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

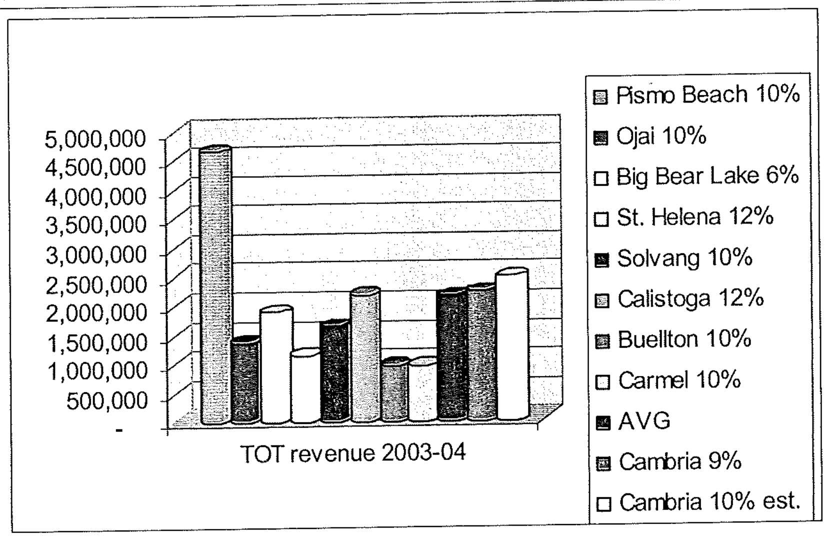
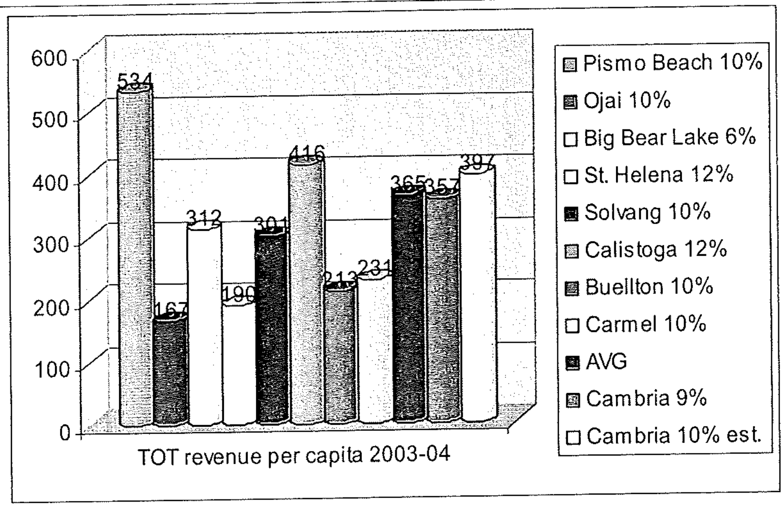


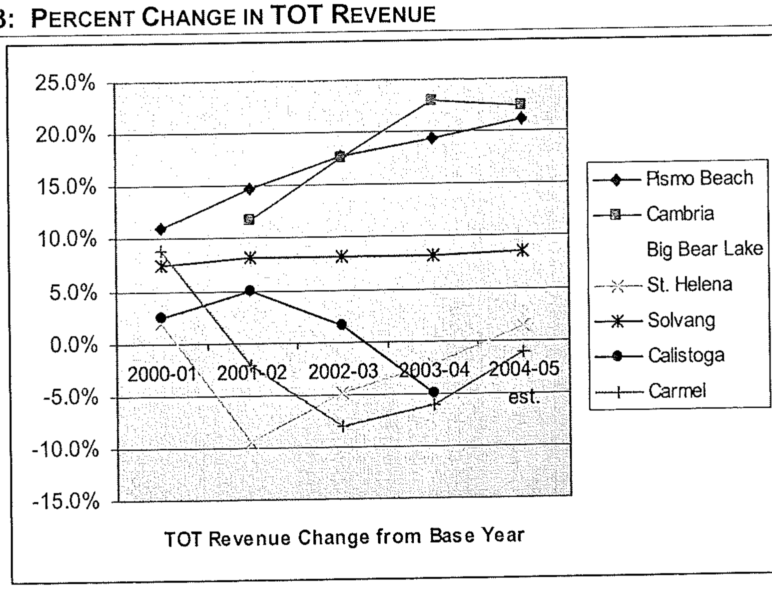
Figure 1 shows the total FY2003-04 TOT revenue for the eight peer cities along with their TOT rate. The average revenue is also included. The two right columns show the revenue generated in Cambria in FY2002-03 at the current 9% rate, and the estimated revenue if Cambria were a city and raised its rate 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



