



San Luis Obispo Local Agency Formation Commission

TO: MEMBERS OF THE COMMISSION

**FROM: ROB FITZROY, EXECUTIVE OFFICER
IMELDA MARQUEZ-VAWTER, ANALYST
MORGAN BING, CLERK ANALYST**

DATE: APRIL 20, 2023

SUBJECT: LAFCO NO. 3-S-22 | MUNICIPAL SERVICE REVIEW AND SPHERE OF INFLUENCE STUDY FOR HERITAGE RANCH COMMUNITY SERVICES DISTRICT

RECOMMENDATION

Action 1: Finds, by motion, the project to be exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines section 15061(b)(3).

Action 2: Approve by resolution the Heritage Ranch Community Services District Municipal Service Review and Sphere of Influence Study found in Attachment B.

DISCUSSION

Background

The Cortese-Knox-Hertzberg (CKH) Act directs Local Agency Formation Commissions to regularly prepare municipal service reviews (MSRs) in conjunction with establishing and updating each local agency's sphere of influence (SOI). The legislative intent of MSRs is to proactively assess the availability, capacity, and efficiency of local governmental services prior to making SOI determinations. MSRs may also lead LAFCOs to take other actions under their authority, such as forming, consolidating, or dissolving one or more local agencies in addition to any related sphere changes.

The Fiscal Year 2022-2023 Work Plan revised the schedule for completion of the next MSR cycle, and an MSR for the Heritage Ranch Community Services District (HRCSD) has been prepared consistent with the established timeline. Prior to the continuation of this MSR cycle, staff worked to substantially revamp the formatting and organization of the MSR document to align with best practices of

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Legal Counsel

today and current requirements of CKH. In line with those changes, one individual MSR will be produced for each jurisdiction rather than the previous approach of grouping multiple service reviews together. While in certain instances it would be more efficient to group MSRs together, for example if multiple agencies shared a common service or resource, we have found that in most instances this is not the case.

As such, the new approach will deliver more individualized and navigable reports to the benefit of the Commission and each jurisdiction. It will also increase the rate at which we are able to produce MSRs because completion of one agency's MSR will not be dependent on the timeline or delays of another agency's MSR.

SOI Summary

The HRCSD SOI is coterminous with their service area boundary. HRCSD does not wish to make any SOI adjustments, therefore no areas specifically requested by the HRCSD are being studied for possible inclusion at this time. HRCSD is currently 69% built-out, with the number of possible build-out units limited to 2,900 based on estimated future population projections and water supply constraints. Therefore, the current district boundaries are sufficient to accommodate growth at this time and there is no need to consider expansion beyond current boundaries. Staff is recommending that HRCSD's SOI be reaffirmed. Written determinations pursuant to Government Code 56425 can be found in the last section of the draft MSR (Attachment B).

MSR Summary

HRCSD is in a healthy state. It is able to adequately deliver the services it is authorized to provide. It maintains adequate financial records and controls. Anticipated growth within the Community within the next 5-7 years is expected to be well within the service capacities and capabilities of the district. The HRCSD is encouraged to review and consider LAFCO's recommendations, to be able to better serve the community, found in the last section of the draft MSR (Attachment B).

MSR Written Determinations

Pursuant to Government Code section 56430(a), the MSR process requires that the Commission prepare statements of determination with respect to seven factors. Staff have provided a written statement of determination and recommendation for each of the following seven factors below for HRCSD. These determinations are also available, in full with staff recommendations, in the MSR (Attachment B).

1. **Growth and Population projections for the affected area:** Currently, the estimated population of HRCSD is 2,956. The estimated build-out population is 4,274 with an approximate build-out year of 2070.

Recommendation: No action recommended.

2. Location and characteristics of any disadvantaged unincorporated communities: According to 2020 US Census data, the median household income for the Lake Nacimiento Census Designated Place, which largely represents HRCSD, is \$72,101. HRCSD therefore does not qualify as a disadvantaged unincorporated community.

Recommendation: HRCSD may wish to consider conducting a community survey that could, in part, more accurately determine the MHI. This information may be helpful with regard to eligibility for grant funding and other planning efforts.

3. Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies:

a. *Water* | To serve existing and future service demand, the HRCSD Board approved a Five-Year Capital Improvement Program (CIP) on August 18, 2022, for water and sewer operations. HRCSD can serve its current 2,076 residential approved lots and the 18 miscellaneous approved units/parcels (school, commercial center, & public facilities). There is an approximate balance of 342 AFY water allocation for the 824 remainder lots. To serve full future build-out, HRCSD will require some additional water allocation aside from the current contractual 889 AFY allocation. However, it is anticipated that HRCSD can serve some level of new development without new water allocations. In context to the low growth rate of the HRCSD, water availability is expected to remain adequate for the foreseeable future.

Table 1: Summary of Heritage Ranch Community Services District Water Demand

Description	Lots	Connections	Total Water Demand (AFY)	Water Supply (AFY)	Balance (AFY)
Existing	2,076	1,932	547 – used	889	342
Future	2,900	2,900	952 – anticipated	889	-63

Recommendation: HRCSD is encouraged to continue with the planned facility improvements as outlined in the approved CIP to ensure that there is continued reliable water service for the existing and future residents. With uncertainty as to the type and size of the remaining 824 lots to develop in the future, HRCSD and future developers will need to address water demands beyond the current 889 AFY contractual allocation with the County when timing necessitates. It is important to note that the number of permanent residents may increase or decrease over time, and other variables change over the years that may impact this water demand forecast. As stated in determination #2 above, HRCSD may wish to consider preparing a community wide survey to better understand demographics.

b. *Wastewater* | To serve existing and future service demand, the HRCSD Board approved a Five-Year CIP on August 18, 2022, for water and sewer operations as was previously mentioned. The HRCSD has an aging secondary wastewater treatment pond system and must upgrade their Water Reclamation Facility to ensure compliance with NPDES and

Waste Discharge Requirements imposed by the Regional Water Quality Control Board. Future average daily flows to the WWTP facility will be at 65% of the original plant design hydraulic capacity (original design facility capacity of 0.4 MGD).

Table 2: Heritage Ranch Community Services District Wastewater Capacity

Description	Number of Connections	Estimated Population	Flow (MGD)	Facility Capacity (MGD)
Existing Wastewater	1,748	3,402	0.13	0.4
Future Wastewater	2,400	4,800	0.26	0.4

Recommendation: HRCSD is encouraged to continue with the approved CIP facility improvements and comply with RWQCB requirements to ensure that there is continued reliable wastewater treatment service.

- c. **Solid Waste** | HRCSD is the solid waste authority and has a Franchise Agreement with San Miguel Garbage Company to provide solid waste services. HRCSD reserves the right to revise its laws and regulations pertaining to solid waste collection and disposal in order to protect public health, safety and welfare. The current agreement expires January 31, 2032.

Recommendation: No action recommended.

- d. **Parks & Recreation** | HRCSD does not operate any parks and recreation facilities or activities. However, it does lease property to the Heritage Village Senior Association, who built and funds all costs associated with their Senior Center. The Heritage Ranch Owners Association manages all the parks and recreation functions around the Heritage Ranch Area; the County does not provide these services.

Recommendation: HRCSD is encouraged to deactivate this power which would require an application from HRCSD to LAFCO and ultimately Commission approval.

- e. **Gas Station Operation** | HRCSD is authorized to provide gas station services but no longer provides the community that service.

Recommendation: HRCSD is encouraged to deactivate this power which would require an application from HRCSD to LAFCO and ultimately Commission approval. This could be done in tandem with the above recommendation to deactivate parks and rec power.

- 4. **Financial ability of agencies to provide services:** The HRCSD is financially stable despite increasing costs, limited revenues, and new regulatory requirements. HRCSD remains dependent on both property taxes and standby charges to fund the water and sewer

operations. HRCSD increased its water and sewer rates charges in 2018 and expects a rate study and increases for FY 2023.

Recommendation: HRCSD is encouraged to continue to apply for additional funding via loans, grants, or a combination of both, for these major improvement projects as well as conduct rate studies and potential rate increases for services provided as seen necessary.

5. **Status of, and opportunity for, shared facilities:** The HRCSD installed an emergency connection, with cooperation from the County of San Luis Obispo, to the Nacimiento Water Project (NWP) pipeline. This emergency connection provides HRCSD with the ability to convey up to 491 acre-feet per year of Nacimiento raw lake water directly to the water treatment plant for processing in an emergency situation. Other opportunities for shared facilities may include:

- i. Coordination between HRCSD and nearby private water purveyor
- ii. HRCSD, County, & HROA coordination for parks and recreational facilities
- iii. Coordinated open space preservation and development of trails
- iv. Under the Camp Roberts Joint Land Use Study (JLUS) policy (Policy IE-2A) supports regional coordination on infrastructure such as combining water and wastewater treatment facilities between San Miguel, Heritage Ranch, and Camp Roberts.

Recommendation: Continue to coordinate with other agencies and parties to achieve HRCSD goals.

6. **Accountability for community service needs including governmental structure and operational efficiencies:** HRCSD is governed by a five-member Board of Directors that are elected to four-year terms. Regularly scheduled monthly Board meetings are held and all meetings are open to the public and are publicly posted a minimum of 72 hours prior to the meeting in accordance with the Brown Act. HRCSD maintains an up-to-date website which contains District information, documents, and updates. The HRCSD has demonstrated accountability and transparency in its disclosure of information and cooperation during the process of this MSR. HRCSD responded to questionnaires and cooperated with document requests.

Recommendation: Board of Directors contact information and audio/visual recordings could be made available to improve transparency.

7. **Any other matter related to effective or efficient service delivery, as required by commission policy:** There are no other matters related to delivery of services.

Recommendation: No action recommended.

Agency Coordination / Public Comments

Staff coordinated with HRCSD throughout the preparation of this MSR. Input from HRCSD was provided via meetings, questionnaires, and during review of the Administrative and Public Review drafts. A 30-day review and comment period (February 7, 2023, through March 10, 2023) was conducted for the Public Review draft MSR for HRCSD. The draft MSR was published on the SLO LAFCO and HRCSD's websites. No written comments had been received at the publishing of the regular meeting agenda on April 13, 2023.

A notice of Public Hearing was published in the newspaper (The Tribune) on March 30, 2023, 21-days in advance of the hearing. The general public will have another opportunity to comment on the draft MSR when this staff report is released, a week before the LAFCO Hearing. All public comments received will be distributed to each Commissioner and become part of the official record of the Commission hearing.

STAFF RECOMMENDATION

Environmental Review

LAFCO is the Lead Agency for the proposed Municipal Service Review and Sphere of Influence Study. The purpose of the environmental review process is to provide information about the environmental effects of the actions and decisions made by LAFCO and to comply with the California Environmental Quality Act (CEQA). In this case, it has been determined with certainty that there is no possibility that the project may have a significant environmental effect on the environment because no changes are proposed and therefore it is found to be exempt from CEQA pursuant to section 15061(b)(3). The Local Agency Formation Commission will file this Notice of Exemption (Exhibit A) upon approval of the Sphere of Influence Study.

Recommended Actions

If your Commission moves to approve the Municipal Service Review and Sphere of Influence Study, staff recommends that roll call vote be taken for each of the following actions:

Action 1: Finds, by motion, the project to be exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15061(b)(3).

