

March 4, 2015

Paul Hood
Executive Officer
Santa Barbara LAFCO
105 East Anapamu Street
Santa Barbara CA 93101

Subject: **Background Information Pertinent to the March 5, 2015 LAFCO Consideration of the Proposed Reorganization of Santa Rita Hills Community Services District and Creation of the Santa Rita Hills Bridge and Highway District as the Successor Agency**

Reorganization Support and Funding

On August 21, 2014, the Santa Rita Hills Community Services District (SRHCSD) Board of Directors (BOD) adopted Resolution No. 2014-15 expressing support for a petition for the formation of the Santa Rita Hills Bridge and Highway District (SRHBHD) as the successor agency and the dissolution of SRHCSD. The formation of the SRHBHD will allow for County Board of Supervisors appointment of landowners to serve as members of the Board of Directors and the petition proposes the transfer of the SRHCSD taxing authority to SRHBHD, designating SRHBHD as the successor agency, an expanded sphere of influence, and the transfer of all consultant work to SRHBHD. The petition has been circulated by landowners, signed and delivered to LAFCO with, but is incomplete most notably due to lack of the payment of the required \$10,500 filing fee and the \$1,100 fee required by the County Surveyor. The landowners are unable to pay these fees. On November 17, 2014, SRHCSD BOD appropriated \$15,000 for the purpose of completing the reorganization of SRHCSD to SRHBHD.

Many hours of landowner volunteer time has gone into creating the SRHBHD as the successor agency to resolve the road access problem and allow them landowners to build their homes.

Board Meetings and Membership

The last meeting of the SRHCSD BOD was held on November 17, 2014. As of early December, 2014, SRHCSD has not had enough members of the BOD to conduct business, because no one ran for election, reelection, or requested appointment by the Board of Supervisors. This is not due to landowner apathy. Landowners have not been allowed to build their homes and establish residence because they do not have the road access required by Santa Barbara County. Non-resident landowners and non-registered voters of the district are not allowed to serve on the BOD. As a result SRHCSD does not have sufficient residents within its jurisdiction to form a BOD.

It has been incorrectly reported to LAFCO that SRHCSD BOD member Dale Petersen's term expired in December, 2014. The County Elections Office reports that Mr. Petersen's term actually expires in December, 2016.

Budget

SRHCSD has a BOD approved and amended FY 2014-15 annual budget (approximately \$195,000/year).

Obligations

SRHCSD currently has BOD approved obligations that include six signed contracts and an audit engagement agreement. The six signed contracts have been provided to LAFCO and Auditor-Controller staff. The completed audit has been provided to the Auditor-Controller. SRHCSD BOD attempted to provide for payments to meet its obligations for the remainder of the fiscal year through the formation of an Ad Hoc Finance and Operations Committee (AHC) established by Resolution No. 2014-16, adopted on October 16, 2014.

The first meeting of the AHC was scheduled for December 11, 2014, cancelled and rescheduled for December 18, 2014. However, on December 11, 2014 the Auditor-Controller received an e-mail from the Cargassachi attorney alleging unauthorized SRHCSD expenditures. The Auditor-Controller suspended processing of payments for SRHCSD that same day. SRHCSD, Auditor-Controller and LAFCO staff met on December 16, 2014 to discuss payment authority. The December 18, 2014 AHC meeting was therefore cancelled and has not been rescheduled. On December 24, 2014 the Auditor-Controller emailed a letter to SRHCSD documenting the decision to suspend payments. On January 22, 2015, in response to an inquiry from SRHCSD, the Auditor-Controller wrote that claims presented after the BOD "no longer has at least three members" cannot be processed. LAFCO is in possession of these communications.

As a result of the Auditor-Controller's payment processing suspension, claims for services rendered have not been paid and are SRHCSD obligations for the months of November and December, 2014, and the months of January and February, 2015. February 2015 invoices have not been received. However, the warrant registers for November, December and January total approximately \$37,000. The county financial accounting system shows a current balance of approximately \$90,000. There will be additional expenses and claims as SRHCSD winds down and all will become the obligation of the successor agency¹.

The successor agency, under the conditions proposed by LAFCO for consideration on March 5, 2015 will be Santa Barbara County. The landowners prefer a reorganization that creates the Santa Rita Hills Bridge and Highway District to serve as the successor agency. Either way, the successor agency will have "control over all of the moneys or funds, including cash on hand and moneys due but not collected... for the purpose of winding up the affairs of the district²." "Any funds, money, or property of a dissolved district may be used by the successor for the purpose

¹ California Government Code Section 57451 (b)

² California Government Code Section 57452

of winding up the affairs of the district and after distribution... the funds, money or property shall be used for the benefit of the lands, inhabitants, and taxpayer within the territory of the dissolved district.³”

LAFCO was told during the February 11, 2015 meeting that the County would be prohibited by law from returning unexpended funds to the taxpayers in accordance with Government Code Section 57454. However, this section does not prohibit repayments to taxpayers; it precludes taxpayer “entitlement” to refunds.

Orderly versus Disorderly Dissolution

Your February 11, 2015 staff report regarding SRHCSD laid out the process outlined in the Government Code for an orderly dissolution of the district. A status update on the petition for the reorganization of SRHCSD to SRHBHD was also provided. Under the orderly process, winding up the affairs of the district relies on district funds to meet the district’s obligations. However, after discussing the LAFCO desire to stop the April 2015 tax payments, your staff was instructed to produce a resolution for the immediate disorderly dissolution of SRHCSD. However, the county has already deposited the bulk of the April, 2015 tax revenue into the SRHCSD account. Without the April 2015 tax payments, there will not be enough SRHCSD money held in the County Treasury for the successor agency to pay the district’s current obligations, or exercise the additional powers and duties outlined in Government Code Section 57453, which include settling “claims of every kind and nature.”

Sincerely,

Gary Keefe
Part-Time General Manager
Santa Rita Hills Community Services District

³ California Government Code Section 57463