would be for the new city to use as it sees fit. Some would be used for tourism by a new board appointed by the new city.
- For reference here is a table of other SLO county cities tax rates.

City	Sales Tax	TOT
Arroyo Grande	7.75	10.0
Atascadero	8.75	13.5
Morro Bay	8.75	10.0
Pismo Beach	7.75	11.0
Paso Robles	8.75	10.0

TOT numbers include the base 9%. The TMD (1.5%) is additional to the rates above.

If Cambria raised the TOT and Sales Tax during incorporation to 11% and 8.25% respectively, the new city would increase revenue by a minimum of $1.5 million. In ensuing years, the city would reduce the amount of revenue shared with the County in keeping with the reduced services provided.

In 2004, the CSD hired a consulting firm, Management Partners, to investigate at the financial feasibility of the incorporation. The report (see Attachment B) concluded that incorporation was financially feasible depending on mitigation of the County impact during revenue neutrality negotiations. Since then, revenues from Cambia sales tax and TOT have increased while population and services from the County have decreased.

Incorporation would be an expensive endeavor. The CCSD could hire a consultant to do a preliminary study as they did in 2005. A proposal from bakertilly consultants (see Attachment C) has been received to guide the CCSD to the decision on whether to apply for incorporation. Their proposal is for about $100K. This study will provide all the information necessary for a decision on whether to make an application to the Local Agency Formation Commission (LAFCO). LAFCO will then act as the impartial arbitrator to confirm that the incorporation is financially feasible within the parameters of the revenue neutrality provisions of the law. They will work with the CSD and the County to negotiate a fair agreement to both parties.

bakertilly estimates that LAFCO will require an additional $100K to hire a consultant to help with their part of the process if the CCSD decides to move forward. The overall cost to get the question on the ballot would likely be $350K. That would be followed by an election where the incorporation question and the raising of taxes, both sales and TOT, would be on the ballot with a majority required for passage.

Recommendations: The following are the recommendations of our committee for the Board's consideration.

1. We recommend an audit of the hours spent by CCSD personnel. Knowing what personnel are tasked with and if those are being executed efficiently may lead to a possible cost reduction. In the case of the F&R personnel this will be useful if the Board decides to proceed with a Benefit Assessment for Parks, Recreation, and Open Space as recommended below.
2. While meeting with the Friends of the Fiscalini Ranch Preserve we noted that Chapter , Paragraph F, calls for an Appendix V to the Ranch Management Plan which is missing, likely because it was never done. It was meant to be a matrix of the responsibilities for the Preserve delineated between the Ranch Manager, currently the CCSD, and the Easement Holder, currently the FFRP. We recommend this be completed so the responsibilities are defined. This could be a way to relieve the CCSD of much of the current workload for the Preserve if the Board chooses to hold the line that the CCSD's responsibilities will only include maintenance of the shaded fuel breaks and clean up and policing of

the homeless encampments. The rest of the work could be defined as preserve enhancements more a responsibility of FFRP.

3. The Board should consider a Benefit Assessment process to fund the Parks, Recreation, and Open Space (PROS) portion of the Facilities and Resources budget. This is preferred to a Special Tax as the approval threshold is 50% versus 67%. There is already a Benefit Assessment for the Fire Department, and we consider adding to that more difficult. This option will ask the property owners to tax themselves for the monies to fund the designated services. The assessment is a onetime effort to raise a specific amount that can be adjusted per the CPI as the Fire Benefit Assessment is now. The Fire assessment is on all properties including vacant lots which a PROS assessment would not. If the amount asked for turns out to be insufficient going back to the property owners again would prove even more difficult.
4. The Board should consider starting the process toward incorporation by hiring a consultant as described below. Although it is an expensive process the Board and community would then have a factual basis to continue the process or not.

For clarity below are the steps in the process for the Benefit Assessment and for Incorporation.

Benefit Assessment

- **The Board of Directors decides** to pursue a benefit assessment and defines the benefit to be assessed.
- The Board hires a consultant to assist with the process.
- Staff and consultant develop a budget for the benefit.
- Consultant determines the properties that will be included in the benefit assessment district. Consultant calculates a fair allocation of the benefit assessments among the benefited parcels in direct proportion to the amount of special benefit each receives.
- **The Board of Directors** reviews the consultants report and **decides to continue the process**.
- A Public Meeting is held to hear the public's input on the report.
- Ballots are then mailed to every property owner to be assessed with full description of the benefit and the assessment. It will include a notice containing the date, time, and place of the public hearing at which ballots will be counted.
- A Public Hearing is held where the ballots are counted. At the hearing, local officials count the ballots and make them public. Unlike votes cast in elections, votes cast in assessment proceedings are not secret. Ballots are weighted by the amount each property owner is to pay, with those paying more getting a larger share of the vote. In other words, the ballots are weighted in proportion to the amount of benefit each property receives from the assessment.
- If the votes cast determine that the weighted majority of the voting property owners are against the assessment, then local officials must abandon the assessment. If the majority approves, then the assessments will be placed on the property tax bills.

Incorporation

- If the Board decides to explore incorporation as a solution the first step would be to hire a consultant to do a feasibility study to see if the economics of incorporation are net positive. Included in this study would be forecasted organizational chart and a capital budgeting analysis including all General Fund incremental expenditures (fixed and variable) and projected reserves. This would be compared to the expected incremental revenues (including best, worst, likely case scenarios) over 15-30 years as the new city assumed its full duties and revenue sharing with the County is appropriately reduced.
- If the Board decided to pursue incorporation based on the study and community input, it would make application to LAFCO to become an incorporated city. LAFCO would then facilitate the negotiations with the CCSD and the County to achieve a fair and reasonable revenue sharing agreement based on the responsibilities the new city would assume.
- LAFCO will then hold a hearing and will issue a decision on the proposed incorporation.
- If LAFCO approves the proposal then an election will be held for the voters to approve or disapprove the proposal by a majority vote. The ballot initiative would include approval of any taxes necessary per the revenue agreement and incorporation proposal.
- If approved by the voters, the new city would begin business as agreed in the proposal.

Additional documentation is posted on the District's website: https://www.cambriacsd.org/2024-02-27-finance-committee-meeting

CAMBRIA COMMUNITY SERVICES DISTRICT

FIRE SUPPRESSION BENEFIT ASSESSMENT

ENGINEER'S REPORT

March 2003

(Pursuant to Article XIII D of the California Constitution)

Attachment A

Cambria Community Services District
Fire Suppression Benefit Assessment

Engineer's Statement

1. I am a registered professional engineer certified by the State of California. The attached Engineer's Report has been prepared in accordance with the requirements of Article 13D §4 of the California Constitution and Government Code §§50078 and following. It proposes a fire suppression assessment, which is assigned to owners of buildings and parcels based on the proportionate special benefit derived by each building or parcel. No assessment amount proposed for a parcel exceeds the reasonable cost of the proportional special benefit conferred on that parcel.

____
Bob Gresens, CCSD District Engineer
License No.

District Clerk's Statement

2. The attached Engineer's Report is a true and correct copy of the report approved by the Cambria Community Services District Board of Directors on March 27, 2003, and was filed with me on _________________________ 2003.

____
Kathy Choate, District Clerk CCSD

Attachment A

CAMBRIA COMMUNITY SERVICES DISTRICT
FIRE SUPPRESSION BENEFIT ASSESSMENT

Pursuant to Government Code Sections §50078 et seq. the Cambria Community Services District plans to continue to levy, upon property owners within the Cambria Community Services District, a fire suppression assessment for the purpose of obtaining and maintaining fire suppression apparatus, equipment, services and paying the salaries and benefits of firefighting personnel. The following report, prepared in compliance with the California Constitution Article 13D §4 and Government Code Section §50078.4, is submitted in support of the fire service assessment.

1. Background Information on Cambria Fire Department Activities. The Cambria Community Services Fire Department provides emergency medical, fire, rescue, hazardous materials and other emergency and non-emergency services to the community of Cambria. Department personnel and equipment also respond to automatic and mutual aid requests for assistance with the California Department of Forestry and Fire Protection/San Luis Obispo County Fire Department and other emergency and firefighting agencies.
The department also conducts fire and life safety prevention and hazard reduction inspections within Cambria. Commercial fire inspections focus on fire and life safety requirements within local businesses to insure the safety of the public and the employees of the businesses. The department also conducts fire and life safety educational courses to grammar school students within Cambria's elementary school and to various pre-school program children. The Fire Hazard Fuel Reduction Program, (known previously as the Weed Abatement Program), focuses on vacant or unimproved lots in Cambria. The focus of this program is to reduce the danger from the threat of wildfire to this community. This program typically starts in April and continues through the end of the wildland fire season. This is especially important, as Cambria is located within both a high and very high wildfire severity zone.

In addition to emergency responses, prevention and public education activities, the department conducts on-going training drills for both full time and paid-call fire personnel. In order to comply with federal, state and local mandates; emergency medical, fire, rescue, hazardous materials, safety, and maintenance of certifications training is conducted several times a month and during work shifts. Department personnel attend local, area, and statewide training and conferences in order to maintain proficiency and keep up with technology and new standards and procedures.

2. Determination of Necessity. The need for and the cost of fire suppression apparatus, equipment and personnel services has increased dramatically in recent years. Funding for such equipment and services has not increased at a corresponding rate. In the years from 1992 to 1994 the State of California reduced general fund property tax revenues paid to the Cambria Community Services District Fire Department by approximately $350,000. This funding cut has continued every year since 1993, and there is no current or proposed action by the State of California to re-institute the funding loss.

Since the Cambria Community Services District Fire Department does not generate it's own revenue, the entire operating budget comes from general fund revenues and the currently collected Fire Suppression Assessment. In order to continue to fund the fire suppression, apparatus, equipment, services and personnel which provide special benefits to this community, the Fire Suppression Assessment must be renewed, if approved by the property owners. Without this Fire Suppression Assessment, the department will not be able to operate at its current level of service, and reduced services and staffing as well as response delays will occur. Refer to Appendix A Table #1 for the proposed fiscal year 2003-2004 budget.

3. General Benefit. The property owners and residents of the Cambria Community Services District currently derive general benefits from the Cambria Fire Department, as a result of funding provided by the general fund. These benefits include a single fire engine staffed Monday through Sunday by one Fire Captain working from 7 A.M. to 5:30 P.M. During the evening hours a single Fire Captain is available to respond from home to the fire station, to staff and respond the fire engine. The Fire Department maintains approximately twenty Reserve Firefighters, Engineers and Lieutenants who respond to calls if they are available and close to Cambria. Since these Reserve Firefighters are not full time employees, they have other careers or jobs that often require them to be unavailable during daytime hours. Emergency response, public education, fire prevention and fire protection planning, maintenance of firefighting equipment and vehicles, maintenance of the fire station, and emergency and disaster pre-planning are all general benefits which provide a level of public safety for the community. Emergency responses includes fire, rescue, medical emergency, storm and power related calls, assistance to residents with non-emergency problems and the delivery of mutual aid assistance to the San Luis Obispo County and California Department of Forestry and Fire Protection Fire Departments, as well as others. However this level of staffing does not meet the National Fire Protection Association's established level of staffing and fire flow delivery as outlined in Sections 5 and 6 of this document.

4. Special Benefit. The National Fire Protection Association, the International Fire Service Training Association, as well as the International Association of Fire Chiefs has determined that fire department minimum staffing must be at least 3 fire personnel on a Fire Engine, and 4 personnel provides a safe and basic efficiency. The cost of providing 24-hour-a-day, seven-days-a-week staffing to meet National Fire Protection Association Standards at the Cambria Fire Department station is a special benefit, to property owners of the Cambria Community Services District. The improved level of staffing from one 10-hour per day Fire Captain to one Fire Captain and one Reserve Firefighter on duty on the Fire Engine 24 hours a day and 365 days a year improves response times, improves service delivery, provides for improved firefighter safety and survival, and provides improved protection for the lives, environment and property located within the Cambria Community Services District. A special benefit is also provided by funding an additional Fire Captain and Engineer who would increase staffing from Monday through Friday during daytime hours when our Reserve Firefighters are typically at work and unavailable to help with

Cambria emergency calls. Training is a critical part of meeting local, State and Federal requirements for Fire Departments. Funding basic, as well as required and advanced training for all Fire Department personnel would provide a special benefit to all Cambria Community Services District property owners. The improved level of proficiency, maintenance of basic and intermediate skills and receipt of specialized training results in an improved level of safety and service to the community. The fire and emergency services profession is constantly expected to develop, improve, and provide more services with current equipment and new training programs. This results in better efficiency and improved protection. Finally property owners within the Cambria Community Services District would derive a special benefit from funding the purchase of new firefighting, rescue, and emergency medical equipment to replace old or worn out equipment. They would also receive a special benefit from funding the replacement of emergency apparatus, which is either too expensive to maintain, or has reached its' maximum life expectancy, (typically 15 to 20 years). The special benefit consists of receiving more efficient and timely emergency response, which would result in reduced injuries, reduced environmental damage and reduced property damage. Property owners would also receive reduced fire insurance premiums and an improved market and value for the sale of their property due to improved response time, reliability, and consistent service delivery.

5. <u>Total Revenues Anticipated from Assessment.</u> The annual revenues expected to be generated by this assessment will be used to obtain, furnish, operate and maintain all fire suppression equipment and apparatus. Funds will also be used for the purpose of paying salaries and benefits and for providing and delivering training to all fire department personnel. This will allow the Fire Department to protect District residents and properties from fire and other emergency incidents. For fiscal year 2003-2004, the minimum assessment needed over and above other expected revenue sources to maintain the level of service and staffing described in section #4, is estimated to be $325,000. In order to fairly spread this amount according to the special benefit received by various types of parcels, a method of measuring fire services delivered or -**fire suppression unit**- was developed. A cost of $6.60 was assigned to one fire suppression unit, and units were assigned to various types of buildings or parcels as described in Section # 7, in order to yield the proposed fire suppression assessment amount of $325,000.

6. <u>Parcels Subject to Assessment.</u> The District proposes to levy an assessment on all parcels within the Cambria Community Services District's boundary. The assessment includes vacant parcels that are located within the Fire departments' initial response area, because these parcels require action to control wildfires and other emergency incidents. A visual description showing parcels of property to be subjected to the assessment is on file at the Cambria Fire Station #1, located at 2850 Burton Drive in Cambria. A detailed list of each parcel proposed for assessment, as well as the amount of the assessment proposed for each parcel is included as Appendix C to this report. For the purposes of this Assessment, all subject parcels will be considered as either:

A. Category I- One and Two Family Residences
B. Category II- Multi-family residences, Trailer Parks, Condominiums (Residential and Commercial)
C. Category III- Hotels/ Motels, Mercantile Shops, Combination Residential and Commercial and Light Industry.
D. Category IV- High Hazard Occupancies
E. Category V- Vacant parcels.

7. Basis and Schedule of Assessment. All parcels within the District would derive special benefit from an assessment that would be used to staff, maintain, equip, and operate the Cambria Fire Department. The amount of personnel needed to mitigate a fire or other emergency is related to the type of building construction, hazard and usage. For instance Category III and IV parcels would require more equipment and personnel, and therefore require a higher assessment, than Category I, II, or V. This varying degree of need for service is the basis for the different rates of assessment. The proposed assessment amounts have been set using information from the 2000 Uniform Fire Code and the 2001 California Fire Code fire flow tables. National Fire Protection Association standards were used to determine the number of firefighters needed to supply the amount of gallons per minute fire flow for the various classifications of building types. The requirement is expressed in fire suppression units. For structural firefighting one fire suppression unit is equal to 100 gallons per minute, which in turn is the amount of water one firefighter can deliver to a building fire. (In the case of Wildland fires, two firefighters are required to deliver 100 gallons per minute. Assessment amounts for vacant or Category V parcels subject to Wildland fires are adjusted accordingly). Category I building assessments are based on the Uniform Fire Code's minimum requirements of 1000 gallons per minute fire flow for one and two family residential dwellings, less than 3600 square feet in area. Category I buildings that exceed 3600 square feet in area, and Category II buildings that are comprised of 3 or more residential dwellings require a minimum of 1500 gallons per minute or higher, depending on the square footage of the residential dwelling. This is the basis for the higher assessment. Category III and IV parcel assessments are based on total square footage, fire flow, and fire intensity factors. The schedule of the fire assessment is as follows:

A. Category I
   1. Category I buildings are typically single and two-family residential dwellings.
   2. In accordance with the Uniform Fire Code, (Appendix III-A), the minimum fire flow for a one and two residential dwelling 3600 square feet or smaller shall be 1000 gallons per minute.
   3. In accordance with the National Fire Protection Association (NFPA), one firefighter is required to deliver each 100 gallons per minute, which equals 1 fire suppression unit.
   4. Therefore a Category I parcel, less than 3600 square feet in size requires 10 fire suppression units.
   5. The number of fire suppression units required is multiplied by the Fire Suppression Cost to achieve the rate of assessment.

6. 10 Fire Suppression Units x $6.60=$66.00
7. Therefore, the assessment rate is $66.00 for one and two family residential dwellings under 3600 square feet.
8. One and two family residential dwellings greater than 3600 square feet and schools less than 20,000 square feet require a minimum of 15 fire suppression units based on a 1500-gallon per minute flow requirement.
9. 15 fire suppression units x $6.60= 99.00
10. Therefore, one and two family residential dwellings greater than 3600 square feet in area, and schools under 20,000 square feet in area will have an assessment of $99.00. (Schools would include all buildings located on a single assessors parcel number, or parcel.)
11. For schools over 20,000 square feet in area, 30 fire suppression units are required. 30 fire suppression units x $6.60= $198.00 (Schools would include all buildings located on a single assessors parcel number or parcel.)
12. One and two family residential units entirely protected by an interior automatic sprinkler system, as approved by the Fire Department, are entitled to an assessment reduction of 20%.

B. Category II
1. In accordance with the Uniform Fire Code, the minimum fire flow for a multi-family residential dwelling, (three or more residential dwelling units) is 1500 gallons per minute.
2. Therefore, a minimum of 500 gallons per minute will be required per residential dwelling unit, both in multi-family residential structures as well as mobile home parks and or residences.
3. In accordance with the National Fire Protection Association (NFPA), one firefighter is required to deliver each 100 gallons per minute, which equals 1 fire suppression unit.
4. Therefore, mobile-home parks, and multi-family residential dwelling structures with three or more residential dwelling units, will require a minimum of 5 fire suppression units per dwelling unit.
5. The number of fire suppression units required is multiplied by the fire suppression cost to achieve the rate of assessment per dwelling unit.
6. 5 fire suppression units x $6.60= $33.00
7. Therefore, the assessment rate is $33.00 per dwelling unit for Category II parcels.
8. Buildings entirely protected by an interior automatic fire sprinkler system, approved by the Fire Department, are entitled to a 10% reduction in the fire suppression assessment per dwelling unit.

C. Category III
1. The Uniform Fire Code identifies Category III buildings as light hazard businesses, mercantile stores, combination residential and commercial, hotels, motels and light industrial.
2. The Uniform Fire Code (UFC, Table A-III-A-1) specifies fire flows based on square footage and the types of construction for Category III structures.

