

Santa Lucia Community Services District

Projected Five-Year Plan

Fiscal Years 2022 - 2026

The Santa Lucia Community Services District (the “*District*”) was formed in 1998 as a California special district to provide essential services within its sphere of influence, the 20,000 acres known as The Santa Lucia Preserve. The District’s sole mission is to provide the Santa Lucia Preserve Community with services related to water, wastewater treatment and collection, road and drainage maintenance, security, advanced communications and refuse collection. As a public agency, the District is governed by California State Law and in particular, Community Services District Law, Section 61600.

The District generates revenue through property related fees levied upon approximately 319 parcels on the Santa Lucia Preserve. The fee structure is recommended by the Board and approved by the voters in a continuous five-year cycle. The County is responsible for the collection of special assessments and fees for all taxing jurisdictions, including the District. Special assessments and fees are payable in equal installments, November 1 and February 1, and become delinquent on December 10 and April 10, respectively. Special assessments and fees are recognized in the fiscal year in which the assessments and fees have been levied.

The financial goals of the District are to ensure the responsible management of annual operating costs and the development of an appropriate reserve fund for the replacement and improvement of the District’s capital assets. Reserves are funded by an operating surplus at fiscal year-end, after depreciation and net of any capital reserves spent.

To date, the District has funded approximately \$11 million in capital improvements since turnover. At June 30, 2021, the unrestricted net position is anticipated to be approximately \$5 million. The objective in the five-year plan is to increase the unrestricted net position to approximately \$7.5 million on June 30, 2026. Details regarding the operating budget are provided on the Santa Lucia Preserve website in the Community Services District section and on the District’s public website www.santaluciaCSD.org

The District is governed by an elected Board of Directors consisting of five members. Each Board member must be a registered voter within the District. The Board is supplemented with a small number of advisors. Advisors are not required to be registered voters within the District and do not participate in final decisions of the Board.

Goals & Objectives of the District

Of the District’s objectives, the health and safety of the Preserve community is of paramount importance and of highest priority. Primary concerns in this regard are, but not limited to:

- Water Supply
- Fire protection
- Emergency Response and Communications

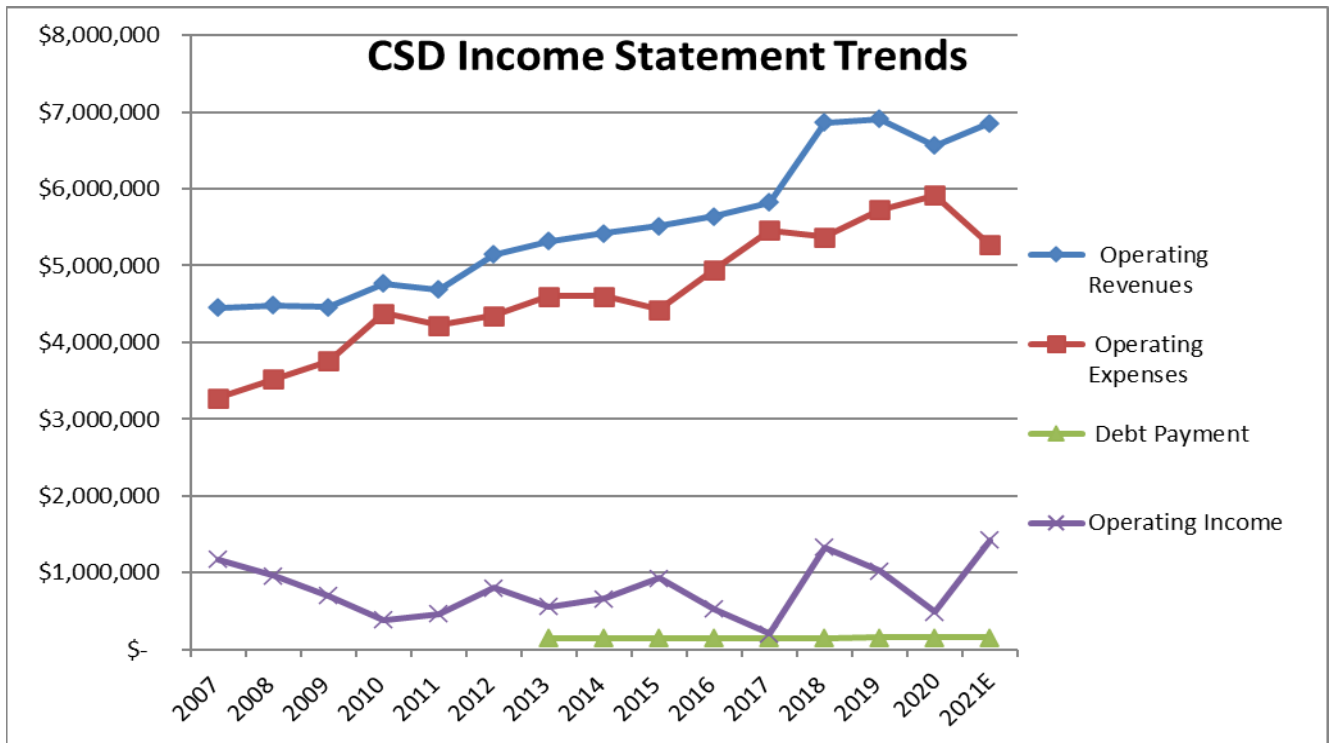
Each of the District’s prescribed services, in one way or another, has a connection and resulting effect on the proper management of the critical objectives listed above. The District’s goals are defined in simple terms:

