

Report on Revenue Enhancement for the Cambria CSD

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

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

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

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

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

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

Each will be reviewed below in detail.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Incorporation: The District could pursue incorporation as a town or city. This would allow for revenues from Transit Occupation Taxes (TOT) and sales taxes. The process is complex and will need the assistance of LAFCO to pursue. LAFCO's preliminary discussion on incorporation asks that that a questionnaire be completed (see attached for possible reply). There are some issues that will help District and county will need to agree to

revenue sharing for several years. All revenues will not immediately be received by the new city/town. The County will continue to provide services within the new city/town.

Services Which A New City May Assume

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

Services that the County Must Continue to Provide

- Special services (welfare, child protective services, etc.)
 - Health services (medical care, mental health, public health)
 - Criminal justice (courts, prosecution, jails, probation, etc.)
 - Regional parks (in some cases)
 - Elections and voters services
 - General government (assessor, treasurer, recorder, tax collector, etc.)
 - Planning and environmental services
- Sales tax revenues will be revenue of the new city pending the agreement above. Currently the county receives 1% of the 7.25% collected in Cambria. The District may raise the sales tax and all the tax above 7.25% will revenue to the new city/town.
 - Like sales tax, the TOT will also bring revenue to the new city/town pending the agreement with the county as stated above. The city will be able to raise the TOT and accrue all the new tax. In Cambria, lodging businesses are required to collect 9% TOT from their guests. Additionally, lodging operators are also required to collect 1.5% for the Tourism Marketing District (TMD) assessment, which goes to promote tourism in the County as a whole, along with a 2% Tourism Business Improvement District (TBID) assessment. Half of the TBID is allocated to the local Cambria Tourism Board to promote tourism in Cambria. The remainder is used by the County Tourism Board to promote tourism in the Improvement District, which includes the North Coast area. The new city would collect all of the TOT tax and would share with the County based on the revenue neutrality negotiations, but no more than 10.5% of the 12.5% currently collected. The 2% left over would be for the new city to use as it sees fit. Some would be used for tourism by a new board appointed by the new city.
 - For reference here is a table of other SLO county cities tax rates.

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

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

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

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

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

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

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

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

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

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

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

Benefit Assessment

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

Incorporation

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

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