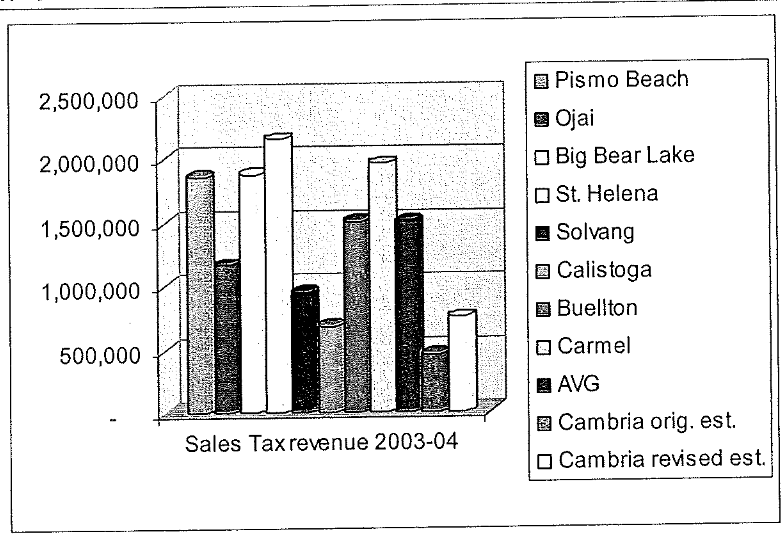
Trends in the rate of growth of TOT revenue over the past several years for Cambria and the peer cities are mixed. Figure 3 shows percent change in TOT revenue from the various cities' base years – with the base years depending on the data available. The colored lines represent revenue growth as well 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.

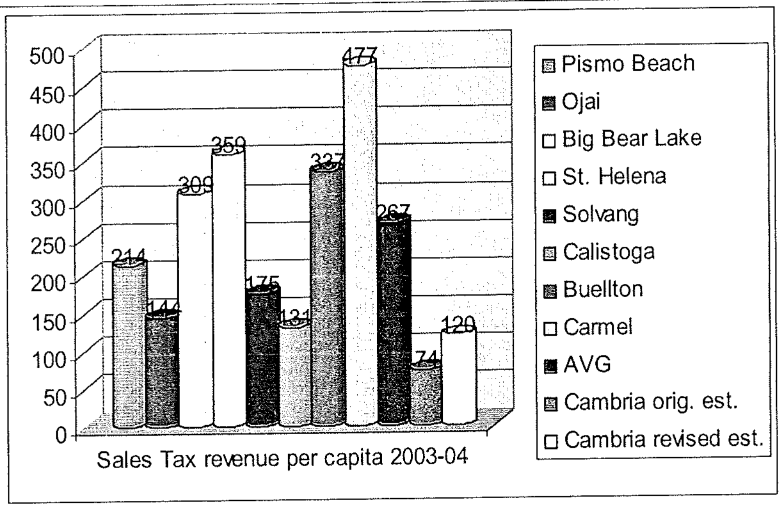
Total sales tax revenues vary widely among the peer cities based on factors including large versus small retail outlets and the presence of significant sales tax generators such as automobile sales lots. Sales tax is a fairly unpredictable source of revenue, as it responds quickly to a host of economic 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