- Provide required services at the highest level, while in the most cost effective and efficient manner
- Responsible management of annual operating costs, and the buildup and maintenance of appropriate reserves
- The selection, training, motivation, and retention of qualified men and women as service providers
- Form joint partnerships with outside agencies to ensure the highest standard of health and safety services
- Operations that are consistent with and supportive of the wider community goals of fire prevention, public safety, and resource conservation

The Goals and Objectives listed above drive the daily operations and management of the District. These standards are also carefully considered in the strategic planning for future years.

Income Statement

The following chart recaps our Income Statement over the last 15 fiscal years (the last three planning cycles), including the fiscal 2021 forecast. Our fiscal year ends on June 30 and, unless otherwise noted, we refer to fiscal years.



Note that CSD’s financial statements experienced timing distortion due to a fiber optic project. In September 2016, owners approved an assessment of \$1,524,008 to cover the cost of adding fiber. As expected, the fiber was installed in the communications conduit owned and managed by ATT. The plan was that the assessment would offset the cost of the project. The assessment was collected in Fiscal 2018 and Fiscal 2019. The initial costs related to the project were incurred in fiscal 2016. Its material costs were paid to ATT in fiscal 2017 and in fiscal 2019. Upon completion, a small excess over costs (~\$65,000) will be accounted for as a credit to all parcel owners in the next tax roll period 2021-22. The costs of the project were operating expenses at CSD.

We operate four departments (Water, Wastewater, Roads, and Security) and undertake significant capital projects on an ongoing basis.

We believe that our revenues should grow at the slowest rate that supports both careful expense management and adequate reserves. In the last two planning cycles (fiscal 2012-2016 and fiscal 2017-2021) our goal was to produce an annual average of \$1 million in operating income in order to support our reserves. We approached this goal in the planning cycle ending in fiscal 2016 and achieved this goal in the current planning cycle.

Approximately 90% of our recurring revenues are derived from property related fees. For the five-year planning cycle ending this fiscal year (fiscal 2021), we asked owners to approve a recurring property related fee increase of 4% to allow for expected cost increases. In 2016, we also asked owners to approve an \$1.5 million assessment for a fiber optic project. We are grateful that owners voted to approve our requests.

We will enter a new five-year planning cycle on July 1 for the fiscal years 2022 through fiscal 2026.

