

Buildout Reduction Program Report

By the Buildout Reduction Program Citizens Finance Committee

TOWN HALL MEETING Final Draft May 16, 2006

Committee Members

Wayne Parrack, Committee Chairman, Bill Allen, Wayne Attoe, Ron Crummitt, Bob Hill,
Jeannette Johnson, John Linder, Gail Robinette, and Wayne Ryburn

CCSD Staff

Tammy Rudock, Bob Gresens, Art Montandon,
Kathy Choate, and Patrick Bradley

Outside Consultants

The Natelson Dale Group: Roger Dale
RBF Consulting: Steve Bein, Jim McPherson, and Glenn Lajoie
Davidson Associates: Connie Davidson
Accounting: Leslie McGarry

Purpose of the Program

To ensure long-term demand for residential water connections in Cambria (primarily single family homes) does not exceed 4,650 existing and new connections, the committee recommends that CCSD develop a program to retire or reduce the potential number of residential building sites.²

The overall goal of the Buildout Reduction Program is to retire and/or merge³ enough potential building sites in Cambria so that the remaining number of suitable building sites roughly matches the 864 (total) additional outstanding residential water connections that have been approved by the CCSD.⁴ Thus, when Cambria is built out to that level, there will be only a few available building sites left, with little potential for future growth. The result will be a Cambria that is still in the pines--an enjoyable place to live that also appeals to visitors.

The reduction in the number of building sites will be accomplished largely by attrition through existing lot retirement objectives and programs, and by acquiring lots and retiring them. Acquisition will be through donation or purchase, and will be voluntary; no property owner will be forced to sell their land for the purposes of this program.

Facts about property and residential water connections

The following summarizes the number of vacant and built residential lots in Cambria. Information in this report was obtained from CCSD records and through the assistance of their consultants using geographic information system technology.

Category of residential zoned lots	Single-family	Multi-family	Total residential
Total existing lots in Cambria:	11,613	310	11,923
Developed lots:	6,647	191	6,838
Vacant lots:	4,966	119	5,085
Existing residential water connections	3,569	217	3,786
Pending connections	3	3	6
Intent to serve letters outstanding	n/a	n/a	31
Grandfathered meters	n/a	n/a	42
Existing CCSD waitlist positions	666	35	701
Potential additional CCSD connections	n/a	n/a	<u>84</u>
Maximum total connections			4,650

Applying the County's current 1% growth rate, total buildout will be complete in 22 years, and this is the term upon which the Program cost and funding assumptions are based.

² A building site for our purposes has a minimum 50-foot frontage on a street, and a minimum of 3,500 square feet. It can be composed of one lot or more. It might have one APN or more. [A lot is a legal unit, which can be sold and taxed. An APN is an Assessor's Parcel Number used by the County for taxing purposes.]

³ Lot retirement means to make a parcel permanently ineligible for a water connection using zoning restrictions and/or title restrictions, specifically, a conservation easement or a covenant not to build or seek water service. All lots acquired through this Program will be retired using strict legal restrictions to prohibit future building. Merging a lot means legally encompassing it with an adjacent lot or parcel, thus eliminating it from consideration as an individual legal entity.

⁴ The proposed desalination plant will be sized for 4,650 residential water connections, making this the maximum number to be permitted in Cambria: 3,786 (existing connections) + 864 (approved additional connections) = 4,650.

Retired Lots Under This Program

Under the adopted cap of 4,650 existing and new residential connections, 3,357 residential lots are to remain vacant.⁵ However, the program will target potential building sites, not all vacant lots. This will reduce Program costs because many lots do not qualify for development since they are already retired, are owned by conservation groups, are in protected Special Project Areas,⁶ or are too small to acquire water rights.

The number of lots that need to be retired and/or merged are as follows:

Lots to remain undeveloped	3,357
Lots already retired	289
Lots owned by conservation entities (but not retired)	36
Surplus lots owned by County	30
Lots in Special Project Area 1	579
Lots in Special Project Area 2	337
Orphaned lots ⁷	<u>255</u>
Total Non-buildable lots	1,526
Remaining residential lots to be retired and/or merged	1,831

In addition, the high cost of developing certain lots, and certain permitting hurdles, will discourage development on lots that are steeper than 30% and those in “fire chimneys,” which are forested valleys that due to their configuration would tend to draw fire up.

In keeping with the spirit of this Program to reduce buildout, the transfer of development credits is prohibited on lots purchased through the Buildout Reduction Program.

