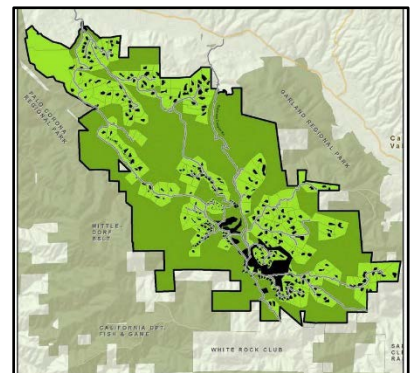
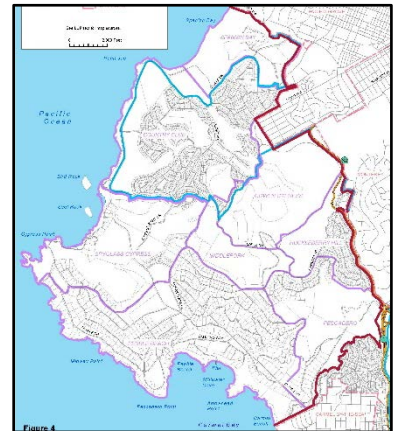
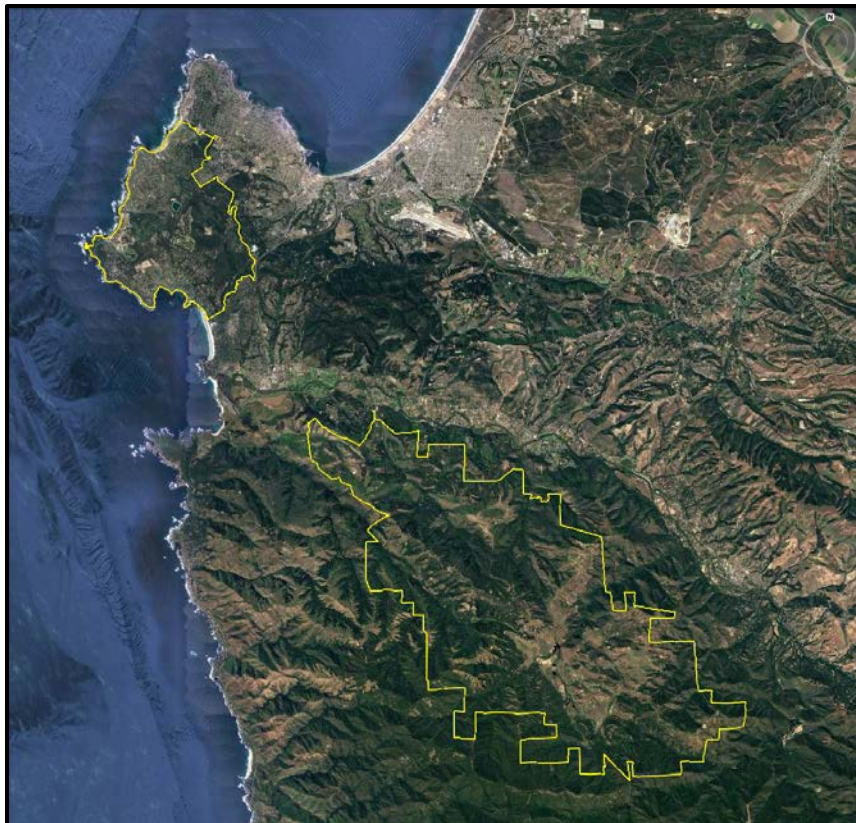


Municipal Service Review and Sphere of Influence Study

Greater Monterey Peninsula-Area Community Services Districts

- Pebble Beach CSD
- Santa Lucia CSD



Adopted by the Commission on
January 23, 2017

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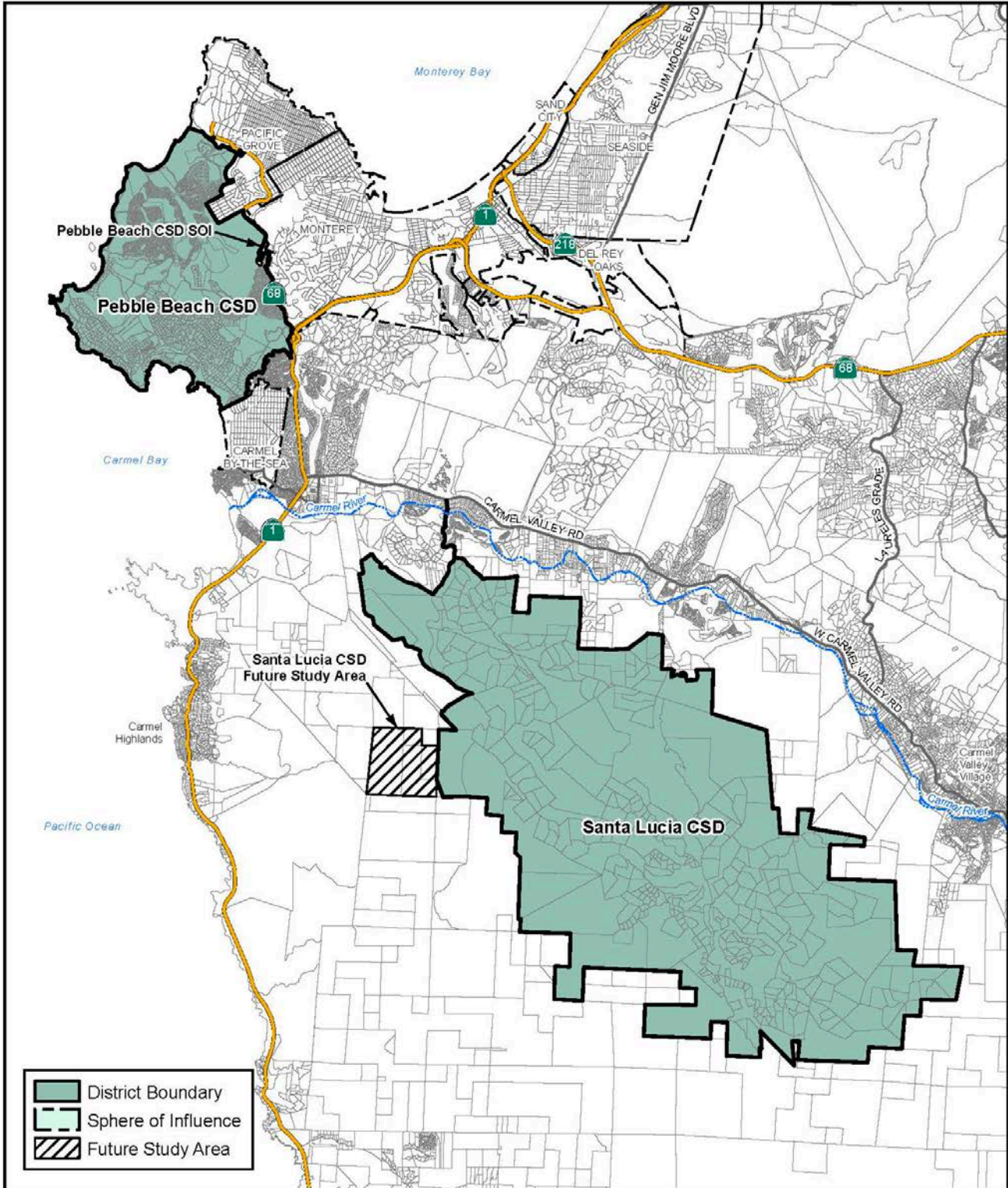
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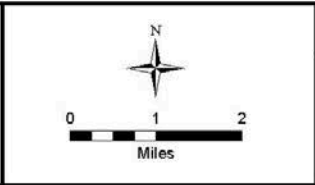




