

**Proposed Incorporation
City of Wildomar**

**Public Hearing Draft
Comprehensive Fiscal Analysis**

April 30, 2007
(Revised August 6, 2007)

Submitted to:

**Riverside County Local Agency Formation Commission
3850 Vine St., Suite 110
Riverside, California 92507**

Prepared by:

GST Consulting
90 Tierra Plano
Rancho Santa Margarita, CA 92688
(949) 433-3253

Table of Contents

EXECUTIVE SUMMARY.....	1
INTRODUCTION.....	8
ASSUMPTIONS & METHODOLOGIES.....	11
Purpose of the CFA.....	11
General Assumptions and Methodologies.....	11
Provision of Municipal Services- “Contract City”.....	12
Base Year Revenues and Expenditures.....	12
New Development.....	13
Capital Improvements & Development Impact Fees.....	15
Effective Date of Incorporation & Transition Period.....	15
Revenue Neutrality.....	16
Proposition 218.....	17
MUNICIPAL SERVICE TRANSFER RESPONSIBILITIES.....	18
Introduction.....	18
Service Transfer Responsibility Criteria.....	18
Municipal Service Transfer Recommendations.....	19
General Government.....	21
Public Safety.....	21
Community Development.....	22
Engineering, Public Works and Street Maintenance.....	22
Community Services.....	23
Utilities and Other Services.....	24
FISCAL ANALYSIS.....	26
Introduction.....	26
Analysis of Revenues.....	27
General Fund Revenues.....	27
Road Fund Revenues.....	32

Analysis of Expenditures.....	34
General Fund Expenditures.....	34
Road Fund Expenditures.....	39
Revenue Neutrality Mitigation.....	40
County Repayment for Transition Year Services.....	40
Transition Year Cash Flow.....	41
Provisional Appropriations (“Gann”) Limit.....	42
COMPARABLE CITIES ANALYSIS.....	43
CONCLUSION OF FEASIBILITY.....	45

Appendix

TABLES

Table 1-A	General Fund Revenues and Expenditures
Table 1-B	Road Fund Revenues and Expenditures
Table 2-A	Forecast Assumptions and Calculations
Table 2-B	General Government Assumptions and Calculations
Table 2-C	New Development and Population Assumptions
Table 3-A	Forecast Factors & Growth Assumptions
Table 3-B	Demographic Assumptions
Table 3-C	Assessed Valuation Assumptions- New Development
Table 4-A	Comparable Cities- Major General Fund Categories
Table 4-B	Comparable Cities- Staffing
Table 4-C	Comparable Cities- Law Enforcement
Table 5-A	General Fund Summary- Walmart Shift to FY 10/11
Table 5-B	General Fund Summary- Walmart Shift to FY 11/12

EXHIBITS

Exhibit 1	Property Tax Transfer
Exhibit 2	Auditor/Controller Ratio for Base Property Tax
Exhibit 3	Estimated Annual Revenue Neutrality Mitigation
Exhibit 4	Estimated County Repayment- Transition Period
Exhibit 5	Provisional Appropriations Limit
Exhibit 6	Proposed Incorporation Boundary Map

EXECUTIVE SUMMARY

Pursuant to the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, this revised Public Hearing Draft Comprehensive Fiscal Analysis is submitted to the Riverside County Local Agency Formation Commission (LAFCO) in support of consideration of the proposed incorporation for the community of Wildomar. As an integral component of the incorporation process, LAFCO is required under state law to cause to be prepared a Comprehensive Fiscal Analysis (CFA) for the purpose of making determinations as to the fiscal feasibility of the proposed incorporation. This revised Public Hearing Draft CFA has been prepared under the requirements of Government Code Section 56800 et. sq., the Governor's Office of Planning and Research Guidelines, LAFCO's locally adopted Policies and Procedures, and utilizing the previously published Initial Fiscal Analysis (IFA) dated October 2004 for reference.

Incorporated into this CFA are all appropriate revisions associated with recent data updates and comments received during the public review and comment period for the Public Review Draft CFA, and as a result of the State Controller's Office Review as applicable. Changes to the Effective Date of Incorporation, and resultant changes to the model forecast projections, have been incorporated where appropriate as a result of the added process of completing the State Controller's Office review. This review was initiated as a result of a request to LAFCO from a community resident, and the resultant delay in the application and approval process has caused the necessary change in the incorporation Effective Date. Additionally, changes to the allocation of Proposition 1B transportation funds have been incorporated due to recent developments in the implementing legislation and its effect on new cities.

This CFA assumes an Effective Date of Incorporation of July 1, 2008, and includes a compilation of the forecasted revenues and expenditures of the proposed new City of Wildomar for the first ten years of operation, Fiscal Years 2008/2009 through 2017/2018. The CFA also reviews anticipated municipal service provision, the potential impact of the incorporation of the Wildomar community on the County of Riverside and other agencies providing services to the Wildomar community, and includes a calculation of potential mitigation pursuant to the revenue neutrality requirements of the Government Code.

This independent fiscal assessment assumes the incorporation boundaries as submitted by the incorporation proponents, and authorized for study by LAFCO. Minor modifications to these boundaries will not significantly impact the financial standing of the new city. However, any significant modifications to the boundaries analyzed could have a material effect on this analysis. If it is determined that additional boundary scenarios beyond those analyzed within are to be studied, a new CFA will need to be developed. This CFA has been developed based on the best available information provided by the various sources identified. Forecast model projections are based on accepted industry forecasting standard methodologies such as per capita estimating and growth based estimating, and review of existing municipal budgets of comparably sized local cities and recently incorporated contract cities. City staffing projections are based on a review of comparable cities within the region and other similar sized contract cities, providing a basis for establishing a structure and general expectation of staffing for the new city. It shall be noted that unforeseen changes in any revenue or cost forecast, including projections of new development, could have a material affect on these forecasts, and should be so noted.

Proposition 218 does not have a direct impact on the fiscal feasibility of the proposed City of Wildomar. No "revenue enhancements" such as new taxes, fees, charges, or assessments are proposed or anticipated in the CFA. Proposition 218 approved by California voters in 1996, amended the state Constitution by adding Article XIII C and D to the tax limitation provisions adopted by Proposition 13. The purpose of Proposition 218 was to close existing loopholes in Proposition 13 which was allowing local governments to increase fees, charges and assessments without a public vote, rather than increasing general and specific property taxes which do require a vote.

The Government Code requires that any CFA be developed utilizing revenue and cost information from the "most recent fiscal year data is available". This "Base Year" information forms the basis for determining the initial Base Property Tax and the annual Tax Allocation Factor, the estimated revenue neutrality mitigation requirement (if any), and forms the basis of the 10 year budget forecast. The Base Year for the purposes of this CFA is FY 2005/2006. To determine the Base Year costs and revenues, information provided by affected departments of the County of Riverside and various state agencies formed the basis for estimating the costs of services to the Wildomar community, and revenues. Where agencies could not provide costs of services or revenues specific to the incorporation area, the reporting agency was required to document the method used to extrapolate the estimate. Revenues were not included in the Base Year budget unless they were realized, received, or being collected during the Base Year.

As depicted in Figure 1 on Page 5, and based upon this fiscal analysis of incorporating the Wildomar community as proposed, the forecasted General Fund revenues minus expenditures for FY 08/09 through FY 17/18 average an approximate \$1,327,222 annual surplus. As depicted in Figure 1 on Page 5, forecasted Road Fund revenues minus expenditures for the same time period average an approximate \$121,900 annual surplus. However, during years 4 through 6, moderate Road Fund deficits occur due to the annual 5 year county repayment obligation for the Transition Year services. Slight annual Road Fund deficits also occur in years 9 and 10. Further discussion on mitigations for these deficits follows below. Overall, the cumulative General Fund surplus over the term of the projections is \$13,307,773. The cumulative Road Fund surplus over the term of the projections is \$1,218,997.

An analysis of the first two full fiscal years FY 08/09 and FY 09/10 General Fund costs and revenues indicates that revenues exceed expenditures by \$2,424,279. This positive variance indicates an operating cash flow and emergency operating reserve that represents 18% of the General Fund operating costs in FY 09/10. This reserve is adequate to cover cash flow requirements and unexpected or emergency expenditures or economic uncertainties that could negatively affect recurring revenues during the first two start-up years. It should also be noted that the fiscal model carries the assumption that the entire 10% Contingency set aside in each fiscal year is spent. This Contingency amount for FY 08/09 and FY 09/10 equals \$1,342,373.

An analysis of the first two full fiscal years FY 08/09 and FY 09/10 Road Fund costs and revenues indicate revenues exceed expenditures by \$1,538,578. This substantial positive variance indicates an operating cash flow and an emergency operating reserve that represents 92% of the Road Fund operating costs in FY 09/10. This reserve is adequate to cover cash flow requirements and unexpected or emergency expenditures or economic uncertainties that could negatively affect recurring revenues during the first two start-up years. It should also be noted that the fiscal model carries the assumption that the entire 10% Contingency set aside in each fiscal year is spent. This Contingency amount for FY 08/09 and FY 09/10 equals \$130,699.

The forecast model indicates that the proposed new city will sustain a Road Fund operating deficit each fiscal year from FY 11/12 through FY 13/14. As was referenced prior, this is due to the Transition Year annual repayment obligation. However, given the amount of available revenue carried over from the Transition Year, sufficient operating reserve surplus revenues exist to more than adequately mitigate these deficits. As indicated in the fiscal model, annual cumulative Road Fund surpluses range from 63% to 85% as a ratio against the annual Road Fund expenditures for a given fiscal year during this period of time. Beginning in FY 16/17, annual operating deficits begin to accrue to the city. However, as these projections are significantly far in the future, the new city will be in position to implement appropriate management policies to ensure these potential deficits are mitigated. Additionally, more than significant reserves exist to carry these deficits, and augmentation from the General Fund as necessary can be utilized. As such, the slight deficits in those late years are considered insignificant and well within manageable parameters.

“Revenue neutrality” requires the incorporation to result in a “similar exchange” of both revenue and service responsibility among the proposed city, the county, and any other affected agency. In accordance with state law, the method of calculating the “projected” annual revenue neutrality mitigation payment is based on the difference between identifiable and recurring General Fund costs and revenues (net costs) for the Base Year, FY 05/06. The calculation indicates that there is no net loss of revenue transfer from the county to the new city with the transfer of services, and no annual mitigation requirement for the new city.

County Augment

On July 31, 2007, The Riverside County Board of Supervisors amended its policy on “Local Agency Formation Commission Matters”, Policy Number A-46, to allow for the county to authorize a county contribution to newly incorporating cities where the calculations of costs transferred versus revenues transferred results in a net reduction in county costs. This action was taken in acknowledgement of the fact that the initial contribution of the savings back to the new cities in the short term, provide benefits to the county in transferring these net costs in the long term. During that same action, the Board of Supervisors approved a ten year revenue augment for the new city, if incorporation is approved, to be paid annually. The payments were developed utilizing the net county savings calculated under the revenue neutrality calculation for the Base Year FY 05/06, with a 3% annual inflation rate applied. The action also stipulates that if revenues for sales tax exceed those projected for a given fiscal year in the ten year fiscal model in the CFA, then the county augment would be reduced by a like amount of the excess for that fiscal year. However, as this is a direct offset of one revenue for another, the total amount of revenue is unchanged. These revenues have been included in Figure 1 in the General Fund Revenues section of the Summary Table.

Clinton Keith Fire Station

One significant cost that is anticipated in the model, starting in the second year of incorporation, is the requirement for the new city to absorb the full operational cost of the proposed Clinton Keith Fire Station. Tentatively scheduled to be opened in FY 09/10, the county Fire Department anticipates purchasing the land for the facility in FY 07/08, and construction to be performed in FY 08/09. In recognition of the potential impact that this requirement has placed on the early years of the incorporation, the Riverside County Board of Supervisors on April 24, 2007 took an official policy action directing county staff to enter into negotiations with the new city, if the incorporation is approved, for purposes of providing for a cost sharing arrangement of the

Clinton Keith Station for a limited period of time. The purpose of this action is to further assist in the relief of the burden of absorbing this significant cost in the early stages of the new city's formation, thus providing an additional mechanism for enhancing the new city's fiscal posture in the early years. However, as the amount of future cost sharing cannot be identified until future negotiations, no projection of a potential cost sharing arrangement has been included in the CFA.

Sensitivity Analysis

As sales tax is a significant revenue stream for any city, a sensitivity analysis is included for the purpose of analyzing the impact of an outward shift in projected retail development, and resultant sales tax revenue, in the early years of the incorporation. The forecast model includes a projection of an additional 350,000 square feet of retail development occurring from FY 06/07 through FY 08/09. This projection is significantly less than what is actually either completed, under construction, or in the planning approval and permitting phase for this time frame. Although the allocation of the additional retail development over the four fiscal years does not necessarily take into consideration the timing of specific projects, one significant project that is currently on a track to be opened by FY 09/10, and would conceivably be viewed as a significant impact if delayed, is the proposed Super Walmart. As this project is a significantly large project, adjustments in the retail development projections have been made to depict a shift of this project to FY 10/11 and FY 11/12.

As depicted in Figure 2 on Page 6, shifting the opening of this project to FY 10/11 does create an annual deficit for FY 09/10, however, more than adequate operating and excess reserves remain to absorb this one year deficit. Total reserves remaining in FY 09/10 are over \$1,900,000 or 15% of the General Fund Expenses for that year. Figure 3 on Page 7 depicts the impact of shifting this project opening to FY 11/12. As is shown, annual deficits occur in FY 09/10 and in FY 10/11, however sufficient operating and excess reserves remain to absorb the deficits. Total reserves remaining in FY 11/12 are \$1,480,186 or 10% of the General Fund Expenses for that year.

As is shown, shifting of the opening of the project into future years does impact to a degree the overall fiscal posture of the new city in the preceding years. However, in each case, the reserve posture of the new city remains well within acceptable parameters. As such, it can be concluded that there is sustainability for absorption of a potential delay in the materialization of future sales tax revenues.

Conclusion

It can be concluded by this analysis that the City of Wildomar, as proposed, is financially viable in all respects. The City of Wildomar can be a fiscally viable city, operating within the parameters as established within this CFA forecasting model in the short term, as well as in the long term. As indicated in the fiscal model, It can also be concluded that through prudent fiscal management, the new city will not only retain the ability to enhance existing services to the community, but will also gain the potential to develop additional public services and programs currently unavailable.

