

# **DRAFT**

## **CAMBRIA COMMUNITY SERVICES DISTRICT Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2007**

The Management's Discussion & Analysis is to be read in conjunction with the financial statements of the District. The discussion is to identify financial trends and significant changes in the financial information.

The Cambria Community Services District (CCSD) is a multi-purpose special district formed on December 9, 1976. Formation took place under the Community Services District Law, Section 61000, et. seq. of the California Government Code. At the time of formation it absorbed and combined the responsibilities of five existing special districts. These independently operated districts were as follows:

- The Cambria Community Services District - Moonstone Beach Drive area
- The Cambria County Water District
- The Cambria Fire Protection District
- The Cambria Garbage Disposal District
- San Luis Obispo County Service Area No. 6 - Street Lighting Service

The CCSD is a political subdivision of the State of California and operates under a Board of Directors-Manager form of government. A five-member Board of Directors governs it with each member serving a four-year term. The CCSD has a population of 6,400 residents within its boundaries. Tourism in the summer months and on holiday weekends creates seasonal increases in the population.

### **Basic Financial Statements**

The basic financial statements of the CCSD are grouped into two categories.

- Government-Wide Financial Statements
- Fund Financial Statements

The notes to the basic financial statements are an integral part of the basic financial statements.

## **Government-Wide Financial Statements**

These statements display financial information about the reporting governmental entity as a whole. It includes the government activities and enterprise or business type activities. General government activity includes the following functions:

- Fire Department
- Administration
- Facilities and Resources
- Resource Conservation
- Parks and Recreation

The five general government functions have a number of activities. The Fire Department includes the Fire Hazard Fuel Reduction Program and North Coast Ocean Rescue Team. Under the auspices of the Administration function are assessments and franchise fees. Management of Facilities and Resources includes open space, Fiscalini Ranch Preserve, Veterans Hall, public restrooms, and parking lots.

Effective July 1, 2005, the Regional Transit Authority (RTA) assumed responsibility for the operations of the trolley service in Cambria with the CCSD retaining responsibility for the 10% farebox requirement.

The largest capital asset in governmental activities is the Fiscalini Ranch Preserve land with a value of \$11,128,350. A number of funding sources were used to acquire the land. The American Land Conservancy and State Coastal Conservancy provided the majority of the acquisition cost. The CCSD contributed \$2 million toward the acquisition. Private and local donations contributed \$1,125,000. SLO County contributed \$500,000.

The enterprise activities are the water and wastewater (sewer) departments.

## **Fund Financial Statements**

The accounting system of the CCSD is organized and operated on a fund basis. A fund is considered a separate self-balancing entity with assets, liabilities, fund equity, revenues, and expenditures/expenses.

The basis of accounting depends on the fund. Basis of accounting refers to “when” revenues and expenses are recognized in the accounts and reported in the financial statements.

Governmental funds use the modified-accrual basis of accounting. Revenues are recognized when measurable and available as net current assets. Measurable means the amounts can be estimated or determined. Available means the amounts were collected during the reporting period or soon enough to finance the expenditures accrued for the reporting period.

Enterprise or business-like funds use the accrual basis of accounting. Revenues, expenses, assets and liabilities are recognized when the event happens.

**Fiscal Year 2006/2007 Financial Highlights**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Net Assets	\$ 24,752,278	\$ 19,381,509
Revenues	\$ 5,111,890	\$ 3,940,925
Expenses	\$ 4,737,886	\$ 4,477,295
Change in Net Assets	\$ 374,004	\$ (536,370)

Results indicate an excess of revenues over expenses for governmental activities and a deficit for the business-type (enterprise) activities. The water and wastewater funds combined have a \$536,370 deficit. The expenditures in the governmental fund exclude depreciation but include principal and interest on debt service. Total depreciation for the business-type activities is \$1,130,086.