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SPECIAL DISTRICTS

**PEBBLE BEACH AND SANTA LUCIA
 COMMUNITY SERVICES DISTRICTS**

Map Prepared: 10/19/2016

EXECUTIVE SUMMARY

INTRODUCTION

This report provides information about the services and boundaries of two independent special districts:

- **Pebble Beach Community Services District, and**
- **Santa Lucia Community Services District.**

Under State law, community services districts are authorized to provide a wide range of municipal services within their boundaries. CSD powers are not as broad as a city government, but CSDs often provide many of the same essential public services (e.g. fire protection, water and sewer service, street maintenance) that cities provide to their residents. In most cases, CSDs function as the de facto “city” government service provider for the unincorporated communities they serve.

LAFCO’s review of the Pebble Beach and Santa Lucia CSDs is being carried out pursuant to LAFCO’s adopted 2016-17 work program and the previously adopted multiyear, cyclical approach to reviewing all cities and special districts countywide. This review also carries out a mandate in State law (the Cortese-Knox-Hertzberg Act) for LAFCOs to periodically review local agencies’ services and Spheres of Influence.

The Pebble Beach and Santa Lucia CSDs share a close proximity in the Greater Monterey Peninsula Area. They serve unincorporated communities in the coastal Pebble Beach/Del Monte Forest (eight square miles) and in the Santa Lucia coastal mountain range (31 square miles). Three other active community service districts – Castroville, Pajaro/Sunny Mesa, and Spreckels - were studied by LAFCO in 2014 and 2015. Two inactive CSDs - East Garrison (unincorporated Fort Ord) and Ocean View Plaza (within the City of Monterey) - currently provide no services.

As discussed in the Key Findings and District Profile sections, this study finds that the Pebble Beach and Santa Lucia CSDs are high-functioning districts that successfully provide essential public services to their residents. The study also recommends that the two districts’ existing Sphere of Influence designations be affirmed.

REPORT OVERVIEW AND ORGANIZATION

This **Executive Summary** presents a brief overview of the current study, the study’s key findings, and recommended actions.

The **District Profiles** chapter contains individual profiles for each of the two districts, highlighting the specific characteristics, opportunities, and challenges of each local agency. The profiles conclude with statutory determinations required for all Municipal Service Reviews and Sphere of Influence studies pursuant to the Cortese-Knox-Hertzberg Act.

These chapters are followed by a brief Appendix with sources/acknowledgements and the complete wording of the applicable State -required Service review and Sphere of Interest determinations.

KEY FINDINGS

Following are the key findings of the Municipal Service Review and Sphere of Influence Study:

1. **Each of the districts is successfully and reliably carrying out its mission.**

Each of the districts has a strong track record of successfully providing essential public services to its residents. The two districts are governed by elected boards of directors and are professionally managed

and staffed. Each district functions as a direct, responsive, and accountable form of local government for the community it serves.

2. The two districts proactively plan for their long-term capital improvements needs and funding levels.

Each district has adopted and annually adjusts a planning document that identifies likely future infrastructure reinvestment needs, along with associated funding levels, in order to provide continuity of high-quality public services. The two districts are funded differently (Pebble Beach CSD revenues largely derive from property tax allocations, while Santa Lucia receives no property taxes and relies mostly on District parcel taxes and special assessments). However, with a strong revenue base and professional management, each of the districts is well positioned to build reserve funds for future needs.

3. The recent multiyear drought and other long-term trends affect each of the districts.

Drought conditions have impacted the districts in various ways. For example, reduced aquifer recharge complicates the Santa Lucia CSD's well water production, while increased conservation results in lesser wastewater flows and consequently lower levels of recycled water production for the Pebble Beach CSD. Increased wildland fire hazard is an issue that affects both agencies, and the Santa Lucia CSD is also addressing environmental damage from firefighting actions in 2016. Some of the other issues that the districts contend with include year-to-year fluctuations in property tax revenues (Pebble Beach CSD) and escalating costs related to employee benefits; this "macro" issue may have more of an impact on the Santa Lucia CSD, which serves a geographically much larger area and has more employees.

4. Existing Spheres of Influence and district boundaries generally remain appropriate. Removal of an existing Future Study Area designation is recommended for the Santa Lucia CSD.

The districts are currently providing services to areas where district services are wanted and needed. No new/additional areas appear to warrant inclusion in either district's Sphere of Influence or boundaries. A previously designated Future Study Area adjacent to the Santa Lucia CSD is no longer being considered for future annexation into the District. This designation is therefore recommended for removal.