Approximately 10% of our recurring revenue consists of fees charged to perform work orders for other entities and usage charges, predominantly for water supply. Our residential meter charges have not increased since 2004.

CSD's work force of approximately 30 FTEs is spread across our 4 specialized departments. We are blessed by the experience and skill of our long serving department heads. In the years after turnover, we modestly decreased our headcount when we stopped doing work for the developer, and we have more recently increased it to meet evolving needs in our water department. However, father time is creeping in and succession planning/implementation is an anticipated factor in upcoming payroll expenses.

Employee-related expenses dominate our operating expenses. Approximately 52% of our operating expenses are CSD salaries and benefits. The District recently performed a market analysis and increased payroll to ensure staff compensation was comparable to the open market. The Preserve Company allocation, which is mostly employee-related expenses, has grown more rapidly than our other expenses over the last five years. As a percentage of operating expenses, this allocation was 12.4% in fiscal 2017; it is forecast to grow to approximately 14.3% in the current fiscal year, and to 14.7% by fiscal 2026.

Past Capital Spending

At June 30, 2020, we had capital assets with an original cost of \$65 million and a value of \$35 million net of accumulated depreciation. As is apparent, our assets are aging.

We have some major capital-like expenses that flow through our income statement and are not capitalized. One such expense is road maintenance (short of replacement) and another is the fiber optic installation.

During the fiscal 2012-2016 planning cycle, we had capital spending of \$6.1 million and capital-like spending of \$1 million, mostly for road maintenance (for a total of \$7.1 million). During the current planning cycle (fiscal 2017-2021), we had capital spending of \$2.6 million and capital-like spending of \$3 million, split almost equally between road maintenance and the fiber optic project (for a total of \$5.6 million).

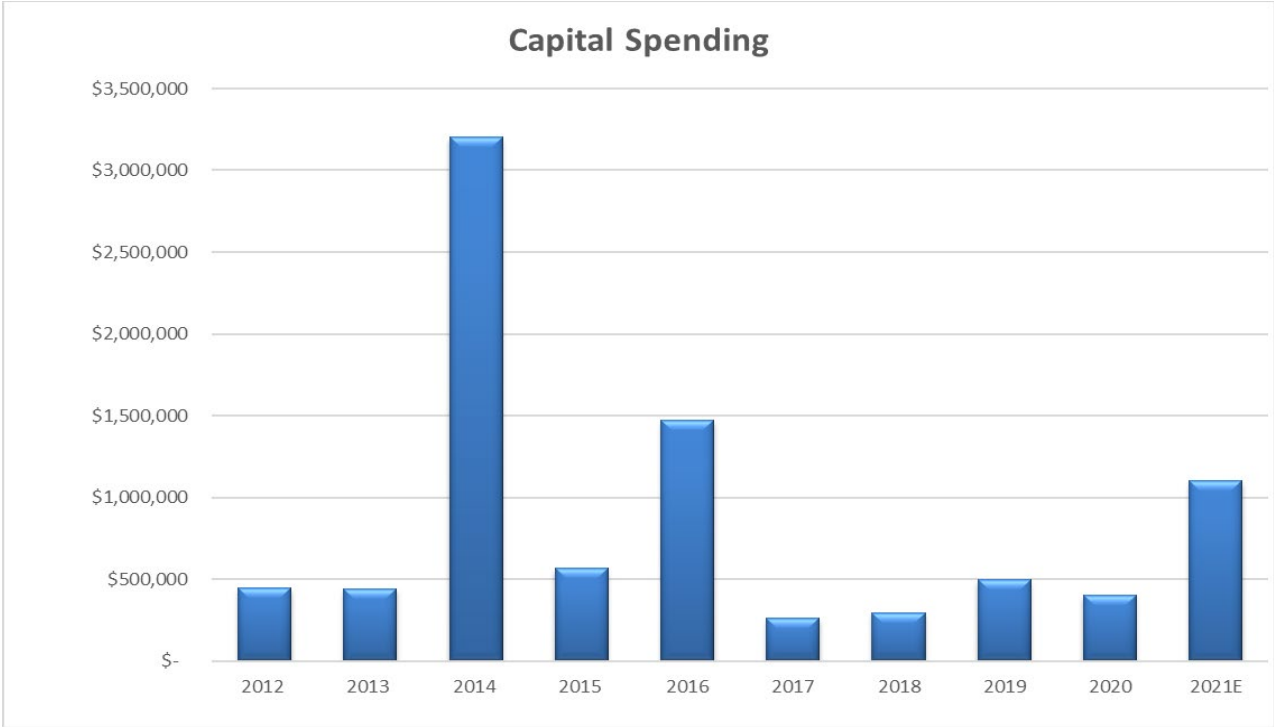
During both planning cycles we ran relatively close to our total capital spending plans. During them, we experienced a four-year drought and two major fires and assigned priority to water projects and increased our emphasis on fire safety.