Retiring lots with little or no cost

While the Program will depend largely on purchasing lots that are part of potential building sites, there are ways to retire building sites with little or no cost:

Voluntary/Program retirement of lots

We expect that some lot owners will voluntarily retire potential building sites with deed restrictions or conservation easements.⁸ Owners might accomplish the same thing by donating a parcel and then retiring it. Because it is a condition associated with moving a water connection or waitlist position, or because they may find potential tax benefits (See footnote 9), owners may do this to support the Program,

⁵We assume an average of two lots per new residence, so 5,085 vacant lots minus the 1,728 (2 lots per 864 approved new water connections) = 3,357.

⁶ Special Project Areas #1 and #2 are special planning areas designated by the county because of #1 trees and habitat, and #2, viewshed and habitat. Water entitlements cannot be transferred into them unless the building site is already on the CCSD waitlist for water connections. (This is currently true only for SPA #1. The CCSD Board would need to pass an ordinance for SPA #2).

⁷Orphaned lots are below the minimum size required for development, are surrounded by previously developed properties, and are not in common ownership with adjacent properties. Therefore, their likelihood of being merged with an adjacent property to make a legally sized building site is considered remote.

⁸To promote specified conservation goals (like forest and habitat protection), conservation easements restrict what can happen on a lot, typically prohibiting building construction.

Voluntary/Program merger of lots

We expect some lot owners to voluntarily merge vacant lots with existing built-upon lots for similar reasons. Or they may purchase part of an adjacent building site and merge it with their own home site. The County offers incentives for mergers; the program budget allows incentives as well. There may be tax benefits, too⁹.

Our consultant estimates that by using these means, the number of lots that need to be purchased could be reduced as follows:

Total lots to be retired, merged or acquired	1,831
Retirements contingent on transfer of commercial EDUs	16
Voluntary/Program retirements	542 ¹⁰
Mergers of vacant lots with existing built lots	<u>394¹¹</u>
Remaining lots to be acquired	879

Costs of other acquisitions

Lot size and views are key factors in Cambria land costs. Our cost assumptions take them into account, based on asking prices and sales over the last six months.¹²

	Single-family	Multi-family
Average lot size	2,500 square feet	6,500 square feet
Percent view lots	25%	0%
Price per square foot, view lots	\$30.00	\$30.00 ¹³
Price per square foot, non-view lots	\$ 7.50	7.50
Weighted average	\$13.12/sf	\$ 7.50/sf
Average price per lot	\$33,000	\$50,000

Ways to Fund Acquisitions

Committee members and consultants have looked at a number of funding options, and settled on four. The ones ruled out are:

Grants: We know of no programs currently supporting this kind of acquisition, but we will continue to research.

⁹ Property owners need to consult with their tax advisor to assess their unique financial situation against existing tax codes. The Land Trust Alliance web site (LTA.org) may also provide additional information on the potential benefits for donating properties. The committee also learned of a Natural Heritage Preservation Credit program, which expires June 30, 2008. This direct state income tax credit program requires additional research, and was beyond the scope of the committee's assignment.

¹⁰ Historically, 5% per year of the waitlist move a meter to another property and participate in the TDC program. With this as a basis, over the 22 years of the Program, we can expect 542 lots to be retired voluntarily.

¹¹ According to our consultants, there are a total of 1,360 lots that are part of groups of lots that are in common adjacent ownership (CAO). If they assumed that ALL of these CAO groups merged into single lots, a total of 986 vacant lots would be merged. Based on an analysis of the various CAO ownership scenarios that exist (e.g., single vacant lots that are attached to built lots, vacant lot groups that have "odd" numbers of lots such that they are unlikely to be divisible into more than one legal building site, etc.), the consultants have conservatively projected that 394 voluntary mergers would occur (i.e., 40% of the theoretical maximum of 986 lots).

¹² Our analyses show that over the last six months, vacant lots without a water meter sold for an average of \$13.12/square foot, or \$18,750 to \$75,000 for a single (25 x 70) lot, depending on the location.

¹³ No multi-family lots are currently for sale, so we use the per square foot figure for single-family lots.

Special Assessment or Bond: A vote by residents and/or lot owners would take time and money to set up, and if it were not successful, we would be where we are now—but with lost time.

The first two funding measures that the committee agreed to recommend are (1) an increase in water rates and (2) an increased water connection fee for new construction. The rationale for the first measure is to spread costs among existing and future homeowners who will benefit from maintaining the existing character of Cambria, and preserving property values. The rationale for the second measure is that the buildout reduction program is among the mitigations being implemented to address the secondary environmental impacts from future water projects. As the program is implemented, there will also be costs associated with maintaining the retired properties that will be need to be supported by rate payers. Rates and fees would be tied to a cost-of-living index, and reviewed periodically by CCSD.