RECOMMENDED ACTIONS

Based on the information in this report, the Executive Officer recommends that the Commission:

1. Find that the action is exempt from provisions of the California Environmental Quality Act (CEQA) as information collection under Section 15306 of the State CEQA Guidelines and based on the determination that this action does not have the potential for causing a significant effect on the environment (Section 15061(b)(3)); and
2. Adopt the 2017 Municipal Service Review and Sphere of Influence Study for the Pebble Beach Community Services Districts and the Santa Lucia Community Services District; and
3. Based on the Study's recommended determinations,
 - a. Affirm the current Sphere of Influence designations for the two districts, and
 - b. Remove the Santa Lucia CSD's existing Future Study Area designation on approximately 400 acres adjacent to the District's sphere.

Pebble Beach Community Services District

3101 Forest Lake Road
 Pebble Beach, California 93953
 (831) 647-5604

Pebble Beach Community Services District – At A Glance	
Formation	July 1, 1982
Legal Authority	Community Services District Law, California Government Code, section 61000 et seq.
Board of Directors	Five members, elected to four year terms
District Area	Approximately eight square miles
Sphere of Influence	Approx. 10 acres beyond existing District boundary
Population (Estimate from 2010 U.S. Census)	Approximately 4,700
Revenues (2016-17 budget)	\$15.1 million
Approximate Annual Revenue Per Capita	\$3,200
General Manager	Mike Niccum
Employees	13 full-time (non-fire)
Website	www.pbcسد.org
Public Meetings	Last Fri. of each month (Jan. - Oct.), and the second Fri. in Dec., at 9:30 AM, District boardroom: 3101 Forest Lake Road, Pebble Beach.

District Overview

The District was established in 1982 as the successor agency to County Service Area #42 (fire protection) and the Pebble Beach Sanitary District (wastewater treatment and discharge). The District is about eight square miles in area and generally corresponds with the Pebble Beach / Del Monte Forest unincorporated gated community. As is common for a Community Services District, the PBCSD is the primary community-level local government agency for Pebble Beach residents.

The core services the District provides continue to be related to fire protection and wastewater. The District's full range of services includes:

- Fire protection and emergency medical services: The State of California (CAL FIRE) provides fire protection and EMS, by contract, on the District's behalf. CAL FIRE provides firefighting/medical personnel and administration, and the District provides facilities, equipment, and supplies. There are two fire stations in Pebble Beach. The District fully owns the main station, on a site shared

with the District administrative offices, and is a 25% owner of the Carmel Hill station near the Highway One gate. The other owners of the Carmel Hill fire station are the Cypress Fire Protection District and CAL FIRE (25% and 50% equity, respectively). The District also shares capital costs and operational expenses with Cypress.

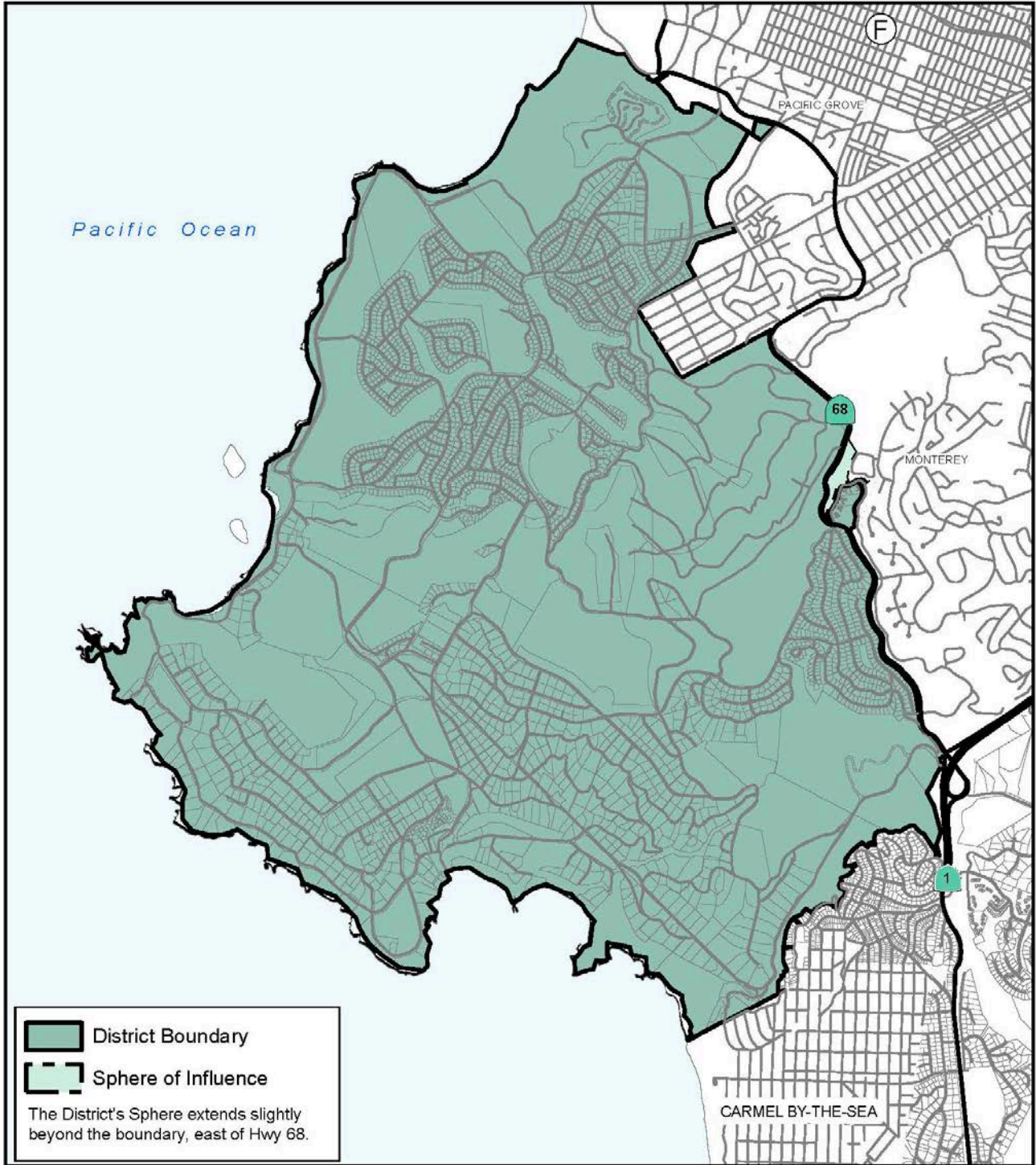
- Wastewater collection and treatment, the latter via contract with the Carmel Area Wastewater District: The district works closely with CAWD, whose wastewater treatment plant near the Carmel River receives and treats the wastewater pumped from by the District's collection system. Pebble Beach CSD provides one third of the capital costs for major enhancements to the CAWD treatment plant, and by contract is entitled to one third of the plant's treatment capacity. The wastewater is treated to very high (tertiary) standards and pumped back to the CSD, which is then sold for landscape irrigation uses within Pebble Beach, thereby increasing the amount of potable water available for domestic and commercial uses. The District is not currently using its full allocation of treatment plant capacity.
- Supplemental law enforcement: By contract with the California Highway Patrol, the District provides for higher levels of traffic enforcement than would typically occur in an unincorporated area.
- Water supply: The District provides recycled water only for landscaped areas at golf courses and the Stevenson private school. Potable water is provided by Cal Am with no District involvement. The District's reconstruction of the Forest Lake reservoir in Pebble Beach in 2006 significantly expanded storage capacity for its recycled water program.
- Sanitation (solid waste and recycling collection and disposal service): Services are provided by franchise with privately owned GreenWaste Recovery. The collected materials are delivered to the Monterey Regional Waste Management District's facility outside Marina. The District has a representative on the MRWMD Board of Directors. The CSD's participation in the GreenWaste franchise helps fund the comprehensive regional facility and innovative programs and incentives operated by the MRWMD. The District also periodically holds household hazardous waste collection events.
- Stormwater Disposal: This is an authorized power of the CSD, but is not currently being exercised because the privately owned Pebble Beach Company has traditionally provided this service.
- Undergrounding of utilities: The District is carrying out a significant multiyear program of undergrounding overhead electrical and telecommunications lines throughout Pebble Beach on a pay as you go basis. The District allocates approximately a million dollars per year to this project.