The largest component of the net assets balance is invested in capital assets net of accumulated depreciation. Net assets serve over time as an indicator of an entity's financial condition. Results above display a revenue stream unable to cover the cost of depreciation of assets.

For the fiscal year ending June 30, 2007, water and sewer had increases in their Capital Asset account balances (not including Accumulated Depreciation) of \$2,289,610 and \$371,981 respectively. In the Water fund, the significant expenditures were as follows:

- Pine Knolls Tank \$ 1,553,352
- Geotech Investigation/30% Design Desalination \$ 325,950
- SCADA \$ 321,364
- Water Master Plan EIR \$ 84,680
- Stuart Street Storage Tank Upgrade \$ 72,952

In the Sewer fund, the significant expenditures were as follows:

- Bio-Solids Dewatering \$ 186,405
- SCADA System \$ 148,194

For the fiscal year ending June 30, 2007, the general fund's Capital Asset account balances increased by \$705,942. The significant expenditures were as follows:

- Fire Department Pumper Engine \$ 480,046
- Marine Terrace Trail/Evacuation Route \$ 191,568
- Fiscalini Ranch Preserve EIR \$ 73,174
- Fire Department Exhaust System \$ 52,938

There is an underlying lease/purchase agreement for the Pumper Engine and its balance at June 30, 2007 was \$347,359. The Fire Department Exhaust System was 95% grant funded. The Fiscalini Ranch Preserve EIR is funded by SLO County Parks Facility Fees.

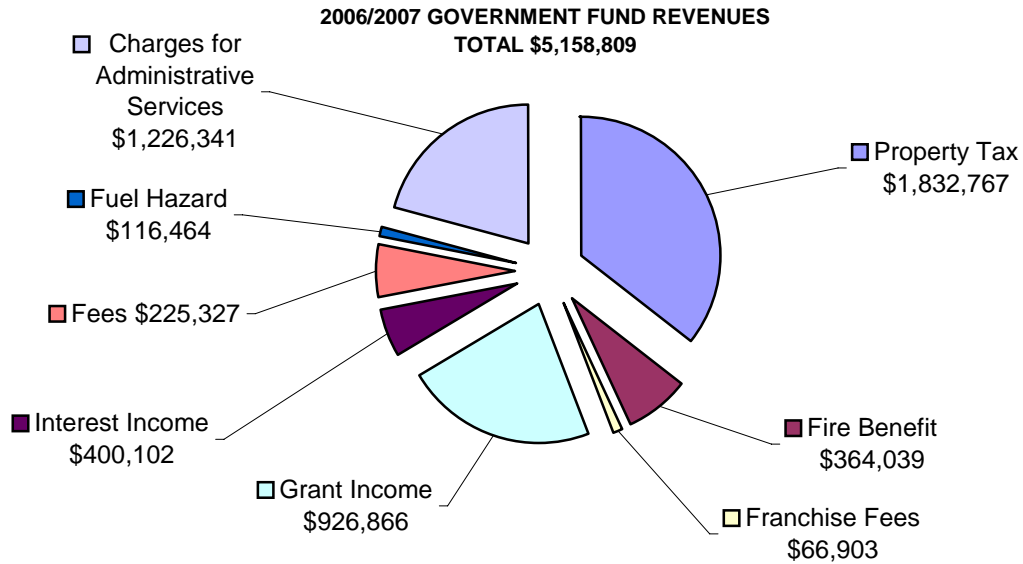
Enterprise revenues for the 2006/2007 fiscal year were \$3,940,925, an increase of \$61,697 from the 2005/2006 year. Service fees account for virtually all of the revenue for enterprise activities. The customer base is not expanding due to a lack of development resulting from the water moratorium.

As outlined in the audited financial statements, enterprise fund expenses include depreciation expense, which is not included in the rate structure.