The third (3) funding source recommended by the committee is an additional fee for remodels, while the fourth (4) is the sale of 65 of the unallocated water connections. Among the 4,650 maximum existing and future water connections are 84 that are not allocated. This Program proposes that CCSD donate from this group the equivalent of three residential water connections a year to approved land trusts like the Land Conservancy of San Luis Obispo County and Greenspace—The Cambria Land Trust. The land trusts would sell the connections on the open market¹⁴ to lot owners not on the CCSD waitlist¹⁵ but wanting to build. The land trusts would use the proceeds of those sales to purchase and retire lots that are part of potential building sites, minus fees for administration¹⁶ of the program and future lot maintenance. At the rate of 3 sales per year, this would not distort the market.

Raising funds in this way and purchasing properties through land trusts makes sense because:

1. It takes these decisions out of the hands of the CCSD Board,
2. CCSD would not have to increase staff to handle these new roles,
3. Confidentiality could better be assured for these business dealings,
4. Donations to these non-profit charitable organizations could have tax or related benefits to donors.

In light of the County's current 1% growth cap in Cambria, there could be competition between those who purchase a water connection through the Program and people on the waitlist, since a limited number of Intent to Serve letters would be offered each year. Three ways to avoid this are:

1. The County could authorize the approval of three connections purchased under the Program in addition to the connections amounting to 1% growth. The argument in favor of this is that the three purchased connections per year are in large part funding lot retirements—the very purpose of the Program.
2. In any given year there could be a gap between the number of Intent to Serve letters and the number of owners actually ready to build at that time. The three purchased meters could make up or partially make up that difference. However uncertainty about when a purchased connection would become viable for service would reduce their salability and appeal and would render them largely unsalable for years, and eliminate a large portion of the program funding.
3. Connections purchased under the Program could be placed at the end of the waitlist. However, like item 2, this would render them largely unsalable for years, and eliminate a large portion of the Program funding.

¹⁴ Recently, single connections have sold for from \$200,000 to \$366,000.

¹⁵ Lot owners not on the CCSD water waitlist have several options: 1). Acquire and move a meter from another lot; 2). Purchase an unallocated water connection from a land trust; 3). Simply retain their property (do nothing); 4). Sell their property; 5). Donate their property; 6). Merge their property with an adjacent parcel.

¹⁶ Based on experience, a fee of 10% seems appropriate, but would be re-evaluated periodically.

Another option would be to use only the special water rate increase and additional connection fees to fund the Program. The Committee does not endorse this option because rates are substantially higher than the costs described in the program budget discussion that follows. The approximate difference in costs by not applying the unallocated connections are summarized below.

Cost Comparison With and Without the Sale of Unallocated Water Connections

<u><i>Residential</i></u>	<u>With Sale of 65 Connections</u>	<u>Without Sale of 65 Connections</u>
Water Rate Increase		
For Lot Acquisition	\$57 per year	\$118 per year
For Lot Maintenance	\$49 per year	\$49 per year
Total	\$106 per year	\$167 per year
Buildout Reduction Fee	\$10,127 one time, per EDU	\$20,960 one time, per EDU
 <u><i>Commercial</i></u>		
Water Rate Increase		
For Lot Acquisition	\$255 per year	\$528 per year
For Lot Maintenance	\$218 per year	\$218 per year
Total	\$473 per year	\$746 per year
Buildout Reduction Fee	\$10,127 one time, per EDU	\$20,960 one time, per EDU

Lot owners who purchase a water connection under the Program, like those on the waitlist, would be subject to the Buildout Reduction Program connection fee.

In addition to raising funds through the sale of unallocated water connections, the land trusts would receive the funds raised through the water rate increase which similarly would be used to purchase and retire lots, minus the fee for administration.

An evaluation of Program effectiveness will be conducted annually by CCSD.

Criteria for Retiring Lots

Land trusts in the Program would have flexibility in choosing lots for purchase and retirement, as long as transactions retire a potential building site. Among the factors they could consider are

1. Adjacency to other retired lots
2. Least cost for greatest benefit
3. Strategic importance for habitat or open space protection

Program Budget

The following describes the build our reduction program costs, funding sources, and related rate adjustments. Land acquisition costs were based on a review of current market conditions, which showed a cost of \$33,000 per single-family lot, and \$50,000 per multi-family lot purchased.

A. Gross Program Costs (through buildout)

Cost Item	Property Acquisition Costs	Annual O&M Costs
Land Acquisition ¹⁷	\$29,313,000	
Program Administration	\$2,200,000	
Initial Weed Abatement	\$439,500	
Transaction Costs ¹⁸	\$2,931,300	
Merger Incentive Costs	\$3,549,600	
Lot Maintenance ¹⁹		\$283,284
Total	\$38,827,800	\$283,284

B. Program Funding Sources

Funding Source	Property Acquisition Funding	%	Annual O&M Funding²⁰
Sale of 65 unallocated water connections	\$19,500,000	50	
Remodel Fees	\$1,100,000	3	
Water Rate Increase - Residential	\$5,832,896	15	\$226,627
Water Rate Increase - Commercial	\$1,458,224	4	\$56,657
Buildout Reduction Fee - Residential	\$8,749,344	23	
Build-out Reduction Fee - Commercial	\$2,187,336	5	
Total	\$38,827,800	100	\$283,284

¹⁷ 861 lots at \$33,000 each, and 18 lots at \$50,000 each.