Ladder truck at the District's main fire station



Recycled water storage tank under construction



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COMMUNITY SERVICES DISTRICTS

PEBBLE BEACH COMMUNITY SERVICES DISTRICT

Map Produced: 4/12/2012

A five-member elected board of directors governs the District, guided by an adopted set of bylaws (PBCSD admin code). The board holds open, noticed public meetings in compliance with the Brown Act. The District has 13 full-time staff members. Staff maintains a comprehensive web site, making available a wide variety of current and past meeting agendas and staff reports, records, and status reports relating to the District's various programs. Other ongoing public outreach conducted by the District includes a semiannual newsletter, an annual budget notice, an annual open house event in the summer, and a social media presence to help distribute useful information to residents. The District also makes information available via radio (AM 1620).

The District is proactive in anticipating future infrastructure needs, and associated funding requirements, in order to ensure continuity of high-quality public services. It maintains and annually updates a Long-Term Financial Plan and a Capital Outlay Program with a 15-year outlook for all aspects of District operations and services.

District staff makes use of modern technical tools for efficient system operations, such as digital mapping of physical District assets (Geographic Information Systems / GIS) and remote monitoring and control of the wastewater and recycled water system (Supervisory Control and Data Acquisition Systems / SCADA). The District has garnered numerous awards for its programs and projects. Most recently, in 2016, it received an Award of Merit from the American Public Works Association for the undergrounding project.

The Pebble Beach (Del Monte Forest) community that the District serves is largely built out. There are approximately 150 vacant legal lots of record in Pebble Beach. In 2012, The County of Monterey Board of Supervisors approved the Pebble Beach Company's "final build-out" proposal, which includes approximately 200 new hotel rooms distributed among several Pebble Beach sites.

Finance

Summary of Revenues, Expenses, and End-of-Year Net Position Fiscal Year 2013-2014 to Current (rounded to nearest thousand, in keeping with the District's audit reports' format)				
Fiscal Year	2013-14 (audited)	2014-15 (audited)	2015-16: (audited)	2016-17 (budgeted)
Total revenues	\$ 13,352,000	\$ 14,011,000	\$ 15,043,000	\$ 15,085,000
Total expenses incl. asset depreciation	\$ 13,771,000	\$ 12,293,000	\$ 15,470,000	\$ 14,632,000
Change in net position	\$ (419,000)	\$ 1,717,000	\$ (427,000)	\$ 453,000
Net position, end of year	\$ 53,572,000	55,291,000	\$ 54,813,000	\$ 55,266,000

Note: Net position represents the value of all District assets, including capital assets (District facilities, equipment, etc.), net of all associated liabilities and depreciation..

Property taxes and user fees (service charges) provide roughly 83% and 11% of the District's annual revenues, respectively. The District adopts an annual budget. District finances are professionally audited annually. As of the most recently completed audit (Fiscal Year 2015-16), the District's net position was \$54.8 million. Approximately \$38 million of this amount reflects the value of the District's capital assets (land, buildings, infrastructure systems, and major equipment), net of depreciation. The District's unrestricted current assets (cash and cash equivalents in reserves and other funds) total approximately \$17 million, indicating that the District is very well capitalized and able to fund its present and future needs.

As noted above, the District has prepared a long-term financial plan and an associated 15-year capital outlay program, each of which is reviewed and adjusted accordingly on an annual basis to reflect the

current outlook for future infrastructure needs and the associated anticipated costs. The District sets aside funds in separate dedicated reserve accounts for operations and maintenance, rate stabilization, capital outlays, and special projects.

As part of the current adopted financial plan, the District is temporarily drawing its capital outlay reserves below typical long-term levels due to high costs of specific current projects (CAWD treatment plant improvements and the District's own utility undergrounding projects). Doing so is consistent with the District's overall strategy of continually building and monitoring available reserve fund balances, and adjusting future expenditures accordingly.

The District uses a "pay-as-you-go" approach of anticipating the timing of future needs and setting aside funds for several years, as needed, in order for the targeted funding level to be available when needed. Accordingly, the District has no long-term debt.