3. Typical construction within Cambria Community services District consists of type V-N, as classified in the Uniform Building Code.
4. The square footage for this construction type was correlated with the required fire flow listed in the Uniform Fire Code.
5. The square footage for each parcel in Cambria can be obtained from the San Luis Obispo County Assessor's Office, and or measured by Cambria Fire Department personnel. (See Appendix B Table #1)
6. The gallons per minute, as determined by the Uniform Fire Code, was converted to the number of firefighters required by the National Fire Protection Association (NFPA), which equals the number of Fire Suppression Units.
7. The number of fire suppression units required was multiplied by the fire suppression cost to arrive at a base rate.
8. The fire loading and typical grouping of these types of buildings causes the required gallons per minute to double. This is known as the intensity factor (IF). {gallons per minute x intensity factor equals required fire flow}.
9. The base rate is multiplied by the intensity factor (2) to achieve the assessment rate. These rates are shown in Appendix B, (Table 1).
10. Buildings entirely protected by an interior automatic fire sprinkler system, as approved by the Fire Department, will require a reduced fire flow* amount, by 50%. The result is an assessment rate of one half for approved automatic fire sprinkler protected buildings. (* *Minimum* fire flow is 1500 gallons per minute, with sprinkler protection.)
11. For structures or grouping of structures with partial coverage by approved fire sprinklers, the following procedure is used to adjust the assessment rate.
    a) Determine the required gallons per minute flow for the total square footage of the building on the parcel.
    b) Find the required gallons per minute for the sprinklered portion of the building.
    c) Deduct one-half of the gallons per minute required for the sprinklered covered section of the building, from the total gallons per minute fire flow for the entire building.
    d) The new, reduced fire flow amount in gallons per minute is then transferred to the assessment rate for this building, based on the adjusted fire flow for the sprinklered portion.

D. Category IV

1. The Uniform Fire Code identifies Category IV parcels as high hazard occupancies. Examples are repair garages (where cutting, or open flame are used), bulk fuel dispensing businesses, furniture refinishing, auto or other vehicle painting businesses, and businesses storing or utilizing hazardous materials.
2. The Uniform Fire Code (UFC, Table A-III-A-1) specifies fire flows based on the square footage and the type of construction of Category IV structures.
3. Typical construction within the Cambria Community Services District consists of Type V-N, as classified in the Uniform Building Code.

4. The square footage for this construction type was correlated with the required fire flow as listed in the Uniform Fire Code, 2001 edition.
5. The square footage for each parcel in the Cambria Community Services District within Category IV, can be obtained from the San Luis Obispo County Assessor's Office, and or measured by Cambria Fire Department personnel. (See Appendix B Table # 2.)
6. The gallons per minute, as determined by the Uniform Fire Code, was converted to the number of firefighters as required by the National Fire Protection Association, (NFPA), which equals the number of fire suppression units.
7. The number of fire suppression units required was multiplied by the fire suppression cost to arrive at the base rate.
8. The higher hazard level presented to firefighters by these type of occupancies causes the required gallons per minute to triple. This is known as the intensity factor (IF). {gallons per minute times the intensity factor equals required fire flow.}
9. The base rate is multiplied by the intensity factor (3) to achieve the assessment rate. These rates are shown in Appendix B (Table 2). Buildings protected by an Automatic Sprinkler System approved by the Fire Department, are entitled to a 50% reduction in fire flow*. (*A *minimum* 1500 gallons per minute is required for sprinkler-protected buildings).
10. For structures in Category III with some Category IV (High Hazard) occupancies within them, the following procedure will apply, to adjust the assessment rate.
    a) Determine the total square footage and the assessment rate, using Appendix B Table 2.
    b) Deduct the High-Hazard occupancy's square footage from the total square footage.
    c) Find the Adjusted Base Rate (ABR) for this amount of square footage.
    d) Find the percentage of the total square footage that is a High-Hazard occupancy and multiply it by the total assessment rate in a) above.
    e) By multiplying this assessment rate by 1.5 and adding it to the Adjusted Base Rate, only the portion of the structure that is High-Hazard occupancy will be assessed with an intensity factor of (3), while the remaining portion is assessed with an intensity factor of (2).

E. Category V
1. The National Wildfire Coordinating Group specifies wildland firefighting standards, and fire flows based on the number of firefighters and fuel types.
2. The California Department of Forestry and Fire Protection has identified the Cambria area as containing both High and Very High Fire Danger areas for Wildland fires.
3. According to the National Wildfire Coordinating Group, a firefighter is capable of delivering a fire flow of 60 to 100 gallons per minute.

4. The square footage of vacant parcels within the Cambria Community Services District can be obtained from the San Luis Obispo County Assessor's Office. (See Appendix C.)
5. One firefighter is required to suppress the fire, while a second firefighter insures there is no re-ignition, and assists in advancing the hoseline, which equals 2 Fire Suppression Units.
6. Vacant parcels 4000 square feet or smaller in size would require 2 fire suppression units, times the Fire Suppression Cost, based on the National Wildfire Coordinating Group requirements.
7. 2 fire suppression units x $6.60= $13.20
8. For vacant parcels larger than 4000 square feet, one fire suppression unit or $6.60 would be added to the assessment, for every 2000 square foot increase in square footage or portions thereof.
9. Vacant parcels adjacent to buildings that are part of the building address will not be assessed the vacant parcel assessment.
10. For vacant lots owned by non-profit organizations as open space or land designated as open space, this assessment may be waived by the Cambria Community Services District Board of Directors, with input from the General Manager and the Fire Chief. Any waived assessment amounts shall not be made up by increasing the assessment amounts on other building or parcel types. Any lost revenues to the fire suppression benefit assessment will be identified and offset by a transfer from General Fund Reserves.

8. Initial Fiscal Year Maximum Assessment Amount. As of July 1, 2003 the maximum amount of the assessment shall be the amount specified above. A review of the Fire Suppression Assessment amount is as follows:

A. Single Family Residential Homes under 3600 square feet- $66.00
B. Single Family Residential Homes over 3600 square feet and schools under 20,000 square feet- $99.00
C. Schools larger than 20,000 square feet- $198.00
D. The Fire Suppression Assessment for Category I single family residential dwellings, (A & B), can be reduced by 20% if they are entirely protected by an interior automatic fire sprinkler system approved by the Fire Department.
E. Multi-family, mobile home parks consisting of 3 or more residential dwelling units- $33.00 per dwelling unit.
F. The Fire Suppression Assessment for Category II, (Multi-family), dwelling units, (C), can be reduced by 10% per dwelling unit if they are entirely protected by an interior automatic fire sprinkler system approved by the Fire Department.
G. Hotels, Motels, Businesses, mercantile stores, light industrial and combination residential commercial (Category III) up to 3600 square feet- $198.00 [see Appendix B Table 1 for amounts]
H. High Hazard buildings (Category IV) up to 3600 square feet-$297.00 [see Appendix B Table 2 for amounts]
I. The fire flow amount for Category III and IV {D and E} buildings can be reduced by 50% if they are entirely protected by an interior automatic fire sprinkler

system, approved by the Fire Department. (Minimum fire flows of 1500 gallons per minute are required for these category sprinkler-protected buildings.)

9. Subsequent Fiscal Years Maximum Assessment Amount. As of July 1 of each subsequent fiscal year, the amount of assessment specified above, may be adjusted for the ensuing fiscal year based on the Consumer Price Index for the Los Angeles, Anaheim, and Riverside areas, not to exceed 5.4%. Therefore, the maximum increase in assessment rate will be 5.4% per year. The assessment will not be automatically increased, and must be approved by the Cambria Community Services District Board of Directors.

10. Duration of Assessment. This assessment will begin July 1, 2003 and will continue for __________________ in accordance with legal requirements.

11. Collection of Assessment. The assessment will be collected with the property owner's yearly property tax. The San Luis Obispo County Tax Collector will include a collection fee with the assessment levy.

12. Requirements for Public Hearing and Protest Procedures. A ballot will be mailed to each property owner of record located within the Cambria Community Services District Boundaries. Ballots should be mailed to the return address on the ballot or hand delivered at the public hearing, which will be held on ________________at _____p.m. at the Cambria Veterans Hall, located at ___________________. At the hearing information will be provided regarding the assessment. The Board of Directors will answer questions, obtain input and consider protests to the assessment.

Only official ballots, which are returned, signed and marked with the property owner's support or opposition, are counted. Ballots must be received before the end of the public hearing. Ballots will remain closed until the close of the public hearing. Ballots are weighted by the proposal assessment for the property(s) they represent and are tabulated accordingly. If a majority of weighted ballots returned and not withdrawn are opposed, this assessment will not be levied. If a majority of weighted ballots returned and not withdrawn are in support, this assessment will be levied for fiscal year 2003-2004 and may be continued in future years, as described in Section #10.

Tabulation of the returned ballots will begin at the close of the public hearing. The results of the tabulation will be announced at a subsequent meeting, which will be held on ___________ at ______p.m. at the Cambria Veterans Hall, located at ____________________.

13. Inquiries Regarding the Assessment. This Fire Suppression Assessment has been proposed to continue the funding as initially approved by the voters of Cambria in 1993. Any questions regarding this assessment can be directed to Fire Chief Bob Putney at the Cambria Fire Department, 2850 Burton Drive, Cambria Calif. 93428. The phone number for the Cambria Fire Department is (805) 927-6240.

APPENDIX

- Appendix A- Table #1 Cambria Fire Department proposed Fiscal Year 2003-2004 Budget.
- Appendix B- Fire Suppression Assessment Fee: Table 1 for Category III buildings and Table 2 for Category IV buildings.
- Appendix C- Assessor Parcel Numbers, addresses and parcel owners names subject to Fire Suppression Assessment, including assessment amounts based on the maximum initial assessment year (2003).

Appendix A

Table #1

Cambria Fire Department

Proposed Budget Fiscal Year 2003-2004

-Personnel Costs for full time and Reserve Fire personnel, including salary, insurance, benefits, and overtime.	$932,970.00
-Maintenance and Repair Fire Apparatus, Equipment, Fire Station, utilities, facility and vehicle insurance.	$ 53750.00
-Contracts including Emergency Dispatch, and Breathing Air Fill station, radio communications maintenance.	$ 28500.00
-New equipment purchase, station and emergency supplies, small tools, North Coast Ocean Rescue operating expenses, safety clothing, and uniforms, office equipment and forms, replace old Breathing Apparatus, replace old portable radios, fire hose.	$ 45750.00
-Employee training, special training, books and video programs, conferences, map and computer data information upgrades, mandatory training and certification, publications.	$ 39500.00
-Fire Prevention forms, books, Code upgrades, mailing costs, Fire Protection consultant, public education and emergency preparedness information, fire investigation, Community Emergency Response Training (C.E.R.T. Program)	$ 24175.00
-Emergency Operations Center, upgrade telecommunications capabilities, Standard Emergency Management training	$ 7500.00
-Fire Apparatus replacement fund.	$ 16000.00
-Fire Hazard Fuel Reduction Program, mailings, inspections, forms, contractor payment; shaded fuel break funding [fuel, portable toilets, hardware, supplies.]	$ 42147.00
Total Budgeted Expenditures:	**$ 1190292.00**

Cambria Fire Department Revenue

-General Fund Property Tax	$824002.00
-Miscellaneous Inspection Fees	$ 1500.00
-Interest Income	$ 1890.00
-Fire Hazard Fuel Reduction Program Fees and Charges	$ 37900.00
- **Total**	$865292.00

Proposed Fire Suppression Assessment

-Fire Suppression Benefit Assessment Income ***(If approved)***	$325000.00
-Cambria Fire Department Revenue	$865292.00
- Total	**$1190292.00**

Appendix B

Table #1

Assessment Rates for Category III Parcels

Square Footage	GPM Required*	FF Required#	Rate	FF x FSC = Rate	Base Rate	x Intensity Factor =	Assessment
0-3600	1500	15	$ 6.60	$ 99.00	$ 99.00	2	$ 198.00
3601-4800	1750	17.5	$ 6.60	$ 115.50	$ 115.50	2	$ 231.00
4801-6200	2000	20	$ 6.60	$ 132.00	$ 132.00	2	$ 264.00
6201-7700	2250	22.5	$ 6.60	$ 148.50	$ 148.50	2	$ 297.00
7701-9400	2500	25	$ 6.60	$ 165.00	$ 165.00	2	$ 330.00
9401-11300	2750	27.5	$ 6.60	$ 181.50	$ 181.50	2	$ 363.00
11301-13400	3000	30	$ 6.60	$ 198.00	$ 198.00	2	$ 396.00
13401-15600	3250	32.5	$ 6.60	$ 214.50	$ 214.50	2	$ 429.00
15601-18000	3500	35	$ 6.60	$ 231.00	$ 231.00	2	$ 462.00
18001-20600	3750	37.5	$ 6.60	$ 247.50	$ 247.50	2	$ 495.00
20601-23300	4000	40	$ 6.60	$ 264.00	$ 264.00	2	$ 528.00
23301-26300	4250	42.5	$ 6.60	$ 280.50	$ 280.50	2	$ 561.00
26301-29300	4500	45	$ 6.60	$ 297.00	$ 297.00	2	$ 594.00
29301-32600	4750	47.5	$ 6.60	$ 313.50	$ 313.50	2	$ 627.00
32601-36000	5000	50	$ 6.60	$ 330.00	$ 330.00	2	$ 660.00
36001-39600	5250	52.5	$ 6.60	$ 346.50	$ 346.50	2	$ 693.00
39601-43400	5500	55	$ 6.60	$ 363.00	$ 363.00	2	$ 726.00
43401-47400	5750	57.5	$ 6.60	$ 379.50	$ 379.50	2	$ 759.00
47401-51500	6000	60	$ 6.60	$ 396.00	$ 396.00	2	$ 792.00
51501-55700	6250	62.5	$ 6.60	$ 412.50	$ 412.50	2	$ 825.00
55701-60200	6500	65	$ 6.60	$ 429.00	$ 429.00	2	$ 858.00
60201-64800	6750	67.5	$ 6.60	$ 445.50	$ 445.50	2	$ 891.00
64801-69600	7000	70	$ 6.60	$ 462.00	$ 462.00	2	$ 924.00
69601-74600	7250	72.5	$ 6.60	$ 478.50	$ 478.50	2	$ 957.00
74601-79800	7500	75	$ 6.60	$ 495.00	$ 495.00	2	$ 990.00
79801-85100	7750	77.5	$ 6.60	$ 511.50	$ 511.50	2	$ 1,023.00
85101-unlimited	8000	80	$ 6.60	$ 528.00	$ 528.00	2	$ 1,056.00

*Based on Table No. A-III-A-I of the Uniform Fire Code
#Based on NFPA Standards
Types of construction are based upon the Uniform Building Code

Appendix B

Table #2

Assessment Rates for Category IV Parcels

Square Footage	GPM Required*	FF Required#	Rate	FF x FSC = Rate	Base Rate	x Intensity Factor =	Assessment
0-3600	1500	15	$ 6.60	$ 99.00	$ 99.00	3	$ 297.00
3601-4800	1750	17.5	$ 6.60	$ 115.50	$ 115.50	3	$ 346.50
4801-6200	2000	20	$ 6.60	$ 132.00	$ 132.00	3	$ 396.00
6201-7700	2250	22.5	$ 6.60	$ 148.50	$ 148.50	3	$ 445.50
7701-9400	2500	25	$ 6.60	$ 165.00	$ 165.00	3	$ 495.00
9401-11300	2750	27.5	$ 6.60	$ 181.50	$ 181.50	3	$ 544.50
11301-13400	3000	30	$ 6.60	$ 198.00	$ 198.00	3	$ 594.00
13401-15600	3250	32.5	$ 6.60	$ 214.50	$ 214.50	3	$ 643.50
15601-18000	3500	35	$ 6.60	$ 231.00	$ 231.00	3	$ 693.00
18001-20600	3750	37.5	$ 6.60	$ 247.50	$ 247.50	3	$ 742.50
20601-23300	4000	40	$ 6.60	$ 264.00	$ 264.00	3	$ 792.00
23301-26300	4250	42.5	$ 6.60	$ 280.50	$ 280.50	3	$ 841.50
26301-29300	4500	45	$ 6.60	$ 297.00	$ 297.00	3	$ 891.00
29301-32600	4750	47.5	$ 6.60	$ 313.50	$ 313.50	3	$ 940.50
32601-36000	5000	50	$ 6.60	$ 330.00	$ 330.00	3	$ 990.00
36001-39600	5250	52.5	$ 6.60	$ 346.50	$ 346.50	3	$ 1,039.50
39601-43400	5500	55	$ 6.60	$ 363.00	$ 363.00	3	$ 1,089.00
43401-47400	5750	57.5	$ 6.60	$ 379.50	$ 379.50	3	$ 1,138.50
47401-51500	6000	60	$ 6.60	$ 396.00	$ 396.00	3	$ 1,188.00
51501-55700	6250	62.5	$ 6.60	$ 412.50	$ 412.50	3	$ 1,237.50
55701-60200	6500	65	$ 6.60	$ 429.00	$ 429.00	3	$ 1,287.00
60201-64800	6750	67.5	$ 6.60	$ 445.50	$ 445.50	3	$ 1,336.50
64801-69600	7000	70	$ 6.60	$ 462.00	$ 462.00	3	$ 1,386.00
69601-74600	7250	72.5	$ 6.60	$ 478.50	$ 478.50	3	$ 1,435.50
74601-79800	7500	75	$ 6.60	$ 495.00	$ 495.00	3	$ 1,485.00
79801-85100	7750	77.5	$ 6.60	$ 511.50	$ 511.50	3	$ 1,534.50
85101-unlimited	8000	80	$ 6.60	$ 528.00	$ 528.00	3	$ 1,584.00

*Based on Table No. A-III-A-I of the Uniform Fire Code
#Based on NFPA Standards
Types of construction are based upon the Uniform Building Code

CAMBRIA COMMUNITY SERVICES DISTRICT

INCORPORATION STUDY – SERVICE LEVEL ANALYSIS

August 19, 2005

MANAGEMENT PARTNERS
INCORPORATED

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EXECUTIVE SUMMARY

The Cambria Community Services District is contemplating incorporation. The decision of whether to initiate a move toward cityhood is based on factors that involve revenues and expenditures, service levels, decision making authority, and preservation of the community's unique character. The question most frequently raised in discussions about the potential for incorporation is: What would be different if Cambria were a city?

This report answers that question to the degree possible based on information obtained from San Luis Obispo County, selected comparable cities, and additional research on pertinent issues.

Based solely on revenue and expenditure estimates, it is anticipated that Cambria could function as a city and provide residents with the same or higher level of services than they are currently receiving. However, the incorporation equation is complicated by the "revenue neutrality" provision in State law that favors counties over communities wishing to incorporate. The requirement for revenue neutrality – making the county whole for the difference between the cost of services assumed by the new city and loss of revenue to the new city – makes incorporation extremely difficult and rare.

The conclusion of this study is that incorporation is not recommended at this time and under the current statutory environment – unless Cambria's transient occupancy tax (TOT) is increased and the additional revenue is included in revenue neutrality negotiations. Absent revenue neutrality issues, Cambria would be in a good position to pursue incorporation.

As an alternative to incorporation, CCSD is urged to pursue integrating services with the County where feasible for planning and development services, and to consider establishing a special police protection district for enhanced law enforcement services in Cambria.