¹⁸ These costs include appraisal, title insurance, recording fee, escrow agent, buyer-paid commissions, and miscellaneous closing costs.

¹⁹ The O&M cost shown is an average annual expense that covers the first 22 years of the program. The cost is less during the initial years of the program as lots are acquired, and levels off at \$370,325 per year after all the lots are acquired.

²⁰ The O&M funding sources shown are for the average funding during the initial 22 years of the program. At program completion, and after all the lots are acquired, the annual O&M funding increases to \$296,260 per year for residential, and \$74,065 for commercial, or a total of \$370,325 per year. After 22 years, the property acquisition funding need from the water rate increases shown reduces to zero.

C. Calculation of Maximum Costs Per Water Account (or Per Connection)

Funding Fee	Property Acquisition Funding	Annual O&M Funding
<u>Residential</u>		
Water Rate Increases ²¹		
For lot acquisition	\$ 70 per year	
Maximum lot maintenance		\$ 63 per year
Buildout Reduction Program Fees	\$10,108 one time	
<u>Commercial</u>		
Water Rate Increases ²²		
For lot acquisition	\$299 per year	
Maximum lot maintenance		\$283 per year
Buildout Reduction Program Fees	\$10,108 one time, per EDU	

Residential

Water Rate Increases

For lot acquisition	\$ 70 per year
Maximum lot maintenance	\$ 63 per year
Buildout Reduction Program Fees	\$10,108 one time

Commercial

Water Rate Increases

For lot acquisition	\$299 per year
Maximum lot maintenance	\$283 per year
Buildout Reduction Program Fee	\$10,108 one time, per EDU

Potential tax benefits or other financial incentives

Existing homeowners and those constructing new homes will benefit from most aspects of this program; however, it is unlikely that there will be tax benefits from it. This needs to be analyzed on a case-by-case basis. In some cases CCSD and/or the County may offer incentives for merging lots.

²¹ This rate increase will apply to current users and waitlist owners who build. The lot maintenance component will begin as a very small number in the first years of the program (few lots to maintain) and build toward the maximum amount at the end of the program. Of course at the end of the program the lot acquisition fee will disappear.

²² The fees shown for commercial customers are based on an overall average consumption per commercial connection. The rate increase for commercial customers is planned to be the same percentage that would apply to residential customers.

Other measures needed to ensure success

1. Limit water/wastewater service to lots within current CCSD boundaries.
2. The desalination plant has been designed for 4,650 residential connections so there is no excess capacity available.
3. Special Project Area 2 should include the same restrictions for development that applies to Special Project Area 1.
4. The requirement to retire a 'lot' when transferring a meter or water position needs to be changed to retiring a potential 'building site.'
5. Staff/resources to carry out the program

Program Implementation

1. Approve Buildout Reduction Program
2. Approve and Adopt Water Master Plan Program EIR
3. Adopt Water Master Plan
4. Incorporate Proposed Water Rate Adjustment into Water and Wastewater Rate Analysis and Modeling Study to be performed by Black and Veatch
5. As funds accumulate, make them available for lot purchases and retirements.
6. Offer conditional Intent to Serve Letters to a portion of the waitlist
7. Begin donating meters (3 a year) to land trusts for sale, subject to lifting of moratorium
8. Lift moratorium once the desalination project has made substantial progress and is nearing completion.

Program Timing

Following adoption of the Water Master Plan and completion of the Water and Wastewater Rate Analysis and Modeling Study, we estimate the Buildout Reduction Program could be launched as early as Spring 2007.

Public Outreach

There are three groups most affected by the Cambria Buildout Reduction Program:

- CCSD residential and commercial customers
- Individuals on the CCSD water waitlist
- Lot owners not on the CCSD water waitlist

Following are the methods we recommend in communicating the Program and subsequent updates to the above individuals:

1. **Town Hall Meeting – May 16, 6:00 p.m. Veterans Memorial Building, Cambria**
The community will have an opportunity to learn about the Program and ask questions.
2. **Letters to waitlist and lot owners.** Ongoing communication.
3. **CCSD web site, newsletter and billing inserts.** Updates, Frequently Asked Questions, Reports, etc. will be posted to the CCSD web site. Some of this information will also go out to CCSD water/wastewater customers as billing inserts. Updates will also be provided in the CCSD newsletter.
4. **Press releases.** Updates will be communicated to the local media on Program developments and community meetings.