Challenges and Opportunities

In recent years, lower wastewater flow volumes because of increased domestic water conservation have resulted in less recycled water becoming available for sale for landscape irrigation.

Multiyear drought conditions are also severely stressing forested areas and increasing fire hazard levels statewide. However, the District's fire protection operations (via contract with CAL FIRE) currently receive a "2" rating from the Insurance Service Office (ISO), placing the District in the top 2% of fire departments reviewed nationwide. LAFCO's 2007 review of the District noted that "the District and others desire that more comprehensive vegetation management measures be implemented to keep the forested areas healthy and fire safe." As of this writing, CAL FIRE crews are currently carrying out substantial fuel reduction work to remove dead and diseased trees and thin out many years of accumulated undergrowth in areas of the Del Monte Forest.

Approximately 83% of the District's annual revenues are provided by the District's allocation of the 1% ad valorem statewide property tax. The District's long-term financial plan observes that, within the last 25 years there has been one permanent statewide reduction in property tax allocations to local agencies (in 1993), a temporary reduction (2004 to 2006), an additional unsuccessful effort that would have reduced wastewater-related property tax allocations to special districts, and substantial reductions in property valuations after the end of the housing market bubble around 2010. Although the District carefully plans and continually adjust its financial outlook and expenditures, the property tax revenues retains a degree of uncertainty as a consistent or reliable revenue stream.

Sphere of Influence

The District was organized to serve the needs of the residents of the Pebble Beach/Del Monte Forest area. With the exception of the Shepherd's Knoll condominium development (which is accessed via the Pebble Beach gates and road network but is actually within the City of Monterey), the District's boundary is coterminous with the area commonly referred to as "Pebble Beach." Shepherd's Knoll receives sewer services from Monterey, the District has not constructed sewer facilities to serve the site, and the site receives fire protection via existing mutual aid agreements. Therefore, there is no compelling reason for the Shepherd's Knoll site to be annexed to PBCSD.

A small, approximately 10-acre, undeveloped and steeply sloped area between Holman Highway and the Ocean Pines condominium development is in the District's Sphere of Influence outside its current boundary. This designation dates from the 1980s. The District has expressed interest in retaining this designation because the District's fire protection responsibilities in the area include this site. LAFCO staff therefore recommends that the District's current Sphere designation be affirmed with no changes. Annexation of this site into the District should be considered in the future at such time that LAFCO is reviewing a boundary change proposal related to the District.

Determinations

Service Review Determinations, per Government Code Section 56430

1. Population and growth

Determination: The Pebble Beach Community Services District's boundary encompasses all of the Del Monte Forest area of unincorporated Monterey County, plus a commercial site (Mission Linen) in Pacific Grove. The District's population is approximately 4,700 and generally stable. Although some incremental growth capacity remains in the County's Del Monte Forest Land Use Plan, the area is largely built out.

2. Disadvantaged unincorporated communities

Determination: No DUCs exist in the District's boundaries or Sphere.

3. Capacity of facilities; adequacy of public services and infrastructure needs

Determination: The District has a strong record of successfully providing essential services to its residents, with no unmet needs identified. Major projects currently underway include a multiyear utility undergrounding program and expansion of recycled water capacity.

4. Financial ability

Determination: The District operates with revenues exceeding expenditures and is very well capitalized. As of its most recent audit (through June 30, 2016), it had unrestricted current assets of approximately \$17 million and a total net position of approximately \$55 million.

5. Shared facilities

Determination: The District works closely with the State of California (CAL FIRE) and the Carmel Area Wastewater District to achieve mutually beneficial provision of public services.

6. Accountability for community service needs

Determination: A five-member Board of Directors, elected at-large by District voters, governs the District.

7. Matters required by local LAFCO policies

Determination: No additional locally adopted LAFCO policies are specifically relevant to this Study.

Sphere of Influence Determinations, per Government Code Section 56425

1. The present and planned land uses in the area, including agricultural and open-space lands.

Determination: The District's boundaries include mostly residential and recreational land uses, as well as significant open spaces. There is no agricultural land within District boundaries. No planned development projects or other changes would significantly affect the context of this review.

2. The present and probable need for public facilities and services in the area

Determination: District residents and visitors to Pebble Beach rely on the District's essential public services, particularly fire protection and wastewater. In-District population is relatively stable, with modest incremental residential and resort tourism growth likely to occur in the future. The District has surplus wastewater treatment capacity available at the Carmel Area Wastewater District's treatment plant. No significant needs for new facilities or services are anticipated.

3. The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide

Determination: The District has consistently demonstrated capacity to serve its residents. District staff maintains and annually updates a detailed 15-year capital outlay program to proactively plan for, and fund, needed future infrastructure investments.

4. The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency

Determination: There are no District-relevant social or economic communities of interest in the area served.

5. For an update of a sphere of influence of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection, that occurs . . . on or after July 1, 2012, the present and probable need for those public facilities and services of any disadvantaged communities within the existing sphere of influence

Determination: No DUCs exist in the District's boundaries or Sphere.



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Santa Lucia Community Services District

1 Rancho San Carlos Road
 Carmel, California 93923
 (831) 620-6791

Santa Lucia Community Services District – At A Glance	
Formation	July 13, 1998
Legal Authority	Community Services District Law, California Government Code, section 61000 et seq.
Board of Directors	Five members, elected at-large to four year terms
District Area	Approximately 31 square miles
Sphere of Influence	Same as District (i.e. no Sphere beyond existing District boundaries)
Population (est.)	400
Revenue (2016-17 budget)	\$5.8 million
Approximate Annual Revenue Per Capita	\$15,000
General Manager	Forrest Arthur
Employees	31
Website	No public site
Public Meetings	Quarterly, held at the District’s corporation yard offices

District Overview

The Santa Lucia Community Services District provides public services to the entire Santa Lucia Preserve, a private gated community on approximately 20,000 acres on the south side of the Mid-Carmel Valley area. The Preserve includes approximately 320 estate residential single-family lots (120 of which are currently developed), a golf course, equestrian center, various recreational amenities, and large open space areas of oak savannah, chaparral, and rangeland. At around 31 square miles in area, the Preserve is comparable in size to the Monterey Peninsula and its immediate surroundings.