In the Governmental Fund, general revenues, which includes property taxes and assessments, investment income and franchise fees, for governmental activities for the 2006/2007 fiscal year were \$2,889,138 or an increase of \$401,803 from the 2005/2006 year. Capital contributions and grant revenue in the Governmental Fund for the 2006/2007 fiscal year were \$879,947 or an increase of \$173,277 from the 2005/2006 fiscal year. Another source of revenue for the general government are charges for services, including charging other departments for administrative services and operating overhead costs. For the 2006/2007 fiscal year, these charges totaled \$1,342,805 or an increase of \$118,628 from the 2005/2006 fiscal year. General government received \$752,569 from the water and sewer departments for the 2006/2007 fiscal year, which is a decrease of \$13,203 from the 2005/2006 fiscal year. The amount of Charges for Services by the General government for the fiscal year ended June 30, 2007 audited financial statements includes the amounts charged other departments within the governmental fund, whereas only the amounts charged to the enterprise funds were included on the audited financial statements for the fiscal year ended June 30, 2006.

The largest sources of revenue from external sources were property taxes, grants/capital contributions, investment income and fire suppression assessment benefit respectively. Property tax revenue increased by \$194,047 from the 2005/2006 fiscal year to the 2006/2007 fiscal year. Grant/capital contributions revenue increased by \$173,277 and investment income increased by \$137,950 between the periods. Property values in San Luis Obispo County followed the housing burst nationwide. This was reflected in higher tax revenue due to housing sales in addition to the allowable 2% annual increase. Due to the recent and very significant housing slump, it is expected that property tax revenue will not increase in FY 2007/2008 to a degree approaching the increase seen in recent years. A higher rate of return from investments offset a decrease in invested funds.

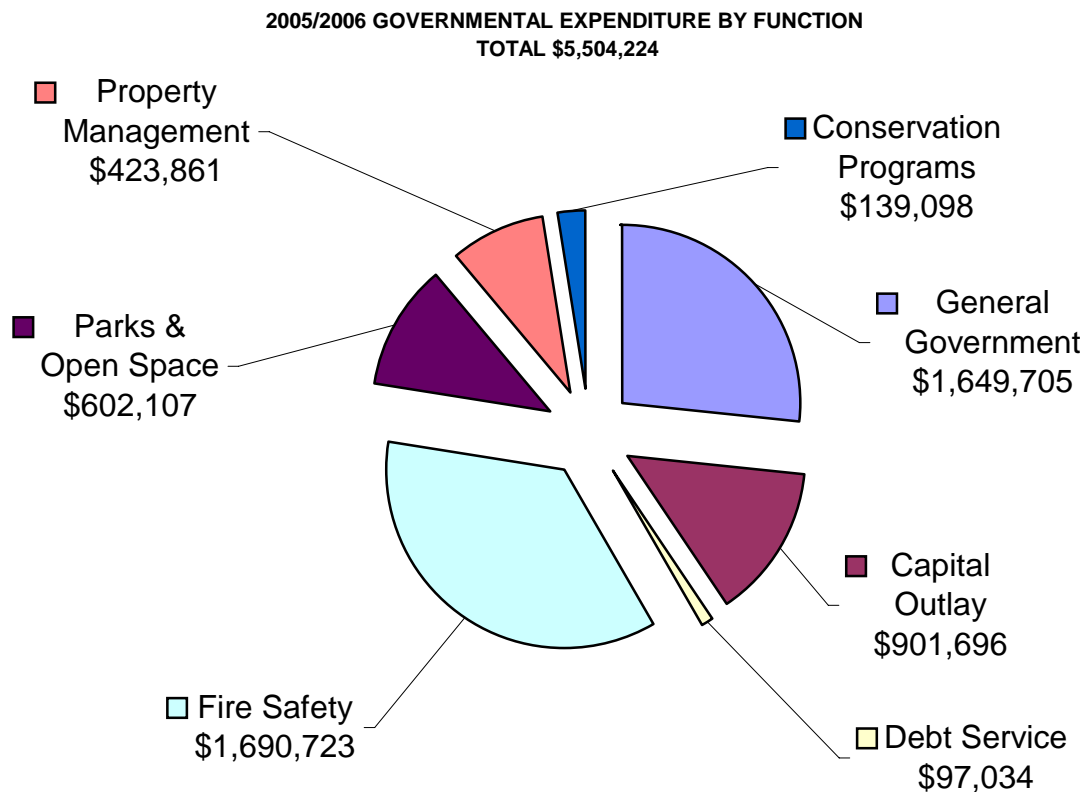
The following graph displays the sources of revenue by type of revenue:



Proposition 218 and other restrictions are a challenge for general government to increase revenue sources. Enterprise functions are business-like in nature. Service fees should cover the cost of providing service as well as provide funds for routine maintenance and routine capital outlay. Due to the lack of significant connection fees caused by the moratorium, service fees also need to provide funding for the CCSD's capital improvements.

General fund total expenditures for the 2006/2007 fiscal year were \$5,504,224. This is an increase of \$1,060,631 over the 2005/2006 year. The cost of providing fire protection and related public safety activities are the CCSD's largest cost contained in the General Fund. The administrative cost of managing the CCSD and providing support to the Water, Wastewater, Fire, Facilities and Parks Departments is the next largest cost.

The following graph indicates expenditures by function.



### **Chevron MtBE Litigation**

In October 2003, the CCSD and Chevron reached an agreement culminating a legal struggle that began in 2000. The issue was MtBE groundwater contamination in the potable water supply for the residents of Cambria. The settlement amount was \$9,100,000, and split as follows - \$8,400,000 water contamination; \$700,000 donation for the Cross Town Trail.

Net settlement for water contamination after legal/attorney fees was \$6,554,000, and was received by wire transfer on December 15, 2003. Of the total settlement, \$1,231,319 reimbursed the Utilities/Water Department and the balance went to the General Fund.

The trail donation was paid over four years with \$100,000 being received in January, 2004, \$100,000 being received in January, 2005, \$100,000 being received in January, 2006 and the final payment of \$300,000 was received on December 5, 2006.

The CCSD received a \$1,520,711 loan from the Department of Health Services (DHS) to construct a well, SR-4, along Santa Rosa Creek at Coast Union High School. The loan was non-interest bearing and was repaid during the 2006/2007 fiscal-year. The

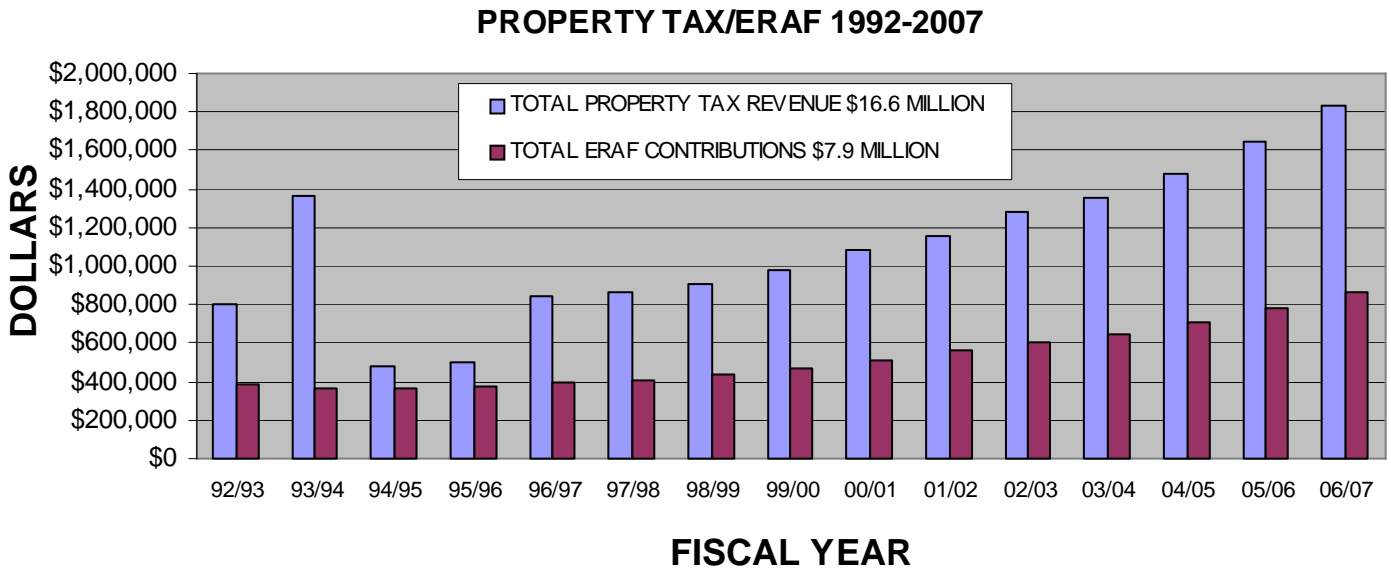
agreement with the Coast Unified School District is a ten-year lease, which expires June 30, 2010.