Action 2: Approve by resolution, the Municipal Service Review and Sphere of Influence Study found in Attachment B.

Attachment A: Draft LAFCO Resolution No. 2023-01

Exhibit A: CEQA Notice of Exemption

Exhibit B: Heritage Ranch CSD Boundary Map

Attachment B: Heritage Ranch CSD Municipal Service Review and Sphere of Influence Study

Attachment A

Draft LAFCO Resolution No.
2023-01

IN THE LOCAL AGENCY FORMATION COMMISSION
COUNTY OF SAN LUIS OBISPO, STATE OF CALIFORNIA

Thursday, April 20, 2023

RESOLUTION NO. 2023-

RESOLUTION APPROVING THE HERITAGE RANCH COMMUNITY SERVICES DISTRICT MUNICIPAL SERVICE REVIEW AND SPHERE OF INFLUENCE STUDY

The following resolution is now offered and read:

WHEREAS, the San Luis Obispo Local Agency Formation Commission, hereinafter referred to as the “Commission”, is authorized to conduct municipal service reviews and establish, amend, and update spheres of influence for local government agencies whose jurisdictions are within San Luis Obispo County; and

WHEREAS, the Commission conducted a municipal service review to evaluate availability and performance of governmental services provided by Heritage Ranch Community Services District, hereinafter referred to as the “District”, pursuant to California Government Code section 56430; and

WHEREAS, the Commission conducted a sphere of influence study for the District pursuant to California Government Code Section 56425; and

WHEREAS, the Executive Officer gave sufficient notice of a public hearing to be conducted by the Commission in the form and manner provided by law; and

WHEREAS, the staff report and recommendations on the municipal service review and sphere of influence study were presented to the Commission in the form and manner prescribed by law; and

WHEREAS, the Commission heard and fully considered all the evidence presented at a public hearing held on the municipal service review and sphere of influence study on April 20, 2023; and

WHEREAS, the Commission considered all of the sphere of influence factors required under California Government Code Section 56430 and 56425 (e) and adopts as its written statements of determinations therein, the determinations set in the Public Review Draft of the Heritage Ranch Community Service District Municipal Service Review and Sphere of Influence Study, with said determinations being incorporated by reference herein as though set forth in full; and

WHEREAS, the Notice of Exemption, is adequate as the documentation to comply with the California Environmental Quality Act (CEQA) Guidelines section 15061(b)(3) for the municipal service review and sphere of influence study for the District; and

NOW, THEREFORE, BE IT RESOLVED AND ORDERED by the Local Agency Formation Commission of the County of San Luis Obispo, State of California, as follows:

1. That the recitals set forth hereinabove are true, correct, and valid.
2. That the Notice of Exemption prepared for this proposal is complete and adequate, having been prepared in accordance with the provisions of the California Environmental Quality Act and is hereby determined to be sufficient for the Commission's actions and is incorporated by reference as Exhibit A.
3. That the Executive Officer of this Commission is authorized and directed to mail copies of this resolution in the manner provided by law.
4. Pursuant to Government Code Section 56430(a), the Commission makes the written statement of determinations for municipal service reviews, hereby incorporated by reference as contained in the 2023 Heritage Ranch Community Services District Municipal Service Review and Sphere of Influence Study included as Attachment B of the April 20, 2023 LAFCO Staff Report.
5. Pursuant to Government Code Section 56425(e), the Commission makes the written statement of determinations for sphere of influences, hereby incorporated by reference as contained in the 2023 Heritage Ranch Municipal Service Review and Sphere of Influence Study included as Attachment B of the April 20, 2023 LAFCO Staff Report.
6. That the Sphere of Influence Study for Heritage Ranch Community Service District is adopted pursuant to the map in Exhibit B of this Resolution.

Upon a motion of Commissioner _____, seconded by Commissioner _____ and on the following roll call vote:

AYES:

NAYS:

ABSENT:

ABSTAIN:

The foregoing resolution is hereby adopted.

LAFCO Chair

Date

ATTEST:

Rob Fitzroy Date
LAFCO Executive Officer

APPROVED AS TO FORM AND LEGAL EFFECT:

Brian Pierik Date
LAFCO Legal Counsel

Exhibit A

Notice of Exemption

To: Office of Planning and Research
PO Box 3044, 1400 Tenth Street, Room 222
Sacramento, CA 95812-3044

From: San Luis Obispo LAFCO
Rob Fitzroy, Executive Officer
1042 Pacific St. Suite A
San Luis Obispo, CA 93401
(805) 781 – 5795
rfitzroy@slo.lafco.ca.gov

County Clerk
County of San Luis Obispo
County Government Center
San Luis Obispo, CA 93408

Project Title: LAFCO File No. 3-S-22 | Heritage Ranch Community Services District Municipal Service Review and Sphere of Influence Study

Project Location: Heritage Ranch Community Services District (HRCSD) is located in northern San Luis Obispo County.

Description of Nature, Purpose, & Beneficiaries of Project: LAFCO has prepared a Sphere of Influence (SOI) Study and Municipal Service Review (MSR) for the Heritage Ranch Community Services District. The SOI is a 20-year growth boundary that includes areas that may be served by the District in the future. State law requires the MSR to be completed either prior to or concurrent with, the Sphere of Influence study. The MSR evaluates the public services provided by the District and is used as the basis for any changes to the SOI. No changes to the SOI are proposed.

Name of Public Agency Approving Project: The Local Agency Formation Commission (LAFCO) of San Luis Obispo County conducted a noticed public hearing on April 20, 2023, at 9:00 a.m. in the Board of Supervisors Chambers in San Luis Obispo at the County Government Center. Additional information is available on the LAFCO website at <https://slo.lafco.ca.gov/>.

Exemption Status: (check one)

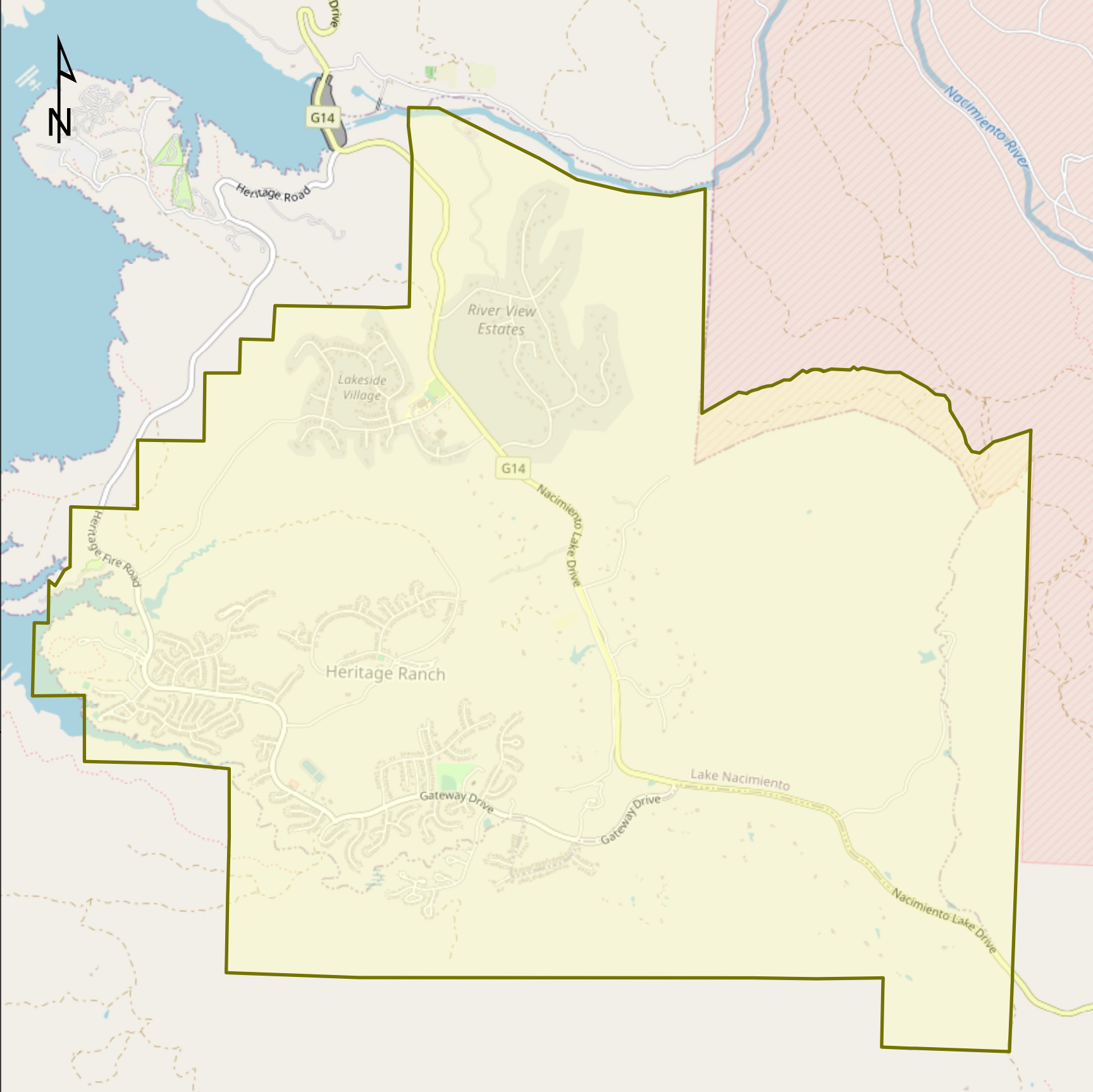
<input type="checkbox"/> Ministerial (Sec. 21080(b)(1); 15268);	<input checked="" type="checkbox"/> Categorical Exemption: State type and section number
<input type="checkbox"/> Declared Emergency (Sec. 21080(b)(3); 15269(a));	<input type="checkbox"/> Statutory Exemptions: State code number
<input type="checkbox"/> Emergency Project (Sec. 21080(b)(4); 15269 (b)(c));	<input type="checkbox"/> Other: The activity is not a project subject to CEQA.

Reasons Why Project is Exempt: It has been determined with certainty that there is no possibility that the project may have a significant environmental effect on the environment because no changes to the existing SOI are proposed and therefore it is found to be exempt from CEQA pursuant to section 15061(b)(3) of the State Guidelines. The Local Agency Formation Commission will file this Notice of Exemption upon approval of the Municipal Service Review and Sphere of Influence Study.