General Fund Revenues and Expenditures
Wildomar Incorporation Analysis (Jul 1, 2008 Effective Date)

	Projection Year									
	Transition Year FY 08/09	2 FY 09/10	3 FY 10/11	4 FY 11/12	5 FY 12/13	6 FY 13/14	7 FY 14/15	8 FY 15/16	9 FY 16/17	10 FY 17/18
General Fund Revenues										
Property Tax	0	4,257,271	4,797,802	5,349,534	5,920,723	6,512,024	7,005,340	7,513,612	8,037,295	8,276,525
Sales and Use Tax	693,613	1,551,379	1,724,133	1,862,523	2,007,664	2,159,838	2,271,984	2,388,915	2,510,817	2,606,838
Property in Lieu of Sales Tax	0	517,126	574,711	620,841	669,221	719,946	757,328	796,305	836,939	868,946
Property Transfer Tax	184,908	201,126	190,074	201,578	216,956	232,863	195,498	208,143	221,171	219,626
Motor Vehicle In-Lieu Fees (AB 1602)	2,869,715	2,915,391	2,919,346	2,909,123	2,653,952	2,838,878	2,990,995	3,152,137	3,321,775	3,418,996
Off Highway Vehicle License Fee	920	955	981	1,007	1,034	1,060	1,071	1,082	1,093	1,100
Franchise Fees	0	620,332	650,195	681,006	712,788	947,676	976,730	1,006,567	1,037,207	1,064,281
Community Development Fees	0	637,063	674,278	713,154	753,755	796,150	828,603	862,287	897,246	929,693
Engineering/Building & Safety Fees	0	1,565,022	1,656,447	1,751,948	1,851,690	1,955,839	2,035,564	2,118,313	2,204,194	2,283,904
Transfer From RF (Traffic Eng/PW Admin)	11,718	126,671	146,592	153,390	160,473	167,853	174,615	181,642	188,944	196,232
Animal License Fees	0	195,704	207,137	219,079	231,552	244,576	254,545	264,893	283,901	302,993
Fines & Forfeitures	0	216,374	222,344	228,314	234,284	240,253	242,764	245,274	247,785	249,267
Miscellaneous Revenues	68,965	71,594	73,570	75,545	77,520	79,496	80,326	81,157	81,988	82,478
County Augment	237,579	244,706	252,048	259,609	267,397	275,419	283,682	292,192	300,958	309,987
Subtotal	4,067,418	13,120,713	14,089,658	15,026,651	15,759,009	17,171,870	18,099,045	19,112,519	20,171,313	20,810,866
Interest Earnings	46,380	94,615	96,971	102,461	116,074	143,836	196,593	271,756	364,661	468,521
Total Revenues	4,113,798	13,215,329	14,186,629	15,129,113	15,875,083	17,315,705	18,295,637	19,384,275	20,535,974	21,279,387
General Fund Expenditures										
City Council	58,600	66,388	67,660	68,969	70,319	71,708	73,139	74,613	76,132	77,696
City Manager	331,225	507,610	539,845	561,150	583,300	637,047	630,265	655,152	681,024	707,921
City Clerk	126,960	140,940	223,079	215,170	247,538	217,150	268,148	226,414	290,001	243,925
City Attorney	207,500	247,725	255,157	262,811	270,696	278,817	287,181	295,797	304,671	313,811
Finance	158,455	261,965	287,648	298,676	310,130	328,984	334,387	347,225	360,560	374,412
Non-Departmental	417,575	425,927	438,705	451,866	465,422	517,061	493,766	508,579	523,837	539,552
Community Development	86,060	1,067,849	1,270,222	1,354,501	1,341,339	1,430,763	1,384,410	1,440,036	1,497,791	1,553,311
Engineering/Building & Safety/Public Works	203,090	1,802,767	1,970,397	2,075,442	2,185,603	2,313,353	2,392,648	2,489,431	2,589,921	2,685,777
Animal Control	0	278,578	294,852	311,852	329,606	348,145	362,336	377,065	392,352	406,541
Law Enforcement (Sheriff)	0	4,225,152	4,493,684	4,775,838	5,072,238	5,383,535	5,630,182	5,887,498	6,155,930	6,409,510
Fire Protection Services	0	2,809,362	2,893,643	2,980,452	3,069,866	3,161,962	3,256,821	3,354,525	3,455,161	3,558,816
Community Services/Parks and Recreation	0	0	0	0	0	0	0	0	0	0
Subtotal	1,589,465	11,834,264	12,734,890	13,356,728	13,945,516	14,688,524	15,113,284	15,656,335	16,327,381	16,871,270
Contingency	158,947	1,183,426	1,273,489	1,335,673	1,394,552	1,468,852	1,511,328	1,565,633	1,632,738	1,687,127
County Repayment	0	138,747	138,747	138,747	138,747	138,747	0	0	0	0
Revenue Neutrality	0	0	0	0	0	0	0	0	0	0
Total Expenditures	1,748,412	13,156,436	14,147,126	14,831,147	15,478,815	16,296,123	16,624,613	17,221,968	17,960,119	18,558,397
General Fund Operating Surplus (Deficit)	2,365,387	58,892	39,503	297,965	396,269	1,019,582	1,671,024	2,162,306	2,575,855	2,720,990
General Fund Operating Reserve	2,365,387	2,424,279	2,463,782	2,761,747	3,158,016	4,177,598	5,848,623	8,010,929	10,586,784	13,307,773
Required Operating Reserve (10% of Expenses)	174,841	1,315,644	1,414,713	1,483,115	1,547,881	1,629,612	1,662,461	1,722,197	1,796,012	1,855,840
Excess Reserve	2,190,545	1,108,635	1,049,069	1,278,632	1,610,134	2,547,986	4,186,161	6,288,732	8,790,772	11,451,934
Operating Reserve as % of Operating Expenditures		18%	17%	19%	20%	26%	35%	47%	59%	72%

Road Fund Revenues and Expenditures
Wildomar Incorporation Analysis (Jul 1, 2008 Effective Date)

	Projection Year									
	Transition Year FY 08/09	2 FY 09/10	3 FY 10/11	4 FY 11/12	5 FY 12/13	6 FY 13/14	7 FY 14/15	8 FY 15/16	9 FY 16/17	10 FY 17/18
Road Fund Revenues										
Section 2105	286,435	277,532	264,818	251,011	214,645	220,115	222,415	224,715	227,015	228,373
Section 2106	173,792	168,390	160,676	152,299	130,234	133,553	134,948	136,344	137,739	138,563
Section 2107	373,791	362,173	345,582	327,563	280,107	287,244	290,246	293,247	296,249	298,021
Section 2107.5	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Measure A	448,800	752,936	836,779	903,944	974,386	1,048,241	1,102,669	1,159,420	1,218,583	1,265,185
Proposition 42 (TCRF)	137,930	143,189	147,140	151,090	155,041	158,991	160,653	162,314	163,975	164,956
Subtotal	1,426,748	1,710,220	1,760,995	1,791,908	1,760,413	1,854,144	1,916,931	1,982,040	2,049,561	2,101,099
Interest Earnings	28,277	58,445	61,543	63,548	63,248	58,663	61,832	64,198	64,745	63,229
Total Road Fund Revenues	1,455,025	1,768,665	1,822,538	1,855,455	1,823,661	1,912,807	1,978,763	2,046,238	2,114,306	2,164,329
Road Fund Expenditures										
Road/Traffic Signal Maintenance	0	1,168,595	1,239,763	1,315,264	1,395,364	1,480,342	1,570,494	1,666,138	1,767,605	1,875,253
Transfer to General Fund (Traffic Eng/PW Admin)	11,718	126,671	146,592	153,390	160,473	167,853	174,615	181,642	188,944	196,232
Subtotal	11,718	1,295,266	1,386,355	1,468,654	1,555,837	1,648,195	1,745,109	1,847,779	1,956,550	2,071,484
Contingency	1,172	129,527	138,635	146,865	155,584	164,819	174,511	184,778	195,655	207,148
County Repayment	0	247,430	247,430	247,430	247,430	247,430	0	0	0	0
Total Road Fund Expenditures	12,890	1,672,223	1,772,420	1,862,949	1,958,850	2,060,444	1,919,620	2,032,557	2,152,204	2,278,633
Road Fund Operating Surplus (Deficit)	1,442,136	96,442	50,118	(7,494)	(135,189)	(147,637)	59,143	13,680	(37,898)	(114,304)
Road Fund Operating Reserve	1,442,136	1,538,578	1,588,696	1,581,202	1,446,013	1,298,376	1,357,519	1,371,199	1,333,301	1,218,997
Required Operating Reserve (10% of Expenses)	1,289	167,222	177,242	186,295	195,885	206,044	191,962	203,256	215,220	227,863
Excess Reserve	1,440,847	1,371,356	1,411,454	1,394,907	1,250,128	1,092,332	1,165,557	1,167,944	1,118,081	991,134
Operating Reserve as % of Operating Expenditures		92%	90%	85%	74%	63%	71%	67%	62%	53%

Figure 1

Walmart Shift to FY 10/11

General Fund Revenues and Expenditures
Wildomar Incorporation Analysis (Jul 1, 2008 Effective Date)

	Projection Year									
	Transition Year	2	3	4	5	6	7	8	9	10
	FY 08/09	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
General Fund Revenues										
Property Tax	0	4,226,804	4,803,512	5,355,387	5,926,722	6,512,407	7,005,732	7,514,014	8,037,707	8,276,948
Sales and Use Tax	594,474	1,306,306	1,766,203	1,905,855	2,052,297	2,159,838	2,271,984	2,388,915	2,510,817	2,606,838
Property in Lieu of Sales Tax	0	435,435	588,734	635,285	684,099	719,946	757,328	796,305	836,939	868,946
Property Transfer Tax	182,207	198,230	206,104	201,711	217,092	230,390	195,507	208,152	221,180	219,635
Motor Vehicle In-Lieu Fees (AB 1602)	2,869,715	2,915,391	2,919,346	2,909,123	2,653,952	2,838,878	2,990,995	3,152,137	3,321,775	3,418,996
Off Highway Vehicle License Fee	920	955	981	1,007	1,034	1,060	1,071	1,082	1,093	1,100
Franchise Fees	0	620,332	650,195	681,006	712,788	947,676	976,730	1,006,567	1,037,207	1,064,281
Community Development Fees	0	637,063	674,278	713,154	753,755	796,150	828,603	862,287	897,246	929,693
Engineering/Building & Safety Fees	0	1,565,022	1,656,447	1,751,948	1,851,690	1,955,839	2,035,564	2,118,313	2,204,194	2,283,904
Transfer From RF (Traffic Eng/PW Admin)	11,718	126,671	146,592	153,390	160,473	167,853	174,615	181,642	188,944	196,232
Animal License Fees	0	195,704	207,137	219,079	231,552	244,576	254,545	264,893	283,901	302,993
Fines & Forfeitures	0	216,374	222,344	228,314	234,284	240,253	242,764	245,274	247,785	249,267
Miscellaneous Revenues	68,965	71,594	73,570	75,545	77,520	79,496	80,326	81,157	81,988	82,478
County Augment	237,579	244,706	252,048	259,609	267,397	275,419	283,682	292,192	300,958	309,987
Subtotal	3,965,577	12,760,587	14,167,492	15,090,414	15,824,655	17,169,779	18,099,446	19,112,930	20,171,735	20,811,298
Interest Earnings	44,343	90,460	76,981	84,165	98,370	125,431	176,786	251,174	343,272	446,293
Total Revenues	4,009,921	12,851,047	14,244,473	15,174,579	15,923,025	17,295,210	18,276,232	19,364,104	20,515,007	21,257,592
General Fund Expenditures										
City Council	58,600	66,388	67,660	68,969	70,319	71,708	73,139	74,613	76,132	77,696
City Manager	331,225	507,610	539,845	561,150	583,300	637,047	630,265	655,152	681,024	707,921
City Clerk	126,960	140,940	223,079	215,170	247,538	217,150	268,148	226,414	290,001	243,925
City Attorney	207,500	247,725	255,157	262,811	270,696	278,817	287,181	295,797	304,671	313,811
Finance	158,455	261,965	287,648	298,676	310,130	328,984	334,387	347,225	360,560	374,412
Non-Departmental	417,575	425,927	438,705	451,866	465,422	517,061	493,766	508,579	523,837	539,552
Community Development	86,060	1,067,849	1,270,222	1,354,501	1,341,339	1,430,763	1,384,410	1,440,036	1,497,791	1,553,311
Engineering/Building & Safety/Public Works	203,090	1,802,767	1,970,397	2,075,442	2,185,063	2,313,353	2,392,648	2,489,431	2,589,921	2,685,777
Animal Control	0	278,578	294,852	311,852	329,606	348,145	362,336	377,065	392,352	406,541
Law Enforcement (Sheriff)	0	4,225,152	4,493,684	4,775,838	5,072,238	5,383,535	5,630,182	5,887,498	6,155,930	6,409,510
Fire Protection Services	0	2,809,362	2,893,643	2,980,452	3,069,866	3,161,962	3,256,821	3,354,525	3,455,161	3,558,816
Community Services/Parks and Recreation	0	0	0	0	0	0	0	0	0	0
Subtotal	1,589,465	11,834,264	12,734,890	13,356,728	13,945,516	14,688,524	15,113,284	15,656,335	16,327,381	16,871,270
Contingency	158,947	1,183,426	1,273,489	1,335,673	1,394,552	1,468,852	1,511,328	1,565,633	1,632,738	1,687,127
County Repayment	0	170,338	170,338	170,338	170,338	170,338	0	0	0	0
Revenue Neutrality	0	0	0	0	0	0	0	0	0	0
Total Expenditures	1,748,412	13,188,028	14,178,717	14,862,738	15,510,406	16,327,714	16,624,613	17,221,968	17,960,119	18,558,397
General Fund Operating Surplus (Deficit)	2,261,509	(336,980)	65,756	311,840	412,619	967,496	1,651,620	2,142,135	2,554,888	2,699,195
General Fund Operating Reserve	2,261,509	1,924,529	1,990,285	2,302,126	2,714,745	3,682,241	5,333,861	7,475,996	10,030,884	12,730,078
Required Operating Reserve (10%)	174,841	1,318,803	1,417,872	1,486,274	1,551,041	1,632,771	1,662,461	1,722,197	1,796,012	1,855,840
Excess Reserve	2,086,668	605,726	572,413	815,852	1,163,704	2,049,470	3,671,399	5,753,799	8,234,872	10,874,239
Operating Reserve as % of Operating Expenditures		15%	14%	15%	18%	23%	32%	43%	56%	69%

