

ROLLING HILLS COMMUNITY SERVICES DISTRICT MEMORANDUM

TO: Linda Stone, Board Clerk/Secretary
FROM: Sara Mares, Director
DATE: May 17, 2024
SUBJECT: Revenue Modeling Scenarios

Executive Summary

NBS' review and analysis finds that current revenues are insufficient to allow the Rolling Hills Community Services District (the "CSD") to continue to provide the services for which it was established at a satisfactory level.

- Current revenues allow for only very basic levels of service and do not allow for needed repairs, capital improvements or reserves.
- Approximately 40% of the CSD's revenue remains static with no annual inflator since 1987.
- Costs continue to increase with costs increasing cumulatively by approximately 158% since 1987.
- Significant repairs are required to keep the CSD's infrastructure in a safe and satisfactory condition.
- Additional revenue is required for the CSD to make needed repairs and continue to provide services to the community.
- Available revenue mechanisms are summarized in Appendix A and the recommended special tax analysis is shown below.

Purpose

The CSD has requested a comprehensive evaluation of options to increase revenue to support the CSD's forecasted budget deficits in the near term. The CSD currently receives revenue from general property tax, a benefit assessment and some interest earnings on funds. The benefit assessment was approved in 1987 and is a fixed \$200 rate per parcel that does not have an inflator. Revenue from the benefit assessment has remained mostly static over time. Previous attempts to increase the benefit assessment have failed. Costs, however, have increased considerably over time, outpacing increases in CSD revenues. This has led to maintenance of improvements throughout the CSD being deferred, infrastructure needing repair and replacement. The CSD has "lived within its means" for many years, utilizing cost saving/avoidance strategies to maintain a balanced budget.

The CSD is empowered to provide road maintenance services, drainage, street lighting and landscaping, weed abatement, and parks and recreation services. Portions of the CSD contain privately owned roads which are maintained by a Homeowners' Association. The CSD is surrounded on three sides by the El Dorado Hills Community Services District which provides park and recreation services but not road maintenance services. The El Dorado County Local Agency Formation Commission last conducted a municipal services review of the CSD in 2018.

Revenue Needs

The CSD responsibilities include maintenance and operation of streets and roads, bridges, open space, lighting and culverts and parks and recreation services. The CSD currently funds these activities through revenue consisting of property taxes, a benefit assessment and interest earned on funds. For fiscal year 2023/24, the CSD budgeted revenue and expenditure was approximately \$197,000. The budget currently allows the CSD to provide very basic levels of operations and maintenance with no funds going towards capital improvements or reserves.

With aging infrastructure and ongoing maintenance needs along with the increased costs of labor, services and materials, the CSD must first identify the revenue needed to sustain its mission. To help with identifying the overall revenue need, the CSD engaged Association Reserves to perform a "Full" Reserve Study in August 2018 (the "Reserve Study"). While it expired in June 2019, it is worth noting that the recommendation in the Reserve Study was to contribute \$216,000 to reserve in 2018 and make an ongoing and increasing reserve contribution over the following 30 years to arrive at a fully funded reserve. With current CSD revenues at approximately \$197,000, and no funds yet contributed to reserves, the revenue need is approximately \$220,000 initially with a 3% annual escalator. This would allow the CSD to begin building needed reserves as well as fund periodic capital replacement and needed repairs as reserves are accumulated over time. If CSD revenues are not augmented from their current level, maintenance will be deferred further, and the improvements will fall into a state of disrepair.

Bringing forward the estimated reserve expenses from the Reserve Study to begin in fiscal year 2025/26 when a parcel tax might first be collected (), the table below illustrates potential reserve accumulation over a 30 year term should a new parcel tax generating \$220,000 initially with a 3% annual escalator be approved by voters in November 2024:

Revenue Need			
Fiscal Year Ending	Reserve Starting Balance	Parcel Tax Revenue	Estimated Reserve Expenses ⁽¹⁾
2026	\$0	\$220,000	\$426,950
2027	(206,950)	226,600	50,419
2028	(30,769)	233,398	59,410
2029	143,219	240,400	315,252
2030	68,367	247,612	46,146
2031	269,833	255,040	41,734
2032	483,139	262,692	163,227
2033	582,604	270,572	245,298
2034	607,878	278,689	595,952
2035	290,615	287,050	107,252
2036	470,413	295,662	675,856
2037	90,219	304,531	60,837
2038	333,914	313,667	109,071
2039	538,510	323,077	73,794
2040	787,793	332,770	597,397
2041	523,166	342,753	142,944
2042	722,975	353,035	143,541
2043	932,469	363,626	1,369,384
2044	(73,288)	374,535	165,987
2045	135,260	385,771	71,894
2046	449,137	397,344	65,020
2047	781,462	409,265	307,042
2048	883,685	421,543	116,882
2049	1,188,345	434,189	132,724
2050	1,489,810	447,215	1,455,481
2051	481,544	460,631	85,845
2052	856,330	474,450	225,256
2053	1,105,524	488,684	203,803
2054	1,390,405	503,344	637,989
2055	1,255,760	518,444	84,836
Total		\$10,466,591	\$8,777,223

(1) From the "Full" Reserve Study prepared by Association Reserves. Amounts moved to begin in FY 2025/26 but have not otherwise been updated to reflect current costs of work.