Of particular note is the new storage pond designated as Pond B2 (added at a cost of approximately \$ 1 million). This additional pond supports the Golf Club’s plan to become independent of potable water. It is a comparatively cost-effective way of capturing another 8 million gallons and reducing demand on the aquifer groundwater. It complemented the Golf Club’s conversion of the fairways to Bermuda grass.

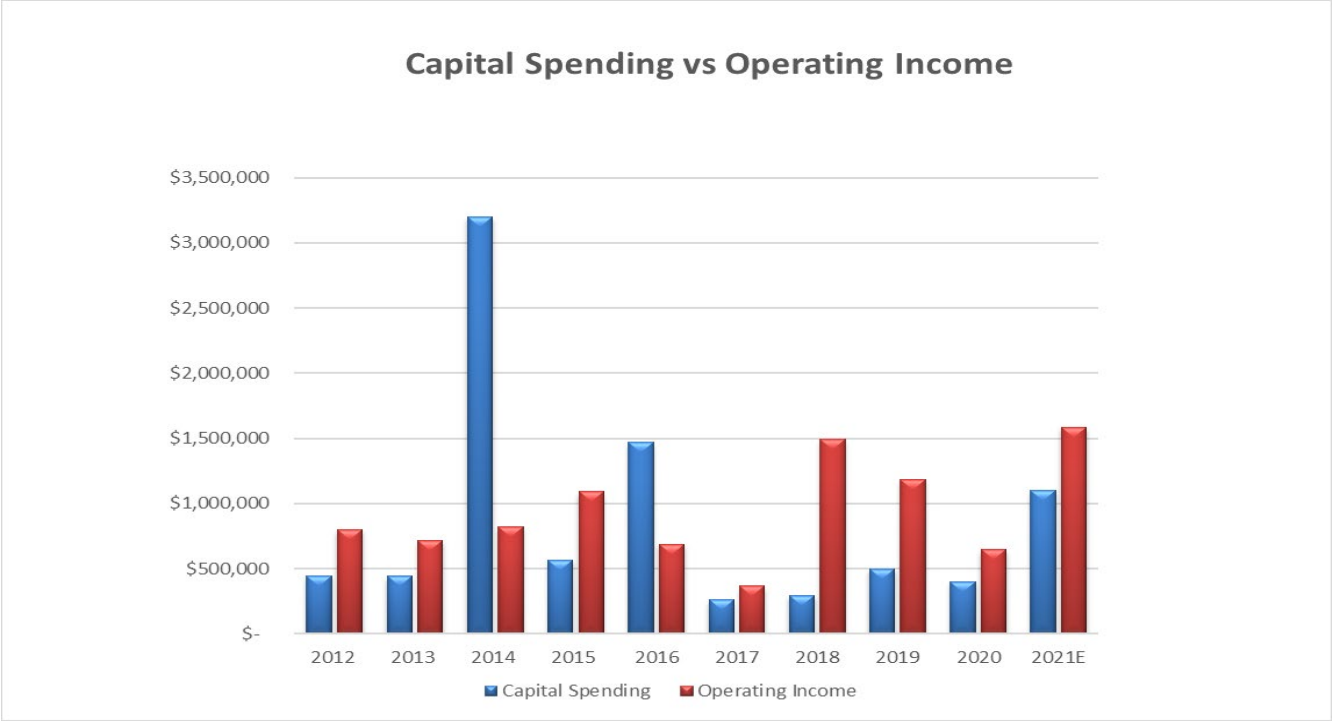
Also of note was the timeliness of high speed, fiber based, internet access for those sheltering on property during the pandemic.