Figure 2

Walmart Shift to FY 11/12

**General Fund Revenues and Expenditures
Wildomar Incorporation Analysis (Jul 1, 2008 Effective Date)**

	Projection Year									
	Transition Year	2	3	4	5	6	7	8	9	10
	FY 08/09	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18
General Fund Revenues										
Property Tax	0	4,226,804	4,761,296	5,355,598	5,926,939	6,512,629	7,005,959	7,514,247	8,037,946	8,277,193
Sales and Use Tax	594,474	1,306,306	1,429,637	1,905,855	2,052,297	2,159,838	2,271,984	2,388,915	2,510,817	2,606,838
Property in Lieu of Sales Tax	0	435,435	476,546	635,285	684,099	719,946	757,328	796,305	836,939	868,946
Property Transfer Tax	182,207	198,230	186,976	220,433	217,097	230,395	195,512	208,157	221,185	219,641
Motor Vehicle In-Lieu Fees (AB 1602)	2,869,715	2,915,391	2,919,346	2,909,123	2,653,952	2,838,878	2,990,995	3,152,137	3,321,775	3,418,996
Off Highway Vehicle License Fee	920	955	981	1,007	1,034	1,060	1,071	1,082	1,093	1,100
Franchise Fees	0	620,332	650,195	681,006	712,788	947,676	976,730	1,006,567	1,037,207	1,064,281
Community Development Fees	0	637,063	674,278	713,154	753,755	796,150	828,603	862,287	897,246	929,693
Engineering/Building & Safety Fees	0	1,565,022	1,656,447	1,751,948	1,851,690	1,955,839	2,035,564	2,118,313	2,204,194	2,283,904
Transfer From RF (Traffic Eng/PW Admin)	11,718	126,671	146,592	153,390	160,473	167,853	174,615	181,642	188,944	196,232
Animal License Fees	0	195,704	207,137	219,079	231,552	244,576	254,545	264,893	283,901	302,993
Fines & Forfeitures	0	216,374	222,344	228,314	234,284	240,253	242,764	245,274	247,785	249,267
Miscellaneous Revenues	68,965	71,594	73,570	75,545	77,520	79,496	80,326	81,157	81,988	82,478
County Augment	237,579	244,706	252,048	259,609	267,397	275,419	283,682	292,192	300,958	309,987
Subtotal	3,965,577	12,760,587	13,657,393	15,109,347	15,824,876	17,170,006	18,099,678	19,113,168	20,171,979	20,811,549
Interest Earnings	44,343	90,460	76,981	64,140	77,927	104,179	154,693	228,206	319,396	421,472
Total Revenues	4,009,921	12,851,047	13,734,374	15,173,486	15,902,803	17,274,185	18,254,372	19,341,375	20,491,375	21,233,021
General Fund Expenditures										
City Council	58,600	66,388	67,660	68,969	70,319	71,708	73,139	74,613	76,132	77,696
City Manager	331,225	507,610	539,845	561,150	583,300	637,047	630,265	655,152	681,024	707,921
City Clerk	126,960	140,940	223,079	215,170	247,538	217,150	268,148	226,414	290,001	243,925
City Attorney	207,500	247,725	255,157	262,811	270,696	278,817	287,181	295,797	304,671	313,811
Finance	158,455	261,965	287,648	298,676	310,130	328,984	334,387	347,225	360,560	374,412
Non-Departmental	417,575	425,927	438,705	451,866	465,422	517,061	493,766	508,579	523,837	539,552
Community Development	86,060	1,067,849	1,270,222	1,354,501	1,341,339	1,430,763	1,384,410	1,440,036	1,497,791	1,553,311
Engineering/Building & Safety/Public Works	203,090	1,802,767	1,970,397	2,075,442	2,185,063	2,313,353	2,392,648	2,489,431	2,589,921	2,685,777
Animal Control	0	278,578	294,852	311,852	329,606	348,145	362,336	377,065	392,352	406,541
Law Enforcement (Sheriff)	0	4,225,152	4,493,684	4,775,838	5,072,238	5,383,535	5,630,182	5,887,498	6,155,930	6,409,510
Fire Protection Services	0	2,809,362	2,893,643	2,980,452	3,069,866	3,161,962	3,256,821	3,354,525	3,455,161	3,558,816
Community Services/Parks and Recreation	0	0	0	0	0	0	0	0	0	0
Subtotal	1,589,465	11,834,264	12,734,890	13,356,728	13,945,516	14,688,524	15,113,284	15,656,335	16,327,381	16,871,270
Contingency	158,947	1,183,426	1,273,489	1,335,673	1,394,552	1,468,852	1,511,328	1,565,633	1,632,738	1,687,127
County Repayment	0	170,338	170,338	170,338	170,338	170,338	0	0	0	0
Revenue Neutrality	0	0	0	0	0	0	0	0	0	0
Total Expenditures	1,748,412	13,188,028	14,178,717	14,862,738	15,510,406	16,327,714	16,624,613	17,221,968	17,960,119	18,558,397
General Fund Operating Surplus (Deficit)	2,261,509	(336,980)	(444,343)	310,748	392,397	946,471	1,629,759	2,119,406	2,531,256	2,674,624
General Fund Operating Reserve	2,261,509	1,924,529	1,480,186	1,790,934	2,183,331	3,129,802	4,759,561	6,878,968	9,410,223	12,084,847
Required Operating Reserve (10%)	174,841	1,318,803	1,417,872	1,486,274	1,551,041	1,632,771	1,662,461	1,722,197	1,796,012	1,855,840
Excess Reserve	2,086,668	605,726	62,315	304,660	632,291	1,497,031	3,097,100	5,156,771	7,614,211	10,229,007
Operating Reserve as % of Operating Expenditures		15%	10%	12%	14%	19%	29%	40%	52%	65%

Figure 3

INTRODUCTION

In December of 2005, the Wildomar Incorporation Now Committee, representing the residents of the community of Wildomar, and sponsored by the County of Riverside, filed an application with the Riverside County LAFCO requesting incorporation of their community under the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000. As an integral component of the incorporation process, LAFCO is required under state law to cause to be prepared a Comprehensive Fiscal Analysis to determine the fiscal feasibility of the proposed incorporation. This revised Public Hearing Draft CFA has been prepared under the requirements of Government Code Section 56800 et. sq., the Governor's Office of Planning and Research Guidelines, LAFCO's locally adopted Policies and Procedures, and utilizing the previously published Initial Fiscal Analysis (IFA) dated October 2004 for reference.

Incorporated into this CFA are all appropriate revisions associated with recent data updates and comments received during the public review and comment period for the Public Review Draft CFA, and as a result of the State Controller's Office Review as applicable. Changes to the Effective Date of Incorporation, and resultant changes to the model forecast projections, have been incorporated where appropriate as a result of the added process of completing the State Controller's Office review. This review was initiated as a result of a request to LAFCO from a community resident, and the resultant delay in the application and approval process has caused the necessary change in the incorporation Effective Date. Additionally, changes to the allocation of Proposition 1B transportation funds have been incorporated due to recent developments in the implementing legislation and its effect on new cities.

With all municipal incorporations comes a transfer of certain service responsibilities for the new city. These responsibilities generally include general government, law enforcement, traffic control and accident investigation, fire protection, construction and maintenance of local streets, street lighting, code enforcement, land use planning and regulation, building inspection, animal control, and parks and recreation services. This CFA analyzes in detail, the forecasted ability of the proposed city to provide municipal services over an extended period of time, including the ability to remain fiscally solvent during unanticipated periods of potential economic recession.

This CFA assumes an Effective Date of Incorporation of July 1, 2008, and includes a compilation of the forecasted revenues and expenditures of the proposed new City of Wildomar for the first ten years of operation, Fiscal Years 2008/2009 through 2017/2018. The CFA also reviews the potential impact of the incorporation of the Wildomar community on the County of Riverside, and other agencies providing services to the Wildomar community, and includes a calculation of potential mitigation pursuant to the revenue neutrality requirements of the Government Code.

The analysis is limited to a presentation of information in the form of a forecast based on actual base year costs/revenues, and includes an evaluation of the assumptions underlying the forecast. There will usually be differences between the forecasts and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

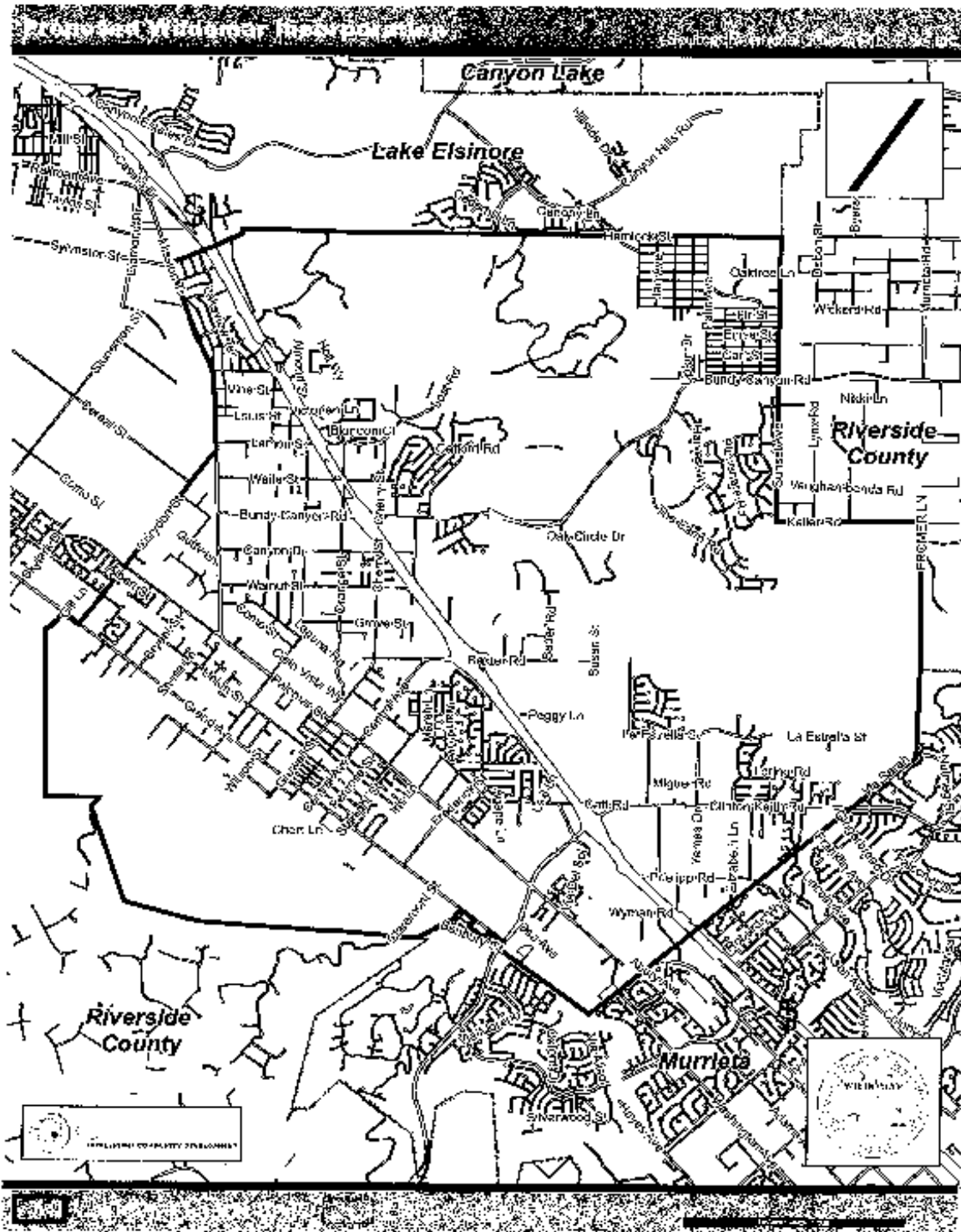
The Community of Wildomar, Figure 4 on Page 10, is located in the County of Riverside, situated along the I-15 corridor. Wildomar is bounded to the south by the City of Murrieta, to the north by the City of Lake Elsinore, and to the east and west by unincorporated county area. The community encompasses approximately 24.3 square miles, principally comprised of residential neighborhoods and ranches, as well as several commercial retail and light industrial centers.

Wildomar is a mix of old and new. The area south of Lake Elsinore and west of the I-15 freeway is made up with a mix of large ranches featuring large custom homes with acreage for horses and other animals, as well as recent development of higher density residential neighborhoods. To the east of I-15, significant tract home new development has been consistent for the past several years, with several projects ongoing, as the area is a popular destination for young families seeking affordable housing. Inexpensive land costs and a quality labor pool, coupled with an increasingly active chamber of commerce dedicated to enhancing business development, further enhance the attractiveness of the area for business opportunities, with commercial development proceeding on a consistent basis.

Wildomar was founded in 1886 with the establishment of the Wildomar Post Office and Wildomar Elementary School. The name "Wildomar" was coined from the names of its three founders: The WIL is from William Collier, the DO is from Donald Graham and the MAR is from Margaret Collier. Wildomar had been an outpost for the pony express for the Butterfield Stage, and in the early part of this century, a stop for the Southern California Railroad.

Growth of the Wildomar community has been significant with the population nearly doubling since the 2000 census, and currently averaging over 4% annual growth over the last several years. The population as of July 1, 2006 is estimated at 27,000, housed in approximately 9,288 residential units in accordance with information provided by the County of Riverside Demographic Department. The median new home price is averaging approximately \$500,000, and the median resale price is over \$450,000. The annual median household income for Wildomar is over \$57,000.

It is noted that subsequent to the filing of the incorporation application and accompanying map, LAFCO approved the annexation of a small portion of an area on the northern border of the proposed incorporation boundary into the City of Lake Elsinore. The annexation of the territory in question has no material effect on the projections or conclusions in the CFA. As LAFCO has sole responsibility for determining the final boundary of the proposed new city, the map included in the CFA is subject to modification during the LAFCO proceedings.



Map Courtesy of Riverside County LAFCO

Figure 4

ASSUMPTIONS & METHODOLOGIES

PURPOSE OF THE CFA

The most significant issue facing any incorporation is the fiscal feasibility of the proposed new city. As such, Government Code Section 56800 et. sq. requires that a CFA be developed to analyze the fiscal sustainability of the incorporation. The CFA is required to include the following:

- Fiscal data from the most recent fiscal year where available.
- Costs of providing services to the new city for the first three full fiscal years after incorporation.
- Revenues available to the new city for the first three full fiscal years after incorporation.
- The effects on the costs and revenues of affected local agencies.
- Any other information and analysis needed.

Although the Government Code only requires an analysis of fiscal feasibility for the first three years of incorporation, it is prudent to project city budgets further into the future in order to capture the effect of the drop in the revenues collected by the new city after certain state subventions provided to new cities in specified revenue categories decrease. This allows a more complete estimate of the new city's long-term financial feasibility. The Governor's Office of Planning & Research Guidelines recommends a ten year analysis, to which this CFA is developed.

It should be noted that projections into the future are always subject to unanticipated actions and/or changes in circumstances that can affect fiscal feasibility either positively or negatively. As these unknowns cannot be adequately captured too far out in the future, it should be understood that projections for the first five years of incorporation provide the best benchmark for determination of fiscal feasibility, with later year projections being more subject to variation.

This CFA has been developed based on the best available information provided by the various sources further identified, with projections based on accepted industry forecasting standards. It shall be noted that unforeseen changes in any revenue or cost forecast, including projections of new development, could have a material affect on these forecasts, and should be so noted.