INTRODUCTION AND BACKGROUND

Cambria Community Services District (CCSD) has for some time been actively considering the possibility of initiating the process that would culminate in incorporation as a city. The CCSD Board appointed an Incorporation Blue Ribbon Citizen Committee, which has been meeting and discussing issues related to incorporation for almost two years.

A Preliminary Incorporation Feasibility Analysis commissioned by the District was completed by Management Partners in June 2004. That report concluded that the statutory revenues for a city based on the CCSD could be sufficient to cover the costs of the municipal services that would be assumed by the new city. The ultimate answer to the question of incorporation would however, hinge on a revenue neutrality agreement with the County of San Luis Obispo (SLO).

The revenue neutrality law, enacted by the State in 1992, allows approval of an incorporation proposal by a LAFCO only if terms and conditions are imposed on the incorporation that render it a *revenue neutral* proposition to the affected county government. That is, the county must be made whole for the loss of property, sales, transient occupancy and potentially other tax revenue resulting from incorporation. There have been only ten incorporations under the revenue neutrality law. Management Partners analyzed the revenue neutrality agreements for seven of those incorporations; the resulting Survey of Revenue Neutrality Provisions report is attached.

Continuing discussions by the Incorporation Committee and information provided by Management Partners have focused on the incorporation process, the CCSD's functions, LAFCO's role, SLO County's responsibilities, and revenue neutrality requirements. It became clear throughout these discussions that important questions remained unanswered:

- What level of service is Cambria currently getting from SLO County?
- What level of service would residents receive from an incorporated City of Cambria?

To help answer these questions, the Incorporation Committee requested a service level analysis and the District engaged Management Partners to conduct the study. The objectives of the service level analysis are to:

- Document services currently provided by SLO County
- Provide resource and service level data from comparable cities
- Estimate the level of service a new City of Cambria would provide
- Consider the impact of a potential revenue neutrality payment

This report presents findings and analysis related to the objectives. The data from San Luis Obispo County were provided by County staff; in some cases they are presented exactly as provided and in some cases additional calculations were made to arrive at data that provided an "apples-to-apples" comparison. Management Partners is grateful to Supervisor Bianchi and her staff, the SLO County Administrator's Office, and County department directors for their time and information. The data from the comparable cities were obtained by researching the individual cities' annual financial reports and budgets, and through follow-up questions as necessary.

Selection of Comparable Cities

One of the underlying goals of the service level review was to determine whether a new City of Cambria would be able to generate revenues necessary to provide services at a level that would meet residents' expectations. To provide a context for this question, eight cities were identified by the Incorporation Committee for comparison. The peer cities were selected based on size (between 5,000 and 15,000 population), community character, and level of tourism as evidenced by transient occupancy tax revenue. The cities selected as peers for the study, their resident populations (as of January 1, 2004), and the county in which they are located are:

- Pismo Beach (8716, San Luis Obispo County)
- Ojai (8116, Ventura County)
- *Cambria (6235, San Luis Obispo County)*
- Big Bear Lake (6064, San Bernardino County)
- St. Helena (6005, Napa County)
- Solvang (5440, Santa Barbara County)
- Calistoga (5201, Napa County)
- Buellton (4461, Santa Barbara County)
- Carmel by-the-Sea (4113, Monterey County)

These established cities provide a reference point for comparison of revenues and expenditures to determine whether the projections for a new City of Cambria are reasonable ("in the ballpark") and to provide some general benchmarks as to what range and level of services Cambria residents might expect a new city to provide. Each of the peer cities operates under the Council-Manager form of government and each has five Council members (including the mayor).

REVENUES

The primary sources of revenue for the new city would be transient occupancy tax, sales tax and property tax. These three municipal revenue sources are discussed below and comparative data are provided.

Transient Occupancy Tax (TOT)

TOT, also referred to as hotel or bed tax, is imposed by cities on visitors staying for 30 days or less in a lodging facility. The tax is added to the cost of a night's stay and collected by the hotel/motel, which submits it to the city quarterly or on another schedule set by the city government. The TOT is stated as a rate – a locally set percentage – that varies from 4% to15% across the state. The rationale of the TOT is to pass along to visitors some of the costs borne by the community in providing basic services related to tourism, such as public safety, street maintenance and parks.

In communities with heavy tourism, TOT is a primary source of general fund revenue. Currently all TOT generated in Cambria supplements the SLO County General Fund. The TOT rate in Cambria is 9%, which has been set as the rate in all unincorporated areas of the County. If Cambria were a city it would have the option (with voter approval) to set/raise the TOT rate, and the revenue would be the City's rather than the County's. All cities in San Luis Obispo County have TOT rates of 10%. Based on current revenues it is estimated that every percentage point increase in the TOT rate would result in approximately $250,000 in additional annual revenue for Cambria. For example, based on recent tourism experience, increasing the rate to 10% would generate $250,000; increasing the rate to 12% would generate an additional $750,000.

To increase the TOT would require approval at an election with a majority of the votes cast, provided the revenues were to be allocated to the general fund and used for any "general" governmental purpose, or by a two-thirds margin if the revenues were to be used for a "special" purpose. This is due to California Proposition 218, passed by the voters in 1996, which sought to ensure that all taxes and most charges on property owners are subject to voter approval. When TOT increase elections are held, proponents for increasing the tax argue that it will not adversely impact the community since the people paying it are visitors; opponents claim that any increase will hurt local hotel/motel operators by effectively raising the cost of a night's lodging. If a TOT election were contemplated it would be critical to emphasize that the tax increase would not affect local residents, as the potential for tax increases is a major issue with respect to incorporation.

FIGURE 1: TOT REVENUE AND RATE

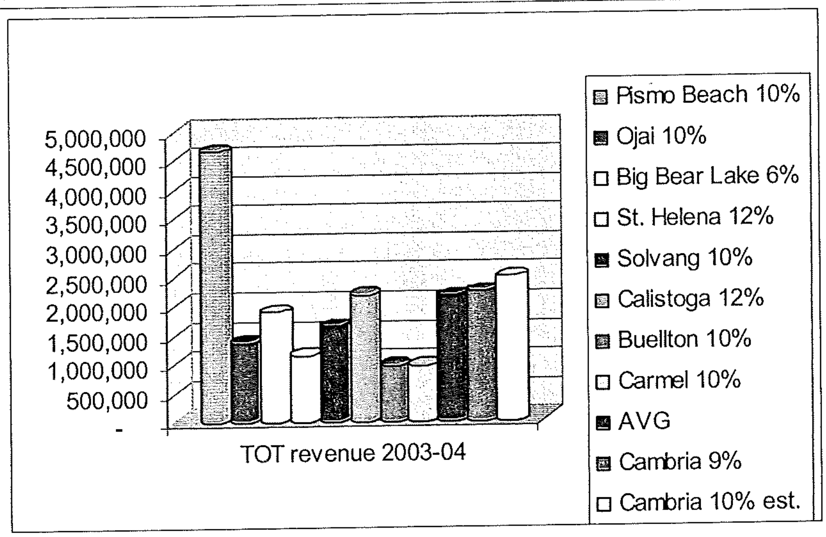
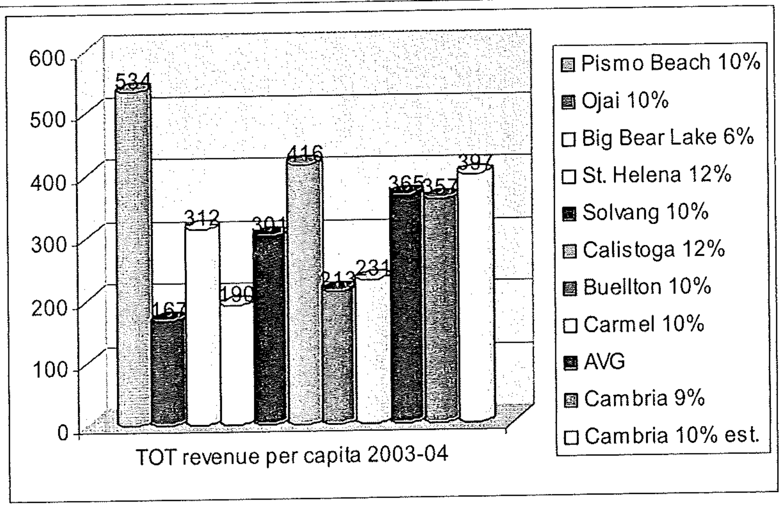


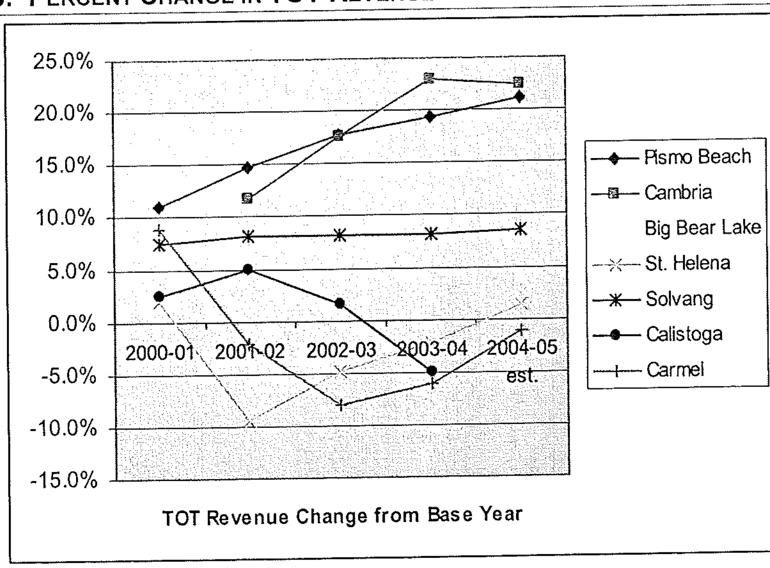
Figure 1 shows the total FY2003-04 TOT revenue for the eight peer cities along with their TOT rate. The average revenue is also included. The two right columns show the revenue generated in Cambria in FY2002-03 at the current 9% rate, and the estimated revenue if Cambria were a city and raised its rate to 10%. As illustrated, Cambria's current TOT revenue is slightly above the average for the eight cities, and with an increase of one percentage point the TOT revenue generated in Cambria would exceed that of all the cities in the study except Pismo Beach. This indicates that Cambria has an extremely healthy lodging industry that is a significant revenue contributor. The actual TOT revenue represents approximately $24.8 million in dollars spent on hotel/motel/bed and breakfast stays during the period studied.

FIGURE 2: PER CAPITA TOT REVENUE



The per capita TOT illustration in Figure 2 provides a comparative review of cities' abilities to generate TOT revenue relative to their size. The average per capita TOT is 365 (skewed by the high Pismo Beach figure), slightly above Cambria's actual of 357. Cambria's per capita TOT ranks below only Pismo Beach and Calistoga among the peer cities. If Cambria's TOT rate were 10%, it is estimated that the per capita TOT would increase to 397. New lodging properties in Cambria would be expected to push the revenue even higher. The importance of this funding source to a new City of Cambria cannot be overstated.

FIGURE 3: PERCENT CHANGE IN TOT REVENUE



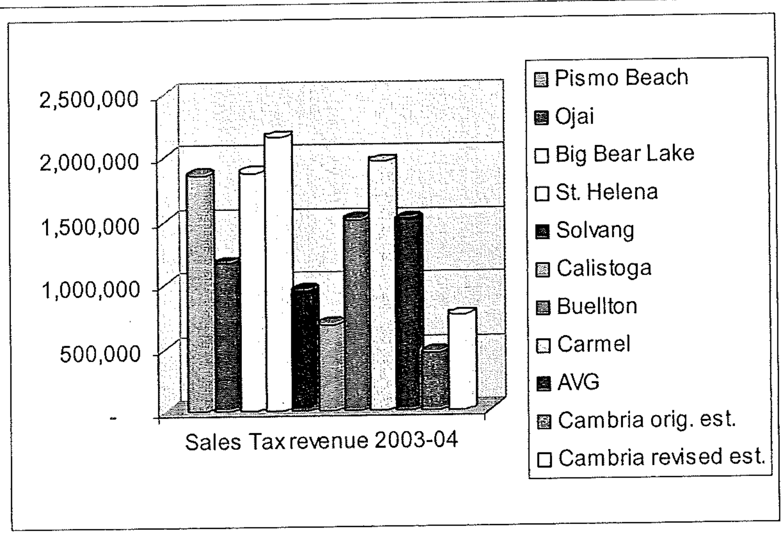
Trends in the rate of growth of TOT revenue over the past several years for Cambria and the peer cities are mixed. Figure 3 shows percent change in TOT revenue from the various cities' base years – with the base years depending on the data available. The colored lines represent revenue growth as well as dips in revenue from one year to the next. As indicated, Pismo Beach has experienced consistent and significant growth over the past five years, Solvang's TOT growth rate has remained relatively flat, and Carmel's and St. Helena's TOT revenue dipped and then increased. Cambria's TOT, represented by the pink line, increased steadily before flattening over the last year. While it is difficult to predict if Cambria's TOT will remain strong, there is nothing to suggest slowing of tourism. A major downturn in the economy could be a factor; eventually the price of gas could have an impact also. Cambria, like Pismo Beach, is a favorite destination for Central Valley residents. As the population of major Valley cities continues to grow, it is likely that the numbers of travelers to the coast from those areas will increase as well.

Sales Tax Revenue

The tax rate paid on all taxable sales in Cambria is 7.25%. Proceeds on taxable sales in Cambria accrue to the State and are distributed by the State Board of Equalization with San Luis Obispo County receiving 1%. If Cambria were a city, it would receive that 1% of the sales tax revenue generated within its boundaries.

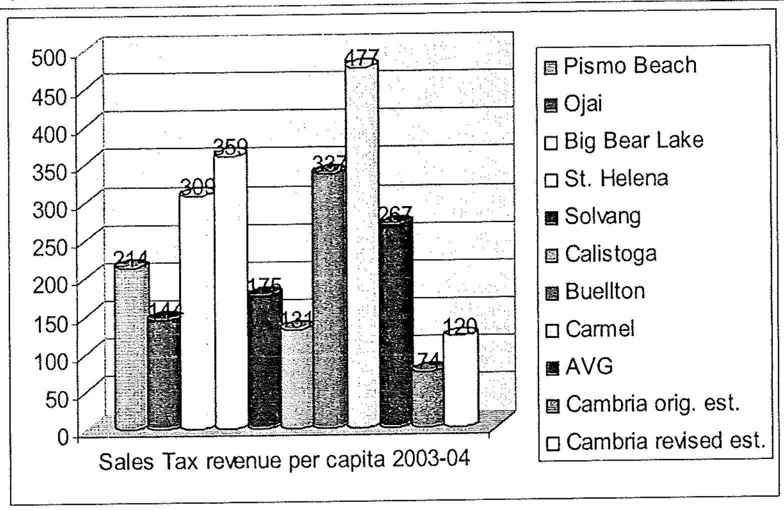
Total sales tax revenues vary widely among the peer cities based on factors including large versus small retail outlets and the presence of significant sales tax generators such as automobile sales lots. Sales tax is a fairly unpredictable source of revenue, as it responds quickly to a host of economic forces and is quite vulnerable to recessionary pressures. Generally speaking, the less a community relies on sales tax for its general fund needs, the less exposed its budget will be over time to economic fluctuations.

FIGURE 4: SALES TAX REVENUE



Total FY2003-04 sales tax revenue for each of the peer cities is shown in Figure 4, along with the average of the eight cities. The "Cambria original estimate" indicated is the $460,000 figure provided by SLO County for an earlier study and updated for the June 2004 Preliminary Incorporation Feasibility Analysis. However, because the State Board of Equalization segregates sales tax revenue only by county and incorporated city – and does not separate it for unincorporated communities – there is not reliable sales tax information for Cambria. Further analysis suggests that the $460,000 figure is substantially lower than what can reasonably be expected from this revenue source. The "Cambria revised estimate" is more realistic and is based on per capita sales tax numbers from the peer cities, as described below.

FIGURE 5: PER CAPITA SALES TAX REVENUE



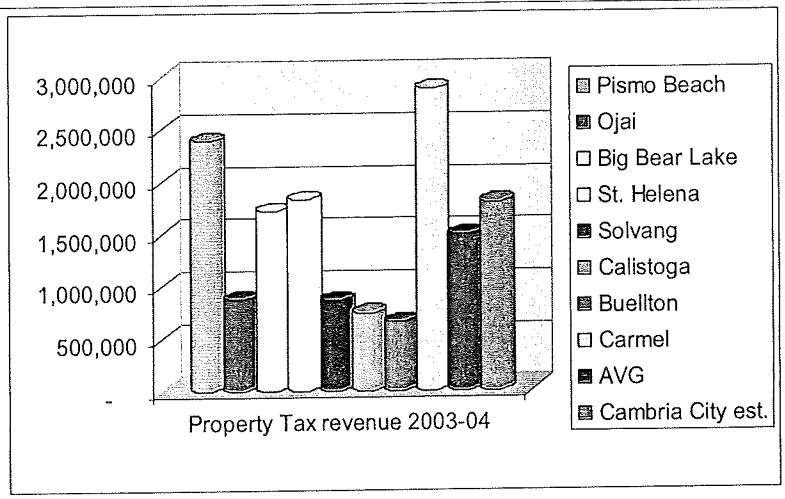
Converting the peer cities' sales tax revenue totals into per capita figures is a more precise approach to comparing them (Figure 5). While the relative per capita variations mirror the total revenue chart, the distinctions between the cities are accentuated. Sales tax revenue per capita for the eight peer cities (not including Cambria) ranges from a low of $131 in Calistoga to a high of $477 in Carmel with an average of $267 per capita. Cambria's per capita sales tax, based on the revenue figure provided in June 2004, would be $74. This suggests that the total sales tax number being used for the original analysis is unrealistically low.

Based on a per capita analysis, Cambria's sales tax estimate has been revised upward to $750,000, a total that equates to $120 per capita. This is still a conservative sales tax revenue projection in that it remains below the lowest per capita peer city. The revised estimate, however, adds $290,000 to the general fund revenue total being used for the test of revenues versus expenditures.

Property Tax Revenue

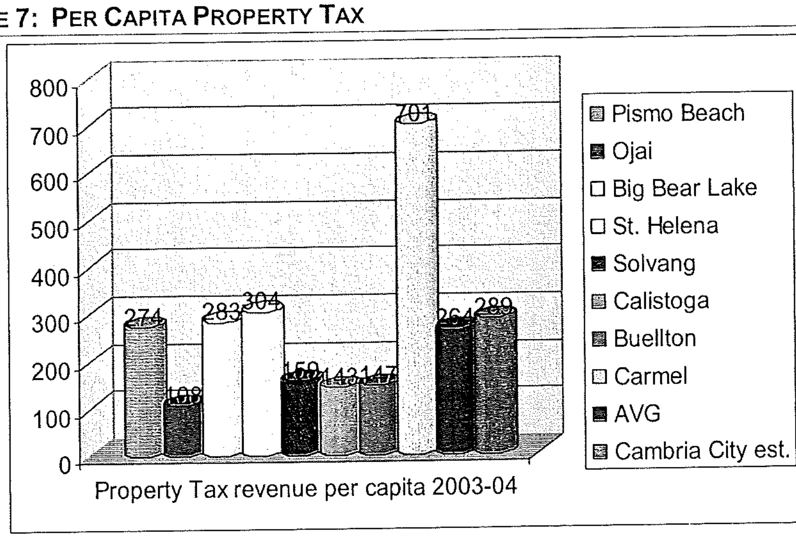
As a city, Cambria would receive a slightly larger share of the local property tax pie than it currently does. Property tax revenue is a more stable source of revenue than sales tax, as the value of property is not as sensitive to economic downturns. The property tax estimate provided in the Preliminary Incorporation Feasibility Analysis ($1,801,000, which includes property transfer tax revenue) has been charted alongside the eight peer cities and the average.