Project management was laudable. Prudent project management, combined with competitively public-bid contracts, maintained cost controls over time. We are proud of the skill and diligence of our construction managers and highly skilled staff.

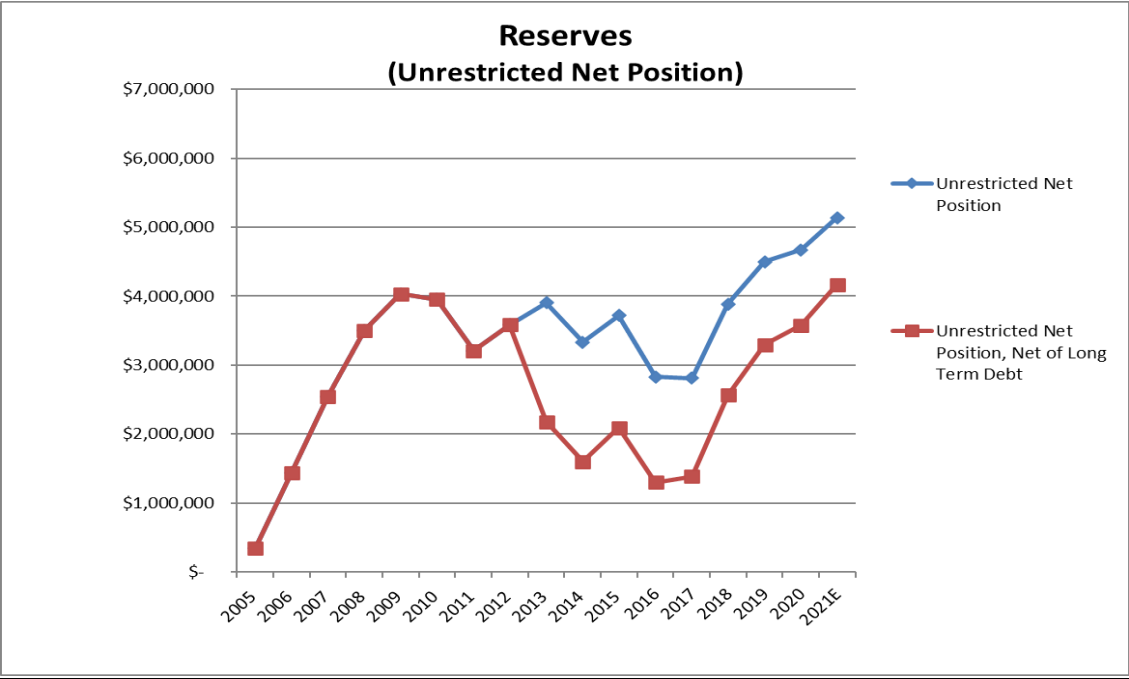
The following recaps our Capital Spending over the last 2 planning cycles.



The following chart recaps our Capital Spending versus Operating Income. As is apparent, we modestly increased our reserves during the current planning cycle.



We consider our Reserves to be our Unrestricted Net Position. The following chart recaps our Reserves (at the end of the fiscal year) and adjusts them for our outstanding long-term debt.



Increased and Increasing Cost of Water, Road Maintenance, Security and Fire Safety

We expect our emphasis on water, roads, security, and fire safety to continue to be major in our upcoming planning cycle.