The District provides a broad range of services to residents of the Preserve. The District’s five-year planning document identifies fire, water, and emergency response services as key District priorities. Services that the District provides, or is authorized to provide, include the following.

- Domestic/potable water service: Approximately 75 on-site wells and a storage and distribution system are the core of the water supply available for the homes, golf course, and for fire flow and other uses throughout the Preserve.

- Wastewater collection and treatment: A small treatment plant on-site provides wastewater treatment for the majority of the “high-intensity uses,” including most residences, the golf clubhouse, and the equestrian center. A portion of the irrigation water is supplied by reclaiming the domestic wastewater from the treatment plant.
- Septic tank system services: Some homes in the development are located on sites that are too remote to connect to the District’s sewer system. These homes are served by their own conventional septic tank systems for sewage disposal. The District provides septic tank pumping services and other periodic maintenance services for these individual systems.
- Fire protection and emergency medical services: In 2000, fire service responsibility was turned over to the Carmel Valley Fire Protection District, which has since consolidated into the much larger Monterey County Regional Fire District. Working under a memorandum of understanding with the District, MCRFD has two volunteer engineer/firefighters who reside on the Preserve, enabling faster response times to the Preserve and to nearby outlying areas. Two fire trucks are stored on-site. Paramedics are currently on-site on weekdays and during special events.
- Sanitation (solid waste and recycling collection and disposal service): Services are provided by franchise with privately owned GreenWaste Recovery. The collected materials are delivered to the Monterey Regional Waste Management District’s facility outside Marina. The CSD’s participation in the GreenWaste franchise helps fund the comprehensive regional facility and innovative programs and incentives operated by the MRWMD.
- Broadband communications, a CSD “latent” power approved for activation by LAFCO in December 2014: District staff and a telecommunications committee of the District’s board are moving forward with implementing broadband (wireless and fiber optic) infrastructure that will improve future connectivity, including emergency communications and remote operation of District water and sewer infrastructure.
- Additional District-provided services: Road maintenance; Storm drain maintenance; Security and gate operations; Recreation facilities; Landscaping on public property and rights of way; Transportation services; Weed, insect, and other pest abatement.



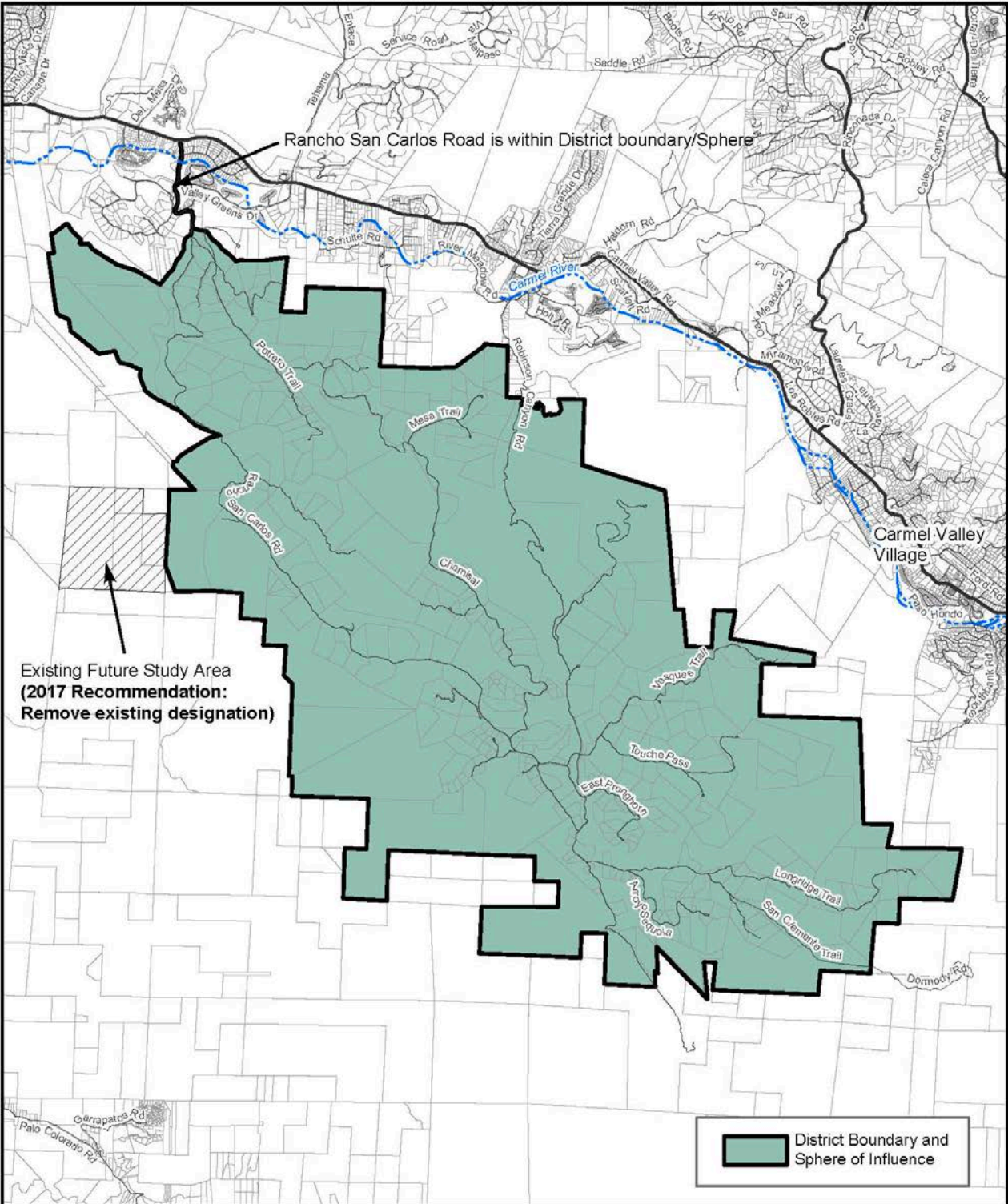
Flushing a well



Water storage tank – Peñon Peak Trail



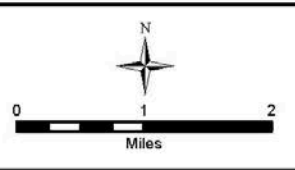
New storage reservoir – Robinson Cyn & Rancho San Carlos Rd



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SPECIAL DISTRICTS

SANTA LUCIA
COMMUNITY SERVICES DISTRICT

Last LAFCO-Approved Change: 10/22/2002
Coterminus Sphere of Influence Adopted 10/28/2002
Map Prepared: 9/16/2016

A five-member elected board of directors governs the District, who must be registered voters within the District. The board of directors is supplemented by several appointed advisors who are not required to be within-District registered voters and do not participate in final board decisions. The board holds open, noticed public meetings in compliance with the Brown Act. The District has 31 full-time staff.