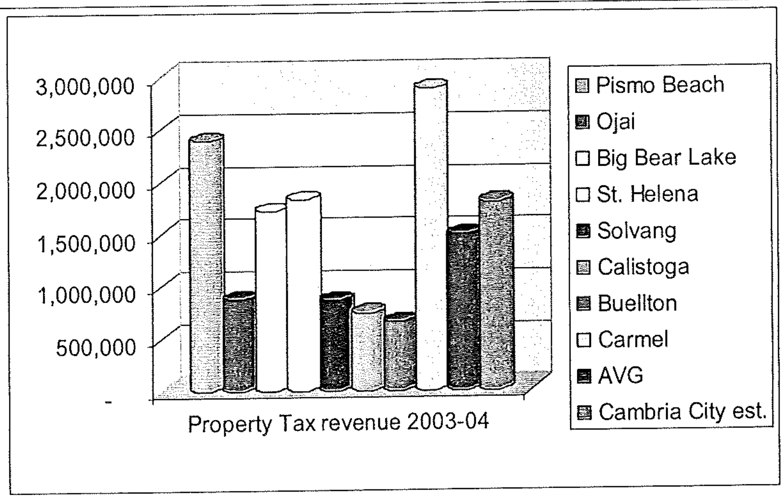
Converting the peer cities' sales tax revenue totals into per capita figures is a more precise approach to comparing them (Figure 5). While the relative per capita variations mirror the total revenue chart, the distinctions between the cities are accentuated. Sales tax revenue per capita for the eight 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

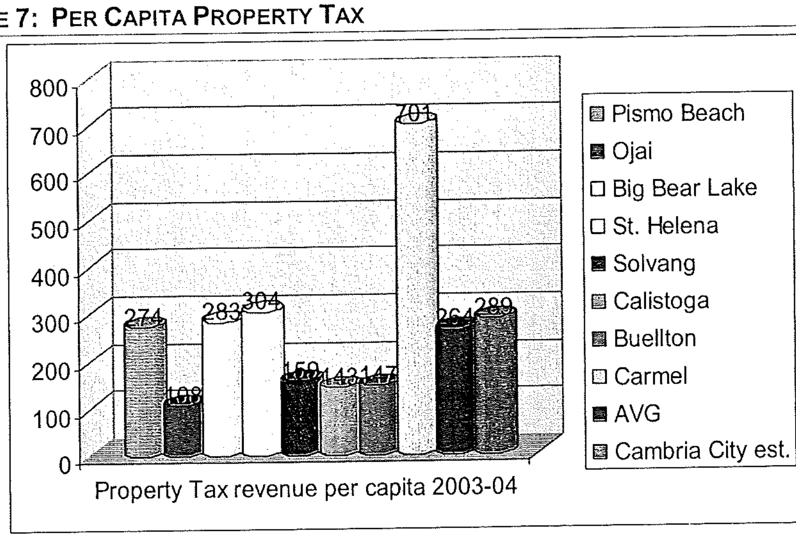
As a city, Cambria would receive a slightly larger share of the local property tax pie than it currently does. Property tax revenue is a more stable source of revenue than sales tax, as the value of property is not as sensitive to economic downturns. The property tax estimate provided in the Preliminary 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.

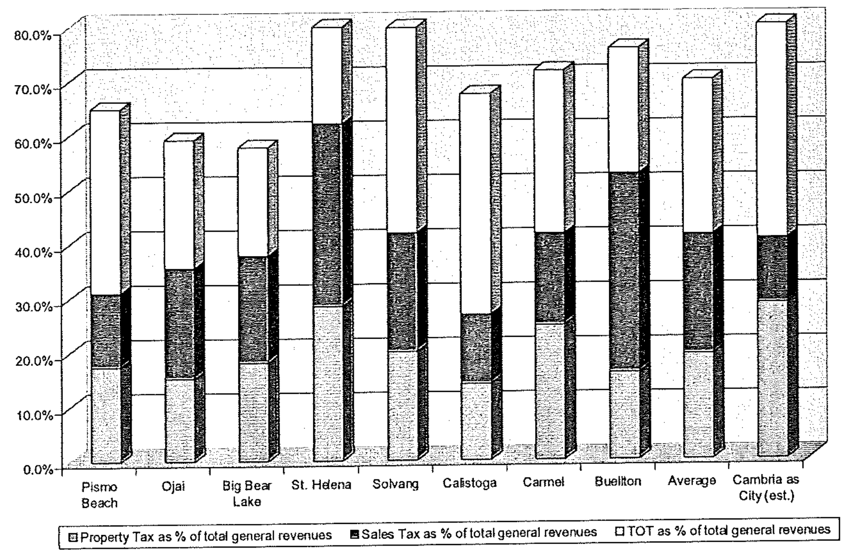
Revenues as Percent of General Fund Total