Our wells and water systems are aging, and we will need more water as more homes are completed. As we develop more capacity, our infrastructure is more broadly dispersed, larger, and more complex. We have explored more distant watersheds and will add additional distribution and treatment facilities. The greater size, distance, and complexity of finding new water sources will require incrementally greater capital and added operating expenses, including more water department staffing.

Much of our road and bridge infrastructure was put into service about 20 years ago. The process of slurry coating roadways, which occurs every five to seven years, has provided for some sections of roadway to wear better than others. Our Roads and Bridges were put into place at an original cost of \$31 million and, at June 30, 2020, were valued at \$14.7 million, net of accumulated depreciation. As we look forward, we expect increased costs for both maintenance and resurfacing and repair, with the mix dependent on the need of each road. We expect the capital costs to be significant over the long term. The District will engage an expert consultant to update our pavement management plan to ensure we address this in a prudent and systematic manner. We plan continued spending in the upcoming planning cycle and are intending to step up our reserves in anticipation of what is expected to be significant ongoing capital spending over time.

We plan to add increased security surveillance and enhanced identity measures on the Robinson Canyon Road gates. This plan includes upgrades to fiber optic for networking purposes and license plate recognition, similar to the existing front gate security controls.

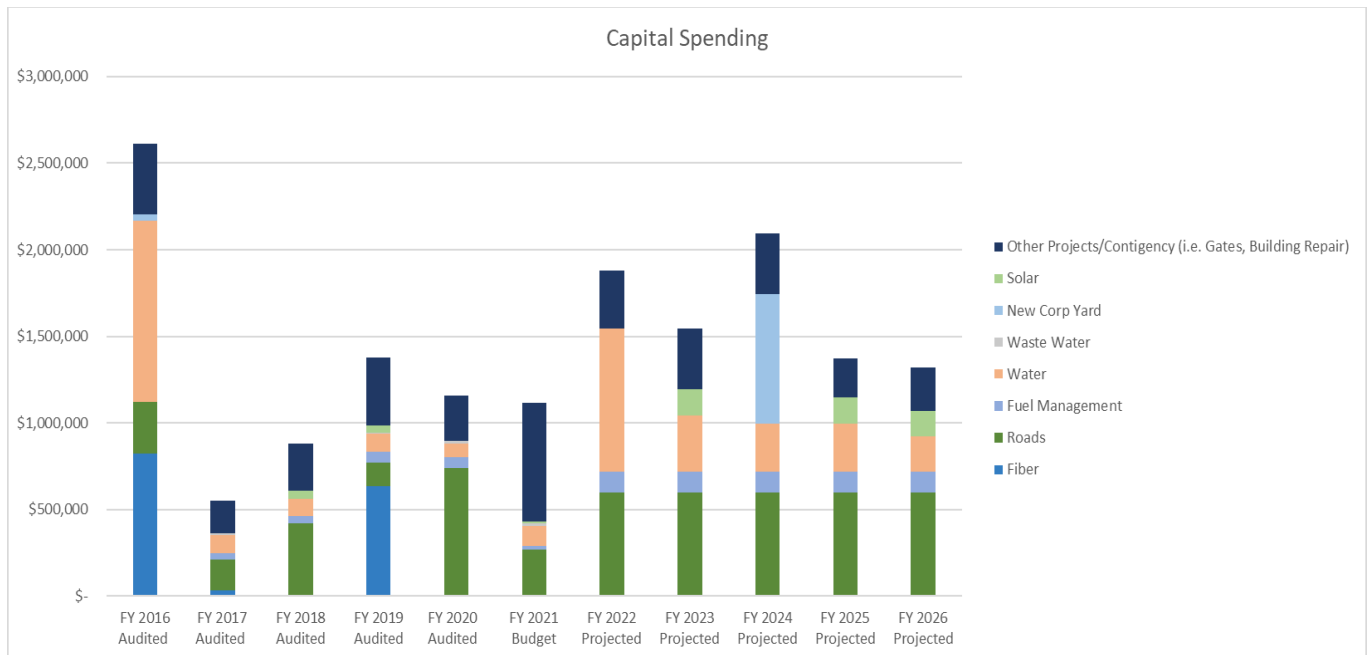
We are asking for a separate \$2.25 million assessment in order to materially upgrade our provisions for fire safety. Our current property-wide fuel management plan has been strategically implemented over the last 15 years and is geared towards roadside fuel management. Each section of Preserve roadway is thoughtfully prescribed to provide access and egress for emergency response, while secondarily serving as a fire break for firefighters to make a stand against an advancing fire. Our requested assessment is discussed below and expands our fuel management, fire breaks and access for emergency response beyond our roadways.