FIGURE 6: PROPERTY TAX REVENUE



The comparative analysis in Figure 6 illustrates the significant property tax revenue disparity between the cities, which appears to be only loosely related to community size. Property tax revenues are dependent on valuation and turnover, as well as changes in the underlying value of property resulting from development and land use decisions. Carmel, although one of the smallest cities in the study, has the highest property tax revenues; Buellton has the lowest. The estimate for a new City of Cambria is above the average and on par with Big Bear Lake and St. Helena for total property tax proceeds. As with the sales tax discussion, the per capita breakdown (Figure 7) provides a more refined analysis.

FIGURE 7: PER CAPITA PROPERTY TAX



With the exception of Carmel being significantly higher than the rest of the peer cities, the per capita property tax analysis is an equalizer to some degree. Property tax revenue per capita is lowest in Ojai at $108 and the average of the eight cities is $264. For Cambria as a city the estimate is $289 – above the average and lower only than St. Helena and Carmel. This represents the strength of property values in Cambria, which is an indicator of a solid revenue base.

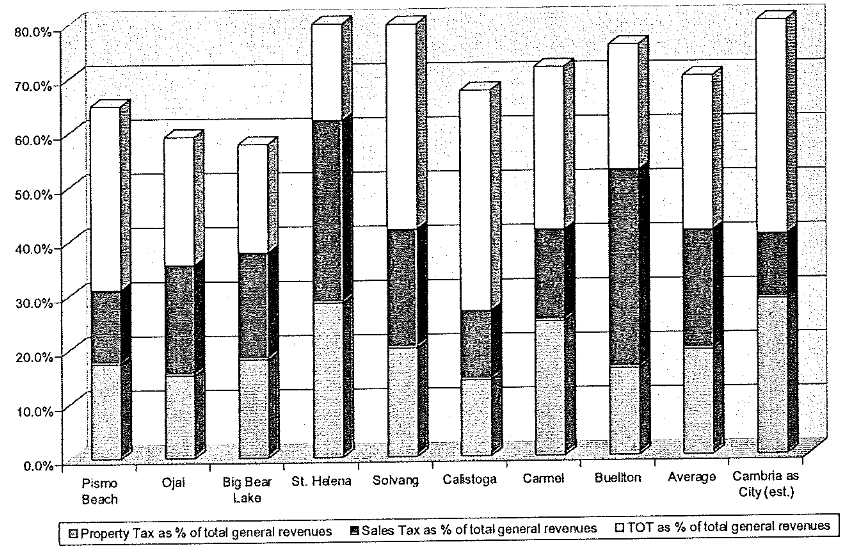
Revenues as Percent of General Fund Total

Together, transient occupancy tax, sales tax and property tax comprise from 58% (Big Bear Lake) to 80% (St. Helena) of the peer cities' total general revenues. The average for the eight cities is 69%. Other revenues that provide the balance of general revenues include, in varying amounts for the different cities, franchise fees, charges for services, licenses and permits, business licenses, fines and forfeitures, special assessments, gas tax, interest and rent earnings, and state and federal grant funds.

A review of revenue estimates from these sources for a new City of Cambria with the peer cities helps determine whether the projections are reasonable and how Cambria would compare. Figure 8 illustrates two things: (1) the portion of total general revenues that comes from these three primary sources and (2) the relative importance of each source to the general fund.

Based on the estimates for TOT, sales tax (revised) and property tax, the new city would derive approximately 79% of its general revenues from these three sources. As indicated in the figure below by the stacked bars, Cambria would be highly dependent upon TOT and property tax to support general operations. With the exception of Calistoga, Cambria would derive a higher percentage of revenue from TOT than any of the other cities. Interestingly, Cambria also is among the least reliant on sales tax revenue.

FIGURE 8: REVENUES AS PERCENT OF GENERAL FUND TOTAL



Per Capita Revenues and Expenditures

Figures 9 and 10 below compare the general revenues and general expenditures per capita for each of the peer cities for FY2003-04 and for a City of Cambria as estimated. This is a useful illustration of the ability of the cities to generate revenue to meet local needs. For the eight cities, the average per capita revenue was $1,352 and the average per capita expenditure was $1,162. If Carmel is removed from the analysis to control for the skewing effect, the per capita average falls to $1,107 (revenues) and $1,039 (expenditures).

In comparison, the estimates for a new City of Cambria are $1,008 and $974 – slightly below the averages. This suggests that as a city, Cambria could be expected to provide a range and level of services generally on par with those provided by the peer cities surveyed.

It is important to note that Cambria's expenditure figure does not include any revenue neutrality "mitigation payment" which would need to be budgeted depending on the result of negotiations with the County prior to an incorporation election. As reported in the attached Survey of Revenue Neutrality Provisions, these payments historically have varied widely depending on the financial circumstances of the incorporation. The smallest city in the survey, Laguna Woods, was required to pay Orange County $2.835 million over seven years as revenue neutrality mitigation to fill the gap between the cost of services transferred to the new city and loss of revenue to the County.

FIGURE 9: PER CAPITA REVENUES AND EXPENDITURES

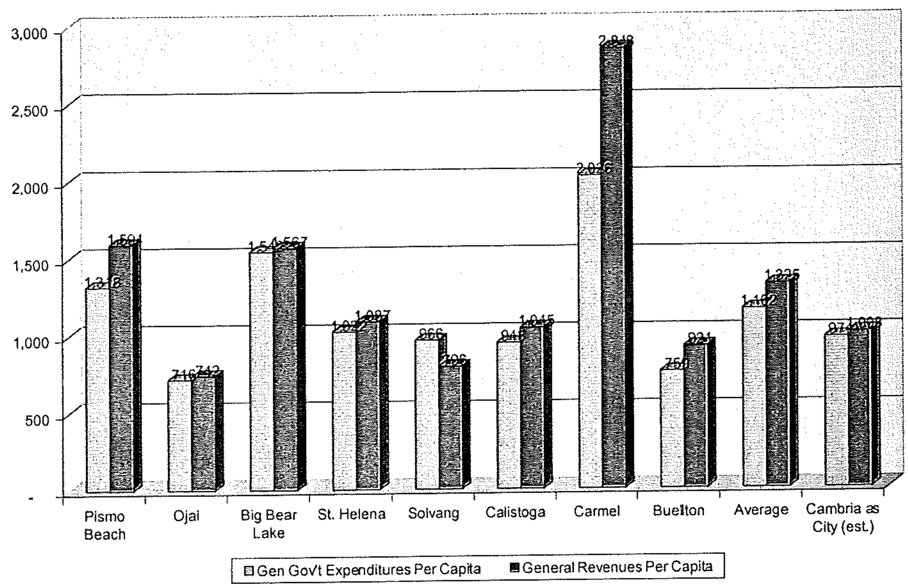
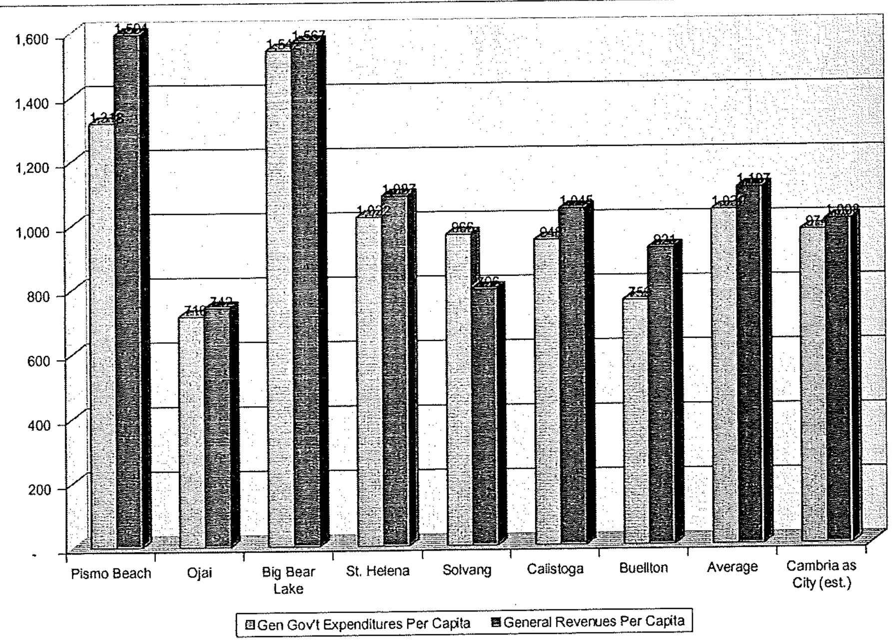


FIGURE 10: PER CAPITA REVENUES AND EXPENDITURES EXCLUDING CARMEL



SERVICES PROVIDED BY PEER CITIES

The premise of the above revenue analysis is that if Cambia were a city, it would be able to generate enough revenue to provide the level and type of services that the peer cities provide to their residents. The eight cities surveyed have similar service profiles, with exceptions as noted below.

While all of the cities offer the basic administrative services – city manager/administrator, city clerk, city attorney (staff or contract), finance (accounting, treasury, accounts payable and receivable) human resources, and information technology – there is an important variation in the arrangements under which police and fire services are delivered. Table 1 below summarizes public safety services (police and fire) for the peer cities. The "Other" column is for services that are atypical among the cities and so may affect staffing totals.

TABLE 1: PEER CITY SERVICE COMPARISONS

Peer City	Police Services	Fire Services	Other
Pismo Beach	City Dept: 34 staff, 23 sworn	Cal. Dept of Forestry/ SLO Co. Fire Dept	City funds Conf & Visitors Bureau
Ojai	Contract w/ Ventura Co. Sheriff; staff are assigned to Ojai; 20 sworn + support staff	Ventura Co. Fire Protection Dist	
Big Bear Lake	Contract w/ San Bernardino Sheriff Dept.	Fire District	Performing Arts Center; Film Office
St. Helena	City Dept: 19 staff, 13 sworn	City Dept: all volunteer except for chief; 30 pay-call firefighters	City Library
Solvang	Contract w/ Santa Barbara Co. Sheriff Dept.	City Dept: all volunteer except for 3 F/T staff; 22 pay-call firefighters	
Calistoga	City Dept: 15 staff, 10 sworn	City Dept: all volunteer except 3 F/T; 18 pay-call	
Buellton	Contract w/ Santa Barbara Co. Sheriff Dept.	Served by Santa Barbara Co. Fire Dept. Station 31	
Carmel	City Dept	City Dept: 8 staff + on-call volunteers	Performing Arts Center
Cambria	Provided by SLO Co. Sheriff	CCSD	

Staffing totals and staffing on a per capita basis vary widely among the peer cities. There is delineation in the staff size between the cities that have their own police departments and those that do not. Pismo Beach, St. Helena, Calistoga, and Carmel all have their own police departments and all have FTEs (full-time equivalent) per 1,000 population over ten. Big Bear Lake is a minor exception to this rule; it also operates a performing arts center and a film office, which add to the staffing total. St. Helena's FTEs per 1,000 figure is partly attributable to its City library. Table 2 below shows the FTEs per 1,000 population for each of the peer cities.

The "Cambria as City estimate" for FTE staff was derived by applying the FTEs per 1,000 average (5.7) for Ojai, Solvang and Buellton – the peer cities without city-operated police forces and other special amenities. This assumes that a new City of Cambria would add staff for planning and public works functions. Since the existing CCSD has approximately 25 employees the marginal staffing increases necessary to establish full city operations are likely relatively modest. However, Cambria has a more complex utility service arrangement than is the case in other areas and probably would need some additional staffing to account for this.

TABLE 2: PEER CITY FTE COMPARISONS

Peer City	FTE Staff	FTEs per 1,000 population
Pismo Beach	142	16.3
Ojai	59	7.3
Big Bear Lake	62	10.2
St. Helena	102	17.0
Solvang	33	6.1
Calistoga	56	10.8
Buellton	17	3.8
Carmel by-the-Sea	67	16.3
Cambria as City estimate	36	5.7
Cambria CSD currently	25	4.0

SERVICES PROVIDED TO CAMBRIA BY SLO COUNTY

As an independent special district, Cambia Community Services District operates only those services it is authorized to provide, mainly fire and utility services. Other municipal services are under the control of the San Luis Obispo County Board of Supervisors. CCSD enterprise services are water and wastewater; they are funded by user fees set at a rate to cover costs of service delivery (under the control of District Board and management).

The information below was compiled for the County-provided services that have the greatest impact on Cambria residents, and the services that Incorporation Committee discussions center on regarding local control issues. It helps answer the question "What is the level of service being provided to Cambria residents from SLO County?"

Law Enforcement

The County Sheriff's Department is the primary agency responsible for law enforcement in Cambria. The Sheriff provides 24-hour protection through patrol deputies assigned to Cambria in addition to support personnel available to assist the community through a variety of functions including detectives, narcotics investigators, special problems units, gang task force, bomb task force, bicycle enforcement team, search and rescue, clerical support and other special activities.

Cambria is served by the Sheriff's Coast Station, which is located in Los Osos and covers the area along the coast from Avila Beach north to the County boundary. There are three beats in the Coast Station territory (of seven county-wide). Cambria is located in Beat 3, which also includes Cayucos, Harmony, San Simeon, and Ragged Point. In addition to the Coast Station, there are two other Sheriff's Department substations: North Station and South Station.

Based on Beat 3 activity during 2004, Cambria was responsible for 57% of the calls for service within Beat 3. For comparative purposes, Cambria has approximately 62% of the population in the Beat 3 area.

As Table 3 shows, for calendar year 2004 (the time period for which the data were provided), the County Sheriff responded to 3,118 calls in Cambria. That equates to 6.4% of the total calls countywide. (Cambria has 5.7% of the unincorporated County population.) Of the 3,118 calls responded to in Cambria in 2004, five were considered high priority, which means the incidents were potentially threatening to life or property. This compares to 30 high priority calls for the entire Coast Station service area.

Of all the calls responded to in Cambria in 2004, 122 (3.9%) were for Part I crimes. This classification includes serious crimes such as murder and non-negligent manslaughter, forcible rape, robbery, aggravated assault, burglary, larceny-theft, motor vehicle theft, and arson. Calls for vandalism and public intoxication represented 2.1% of the calls, or 67 incidents.

TABLE 3: LAW ENFORCEMENT DATA - CAMBRIA AND COUNTYWIDE COMPARISONS

Category	Cambria	Countywide	Cambria %
Population	6,235	110,047	5.7%
Calls for Service	3,118	48,797	6.4%
Avg. Response Time to High Priority Calls	NA	NA	NA
FTEs allocated	13	189	6.9%
FTEs per 1,000 population	2.07	1.72	exceeds Countywide

The field and support personnel included in the analysis are patrol deputies, supervisors, detectives, dispatchers, and management and support staff. The figures provided by the Sheriff's Office suggest that Cambria is receiving more than its "fair share" of service. However, it should be noted that the FTE numbers were reverse-extrapolated from the 57% of calls in the Coast Station area that are for Cambria – meaning, they represent the amount of FTE resources that would be consumed based on that percentage of calls. This call-based analysis does not include proactive patrol activity.

The story behind the numbers is the highly reactive nature of law enforcement for Cambria residents. If Cambria were in a position to contract for a specific level of Sheriff's Department patrol, it would have control over the level of preventive and community-based law enforcement services provided in the community. Response time data, if it were available, would be a significant factor in determining the level of service provided, since the Coast Station serves communities in an area covering over 30 miles of coastline. A dedicated local law enforcement presence would almost certainly result in a quicker response on average than the Sheriff is currently able to provide.

Even based on the limited information available, it seems clear that if it were a city, Cambria would have a larger police force and shorter response times.

TABLE 4: POLICE STAFFING DATA FOR PEER CITIES

City	Police Staffing	Staffing per Capita
Pismo Beach	34	3.9
Ojai	22	2.7
St. Helena	19	3.2
Calistoga	15	2.9
Cambria estimate	13	2.1

As Table 4 shows, of the peers for which information is available, all have a larger police force and a larger number of personnel per capita.

Planning and Building

Planning and development functions for CCSD are the responsibility of the SLO County Planning and Building Department, whose mission it is to "promote the wise use of land and help to build great communities." The planning programs that impact Cambria most directly are Development Services and Long-Range Planning/Coastal Zone Management. Key functions of the Development Services Program are reviewing plans and assisting customers regarding compliance with land use, environmental and development requirements; development and environmental permitting; reviewing land use proposals and general plan/ordinance amendments; and conducting building inspections.

Over a three-year period, there were an average of 73 development applications reviewed, 82 lot line adjustments/mergers and 270 tree removal permits processed by the County for properties in Cambria. It is estimated that these services required between 2.5 and 3 FTE positions to complete. As Table 5 shows, there are 78.5 County Development Services staff; therefore during the period reviewed Cambria received approximately 3.5% of program services on an FTE basis.

In the permitting and inspection area, Cambria appears to have received the amount of service that would be expected based on its size. The figures for building permit applications and building inspections are below. A caution to the numbers is that Cambria is included in the same district as Cayucos for tracking purposes, so the Cambria figures were estimated from the Cambria-Cayucos total based on relative population.

TABLE 5: DEVELOPMENT SERVICES DATA – CAMBRIA AND COUNTYWIDE COMPS

Category	Cambria	Countywide	Cambria %
FTEs for Development Services	2.75 (approx avg)	78.5	3.5%
Building Permit Applications	254	4,044	6.3%
Number of Building Inspections	1,706	23,553	7.2%
Population	6,253	110,047	5.7%

Long-range Planning/Coastal Zone Management (CZM) Program staff prepare plans that advance the physical development of the County, and prepare and update Local Coastal Plans that protect the County's coastal zone. Over a three-year period, over $1.5 million in County resources and grant funds (including indirect/overhead costs) has been allocated to Cambria for a variety of long-range planning and coastal zone management activities. This accounts for approximately 24% of the total Countywide resources committed to these programs during the three year period (see Table 6 below). All the costs shown in the table include 79% overhead as per the stated County rate.

