

**Questions from Commissioner Anderly
Answers from Erica Sanchez**

Hillwood Community Service District
Municipal Services Review

From the Review, it appears that every parcel in the CSD pays property tax, and that a portion of that tax is designated for road maintenance. Therefore, one could conclude that it should be evenly distributed among all those parcels. There was recognition by residents on the Monarch side that the property taxes were insufficient to maintain the roads to their standards and a \$500 per/parcel levy was established. One would think that this levy is IN ADDITION to the property tax used on their properties. However, the MSR indicates that the property tax paid by all properties in the CSD is used on the Hillwood-Holly side only. Further, since the Monarch side voted for the levy, which requires an Engineer's report, the obvious payment for that report should come out of the Monarch side. However, the Review says otherwise.

Questions:

1. Why should Monarch forego use of their property tax to improve roads in their area? Is this even legal as I imagine the conditions of the tract might say otherwise. Why would Monarch residents vote to impose a levy on themselves and give up the use of property taxes on their properties? Their property tax money would be going to others. Perhaps this information should be brought to the attention of the auditor.

Questions #1 and #2 are addressed together, below.

2. Why should tax payers on the Holly-Hillwood side pay for the Engineer's Report when it is in no way related to them and they are already short funds? Perhaps this information should be brought to the attention of the auditor.

Answer – When Hillwood residents pay their property taxes, the revenues are allocated by the Auditor to various taxing jurisdictions, including Hillwood CSD, in compliance with State Law. That money goes into Hillwood CSD's general fund, to be expended as the District's Board of Directors see fit when they adopt the District's budget. As a result, property taxes are then commingled in the general fund, regardless of which resident paid x amount. Prior to 2008, residents from the Monarch-Woodside side were frustrated by multiple failed attempts by the CSD Board to levy a District-wide special assessment to increase funding to a more appropriate level for District-wide road improvements. CSDs have the authority to levy assessments upon parcels within their boundaries; however, it is subject to voter approval. Previous efforts had failed because a majority of the residents within the CSD (primarily on the Holly-Hillwood side) did not support any tax

increases to pay for improving roads. Residents on the Monarch-Woodside side of the District wanted a higher level of service and were willing to pay for it, while residents on the Holly-Hillwood side were content with the current level of service and were not in favor of paying an additional assessment.

Like almost all aspects of public policy, there are tradeoffs that have to be made to reach a workable compromise. While it may be perceived that there are inequities with the Monarch-Woodside residents (MWRIG) forgoing their property tax revenue, as well as the Holly-Hillwood side paying for the MWRIG Engineer's Report; there are also perceived benefits realized by both sides. The MWRIG makes up approximately one-third of the parcels within the CSD; the CSD collects approximately \$17,000 annually in property taxes. MWRIG residents give up approximately \$5,600 in property taxes annually, which benefits the Holly-Hillwood residents. In return, the benefit assessment district depends upon the Hillwood CSD governance structure to levy and collect the special assessment (without which the zone could not exist), pay for the annual Engineer's Report (approximately \$1,200), and to conduct all of the administrative functions of the zone. Factoring in the administrative costs, the split appears to be fairly even for both sides; the Holly-Hillwood side receives slightly more in monetary benefit, but the Monarch-Woodside side receives more benefit in having the ability to levy and collect a special assessment for an improved level of road services.

The benefit assessment district was formed pursuant to Government Code §61140 at a public meeting which was duly noticed by the CSD. It is the responsibility of the CSD to consult with legal counsel to determine the legality of the terms, both for the formation of the zone and for its administration of it.

The County Auditor-Controller's Office oversees the Hillwood CSD's fiscal administration, including collection of property taxes and assessments for the MWRIG, which are accounted for in a separate budget. All of the District's funds are deposited into the County Treasury and the County Auditor's office manages the District's receivables and payables. The CSD submits payment requests or reimbursements to the County, which in turn sends payments to contractors. In addition, the County Auditor's Office is responsible for preparing financial audits for the CSD. LAFCO staff can check with the Auditor's Office, but they should already be well acquainted with the financial arrangements of the zone of benefit.