Projected Financial Statements

Our projections for the upcoming planning cycle appear on the chart below, which also shows fiscal 2016 through fiscal 2020 audited results. We will request owner approval for a property related fee assessment increase of 4% each year for the next 5 years (to begin in fiscal 2022). We are separately requesting voter approval of a \$2 million assessment, to be paid in equal portions in each of the five years, for adding material fire safety infrastructure, greater fuel management and in-house fuel management capability. Our projections assume that both the recurring property related fee increase, and the assessment are approved.

Projected Capital Spending and Reserve Increase

We anticipate capital spending of \$6.5 million in the next planning cycle from fiscal 2021 through fiscal 2026. Capital spending from the current and the next cycle are broken down below.



The major capital-like items (not capitalized) planned for the upcoming planning cycle are approximately \$1 million in road maintenance and approximately \$1.2 million in trail revision, firebreaks, fuel management and fire safety planning and management capacity.

Our Capital Plan represents our assessment of need; we expect that its components may change in both size and timing. Given our aging infrastructure, particularly our aging roads, we plan to increase our reserves by approximately \$2 million during the upcoming planning cycle.

Fire Prevention ~ Fuel Management Specialist, Roadsides, Bunkhouse and Trails

Fire Prevention

The need to accelerate fire protection within the scope of our established fuel management standards, is time sensitive and vital towards protecting the safety of our property, residents, and members as they live, visit, and recreate on property. Enhancing our fire protection and prevention is strategic with respect to obtaining fire insurance. Industry experts predict escalating challenges in the insurance market throughout the state. Our recent fires and costly homes and infrastructure give the Preserve particular challenges.

In 2021, the Preserve’s Property and Liability insurance broker approached 65 carriers in the insurance market. Only 8 were willing to quote and the result was reduced coverage and significant deductibles and a greater than 150% premium increase.

Fire behavior has changed toward greater severity. Our fire program was already extensive and exemplary. We have worked with our fire safety partners and believe that there is a need to make our program more extensive and protective. We have attached an endorsement from Monterey County Regional Fire District.

Existing Accomplishments

- Protection Class Rating (ISO) of 3
- SLP Fire Station
- Underground utilities
- Robust water system
- All existing homes and facilities are equipped with interior fire sprinkler systems

The Preserve, since its inception, was planned, permitted, and built with safeguards in place to proactively prevent and to effectively respond to fires. We feel our standards and planning processes are of the highest caliber, as one fire official stated in 2016, “The Preserve sets the Gold Standard in regard to fire prevention and planning”. We have much more to accomplish.

Fuel Management Specialist

For the past 15 years, the Preserve, and its individual homeowners, have relied upon the assistance of fuel management experts and consultants, most notably, Carol Rice. Our fire protection plan includes bringing this expertise in-house. As more homes are built, there will be greater homeowner need for updated fuel management plans and for coordination. There is currently a greater need for these plans than there is outside capacity. This new position would work in partnership with Property Owners, the CSD, Conservancy, CALFIRE, and MCRFD (Monterey County Regional Fire District). The goals and objectives would be to continually maintain and enhance our infrastructure, implement community-wide fuel management protocols, and promote prudent, science-based, landscaping and wildlands management. We expect that common and coordinated fuel management plans across Preserve lots and parcels, our roadways, and our trails and fire egress roads will bolster our case with the insurance industry.