Staff members work for the District via a contract with the privately held Santa Lucia Preserve Company. This relationship allows the District to efficiently accommodate the ebb and flow of its operational needs. The Preserve Company also provides personnel and staffing for other entities within the District boundaries, such as the homeowners association and the Preserve Golf Club, allowing for the efficient sharing of resources and expertise. District staff also shares office space and building space common areas with the golf club. Additional contracted services are obtained by the District, when necessary, for legal services and special studies.

The District takes an active role in anticipating its future infrastructure needs and associated funding requirements, in order to ensure the long-term provision of essential public services to District residents. It maintains and annually updates a Projected Five-Year Plan that outlines long-term past income and expense trends, capital spending, reserve balances, and planned capital spending.

District staff employs modern technical tools for efficient system operations, such as digital mapping of physical District assets (Geographic Information Systems / GIS) and remote monitoring and control of the wastewater and recycled water system (Supervisory Control and Data Acquisition Systems / SCADA). Implementation of the District's ongoing broadband communications project, referenced above, will improve the efficiency of the District operations and enhance emergency communications on the vast Preserve property.

Finance

Summary of Revenues, Expenses, and End-of-Year Net Position Fiscal Year 2013-2014 to Current				
Fiscal Year	2013-14 (audited)	2014-15 (audited)	2015-16: (audited)	2016-17 (budgeted)
Total operating revenues	\$ 5,421,338	\$ 5,515,695	\$ 5,613,000	\$ 5,813,000
Total operating expenses before depreciation	\$ 4,601,072	\$ 4,424,323	\$ 4,711,000	\$ 4,799,000
Depreciation	\$ 1,699,992	\$ 1,704,372	\$ 1,750,569	\$ 1,825,000
Operating income (loss)	\$ (879,726)	\$ (613,000)	\$ (1,061,849)	\$ (1,102,704)
Total non-operating revenues (expenses)	\$ (15,496)	\$ (40,953)	\$ (13,343)	\$ (36,444)
Change in net position	\$ (895,222)	\$ (653,953)	\$ (1,075,192)	\$ (1,139,148)
Net position, end of year	\$ 43,434,213	\$ 42,780,260	\$ 41,705,068	\$ 40,565,920

Note: Net position represents the value of all District assets, including capital assets (District facilities, equipment, etc.), net of all associated liabilities and depreciation..

Close to 90% of the District's annual revenues originate from parcel fees and special assessments. The remainder is generated by work performed by entities other than District customers, and from water usage fees or other similar service charges. As an agency formed after the advent of Proposition 13 and with no predecessor agencies, the District receives no property tax allocation. However, the District's operating revenue stream is aided by an automatic annual adjustment indexed to inflation.

The District adopts an annual budget. District finances are professionally audited annually. As of the most recently completed audit (Fiscal Year 2014-15), the District's net position was \$42.8 million, a 1.5% decrease from FY 2013-14 because of higher-than-usual capital outlay as well as the effect of annual depreciation of the District's capital assets (land, buildings, infrastructure systems, and major equipment). The District consistently achieves net-positive operating income, but it is offset by annual depreciation costs. The latter is not an actual out-of-pocket expenditure but nevertheless has a direct effect on an agency's financial valuation.

Approximately \$39 million, more than 90% of this amount reflects the value of the District's capital assets, net of depreciation. The District's unrestricted current assets (cash and cash equivalents in reserves and other funds) total approximately \$3.7 million. While this is a relatively small portion of overall assets, the District remains well capitalized with adequate reserves to fund its present and future needs.

The majority of the District's operating expenses are employee-related (salaries and benefits – 55% of overall operating expenses). In its current five-year plan, the District specifically articulates the high value it places on selecting, training, motivating, and retaining highly qualified staff, and expresses pride in District employees' skill and diligence.

The District's investment in capital projects has averaged about \$1.1 million per year in the last eight years. In the current five-year plan, the District has identified a goal of adding approximately \$1 million annually to existing reserve fund balances. In recent years, allocations to reserves have fluctuated at or slightly under that level. The District has a relatively small amount of long-term debt (\$1.7 million as of the FY 2014-15 audit), reflecting corporation yard improvements in 2013. Interest payments (\$63,000 in FY 2014-15) are a very minor portion of the District's overall expenses.

Challenges and Opportunities

Like many others, the District faces challenges related to water supply. In a section titled "The Increased and Increasing Cost of Water," the current five-year plan discusses the need for ongoing and increasing capital outlay, in new and more difficult locations, in order to maintain well production. District staff anticipates that water will be the largest component of the District's capital spending. Periodic new water-quality regulatory requirements at the State level can also be costly and complex to implement. It is worth noting that the District's property-related fee structure includes an automatic 4% annual increase through FY 2020-21. This adjustment factor, which may be extended beyond 2021 if approved by District voters, helps enable the District to offset future increases in its expenses and build reserves for future infrastructure needs.

The five-year plan identifies a new eight-million-gallon landscape irrigation water storage pond (for recycled wastewater and storm runoff) as the most significant District project in FY 2015-16. While the pond does not directly increase the District's potable water supply, it supports the Preserve Golf Club's goal moving from potable to reclaimed water for landscape irrigation, "leaving more water in the ground" for other uses.

In addition to contributing to the need for ongoing well exploration, historic multiyear drought conditions were integral to the extraordinary 2016 Soberanes Fire. Bulldozer lines and similar actions necessary to fight the fire resulted in considerable impacts to lands within the Preserve, though damage to District-owned facilities was minor. CAL FIRE has carried out environmental remediation, to the extent possible, in coordination with the District as needed.