TABLE 6: PLANNING/CZM DATA – CAMBRIA AND COUNTYWIDE COMPARISONS

Category	Cambria	Countywide	Cambria %
Long-range Planning	$ 447,439	$1,771,722	25.0%
CZM administration	$ 21,929	$ 172,760	13.0%
CZM grants	$1,075,822	$4,625,467	23.0%
Total Planning & CZM	$1,545,190	$6,569,949	24.0%
Population	6,253	110,047	5.7%

Long-range planning activities during the three-year period included:

- North Coast Plan Update
- Cambria-San Simeon Plan Update
- Cambria Design plan
- Advisory Council
- Main Street Enhancement
- Main Street Construction Grant
- Grant Administration

Coastal Zone Management grants were secured by the County for:

- Bianchini House ($20,215)
- East/West Ranch ($200,000)
- Main Street Construction ($307,000)
- Coastal Commission NCAP ($73,803)

Long-range Planning and Coastal Zone Management expenditures also include "periodic review" and "proportional share." The "proportional share" is a population-based charge built into each division's budget to capture the cost of serving the community. As noted above, a 79% overhead charge significantly increases the cost of doing business.

Cambria's planning environment is more dynamic than large portions of unincorporated areas of SLO County, and its planning issues are extremely complex. Naturally, this results in higher demand on County planning resources whereas many of the County's unincorporated areas present fewer planning challenges. Thus long-range planning resource allocation reflects the demand driven by Cambria. Moreover, as a coastal community Cambria is subject to a multitude of extra statutory and regulatory requirements that increase the challenges presented by

Cambria's long-range planning needs. While much of the balance of the County also has coastline, only the unincorporated areas are under the County's jurisdiction.

Therefore, while County planning resources allocated to Cambria may seem high compared to its population, this must be viewed in relation to the planning challenges Cambria presents. Simply put: as a planning customer, Cambria receives a high level of service because its issues and needs demand and deserve a high level of service.

It is also important to note that CCSD also spends large amounts on a variety of planning projects that to one degree or another overlap or overlay the work performed by the County. At this level of review it is impossible to estimate the redundancies or the costs incurred in reconciling County and CCSD planning, but it is substantial.

Public Works

County Public Works provides a variety of services including maintenance and installation/construction of roads, culverts, bridges, and traffic signals and signs; support to special districts for operations, maintenance, capital projects and debt service (including assisting Cambria with utility undergrounding); administration of some solid waste activities in unincorporated areas (not applicable to Cambria); and engineering services to other County departments and governmental agencies. Table 7 presents data provided by the County Public Works Department regarding dollars spent on public works capital projects and road maintenance during 2003-04.

TABLE 7: PUBLIC WORKS DATA – CAMBRIA AND COUNTYWIDE COMPARISONS

Category	Cambria	Countywide	Cambria %
Total Capital spending	$ 1,135,722	$18,181,872	6.3%
Streets projects	$ 619,657	$ 8,767,784	7.1%
Storm Drain projects	$ 159,172	$ 261,886	60.8%
Sewer projects	$ 0	$ 156,066	0%
Road maintenance	$ 422,436	$ 7,292,584	5.8%
Population	6,253	110,047	5.7%

This illustrates that, with the exception of sewer projects, Cambria received its "fair share" or more (on a population percentage basis) with respect to capital projects and road maintenance spending.

It should be noted that cities in California receive gas tax and other revenues above those received by counties. Therefore cities are typically able to spend more on street maintenance expenditures than counties. As a city Cambria would have somewhat more funding available for street maintenance than the proportionate share of the existing County funding. A city would also potentially be able to supplement street gas tax funding with general fund dollars, a decision that many cities make, but which few counties can match.

Parks and Recreation

The County Parks Division manages and maintains the County-owned or operated parks and recreational facilities including community parks, playgrounds, swimming pools, coastal access ways and beaches. Shamel Park in Cambria is a County park. Cambria has 5.7% (six acres) of the 105 acres of park facilities in the unincorporated County; however on a square-footage-per-capita basis, Cambria is slightly below the rest of the County.

TABLE 8: PARK AND RECREATION DATA – CAMBRIA AND COUNTYWIDE COMPARISONS

Category	Cambria	Countywide	Cambria %
Park square acres	6	105	5.7%
Park sq ft per capita	39.8	45	88%
Recreation program participants	2,671	34,227	7.8%
Recreation $ per capita	$ 4.02	$ 2.05	196%
Maintenance hours per capita	.32	1.1	29%
Population	6,253	110,047	5.7%

As Table 8 shows, for County-sponsored recreation programming, the pool at Shamel Park drew close to 2,700 users in 2003-04. This is 8% of the unincorporated County's total for recreation program participation. Since Cambria has 5.7% of the unincorporated County population, this figure suggests that, at least in terms of the recreation programs available in unincorporated SLO County (pools), Cambria is not underserved. In the year reviewed, the County spent $4.02 per capita on recreation programs for the Cambria community – almost double the $2.05 Countywide figure. These figures represent operating expenses only; no capital costs (such as the recent major upgrade to the Shamel Park playground) are included. This high per capita amount is attributable to the pool. Swimming pools are an extremely expensive asset to manage and operate and they generate little revenue.

In 2003-04, total revenues for Shamel Park, including rentals and the pool, were $6,958. If Cambria were a city and if it became the operator of Shamel Park, these revenues – along with the pool expenses – would accrue to the city.

The CCSD manages District facilities and properties such as the East West Ranch. The Community Center of Cambria is an independent non-profit organization that provides a variety of classes and community events for all age groups. If Cambria were to become a city, increased local control and funding would likely bring enhancements to parks and recreation services.

WOULD CAMBRIA CITYHOOD MEAN BETTER SERVICES?

This is the key question regarding incorporation. In discussions related to the possibility of Cambria becoming a city, the concerns most often voiced as the reasons for wanting independence from the County are (1) increased law enforcement services and (2) control over land use/development services and decision-making. The information provided above helps answer that question to some degree.

Law Enforcement

If Cambria were a city and contracted for services with the County Sheriff, specific service and performance parameters would result in a greater local presence, which would increase crime prevention efforts and reduce response time. While, according to the Sheriff's Office, Cambria receives service that equates to 13 full-time staff, that includes only 4.5 patrol deputies. (The number also includes detectives, dispatchers, management and support staff.) Calistoga and St. Helena – the cities closest to Cambria in size that have local police forces – have 10 and 13 sworn staff respectively.

A service contract with the County Sheriff's Department is unprecedented, so between the County and a new City of Cambria there would be an opportunity to structure the law enforcement arrangement in a manner that best meets the needs of Cambria residents. As the city became more financially secure over time (and grew), the contract could be enhanced if desired by the community.

Land Use/Development

The data show that for development services such as permitting and building inspections, Cambria uses an amount of resources commensurate with its size. An unknown is how the County's ability to provide service would be impacted once the 666 water permits currently on the waiting list are released (pending completion of the proposed desalinization facility) and there is a significant ramping up of development activity.

In the long-range planning area, although Cambria is getting a significant amount of resources, local conditions and issues require that level – or an even greater level – of service for land use planning. Also, a large portion of the resources provided by the County is in the form of pass-through grants for specific local projects. If Cambria were a city, it would be expected to secure such funding directly.

Benefits would also accrue from the ability to have a single agency planning for the city. Undoubtedly, there would be a reduction in redundancy and a savings in both time and money with respect to advance planning. Residents would also get better service as a result of having inspectors and planners available in Cambria. Issues of duplicative or conflicting efforts such as separate water permit lists could be resolved/eliminated. The process for pursuing major initiatives such as the proposed desalinization facility would be under the city's authority. In short, more direct city control would result in increased efficiency and effectiveness of service delivery.

California Coastal Commission

An advisement regarding land use decision-making is necessary at this point. Local control over land use planning is often cited as a primary advantage to incorporation. As discussed above, as an unincorporated community in San Luis Obispo County, planning and permitting functions for Cambria are the responsibility of the County. County land use/ permitting authority for areas in the "Coastal Zone" (all of Cambria) is under the jurisdiction of the California Coastal Commission (CCC) and governed by the County's Local Coastal Program (LCP).

An LCP is the basic planning tool used to plan and regulate development in coastal areas, similar to a general plan for areas under CCC jurisdiction. The LCP includes a land use plan that prescribes land use classifications, types and densities of allowable development, and goals and policies concerning development; and zoning ordinances needed to implement the plan. Local governments prepare LCPs and submit them to the CCC for approval. After the LCP is approved, the Commission's permitting authority is delegated to the county/city. The CCC retains appeal authority over certain permit decisions depending upon impacts and also retains original permit jurisdiction over development on tidelands, submerged lands, and public trust lands.

If Cambria became a city, the County's LCP would no longer apply and the new city would be under the Coastal Commission's permit authority until such time as it has its own approved LCP. Cambria, upon cityhood, would not have the option of adopting the County's LCP; it would have to initiate the process of developing its own plan, a process that could take from 4 to 8 years and over $200,000 to complete and receive all necessary approvals.

Types of permits that would require CCC approval are the placement of solid material or structures; a change in land use density or intensity (including land division); change in the intensity of water use or access to water; and removal of major vegetation. Thus while local control over most development decision-making would eventually be under the City of Cambria's purview, there would be a period in which the Coastal

Commission will be the sole land use authority. This should be a consideration in the incorporation discussion.

Growth Management

Another frequently cited advantage to incorporation is that Cambria as a city would have more control over the growth of the community. This may be the case to some degree, but perhaps not to the degree desired or envisioned. The laws that govern the timing and sequencing of the growth of cities – regarding zoning, property rights, growth boundaries, impact fees, mitigation requirements – will apply whether Cambria is incorporated or not. However it is likely that, as a city, Cambria would go further in protecting the assets that make the community unique. A City Council would undoubtedly be more representative of community viewpoints on growth, and could be expected to engage in more growth management than the County Board of Supervisors would or the CCSD Board is able to. For example, local ordinances requiring the availability of specified public services before development can be approved effectively limit growth, as do air and water quality standards related to development.

Within California, growth management is most assertively pursued by cities. While exceptions can be found (and to some degree Cambria is already something of an exception under current San Luis Obispo County policies), counties do not regulate growth as aggressively as some cities. Therefore if Cambria were to become a city it could, and probably would, use the tools which are available to limit growth more aggressively than the County.

A caveat to the discussion of growth management is that cities need a certain amount of growth to sustain them. Stagnation does not provide needed revenue to provide services. Additionally, the more aggressive the management or limitations imposed on development the higher the probability of litigation over property rights. Many of the peer jurisdictions studied in this report are heavily invested in growth and development limitations and many have been sued over such efforts. For example, Ojai was the subject of litigation (Palmer v. City of Ojai) that went all the way to the California Supreme court and set precedent on the application of permit processing regulations. Litigation, of course, costs money.

CONCLUSION

The data provided by SLO County suggest that while Cambria is not being underserved by the County, a higher level of service is typically available and observed in existing cities of comparable size and type. If Cambria had incorporated prior to the advent of revenue neutrality restrictions in the 1990s it is virtually a certainty that such a city would be able to offer a broader menu of municipal services and facilities than currently exist, or are likely to exist even with subsequent incorporation, because significant revenues will have to be diverted to "making the County whole."

In the focal areas of law enforcement and land use/development, services offered by the County are adequate; but if Cambria were a city it would strive to – and likely be able to – provide quality services tailored to its unique character and circumstances.

The review of revenues and expenditures of the peer cities, along with a survey of their services (particularly public safety), yields valuable information on the resources those cities need to operate. The data indicate that a new City of Cambria would be able to generate the revenues necessary to support municipal operations. This supports the conclusion of the June 2004 Preliminary Incorporation Feasibility Analysis. The estimates for Cambria as a city were "in the ballpark" of the peer cities for both revenues and expenditures, which suggests that, absent revenue neutrality requirements, the city could provide services expected of a local government.

Three primary revenue sources – TOT, sales tax and property tax – would comprise almost 80% of the new city's general revenue, a percentage similar to the peer cities. A city would have the option of increasing the TOT rate to generate additional revenue. This should be a consideration in revenue neutrality negotiations if the process reaches that point.

RECOMMENDATIONS

The following recommendations are based on the information presented in this report regarding revenue and expenditure projections for a new City of Cambria; the types of services that would be expected to be provided and the new city's ability to provide them; comparisons with peer cities; and services currently provided to Cambria by the County. The recommendations are also based on information previously presented regarding the State's revenue neutrality requirement for incorporation.

Recommendation 1: Do not pursue incorporation at this time unless there is an accompanying increase in the TOT rate.
The revenue neutrality provisions in State law would make it difficult for Cambria to be able to provide the full array of municipal services while also meeting its "revenue neutrality mitigation" obligation to the County. Absent revenue neutrality requirements, incorporation would be recommended. The amount of a potential mitigation payment is not known at this time and would be established only through a negotiation process. However, the County has made clear that it would expect to be compensated for the loss of the TOT Cambria generates, currently approximately $2.4 million annually.

Simply put, the revenue neutrality law favors counties over communities desirous of incorporating. This is why the number of new cities being created in California has plummeted. The unintended consequence of the revenue neutrality law, namely the inability of communities to form their own local government, is one of the many reasons California's system of local government finance has been described as dysfunctional. It is likely that at some point this system will be overhauled and the laws governing local agency formation will change and revenue neutrality will be less of an obstacle to incorporation. When that occurs, Cambria will be in a good position to pursue incorporation.

The caveat to this recommendation is that if the TOT rate were increased, the additional revenue could become part of revenue neutrality negotiations. As noted, each 1% increase to the existing 9% TOT rate would generate approximately $250,000 in additional revenue. This would require an election, the scheduling of which would need to be timed to precede or coincide with the incorporation election. If additional TOT revenue were part of the equation, the incorporation process would be less onerous.

Recommendation 2: As an alternative to incorporation, pursue increased integration with the County for planning and development services.

There are areas in which better coordination with the County, along with and creative problem-solving will lead to efficiencies and better customer service. For example, the County Planning and Building Department should be requested to establish a customer service counter in Cambria to serve the north county area. In terms of combining service delivery efforts, the area of inspections should be reviewed to identify ways to incorporate County inspection services with efforts already underway in Cambria. For example, CCSD could propose contracting with the County to provide building or code enforcement inspections through the Cambria Fire Department. This would utilize staff already in the field and expand their capacity to serve the community. Finally, issues such as the separate water permit lists being kept by CCSD and the County need to be resolved to avoid a major problem in the future. Other redundancies that may exist should be addressed as well.

Recommendation 3: Consider pursuing a special district for enhanced Sheriff services.

Along with more control over land use/development decision making, an increased law enforcement presence would be the other primary advantage of incorporation. This could be achieved if the Cambria community elected to assess itself and form a special police protection district. Special districts are a form of local government created by a community to meet a specific need. When residents want new services or higher levels of existing services, they can form a district to pay for and administer them. The CCSD is a multi-function special district. A single function special district could be formed and overlaid for the sole purpose of increased law enforcement protection. Residents or property owners would have to vote to assess themselves to receive enhanced services. The CCSD would then contract with the County Sheriff's Department for additional Sheriff patrols or whatever other services are desired.

ATTACHMENT TO SERVICE LEVEL ANALYSIS REPORT
August 19, 2005

CAMBRIA COMMUNITY SERVICES DISTRICT
INCORPORATION STUDY
SURVEY OF REVENUE NEUTRALITY PROVISIONS
2/25/05

Communities incorporate into cities when residents want local control of revenues and land use decisions and a separate city identity. While the county continues to provide state mandated functions such as justice and public welfare services, the new city assumes municipal services including public safety, roads, planning, and building inspection. Of the series of hurdles a community must cross in order to incorporate, achieving a revenue neutrality agreement is among the most daunting.

"Revenue neutrality" as an issue for communities wishing to incorporate was originated in 1992, when the State was faced with closing a budget gap in the $11 billion range. To reduce general fund obligations to schools, the Legislature shifted $1.3 billion from cities, counties, special districts, and redevelopment agencies to an Educational Revenue Augmentation Fund – ERAF – to benefit schools and community college districts. Counties bore the greatest burden of shifting dollars to ERAF, $525 million, and in response several measures were adopted to mitigate county fiscal harm. The revenue neutrality law (AB3027/SB1406) for city incorporations was one of these remedies. Incorporation may be approved only if terms and conditions are imposed on the incorporation that renders it a *revenue neutral* proposition.

Prior to 1992, new cities were not required to be revenue neutral vis a vis the county, and most weren't. Pre-Prop 13, when a community incorporated the new city simply added its property tax rate onto the other existing local governments. While the county government did not lose property tax revenue to the new city under this scenario, the county did lose sales tax revenue generated in the city. To mitigate that loss, the county could increase the countywide property tax rate – which meant the residents of the new city had to pay the new municipal rate and sometimes the higher county rate as well. As a result, cityhood often triggered higher property tax rates.

Between 1978 and 1992, the fiscal rules for incorporation changed. Because Prop 13 eliminated the separate property tax rates and created instead a countywide 1% rate, local governments and school districts had to share the revenues produced by the new 1% rate. A community wishing to incorporate could not add its own property tax rate but had to claim a share of the property tax revenues generated within the new city's boundaries that previously had gone to the county government and special districts. To the extent that the new city took over service duties from the county and districts, the city also gained some of those agencies' property tax revenues. The county often experienced "revenue inequity" as the property taxes as well as sales taxes were diverted to the new city.

The 1992 revenue neutrality legislation modified the incorporation rules again. While new cities still divert sales tax revenues from the county government and property tax revenues follow service responsibilities, LAFCOs are *prohibited* from approving an incorporation proposal if a difference exists between:

(a) Revenues currently received by the agency transferring the affected territory which would accrue to the local agency receiving the affected territory; and

(b) Expenditures currently made by the local agency transferring the affected territory for those services which will be assumed by the local agency receiving the affected territory.

A LAFCO is authorized to approve a proposed incorporation if it determines that the negative fiscal impacts of the proposed incorporation on the county have been mitigated by tax sharing agreements, lump-sum payments, payments over a fixed period of time, or any other terms and conditions that result in revenue neutrality.

In balancing the competing interests of cities and counties, the revenue neutrality requirement has inhibited cityhood attempts. Since the law became effective, only ten cities have incorporated statewide, as listed below.

City	County	Effective Date
Truckee	Nevada	3/2/1993
Shasta Lake	Shasta	7/2/1993
Citrus Heights	Sacramento	1/1/1997
Laguna Woods	Orange	3/24/1999
Oakley	Contra Costa	7/1/1999
Rancho Santa Margarita	Orange	1/1/2000
Elk Grove	Sacramento	7/1/2000
Aliso Viejo	Orange	7/1/2001
Goleta	Santa Barbara	2/1/2002
Rancho Cordova	Sacramento	7/1/2003

City's sharing of tax revenue is necessary to insure that the county has the funding available after the effective date of the incorporation to maintain countywide services at current levels without adversely affecting municipal services in the remaining portion of the unincorporated area. In the absence of such tax sharing, the city would receive a revenue windfall by having the benefit of all current county revenue without a concomitant responsibility for the funding of countywide services. The enhanced services enjoyed by city residents would occur at the expense of countywide service recipients or unincorporated area residents who would suffer a reduction in such services.

It is not unusual for the proponents of incorporation to object to revenue neutrality payments; likewise the affected county may argue that the payment obligation should reflect the percentage of revenue collected from within the boundaries of the proposed city that is used to provide services within the city. A revenue neutrality agreement, therefore, represents a compromise between the competing positions and serves to resolve these issues.