Property Data Summary

The CSD is comprised of residential subdivisions south of Highway 50 and north of White Rock Road between approximately where Carson Crossing Drive intersects White Rock Road on the southwest and slightly west of where Town Center West Way intersects White Rock Road on the southeast. Based on the latest El Dorado County Assessor’s secured roll data from July 2023, there are a total of 423 parcels within the CSD. A summary of the parcels, their land uses and building square footage is shown in the table below:

Parcel Summary		
Land Use	# of Parcels	Building Square Foot
Single Family Residential	395	1,268,825
Vacant	2	0
Exempt	26	0
Total	423	1,268,825

The parcels classified as Exempt are parcels owned by public agencies, homeowner’s associations or are private roadways. These parcels do not typically receive a property tax bill and would not usually be taxed as part of either a parcel tax.

Revenue Targets

According to the CSD’s Full Reserve Study completed in 2018, the CSD had \$0 in starting reserves and a recommendation was made to set annual reserve contributions at \$216,000. However, the CSD’s fiscal year 2023/24 budget shows total revenue of \$197,031.03 with no funds available to either contribute to revenue from reserves or contribute to reserves as an expenditure. Additional revenue must be generated for the CSD to continue to provide services and consider possible expenditures on deferred maintenance and infrastructure improvements as well as establishing and funding reserves.

As identified above, a new parcel tax of \$220,000 would allow for both the funding of reserves as well as the ability to address repairs and maintenance of the CSD’s aging infrastructure. Recognizing that the rate associated with the \$220,000 revenue target is likely higher than would be approved by voters, NBS evaluated revenue targets ranging from \$80,000 to \$220,000 in \$20,000 increments. Polling and/or voter surveys would help to inform what rate voters would be likely to approve at the required two-thirds threshold.

Parcel Tax Modeling

As a community services district, the CSD is limited when it comes to structuring a parcel to a “uniform” rate, with the only allowable differential being different rates for developed and undeveloped property. With only two of the parcels being undeveloped the opportunity or usefulness of identifying a reduced rate for undeveloped property is limited. All of the parcel tax scenarios below are based on the parcel tax being applied at a uniform rate per parcel on each parcel of developed property.

Flat Rate per Parcel

One option within the uniform rate context, is to levy a flat rate per parcel. The rates that would generate revenue at the modeled revenue targets are shown in the following table:

Flat Rate per Parcel	
Revenue Target	Rate Per Parcel
\$80,000	\$202.53
100,000	253.16
120,000	303.79
140,000	354.43
160,000	405.06
180,000	455.69
200,000	506.32
220,000	556.96

Flat Rate per Building Square Foot

Another option within the uniform rate context, is to levy a flat rate per building square foot. Note that two of the single family residential parcels are missing building square footage data in the data set. The average building square footage was used for those two parcels for purposes of modeling rates. The rates that would generate revenue at the modeled revenue targets are shown in the following table:

Flat Rate per Bldg Sq Ft		
Revenue Target	Rate Per Bldg Sq Ft	Tax for Average Parcel
\$80,000	\$0.063	\$202.36
100,000	0.079	\$253.75
120,000	0.095	\$305.14
140,000	0.110	\$353.32
160,000	0.126	\$404.71
180,000	0.142	\$456.10
200,000	0.158	\$507.50
220,000	0.173	\$555.68

The average single family building square footage in the CSD is 3,212, which was used to calculate the tax for an average parcel in the above table. The tax based on building square footage is very similar to the flat rate per parcel modeled for the average parcel, however the total tax would vary according to each parcel's building square footage.

Bonding Capacity

Should a parcel tax be approved that provides the CSD with additional revenue, it may be helpful to consider issuing debt, which would allow for more work to be completed more quickly. The cash infusion of bond financing means not waiting for funds to be collected each year to fund work on a pay as you go basis. With a parcel tax used as a dedicated revenue stream (either partially or fully), the CSD may issue revenue bonds. Parcel tax revenue (either a portion or all) would repay the bonded indebtedness, and bond proceeds would fund project work. While the parcel tax must be approved by a two-thirds affirmative vote,

there is no additional authorization from voters required for the revenue bond, only authorization by the CSD Board.

Should the CSD wish to leverage the parcel tax revenue for capital projects by dedicating that funding to a revenue bond, the following estimated bond amounts may be realized. This analysis assumes a bond term of 30 years, an interest rate of 5.5%, annual administration costs of 5% and bond coverage of 110%. It also assumes the parcel tax revenue has a 3% annual inflator.