Roadsides

In 2004, the Community Services District and Santa Lucia Conservancy developed and partnered on a roadside fuel management program with endorsement from the both the local and state fire departments. This plan encompassed 10 years of development and is still maintained to this day. Over \$1.5 million has been invested in this program since inception. We plan to maintain and expand this program in future years for improved access and ingress and to improve fire breaking on the roadway system.

Fire Personnel Bunkhouse

Our partner, MCRFD (Monterey County Regional Fire District), currently provides fire and medical response on the Preserve. We are fortunate to have our own fire station and a paramedic on property during daytime hours. In a strategic effort to improve coverage, the District has designed a bunkhouse to be constructed at the New Corporation Yard to provide overnight accommodations for fire/medical personnel. This would augment the current schedule involving security staffing that live or perform overnight shifts in order to provide basic life support and fire response.

Trails and Fire Roads

In 2008, 2016 and 2020, the Santa Lucia Preserve was threatened by large wildfires on its western and southern flanks. In response to the Basin Complex, Soberanes fire and Carmel Fires, MCRFD and CALFIRE utilized The Preserve for access, water supply, and as a defensive line to stop the advance of the fire. In respect to the 2016 fires, the Palo Corona-White Rock Ridge trail failed as a line of defense due to the lack of maintenance and upkeep. Recently CALFIRE collaborated with the Santa Lucia Conservancy and other agencies to improve fire lines and access roads along the Palo-Corona-White Rock Ridge, some of which crosses Preserve land.

In a similar fashion to the Palo Corona-White Rock project, a five-year focus on fuel management and trail enhancement would increase and improve access and ingress to remote locations, enhance ability to access water supply, and provide fire breaks to defend against the advance of future wildfire threats. Improved access would greatly improve Search & Rescue efforts into remote areas should the need arise. As part of a five-year plan beginning in the summer of 2021, the Santa Lucia Community Services District, Santa Lucia Conservancy, The Ranch Club, MCRFD and CALFIRE could partner to strategically improve the 80 miles of existing trails. Improved access and egress would provide firefighters the confidence to fight fire within safe zones and would provide escape routes if needed. All improvements would carefully follow a collaborative plan which respects the protected and environmental values we all hold dear as stewards of the land.

Before



After



Summary

Every five years, the District seeks approval for property related fee increases from each property owner. Past approvals have provided the District with the means and resources to improve the Preserve infrastructure for essential services. Some of these improvements include but were not limited to, Fiber Optics, Water Storage, Fuel Management, and Roadway repairs. As the Community experiences continued growth, the development and upkeep of these essential services will continue. We ask for your support.

Coming Soon

In April and May 2021, you will receive several communications and have the opportunity to respond regarding these requests. A public hearing will take place in June 2021 in order to lawfully provide property owners the opportunity to protest the increases. Provided a majority of the property owners do not file a protest, a ballot process will occur in June with votes tallied in July. The ballot will contain two separate ballot initiatives, one for the 4% increase to recurring property related fees and one for the \$2.25 million assessment for greater fire protection.

Ballot Initiative I

The proposed increase for water services, wastewater systems, roads/drainage maintenance, and security/gatehouse operations is 4% for Fiscal Year 2022-26. The 4% annual increase is proposed to continue for the four subsequent years, that is, through June 30, 2026, the end of FY 2025-26. This will increase the annual fees for parcels on sewer to \$22,126 or an increase of \$851/year for 2021/2022. For those parcels on septic, this will increase the annual fees to \$19,879 or an annual increase of \$765/year for 2021/2022.

The proposed increase is similar to the 4% increase that owners approved for the current planning cycle.

Ballot Initiative II

The proposed increase for the fire protection initiative is \$1,411 per parcel which would generate \$450 thousand per year for the next five years. In total, this would amount to \$7,053 per parcel for the five-year period ending June 30, 2026. Total fees collected over the five-year period would amount to \$2.25 million.

We are grateful for the many years of past support. We ask for your support in favor of both of these very important initiatives.