Rob Fitzroy, Executive Officer

Date

Exhibit B

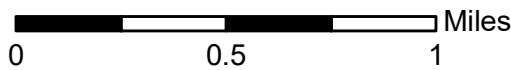


Heritage Ranch Community Services District

LAFCO Boundaries

- Sphere of Influence
(Same as Service Area)
- Service Area

Latest SOI Approval: Apr 2023



Prepared By SLOLAFCO
Name: Heritage Ranch CSD
Date: 3/31/2023
C-3-14

Attachment B

Heritage Ranch CSD Municipal
Service Review and Sphere of
Influence Study



Public Review Draft

Heritage Ranch Community Services District

**Municipal Service Review
and Sphere of Influence Study**

Prepared by

the San Luis Obispo Local Agency Formation Commission

Adopted ____ **TBD** ____, 2023

Acknowledgments

San Luis Obispo LAFCO gratefully acknowledges the time and effort of officials and staff of the Heritage Ranch Community Services District (CSD) in assisting in the preparation of this report and includes – but not limited to – the following:

Scott B. Duffield, PE, Heritage Ranch CSD General Manager

Public Review Draft

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ABOUT LAFCO

Authority and Objectives

Local Agency Formation Commissions (LAFCOs) were established in 1963 and are considered regional subdivisions of the State of California responsible for providing regional growth management services in all 58 counties. LAFCOs' authority is currently codified under the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH) with principal oversight provided by the Assembly Committee on Local Government. LAFCOs are comprised of locally elected and appointed officials with regulatory and planning powers delegated by the Legislature to coordinate and oversee the establishment, expansion, and organization of cities, towns, and special districts as well as their municipal service areas.

Regulatory Responsibilities

LAFCOs' principal regulatory responsibility involves approving or disapproving all jurisdictional changes involving the establishment, expansion, and reorganization of cities, towns, and most special districts in California. CKH defines "special district" to mean any agency of the State formed pursuant to general law or special act for the local performance of governmental or proprietary functions within limited boundaries. All special districts in California are subject to LAFCO oversight with the following exceptions: school districts; community college districts; assessment districts; improvement districts; community facilities districts; and air pollution control districts. LAFCOs are also tasked with overseeing the approval process for cities, towns, and special districts to provide new or extended services beyond their jurisdictional boundaries by contracts or agreements or annexation. LAFCOs also oversee special district actions to either activate new service functions and service classes or divest existing services. LAFCOs generally exercise their regulatory authority in response to applications submitted by affected agencies, landowners, or registered voters. Recent amendments to CKH also authorize and encourage LAFCOs to initiate jurisdictional changes to form, consolidate, and dissolve special districts consistent with community needs.

Planning Responsibilities

LAFCOs inform their regulatory actions, in part, through two central planning responsibilities: (a) making sphere of influence determinations and (b) preparing municipal service reviews. With these, and other relevant information in the record, LAFCO makes decisions on a variety of matters, including but not limited to annexations to cities and special districts, city incorporations, activation of powers for special districts, dissolutions of special districts, etc.

Sphere of Influence (SOI)

A SOI is defined by G.C. 56425 as "...a plan for the probable physical boundary and service area of a local agency or municipality...". A SOI is generally considered a 20-year, long-range planning tool. LAFCOs establish, amend, and update spheres for all applicable jurisdictions in California every five years, or as necessary. When updating the SOI, LAFCOs are required to consider and prepare a written statement of its determinations with respect to each of the following 5 factors:

- 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.

SOI determinations have been a core planning function of LAFCOs since 1971. The intent in preparing the written statements is to orient LAFCOs in addressing the core principles underlying the sensible development of local agencies consistent with the anticipated needs of the affected communities.

Municipal Service Reviews (MSR)

MSRs in contrast, are intended to inform, among other activities, SOI determinations. LAFCOs also prepare MSRs regardless of making any specific sphere determinations in order to obtain and furnish information to contribute to the overall orderly development of local communities. When updating an MSR, LAFCOs are required to consider and prepare written statements of its determinations with respect to each of the following 7 factors:

- 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.

LAFCO Decision-Making

LAFCO decisions are legislative in nature and therefore are not subject to an outside appeal process; only courts can overturn LAFCO decisions. LAFCOs also have broad powers with respect to conditioning regulatory and planning approvals so long as not establishing any terms that directly effects land use density or intensity, property development, or subdivision requirements.

LAFCOs are generally governed by a board comprising of county supervisors, city councilmembers, independent special district members, and representatives of the general public and an alternate

member for each category. SLO LAFCO, specifically, is governed by a 7-member board comprising of two county supervisors, two city councilmembers, two independent special district members, and one representative of the general public. All members serve four-year terms and must exercise their independent judgment on behalf of the interests of residents, landowners, and the public as a whole. LAFCO members are subject to standard disclosure requirements and must file annual statements of economic interests. All LAFCOs are independent of local government with their own staff. All LAFCOs, nevertheless, must appoint their own Executive Officers to manage agency activities and provide written recommendations on all regulatory and planning actions before the Commission. In addition, all LAFCOs must also appoint their own legal counsel.

Public Review Draft

SLO LAFCO

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Vice Chair Debbie Arnold	County Member
Jimmy Paulding	County Member
Marshall Ochylski	Special District Member
Robert Enns	Special District Member
Steve Gregory	City Member
Heather Jensen	Public Member

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Charles Bourbeau	City Member
Dawn Ortiz-Legg	County Member
Ed Eby	Special District Member
David Watson	Public Member

Staff

Rob Fitzroy	Executive Officer
Imelda Marquez	Analyst
Morgan Bing	Clerk Analyst
Brian Pierik	Legal Counsel

Contact Information

San Luis Obispo LAFCO's office is located at 1042 Pacific St Suite A in the City of San Luis Obispo. The LAFCO office is open by appointment to discuss proposals or other matters and can be scheduled by calling 805-781-5795. Additional information is also available online by visiting slo.lafco.ca.gov.

DISTRICT MSR & SPHERE STUDY

Overview

This report represents San Luis Obispo LAFCO's scheduled municipal service review for the Heritage Ranch Community Services District (HRCSD), located in northern San Luis Obispo County. The report has been prepared by staff consistent with the requirements of the Cortese, Knox, Hertzberg Act. The purpose of this report is to produce an independent assessment of municipal services in this area over the next five years or as seen necessary, relative to the Commission's regional growth management duties and responsibilities as established by the State Legislature. This includes evaluating the current and future relationship between the availability, demand, and adequacy of municipal services within the service areas of HRCSD directly subject to the Commission's oversight. Information generated as part of the report will be used by the Commission in (a) guiding subsequent sphere of influence updates, (b) informing future boundary changes, and – if merited – (c) initiating government reorganizations, such as special district formations, consolidations, and/or dissolutions.

The period for collecting data to inform the Commission's analysis and related projections on population growth and service demands has been set to cover any major updates and changes from the last time the MSR was updated, in 2013. The financial analysis has been set to cover the last five budgeted years and the last five audited fiscal year periods. The timeframe for the report has been oriented to cover the next five to seven-year period with the former (ten years) serving as the analysis anchor as contemplated under State law.

The document outline serves to inform all the state mandated requirements outlined in government code sections 56430 and 56425. Written determinations and recommendations have been included as the concluding chapter of this document.

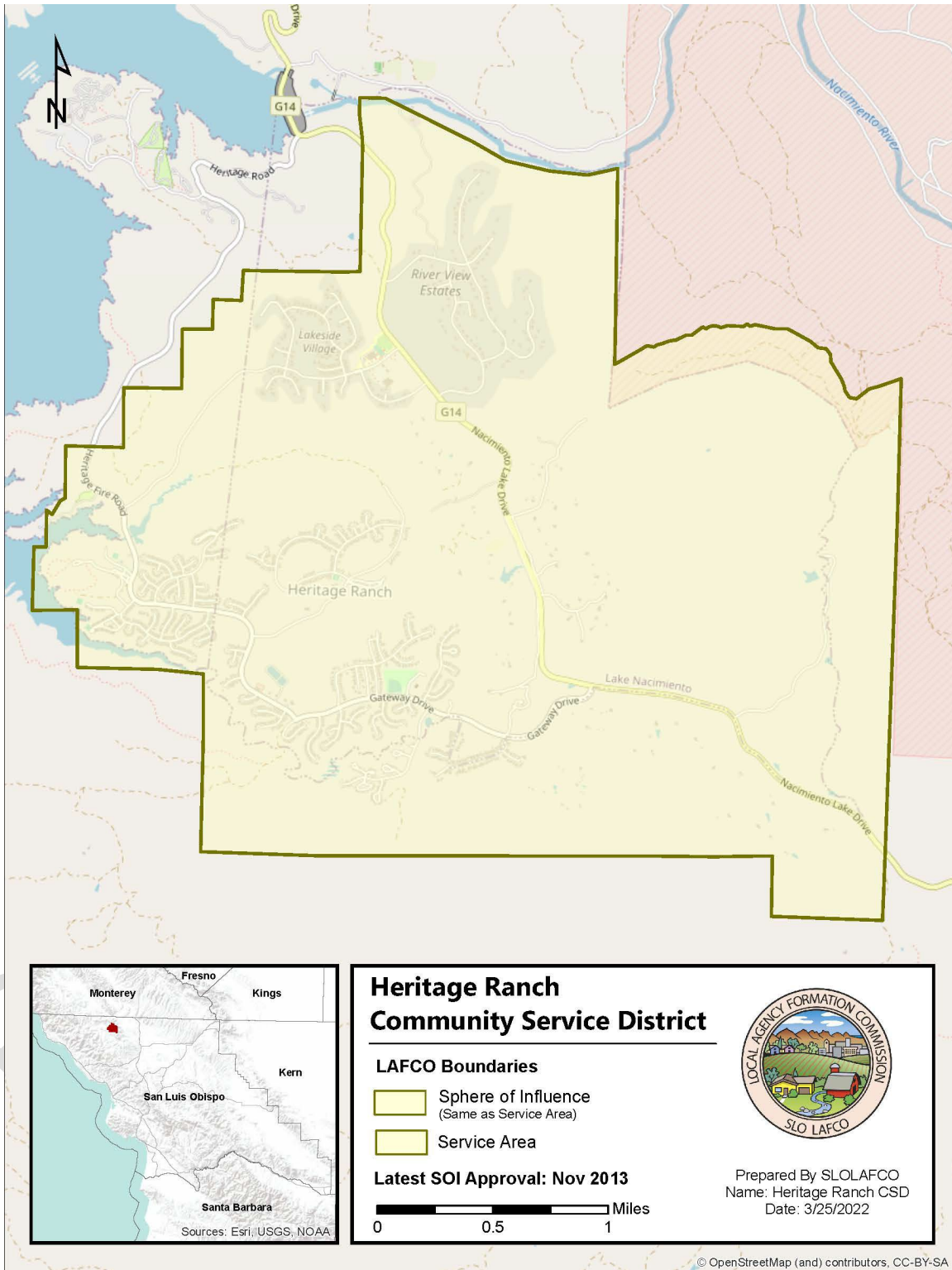
At A Glance

Table 1: Heritage Ranch Community Services District Summary Profile

Agency Name	Heritage Ranch Community Services District
Formation	1990
Legal Authority	Government Code §61000- 61850
Office Location	4870 Heritage Rd, Paso Robles, CA 93465
Website	https://heritageranchcsd.ca.gov/
General Manager	Scott Duffield
Employees	9 Full-time Employees
Public Meetings	HRCSD Board of Directors Meetings are held on the third Thursday of each month at the Heritage Ranch Community Services District Board Room, 4870 Heritage Road, Paso Robles, CA 93446. Meetings begin at 4:00 p.m. unless otherwise noticed. Special Meetings are held on an as needed basis.
Board of Directors	Five members elected to four-year terms
Active Powers	<ol style="list-style-type: none"> 1. Water 2. Sewer 3. Solid Waste 4. Parks & Recreation 5. Gas Station Operation
District Service Area	5,361 acres
Population Estimate	2,956
Revenues	\$4,598,554 for FY 22-23

Boundary Map

Figure 1: Heritage Ranch Community Services District Boundary Map



Sphere of Influence

Current & Proposed SOI

HRCSD’s existing sphere is coterminous with the District’s existing boundary. The District does not wish to make any SOI adjustments at this time; therefore no areas specifically requested by the District are being studied for possible inclusion into the District.

Accountability

HRCSD is an independent special district governed by a five-member Board of Directors that are elected to four-year terms. The Board holds meetings on the third Thursday of each month at the HRCSD Board Room, 4870 Heritage Road, Paso Robles, CA 93446. Agendas are officially posted at the HRCSD office, on the District’s website, and sent out to those subscribed via email at least 72 hours prior to a meeting. Every agenda for a regular meeting provides opportunity for members of the public to directly address the board. Directors receive \$100.00 a day for a District Board, Committee, or any other meeting attended for the purpose of conducting district business.

Table 2: Heritage Ranch Community Services District Board of Directors

Board Member	Title	Term Expiration
Bill Barker	President	12/1/2022 – 12/1/2026
Dan Burgess	Vice President	12/1/2022 – 12/1/2024
Devin Capps	Director	12/1/2022 – 12/1/2026
Michael Camou	Director	12/1/2022 – 12/1/2026
Masen Yaffee	Director	12/1/2022 – 12/1/2026

The District currently employs 9 full-time staff including the general manager, office supervisor, district engineer, operations manager, and 5 operators. Current staffing levels are considered adequate to provide services within the District’s service area. The District reports that all Form 700 financial disclosures are current and that the District maintains active memberships with several supportive

associations including the California Special Districts Association, Special District Risk Management Authority, American Water Works Association, and California Rural Water Association.

HRCSD maintains an up-to-date website in compliance with Senate Bill 929 which contains contact information for the District, the current agenda, financial transaction reports, compensation reports, and SB 272 Enterprise System Catalog.

Population Profile

According to 2020 US Census data, the Lake Nacimiento Census-designated Place (CDP), which largely represents HRCSD, had a population of 2,956¹. Total housing units is estimated to be 1932 units². The estimated build-out population within Heritage Ranch is estimated to be 4,274 with an approximate build-out year of 2070³. Following these projections, HRCSD is currently about 69% built-out.

Development of Heritage Ranch commenced in 1971 as a vacation and retirement home community with recreational and commercial facilities provided for the residents. The County of San Luis Obispo's Land Use Element provides for substantial reduction in the extent of development originally authorized by the specific plan. Re-evaluation of county water allocations for development around Lake Nacimiento resulted in a maximum of 1,100 acre-feet a year being set aside for development of Heritage Ranch Village Area. This allocation was expected to support the development of a maximum 4,000 residential units and other non-residential uses. (Amended 1986, Ord. 2270) In 1986, the developer reduced the number of potential dwelling units further to 2,900⁴ to reflect a more realistic development capability within the intended semi-rural character of the ranch. As a result, both the physical area within the entire Heritage Ranch Village reserve line (including Lake Nacimiento Resort) and the densities proposed for specific locations have been revised. To date, 2076⁵ units have been approved in the existing subdivisions.

¹ US Census, 2020 Decennial Census, Lake Nacimiento CDP

² Heritage Ranch Community Services District Staff, 2022

³ San Luis Obispo Council of Governments, 2050 Regional Growth Forecast for San Luis Obispo County, Figure 11. Buildout Estimates for Communities and Villages in the Unincorporated Area by Planning Area (2010)

⁴ Heritage Ranch Village Plan, San Luis Obispo County, 2014

⁵ Heritage Ranch Community Services District Staff, 2022

Disadvantaged Unincorporated Communities

SB 244 (Chapter 513, Statutes of 2011) made changes to the CKH Act related to “disadvantaged unincorporated communities,” including the addition of SOI determination number five listed above. Disadvantaged unincorporated communities, or “DUCs,” are inhabited territories (containing 12 or more registered voters) where the annual median household income (MHI) is less than 80 percent of the statewide annual median household income.

CKH Act Section 56375(a)(8)(A) prohibits LAFCO from approving a city annexation of more than 10 acres if a DUC is contiguous to the annexation territory but not included in the proposal, unless an application to annex the DUC has been filed with LAFCO. The legislative intent is to prohibit selective annexations by cities of tax-generating land uses while leaving out under-served, inhabited areas with infrastructure deficiencies and lack of access to reliable potable water and wastewater services. DUCs are recognized as social and economic communities of interest for purposes of recommending SOI determinations pursuant to Section 56425(c).

HRCSD is within Lake Nacimiento CDP which according to 2020 US Census Data had an estimated MHI of \$72,101⁶. This is approximately 92 percent of the estimated California MHI of \$78,672⁷, therefore the District does not qualify as a DUC. However, the census data is based on a small sample size and may not accurately depict the income levels of the District.

Social or Economic Communities of Interest in the Area

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

⁶ US Census, American Community Survey 2020 5-year estimates, Lake Nacimiento CDP

⁷ US Census, California Quick Facts, 2022

Present and Planned Land Use

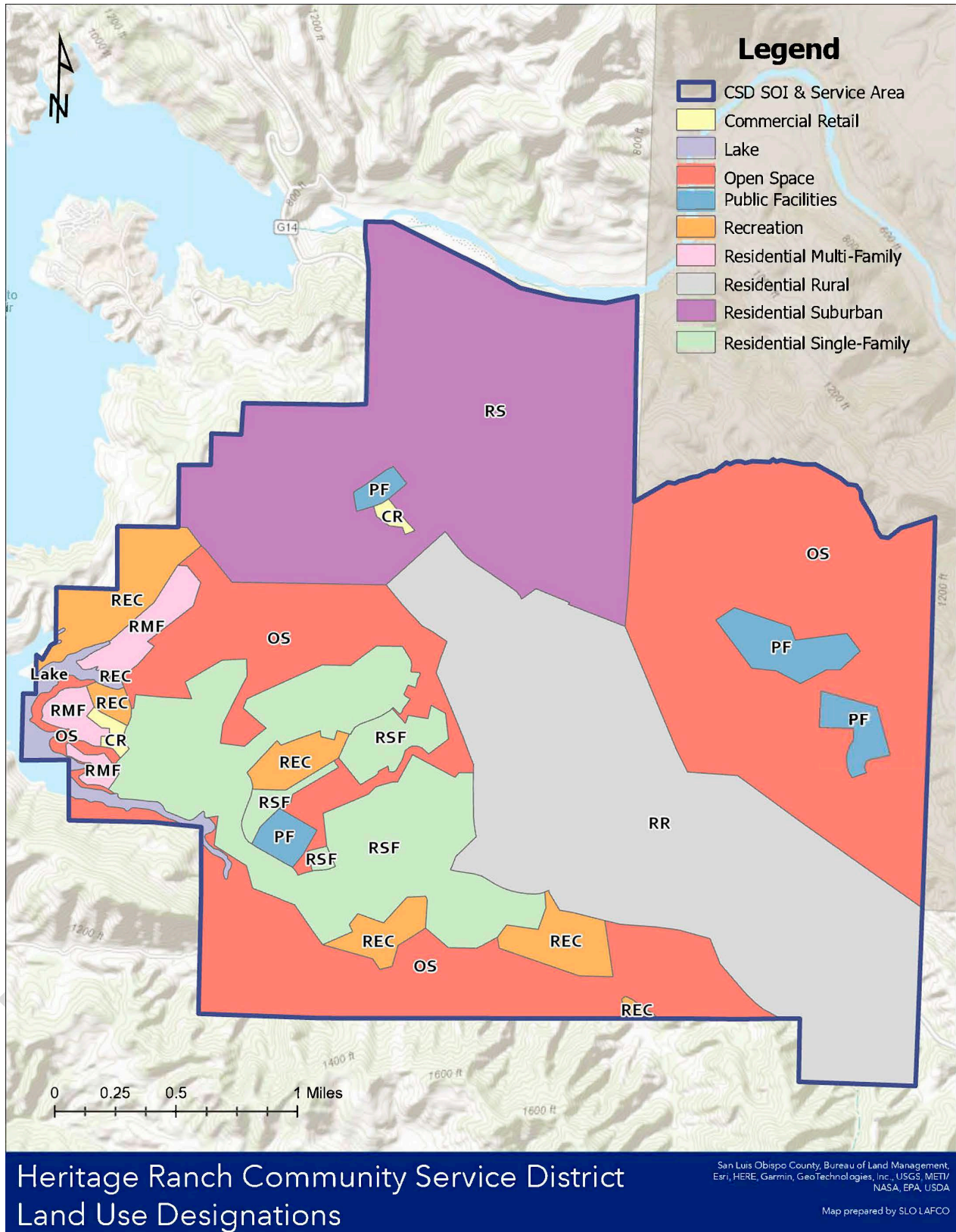
Land use within the District is subject to the Heritage Ranch Village Plan which is Part III of the Land Use and Circulation Elements (LUCE) of the County General Plan. Table 3 summarizes the acreage of each land use category within Heritage Ranch Village Reserve Line. Rural Land Use acreage is summarized in the North County Area Plan.

Table 3: Heritage Ranch Village Reserve Line Land Use Category Acreage

Land Use Category	Acreage
Agriculture	0
Rural Lands	0
Recreation	1,453
Open Space	3,520
Residential Rural	1,533
Residential Suburban	0
Residential Single Family	1,194
Residential Multi-Family	325
Office and Professional	0
Commercial Retail	71
Commercial Service	0
Industrial	0
Public Facilities	166
Dalidio Ranch	0
Total	8,262

The map on the following page shows the Land Use Categories (zoning) for the community of Heritage Ranch as established by the Heritage Ranch Village Plan.

Figure 2: Heritage Ranch Community Services District Land Use Designations



As previously stated, Heritage Ranch is currently about 69% built-out and has ample opportunity for growth within the existing boundaries. HRCSD's service area and sphere of influence boundaries are coterminous, and no sphere of influence update is anticipated at this time. Additionally, no impacts to agriculture or open space are expected at this time.

Services and Capacity

Services Currently Provided

In 2006, Senate Bill (SB) 135 revised the state laws governing community services districts (CSD). Following such legislative changes, SLO LAFCO passed resolution No. 2006-03 recognizing active powers for the County's CSDs. Since January of 2006, LAFCO has not received any requests from HRCSD to activate or divest any power. SB 135 requires an existing CSD to receive LAFCO approval to authorize/activate a latent power. HRCSD's active powers are listed below:

1. Water
2. Sewer
3. Solid Waste
4. Parks & Recreation
5. Gas Station Operation

An adequate supply of service capability should be documented to support areas in the sphere envisioned for eventual annexation and service by a jurisdiction. In this case, the HRCSD SOI is coterminous with the District's service area boundary and no changes to the SOI are proposed. This section analyzes present and long-term infrastructure demands and resource capabilities of HRCSD. LAFCO reviews and evaluates 1) the resources and services that are currently available, and 2) the ability of the CSD to expand such resources and services in line with increasing demands.

Water

Water Treatment Facility

HRCSD operates a treatment plant that removes contaminants and treats the water to ensure a healthful water supply for its residents. The treatment plant is regularly monitored by the State of California for compliance with State and Federal standards and regulations. HRCSD also provides its customers with an annual Consumer Confidence Report; this report is required by the California Department of Drinking Water and becomes available to all HRCSD customers in April of each year.

HRCSD Board last approved a Five-Year Capital Improvement Program (CIP) on August 18, 2022, for water and sewer operations. It is customary for the District to develop and project key capital improvement projects anticipated to occur during 5-year time period increments. Some of the capital improvement projects are required in part to serve future growth, while other CIPs are meant to serve existing customer needs. The overall costs get incorporated into customer water and sewer rate structure revisions. In the case where a capital project is needed to increase capacity to serve new development, that cost will be paid for by the developer at the time of development. More discussion about specific projects, impacts, financing, and implementation schedule is available in the HRCSD's approved 5-Year CIP dated August 18, 2022.

Existing Water Supply

HRCSD provided water treatment and distribution services to about 1,879⁸ residential units and 18 other units (commercial, public facilities, and irrigation) in 2017, in 2022 that number increased to 1,932⁹. To serve its residents, the HRCSD operates a water treatment plant (WTP) that sources water from the Nacimiento River through an infiltration gallery well. HRCSD is located within the Nacimiento Water Planning Area (WPA) 16 (Inland Sub-Region) as determined in the Master Water Report of 2012, which includes agricultural and rural land users, as well as Heritage Ranch and Oak Shores residential users. Similarly, WPA 16 receives water supply solely from the Nacimiento Reservoir. Table 4 is a

⁸ Heritage Ranch Community Services District Recycled Water Study, MKN & Associates, 2017

⁹ Heritage Ranch Community Services' District Staff, 2022

summary of San Luis Obispo’s total Nacimiento Water entitlements/allocations and allocation details for the Heritage Ranch Area.

Table 4: Nacimiento Water Entitlements

Agency	Existing Water Allocation (AFY) ¹⁰
Heritage Ranch Community Services District	889
County of San Luis Obispo & Private Landowners (within the Village of Heritage Ranch Reserve area)	211
Village of Heritage Ranch Area	1,100
Nacimiento Water Company (serves Oak Shores)	600
Other Lakeside Users	50
Other Nacimiento Reservoir Users	650
Nacimiento Water Pipeline	15,750
Total County of San Luis Obispo Entitlement	17,500

Emergency Water Supply

During dead pool conditions, the period when water can no longer be released through the dam & reservoir elevation is below 670 feet, water can no longer be gravity fed to the lower outlet works of the dam. At this reservoir elevation, the Nacimiento River is not capable of receiving gravity fed water from the outlet works of the dam and HRCSD (gallery wells downstream of the dam) will be without a water supply.

As of January 2016, HRCSD installed an emergency connection, with cooperation from the County of San Luis Obispo to the Nacimiento Water Project (NWP) pipeline. This emergency connection would provide the District with the ability to convey up to 491 acre-feet per year of Nacimiento raw lake water directly to the WTP for processing. This would only occur when lake water cannot be released through

¹⁰ Chapter 4, Volume II of San Luis Obispo County Master Water Report, Carollo Engineers, 2012

the dam to the District's downstream gallery wells for river water intake to the WTP. This emergency water project would only operate during drought years and would provide access to the District's sole potable water supply source through the Nacimiento Pipeline. Without this emergency connection project, the District would not be able to provide water during drought conditions for the life, health and safety of their residents. This supply of water is considered sufficient to meet the minimum needs of the community during drought conditions and implementing water shortage restrictions per the District's water restriction codes/requirements.

It should be noted that any water taken from the emergency connection would remain within the District's current Nacimiento Water allocation and the District would not be able to draw from this emergency connection such that they exceed their contractual water allocation.

Existing Water Demands

The District has four contracts with the County that allow the District an allocation of 889 acre-feet per year (AFY). The remaining water allocation within the Village of Heritage Ranch (211 AFY) is held by private landowners and the County. The District has allocated all its available contracted water supply to 2,076¹¹ approved residential lots. There is an additional 18 water meters¹² serving a variety of commercial, recreational, and public uses, and while these uses do add to the water demand, they do not count against the build-out limit for residential lots.

As of 2017, of the 2,076 approved residential lots, 1,889 had active meters (400 AFY allocation) and 187 were vacant unmetered lots (45 AFY allocation); of the 1,889 lots 19 were locked/inactive meters per the Updated Water Allocation Evaluation Report. As of 2022, HRCSD staff indicated that of the 2,076 approved residential lots, 1,932 have active meters (with an approximate demand of 464 AFY) and 144 are vacant unmetered lots (estimated reserved demand of 35 AFY). The average water demand per residential water meter is between 0.16 and 0.27 AFY/ lot¹³, with the lower amount occurring

¹¹ Updated Water Allocation Evaluation Report, Wallace Group, 2017

¹² Updated Water Allocation Evaluation Report, Wallace Group, 2017

¹³ Updated Water Allocation Evaluation Report, Wallace Group, 2017

during extreme drought conditions and the standard amount being .24 AFY/lot¹⁴. The 5-year average raw water intake between 2012-2015 was 505.8 AFY¹⁵ and potable water sales was 378.8 AFY¹⁶. In 2022, the amount of raw water intake was 547 AFY and potable water sales was 470 AFY¹⁷. Table 5 shows HRCSD’s existing water demand.

Table 5: Heritage Ranch Community Services District Existing Water Demand

Connection Type	Number of Users	Total Allocation (AFY)	Water Used (AFY)	Estimated Population ¹⁸
Residential	1,914 – metered	889	547 - raw (470 – potable of 547 raw)	3,758
	144 - vacant/unmetered			
Commercial/ Non-Residential	18 - misc.			
Total	2,076	889	547	

Future Water Demands

The Nacimiento Area Plan limits the maximum number of build-out residential units within HRCSD to 2,900 units, including existing RV sites. To serve new development within the District service area, beyond the approved 2,076, the District would require that developers transfer Nacimiento Reservoir water rights to the District prior to approving/accepting new developments. New developments are not approved until the District has reviewed the potential impacts to available water supply. Based on

¹⁴ Heritage Ranch Community Service’s District Staff, 2022

¹⁵ Updated Water Allocation Evaluation Report, Wallace Group, 2017

¹⁶ Updated Water Allocation Evaluation Report, Wallace Group, 2017

¹⁷ Heritage Ranch Community Service’s District Staff, 2022

¹⁸ Heritage Ranch Community Services District Recycled Water Study, MKN & Associates, 2017

a future population of 5,200 persons¹⁹, and a per capita demand of 160 GPD or .18 AFY/lot²⁰, the estimated future water demand is assumed to be 0.83 million gallons per day (MGD) or 930 AFY²¹; that number was later adjusted to 952 AFY²². The total amount of water needed to meet build-out demand is 272 AFY²³ of raw water needs to produce 680 AFY²⁴ of potable water sales for a total of 952 AFY to serve the existing and remaining lots. Table 6 below summarizes HRCSD’s future water demand.

Table 6: Heritage Ranch Community Services District Future Water Demand

Connection Type	Number of Users	Total Allocation (AFY)	Water Needed (AFY)	Estimated Population
Residential	2,900 lots	889	272 - raw	5,200
Commercial/ Non-Residential	18 - misc.		680 - potable	
Total		889	952	

In summary, to accommodate for HRCSD’s future build-out water demand, it would require the following:

- Water demand for 2,900 units, 680 AFY
- Raw Water Needs to Produce Potable Water, 272 AFY
- Total Nacimiento Water Allocation to Meet Future Build-out of 2,900 units, 952 AFY
- Current Contracted Nacimiento Water Allocation, 889 AFY
- Additional Allocation Required to Meet Future Demands, 63 AFY

¹⁹ Heritage Ranch Community Services District Recycled Water Study, MKN & Associates, 2017
²⁰ Heritage Ranch Community Services District Recycled Water Study, MKN & Associates, 2017
²¹ Heritage Ranch Community Services District Recycled Water Study, MKN & Associates, 2017
²² Updated Water Allocation Evaluation Report, Wallace Group, 2017
²³ Updated Water Allocation Evaluation Report, Wallace Group, 2017
²⁴ Updated Water Allocation Evaluation Report, Wallace Group, 2017

The District will require some additional water allocation beyond the current contractual 889 AFY allocation, as was discussed previously, but ultimately can serve future growth for many years into the future given current growth rates and available water supply. HRCSD should also keep in mind that the number of permanent residents may increase over time, and other variables change over the years that may impact this water demand forecast. HRCSD's water demand review should be updated every 5 to 10 years as was recommended in the 2017 Water Allocation Evaluation Report.

The District is encouraged to continue with the planned facility improvements as outlined in the approved CIP to ensure that there is continued reliable water service for existing and future residents. District policy requires new development to bring in new water source (i.e. a portion of the remaining 211 AF), without increasing the full reserved Nacimiento water allocation of 1,100 AFY. To allow the remaining 824 lots to be developed would require the District and future developers to address water demands beyond the current 889 AFY contractual allocation with the County.

Additional recommendations, included in the MKN & Associates Recycled Water Study, determined the feasibility of augmenting the District's water resources portfolio by adding recycled water usage for potential customers; the in-depth study included moving forward with the effort to include recycled water to their portfolio which would help the District's water supply to meet build out demands.

Other Water Providers in the Area

In addition to HRCSD, nine other private water purveyors/ Water Mutual Companies provide water services to area residents but none of them overlap with HRCSD. The primary source for all of these water providers is groundwater under the direct influence of surface water of Nacimiento Lake or River.

These include:

- South Shore Village Club
- Christmas Cove Company
- Cal Shasta Club
- Nacimiento Water Company (Allocation of 600AFY)
- Tri-Counties Club
- Laguna Vista Boat Club
- Northshore S&B Inc.
- Lake Nacimiento
- Babe Ruth Oak View Mobile Home Park

Wastewater

Wastewater Treatment Facility

The sewer treatment plant is located on Heritage Road next to the District office. Heritage Ranch CSD Water Reclamation Facility is an extended aeration facility. Aeration treatment relies on aerobic bacteria to digest the sewage, which gets discharged to an unnamed ephemeral drainageway that is a tributary to the Nacimiento River 4.2 miles downstream of the discharge point. HRCSD has an aging secondary wastewater treatment pond system and must upgrade their Water Reclamation Facility (WRF) for reasons that are described below.

The California Regional Water Quality Control Board (RWQCB), Central Coast Region, issues a Waste Discharge permit for discharge of the treated effluent. A National Pollution Discharge Elimination System (NPDES) permit is also required for the discharge of treated water. A NPDES permit is required because the ephemeral creek discharges to the Nacimiento River during heavy rains and thus to a “water of the United States” that is under Federal authority. Basic effluent limitations set by the RWQCB are that the discharge must be treated to a degree that protects groundwater, streams and riparian habitat.

HRCSD’s aging secondary wastewater treatment pond system must upgrade their facility to ensure compliance with NPDES and Waste Discharge Requirements imposed by the RWQCB. According to HRCSD WRF Upgrade design plans, the District’s NPDES Permit was revised, and the Regional Board also issued a Time Schedule Order which acknowledges the District is unable to immediately comply with the copper, un-ionized ammonia, and nitrate effluent limits.

HRCSD is working on major upgrades to comply with these effluent limits, and this WRF Upgrade Project will be needed in order to meet these treatment objectives and requirements, the project will also set the District up for recycled water programs. District staff anticipate the facility upgrades to be completed by the end of 2027.

In addition, as was mentioned in the water section of this report, the HRCSD Board last approved a Five-Year CIP on August 18, 2022, for water and sewer operations. It is customary for the District to develop and project key capital improvement projects anticipated to occur during 5-year time period increments which helps keep the District’s facilities up to code.

Existing Wastewater Capacity

As of 2017, the District provided wastewater collection and disposal services to approximately 1,701²⁵ residential units and 11²⁶ other units (commercial and public facilities); in 2022 the number of service connections slightly increased to 1,748²⁷. The existing average daily flow was estimated at 0.13 MGD or 145 AFY with a maximum monthly flow of 0.16 MGD or 179 AFY, according to the HRCSD 2017 Recycled Water Study. It is important to note that wastewater demand will differ from water demand because there are residents within the HRCSD service area that are on septic. Table 7 below summarizes the existing wastewater collection amounts.

Table 7: Heritage Ranch Community Services District Existing Wastewater Demand

Description	Number of Connections	Estimated Population ²⁸	Existing Flows (MGD)
Existing Wastewater Collection	1,748	3,402	0.13

Future Wastewater Capacity

As mentioned in the water section, the HRCSD has allocated all of its available contracted water supply to 2,087 residential and 18 miscellaneous approved units/parcels (school, commercial center, HRHOA/public facilities) and buildout population served by the District’s wastewater facilities was

²⁵ Heritage Ranch Community Services District Recycled Water Study, MKN & Associates, 2017

²⁶ Heritage Ranch Community Services District Recycled Water Study, MKN & Associates, 2017

²⁷ Heritage Ranch Community Service’s District Staff, 2022

²⁸ Heritage Ranch Community Services District Recycled Water Study, MKN & Associates, 2017

determined to be limited to 2,400²⁹ connections. Based on a future population of 4,800 (for wastewater needs) and a per capita flow of 55 gpd the estimated average daily flow was determined to be 0.26 MGD or 291 AFY with a maximum monthly flow of 0.34 MGD or 381 AFY as was stated in the 2017 HRCSD Recycled Water Study. Future average daily flows to the WTP will be at 65% of the original plant design hydraulic capacity (original design capacity of 0.4 MGD).

Once the District implements its CIP, last approved August 2022, to meet existing system deficiencies and future flow and effluent requirements, the HRCSD would be able to better serve its existing and build-out capacity and meet all regulatory requirements. Table 8 below recaps the future wastewater collection amounts.

Table 8: Heritage Ranch Community Services District Future Wastewater Demand

Description	Number of Connections	Estimated Population	Future Flows (MGD)
Future Wastewater Collection	2,400	4,800	0.26

Solid Waste

HRCSD is the solid waste authority and has a Franchise Agreement with San Miguel Garbage Company to provide solid waste services within the District. The current agreement expires January 31, 2032. The agreement allows the San Miguel Garbage Company to include the furnishing of all labor, supervision, equipment, materials, supplies, and all other items necessary to perform the services (refuse collection, disposal and recycling activities). The District reserves the right to revise its laws and regulations pertaining to solid waste collection and disposal in order to protect public health, safety and welfare. Funding for solid waste collection and disposal activities comes primarily from fees charged to residents.

²⁹ Heritage Ranch Community Services District Recycled Water Study, MKN & Associates, 2017

Parks & Recreation

Currently, HRCSD does not operate any parks and recreation facilities or activities. However, it does lease property to the Heritage Village Senior Association, who built and owns a Senior Center for the community since October 1, 1996, with a fifty-year term, which expires in the year 2046 with the option to renew. The Senior Association funds all cost of operations.

The HRCSD does not plan to manage any parks and recreation operations as the Heritage Ranch Owners Association (HROA) manages all these functions around the Heritage Ranch Area; the County does not provide these services. The District is encouraged to deactivate this power which would require an application from the District to LAFCO with Commission approval.

Gas Station

The District is authorized to provide gas station services but no longer provides the community that service. HRCSD is encouraged to deactivate this power which would require an application from the District to LAFCO with Commission approval.

Shared facilities

There are opportunities for continued shared relationships between agencies for services within the HRCSD boundary. The County, the Homeowners Association, San Miguel Garbage Company, The Nacimiento Water Project pipeline, and the District coordinate to provide services and avoid a duplication of effort. At present, the distinction between District and County services in the area is clear. The opportunities for more coordination may include:

- District and nearby private water purveyor
- District, County, & HROA coordination for parks and recreational facilities
- Coordinated open space preservation and development of trails & maintenance
- Under the Camp Roberts Joint Land Use Study (JLUS) policy (Policy IE-2A) supports regional coordination on infrastructure such as combining water and wastewater treatment facilities between San Miguel, Heritage Ranch, and Camp Roberts.

Services provided by the District and the County are well delineated. The HROA provides for all roads and streets maintenance within the District except for Nacimiento Lake Drive (NLD) and a short portion of Heritage Loop Road from NLD to Holly Drive which is maintained by the County. The County provides Sheriff Services, Fire Protection, Tax Collecting, and other general governmental services. The District provides water, sewer, and solid waste. The HROA provides parks and recreation services.

Finance

District Budget

The District adopts the budget each year and it is used as the spending plan for the District. The budget provides a framework for the District to address the following issues: reserves, revenues, expenditures, transfer authority, fiscal management, investments, capital improvements, rates and fees. HRCSD's Information Manual provides more details on the budget, financial structure, and processes of the District. The HRCSD Budget is divided into the following categories:

1. **Capital and Equipment Budget:** Any revenue and expense for specific HRCSD projects and/or equipment is presented in its own spreadsheet.
2. **Water Fund Budget:** All Water related revenue and expenses are presented in a separate spreadsheet.
3. **Sewer Fund Budget:** All Sewer related revenue and expenses are presented in a separate spreadsheet.
4. **Solid Waste Fund Budget:** All Solid Waste related revenue and expense is presented in a separate spreadsheet.
5. **General Fund Budget:** All miscellaneous revenue (transfer from other funds, miscellaneous income, property tax) and miscellaneous expense (salaries and benefits and other District Office expenses) are presented in its own spreadsheet.
6. **Consolidated Budget:** Primary District Budget - all District revenue and expenses are summarized in a spreadsheet.

The Consolidated Budget summarizes all of the District’s budget categories (listed as 1-5 above). The table below shows the District’s operating total expenses for the 5 most recent adopted budgets. Data was pulled from the consolidated budget for each corresponding FY.

Table 9: Heritage Ranch Community Services District Operating Expense³⁰

Category	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Operating Total Expense	\$2,258,944	\$2,552,867	\$4,587,054	\$4,830,802	\$4,503,037

Revenues

The District is funded by a variety of revenue sources separated out into four separate budget categories (Water Fund, Sewer Fund, Solid Waste Fund, & General Fund). Each budget fund receives revenue from service fees, inspection fees, property taxes, interest, use of reserves etc. The total revenue amounts for the 5 most recent adopted budgets are documented in the table below:

Table 10: Heritage Ranch Community Services District Revenue³¹

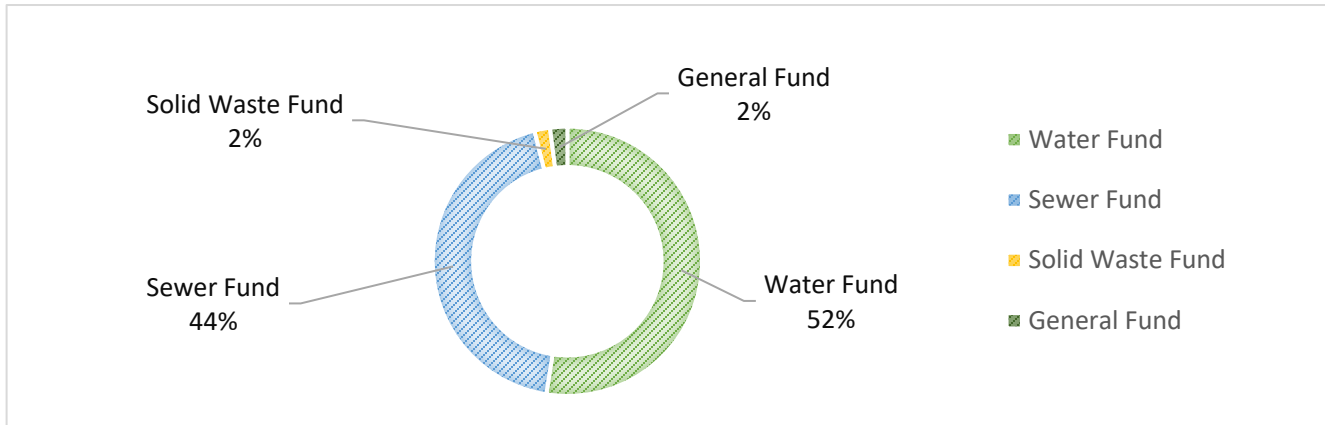
Category	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Total All Revenue	\$2,354,121	\$2,785,280	\$4,695,895	\$4,933,788	\$4,598,554

LAFCO used HRCSD’s most recent adopted budgets to determine the average primary source of revenue over the past 5-years. About 52% of the District’s revenues come from the Water Fund and about 44% from the Sewer Fund, which combined is 96% of the District’s total revenue sources.

³⁰ Heritage Ranch Community Service District Budgets for each corresponding Fiscal Year, FY 18/19 through FY 22/23

³¹ Heritage Ranch Community Service District Budgets for each corresponding Fiscal Year, FY 18/19 through FY 22/23

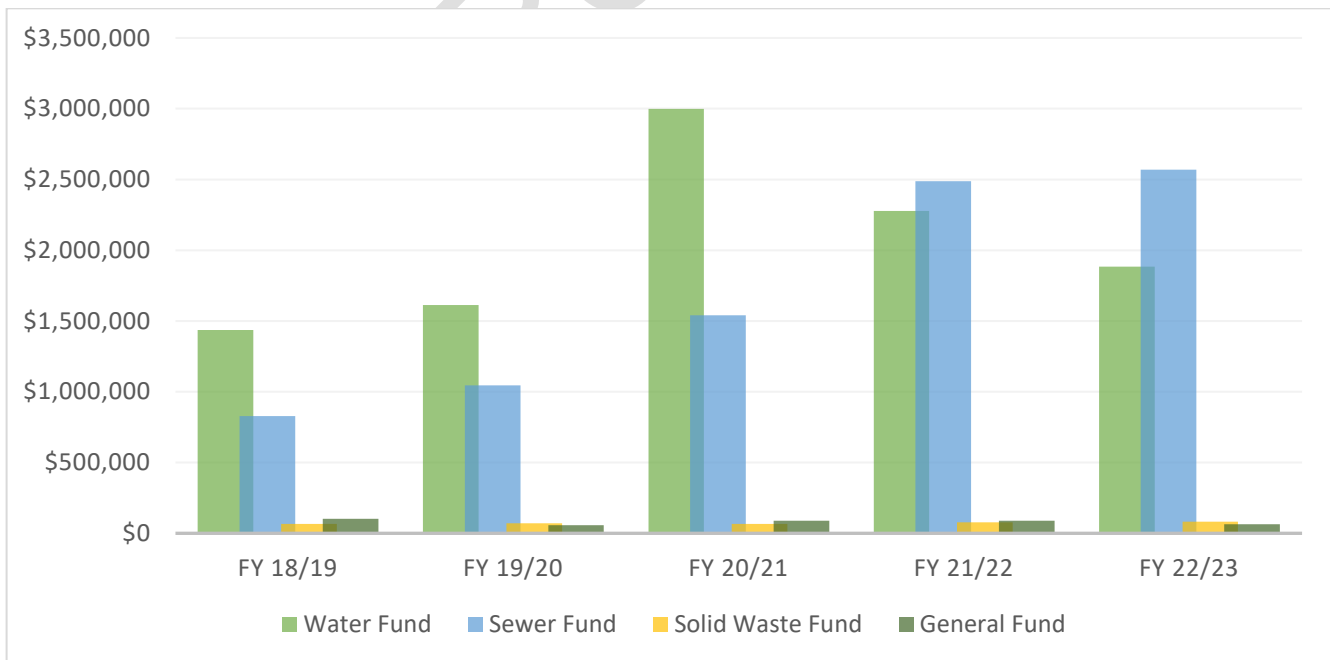
Figure 3: Heritage Ranch Community Services District Revenue Sources



Revenue Trend Analysis

The graph below represents revenue sources by year. As depicted, the water fund was the primary source of revenue between FY 2018-19 through FY 2020-22. In FY 2021-22 through FY 2022-23 the sewer fund became the primary source of revenue. The overall increase in revenue may be attributed to increased water and sewer rates. The District plans to conduct another rate study in 2023.

Figure 4: Heritage Ranch Community Services District Revenue Sources by Year



Financial Statements / Audits

HRCSD hires an outside accounting firm to perform the annual audit in accordance with established governmental accounting standards. This includes auditing HRCSD's statements with respect to verifying overall assets, liabilities, and net position. These audited statements provide quantitative measurements in assessing HRCSD's short and long-term fiscal health with specific focus on delivering its active service functions. LAFCO has used the 5 most recent audited budgets to conduct its evaluation of the District's Financial Health; separated into three categories (Agency Assets, Agency Liabilities, and Agency Net Position). Financial Conclusions have also been included, primarily based on the most recent audited Fiscal Year ending on June 30, 2021.

Agency Assets

Agency assets provide current, future, or potential economic benefit for the entity. An agency asset is therefore something that is owned by the agency, or something that is owed to the agency. In this section agency assets will be reviewed in two separate categories as defined below:

- 1) *Current Assets*: cash and other assets that are expected to be converted to cash within a year.
- 2) *Long-Term Assets*: long-term investments that are not expected to become cash within an accounting year.

HRCSD's audited assets at the end of 2020-2021 totaled to \$12.132 million and are 10.6% higher than the average year-end amount of \$10.912 million documented during the previous five-year audited period. Assets classified as current, with the expectation they could be liquidated within a year, represented 42% of the total amount, or \$5.118 million, and primarily tied to cash and investments. Assets classified as non-current make up the remainder of the total, \$7.014 million, and primarily attributed to property, plant and equipment capital. Overall, all assets for HRCSD have increased by 17% over the corresponding 5-year audited period.

Table 11: Heritage Ranch Community Services District Audited Assets³²

Category	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	5-yr % Change	5-yr Average
Current Assets	3,037,941	3,392,698	3,780,018	5,268,449	5,118,055	68%	4,119,432
Non-Current Assets	7,333,911	6,719,896	6,374,628	6,521,173	7,014,252	-4%	6,792,772
Total Assets	10,371,852	10,112,594	10,154,646	11,789,622	12,132,307	17%	10,912,204

Agency Liabilities

An agency liability is something the agency owes, usually a sum of money. Liabilities are settled over time through the transfer of economic benefits including money, goods, or services. In this section agency liabilities will be reviewed in two separate categories as defined below:

- 1) Current Liabilities: an agency's short-term financial obligations due to be paid within a year.
- 2) Other Non-Current Liabilities: an agency's long-term financial obligations that are due more than a year away.

HRCSD's audited liabilities at the end of FY 2020-2021 totaled \$5.561 million and is 23.5% higher than the average year-end amount of \$4.392 million documented during the previous five-year audited period. Liabilities classified as current and representing obligations owed in the near-term account for 5%, or \$0.311 million, of the total and largely tied to current portion of loans payable and current portion of capital lease payable. Non-current liabilities represent the remaining total, or \$5.250 million, and largely tied to payments on capital lease payable, loans payable and pension liability. Overall, all liabilities have increased by 84% over the corresponding 5-year audited period.

³² Heritage Ranch Community Service District Basic Financial Statements for each corresponding Fiscal Year, FY 16/17 through FY 20/21

Table 12: Heritage Ranch Community Services District Audited Liabilities³³

Category	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	5-yr % Change	5-yr Average
Current liabilities	430,194	317,830	280,313	206,155	311,110	-28%	309,120
Non-Current Liabilities	2,592,069	3,530,975	3,598,384	5,447,231	5,250,142	103%	4,083,760
Total Liabilities	3,022,263	3,848,805	3,878,697	5,653,386	5,561,252	84%	4,392,881

Agency Net Position

The agency net position is the difference between (1) total assets, and (2) total liabilities. Net position should be displayed in three categories which focus on the accessibility of the underlying assets:

- Net investment in capital assets
- Restricted for Debt Service
- Unrestricted (In this case it's restricted by Resolution)

HRCSD's audited net position or equity at the end of FY 2020-2021 totaled \$6.804 million and represents the difference between the District's total assets and total liabilities. The most recent year-end amount is 2.6% higher than the average year-end sum of \$6.624 million documented during the previous 5-year audited period. 60 percent of the ending net investment, or \$4.087 million, is tied to capital assets with the remainder categorized as restricted for debt service, at \$0.113 million, and \$2.602 million as restricted by resolution. Overall, the net position for HRCSD has decreased by (6%) through the corresponding 5-year audited period.

³³ Heritage Ranch Community Service District Basic Financial Statements for each corresponding Fiscal Year, FY 16/17 through FY 20/21

Table 13: Heritage Ranch Community Services District Audited Net Position³⁴

Category	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	5-yr % Change	5-yr Average
Net Investment in Capital Assets	5,272,523	4,772,237	4,543,743	4,228,344	4,087,781	-22%	4,580,926
Restricted for Debt Service	112,392	112,666	112,948	113,231	113,434	1%	112,934
Restricted by Resolution	1,874,721	1,346,430	1,729,157	2,101,198	2,602,903	39%	1,930,882
Total Net Position	7,259,636	6,231,333	6,385,848	6,442,773	6,804,118	-6%	6,624,742

Financial Conclusions

Statements made in this section are all sourced from the HRCSD Financial Audit for Fiscal Year Ending June 30, 2021, and help explain financial trends that have been identified in the tables above. The District was determined to be financially stable despite increasing costs, limited revenues, and new regulatory requirements. The District remains dependent on both property taxes and standby charges to fund the water and sewer operations. Cost increases are projected for labor, utilities, maintenance, and supplies in future years. The District has increased its water and sewer rate charges in recent years, the last time being in 2022 through the rate study and Capital Improvement Program that was approved in conjunction back in 2017. The District has begun work on a new rate study and increases are expected for FY 2023 with the most significant increase anticipated in the sewer fund to provide for the major plant upgrade and other necessary projects to meet future operating stability; this would be followed by complying with proposition 218 requirements if necessary. The District currently has \$3,181,324 in long-term debt due on two water treatment plant loans and the photovoltaic system loan. It is anticipated that the District will apply for additional funding via loans, grants, or a combination of both, for these major projects.

³⁴ Heritage Ranch Community Service District Basic Financial Statements for each corresponding Fiscal Year, FY 16/17 through FY 20/21

DETERMINATIONS & RECOMMENDATIONS

Service Review Determinations per Government Code Section 56430

As set forth in Section 56430(a) of the CKH Act, in order to prepare and update the SOI 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 a service review the county, the region, the sub-region, 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:** Currently, the estimated population of Heritage Ranch Community Services District is 2,956. The estimated build-out population is 4,274 with an approximate build-out year of 2070.

Recommendation: No action recommended.

2. **The location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence:** According to 2020 US Census Data, the median household income for Lake Nacimiento CDP is \$72,101, which does not qualify it as a DUC.

Recommendation: The District may wish to consider conducting a community survey that could, in part, more accurately determine the MHI. This information may be helpful with regard to eligibility for grant funding and other planning efforts.

3. **Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies:**
 - a. Water | To serve existing and future service demand, the HRCSD Board approved a Five-Year Capital Improvement Program (CIP) on August 18, 2022, for water and sewer operations. HRCSD can serve its current 2,076 residential approved lots and the 18

miscellaneous approved units/parcels (school, commercial center, & public facilities). There is an approximate balance of 342 AFY water allocation for the 824 remainder lots. To serve full future build-out, the District will require some additional water allocation aside from the current contractual 889 AFY allocation. However, it is anticipated that the District can serve some level of new development without new water allocations. In context to the low growth rate of the District, water availability is expected to remain adequate for the foreseeable future. Table 14 shows a summary of the HRCSD’s Water.

Table 14: Summary of Heritage Ranch Community Services District Water Demand

Description	Lots	Connections	Total Water Demand (AFY)	Water Supply (AFY)	Balance (AFY)
Existing	2,076	1,932	547 - used	889	342
Future	2,900	2,900	952 - anticipated	889	-63

Recommendation: The District is encouraged to continue with the planned facility improvements as outlined in the approved CIP to ensure that there is continued reliable water service for the existing and future residents. With uncertainty as to the type and size of the remaining 824 lots to develop in the future, the District and future developers will need to address water demands beyond the current 889 AFY contractual allocation with the County when timing necessitates. It is important to note that the number of permanent residents may increase or decrease over time, and other variables change over the years that may impact this water demand forecast. As stated in determination #2 above, the District may wish to consider preparing a community wide survey to better understand demographics.

- b. Wastewater | To serve existing and future service demand, the HRCSD Board approved a Five-Year CIP on August 18, 2022, for water and sewer operations as was previously mentioned. The HRCSD has an aging secondary wastewater treatment pond system and

must upgrade their Water Reclamation Facility to ensure compliance with NPDES and Waste Discharge Requirements imposed by the RWQCB. Future average daily flows to the WWTP facility will be at 65% of the original plant design hydraulic capacity (original design facility capacity of 0.4 MGD). Table 15 summarizes the District’s existing and future wastewater treatment flows.

Table 15: Heritage Ranch Community Services District Wastewater Capacity

Description	Number of Connections	Estimated Population	Flow (MGD)	Facility Capacity (MGD)
Existing Wastewater	1,748	3,402	0.13	0.4
Future Wastewater	2,400	4,800	0.26	0.4

Recommendation: The District is encouraged to continue with the approved CIP facility improvements and comply with RWQCB requirements to ensure that there is continued reliable wastewater treatment service.

- c. Solid Waste | HRCSD is the solid waste authority and has a Franchise Agreement with San Miguel Garbage Company to provide solid waste services. HRCSD reserves the right to revise its laws and regulations pertaining to solid waste collection and disposal in order to protect public health, safety and welfare. The current agreement expires January 31, 2032.

Recommendation: No action recommended.

- d. Parks & Recreation | HRCSD does not operate any parks and recreation facilities or activities. However, it does lease property to the Heritage Village Senior Association, who built and funds all costs associated with their Senior Center. The HROA manages all

the parks and recreation functions around the Heritage Ranch Area; the County does not provide these services.

Recommendation: The District is encouraged to deactivate this power which would require an application from the District to LAFCO and ultimately Commission approval.

- e. Gas Station Operation | The District is authorized to provide gas station services but no longer provides the community that service.

Recommendation: The District is encouraged to deactivate this power which would require an application from the District to LAFCO and ultimately Commission approval. This could be done in tandem with the above recommendation to deactivate parks and rec power.

- 4. **Financial ability of agencies to provide services:** The District is financially stable despite increasing costs, limited revenues, and new regulatory requirements. The District remains dependent on both property taxes and standby charges to fund the water and sewer operations. The District increased its water and sewer rates charges in 2018 and expects a rate study and increases for FY 2023.

Recommendation: The District is encouraged to continue to apply for additional funding via loans, grants, or a combination of both, for these major improvement projects as well as conduct rate studies and potential rate increases for services provided as seen necessary.

- 5. **Status of and, opportunities for, shared facilities:** The HRCSD installed an emergency connection, with cooperation from the County of San Luis Obispo, to the Nacimiento Water Project (NWP) pipeline. This emergency connection provides the District with the ability to convey up to 491 acre-feet per year of Nacimiento raw lake water directly to the water

treatment plant for processing in an emergency situation. Other opportunities for shared facilities may include:

- i. Coordination between the District and nearby private water purveyor
- ii. District, County, & HROA coordination for parks and recreational facilities
- iii. Coordinated open space preservation and development of trails
- iv. Under the Camp Roberts Joint Land Use Study (JLUS) policy (Policy IE-2A) supports regional coordination on infrastructure such as combining water and wastewater treatment facilities between San Miguel, Heritage Ranch, and Camp Roberts.

Recommendation: Continue to coordinate with other agencies and parties to achieve District goals.

6. **Accountability for community service needs, including governmental structure and operational efficiencies:** HRCSD is governed by a five-member Board of Directors that are elected to four-year terms. Regularly scheduled monthly Board meetings are held and all meetings are open to the public and are publicly posted a minimum of 72 hours prior to the meeting in accordance with the Brown Act. HRCSD maintains an up-to-date website which contains District information, documents, and updates. The District has demonstrated accountability and transparency in its disclosure of information and cooperation during the process of this MSR. The District responded to questionnaires and cooperated with document requests.

Recommendation: Board of Directors contact information and audio/visual recordings could be made available to improve transparency.

7. **Any other matter related to effective or efficient service delivery:** There are no other matters related to delivery of services.

Recommendation: No action recommended.

Sphere of Influence Determinations per Government Code Section 56425

In order to carry out its purposes and responsibilities for planning and shaping the logical and orderly development of local governmental agencies to advantageously provide for the present and future needs of the county and its communities, the commission shall develop and determine the sphere of influence of each city, as defined by G.C. Section 56036, and enact policies designed to promote the logical and orderly development of areas within the sphere. 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 the following:

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

- The HRCSD SOI is coterminous with the District's service area boundary. The SOI is expected to remain unchanged, with no expansions or reductions for HRCSD.
- Land uses within the District's SOI are predominantly recreation, open space, residential rural and residential single family. Other land uses include residential multi-family, commercial retail, and public facilities.
- HRCSD is currently 69% built-out, with the number of possible build-out units limited to 2,900 based on estimated future population projections and water supply constraints. Therefore, the current District boundaries are sufficient to accommodate growth at this time.

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

- The HRCSD SOI is coterminous with the District's service area boundary. The SOI is expected to remain unchanged, with no expansions or reductions for HRCSD. The current District boundaries are sufficient to accommodate growth at this time.

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

- The HRCSD SOI is coterminous with the District’s service area boundary. The SOI is expected to remain unchanged, with no expansions or reductions for HRCSD; therefore, this factor does not need to be addressed.

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

- The HRCSD SOI is coterminous with the District’s service area boundary. The SOI is expected to remain unchanged, with no expansions or reductions for HRCSD; therefore, this factor does not need to be addressed.

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, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere.

- The HRCSD SOI is coterminous with the District’s service area boundary. The SOI is expected to remain unchanged, with no expansions or reductions for HRCSD.
- Unincorporated territory surrounding the District may qualify as disadvantaged. Should future annexations or service extensions be proposed, special consideration will be given to any DUCs affected by the annexation consistent with GC §56375(8)(A) and LAFCO policy.

MSR Conclusions

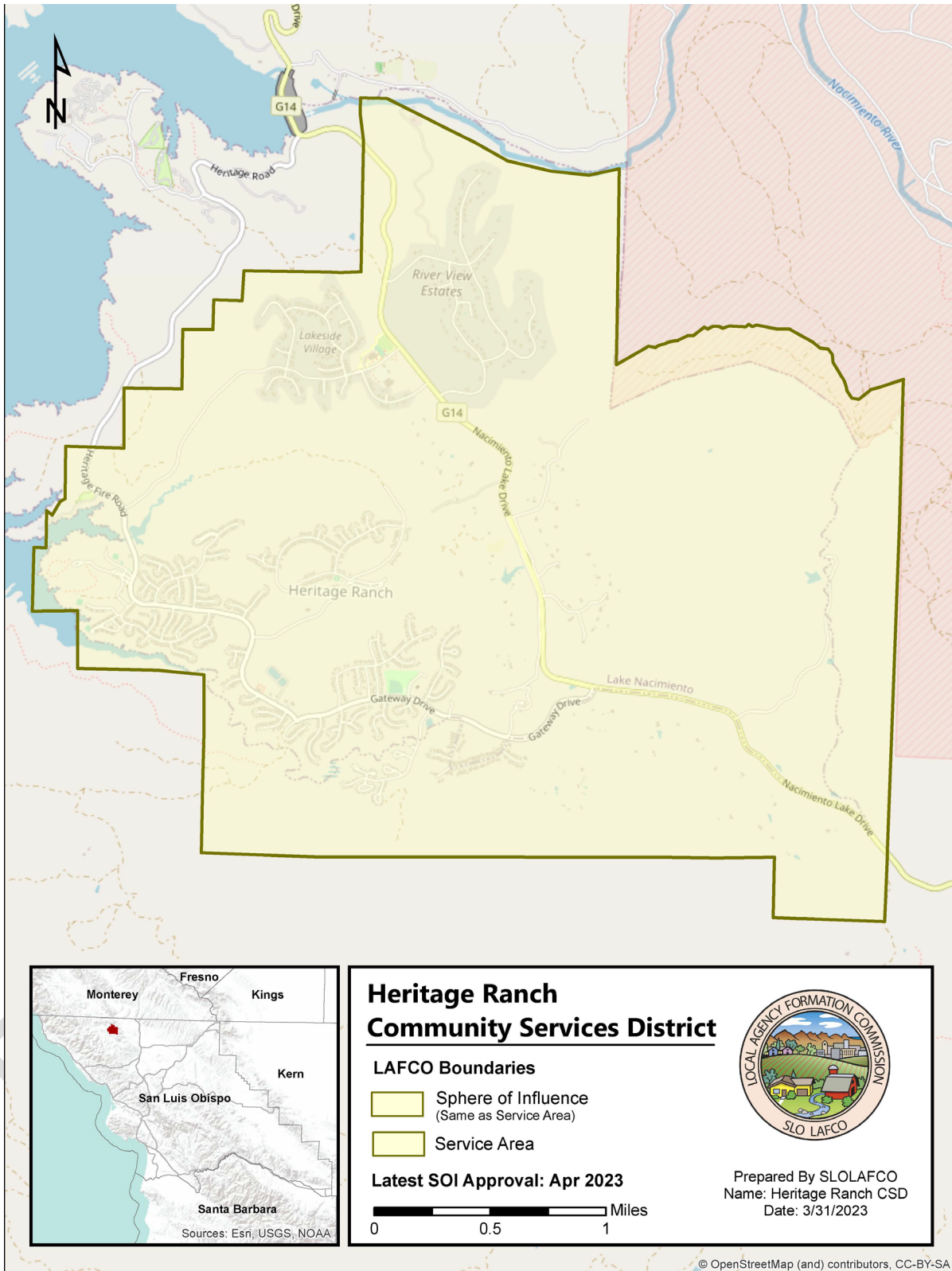
HRCSD is in a healthy state. The District is able to adequately deliver the services it is authorized to provide. It maintains adequate financial records and controls. Anticipated growth within the community is expected to be well within the service capacities and capabilities of the District within the next 5-7 years.

Sphere of Influence Recommendation

Based on the aforementioned determinations, it is recommended that the SOI for HRCSD be reaffirmed and remain coterminous with the District's existing boundary as depicted on the following page in Figure 5.

Public Review Draft

Figure 5: Heritage Ranch Community Services District Proposed Boundary



APPENDIX

Sources

General

1. Sphere of Influence Update and Municipal Service Review for Templeton CSD, San Miguel CSD and Heritage Ranch CSD, 2013

Accountability

1. HRCSD Website
2. District Board Policies and Procedures

Population Profile

1. 2020 Census Data
2. San Luis Obispo Council of Governments, 2050 Regional Growth Forecast
3. Heritage Ranch Village Plan, 2014

Present and Planned Land Use

1. Heritage Ranch Village Plan, 2014

Water Section

1. Chapter 4, Volume II of San Luis Obispo County Master Water Report prepared by Carollo Engineers, final report May 2012
2. Heritage Ranch Community Services District Recycled Water Study, Final January 2017
3. Heritage Ranch Community Service's District Staff, 2022
4. Updated Water Allocation Evaluation Report, 2017

Wastewater

1. 5-Year Capital Improvement Program, HRCSD, August 18, 2022
2. Heritage Ranch Community Services District Recycled Water Study, Final January 2017
3. Heritage Ranch Community Services District Wastewater Treatment Plant Improvements Preliminary Engineering Memorandum, Rev. 1 April 16, 2021

Finance

1. HRCSD Approved Fiscal Year 18-19 Budget
2. HRCSD Approved Fiscal Year 19-20 Budget

3. HRCSD Approved Fiscal Year 20-21 Budget
4. HRCSD Approved Fiscal Year 21-22 Budget
5. HRCSD Approved Fiscal Year 22-23 Budget
6. HRCSD Basic Financial Statements June 30, 2021
7. HRCSD Basic Financial Statements June 30, 2020
8. HRCSD Independent Auditor's Report and Financial Statements June 30, 2019
9. HRCSD Independent Auditor's Report and Financial Statements June 30, 2018
10. HRCSD Independent Auditor's Report and Financial Statements June 30, 2017

Written Comments on the Draft Report

A notice of Public Hearing was published in the newspaper (The Tribune) on March 30, 2023, 21-days in advance of the hearing on April 20, 2023. The general public will have another opportunity to comment on the draft MSR when the staff report is released, a week before the LAFCO Hearing. All public comments received will be distributed to each Commissioner and become part of the official record of the Commission hearing.