GENERAL ASSUMPTIONS AND METHODOLOGIES

The assumptions used in compiling estimated future municipal revenues and expenditures are based on existing cost and revenue data provided by the county, state, and other current service providers. The forecast model utilizes various industry standard forecast methodologies such as per capita estimating and growth based estimating, and review of existing municipal budgets of comparably sized local cities and recently incorporated contract cities. City staffing projections are based on a review of comparable cities within the region and other similar sized contract cities, providing a basis for establishing a structure and general expectation of staffing for the new city.

Revenues and costs, in most cases, have been projected to future years at a general inflation rate of 3% annually, based on the US Dept of Labor statistical 10 year average for the Riverside

County area of 2.8%, and factoring in future projections of new development and/or population increases to account for additional service demands required by these increases. However, some revenues such as gasoline taxes and franchise fees have been inflated at a lesser rate or not at all due to the nature of those revenues not generally escalating due to inflation. Further, some cost items such as city staffing are projected at a higher inflation rate due to the nature of staffing cost escalations generally exceeding inflation. The detailed discussion that follows in the CFA for each revenue/cost category identifies the projection methodology applied, and discusses the basis for that methodology. Tables 3-A through 3-C in the Appendix outline the general assumptions and demographic data utilized in the forecast model.

With the recent signing of AB 1602 into law, newly incorporating cities will now receive a significant restoration of Motor Vehicle License Fee funding. This revenue also carries an additional population based subvention for the first five years of incorporation based on a sliding scale formula. Also, as a result of AB 1602, a new city receives state subventions for most Gasoline Taxes based on the same population formula as for the new Motor Vehicle License Fee funding. After the fifth year, funding for both revenues revert to the standard formula based on the actual annual population of the city. This represents a significant but temporary source of general purpose and road maintenance funding for the new city. Each of the subvention revenues and their specific calculations are specifically discussed in detail further in this CFA.

This CFA is prepared and forecasted on a "cash basis". New cities will have no initial fund balances on which to depend for cash flow during the initial "start up" period. It is prudent to delineate as best as practicable the true cash fiscal position of the new city during those first critical years, and to delineate the most realistic picture of year-end surpluses or deficits which will be experienced by the new city.

PROVISION OF MUNICIPAL SERVICES- "CONTRACT CITY"

Since the early 1990's, when ERAF and the Revenue Neutrality provisions were placed in state law, virtually every incorporation since has resulted in establishment of what is termed a "contract city". This was a result of the significant loss of revenues to the newly incorporating cities that under previous law, would have accrued to them. A contract city is a structural organization whereby the new city takes advantage of inherent economies of scale gained by contracting most services to existing public and/or private entities versus providing those services with in house staff. A new city may choose to contract for the provision of some or all of the required and optional services rather than provide them directly. Contracting is also effective as a short-term alternative until the new city has adequate staffing, facilities, and a stable workload and revenue stream. This CFA will focus on how government services could be provided within the proposed incorporation area under the "contract city" concept.

BASE YEAR REVENUES AND EXPENDITURES

The first component of the CFA is to determine the revenues and service costs associated with the proposed incorporation area as if it had been an existing city during the last complete fiscal year. These "Base Year" revenues and costs are used to establish a baseline for projecting the future anticipated revenues and service costs, the feasibility of the proposed new city to support municipal level services, and to determine the base property tax revenue to be transferred to the new city. In accordance with Government Code Section 56800, data for the analysis shall be from the most recent fiscal year for which data is available. In the case where such data is not

available, the reporting agency must estimate the amount and provide the methodology by which the estimate was derived.

To determine the Base Year costs and revenues, information from affected departments of the County of Riverside and various State agencies provided the basis for estimating the costs of services to the Wildomar community. Where agencies could not provide costs of services specific to the incorporation area, the reporting agency was required to document the method used to extrapolate the estimate. Revenues were not included in the Base Year budget unless they were realized, received, or being collected during the Base Year.

The Base Year for the purposes of this CFA is FY 2005/2006 which runs from July 1, 2005 through June 30, 2006.

NEW DEVELOPMENT

Over the past 10 years, the Wildomar community has experienced tremendous growth in both residential and commercial development. This has been driven by a number of factors. Overall, the state has experienced significant sustained growth over this same period of time, in spite of the recent economic recession of a few years ago. Much of this growth has been concentrated in the southern regions of the state, and in particular in the Inland Empire counties of Riverside and San Bernardino. Availability of vast areas of undeveloped land and housing at affordable prices, coupled with an expanding highway network connecting rural and urban areas of the Inland Empire with the significant job centers of Los Angeles and Orange Counties, and to a lesser extent, northern San Diego County, have been the major contributors to this growth trend. As housing has increased, so has a proportionate share of commercial retail and industrial development supporting this residential growth.

The Wildomar community, along with its neighboring cities of Lake Elsinore and Murrieta, is situated along the I-15 corridor, the primary north-south transportation link through Riverside County. Development along this corridor has been significant. State Department of Finance and U.S. Census statistical estimates indicate that this area has absorbed an average of over 4,000 residential units annually since 2000. The Wildomar community has averaged slightly over 500 units annually according to the data. Existing and planned commercial development in the Wildomar community is primarily concentrated along the I-15 corridor in proximity to the Clinton Keith, Baxter/Central, and Bundy Canyon interchanges, with smaller neighborhood commercial centers located in pockets in various areas in the community. Commercial development has been keeping pace with residential development, with the general mix of retail, office, medical and industrial uses. According to the Riverside County Planning Department, over 770,000 sq. ft. of retail use and over 1,549,000 sq. ft. of office/medical/industrial use exists in the Wildomar community, with the most significant development occurring within the last few years. In FY 05/06 alone, over 1,200 plan checks were accomplished, over 950 building permits were issued, and over 6,900 building inspections were performed by the Riverside County Building & Safety Department for the Wildomar community. This is reflective of the significant amount of ongoing development activity in the community.

For purposes of developing a reasonable assessment of future development growth, several factors have been taken into consideration, including current market factors that have driven a recent short term slowing in residential development. Annual projections for future new residential and commercial development were provided by the County of Riverside's Planning Department, based on the current County General Plan and land use entitlements established

for the Wildomar community. This information was compared with current development projects under construction and development applications ongoing in the Wildomar community. Currently, over 2,500 residential units and over 600,000 sq. ft. of combined commercial development are in various stages of the planning entitlement and permitting process according to information provided by the Riverside County Planning Department. Additionally, according to information provided by the Wildomar Land Development Review Committee, there are a number of residential and commercial development projects under construction. Current commercial and retail projects under construction include the Wildomar Business Park, Phase 2 of the Oak Creek Shopping Center, the Rite Aid Center, and the Bear Creek Village project, all totaling approximately 474,000 square feet. Additionally, there is approximately 173,000 square feet of commercial development approved and in the permitting process, approximately 785,000 of combined commercial development in the planning entitlement process, and a 254,000 square foot Wal-Mart Super Store that is anticipated for approval hearing by the Riverside County Planning Commission in late fall 2007. Along with the Planning Department and the Land Development Review Committee data, analysis of the historical development over the last several years was conducted, and review of development proposals and commercial listings in adjacent cities and communities was undertaken to refine in context potential inhibitors to future development in the Wildomar community.

Additionally, for projecting future retail development, a 3, 5 and 10 mile trade area retail market analysis using the ESRI Business Analyst was performed on January 20, 2007 to establish estimated retail leakage and potential capture ranges of retail square footage for the Wildomar community. Figure 5 below provides the details of this analysis.

<u>New Retail Analysis</u>	<u>3-Mile Trade Area</u>	<u>5-Mile Trade Area</u>	<u>10-Mile Trade Area</u>
2006			
Estimated Population	31,629	90,784	275,933
Total Retail Demand (Potential)	280,656,985	948,384,630	2,624,619,331
Total Retail Supply (Sales)	<u>207,890,673</u>	<u>460,817,802</u>	<u>1,933,411,026</u>
Total Leakage Outside Market Area	72,766,312	487,566,828	691,208,305
New Retail SF Capacity (1)	415,807	2,786,096	3,949,762
Wildomar Capture Rate (2)	40%	15%	7%
Wildomar Capture Capacity (S/F)	<u>166,323</u>	<u>417,914</u>	<u>276,483</u>
2011 (4)			
Estimated Population	38,853	111,519	338,955
Estimated Growth (3)	4.2%	4.2%	4.2%
Total Retail Demand (Potential)	344,758,077	1,164,992,426	3,224,073,382
Total Retail Supply (Sales) (4)	255,372,189	566,067,007	2,374,995,471
Total Leakage Outside Market Area	89,385,888	598,925,419	849,077,910
New Retail SF Capacity (1)	510,777	3,422,431	4,851,874
Wildomar Capture Rate (2)	40%	15%	7%
Wildomar Capture Capacity (S/F)	<u>204,311</u>	<u>513,365</u>	<u>339,631</u>

Notes

- (1) Net building area assuming taxable and non-taxable retail sales at \$175 per square foot
- (2) Estimate based on comparison of trade areas with existing and planned commercial centers within the trade areas
- (3) Estimated area population growth
- (4) Assumes development of future retail in the market areas at the same rate of estimated growth in population and demand

Figure 5

Table 2-C in the Appendix depicts the forecast assumptions for future development based on the analytical parameters discussed above. Annual projections of new development have been distributed on a sliding scale decreasing over the ten year model forecast. It is understood that fluctuations in development patterns will occur over time, and the further out in future years projected, the less certainty can be assumed on the reasonableness of those projections. Thus by applying a sliding scale of decreasing projections over time, the likelihood of overstating future development is minimized. It is anticipated that, even given the recent slowdown in the housing market, the Wildomar community will continue to sustain this growth, largely due to affordability and desirability of geographic location for both residential consumers, and commercial businesses.

CAPITAL IMPROVEMENTS & DEVELOPMENT IMPACT FEES

As most all capital improvements are generally funded through special revenues (such as one time grants), excess revenues, development impact fees, or special assessments, no provisions are included in the analysis for projecting these potential revenues or improvements as part of the ongoing service provision responsibility of the new city. Major sources of road capital improvement revenue for which the Wildomar community will remain eligible as participants will be the county's Southwest Road and Bridge Benefit District, the Transportation Uniform Mitigation Fee program and the Measure A competitive grant program.

Capital improvements

This CFA makes no assumptions concerning future capital improvements for new infrastructure as these items are normally developed on a "funds available" basis. It is noted that the new city will be responsible for developing a long term capital improvement plan for new and existing infrastructure based on community needs, and for identifying project funding sources. The forecast model does not include significant long term special road maintenance, such as asphalt overlays, major storm drain repairs, and damaged and deteriorated road reconstruction in the routine maintenance forecast as these are considered capital improvement projects.

Development Impact Fees

The County of Riverside collects a wide variety of Development Impact Fees assessed on new development projects, primarily for construction of road infrastructure and other service infrastructure such as flood control, fire station construction, libraries, park development, etc. It is assumed that the new city will adopt the appropriate fee ordinances in order to continue to participate in these fee programs. Any unspent fees held for projects designated within the Wildomar Community should be subject to mutual negotiation with the county transfer of those fees or for completion of those projects.

EFFECTIVE DATE OF INCORPORATION AND TRANSITION PERIOD

LAFCO must establish an "Effective Date" for the incorporation. The Effective Date is the date upon which the new city is deemed organized or incorporated, and is essentially "open for business". On the Effective Date, the five candidates for City Council receiving the highest number of votes during the incorporation election are sworn in as the new City Council. The City Council begins to organize the new city's administrative structure at their first meeting by adopting existing ordinances of the County of Riverside.

The Transition Period is the time period from the Effective Date until the end of the Fiscal Year in which the incorporation occurs. During this period of time, the County continues to provide municipal services for the new city while the city establishes its service provision plan, and accrues necessary revenues for beginning service responsibility at the beginning of the next fiscal year. During this same period, the city receives many of the revenues that will accrue to the city on a continuous basis, thus allowing for the ability to be able to absorb the service responsibility. The city may opt at anytime during the transition period to assume service responsibility from the County for any service that it desires to transition early. At the end of the Transition Period, all municipal service responsibility transfers from the county to the new city. The new city will be responsible for repayment of the net costs of services provided by the county during the Transition Period, generally in deferred payments over 5 years with interest.

For the purposes of the CFA, the assumed "Effective Date" of incorporation is July 1, 2008 with a one year Transition Period of Fiscal Year 2008/2009, ending June 30, 2009. The actual Effective Date will be designated as a result of LAFCO determinations.

REVENUE NEUTRALITY

In the early 1990's, the State enacted legislation designed to lessen the negative fiscal impacts incorporations might have on counties and other affected agencies. Revenue neutrality requires the incorporation to result in a "similar exchange" of both revenue and service responsibility among the proposed city, the county, and any other affected agency. Prior to the passage of the revenue neutrality legislation, the ability of an area to support municipal level services was the prime financial criteria used in evaluating a proposed new city. Limited analysis was conducted to determine the impacts to counties or other affected agencies containing incorporating communities. The counties were required to provide service free or at reduced cost to newly incorporating cities during transition periods for up to a year, while continuing to operate mandated regional programs benefiting all cities within the county. Counties also were losing annual revenue surpluses from these previously unincorporated areas due to the inherent nature of the cost of county services being provided to these areas as being less than the revenues received.

To provide a more equitable sharing of shrinking local government revenues, the counties supported the revenue neutrality legislation to ensure that incorporations resulted in a roughly equal exchange of revenue and service responsibility between the county and a new city. However, the revenue neutrality statute was vaguely written and was fairly silent on the method of calculating financial impacts, or the process for determining the impacts of revenue neutrality. The legislation establishing revenue neutrality did not set forth any well defined parameters for what should be included in the calculations for determining the prior year's fiscal data, for the method of repayment to the county, or for the duration of fiscal impacts. Subsequent legislation has since better defined this calculation criteria, and the Governor's Office of Planning & Research has issued guidelines to assist LAFCO's in making determinations concerning revenue neutrality. A provision within the legislation does allow for counties and incorporating communities to negotiate a mutual revenue neutrality mitigation agreement. This CFA provides a calculation for the "estimated" annual revenue neutrality requirement. This calculation indicates that there will be no net loss of revenue to the county therefore no mitigation requirement.

PROPOSITION 218

Proposition 218 does not have a direct impact on the fiscal feasibility of the proposed City of Wildomar. No "revenue enhancements" such as new taxes, fees, charges, or assessments are proposed or anticipated in the CFA. Proposition 218, approved by California voters in 1996, amended the state Constitution by adding Article XIII C and D to the tax limitation provisions adopted by Proposition 13. The purpose of Proposition 218 was to close existing loopholes in Proposition 13 which was allowing local governments to increase fees, charges and assessments without a public vote, rather than increasing general and specific property taxes which do require a vote. Proposition 218 imposed new approval procedures for assessments on real property, and for fees and charges imposed as "an incident of property ownership." The impact of Proposition 218 essentially shifted decision-making power on revenue matters from elected officials to the voters with respect to establishing "new" taxes and assessments.