Revenue Neutrality Agreements

Revenue neutrality agreements for seven of the incorporations were reviewed and their key provisions summarized on the attached spreadsheet. While the set of agreements reached for each incorporation was different, there were recurring themes. The provisions are generally in two major categories:

- Revenue transfers (property tax, sales tax, TOT, impact fees, mitigation obligation)
- Extension of services during the "transition year" (required by law) and the new city paying the cost of those services

In addition, one of the agreements specifically addressed extraterritorial agreements (annexations) and in one case a transition loan to the new city was provided as part of the revenue neutrality package.

Generally speaking the counties tend to transfer some additional revenue to the new city over the cost of the services transferred in order to insure the fiscal feasibility of the new city. This is required due to the administrative costs (city administration, city attorney, city clerk etc.) resulting from adding another government without a corresponding transfer of service or revenue to fund the costs.

A survey of the revenue neutrality agreements is provided below:

Citrus Heights was precedent-setting in that it offered the first serious test of the revenue neutrality law and the accompanying financial projections and negotiations. The incorporation was calculated to cost Sacramento County $14 million annually in lost revenues, but save the County $8.4 million annually in municipal service costs. Based on the difference between these two figures, LAFCO conditioned the incorporation on annual payments in the amount of $5.6 million from the new City to the County for a period of 25 years. Unfortunately, faulty assumptions were made by Sacramento County and the new City, which resulted in a less-than-comprehensive assessment of the financial impacts of incorporation. The costs of operating the City were significantly higher than anticipated, particularly administrative costs. In addition, revenues fell short of expectations.

The City Council did not want to impose service reductions or tax increase proposals, and the City refused to pay its first installment to the County. Exacerbating the situation, there was no anticipated improvement in revenue projections; sales tax proceeds were actually declining partially due to the impact of regional malls in nearby communities. At the same time, City expenditures were expected to continue to increase. Sacramento County proposed a reduced payment schedule over a longer period of time to ease the financial impact but the City declined the offer.

Finally the County began impounding property tax revenues that would otherwise have gone to Citrus Heights and in October 1997, the Board of Supervisors initiated litigation to recover the payments from the City. The outcome of the litigation was a re-negotiated agreement that reduced the City's burden in the early years.

The new terms required the City to pay the County $2.2 million per year for 25 years, and to increase those payments proportionately by any increase in property tax revenues. The City also agreed to repay the County $4.5 million for services that the County provided as the area transitioned to cityhood, and to share any proceeds from redevelopment activities with the County. This proved to be a valuable learning experience in revenue neutrality negotiations and expectations for the incorporations that followed.

Laguna Woods is both one of California's newest and oldest cities, having become Orange County's 32nd city and having residents with an average age of 78. Most of the City's four square miles is contained within the gated senior community of Leisure World and the balance of the City contains three additional senior residential communities and several commercial centers. Development of Leisure World, which was designed to offer a full range of cultural and recreational experiences for active adults, began in the 1960s. Incorporation efforts were initiated unsuccessfully on several occasions, both independently and in conjunction with surrounding communities. In 1996, the threatened development of a major commercial airport on its border provided the impetus for another – successful – attempt at incorporation. Laguna Woods has the smallest population of the eight "new" cities.

The key provision in the Laguna Woods revenue neutrality agreement requires the new City to make seven annual payments of $405,045 to the County as its "mitigation obligation" totaling $2.835 million.

Interestingly, the City was not required to make a payment to the County for the cost of transition year services because the "net cost of services" was negative – meaning, the City was projected to have a surplus of revenues over expenditures. Except for one agreement (Rancho Santa Margarita) in which the County waived transition year costs of services to the City, this was a unique situation.

Rancho Santa Margarita was planned to be an urban village, offering the best of two worlds: the elements and advantages of a small city plus the quality of life of a small village. It is a contract city, with police services provided by the Orange County Sheriff and fire protection services provided through the Orange County Fire Authority.

The revenue neutrality agreement for Rancho Santa Margarita indicates the County's willingness to smooth the transition for the new city and encourage it to expand its boundaries to take unincorporated areas. The "base year property tax revenue" – that amount established as the baseline amount to be transferred to the new City by the County – was increased $200,000 to promote a more logical city boundary and reduce County costs of service delivery. In addition, as an incentive to annex adjacent unincorporated areas, the County pledged to reduce the City's sales tax and mitigation obligation payments based on a schedule of population annexed.

The agreement also calls for the City to pay 90% of its sales tax above a baseline until its $12 million mitigation obligation is paid off. Finally, the City is paying $408,400 to the County for road maintenance services for 18 months after the effective date of incorporation.

Elk Grove became a city in large part through support of the proposed Lent Ranch Mall, which became a rallying cry for those who wanted local control and the biggest source of funding for the cityhood campaign. The mall was planned to have a first phase of 1.3 million square feet and ultimately (15-20 years) spread over 3.3 million square feet. Many people considered the overwhelming incorporation election victory a referendum on the mall project. The vote capped a decade-long fight for city self-determination that had seen three ballot measures fail by narrow margins. With a population of almost 110,000, Elk Grove is the largest new city under the revenue neutrality law.

The key provision in Elk Grove's agreement with Sacramento County is sharing the City's portion of property taxes levied and collected in the new city. The 25-year property tax allocation schedule established that in the first year the County received 90% and the City 10% of property tax revenue. The City/County share of the revenue shifts over time and in the final year the County receives 10% and the City 90%.

For 25 years all TOT revenue from businesses that paid the tax as of July 1, 1998 goes to the County. *This would be particularly relevant for Cambria because of its significant TOT revenue.* Elk Grove is required to reimburse the County for transition year service costs over a 5-year period.

Aliso Viejo is a master-planned community and the 34th city in Orange County. Prior to the City's incorporation, the AVCA (Aliso Viejo Community Association) was established to provide a wide range of community services. AVCA continues to operate and maintain a majority of parks, slopes, medians and landscaped areas throughout the City.

The City's mitigation obligation according to the agreement is $1.2 million per year for each of the first seven fiscal years after the transition year. In addition, for each of the first seven years the City pays the County 100% of all sales tax revenue received above the baseline amount (year one baseline = $3.095 million). This is considered sales tax sharing/transition year cost reimbursement. If this amount is less than $227,860, the City pays the difference to the County from other sources.

Goleta voters passed an incorporation measure on the third attempt. The first two failed cityhood proposals included Isla Vista in the boundaries; the successful election excluded UC Santa Barbara and eastern Goleta as well as Isla Vista. The teams negotiating revenue neutrality provisions for the City and County were placed in an unusual situation by LAFCO, which asked that agreements be developed for both the proposal that eventually was the winning one (Module A), and a second option adding the UCSB/Isla Vista areas (Module A+B). Thus there were two revenue neutrality scenarios on the table originally, with the Module A + B agreement including the same basic components as for Module A.

Key provisions of the "Module A" agreement were a ten-year period of mitigation payments to make up the $2.2 million difference between the revenue of the new city and the cost of services transferred. For ten years, the County receives 20% of the sales tax and 40% of the TOT generated in the City. However, the County deferred the first year $1.5 million payment out to year eleven. This is to insure the new City has a minimum fund balance of $1.5 million during the ten years. The general fund balance is projected to be in excess of $3 million by the end of the tenth year.

Revenue sharing of the City's property tax (50%) and sales tax (30%) calls for the revenue to continue to accrue to the County *in perpetuity* to pay for countywide services provided to the residents of Goleta. These contributions amounted to $3.3 million to the County in the first year.

The City receives all the increase in TOT revenue resulting from 1) new facilities built after incorporation or 2) an increase in TOT rates. *Given Cambria's ability to generate TOT, this approach is notable.*

Goleta is contracting with the County for Sheriff, public works and parks maintenance services for an initial 5-year period plus annual renewals. This is expected to result in savings to the City. Fire services will continue to be provided by the County Fire Department. If the County receives a new tax allocation factor as a result of this incorporation, it will accrue to the fire district for increased services in the Goleta Valley.

The agreement states that the Redevelopment Agency of the City cannot expand the existing project area or designate new RDA project areas within the new City during the first ten years after incorporation.

Finally, the County will provide the City of Goleta with a loan of up to $100,000, at the treasurer's pooled interest rate, to assist with transition costs between the time of the election and when the City begins to receive its own revenues.

Rancho Cordova is a regional employment center, has a high per capita sales tax ratio, and provides approximately half of the county's unincorporated area TOT revenue. In April 1999 a report from the Sacramento County Office of Budget and Debt Management stated, "The proposed city of Rancho Cordova is not fiscally viable if the revenue neutrality requirement is fully imposed. The potential incorporation petition from the Rancho Cordova area may place the County at odds with LAFCO, if LAFCO concludes the proposed city is viable and/or they do not impose the full revenue neutrality requirement sought by the County." The incorporation was approved with 78% of voters in favor.

In addressing the sharing of property tax revenue between the City and the County, the agreement presents a property tax allocation schedule with options based on the outcome of local tax elections for continued/increased transient occupancy and utility user tax rates. The schedule covers a period of a minimum of 25 to a maximum of 31 years, depending on the TOT and UUT rates.

For transition year services, the City is required to reimburse the County over a 5-year period. There is also a provision regarding impact fees: Rancho Cordova will receive from the County impact fees collected for the areas within the boundaries of the new city. The fee revenue must be expended for the original purpose for which they were collected.

Conclusion

The variety of revenue neutrality provisions in the agreements reviewed is testimony to the need for local governments to have the flexibility to address community issues in the most appropriate way. County and city cooperation is essential for a new city to retain enough revenue for success while still contributing to countywide programs and services. Prior to contemplating the next step in the incorporation process, a scope of revenue neutrality issues should be developed as a negotiating framework for a future agreement. The agreement would form the foundation of a financial plan for a new city.

November 30, 2023

Baker Tilly US, LLP
2570 W El Camino Real
Suite 640
Mountain View, CA 94040
+1 (949) 809 5588
bakertilly.com

Mr. Matthew McElhenie, General Manager
Cambria Community Services District
1316 Tamsen Street, Suite 201
Cambria, CA 93428

Delivered electronically

Dear Mr. McElhenie:

The Cambria Community Services District provides a number of municipal services to the unincorporated community, including water, wastewater collection and treatment, solid waste disposal, fire protection, street lighting, and support for related community services such as parks, recreation and open space, and operation of the Cambria Veterans' Memorial Building. It has been in existence in its present form since 1976. Cambria is a unique and beautiful oceanfront area, and the community is supported by an extensive tourism-based economy that generates significant sales tax and transient occupancy tax revenues.

In 2005, the Cambria Community Services District retained the local government consulting firm Management Partners to analyze whether the statutory revenues collected based on the District's boundaries would be sufficient to cover the costs of municipal services of a newly incorporated city. The study found that they were, with the caveat that preliminary revenue and expenditure estimates would need considerable refinement if the District elected to initiate the process for incorporation, and new information may lead to the adjustment of these estimates.

The District is seeking assistance updating the incorporation analysis based on changes in state law since that time and potentially developing an approach aimed at securing the approval or non-opposition of San Luis Obispo County. Baker Tilly US, LLP, which combined with Management Partners last year, appreciates the opportunity to submit a proposal to assist the Cambria CSD with incorporation analysis.

Proposed plan of work

The 2005 Cambria study developed a Preliminary Comprehensive Fiscal Analysis (PCFA) that analyzed whether the statutory revenues for a city based on the Cambria Community Services District boundaries would be sufficient to cover the costs of the municipal services assumed by the new city. This analysis shows that the current municipal revenues generated in Cambria are sufficient to fund the operations of a city. The analysis also determined that if the community incorporates, the Cambria Community Services District (CCSD) would dissolve, and the functions of the district would be absorbed by the new city. The major new functions that a city would deliver are land-use planning, building regulation, street maintenance, police protection and full parks and recreation services. Those services combined with the services currently provided by CCSD (fire protection, water, wastewater, trash collection and some parks functions) would consolidate most of the traditional municipal or city service functions under the direction of a city council elected by voters and operating under a council/manager system of government.

It should be noted that incorporations have become uncommon in California since the early 1990s, when the state passed a "revenue neutrality" statute, which requires payments to the home county when a new community becomes a city so that the county does not lose funding. Historically between six and 10 new cities were created in California each year. However, since 1992, only 14 cities have incorporated, and the last one to do so—Jurupa Valley—was created in 2011. Because of this, an incorporation Preliminary Comprehensive Fiscal Analysis (PCFA) such as Cambria's leaders desire is rare. However, we have completed PCFAs and CFAs in conjunction with our previous analysis for Cambria CSD and we have done several for preliminary annexation feasibility studies. We are quite familiar with all the constituent parts of such an analysis, notably municipal service delivery and fiscal forecasting.

Baker Tilly has extensive relevant experience, and we would be pleased to help with this important work. We have outlined a plan of work below that we believe is responsive to the aims of the District. We would be happy to refine it as needed.

Activity 1 – Start project

We will begin this project with a careful learning phase, starting with a review of background documents such as past efforts to incorporate Cambria as a city, proposed boundaries of the city as well as boundary alternatives, current boundaries of the Community Services District and the Fire District, and relevant budget information.

We will then meet with the CSD General Manager, members of affected local agencies, and other key stakeholders to discuss the documents and the current climate regarding possible incorporation, and to tailor the scope of work and the schedule to your needs.

The project start-up activity forms the foundation of the relationship between Baker Tilly's team and Cambria leaders. We know that the work associated with this analysis is in addition to the normal work of the organization. Our goal is to integrate our activities in a manner that is thoughtful and minimizes disruption to the CSD's operations. However, the cooperation of staff in providing requested data and giving meaningful feedback is crucial to a successful project.

After our initial kickoff meetings, we will prepare a statement of understanding/revised scope for the project to guide our work. We will keep you informed of our progress, observations and initial recommendations, as well as recommendations for modification to the scope as warranted by our analysis and observations.

Deliverables: Meeting agendas, meeting attendance, statement of project understanding/scope
Schedule: Weeks 1 and 2

Activity 2 – Gather information for municipal services plan

During this activity, we will gather information from the CSD, the County, and nearby municipalities to develop a study methodology and a database that identifies the municipal services that a City of Cambria would provide and the associated costs, staffing and equipment needs. We will use the following techniques to gather information.

- **Interview officials.** While we will have gathered some relevant information during the first activity, we will likely have additional questions for CSD and County staff about the municipal services a city might be expected to provide. We will conduct additional interviews as needed at the outset of this activity and again toward the end, if needed.
- **Review documents.** We will examine previous reports completed by the San Luis Obispo County County LAFCO and the San Luis Obispo County Grand Jury concerning Cambria incorporation and review additional documents related to prior attempts at incorporation, as well as any other relevant information.
- **Provide documentation of services provided by nearby municipalities.** We will examine the services provided by nearby municipalities by reviewing documents and interviewing representatives of the cities, as needed. This will allow us to construct a fuller picture of the services provided by peer cities and associated staffing and expenditure levels.

At the conclusion of our interviews and data collection, we will summarize major observations. This summary will allow us to determine if the data we have gathered is sufficient, or whether additional data and information will be needed for Activity 3.

Deliverables: Meeting agendas, notes for meetings with staff, database of current services, summary of major observations
Schedule: Weeks 1 through 6

Activity 3 – Develop a draft municipal services plan

During this activity, we will analyze the information collected during Activity 2. Our analysis will include:

- Current municipal services and service delivery levels provided by the County and other agencies
- Results of meetings and data gathered from relevant stakeholders and agencies
- A comparison of service level needs of Cambria and typical nearby communities
- Identification of all the municipal services that an incorporated Cambria would provide, along with the benefits and expenditures associated with each.

After our analysis is complete, we will begin to formulate a draft municipal services plan that includes:

- Our understanding of current service levels
- Results of our information gathering and interviews
- Services and staffing suggested by our analysis of nearby and peer jurisdictions and stakeholders
- The needed organizational structure to provide the identified services
- The preferred mechanism for providing the service (such as contracting with public or private entities)

Once this analytical work is complete, we will be able to determine what municipal services an incorporated City of Cambria might provide and the best means for delivering them. This will allow us to develop a methodology for estimating the service demand, best operational configuration, and unit costs. We will develop an approach that allows us to scale services for the community on a defensible basis.

Potential approaches would include per capita scaling or an approach based on land uses. We will have a recommended approach for estimating the level and cost to deliver a comparable level of municipal services to the Cambria community that accurately reflects what is found in surrounding comparable incorporated areas. We plan to carefully tie our recommendations to observable programs in other jurisdictions and to develop a fiscal estimate to show costs by program in a manner scalable to the population served and other relevant factors. We have been preparing detailed fiscal models for cities throughout California for many years and can draw on this knowledge, both to create the estimate and to doublecheck our expenditure assumptions.

We will prepare a draft memorandum that summarizes our analysis and draft municipal services plan and review it with project leaders. After receiving feedback, we will produce a screen check and final version.

Deliverable: Municipal services plan with analysis and preliminary recommendations
Schedule: Weeks 7 through 10

Activity 4 – Gather financial information and estimate municipal revenues and expenditures

Community Services Districts such as Cambria CSD are often precursors to incorporated cities. Typically, the CSD is dissolved when a new city is formed, and its structure becomes the initial structure for the new City. Therefore, it is important to understand the Cambria CSD's fiscal position and trends.

We will initiate a learning phase to understand the CSD's current fiscal status and environment and potential impacts of incorporation on both the CSD and the agencies that currently provide services to the area. We will conduct interviews to learn about systems and reports that are used in administering the CSD's budget and finances. We will also review multi-year budget information for the CSD, including such items as historical revenue sources and amounts, expenditure allocations, reserves and other funds, budgetary reductions and cost shifts that have been made to date and other relevant factors. We will review the FY 2023-24 Annual Operating Budget prepared by the District and approved by the District Board.

We will also inspect and learn about the costs and revenues associated with several other local service providers serving the Cambria area, including:

- Cambria Community Healthcare District (Ambulance Services)
- San Luis Obispo County Sheriff's Department (Cambria operations)
- San Luis Obispo County (for other municipal services)

We will also gather data from up to four peer jurisdictions, which will be useful to review costs and practices. We will identify criteria for choosing comparable jurisdictions, discuss this with the Cambria project team, and gather information from publicly available sources, such as websites and budget documents. We will work with the County of San Luis Obispo to gather information on sales tax and transient occupancy tax revenues collected within Cambria CSD boundaries. All this information will be used in the next activity as we develop an initial five-year budget for the hypothetical incorporated city.

Deliverable: Revenue estimates and possible tax mitigation approaches
Schedule: Weeks 11 through 14

Activity 5 – Develop a five-year budget model and plan

As we begin this work, we will have categories and estimates for municipal revenues and expenditures. After obtaining the necessary information during Activity 4, we will prepare a fiscal model that will include a five-year budget plan to assist the potential City of Cambria to meet future budget needs. We will create a fiscal model dashboard as a display and a "what-if" analysis tool using the five-year forecast to analyze impacts of changes in assumptions for key revenue and expenditure categories. This dashboard will also include a section that allows staff to incorporate budget strategy changes such as revenue enhancements, and to vary workload and service levels for various types of municipal services. We will discuss the results of the forecast with you and the finance manager to solicit your feedback and determine if additional analysis or information is required to finalize the budget plan.