The District's five-year plan mentions that the cost of employee benefits consistently outpacing inflation presents an ongoing financial challenge.

District staff has expressed an interest in working to implement opportunities for solar energy projects throughout the District. Other potential opportunity areas relate to water, including evaporation control measures for District storage ponds, and further water conservation education and outreach.

Sphere of Influence

The District's designated Sphere of Influence, which was adopted in 1998 and expanded in 2001 and 2002, matches the current District boundary. This "coterminous" designation indicates that annexations to the District are not foreseen in the near future. The District has expressed that no additional areas warrant consideration to be included in the Sphere at present. LAFCO staff concurs with this assessment.

The District's current boundary and Sphere map includes a Future Study Area designation on several parcels (approximately 400 acres total) adjacent to the District's western boundary. According to LAFCO of Monterey County's locally adopted policies, a Future Study Area indicates an area that may warrant inclusion in an agency's Sphere at a future date, depending on further evaluation. It is a somewhat informal and non-binding designation that exists outside the Cortese-Knox-Hertzberg Act. District staff has indicated that the District has no current interest in potentially annexing this land or continuing its designation as a Future Study Area. Accordingly, LAFCO staff recommends that the designation be removed.

Determinations

Service Review Determinations, per Government Code Section 56430

1. Population and growth

Determination: The Santa Lucia Community Services District's boundary encompasses all of the private gated community commonly known as The Preserve. The District's population is approximately 400. After the Santa Lucia Preserve's approximately 320 existing estate residential lots have been built out, no additional future development is anticipated to occur.

2. Disadvantaged unincorporated communities

Determination: No DUCs exist in the District's boundaries or Sphere.

3. Capacity of facilities; adequacy of public services and infrastructure needs

Determination: The District has an established record of consistently providing high-quality essential services to its residents, with no unmet needs identified.

4. Financial ability

Determination: The District operates with revenues exceeding expenditures and has substantial financial reserves. As of its most recent audit (through June 30, 2015), the District had unrestricted current assets of approximately \$3.7 million and a total net position of \$42.8 million.

5. Shared facilities

Determination: The Preserve is within the boundaries of Monterey County Regional Fire District, which provides equipment and training to two MCRFD volunteer engineer/firefighters who reside on-site.

6. Accountability for community service needs

Determination: A five-member Board of Directors, elected at-large by District voters, governs the District.

7. Matters required by local LAFCO policies

Determination: No additional locally adopted LAFCO policies are specifically relevant to this Study.

Sphere of Influence Determinations, per Government Code Section 56425

1. The present and planned land uses in the area, including agricultural and open-space lands.

Determination: The District's boundaries include mostly estate-residential and recreational land uses. About 90% of the Preserve consists of forested and grassland open space, much of which is held in

conservation easements by the Santa Lucia Conservancy. Cattle grazing occurs on some rangelands within the Preserve. No planned development projects or other changes would significantly affect the context of this review.

2. The present and probable need for public facilities and services in the area

Determination: District residents rely on the District’s essential public services, particularly domestic water supply and wastewater collection/treatment. In-District population is low and relatively stable, with minimal population growth likely to occur in the future only in relation to build-out of the existing legal lots of record. The District’s water supply and wastewater treatment needs are provided for on-site. No substantial needs for new facilities or services in the area are anticipated in order to complete build-out of the approved residential lots.

3. The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide

Determination: The District has consistently demonstrated capacity to serve its residents. District staff maintains and annually updates a five-year plan that includes an outline of planned capital spending in order to maintain high-quality services.

4. The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency

Determination: There are no District-relevant social or economic communities of interest in the area served.

5. For an update of a sphere of influence of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection, that occurs . . . on or after July 1, 2012, the present and probable need for those public facilities and services of any disadvantaged communities within the existing sphere of influence

Determination: No DUCs exist in the District’s boundaries or Sphere.



New corporation yard and storage reservoir



Drainage pipe installation - Vasques Rd

APPENDIX

Sources and Acknowledgements

Information that LAFCO received from district representatives (general managers) was of key importance in developing this study. The managers met with LAFCO staff and provided copies of audits, financial statements, budgets, policies and procedures, agendas, fee schedules. Without their cooperation and assistance, this report would not have been possible. LAFCO's earlier Municipal Service Reviews and Sphere of Influence Studies provided additional background information about the districts.

Complete Text of Applicable Cortese-Knox-Hertzberg Determinations

The District Profile sections of this Municipal Service Review and Sphere of Influence Study use abbreviated language in citing the determinations required by State law. Following is the complete wording of these determinations, as listed in Sections 56430 and 56425 of the Government Code (the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, as amended):

56430. (a) In order to prepare and to update spheres of influence in accordance with Section 56425, the commission shall conduct a service review of the municipal services provided in the county or other appropriate area designated by the commission. The commission shall include in the area designated for service review the county, the region, the subregion, or any other geographic area as is appropriate for an analysis of the service or services to be reviewed, and shall prepare a written statement of its determinations with respect to each of the following:

- (1) Growth and population projections for the affected area.
- (2) The location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence.
- (3) Present and planned capacity of public facilities, adequacy of public services, and infrastructure needs or deficiencies including needs or deficiencies related to sewers, municipal and industrial water, and structural fire protection in any disadvantaged, unincorporated communities within or contiguous to the sphere of influence.
- (4) Financial ability of agencies to provide services.
- (5) Status of, and opportunities for, shared facilities.
- (6) Accountability for community service needs, including governmental structure and operational efficiencies.
- (7) Any other matter related to effective or efficient service delivery, as required by commission policy.

56425. (e) In determining the sphere of influence of each local agency, the commission shall consider and prepare a written statement of its determinations with respect to each of the following:

- (1) The present and planned land uses in the area, including agricultural and open-space lands.

- (2) The present and probable need for public facilities and services in the area.
- (3) The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.
- (4) The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency.
- (5) For an update of a sphere of influence of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection, that occurs pursuant to subdivision (g) on or after July 1, 2012, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence.