

**United Lot Owners of Cambria
Mello-Roos Proposal
Responses to Questions**

On August 2, 2002 the United Lot Owners of Cambria (UnLOC) presented a proposal to fund a substantial portion of the cost of providing additional water resources to the Cambria community. In the course of that presentation the Board, staff and the public raised a number of questions. The following is a response to those questions.

Q: *Are there any legal concerns that need to be addressed?*

A: Every CCSD financing must pass legal muster, including any Mello-Roos borrowings. Special counsel would be hired to provide the CCSD and bondholders with the appropriate legal opinions. There are no separate legal issues pertaining to community service districts regarding the formation of a community facilities district (CFD). District Counsel has been provided with more detailed information to satisfy these concerns.

Q: *The timing of the proposal presents challenges for staff.*

A: We recognize that staff is facing many challenges. That will continue to be the case until the Water Management Plan (WMP) has been completed and the MTBE situation is finally resolved. A financing plan will be part of the WMP, so at some point in the not too distant future staff will need to address all viable financing alternatives, including this proposal. The Board and staff will have to determine how to best allocate resources in order to meet its commitment to the community.

Q: *What risks does the CCSD assume by undertaking the financing?*

A: The CCSD and its ratepayers would have no legal obligation to make debt service payments. The primary risk to the CCSD is the potential for litigation in the event of default on the bonds. Assuming the CCSD meets its current obligation to fund and construct new facilities such risk is reduced substantially.

Q: *What could cause default on the bonds?*

A: A default could arise when the delinquency rate on the special tax exceeds 15% to 20% for a sustained period of time. The most likely cause of a high delinquency rate would be an indefinite moratorium or a permanent ban on construction that would make the lots worthless. The completion of new water supply facilities would largely remove this risk.

Q: *Who is responsible in the event of default?*

A: Bondholders assume the risk of default. The CCSD's primary obligation would be to work with bondholders to seek appropriate remedies in the event of default. It would have no obligation to make debt service payments.

Q: *What about the upcoming state water bond, might it not provide the funding Cambria needs?*

A: The State Bond is worth supporting, but the total allowed for projects such as Cambria's is only \$50 million statewide. Furthermore, any state dollars would require a local match. The same is true for federal funding. It is unlikely that new facilities will be built without some form of CCSD financing.

Q: *Getting water alone won't prepare for growth; what about the other impacts of growth?*

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A: Water, wastewater and fire protection are the CCSD's primary responsibilities. Dealing with most other growth impacts is the County's responsibility. If the community feels there are other infrastructure needs, then it should approach the County to address them.

Q: *Is there an impact on the CCSD's existing position transfer program?*

A: Yes, assuming the CCSD keeps the transfer program in place, some revision to the program would be required to make sure that the special tax would still be paid once the wait list position is transferred to another lot, since the original lot would have its value reduced.

Q: *What happens to lots not included in the CFD?*

A: The size of the Mello-Roos district is completely within the control of the district. Common sense would call for comprehensive Mello-Roos plan to include the same number of lots included in the CCSD's Water Management Plan.

Non-wait listed lots excluded from the CFD would continue to be in limbo, just as they are now. All lots, wait listed or otherwise, are subject to the moratorium and the County's Growth Management Ordinance. Lots that are not on any list can only be built out once the existing lists are exhausted, if at that time the CCSD has the capacity to serve them.

Exclusion of any lot from the CFD would have no impact on its water connection priority. It would simply mean that it would be subject to an impact fee at the time of connection, in lieu of the annual tax, just like it is today.

Q: *What if it turns out that the desalination project is not viable from an economic or environmental perspective?*

A: This is not a proposal for desalination or any other specific project. The CCSD needs water to serve its customers and our proposal will fund any viable project.

Q: *What about the higher tax burden and its impact upon the cost of housing?*

A: The real factor driving up housing prices in Cambria is the lack of supply of housing units, which is further constrained by the moratorium. Until homes are built on the lots under discussion, there will be absolutely no impact on the price of housing. Once homes are built, the tax burden would be slightly higher for a comparably priced home without the special tax, say 10%. The total cost of housing, taking into account mortgage payments on the average price home, would only be 1% higher. In short, the proposed Mello-Roos district will have a negligible affect on the cost of housing in the worst case. In the best case, the Mello-Roos district would help increase the supply of housing and thus reduce its cost.