**Property Tax/ERAF**

As the general government revenue chart indicates, the CCSD received \$1,832,767 in property tax revenue for the 2006/2007 fiscal year. This represents 46.6% of the CCSD’s general government revenue received from sources outside of the CCSD.

Since 1992, the CCSD has made contributions to the Educational Revenue Augmentation Fund (ERAF). In 1992, the State of California initiated a revenue “take-away” program from cities, counties, and special districts to help balance the state budget. The CCSD’s contribution to the fund since 1992 is approximately \$7.9 million. Hence, slightly less than one-half of the tax revenue reverts to the State of California.

The graph below depicts the contribution since 1992. Property tax revenue does increase each year as property values for sold properties increase in addition to the allowable general 2% increase. This also results in a corresponding increase in the ERAF contribution.



**Reserves**

The CCSD reserves are on deposit with the State Treasurer’s Office. It is a pooled money investment account under Local Agency Investment Fund (LAIF). LAIF serves as a savings account for the CCSD. Funds are transferred in and out based on cash flow requirements. At year-end June 30, 2007, the balance in the account was \$5,374,802 and the carrying amount was \$5,372,356. The difference between the two amounts is the market valuation adjustment. The proceeding balances do not include accrued interest of

\$53,491. The average yield for the 2005/2006 year was 5.12%. The rate of return increased from 4.85% as of July 2006 to 5.25% as of June 2007.

A five-year summary of the reserve balance in LAIF is as follows:

➤ June 30, 2003	\$10,820,163
➤ June 30, 2004	\$12,989,202
➤ June 30, 2005	\$10,894,323
➤ June 30, 2006	\$ 8,811,983
➤ June 30, 2007	\$ 5,374,802

None of the above figures were adjusted for market valuation. As of June 30, 2007, this factor was .999545022.

Reserves in LAIF decreased \$3,437,181 in the fiscal year-end June 30, 2007 and the enterprise funds are in a deficit position. These financial developments caused the auditor to insert Note 14 in the audit report.

**Investment Policy**

The CCSD has an investment policy approved by its Board of Directors. All CCSD surplus funds are invested with the LAIF. Subsequent to the audit date, concerns about the safety of LAIF arose due to problems with some states’ LAIF accounts. There has not been a similar downgrading to California’s LAIF. However, the CCSD is closely monitoring the LAIF and staff will recommend revisions to the CCSD investment policy so as to better protect CCSD assets.