Deliverable: Draft and final five-year budget plan
Schedule: Weeks 15 through 18

Activity 6 – Conduct agency impacts analysis

We will gather budget information from San Luis Obispo County and other agencies that currently provide services for Cambria to understand how incorporation would affect them. Much of this information will have been gathered during Activities 4 and 5. During this activity, we will estimate how expenditures will be reduced by agencies that will no longer deliver services to the new City, and how revenues will be impacted. Many of these services are currently provided by the County of San Luis Obispo, and the exact approach to developing estimates will be based on the workload and expenditure data available from the County. We will also use reports prepared by San Luis Obispo County LAFCO and the San Luis Obispo Grand Jury in developing these estimates.

Deliverable: Preliminary analysis results
Schedule: Weeks 15 through 18

Activity 7 – Develop preliminary comprehensive fiscal analysis (draft and final)

After reviewing the municipal services plan, the five-year budget model and plan, and the agency impacts analysis with project officials, including the Executive Working Group, we will prepare a written report in draft form. The report will include analysis of the following:

- Introductions and conclusions
  - History of incorporation discussions
  - Current services
  - Methodology of PCFA
  - Boundary options (up to 3)
  - Feasibility of incorporation
  - Fiscal impacts on other agencies
  - Alternatives
- Description of incorporation proposal
  - Name of the new city
  - Form of government
  - Reorganization proposal
  - Revenue neutrality proposal
  - Service levels
  - Effective date
  - Gann limit
  - Taxes and revenues
  - Capital improvements
- Public services plan and cost assumptions
  - City administration
  - Police protection
  - Public works/engineering
  - Planning, community development, building and code enforcement
  - Parks and recreation
  - Library
  - Animal control
  - Other city expenditures (including the services currently provided by CCSD, water, wastewater, fire protection, solid waste, street lighting and certain recreation services)
  - Regional participation

- Municipal revenue estimates
  - Growth and development
  - Revenue assumptions
  - Sensitivity analysis
- Impacts on existing agencies
  - San Luis Obispo County
  - Other agencies and districts

Baker Tilly will provide the draft report for review by the project team. At the conclusion of the review period, we will consider all changes and suggested revisions and prepare the final report.

Since we recognize that it will be critical to gain the support of the County of San Luis Obispo for any incorporation proposal, we will work with the leadership of the CCSD to develop options that will be mutually beneficial to the Cambria community and the County. These options could include options to develop and share new revenue sources and/or to reduce current County expenditures or potential liabilities. Development of these options will involve outreach to the County and related stakeholders as well as to the Cambria community that will be interested in incorporation.

Reports prepared by Baker Tilly are rich in detail, with recommendations supported by quality analysis. We take pains to ensure that our analysis and subsequent recommendations are organized in an easy-to-understand format and presented in a positive manner. We take several discrete steps to ensure quality control. The first is to prepare a draft report for managers to review to ensure that facts are accurate and ideas are presented clearly. Baker Tilly retains responsibility for our professional recommendations, but we expect that vetting the draft report with management improves its utility. In addition to vetting the report for accuracy, the draft review provides an opportunity to discuss the recommendations and to identify implementation issues. Baker Tilly is committed to recommending actions that result in meaningful operational improvements and can be implemented in the real world. Once comments have been received, the final project report will be prepared, peer-reviewed, and then transmitted to you.

Deliverable: Draft and final preliminary comprehensive fiscal analysis
Schedule: Weeks 19 through 22

About Baker Tilly

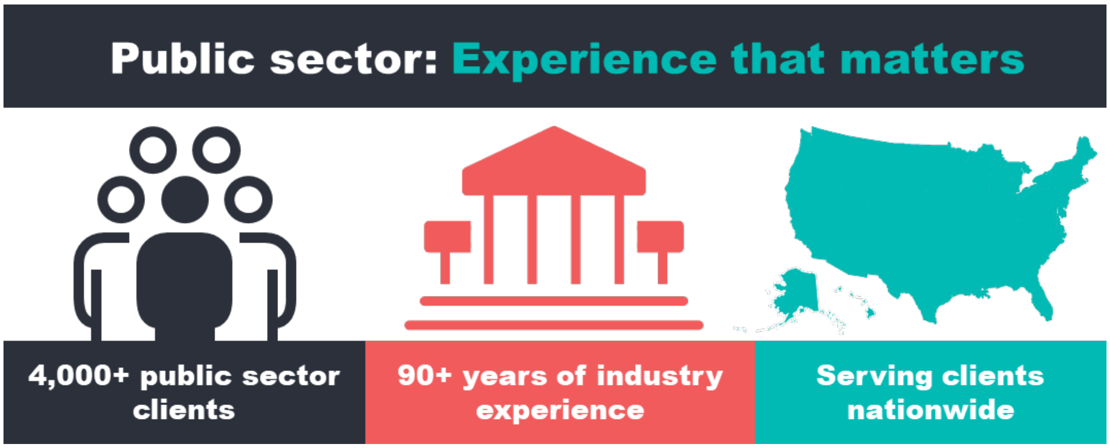
Celebrating more than 90 years serving our valued clients

As a future-looking firm, we celebrate more than 90 years in the marketplace by honoring our roots and continuing to shape our future. We embrace the fact that local governments can't stand still — and we won't stand still. As we help our clients identify new needs and opportunities, we innovate and change to work better.

Our roots took hold in 1931 in Waterloo, Wisconsin, where we began as a public accounting firm specializing in canning factory audits. Since that time, we have grown with more than 40 different business combinations, each with its own rich history, expanding our presence coast to coast and globally and expanding our scope across industries, services and areas of expertise. One thing has not changed over time: **our shared passion for enhancing the services our clients deliver.**

Delivering specialized expertise to our public sector clients

State and local government is a complex, unique environment shaped by fiscal, regulatory and operational considerations not found in other industries. We recognize this complexity, and we are eager to serve as a truly valued advisor to the public sector. Nationwide, our state and local government practice has served more than 4,000 state and local governmental entities, including municipalities, special districts, counties, public utilities, school districts and transit.



SUPPORTING STATE AND LOCAL GOVERNMENTS WITH SPECIALIZED EXPERTISE
Cambria Community Services District will benefit from the insight Baker Tilly has gained from serving thousands of public sector clients across the United States.

Celebrating our combination with Management Partners

In October 2022, Management Partners combined with Baker Tilly US, LLP (Baker Tilly) to create a premier public sector consulting practice. To continue serving and improving communities, local leaders look to our advisors to help navigate change. This combination adds a unique and significant layer of experience to Baker Tilly's robust public sector practice. Our project team members are former local government leaders and managers stemming from all operational facets. They have nearly three decades of field-tested techniques and proven methodologies.

OUR COMBINED SERVICES INCLUDE:

- Executive recruitment
- Executive coaching
- Executive performance assessment
- Financial planning, budgeting and analysis
- Management services
- Organization assessments
- Organization development
- Performance management
- Process improvement
- Service sharing and service consolidation
- Strategic and business planning

References

We encourage you to connect with the clients below to learn more about the value of their relationship with Baker Tilly. Each client will offer a different perspective as you consider your own needs.

SACRAMENTO AREA SEWER DISTRICT AND SACRAMENTO COUNTY REGINAL SANITATION DISTRICT, CALIFORNIA			
Name	Christoph Dobson	**Title**	General Manager
Phone	(916) 876 6000	Email	dobsonc@sacsewer.com
Description	**Merger study** We performed a comprehensive assessment of the advantages and disadvantages of merging the Sacramento Area Sewer District (SASD) and the Sacramento County Regional Sanitation District (Regional San) into one wastewater agency and provided a recommendation regarding whether the agencies should pursue such action. We believed a seamless service model would provide the appropriate framework to consider whether to consolidate operations aligned because such a model improves economies of scale, decreases costs and eliminates duplication of internal services and functions. Following development of a comprehensive set of criteria and analysis, we recommended that the districts pursue consolidation.		

CITY OF SAN LUIS OBISPO, CALIFORNIA			
Name	Shelly Stanwyck	**Title**	Assistant City Manager
Phone	(805) 781 7294	**Email**	sstanwyc@slocity.org
Description	**Capital Improvement Process Analysis** Our consultants performed an assessment of the City's Capital Improvement Program (CIP) process. The analysis included reviewing their staffing complement as well as the organization structure of their CIP Engineering Division. The focus of the engagement was to improve the delivery of capital projects, with an emphasis on delivering them on time and on budget. Our analysis included recommendations to introduce additional performance measures to the process, expand scoping of projects, reclassify some of the existing positions, and create new job classifications.		

FIVE CITIES FIRE AUTHORITY, CALIFORNIA			
Name	Matthew Bronson Whitney McDonald	**Title**	City Manager, Grover Beach City Manager, Arroyo Grande
Phone	(805) 473 4567 (805) 473 5400	**Email**	mbronson@groverbeach.org wmcdonald@arroyogrande.org
Description	**Divestiture analysis** The Five Cities Fire Authority (FCFA) is a joint powers-based fire department that serves the cities of Arroyo Grande and Grover Beach, CA as well as the nearby Oceano Community Services District. The focus of this engagement was to provide an overall assessment of the financial and operational impacts associated with the departure of the Oceano Community Services District (OCSD) from the FCFA based on OCSD's initiation of the divestiture process with the San Luis Obispo County Local Agency Formation Commission (LAFCO). In this report (April 2023), we identified staffing and fire service options and developed options for a new governance structure. In all, our report includes 18 recommendations for organization enhancements and efficiencies. In addition, we also created a user-friendly and multi-faceted fiscal model for the FCFA and the cities of Arroyo Grande and Grover Beach to use in their respective budget forecasting.		

CITY OF FULLERTON, CALIFORNIA			
Name	Ellis Chang Adam Loeser	**Title**	Director of Administrative Services Fire Chief
Phone	(714) 738 6522 (714) 853 3348	**Email**	echang@cityoffullerton.com adam.loeser@fullertonfire.org
Description	**Contract fire service analysis** In September 2022 we completed an evaluation of a potential contract for fire service delivery between the City of Fullerton and the Orange County Fire Authority (OCFA). The City hired us to complete an independent third-party review of the service arrangement, contract terms and economics of the proposed draft contract proposed by the OCFA. We completed an extensive analysis of all aspects of the proposed contract including service levels, transition costs, personnel transition considerations such as pension liabilities, facility and equipment transfers and other factors that must be taken into account when making a decision with long-term implications such as this. In order to understand the long-term economics, we developed a costing model to compare the long-term costs of maintaining a sustainable independent city fire department and contracting with the OCFA. This model allowed for various assumptions regarding levels of cost increases over basic cost increases for both the basic OCFA contract and core city cost elements such as labor, supplies, equipment and facilities. Using the model and associated analysis we evaluated the economies of scale achievable via contracting and the various pros and cons of independent direct operations and contracted services. Our conclusion was that OCFA contracted services would be somewhat more expensive, while several non-economic factors argued in favor of the contract approach.		

Aligning key engagement team members with your goals

Your handpicked team of professionals offers a collaborative focus supported by the breadth and depth of our firm's national resources. We believe in strong personal relationships, and this means a personal interest in the Cambria Community Services District from some of our most experienced team members. Engagement team members are introduced below.

ENGAGEMENT TEAM FOR CAMBRIA COMMUNITY SERVICES DISTRICT	
	**Carol Jacobs – Managing Director** ***Project role: Project director*** Carol is a managing director with Baker Tilly. She has held a wide range of roles across local government and consulting, including multiple stints as a city manager, and served most recently as assistant city manager of the City of Newport Beach, California. In that role, she had responsibility for functions as varied as fire, library, harbor, information technology, utilities and homelessness, with service as interim finance director and harbormaster. Carol also served as city manager for the Southern California cities of Eastvale and Stanton; as interim city manager for the City of Grand Terrace, California; and in a series of roles with increasing responsibility for the City of Costa Mesa, California. Carol's consulting experience includes managing a financial solutions practice area that served local governments, with responsibility for managing client needs, preparing financial studies, and conducting management and organizational reviews.

Andy Belknap – Managing Director

Project role: Project leader

Andy has more than 20 years of local government experience, including service as a city manager, public works director, a variety of interim management positions, and as a consultant to California municipalities and special districts. He specializes in local government financial management and has led numerous projects to address structural fiscal deficits. Andy has served well over 200 California and Nevada local governments, many on multiple occasions, including 19 of the largest 20 cities.

During 2008 and 2009, Andy served as an expert witness in the City of Vallejo's bankruptcy proceeding. In 2011 and 2014 he served as project manager for the City of Stockton's AB 56 process mediation and subsequent Chapter 9 bankruptcy and recovery. Between 2015 and 2017 he managed the City of San Bernardino's bankruptcy and developed the plan of adjustment for the City, which led to fundamental changes in governance and operations. As a result of bankruptcy recovery and other work, he is expert at identifying alternative service delivery arrangements, as well as developing revenues over a broad array of municipal services.

A trained economist, Andy brings a special expertise to fiscal analysis and public finance issues. His blend of quantitative skills, coupled with a practitioner's understanding of public services and management systems, adds value to all types of organizational and policy analysis.

Bob Leland – Special Advisor

Project role: Subject-matter specialist

Bob has 37 years of direct experience in state and local government finance and more than a decade consulting his area of special expertise, municipal budgeting and long-range forecasting. He was director of finance for 26 years for the City of Fairfield, California, a city known for its entrepreneurial management and long-term financial planning. He has been preparing long-range forecasts and budget models since the early 1980s. Bob previously served as assistant finance director for the City of Sacramento, where he managed the city budget, and as a staff consultant to the Assembly Revenue and Taxation Committee, where he drafted and analyzed legislation and worked on the team implementing Proposition 13 in 1978. He is a leader in his profession, having been elected by his peers as president of both the California Society of Municipal Finance Officers and the League of California Cities' Fiscal Officers Department. Bob was the recipient of the 2010 Award of Excellence in Public Finance from the California Public Securities Association, and in 2018 received the Distinguished Service Award from CSMFO.

Woody Battle – Senior Consultant

Project role: Analytical support

Woody provides a variety of services to his public sector clients, including business process reviews, organizational and operational assessments, and internal audit and risk consulting. Woody's clients include local governments, public utilities and other public sector organizations. Woody has supported facilitation, planning and implementation support for multiple strategic planning clients across the U.S. He serves as the Chair for Baker Tilly's NexGen affinity group, directly providing innovative ideas for inclusive programs and policies for all generations within Baker Tilly's workforce.

Professional fee

Baker Tilly anticipates devoting 320 hours of our staff time to complete the plan of work described above. The total cost of this project is $92,800, which includes all fees and expenses. The ultimate test of a quality project is that the client is pleased with the results, and we are committed to achieving that goal.

Conclusion

The Cambria Community Services District will be a valued client of Baker Tilly, and Andy Belknap will be personally involved in all aspects of our relationship, from planning through completion. Thank you for the opportunity to make tangible contributions to your success. Our team is excited to earn your trust, and we look forward to discussing your questions and feedback.

Sincerely,

Carol Jacobs, Managing Director
Baker Tilly US, LLP
+1 (949) 809 5588 | carol.jacobs@bakertilly.com

CAMBRIA COMMUNITY SERVICES DISTRICT

TO: Finance Committee AGENDA NO. **4.B.**

FROM: Matthew McElhenie, General Manager
Denise Fritz, Administrative Department Manager

Meeting Date:	February 27, 2024	Subject:	Discuss, Review and Recieve the Investment Report for the Quarter Ended December 31, 2023 and Provide Feedback to the CCSD Board of Directors

RECOMMENDATIONS:
The staff recommends the Finance Committee discuss, review, and receive the first Quarterly Investment Report from Optimized Investment Partners and provide feedback to the CCSD Board of Directors.

DISCUSSION:
Attached is the District's investment report for the quarter ending December 31, 2023. Finance staff hired Optimized Investment Partners in August 2023 to help improve the investment returns for the District and to ensure compliance with the California Government Code by ensuring the safety of principal and sufficient liquidity for operations. Ongoing portfolio management activity will continue to be performed in partnership with Optimized Investment Partners, the Finance Manager, and the General Manager.

The total cash and investment portfolio book value (cost) held by the District as of December 31, 2023, was $8,966,414, and the total cash and investments held by the trustees was $9,128,666.

The cash and investments held by the District include the following components: Managed Investment Portfolio ($6,193,242), State of CA Local Agency Investment Fund ($58,500), California Asset Management Program (CAMP) Pooled Investment Fund ($1,271,230), Cash/Time Deposits ($1,380,404), and accrued interest on investments ($63,038). (Earned interest is the interest earned on investments over a specific time period, accrued interest is the interest that an investment has earned but hasn't yet been received, and paid interest is the interest that has already been received as payment).

Cash and investments held by the District and the trustees continue to be invested in accordance with the Government Code and the District Investment Policy. During the quarter, 19 investments totaling $6,173,593 were purchased. U.S. Treasury Notes totaling $2,458,329 & Federal agency bonds totaling $1,983,264, and Certificates of Deposit totaling $1,732,000. No investments matured during the last quarter.

Two-year Treasuries yielding 5.03% at the beginning of the quarter ended lower at 4.23%, a decrease of 80 basis points for the quarter.

As of December 31, 2023, the Weighted Yield to Maturity on the Managed Investment Portfolio was 5.08%. At the end of this quarter, the Weighted Average Maturity of the Managed Investment Portfolio was 2.72 years. The Federal Open Market Committee (FOMC) meets approximately every six weeks and determines the level of the Federal Funds Rate. At the September 20th meeting, the FOMC voted to maintain the Federal Funds Rate target range at its current level of 5.25-5.50%. At the December 13th meeting, the FOMC voted once again to maintain the Federal Funds Rate target range at its current level of 5.25-5.50%.