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

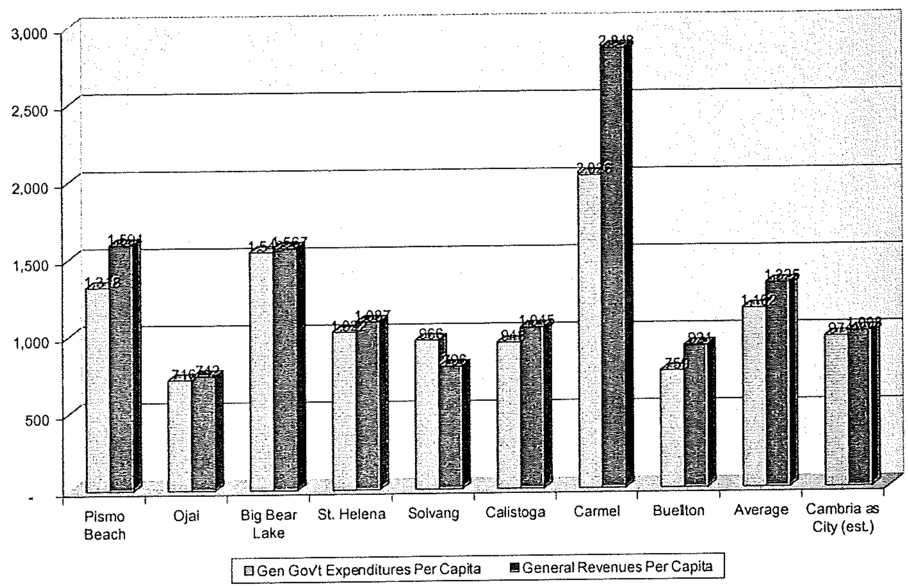
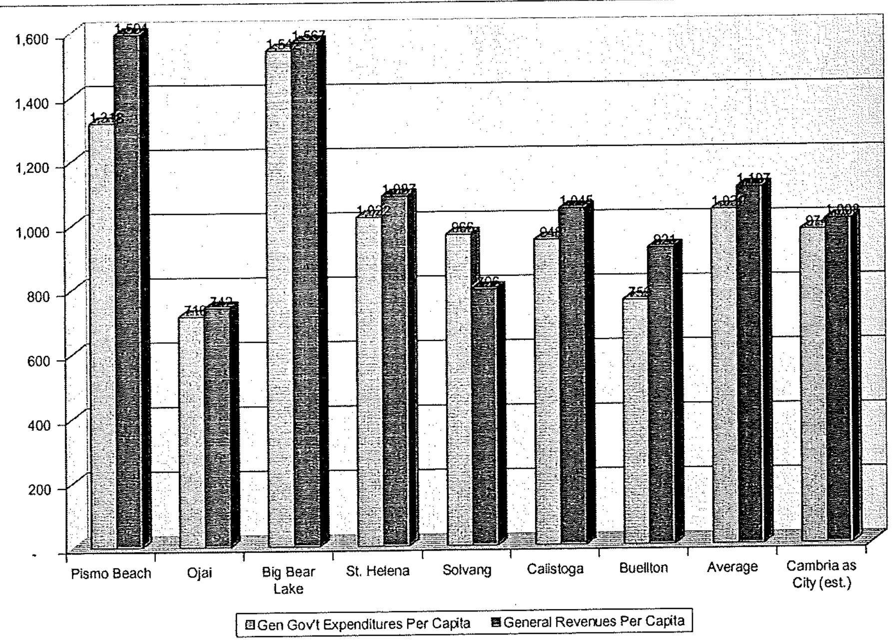


FIGURE 10: PER CAPITA REVENUES AND EXPENDITURES EXCLUDING CARMEL



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.