**Long-Term Debt**

At fiscal year end June 30, 2007, the CCSD had long-term outstanding debt of \$4,932,225 in water and sewer. Following is the detail of each debt item in the enterprise funds:

	<u>Water</u>	<u>Sewer</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Issue Date</u>
1.	\$1,116,050		4.5%	May 2015	2006
2.		\$ 600,950	4.5%	May 2015	2006
3.		\$1,860,000	3.5% / 5.7%	October 2024	1999
4.		\$1,355,225	3.0%	May 2016	1996

**Items 1 & 2** are a 4.5% note held by Citizens Bank for the original water and sewer infrastructure when the CCSD was formed. It is a refinance of 1995 bonds. Payments were current at June 30, 2007.

**Item 3** is a Revenue Bond to pay for the upgrade to the wastewater treatment plant bringing plant capacity to one million gallon per day treatment capability. Payments were current at June 30, 2007.

**Item 4** is a 3.0% note from the State Water Resources Control Board under the State Revolving Fund Loan Program. It was also used to fund the upgrade to the wastewater treatment plant. Payments were current at June 30, 2007.

The Revenue Bonds have a coverage ratio of 1.10. Under the terms of the debt structure, the CCSD covenants it will charge fees for services to provide sufficient coverage. The Citizens Bank note also has a coverage ratio of 1.10, but in addition to fees for service being used to compute the coverage ratio, the property taxes designated for the enterprise funds are included in the coverage ratio computation.

The CCSD entered into a lease purchase agreement for a Pierce Fire Tender in 2002. As part of the MtBE settlement between with Chevron, the CCSD is responsible for the payments but is reimbursed by Chevron. The lease payment agreement is for five years. Four payments have been made by the CCSD and Chevron has reimbursed the CCSD for those payments. Subsequent to the audit report date, the fifth and final payment was made and the reimbursement was received.

The CCSD entered into a lease purchase agreement for a Pierce Dash Pumper in 2006. A down payment of \$100,000 was made at that time. 10 annual payments in the amount of \$49,066 are subsequently due. The interest rate is 5.09% and prepayment penalties apply.

Compensated balances are the employee accumulated sick and vacation leave. CCSD policy allows employees to accumulate earned but unused vacation and sick pay. Unused vacation and sick leave are paid at termination of employment. One half of sick leave is paid up to maximum of 320 hours. Accrued leave balances are an obligation of the CCSD. Reporting requirements dictate that this be included in long-term liabilities.

At fiscal year end June 30, 2007, the CCSD had long-term debt of \$610,936 in general governmental activities. General fund debt is \$44,942 for the fire tender, \$354,306 for the fire pumper and \$218,635 for compensated balances.

The following table provides a reconciliation of the long-term debt activity for the fiscal year for the enterprise funds:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>
Water Bank Loan	\$1,233,375	\$ 0	\$ 117,325	\$1,116,050
Sewer Revenue Bonds	\$1,925,000	\$ 0	\$ 65,000	\$1,860,000
Sewer Bank Loan	\$ 664,125	\$ 0	\$ 63,175	\$ 600,950
Sewer SWCRB Loan	\$1,484,740	\$ 0	\$ 129,515	\$1,355,225
Compensated Balances-Water	\$ 45,481	\$ 61,709	\$ 0	\$ 107,190
Compensated Balances-Sewer	<u>\$ 57,583</u>	<u>\$ 4,387</u>	<u>\$ 0</u>	<u>\$ 61,970</u>
Totals	<u>\$5,410,304</u>	<u>\$ 66,096</u>	<u>\$ 375,015</u>	<u>\$5,101,385</u>

The following table provides a reconciliation of the long-term debt activity for the general fund.

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>
Capital Lease-Water Tender	\$ 87,989	\$ 0	\$ 43,047	\$ 44,942
Capital Lease-Fire Pumper	\$ 0	\$477,224	\$129,865	\$347,359
Compensated Balances	<u>\$221,589</u>	<u>\$ 13,122</u>	<u>\$ 16,076</u>	<u>\$218,635</u>
Totals	<u>\$309,578</u>	<u>\$490,346</u>	<u>\$188,988</u>	<u>\$610,936</u>

\$100,000 of the Reductions amount for the Fire Pumper was a deposit made during the prior fiscal year. All bond, note and lease payments were current as of June 30, 2007.