Attachments: Summary of Cash and Investments as of December 31, 2023
Investment Report for the Quarter Ended December 31, 2023

Summary of Cash and Investments as of December 31, 2023
Cambria CSD

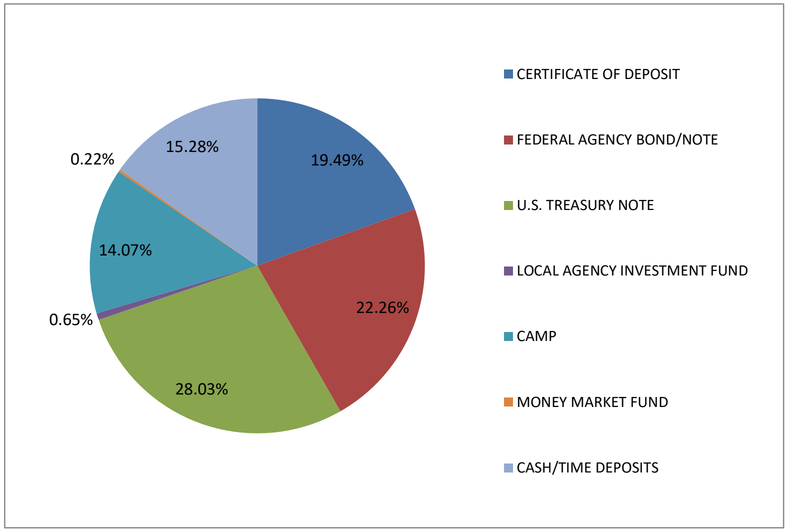
Investment Type	Par Value	Market Value	Book Value	% of Portfolio
Managed Investment Portfolio				
U.S. Bank Custodial Cash Account	19,649	19,649	19,649	0.11%
U.S. Treasury Bond/Note	2,670,000	2,531,342	2,458,329	13.59%
Federal Agency Bond/Note	2,075,000	2,010,980	1,983,264	10.96%
Certificate of Deposit	1,732,000	1,760,186	1,732,000	9.57%
Managed Investment Portfolio Subtotal	**6,496,649**	**6,322,158**	**6,193,242**	**34.23%**
Pooled Investments				
State of CA Local Agency Investment Fund	58,500	58,500	58,500	0.32%
CAMP	1,271,230	1,271,230	1,271,230	7.03%
Pooled Investments Subtotal	**1,329,730**	**1,329,730**	**1,329,730**	**7.35%**
Cash/Time Deposits	1,380,404	1,380,404	1,380,404	7.63%
Accrued Interest	63,038	63,038	63,038	
Total Cash & Investments Held by the District	**9,269,821**	**9,095,330**	**8,966,414**	**49.55%**
Held by Bank Trustee/Fiduciary Funds (1)				
Investment Agreements	0	0	0	0.00%
Cash with Fiscal Agents	9,128,666	9,128,666	9,128,666	50.45%
Restricted Cash	0	0	0	0.00%
U.S. Government	0	0	0	0.00%
Total Held by Bank Trustee/Fiduciary Funds	**$9,128,666**	**$9,128,666**	**$9,128,666**	**50.45%**
Total Portfolio	**$ 18,398,487**	**$ 18,223,996**	**$ 18,095,080**	**100.00%**

Notes:

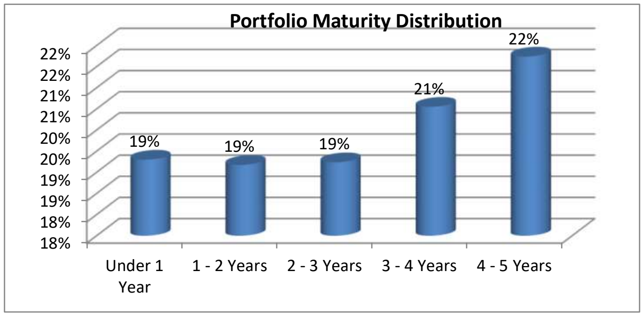
1. Reflects bond proceeds and tax levy revenues held by trustee in accordance with bond covenants.
2. Par value is the principal amount of the investment on maturity.
3. Market values contained herein are received from sources we believe are reliable, however we do not guarantee their accuracy.
4. Book value is par value of the security plus or minus any premium or discount on the security.

Cambria Community Services District
Investment Report for the Quarter Ended December 31, 2023

Portfolio Summary and Key Statistics



Portfolio Key Statistics		
PAR Value	$	9,269,821
Book Value (COST)	$	8,966,414
Market Value	$	9,095,330
Weighted Average Maturity (in years)		**2.72**
Weighted Yield to Maturity		**5.08%**



Excludes Pooled Investments and U.S. Bank Custodial Cash Account

% of Portfolio by Investment Type

Investment Type	% Held
CERTIFICATE OF DEPOSIT	19.49%
FEDERAL AGENCY BOND/NOTE	22.26%
U.S. TREASURY NOTE	28.03%
LOCAL AGENCY INVESTMENT FUND	0.65%
CAMP	14.07%
MONEY MARKET FUND	0.22%
CASH/TIME DEPOSITS	15.28%
ALL INVESTMENTS	**100.00%**

U.S. Treasury Yields - Quarterly Comparison

Maturity	Dec 2023	Sept 2023	Change
3-Month	5.40%	5.55%	-0.15%
1-Year	4.79%	5.46%	-0.67%
2-Year	4.23%	5.03%	-0.80%
3-Year	4.01%	4.80%	-0.79%
5-Year	3.84%	4.60%	-0.76%
10-Year	3.88%	4.59%	-0.71%

2-Year U.S. Treasury Yield - Historical Data

Dec 2023	Dec 2022	Dec 2021	Dec 2020
4.23%	4.41%	0.73%	0.13%

Portfolio Maturity		PAR Maturing	% Maturing
Under 1 Year	$	1,250,000	19%
1 - 2 Years	$	1,242,000	19%
2 - 3 Years	$	1,246,000	19%
3 - 4 Years	$	1,331,000	21%
4 - 5 Years	$	1,408,000	22%
Total	$	6,477,000	100%

Interest Earnings		FY2023		FY2024		Change
Oct			**$**	**23,010**	$	-
Nov			**$**	**31,201**	$	-
Dec			**$**	**33,051**	$	-
Total for Quarter	$	-	**$**	**87,262**	$	-

Note: Interest Earnings figures do not include capital gains or losses

CAMBRIA COMMUNITY SERVICES DISTRICT

TO: Finance Committee AGENDA NO. **4.C.**

FROM: Matthew McElhenie, General Manager
Denise Fritz, Administrative Department Manager

Meeting Date:	February 27, 2024	Subject:	Discuss, Review and Approve the Reserve Policy Revisions and Approve Recommendations to the CCSD Board of Directors

RECOMMENDATIONS:
The staff recommends the Finance Committee discuss, review, and approve the reserve policy revisions recommended by the Ad Hoc Committee and staff and approve recommendations to the CCSD Board of Directors.

DISCUSSION:
The Finance Subcommittee is presenting a revised Reserve Policy. This new policy combines the Reserve Policy, 2150, and the Fund Balance Cash Reserve Policy.

The subcommittee would like to recommend that the Finance Committee approve the attached revisions to the budget policy and approve recommendations to the CCSD Board of Directors.

Attachments: Draft Reserve Policy 2150
Fund Balance Cash Reserve Policy
Approved Reserve Policy 2150

POLICY TITLE: Reserve Policy
POLICY NUMBER: 2150

Purpose: The Cambria Community Services District shall maintain reserve funds from existing unrestricted funds as designated by the District's Reserve Policy. This policy establishes the procedure and level of reserve funding to achieve goals, including the following:

A. Maintain operational sustainability in periods of economic uncertainty.
B. Fund contingencies (i.e., unplanned but necessary expenditures, emergencies, disasters, etc.).
C. Fund replacement and major repairs for the District's major assets and infrastructure.
D. Fund multi-year capital improvements.
E. Fund designated projects/programs or other special uses not otherwise funded by current operational income, grants, or other available sources.

The District will account for reserves as required by Governmental Accounting Standards Board (GASB) Statement No. 54, distinguishing reserves among these classes: non-spendable, restricted, committed, assigned, and unassigned. This policy will refer to "unassigned" and "assigned" reserves.

Policy: Use of District funds is limited to available "unassigned" funds, including donations, earned interest income, fees for service, tax revenues, or other non-grant earnings. All special use funds will be designated by formal action of the Board of Directors.

A. Reserve Funds will be set aside in the District's three funds (General, Water, and Wastewater). The planned amount to be set aside as reserves will be approved by the Board of Directors as line items ion the annual budget process. At a minimum, the lesser of $1,000 or 0.1% of revenue will be set aside. If any of the District's funds receive material, unanticipated eligible revenue (e.g., a windfall), or budget surplus, all unanticipated revenue or surplus will be set aside for reserves before committing expenditure for other purposes. Assigned reserve funds shall not exceed the specific purpose for which they are accumulated.

B. Reserves will be set aside for the following purposes:

    a. Vehicle Fleet Reserve: expenditures for purchases to support District operations.
    b. Budget Stabilization Reserve: to provide for economic uncertainty where revenues are interrupted or otherwise insufficient to offset operating expenditures, and to provide for known or unknown future obligations.
    c. Emergency Disaster Reserve: to provide for significant unforeseen liabilities and events such as natural disasters and catastrophes.
    d. Capital Improvement Reserve: to purchase necessary capital assets or to repair, replace, or extend the life of existing assets.
    e. Special Projects Reserves: identified by District Staff or the Board of Directors, including responses to regulatory requirements.
    f. OPEB: GASB 45 unfunded post-employment benefits other than pensions (retiree health care).

Funding Targets

In recognition that the CCSD is limited in its ability to raise revenue and is subject to unexpected negative variances in revenues and expenses, the goal will be a set-aside of 10% of operating expenditures in each fund to contribute to reserves through the budget process.

Monitoring Reserve Levels: The reserve policy will be reevaluated each year by December and adjusted based on budget variances summarized from annual budget results.

In collaboration with the Finance Manager, the General Manager will report reserve balances and activity semi-annually to the Board of Directors. Additional information will be provided:

a. When a major change in conditions threatens the reserve levels established by this policy;
b. When a major change in conditions calls the effectiveness of this policy into question; or
c. Upon Board of Directors' request.

Conditions for Use of Reserves

All reserve expenditures are requested through the budget process as a unique request or through the Capital Improvement Projects (CIP) list. The General Manager is authorized to make recommendations to the Board of Directors for the use of reserves at any time of the year through the Board approval process.

CAMBRIA COMMUNITY SERVICES DISTRICT
FUND BALANCE CASH RESERVE POLICY

PURPOSE

Cambria Community Services District provides public service through three independent financial funds:

- the General Fund,
- the Water Fund, and
- the Wastewater Fund.

Essential components of a prudent fiscal policy for the District include formal provisions for managing cash reserve policies and managing rate volatility. This policy is to allow the District to weather economic uncertainty and unexpected situations such as natural disasters, to provide sufficient cash flow to avoid the need for short-term borrowing, and to provide financial resources to minimize the impact on rates of significant capital projects. This policy establishes the appropriate level of reserves which the District will try to maintain in the General Fund, Water Fund and Wastewater Fund balances; how the target fund balances will be funded; and the conditions under which fund balances can be used.

For purposes of this Policy, the definition of "reserves" is limited to the portion of fund balance that is unreserved. Unreserved is to mean not set aside for existing legal obligations of the District.

AMOUNTS HELD IN RESERVE

General Fund Cash Balance. The District will strive to hold the amounts listed below in the General Fund Cash Balance. The amounts will be expressed as a percentage of the District's annual operating expenditures of the General Fund using a three year trend to develop the actual amount. These amounts are expressed as goal ranges to recognize that fund balance levels can fluctuate from year to year due to the normal course of District government operations.

- Budget Stabilization Reserve 10-15% to provide for economic uncertainty where revenues are interrupted or otherwise insufficient to offset operating expenditures and to provide for known or unknown future obligations.

- Liability Contingency and Emergency Disaster Reserve 15-20% to provide for major unforeseen liabilities and events such as natural disasters and catastrophic events.

- Working Capital Reserve 10-15% to provide sufficient cash flow.

Water Fund Cash Balance. The District will strive to hold the amounts listed below in the Water Fund Cash Balance. The Budget Stabilization, Liability Contingency/Emergency Disaster and Working Capital Reserves will be expressed as a percentage of the annual operating expenditures of the Water Fund using a three year trend to develop the actual amount. These amounts are expressed as goal ranges to recognize that fund balance levels can fluctuate from year to year due to the normal course of District government operations.

The Rate Stabilization Reserve will be expressed as a fixed amount based on the projected costs of expected impacts that will be mitigated with these funds.

- Budget Stabilization Reserve: 10-15% for economic uncertainty where revenues are interrupted or otherwise insufficient to offset operating expenditures and to provide for known or unknown future obligations.

- Liability Contingency and Emergency Disaster Reserve 15-20% to provide for major unforeseen liabilities and events such as natural disasters and catastrophic events.

- Working Capital Reserve 10-15% to provide sufficient cash flow.

- Rate Stabilization Reserve: To help minimize the impact of potentially significant rate increases necessitated by the need to fund future planned capital improvement projects.

Wastewater Fund Cash Balance. The District will strive to hold the amounts listed below in the Wastewater Fund Cash Balance. The Budget Stabilization, Liability Contingency/Emergency Disaster and Working Capital Reserves will be expressed as a percentage of the annual operating expenditures of the Wastewater Fund using a three year trend to develop the actual amount. These amounts are expressed as goal ranges to recognize that fund balance levels can fluctuate from year to year due to the normal course of District government operations.

The Rate Stabilization Reserve will be expressed as a fixed amount based on the projected costs of expected impacts that will be mitigated with these funds.

- Budget Stabilization Reserve: 10-15% for economic uncertainty where revenues are interrupted or otherwise insufficient to offset operating expenditures and to provide for known or unknown future obligations.

- Liability Contingency and Emergency Disaster Reserve 15-20% to provide for major unforeseen liabilities and events such as natural disasters and catastrophic events.

- Working Capital Reserve 10-15% to provide sufficient cash flow.

- Rate Stabilization Reserve: To help minimize the impact of potentially significant rate increases necessitated by the need to fund future planned capital improvement projects.

FUNDING TARGET FUND CASH BALANCES

General Fund. Funding of General Fund cash balance targets will generally come from excess revenues over expenditures or one-time revenues. The reserves will be funded in the following priority order:

- Working Capital Reserve
- Budget Stabilization Reserve
- Emergency Disaster Reserve
- GASB 45 unfunded post-employment benefits other than pensions (retiree health-care)

Water Fund. Funding of Water Fund Budget Stabilization, Liability Contingency/Emergency Disaster, and Working Capital Reserve targets will generally come from excess revenues over expenditures or one-time revenues. The reserves will be funded in the following priority order:

- Working Capital Reserve
- Budget Stabilization Reserve
- Emergency Disaster Reserve
- Rate Stabilization Reserves

The funding for Water Fund Rate Stabilization Reserves will come from Connection Fee Revenues and specifically designated fees included as part of the normal operating fees charged each bi-monthly billing period.

Wastewater Fund. Funding of Wastewater Fund Budget Stabilization, Liability Contingency/Emergency Disaster, and Working Capital Reserve targets will generally come from excess revenues over expenditures or one-time revenues. The reserves will be funded in the following priority order:

- Working Capital Reserve
- Budget Stabilization Reserve
- Emergency Disaster Reserve
- Rate Stabilization Reserves

The funding for Wastewater Fund Rate Stabilization Reserves will come from Connection Fee Revenues and specifically designated fees included as part of the normal operating fees charged each bi-monthly billing period.

<u>CONDITIONS FOR USE OF RESERVES</u>

The use of Budget Stabilization and Emergency Disaster reserves shall be limited to unanticipated, non-recurring needs, or anticipated future obligations. These Cash Reserves shall not be used for normal or recurring annual operating expenditures. The use of these reserves shall require approval by a majority of the CCSD board of Directors.

The Working Capital Reserve will be used to fund normal or recurring annual operating expenditures in the General Fund when budgeted taxes have not yet been received during a fiscal year. They will be replenished when the taxes are received. The use of these reserves can be authorized by the General Manager.

Rate Stabilization Reserves will be used to minimize the impact to citizens of potentially significant rate increases due to necessary expenditures on capital projects. The use of these reserves shall require approval by a majority of the CCSD board of Directors.

The District General Manager is authorized to make recommendations to the District Board of Directors for use of reserves. Any recommendation shall be accompanied by a proposal for the replenishment of the reserves.

REVIEW

This policy should be reviewed on an annual basis and changed where deemed appropriate to reflect changes in the CCSD's operations. The Board of Directors may at any time make changes to this policy to reflect current CCSD operations.

Board Approved on 05/13/2021

POLICY TITLE: Reserve Policy
POLICY NUMBER: 2150

Purpose: The Cambria Community Services District shall maintain reserve funds from existing unrestricted funds as designated by the District's Reserve Policy. Funds established under this policy shall function as both Capital Outlay and Contingency Reserves. This policy establishes the procedure and level of reserve funding to achieve goals, including the following:

a. Maintain operational sustainability in periods of economic uncertainty.
b. Contingencies (i.e. unplanned but necessary expenditures, emergencies, disasters, etc.)
c. Fund replacement and major repairs for the district's major assets and infrastructure.
d. Fund multi-year capital improvements.
e. Fund designated projects/programs or other special uses not otherwise funded by current operational income, grants or other available sources.

The District will account for reserves as required by Governmental Accounting Standards Board Statement No. 54 which distinguishes reserves as among these classes: non-spendable, restricted, committed, assigned and unassigned. The reserves stated by this policy, unless otherwise required by law, contract, or district policy shall be deemed "unassigned" and "assigned" reserves. Reserves set aside pursuant to this Policy will be matched by cash investments.

Policy: Use of District funds is limited to available "Unrestricted" Funds, including donations, interest earned, fees for service, tax revenues or other non-grant earnings. All special use funds will be designated by formal action of the Board of Directors.

a. Reserve Funds will be set aside in each of the District's three Funds (General, Water and Wastewater). The Board of Directors will determine the amount to be set aside as Reserves as line-items in the Annual Budget. At a minimum, the lesser of $1,000 and 0.1% of revenue will be set aside. In the event that any of the District's Funds receives material, unanticipated eligible revenue (e.g. a windfall) or budget surplus, the Board will consider setting aside some or all of such unanticipated revenue or surplus for reserves before committing expenditure for other purposes. The accumulated balance of unassigned Reserve Funds will not exceed 50% of the respective Fund's prior year Unrestricted Income. Assigned Reserve Funds shall not exceed the specific purpose for which they are accumulated.
b. Reserves will be set aside for the following purposes:
    a. General Fund unassigned Reserves:
        i. Operating Reserve: Funds to be used to provide for operations in anticipation of Property Tax receipts. Any reserves used for this purpose will be replaced when the Property Taxes are received.
        ii. Contingencies
    b. General Fund assigned Reserves:
        i. Vehicle Fleet purchases to support District operations.

   - ii. Technology Reserve to purchase hardware and software to support District operations.
   - iii. Capital Improvement expenditures to purchase necessary capital assets or repair, replace, or extend the life of existing assets.
   - iv. Special Projects identified by District Staff or the Board of Directors including responses to regulatory requirements.

c. Water Fund unassigned Reserves:
   - i. Income buffer to be used when income is reduced as a result of unanticipated drops in demand due to conservation during dry years
   - ii. Contingencies.

d. Water Fund assigned Reserves:
   - i. WRF Operations set aside during years of non-operation to anticipate expenses incurred when the plant is operated.
   - ii. Vehicle Fleet purchases to support District operations.
   - iii. Technology Reserve to purchase hardware and software to support District operations.
   - iv. Capital Improvement expenditures to purchase necessary capital assets or repair, replace, or extend the life of existing assets.
   - v. Special Projects identified by District Staff or the Board of Directors including responses to regulatory requirements.

e. Wastewater Fund unassigned Reserves:
   - i. Income buffer to be used when income is reduced as a result of unanticipated drops in demand due to conservation during dry years.
   - ii. Contingencies

f. Wastewater Fund assigned Reserves:
   - i. Vehicle Fleet purchases to support District operations.
   - ii. Technology Reserve to purchase hardware and software to support District operations.
   - iii. Capital Improvement expenditures to purchase necessary capital assets or repair, replace, or extend the life of existing assets.
   - iv. Special Projects identified by District Staff or the Board of Directors including responses to regulatory requirements.

Monitoring Reserve Levels: The General Manager, in collaboration with the Financial Manager, will report to the Board of Directors, on a semi-annual basis, Reserve Balances and Activity. Additional information will be provided:

a. When a major change in conditions threatens the reserve levels established by this policy,
b. When a major change in conditions calls the effectiveness of this policy into question, or
c. Upon Board of Directors request.