Bonding Capacity	
Revenue Target	Estimated Bond Proceeds
\$80,000	\$1,100,000
100,000	1,500,000
120,000	1,900,000
140,000	2,300,000
160,000	2,700,000
180,000	3,100,000
200,000	3,500,000
220,000	3,900,000

Recommendation

Based on all of the documentation and information we have reviewed, it is clear to NBS that the CSD must augment current revenues to continue to operate and provide the services for which it was established at a satisfactory level. Given the relatively homogenous composition of the property within the CSD, the parcel tax is the most straightforward funding tool that would allow for either funding needed work on a pay as you go basis or issuing debt to complete some larger projects in a shorter time period.

NBS recommends polling or surveying the community to better understand voters willingness to pay for the services. Doing so would inform the tax rate that has the potential to be approved by the requisite two-thirds of ballots cast in the election. The poll or survey can also be used to gather information about which work is the highest priority for the community.

APPENDIX A

Revenue Mechanisms Overview

In comparison to a City, the CSD has rather limited options when it comes to revenue tools. Special taxes (parcel tax and Community Facilities District), special assessments (a variety of special assessments acts are included), fees for service and standby charges for water and/or sewer service are allowable revenue raising options beyond any share of general property tax allocated to the CSD.

Special Taxes

A special tax is a charge imposed for a specific service or improvement. The tax is calculated via a special tax formula and is levied annually for a defined period. Special taxes have the most flexibility in terms of improvements and services financed. The criteria to levy a special tax is not limited to the relative benefit it provides to property (as described below for special assessments) or taxpayers. Typically, the special tax is levied on a per parcel basis or according to a selected set of property characteristics such as parcel area, land use, building square footage or a combination of these and/or other characteristics. Special Taxes cannot be imposed on a property value basis. Publicly owned property is typically exempt. The successful establishment of a special tax requires approval of 2/3 of the registered voters voting in the election. Each voter has one vote regardless of their weighted share of the proposed special tax levy.

Special Assessments

Special Assessments, also known as a Special Benefit Assessments, describes a family of charges levied against a parcel of land related to the proportional special benefit that is generated by the underlying public service or improvement project. By law, benefit assessments cannot be based on the value of property. Instead, each district establishes a benefit formula and each parcel in the service area is assessed according to the special benefit it receives from the services and/or improvements. The governing body of the entity levying the assessment, as well as an engineer, must make a finding of special benefit in order to validate this process. The assessment amount is limited to the proportional special benefit of the improvement or service provided to each assessed property and benefiting publicly owned property is not exempt from assessments.

Special Assessments are approved by a protest ballot proceeding. Each property owner's ballot is weighted by the amount of the assessment assigned to that owner's property. Of the property owner ballots returned, if a majority of the weighted ballots oppose the assessment, a majority protest exists, and the assessment may not be imposed.

User/Regulatory Fees

User fees are for the use of public goods and services, while regulatory fees are those fees paid to enforce certain powers of the public agency for the public good. User fees are charges collected for a service provided or required due to the request or voluntary action of an individual/entity, while regulatory fees are those imposed to recover costs associated with a local government agency's power to govern certain activities. Examples of common types of fees include recreational classes and community sports programs. In most cases, the only legal limitation to the establishment of user and regulatory fees is that they may

not exceed the estimated and reasonable costs incurred to provide the service for which the fee is charged.

These fees represent cost recovery opportunities entirely within CSD's control. Fees can be implemented or modified upon public hearing.

Funding Mechanism Considerations

In order to evaluate and model a special assessment with precision, a full general and special benefit analysis must be completed, which is an involved process outside the scope of service of this engagement. However, in reviewing the general location of the improvements to be operated and maintained along with the property and land uses it is estimated that the share of total general benefit would be relatively small. Further, an assessment methodology would typically use multiple factors such as trip generation which take into account land use and proximity to improvements as examples, which is likely to result in the ultimate assessment per parcel being different for various parcels within the assessment district. CSD and other public agency owned-property, unless it is the actual improvement being operated and maintained, would also generally be subject the special assessment.

Modeling for the parcel tax and CFD would look substantially similar given the homogenous nature of the land uses within the CSD, with the exception that utilizing a CFD would allow for zones to be created wherein different rates may be charged. Modeling for the parcel tax, which is also representative of a CFD without zones, is shown below. An important consideration for the special tax is the relatively high hurdle of obtaining a yes vote from 2/3 of registered voters who vote in the election.

NBS notes that the CSD has a fee schedule posted on its agency website, however neither the budget or recent audited financial statements show revenue related to collection of fees. While this is not likely to generate a significant amount of revenue, it may be a component of an overall program to increase CSD funding.