3. With the information that there are opportunities for saving money by joining with adjacent CSDs to competitively bid for services, was this discussed with the CSD staff? If so, what was their response?

Answer – The issue of what to do with these single-purpose small districts is a tough one. In the past LAFCO staff has tried proposing various ideas to these districts, including joint contracting, with little success. The CSD is aware of the

close proximity with Connie Lane CSD as well as the Holly Drive Road Maintenance Zone of Benefit (administered by County DOT) and opportunities for shared service contracts; however, the CSD has not specifically expressed their interest to pursue such opportunities with LAFCO staff. A potential issue with entering into a joint contract for services with one or more of these public entities is that they all solicit contracts on an as-needed basis and only as revenue allows. A joint contract would require much coordination of differing timelines, levels of service, need for services and revenue allocation. For example, Connie Lane CSD may not have the sufficient revenues saved to contract out for services with Hillwood CSD at the time Hillwood CSD is ready to do some maintenance on its roads. As a result, the result would be the same as it is today - each district contracting out on its own - or there may be two frustrated districts because they can't make an arrangement work.

4. Did LAFCO staff take a look at the condition of the roads to see if there were hazards to those who drive the roads? CSD. The roads could be dangerous and pose a liability to the CSD. It seems like the CSD staff member is speaking for the rest of the community regarding the acceptability of the road maintenance in that there is no mention that the property owners were surveyed.

Answer – LAFCO staff has driven all of the CSD roads; while there are certainly areas which would benefit from increased frequency in maintenance and repairs, there did not appear to be any areas which were dangerous to drive on. LAFCO staff does not individually survey property owners regarding their satisfaction with road conditions, but instead relies on information provided by CSD staff, public meeting minutes and multiple District-wide elections for corroboration. It is entirely likely that there exists some level of dissatisfaction regarding the road conditions; however, it has not been sufficient in the past to entice the majority of the residents to impose a District-wide assessment in order to fund an increased level of service.

5. The report indicates that the CSD website is not active. LAFCO does not send the report to property owners. There does not appear to be a system in place for notifying the property owners of the Municipal Service Review for their CSD, although OPR encourages public participation. Do you have any solutions to improve the system?

Answer – While the OPR guidelines encourage public participation, the guidelines are not mandatory. LAFCO is complying with the legal requirements of the Brown Act and the Cortese-Knox-Hertzberg Act and doing its best to encourage the districts to do the public outreach. MSRs are sent directly to District staff and/or District Boards for review. When an MSR is sent to District staff, it is their responsibility to distribute the report to their board members and to properly notice the report if action is taken by the District Board at a public meeting. It is LAFCO staff's responsibility to properly notice MSRs by placing a notice in the newspaper 21-days in advance of our hearing, posting the agenda at our office and at the

meeting location, posting the agenda, report and attachments on our website the same day the packet is mailed out, which usually occurs one week prior to the hearing date.

6. If the CSD were expanded to include other properties, wouldn't that be an asset as it would bring in more tax money to fund road improvements?

Answer – The CSD Board has made no indication that they are contemplating annexing additional parcels nor have any individual landowners contacted LAFCO about annexing into the District. Annexing additional properties would bring in additional revenue, but that does not necessarily mean that it would be financially beneficial for the District to do so. Additional revenue vs. additional liability in terms of roads to be maintained would depend on the length of public road annexed, the condition of that road at the time of annexation, and the assessed value of the parcel. Additional revenue would also depend on whether the annexing parcel was part of the MWRIG or not. Lastly, annexing additional parcels would not necessarily mean that the County would give up some or all of its property taxes at a rate equal to/higher than that of the existing District parcels. The County could choose to give a smaller percentage to Hillwood CSD, or worse, choose not to give up any of its share of property taxes (under the terms of Revenue & Taxation Code Section 99 the County has sole discretion). In that case, Hillwood CSD would absorb all of the responsibility with very little benefit.

Dyana Anderly