MUNICIPAL SERVICE TRANSFER RESPONSIBILITIES

INTRODUCTION

Incorporation of the Wildomar community will result in the transfer of certain responsibilities for the provision of municipal services to the new city. A city in California is required to provide only a limited number of municipal services, including:

- General legislative functions.
- Land use planning, regulation and control over land use development.
- Law enforcement.
- Animal control
- Maintenance of public roads and other public infrastructure owned by the city.

Other municipal services are optional to a city, including:

- Fire protection & suppression
- Libraries
- Parks & recreation services
- Street lighting
- Median maintenance
- Domestic water
- Wastewater treatment & disposal
- Solid waste management
- Flood control
- Social Services

While responsibility for required services is vested in the city, the city may choose to contract for the provision of some or all services rather than provide them directly. Among the services for which the contract approach is available and widely used in many newer cities, are law enforcement, fire protection, traffic control, street maintenance, animal control, engineering, building inspection, recreational services, and land use planning. The county, existing independent special districts, and private franchise providers could continue to provide specific optional municipal services, such as water/sewer and solid waste services, public utilities, libraries, flood control and environmental health inspection.

SERVICE TRANSFER RESPONSIBILITY CRITERIA

Among the purposes for which LAFCOs were established in California, rationalization of local governments was high on the list. The proliferation of overlapping government agencies during the 1950s and 1960s gave rise to a variety of government agencies serving the same territory, dividing responsibility and frequently accountability, and generally resulting in confusion for residents and, on occasion, duplication of services and costs. In keeping with the charge to the LAFCOs, any examination of the feasibility of a community to become incorporated must also examine the governmental structure and make specific recommendations as to transfers of responsibility for services. This CFA will analyze service provision based on the following general criteria:

- Those services which, by statute, must be transferred to a city.
- Those services, which are being provided by effective, regional agencies whose territories cover areas substantially larger than the proposed city, should remain with the regional agencies.
- Those services being provided by less than regional agencies totally, or substantially, contained within the proposed city's boundary, should be absorbed by the city, subject to criteria below.

Under the terms of Propositions 13, 62, and 218, the fiscal implications of absorption of an agency by the city should be carefully reviewed, and, barring any unusual or mitigating circumstances, absorption should be recommended only if the absorption does not result in a loss of potential revenue to the agencies which cannot be offset or compensated for through operational adjustments. The designation of the responsible agency for those services which are being provided by less than regional agencies whose boundaries extend beyond the proposed city limits should be reviewed on a case-by-case basis, again taking into consideration the fiscal impact as a result of the inherent impairment of revenue potential under California law.

MUNICIPAL SERVICE TRANSFER RECOMMENDATIONS

Based on the criteria outlined above, Figure 6 on the following page identifies the recommended structure of the transfer of services to the proposed new City of Wildomar. It is significant to note that some services will be provided through contracts with other agencies or private industry, with policy and administrative responsibility retained by the new city. However, the provision of services by the county to the city through a contractual arrangement will require approval by the Riverside County Board of Supervisors. Specific current and proposed service providers are discussed further in detail on the following pages. It should be noted that with any municipal service, the city itself will ultimately determine the method of providing the service whether establishing its own staffing, or contracting another government agency or private firm.

For purposes of this CFA, an assumption is made that county and special district services which are not transferred to the new city include flood control, sanitation and wastewater collection and disposal, solid waste landfill operations, street sweeping, and libraries. No analysis of these districts has been incorporated in the CFA. However LAFCO has indicated that all or portions of certain special districts such as the street lighting districts and the parks landscape maintenance district that are within the proposed incorporation boundaries will detach from the county and the new city will assume administrative responsibility for those special district functions. As these districts are assumed as revenue neutral, no analysis is included in the CFA. Private sector services that are covered by franchise agreements such as electricity, natural gas, cable television, and refuse collection and will continue as is, with the franchise agreements transferring to the new city.

The Transfer of Services is assumed at an "existing level of service", consistent with the requirements of the state statutes governing the preparation of the CFA. However, with incorporation, there comes an inherent increase in the level of many services due to the nature of localized control and accessibility within the community to the service providers' administrative management. In many respects, responsiveness to the community will be enhanced by localization of service provision.

TRANSFER OF SERVICE RESPONSIBILITY

<u>Public Service</u>	<u>Current Provider</u>	<u>Anticipated Provider</u>
General Government	Riverside County	City of Wildomar
Animal Control	Riverside County	City of Wildomar- Contract with Riverside County & Existing Shelter Service Provider- May elect to join the Shelter JPA
Building Inspection	Riverside County	City of Wildomar- Contract Services
Cemetery	Wildomar Cemetery District	Wildomar Cemetery District
Code Enforcement	Riverside County	City of Wildomar- Contract Services
Cable Television	Comcast Cable	Comcast Cable- City Franchise Agreement
Electricity	Southern California Edison	Southern California Edison- City Franchise Agreement
Fire Protection and Emergency Medical	Riverside County Fire Department	City of Wildomar- Contract with Riverside County
Flood Control	Riverside County Flood Control District	Riverside County Flood Control District
Natural Gas	Southern California Gas Company	Southern California Gas Company- City Franchise Agreement
Storm Water Runoff (NPDES)	Riverside County Flood Control District	City of Wildomar- Co-Permitee with Riverside County
Land Use Planning and Regulation	Riverside County	City of Wildomar- Contract Services
Law Enforcement	Riverside County Sheriff Department	City of Wildomar- Contract with Riverside County Sheriff Department
Library	Riverside County Library System	Riverside County Library System
Parks (Maintenance)	Riverside County- Wildomar Parks Landscape Maintenance District	City of Wildomar- Wildomar Parks LMD
Public Education (K-12)	Lake Elsinore Unified School District	Lake Elsinore Unified School District
Public Transit	Riverside Transit Agency	Riverside Transit Agency
Road Maintenance/Public Works	Riverside County	City of Wildomar- Contract Services
Street Sweeping	Riverside County- CSA 152	Riverside County- CSA 152
Street Lighting	Riverside County- Lighting Districts & CSAs 22, 103, 142	City of Wildomar- Lighting Districts & CSAs 22, 103, 142
Traffic Control & Accident Investigation	California Highway Patrol	City of Wildomar- Contract with Riverside County Sheriff Department
Solid Waste Collection and Disposal	Riverside County	City of Wildomar- Future City Franchise
Solid Waste Landfill Operations	Riverside County	Riverside County
Wastewater/Sanitation	Elsinore Valley Municipal Water District	Elsinore Valley Municipal Water District
Water	Elsinore Valley Municipal Water District	Elsinore Valley Municipal Water District

Figure 6

GENERAL GOVERNMENT

Administrative Services

The Riverside County Board of Supervisors currently establishes policies for the delivery of municipal services to the Wildomar community, with the various Riverside County Departments providing administrative oversight and direct delivery for all services provided by the county. After incorporation, the City of Wildomar will assume all policy, oversight and direct delivery of service responsibility for municipal services. The city council will establish policy, with the various city departments carrying out the administrative oversight and direct delivery of services. Riverside County will retain this function for all county regional services being provided.

PUBLIC SAFETY

Law Enforcement, Traffic Control and Accident Investigation

The Riverside County Sheriff's Department currently provides law enforcement protection for the Wildomar community. In addition to responding to citizen calls for assistance, the Department also provides follow-up investigation, crime lab services, crime prevention programs, and related police activities in the area. Traffic control and accident investigation is currently the responsibility of the California Highway Patrol. The California Highway Patrol has statewide responsibility for traffic control and accident investigation on all state freeways as well as the roads and highways in unincorporated areas.

After incorporation, the City of Wildomar will assume responsibility for all law enforcement and traffic control services, and has the option to establish its own law enforcement and traffic control service, or contract with existing county and state agencies or another city. The CFA anticipates the new city contracting all services with the Riverside County Sheriff's Department. The California highway Patrol will retain responsibility for law enforcement and traffic control on the I-15 freeway.

Fire Protection and Emergency Medical Services

The Riverside County Fire Department currently provides fire prevention, fire suppression, and emergency medical services to the Wildomar community. After incorporation, the City of Wildomar has the option of establishing its own fire department, or contracting this service with the county or another city. The CFA anticipates that the new city will contract with the county.

Animal Control

The County of Riverside currently provides animal control services to the Wildomar community. Services include regular patrol, emergency response, animal licensing, and animal shelter. After incorporation, the City of Wildomar has the option of contracting this service with the county, another city, or a private agency, or providing the service directly. The CFA anticipates that the city will contract animal control this service with the county, and maintain the existing sheltering contract with the current service provider. The new city may desire to join the recently established Joint Powers Authority for sheltering service if it desires to provide a future enhanced level of service.

COMMUNITY DEVELOPMENT

Planning and Land Use Regulation

General and long-range planning services for the Wildomar community are currently administered by the County of Riverside. General planning activities include the processing of land use applications such as area and community plans, zone changes, tentative tract maps, use permits, site plans, and parcel maps. Other services include conducting environmental reviews and preparing environmental impact reports, and code enforcement. Long-range planning activities include development and monitoring of the General Plan and the development of information in such areas as demographics, housing, and transportation. After incorporation, the City of Wildomar will assume responsibility for this service. The CFA anticipates this function to be primarily contracted to one of the many private planning and development firms specializing in providing this service, with city administrative staff overseeing the contracted functions.

Building & Safety

Building & Safety services for the Wildomar community are currently provided by the County of Riverside. Services include building and grading plan checks, permit issuance and building and grading inspection activities. After incorporation, the City of Wildomar will assume responsibility for this service. The CFA anticipates this function to be primarily contracted to one of the many private engineering and building firms specializing in providing this service.

Code Enforcement

Code Enforcement services for the Wildomar community are currently provided by the County of Riverside. Services include all enforcement activities associated with compliance with the communities municipal and zoning codes, and building & safety regulations/ordinances. After incorporation, the City of Wildomar will assume responsibility for this service. The CFA anticipates this function to be primarily contracted to one of the many private engineering and building firms specializing in providing this service.

ENGINEERING, PUBLIC WORKS AND STREET MAINTENANCE

Engineering & Public Works

Engineering & Public Works services for the Wildomar community are currently provided by the County of Riverside. Services include general engineering review, approval and oversight for public works projects, including building and road construction and maintenance. After incorporation, the City of Wildomar will assume responsibility for this service. The CFA anticipates this function to be primarily contracted to one of the many private engineering and public works firms specializing in providing this service.

Street Maintenance

Construction and maintenance of local roads within the Wildomar community is currently the responsibility of the County of Riverside. The primary services provided in the maintenance and improvement of local roads include ordinary maintenance, which involves shoulder maintenance, curb maintenance, signing and striping, pothole repair, traffic signal maintenance

and street sweeping. Special maintenance, which involves asphalt overlays, slurry sealing, storm drain repairs, and damaged and deteriorated road reconstruction, is also currently provided by the county. After incorporation, the City of Wildomar will assume responsibility for these services. The CFA anticipates this function to be primarily contracted to one of the many private road maintenance and traffic signal maintenance firms specializing in providing these services.

COMMUNITY SERVICES

Parks and Recreation

There are 3 community parks with one additional park planned for construction contained within the Wildomar community. Formerly, these parks were maintained and operated by the Ortega Trail Recreation and Park District. However, in 2000, the District was dissolved due to the failure of passage of a maintenance district assessment necessary to maintain the parks. Recently, the residents of Wildomar successfully passed the necessary assessment and the new Wildomar Parks Landscape Maintenance District (LMD) has been formed for park maintenance services. The County of Riverside has recently completed renovating 2 of the 3 existing parks, with one in progress, and will construct the 4th park in the future.

After incorporation, the LMD will continue to provide the maintenance services for the parks, and the City of Wildomar will have the option to provide recreational services from these parks. LAFCO has indicated that the LMD will detach from the county and transfer to the new city.

Public Education

Public education in the Wildomar community is currently provided by the Lake Elsinore Unified School District for kindergarten through high school (K-12). Public education is directly funded by the state via property tax assessments. After incorporation, the City of Wildomar will continue to be served by the same public school district, with no change in service, and no responsibility of service delivery by the city.

Public Transit Services

The Riverside Transit Agency currently operates public transportation bus routes for the Wildomar community. Services are directly funded by the system users. The CFA anticipates that this service will remain with the Riverside Transit Agency.

Library

The Riverside County Library System currently provides library services to the Wildomar community at its Mission Trail Community Library branch. The Mission Trail Community Library offers the full range of library services to residents and businesses in the community and adjacent communities. The CFA anticipates that the library will remain a county regional facility. The City of Wildomar will have the option to assume this service at a later time if it is deemed desirable, and/or contract for supplemental services if desired.

UTILITIES AND OTHER SERVICES

Street Lighting

Several CSA's and Lighting Districts currently provide streetlight service within the Wildomar community. These CSA's and Special Districts are funded by a direct property tax special assessment. Maintenance is performed by Southern California Edison. It is anticipated that this structure would remain unchanged upon incorporation of the Wildomar community, however LAFCO has indicated that those portions of these lighting districts and CSAs within the proposed city boundaries will be detached from the county and transferred to the city.

Domestic Water & Waste Water/Sanitation Treatment/Disposal

The Elsinore Valley Municipal Water District is the primary provider of domestic water and wastewater/sanitation treatment and disposal services to the Wildomar community. A portion of the community utilizes well water and septic systems. Upon incorporation, it is anticipated that there will be no change in the structure of provision of this service to the new city.

Flood Control

The Riverside County Flood Control & Water Conservation District administers regional flood control facilities within the Wildomar community. This activity would remain within the Flood Control District's jurisdiction upon incorporation of the Wildomar community therefore there is no anticipated service responsibility for the new city, other than minor storm drain maintenance within the city street curbside catch basins, and detailed development review of new local drainage infrastructure. The new city will also assume responsibility for administration of the National Flood Insurance Program within the city. It should also be noted that requirements under the National Pollutant Discharge Elimination System (NPDES) will require the City of Wildomar to adopt a program for compliance and become a Co-Permittee with the county and other cities for storm drain discharges. The city will be required to adopt measures to prevent improper discharge of pollutants into the system.

Solid Waste Collection and Disposal

Solid waste collection and disposal services for the Wildomar community are currently provided by several private refuse collection companies under franchise agreements with the county. Upon incorporation, those franchise agreements will remain in place until they expire. It is anticipated, however, that the City of Wildomar will issue a "five year" notification letter to establish new city franchises, at which time the city will then assume the responsibility, establish the service requirements, and begin receiving the franchise fees. Solid Waste Landfill Operations will remain with the county.

Electricity

The Wildomar community currently receives its electricity service from Southern California Edison through a franchise agreement with the County of Riverside. Upon incorporation, the franchise agreement will transfer to the City of Wildomar.

Natural Gas

The Wildomar community currently receives its natural gas service from the Southern California Gas Company through a franchise agreement with the County of Riverside. Upon incorporation, the franchise agreement will transfer to the City of Wildomar.

Cable Television

The Wildomar community currently receives its cable television service from Comcast Cable through a franchise agreement with the County of Riverside. Upon incorporation, the franchise agreement will transfer to the City of Wildomar.

FISCAL ANALYSIS

INTRODUCTION

This CFA covers four distinct periods of financial relevance: the Base Year, the Transition Period, the Subvention Years, and the Post-Subvention Years. The total projection entails ten fiscal years from the “Effective Date of Incorporation”. Table 1-A and Table 1-B in the Appendix summarize the CFA projections and forecasts for the proposed new City of Wildomar. Tables 2-A and 2-B in the Appendix provide details of the projections depicted in the summary tables.

As discussed previously, the Base Year is the foundation of the cost and revenue forecast, and the Transition Period is that period of time from the Effective Date of Incorporation until the next Fiscal Year. In most cases the revenue and cost data reflected in the following discussion were derived from the providing agency for the Base Year of FY 2005/2006. Notable exceptions are General Government expenditures which were derived through analysis of similar sized and situated cities. The Transition Period is significant in that the flow of revenues to the new city is dependent upon the length of this period, and the ability of the new city to absorb the service responsibility within that period. During this period, the new city receives certain revenues, while services are still provided by the county. This allows the new city time to organize in anticipation of full service responsibility. The new city would receive certain revenues during this period, allowing the new city to create a fund balance to carryover into the first full fiscal year. This CFA anticipates that the City of Wildomar will maximize its ability to accrue revenues by allowing the County of Riverside to provide services for the duration of the Transition Period. However, the new city does retain the ability to transfer services earlier, thus the final transfer of service responsibility during this period is a determination that will be made by the city after incorporation.

During the first five fiscal years, including the Transition Period, the new city receives Motor Vehicle License Fee revenue “subventions” based on a formula that increases the population by 150% in the first year, and decreasing by 10% annually until the 5th year. After the 5th year, the actual population is used for determining this revenue.

During the first five fiscal years, including the Transition Period, the new city receives certain Gasoline Tax revenue “subventions” based on a formula that increases the population by 150% in the first year, and decreasing by 10% annually until the 5th year. After the 5th year, the actual population is used for determining this revenue.

Revenues come from a variety of sources. Some revenues are restricted, i.e., they can only be used for specific purposes. A majority of city revenue is designated as General Fund revenue, which is generally unrestricted, and used to provide municipal services such as general government, law enforcement, fire protection, planning and land use, building inspection, animal control, and parks and recreation. General Fund revenues can, but generally do not pay for road related services.

General Fund revenues typically come from property taxes, sales taxes, state motor vehicle license fees, franchise fees and other fees for services. It is noted that some General Fund revenues such as planning or building fees are restricted to an extent that they cannot exceed the direct and indirect cost of providing the service for which they are charged. Road Fund revenues are primarily generated through state gasoline taxes, and state and local sales taxes on gasoline and motor fuel products. They are restricted by law to road related expenditures,

including routine road maintenance, traffic signal maintenance and other activities specific to roads. Road Fund revenues cannot be used for the provision of any general municipal services, nor can road related revenues be spent for maintenance of private roads.

ANALYSIS OF REVENUES

General Fund Revenues

As discussed above, General Fund revenues are all revenues received that are allowed under state law to be utilized for any purpose, including services normally paid for with restricted revenues. The primary sources of General Fund revenues for the proposed new City of Wildomar are analyzed below. Tables 1-A and 2-A in the Appendix detail these revenues over the 10 year forecast.

Property Taxes

Base Property Tax Allocation

Section 56810 of the Government Code provides a specific formula for determination of a newly incorporating city's share of the annual base property tax to be transferred from the county. The process requires LAFCO to determine the total net cost of certain municipal services that will be transferred to the new city, from information supplied by the county, based on the base fiscal year. For the Wildomar community incorporation, the Base year is FY 05/06. The net costs include both direct costs, and overhead or indirect costs, funded by the General Fund. The total net cost is multiplied by a factor known as the Auditor's Ratio.

The Auditor's Ratio, determined annually by the Riverside County Auditor-Controller, represents the ratio of general property taxes received during the base fiscal year, to all revenues received by the county for general purposes during that same fiscal year. Again, for the Wildomar community the Base Year is FY 05/06. LAFCO uses the Auditor's Ratio and the net cost of services as reported by the various Riverside County agencies to determine the amount of property tax revenue to be transferred to the new city. The Auditor's Ratio for FY 05/06 as reported by the Riverside County Auditor-Controller, in correspondence dated September 15, 2006, was 36.8%.

In addition to the Base Property Tax computed for the services funded by the General Fund, the City of Wildomar will be entitled to receive 100% of the Structural Fire Fund Property Tax assessment collected within the Wildomar area for funding fire suppression/prevention services. The Property Tax Division of the Riverside County Auditor-Controller Office, in correspondence dated November 16, 2006, provided the Structural Fire Fund Property Tax data for FY 05/06.

After calculation of the Base Property Tax for FY 05/06, the Base Property Tax and the Structural Fire Fund Property Tax for the first year of incorporation, FY 08/09, is calculated by applying the percentage increase in estimated assessed valuation to the original Base Year amounts. Table 2-A and Table 3-C detail the methodology utilized for determining future assessed valuation. Exhibits 1 & 2 in the Appendix delineate the calculations for the Base Property Tax inclusive of the Structural Fire Fund Property Tax and the Auditor's Ratio.

Tax Allocation Factor and Annual Tax Increment

The Tax Allocation Factor (TAF) is the tax rate that will be applied to the Annual Tax Increment for calculating the total Property Tax for each fiscal year. The Tax Allocation Factor is established as part of the Base Property Tax calculation and remains fixed annually. The Annual Tax Increment is the difference between the current year general 1% Property Tax Levy and the previous year. The total Property Tax for a given year is calculated by multiplying the calculated Tax Increment for that year by the TAF, and adding it to the previous year's Base Property Tax. The result is the total Property Tax for that year, and the new Base Property Tax for establishing the following year's allocation. Exhibit 1 in the Appendix delineates the calculation for the City of Wildomar's TAF for both the general Property Tax and the Structural Fire Fund Property Tax.

Assessed Valuation

Assessed Valuation of all secured and unsecured property is accomplished annually by the Riverside County Assessor's Office for purposes of establishing annual Property Tax assessments. Proposition 13 limited the rate at which the assessed valuation of individual properties may increase. Specifically, the assessed valuation may increase by a rate of no more than 2% annually when held in the same ownership, and is increased to market value only at the time of sale. For the model forecast, assessed valuation is assumed to escalate annually at 2.5% to account for the 2% annual allowance, and for an incremental amount due to turnover of property. Additionally, estimates of assessed valuation for new development are included based on future development projections. Assessed Valuation information for FY 05/06 and for the Lakeland Village/Wildomar Redevelopment Project Area was provided, in correspondence dated November 16, 2006, by the Property Tax Division of the Auditor-Controller Office. Tables 2-C and 3-C in the Appendix detail the assumptions for determination annual assessed valuation for new development.

Lakeland Village/Wildomar Redevelopment Project Area

The Lakeland Village/Wildomar Redevelopment Project Area was established by the County of Riverside to provide for a mechanism for obtaining additional property tax increment for purposes of infrastructure upgrades within the project area. A portion of the Lakeland Village/Wildomar Redevelopment Project Area is contained within the Wildomar community. In accordance with state law, the Base Year for assessed valuation for property tax purposes is FY 98/99. Because the Project Area is not fully contained within the new city boundary, the county will maintain management oversight of the Project Area, and the new city will only be entitled to its share of the 1% basic levy based on the FY 98/99 assessed valuation. The county will retain all of the post FY 98/99 property tax increment, including the supplemental increment.

Property Tax Administration Fee

The County of Riverside charges an administration fee for collection and distribution of Property Taxes. This charge is included in the forecast model as a deduction from the gross Property Tax and is estimated by the Auditor Controller Office at 1%.

Table 2-A in the Appendix details the specific calculations for the annual Property Tax projections.

Off Highway Vehicle License Fees

The City of Wildomar will receive a nominal amount of revenue subvention from the state for fees associated with off-highway vehicles. This revenue is allocated on a per capita basis with the rate established annually by the State Controller's Office. For the FY 05/06 Base Year, this revenue was calculated to be \$810. For purposes of the forecast model, this per capita rate remains fixed each year, with revenue totals adjusted by population only.

Animal Control Fees

The County of Riverside Department of Animal Services, in correspondence dated October 20, 2006, provided FY 05/06 Base Year revenues derived from the Wildomar community for animal licensing and impound/boarding services. Revenues totaled \$147,543 for these services. The county reported that approximately 375 animals required sheltering services, and 5,601 licenses were issued in FY 05/06. For purposes of the forecast model, it is assumed that as the population increases, the demand for licenses and the need for impound/boarding services will increase proportionately. As such, the previous year per capita rate was calculated, adjusted for inflation, and then applied to the population for the subsequent year of the model forecast.

Property Transfer Taxes

The Wildomar community will receive Property Transfer Taxes in the amount of \$.55 per \$1,000 of assessed valuation of real property transferred each year, including new development. The level of revenue is predicated on the level of resale activity in the community. The County of Riverside was unable to quantify the FY 05/06 revenue to the Wildomar community. As such, a historical average of 5% of annual turnover of assessed valuation was utilized to estimate the Base Year revenue, and subsequent years of the model forecast. For the FY 05/06 Base Year, this revenue was calculated to be \$158,802.

Sales and Use Taxes

The City of Wildomar will receive authority to collect Bradley-Burns Sales Tax at a rate of 1% of taxable sales, adjusted to .75% as a result of Proposition 57 which was passed in 2004. The State Board of Equalization, in correspondence dated September 30, 2006, reported that the estimated amount of the 1% Sales Tax for FY 05/06 for the Wildomar community was \$1,049,200. In addition to this situs estimate, the City of Wildomar will receive a share of the "unallocated" state and county pool of Sales Tax. This is Sales Tax that cannot be specifically allocated to a jurisdiction, therefore is allocated on a pro-rated basis for both pools. The percentage allocation for the City of Wildomar is estimated to be 10.6% of situs Sales Tax, based on a three year average of the county/state unallocated pool for Riverside County, as reported by the HDL Companies. For FY 05/06, the amount of unallocated Sales Tax for the City of Wildomar is estimated at \$111,215.

Total Sales Tax for FY 05/06 is estimated to be \$1,160,415, with the Proposition 57 adjustment (.75%) providing a net of \$870,311. The forecast model adjusts the annual Sales Tax estimates for inflation and new retail development. Tables 2-A and 2-C in the Appendix detail the calculations for the estimated Sales Tax.

Property In-Lieu of Sales Tax

As a result of Proposition 57, a requirement to divert 25% of a city's annual Sales Tax revenue

to fund debt service on the state debt recovery bonds was instituted. In exchange for the loss of Sales Tax revenue, cities would receive an equal amount of Property Tax revenue. Commonly called the "Triple Flip", the Base Year from which the first transfer would take place was established, with subsequent transfers calculated on the growth rate of the city's property tax against the first year base amount. For many cities, whose sales tax growth outpaces property tax, this will actually result in a net reduction of future revenues than would have accrued prior to Proposition 57.

The forecast model establishes the Triple Flip Base Year for the City of Wildomar as FY08/09, the first year of Sales Tax receipts. Future allocations in the forecast model are based on the annual growth in Property Tax. However, forecasted Property Tax growth outpaces Sales Tax growth significantly enough creating a situation where the "Triple Flip" allocation exceeds what would amount to a straight 25% allocation. As such, the Triple Flip allocation is capped at the 25% threshold.

Motor Vehicle Fees

The City of Wildomar will be eligible to receive Motor Vehicle In-Lieu Fees, subvention fees collected by the State Department of Motor Vehicles and allocated to cities on a per capita basis. Prior to 2004, all cities received these fees based on the full 2% valuation of the vehicles, and new cities received an additional population subvention based on 3 times the number of registered voters for the first seven years after incorporation. In 2004, the legislature implemented what was termed the "VLF Swap" in which the valuation fee was lowered to .65%, and the resultant loss of city revenue was "swapped" with an augmentation of Property Tax. However, the new legislation failed to include provisions for newly incorporating cities to receive the Property Tax backfill that existing cities were receiving. In order to correct this situation, AB 1602 was signed into law in 2006, providing a formula that restores most of the normal VLF funding, and provides a population based subvention increase for the first 5 years after incorporation.

Basic Subvention

The Basic Subvention is based on the statutory formula that allocates a portion of the .65% valuation fee to each city based on population. The City of Wildomar will receive this subvention as do existing cities today, however will not receive the Property Tax Swap revenue.

AB 1602 Subvention

The AB 1602 Subvention allocates to new cities on a continuous basis, an additional \$50 per capita, adjusted annually based on statewide population and VLF revenue growth. In addition, for the first 5 years after incorporation, population for purposes of this revenue allocation is calculated based on a downward annual sliding scale starting at 150% of the city's population, fixed annually by the State Department of Finance for each year. In the 6th and subsequent years, the actual city population is utilized.

Table 2-A provides the detailed calculations for both the Basic and AB 1602 revenue. The state League of Cities has published current and future per capita estimates for this revenue in accordance with the annual estimates provided by the State Controller's Office. A specific projection for the proposed City of Wildomar provided by state League of Cities' California City Finance on March 6, 2006 was utilized directly in the forecast model.

Franchise Fees

The County of Riverside was unable to quantify the amount of FY 05/06 Franchise Fees for Electricity, Natural Gas and Cable Television that will transfer to the City of Wildomar. Per capita estimates were developed utilizing county unincorporated data for all franchises combined, and data from budget documents for 11 Riverside County cities for the Base Year. For purposes of the forecast model, it is assumed that as the population increases, the demand for services will increase proportionately. As such, the previous year per capita rate was calculated, adjusted for inflation, and then applied to the population for the subsequent year of the model forecast. For the FY 05/06 Base Year, this revenue was calculated to be \$486,284.

The forecast model also assumes that upon incorporation, the City of Wildomar will issue a five year notice to the solid waste companies providing service to the Wildomar community of the city's intent to establish a franchise requirement. Included in the forecast model are estimates of fee revenue to be derived commencing in FY 13/14 based on information provided by the County of Riverside for current costs of solid waste services in the area.

Community Development Fees

Community Development fees include revenues derived from fees associated with Planning functions and Code Enforcement functions. The Riverside County Planning and Code Enforcement Departments, in correspondence dated January 10, 2007 and September 29, 2006 respectively, provided Base Year revenues derived from the Wildomar community for each Department's services. Revenues totaled \$367,380 for Planning services and \$112,906 for Code Enforcement activities. The Building and Safety Department reported issuing 254 Code Enforcement citations in the Wildomar community in FY 05/06. For purposes of the forecast model, it is assumed that as the population increases, the demand for services will increase proportionately. As such, the previous year per capita rate was calculated, adjusted for inflation, and then applied to the population for the subsequent year of the model forecast.

Engineering/Building & Safety Fees

Engineering fees include revenues derived from fees associated with Engineering functions such as grading plan checks. Building & Safety fees are derived from functions such as permit issuance, building plan checks and building inspections. The Riverside County Building & Safety Department, in correspondence dated September 29, 2006, provided Base Year revenues derived from the Wildomar community for these services. Revenues totaled \$1,179,881 for these services. For purposes of the forecast model, it is assumed that as the population increases, the demand for services will increase proportionately. As such, the previous year per capita rate was calculated, adjusted for inflation, and then applied to the population for the subsequent year of the model forecast.

Transfer from Road Fund (Traffic Eng/PW Admin)

Under state law, certain road related engineering and administration costs generally paid from the General Fund can be offset by Road Funds. The forecast model includes all costs for Traffic Engineering and Public Works (street) Administration in the General Fund expenses. As such, a transfer of allowable Road Fund revenue to the General Fund has been reflected in the model forecast. Allowable costs that can be offset are up to 100% of Traffic Engineering services and 20% of Public Works Administration costs. Adjustments to these revenues in the forecast model are reflective of their respective cost adjustments in the expense portion of the forecast model.

Fines and Forfeitures

The County of Riverside was unable to quantify the amount of FY 05/06 Fines and Forfeitures that would transfer to the City of Wildomar. Per capita estimates were developed utilizing data from budget documents for 11 Riverside County cities for the Base Year. For purposes of the forecast model, this per capita rate remains fixed each year, with revenue totals adjusted by population only. For the FY 05/06 Base Year, this revenue is calculated to be \$183,600.

Miscellaneous Revenues

Miscellaneous revenues that will accrue to the City of Wildomar include DMV Abandoned Vehicle Reimbursement, AQMD grants, Beverage Container Recycling grants, miscellaneous charges for services, regulatory fees and charges, existing recreational program fees, and other miscellaneous revenues. These revenues were estimated on a per capita basis based upon historical review of city budget documents. For purposes of the forecast model, this per capita rate remains fixed each year, with revenue totals adjusted by population only. For the FY 05/06 Base Year, this revenue is calculated to be \$60,750.

Transient Occupancy Taxes

There are no hotels or motels within the Wildomar community, therefore no Transient Occupancy Taxes (TOT) are collected, or transferred. Although there has been interest by at least one developer concerning establishing such a facility in the future, any assessment of TOT after incorporation would require voter approval under the provisions of Proposition 218. The forecast model does not include any projected TOT revenues.

Interest Earnings

The current Local Agency Investment Fund (LAIF) interest rate is averaging over 5%. The LAIF is the most widely used investment agency by local municipalities for investment of most of their reserve and surplus funds. This rate has remained relatively stable over the long term, averaging anywhere from 3-6% annually over the last 7 years. For the purposes of this CFA, it is appropriate to forecast interest at a lesser amount than the current rate taking into consideration cyclical fluctuations in the market. This forecast model assumes an interest rate of 4% applied against the cumulative surplus of revenues carried over from a previous fiscal year, plus one half of any surplus at the end of a current fiscal year.

Road Fund Revenues

As discussed above, Road Fund revenues are all revenues received that are restricted under state law to be utilized for road related purposes only. This includes ordinary maintenance, which involves shoulder maintenance, curb maintenance, signing and striping, pothole repair, traffic signal maintenance and street sweeping. It also includes long term special maintenance, which involves asphalt overlays, slurry sealing, storm drain repairs, and damaged and deteriorated road reconstruction. The primary sources of Road Fund revenues for the proposed new City of Wildomar are analyzed below. Tables 1-B and 2-A in the Appendix detail these revenues over the 10 year forecast.

Gasoline Taxes

All gasoline tax revenues authorized by Streets and Highways Code Sections 2105, 2106 and

2107 are calculated and allocated to the City of Wildomar on a per capita basis. These revenues were previously allocated to new cities during the first seven years by calculating population based on 3 times the number of registered voters at the Effective Date of Incorporation. With the passage of AB 1602, this allocation was changed to now be based on the same population formula as Motor Vehicle License Fees. For the first 5 years after incorporation, population for purposes of this revenue allocation is calculated based on a downward annual sliding scale starting at 150% of the city's population, fixed annually by the State Department of Finance for each year. In the 6th and subsequent years, the city population is utilized. For Streets and Highways Code Section 2107.5, the annual allocation amount is fixed based upon the actual population at the time of incorporation.

The estimated Base Year per capita rates are established annually by the State Controller's Office. As this revenue is directly associated with total sales of motor fuel products, the amount will vary over time with fluctuations in sales volume which history has shown, is directly related to price fluctuations. Taking this into account, no annual inflation of the per capita rate has been applied to this revenue.

Measure A Sales Tax

Measure A is a one-half cent local sales tax that is restricted to road infrastructure projects and maintenance, and is administered by the Riverside County Transportation Commission. Initially passed by the Riverside County voters in 1988, it was extended in 2002 by the voters to expire in 2039. 40% of this revenue is allocated to county cities for local projects. The Riverside County Transportation Department, in correspondence dated October 21, 2006, provided the Base Year estimate of this revenue for the Wildomar community, a ratio of 36.4% of Base Year Sales Tax revenue for the community. This revenue was allocated in the forecast model based on population, applying the same fixed ratio to the annual Sales Tax projections.

It should be noted that upon incorporation, the City of Wildomar will be eligible for additional competitive grant Measure A revenues. However, due to the uncertainty of receiving these revenues, and lacking information on projects for which these competitive revenues would be directed, no estimate for competitive grant revenues is included in the forecast model.

Proposition 42 Sales Tax

Proposition 42 provides for a portion of the state sales tax on gasoline to be dedicated to local and statewide road infrastructure projects, including road maintenance. Each city is allocated a portion of this revenue on an annual basis based on population. In recent years, a loophole in Proposition 42 allowed the state to rescind this allocation during times budgetary distress as occurred in fiscal years 02/03-03/04. The state began partially restoring this revenue in FY 04/05, and fully in FY 05/06. In November 2006, state voters passed Proposition 1A which effectively closed this loop hole and now guarantees this revenue stream to cities. However, as a condition of Prop 1A, Prop 42 revenues for FY 06/07 and FY 07/08 were suspended, with full ongoing restoration commencing in FY 08/09.

The State League of Cities provided a per capita actual as of November 15, 2006 for the FY 05/06 Base Year. This per capita estimate is applied to the annual population for each fiscal year. As this revenue is directly associated with total sales and price of motor fuel products, the amount will vary over time with fluctuations in sales volume. Taking this into account, no annual inflation of the per capita rate has been applied to this revenue, although the State League of Cities is actually forecasting a doubling of this per capita rate to over \$9.54 for FY 08/09.

Proposition 1B

Proposition 1B was passed by the voters in November of 2006, authorizing issuance of bonds for road infrastructure projects, including road maintenance. Implementing legislation for the approximate \$2 billion allocation of the city and county share of these bond proceeds drafted by the State League of Cities and the California State Association of Counties would apportion this revenue over a five year period commencing in FY 07/08, with allocation of these revenues on a population basis. The State League of Cities and California City Finance on May 5, 2006 provided the estimated per capita rate for the cities' share of the non-competitive population based allocation. It had been anticipated that newly incorporating cities would be entitled to a share of this revenue based on the city per capita allocation formula. However, recent amendments to the implementing legislation which has not yet been adopted, and language contained in the governor's current budget revision, have eliminated most if not all of the allocation to new cities. As such, no revenue estimate has been included in the forecast model for these funds.

Interest Earnings

As discussed above for the General Fund interest, this forecast model assumes an interest rate of 4% applied against the cumulative surplus of Road Fund revenues carried over from a previous fiscal year, plus one half of any surplus at the end of a current fiscal year.

ANALYSIS OF EXPENDITURES

General Fund Expenditures

General Fund expenditures are all expenditures that are allowed under state law to be funded with unrestricted revenues, and some restricted General Fund revenues dedicated for specific General Fund services such as Planning and Building & Safety. Tables 1-A and 2-A in the Appendix detail these expenditures for the City of Wildomar over the 10 year forecast.

General Government

General Government includes all services and departments responsible for providing governmental services and essential administrative oversight duties, with the exception of Public Safety services. Tables 2-A and 2-B detail the forecasted expenditures for each of these departments. In general salaries and benefits for city staff positions are based on assumptions pertaining to the level of activity and comparable compensation packages to other cities. A four percent annual cost of living adjustment is included in the forecast model. Non-salary expenses, including contracted services, are projected with a 3% annual inflation rate in the forecast model.

Staffing is based on a "contract city" concept where minimal city staffing is employed, augmented by contract services. Being a small community with limited servicing demands, the City of Wildomar can effectively function with outsourcing most all service functions, utilizing limited city staff for administrative and oversight responsibilities. The forecast model anticipates a limited city staff growing to 15.5 FTEs in the second year after incorporation. This staffing compares favorably to other contract cities of comparable and larger size that have recently incorporated. Details of the staffing by Department are shown in Table 2-B.

City Council

The City Council Department includes all costs associated with the conduct of City Council business including monthly stipend and benefits, costs for supplies, memberships, and travel.

City Manager

The City Manager Department includes all costs associated with the executive level management of the city including staff salaries and benefits, and costs for supplies, memberships, training and travel required for the conduct of city business.

City Clerk

The City Clerk Department includes all costs associated with the administrative and public records function of the city including staff salaries and benefits, and the costs of contract services, supplies, memberships, training and travel required for the conduct of city business, as well as costs of bi-annual elections. Estimated costs for elections were provided by the Riverside County Registrar of Voters.

City Attorney

The City Attorney Department includes all costs associated with legal representation for the city. The forecast model anticipates that this service will be contracted on a continuous basis to one of the many contract law firms that provide this service, with the city providing supplies and office services.

Finance

The Finance Department includes all costs associated with the financial management function of the city including staff salaries and benefits, and the costs of contract services, supplies, memberships, training and travel required for the conduct of city business. Costs associated with this department also include contract services for conducting all required audits.

Community Development

The Riverside County Planning and Code Enforcement Departments, in correspondence January 10, 2007 and September 29, 2006 respectively, provided FY 05/06 Base Year costs for direct and indirect labor, material, and contract services provided to the Wildomar community for each Department's services respectively. Costs totaled \$400,146 for Planning services, and \$387,807 for Code Enforcement activities. A portion of these costs are offset by fee revenues. The county reported that 2.9 FTEs of direct and .7 FTEs of indirect labor effort were allocated to the Wildomar community during FY 05/06 for Code Enforcement. The county indicated that approximately 1.25 FTEs of direct labor were assigned to the Wildomar community for Planning, with the majority of costs being absorbed by contracted services. The model forecast assumes that the City of Wildomar will contract with one of many private planning and/or engineering firms that provide these services to other cities.

The forecast model assumes a contract service for providing economic development coordination and support. Cities today have found that maintaining a vibrant economic development component in their operations is a necessary function in maintaining an

economically balanced development program for the long term. As the Wildomar community is a developing area, with significant room to grow, this function is considered essential.

In addition to ongoing operations, the Community Development Department budget will also require funding to complete a General Plan and a Zoning Code for the new city. This cost has been included in the forecast model.

For purposes of the forecast model, for all ongoing contracted Community Development services, it is assumed that as the population increases, the demand for these services will increase proportionately. As such, the previous year per capita rate was calculated, adjusted for inflation, and then applied to the population for the subsequent year of the model forecast. City staff salaries/benefits and supplies, travel, etc. are adjusted annually by inflation only.

Community Services/Parks and Recreation

Recently, the residents of Wildomar established the Wildomar Parks Landscape Maintenance District for park maintenance services. The County of Riverside is currently renovating the 3 existing parks, and will construct the 4th park in the future. After incorporation, the maintenance district will transfer to the new city and continue to provide the maintenance services for the parks, and the City of Wildomar will have the option to provide recreational services from these parks. As there is no provision in the LMD for coordinating or providing such services, no provision is included for providing recreational services by the new city.

Engineering/Building & Safety/Public Works

The Riverside County Building & Safety Department, in correspondence dated September 29, 2006, provided FY 05/06 Base Year costs for direct and indirect labor, material, and contract services provided to the Wildomar community for providing Engineering & Building & Safety services. Costs totaled \$1,179,881 for these services, with all costs being offset by fee revenue. The county reported that 9 FTEs of direct and 1.7 FTEs of indirect labor effort were allocated to the Wildomar community during FY 05/06 for Engineering/Building & Safety. The forecast model also assumes a contract service for providing Traffic Engineering for the city. This cost is carried in the General Fund, however, is funded from Road Fund revenues. As the Wildomar community is a developing area, with significant room to grow, this function is considered essential. The model forecast assumes that the City of Wildomar will contract with either the County of Riverside or one of many private engineering firms that provide these services to other cities.

The City of Wildomar will be required to adopt a program to maintain compliance with the National Pollution Discharge Elimination System (NPDES), a federal program administered by the state, which will require the new city to adopt measures to prevent improper discharge of pollutants into the storm water and watershed systems. The Riverside County Flood Control & Water Conservation District, in correspondence dated October 2, 2006, provided estimates of establishing the initial NPDES program based on the assumption that the new city will become a Co-Permittee with the county and other Riverside County cities. On going costs for administration of the program were estimated based on similar costs of other Riverside County cities that are in the program, and have been included in the forecast model.

Additionally, the City of Wildomar will be required to implement a program for achieving and maintaining compliance with AB 939, the Integrated Waste Management Act of 1989, the program establishing an integrated framework for program implementation, solid waste planning

and solid waste facility and landfill compliance. The requirement for attaining a diversion rate of 50% of solid waste into recycling by 2009 is the most significant element of this law for cities. Estimated costs for providing contract services to establish and administer the AB 939 program have also been included.

Portions of administering both programs can be funded from Road Funds and annual grant funds that will become available to the new city. However, for purposes of the model forecast, all funding for administration of these programs is assumed to be provided by the General Fund. The model forecast assumes that the City of Wildomar will contract with one of the many specialized private environmental engineering firms that provide these services to other cities. The significant majority of the costs for implementing the NPDES program are road/storm drain related and are included in the road maintenance costs under the Road Fund.