**Operating Budget**

On June 26, 2006, the CCSD adopted an one-year budget for the July 1, 2006 to June 30, 2007 fiscal year.

A mid-year budget review was presented on February 22, 2007. The review amended the budget for the year-end June 2007.

In addition to the mid year review, monthly budget status reports are prepared and reviewed with each department manager. The monitoring process does not focus on line item or category totals. Shifts can be made internally, provided the total approved budget does not increase.

**Budget Highlights**

A 5.5% rate increase was implemented on July 1, 2006.

In July 2003, the CCSD adopted Code Section 3.04.020 establishing a revised fee schedule as well as establishing new fees for services.

On June 19, 2003, the residents of Cambria voted to extend the Fire Suppression Assessment Benefit. The process was a mail-in ballot with a majority of the votes needed to pass. CCSD Resolution 27-2003 confirmed the assessment and vote tally. The final tally was 74% yes and 26% no.

The assessment is placed on the tax roll each year and supports the operations of the Fire Department. The assessment increases each year per the Los Angeles, Anaheim and Riverside consumer Price Index. The increase was 5.2% for fiscal year 2006/2007. The assessment generated \$364,039 for the year-end June 30, 2007.

Other items impacting the fiscal year 2006/2007 Budget were as follows:

- No new customers due to the water moratorium
- General fund reserves used to balance enterprise funds
- Continued deferred maintenance in water and wastewater
- Increases in costs (e.g. fuel, utilities, etc.)
- Lack of sufficient revenues to fully support operations

A General Fund function comparison of operating revenue and operating expenditures separate from capital outlay between the adopted budget, amended budget, and results for the year-end June 30, 2007 follows. The budget was adopted on June 22, 2006, and amended at the mid-year review on February 22, 2007.

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
	<u>Originally Adopted</u>	<u>As Amended</u>		
REVENUE	\$3,997,717	\$4,589,192	\$5,158,809	\$ 569,617
EXPENDITURES:				
Fire	1,795,559	1,874,839	1,846,679	28,160
Administration	1,534,780	1,640,089	1,649,705	( 9,616)
Parks and Recreation	112,473	566,128	602,107	( 35,979)
Facilities Resources	421,487	460,230	423,861	36,369
Resource Conserv.	<u>130,500</u>	<u>128,444</u>	<u>139,098</u>	<u>( 10,654)</u>
Total Expenditures	<u>3,906,499</u>	<u>4,581,430</u>	<u>4,602,528</u>	<u>( 31,098)</u>
Excess revenues over (under) expenditures per Operating Budget	2,918	( 80,538)	497,359	577,897
Capital Projects			<u>842,774</u>	<u>( 842,774)</u>
Total excess revenues Over (under) Expenditures	\$ 2,918	\$( 80,538)	\$( 345,415)	\$( 246,877)

A Water Fund function comparison of operating revenue and operating expenditures (no capital outlay or depreciation) between the adopted budget, amended budget, and operating results for the year-end June 30, 2007 follows. The budget was adopted on June 22, 2006, and amended at the mid-year review on February 22, 2007.

	<u>Budgeted Amounts</u>		<u>Actual</u>	Favorable (Unfavorable) <u>Variance</u>
	<u>Originally Adopted</u>	<u>As Amended</u>		
REVENUE	\$1,786,501	\$1,896,371	\$1,840,040	\$ ( 56,331)
EXPENDITURES	<u>1,868,969</u>	<u>1,960,609</u>	<u>1,844,586</u>	<u>116,023</u>
Excess revenues over (under) expenditures	\$ (82,468)	\$ ( 64,238)	\$ ( 4,546)	\$ 56,692

A Wastewater Fund function comparison of operating revenue and operating expenditures (no capital outlay or depreciation) between the adopted budget, amended budget, and operating results for the year-end June 30, 2007 follows. The budget was adopted on June 22, 2006, and amended at the mid-year review on February 22, 2007.

	<u>Budgeted Amounts</u>		<u>Actual</u>	Favorable (Unfavorable) <u>Variance</u>
	<u>Originally Adopted</u>	<u>As Amended</u>		
REVENUE	\$1,737,790	\$1,761,878	\$1,746,263	\$ ( 15,615)
EXPENDITURES	<u>1,762,353</u>	<u>1,966,000</u>	<u>1,866,638</u>	<u>99,362</u>
Excess revenues over (under) expenditures	\$ (24,563)	\$ (204,122)	\$ (120,375)	\$ 83,747

As holds true for most governmental agencies, the necessity to replace aging infrastructure, equipment and vehicles is ever looming. Funding the needs of government to continue to provide not only a high level of service but service at any level is a challenge and this is true for the CCSD, particularly in light of the deferred maintenance in recent years. There is not a replacement program currently in place.

### **Budget to Actual Variances**

General fund revenue was higher than budgeted mainly due to higher than projected property tax, grant, investment and charges for administrative services revenue. Water fund expenditures were lower than budgeted mainly due to lower than projected general and administrative overhead. Wastewater fund expenditures were lower than budgeted mainly due to lower than projected salaries and benefits.

Facilities and Resources has the added the responsibility of maintaining more open space. The CCSD acquired a number of lots from the Land Conservancy of San Luis Obispo County under various programs administered by the conservancy. They are deeded to the CCSD with a conservation easement and must be maintained, but they do not generate corresponding revenue.

The Parks and Recreation Department has received four grants allowing for improvement to or additional open space, trails, and recreational facilities. The four grants funded the Marine Terrace Trail, Cross Town Trail, Bluff Trail, Santa Rosa Stream Bank Restoration, and Guthrie-Bianchini House and Gardens. All grant disbursements for the Cross Town Trail, Bluff Trail and Santa Rosa Stream Bank Restoration, as well as the majority for the Guthrie-Bianchini House and Gardens, were received as of June 30, 2007.

### **Capital Improvement Program-Enterprise Funds**

The Capital Improvement Program Budget for the Enterprise Funds is a plan of infrastructure improvements for the treatment and delivery of water to residents and the collection of wastewater to the sewer treatment plant. The CCSD collects revenues that are designated for infrastructure improvements. For the year-end June 30, 2007, the following revenues were collected for the Capital Improvement Program:

- Water Availability           \$175,861
- Water Connection Fees   \$ 40,853
- Sewer Availability         \$114,127
- Sewer Connection Fees   \$ 10,113

A number of priority projects have been identified and CCSD staff has been focusing time and other internal resources as well as outside resources on the projects. A listing of the projects is as follows:

- Pine Knolls Tank Replacement
- Geotech Investigation/30% Design Desalination
- Bio-Solids Dewatering
- Buildout Reduction Program
- Water Master Plan EIR
- Stuart Street Tank Upgrade
- Rodeo Grounds Pump Station Replacement
- SCADA (Supervisory Control and Data Acquisition)
- Moonstone Beach Drive Bridge Utilities Relocation

## **Economic Factors**

Two significant factors other than general cost increases impact the financial strength of the CCSD. They are:

- Minimal impact or development fee revenue; and
- Stagnate customer base.

Cambria is a residential coastal community and does not have any industry. Commercial activity predominately serves the tourist trade. The CCSD receives no revenue generated by the tourist trade from sales tax or transient occupancy tax, even though the restaurants and lodging establishments serving the tourist industry have a great impact on water use and the use of wastewater facilities. Impact fee revenue would be generated from new housing and retail as well as visitor-serving commercial activity.