For purposes of the forecast model, for all ongoing contracted Engineering, Building & Safety, Traffic Engineering, NPDES and AB 939 services, it is assumed that as the population increases, the demand for these services will increase proportionately. As such, the previous year per capita rate was calculated, adjusted for inflation, and then applied to the population for the subsequent year of the model forecast. City staff salaries/benefits and supplies, travel, etc. are adjusted annually by inflation only.

Non-Departmental

Non-Departmental costs include those costs that are not assigned to a specific department. They include costs such as insurance, lease of city hall office space, utilities and communications, LAFCO Fee, IT contract support, etc. Table 2-B details the forecasted expenditures for these expenses, which are projected with a 3% annual inflation rate. These expenses were determined from comparable costs for existing cities and comparable costs for lease space in the Wildomar community.

Animal Control

The County of Riverside Department of Animal Services, in correspondence date October 20, 2006, provided FY 05/06 Base Year costs derived from the Wildomar community for direct and indirect labor, administrative, material and contract services, including shelter services. Costs totaled \$210,022 for these services, with a portion of these costs offset by fee revenues. The county reported that 1.5 FTEs of direct and 1.5 FTEs of indirect labor effort was performed in the Wildomar community during FY 05/06. The model forecast anticipates that the City of Wildomar will contract with the County of Riverside for Animal Control services and with the current service provider for shelter services. For purposes of the forecast model, it is assumed that as the population increases the demand for these services will increase proportionately. As such, the previous year per capita rate was calculated, adjusted for inflation, and then applied to the population for the subsequent year of the model forecast.

Recently, the county entered into a Joint Powers Authority agreement with three area cities for providing enhanced sheltering services. The new city will have the option after incorporation to join the new JPA if it desires to provide the enhanced level of service. The County of Riverside provided estimates of the costs of the new city joining the new JPA of \$74,055 annually, for a net annual cost of \$60,889 after deducting the current \$13,166 cost of sheltering.

Law Enforcement

The County of Riverside Sheriff's Department, in correspondence dated October 4, 2006, provided FY 05/06 Base Year costs derived from the Wildomar community for direct and indirect labor, administrative, material, and contract services, for the provision of law enforcement services. Costs totaled \$3,098,617 for these services. The county reported that 21 sworn personnel were dedicated in the Wildomar community during FY 05/06. Estimates for Traffic Enforcement activities currently performed by the California Highway Patrol in the Wildomar area were not readily available from the state, therefore the Oct 2004 IFA estimate of service was utilized to determine the estimated FY 05/06 cost of \$25,647 for Traffic Enforcement. The City of Wildomar will become responsible for traffic enforcement after incorporation, and the forecast model assumes that this service will be included in the overall contract with the Sheriff Department as the California Highway Patrol will no longer have this responsibility, even during the Transition Period. Sheriff services are currently provided from the Lake Elsinore Sheriff Station, and will continue to be provided from that station under the contract.

The Riverside County Sheriff's Department maintains a "recommended" servicing level of 1.2 sworn personnel for every 1,000 of population. The FY 05/06 Wildomar community ratio is .78, less than the recommended level. For purposes of the forecast model, it is assumed that as the population increases, the requirement for these services will increase. Additionally, in order to maintain the existing .78 sworn personnel per 1,000 population factor, additional sworn personnel must be added as population increases. As such, an annual requirement for sworn personnel was calculated based on population, and an overall "cost per sworn personnel" was calculated inclusive of traffic enforcement and all overhead costs. This cost factor was then adjusted for inflation annually, at a slightly higher rate than the general inflation rate due to the nature of the cost of this service generally outpacing inflation, and then applied to the population for each year of the model forecast. Table 2-A in the Appendix details the calculation methodology utilized for forecasting these costs.

The Sheriff Department also provided a cost estimate of \$211,000 for FY 06/07 for 1 FTE of Traffic Enforcement service. Any decisions concerning "enhancing" the existing level of traffic enforcement service, or general law enforcement service, would be a policy decision for a future city council.

Fire Protection

The Riverside County Fire Department, in correspondence dated October 28, 2006, provided cost estimates for providing fire protection and paramedic services to the Wildomar community for the FY 05/06 Base Year. The estimated costs for service were reported as \$1,678,995. Fire protection and paramedic services for the Wildomar community are provided primarily from Station 61 located in the central portion of the community. Additionally, approximately one third of the cost Station 75 (Bear Creek) located in the southwestern portion of the community was included as it is also allocated as partial primary service to the Wildomar community. Two other stations, Station 68 and Station 94 were reported to provide limited service to the area, but were not included in the cost estimate for servicing by the county. Ambulance response is provided by American Medical Response through a contract with the County of Riverside. The forecast model assumes that the City of Wildomar will contract with the Riverside County Fire Department to continue to provide fire protection/paramedic service, with ambulance service remaining under the county contract.

The County of Riverside Fire Department has indicated that upon incorporation, the new city will be expected to absorb the full cost of the planned Clinton Keith Station, to be located east of the I-15 freeway, and eliminate the cost of the Bear Creek station. This would then dedicate the cost of two full stations to the city. The correspondence indicated that the commencement of operations for this station was scheduled for FY 08/09. In correspondence from the Riverside County CEO's office dated March 21, 2007, and April 9, 2007, and further correspondence from the county Fire Department dated April 28, 2007, clarification was provided indicating operation of this new facility is scheduled to commence in FY 09/10. The forecast model assumes the full cost of each station at an annual inflation rate of 3%.

It should be noted that action taken by the Riverside County Board of Supervisors on April 24, 2007 has directed county staff to enter into negotiations with the new city upon incorporation for a cost sharing arrangement of the Clinton Keith Station for a limited period of time. The purpose of this action is to further assist in the relief of the burden of absorbing this significant cost in the early stages of the new city's formation.

Contingency and Operating Reserve

A ten percent (10%) Contingency factor of estimated annual General Fund expenditures has been included in the expenditure projections in the event of unforeseeable additional expenses that may occur. The forecast assumes that the entire Contingency is expended every year. However, in practicality, the likelihood of this occurring is minimal, particularly in later years after the city has established and stabilized over time its revenue streams and costs. Additionally, a 10% annual required Operating Reserve, and all excess reserves above the 10% minimum, are reflected in the forecast to identify funds available for absorbing unusual or extreme revenue shortfalls or service cost increases such as severe economic downturns or future unfunded state mandates.

Road Fund Expenditures

Road Fund expenditures are all expenditures for routine road and traffic signal maintenance. This includes ordinary maintenance, which involves shoulder maintenance, curb maintenance, signing and striping, pothole repair, slurry sealing, curbside storm drain catch basins, traffic signal maintenance and street sweeping. The forecast model does not include significant long term special maintenance, such as asphalt overlays, major storm drain repairs, and damaged and deteriorated road reconstruction as these are considered capital improvement projects as previously addressed in the CFA. Tables 1-B and 2-A in the Appendix detail the expenditures for routine maintenance services over the 10 year forecast.

Road/Traffic Signal Maintenance

The Riverside County Transportation Department, in correspondence dated October 21, 2006, provided estimates for the FY 05/06 Base Year direct and indirect labor, material, and contract services applicable to perform all routine road maintenance services for the Wildomar community. Additionally, the Transportation Department provided a Base Year estimate of capital costs for road construction, asphalt overlays and slurry seal maintenance for that year. The Transportation Department also identified approximately 102 road miles and 18 traffic signals in the Wildomar community.

For purposes of the model forecast, and utilizing the Base Year cost information provided by the

Transportation Department, an estimate has been developed for all routine road and traffic signal maintenance on a cost-per-road-mile basis. This estimate is inclusive of an annual slurry seal pavement maintenance plan based on a seven year cycle. Further, although CSA 152 includes street sweeping for approximately one third of the Wildomar community streets, the cost per road mile estimate is inclusive for all streets. This annual estimate was derived from discussions with local engineering firms that provide public works services to contract cities, site visits to assess the current road conditions within the community, and historical cost information from other cities and the county. The forecast model also includes annual increases in the cost per road mile estimate to account for general inflation, and in the actual road mile estimate to account for forecasted future development.

It is anticipated that the new city will develop a capital improvement program, as discussed earlier in the CFA, for the purpose of prioritizing scheduling and funding of long term street rehabilitation inherently necessary in established communities with aging road infrastructure and substantial deferred maintenance.

Contingency and Operating Reserve

A ten percent (10%) Contingency factor of estimated annual Road Fund expenditures has been included in the expenditure projections in the event of unforeseeable additional expenses that may occur. The forecast assumes that the entire Contingency is expended every year. However, in practicality, the likelihood of this occurring is minimal, particularly in later years after the city has established and stabilized over time its revenue streams and costs. Additionally, a 10% annual required Operating Reserve, and all excess reserve funds above the 10% minimum, are reflected in the forecast to identify funds available for absorbing unusual or extreme revenue shortfalls or service cost increases such as severe economic downturns or future unfunded state mandates.

REVENUE NEUTRALITY MITIGATION

As discussed earlier, “revenue neutrality” requires the incorporation to result in a “similar exchange” of both revenue and service responsibility among the proposed city, the county, and any other affected agency. In accordance with state law, the method of calculating the “projected” annual revenue neutrality mitigation payment is based on the difference between identifiable and recurring General Fund costs and revenues (net costs) for the Base Year, FY 05/06. The calculation to determine the estimated annual revenue neutrality requirement is shown on Exhibit 3 in the Appendix. The calculation indicates that there is no loss of net revenue transferred to the new city from the county therefore there is no net liability for the city to make mitigation payments to the county.

COUNTY REPAYMENT FOR TRANSITION YEAR SERVICES

Under state law, a new city is not obligated to provide direct municipal services during the Transition Period. The county and other servicing agencies continue to provide municipal level services during this period to provide time for the new city to accrue adequate revenues, and establish start up operations so that it may begin providing all services to its residents at the beginning of the next fiscal year. However, the county is allowed under the law to require the new city to pay back the overall net cost of providing these services. The county repayment can be repaid with interest over a five-year time period, paid in a lump sum at the end of the transition period, or any combination thereof as may be agreed between the new city and the

county.

Exhibit 4 in the Appendix provides the estimated County Repayment requirements for the City of Wildomar to Riverside County. The CFA assumes a 5 year repayment schedule with interest applied at 4% for both the General Fund and Road Fund repayments. It should be noted that the actual amount of repayment will be based on the actual revenues and expenditures accrued in the Transition Period.

TRANSITION YEAR CASH FLOW

During the Transition Period, the new city will begin to accrue and receive certain revenues, while some revenues will not be accrued or received until future periods of time. The timing of receipt of revenues is critical to the ability of the city to begin formation and operation. As the existing service providers will continue to provide municipal services on a reimbursable basis to the new city during the Transition Period, the revenues accrued will allow the new city to accomplish required start up operations.

This CFA projects a Transition Period of one year. Tables 1-A, 1-B and 2-A in the Appendix delineate the revenues that accrue and are received by the new city in the FY 08/09 Transition Period. As is noted in the Tables, several revenues are either only partially received, or not at all. Other revenues begin accruing and are received immediately. Sales Tax and Property Tax are two critical revenues of which the city will receive little during the Transition Period.

The city will receive no Property Tax in the Transition Period. In order to receive Property Tax in a given fiscal year, filing of the appropriate application with the State Board of Equalization must occur prior to December 1st of the prior calendar year. As such, the new city is not eligible for any Property Tax for FY 08/09. The fiscal model assumes that the appropriate filings will occur prior to the December 1, 2008 deadline for receiving FY 09/10 Property Tax during the normal disbursement during FY 09/10. The county will retain all Transition Period Property Tax that would be pro-rated to the new city, and will apply this revenue as an offset to the costs for providing Transition Period municipal services.

Sales Tax is paid in monthly installments, one quarter in arrears. An initial application for starting sales tax disbursements must be filed with the State Board of Equalization by the 10th of the month preceding the effective quarter, and cannot be effective until after the Effective Date of Incorporation. The fiscal model assumes that appropriate filings will occur prior to July 10, 2008 in order to begin accruing sales tax with the October 1, 2008 quarter, but will not begin receiving that revenue until January of 2009. As a result, the city will receive six months of sales tax revenue during the Transition Period, with the county retaining 3 months. No Property Tax in Lieu of Sales Tax is assumed to accrue to the city in the Transition Period as this revenue is now applied on the same schedule as the general Property Tax, and the county will retain the one year pro-rated share. Additionally, the county will apply the 3 months retained sales tax and the in Lieu Tax Property Tax as an offset to the costs for providing Transition Period municipal services.

Motor Vehicle License & Off-Highway Vehicle License Fees, Property Transfer Taxes, and Gasoline Taxes begin accruing immediately, and are distributed monthly based on an estimated payment, with a clean-up payment at the end of the fiscal year.

Franchise Fees, Community Development Fees, Engineering/Building & Safety Fees, and Animal License Fees all remain with the county during the Transition Period. These fees

collected are applied as net offsets to the cost of providing these Transition Period services.

As is noted above, although certain revenues begin accruing immediately, there are a number of actions that a new city must perform prior to receiving any revenue. These actions include arranging preliminary city hall office space, retaining initial city management staffing, generally consultants, establishing city liability insurance, etc. Historically, new cities have established "lines of credit" with either their county or an established financial institution. More recently, many cities have entered into what are known as "best effort" agreements whereby consulting firms will provide the necessary start up operations, to be reimbursed at a later date when the new city's cash flow is established. The CFA makes no assumption regarding which methodology may be employed by the future city, however, the new city will be required to establish one of these options as a method of start up.

PROVISIONAL APPROPRIATIONS ("GANN") LIMIT

In 1979, the voters of California passed an initiative known as the "Gann Limit", adding Article XIII B to the state Constitution and Section 7902.7 to the Government Code. The purpose of the initiative was to place restrictions on the state and local jurisdictions ability to raise revenues via taxes, and fees that are considered taxes. The "Gann Limit", or commonly referred to as the "Appropriations Limit" in state and local government budgets, is implemented by Government Code Section 56812. Essentially, the annual limit is established based on an established baseline calculation for the initial limit, adjusted annually by population and inflation factors provided to each jurisdiction by the State Controller's Office.

LAFCO has the responsibility to establish a "provisional" appropriations limit for the new city as part of the incorporation. However, the city is required to establish the permanent baseline appropriations limit by voter initiative at the first municipal election required to be held by the city after incorporation. The appropriations limit establishes a ceiling for appropriating funds for expenses that are paid from taxes and fees that are collected for general purposes.

Exhibit 5 in the Appendix provides the estimated calculation for the provisional appropriations limit. LAFCO will determine the final provisional limit as part of the final terms and conditions of the incorporation.

COMPARABLE CITIES ANALYSIS

State law requires an analysis of comparable cities when developing a CFA for a proposed incorporation. Comparable cities should be selected based on general population and geographical size similarities and for providing a similar range of services. Additionally, revenue comparisons and staffing comparisons are generally included in such an analysis. Determining the correct mix of comparable cities is difficult due to the inherent nature of every city having its own unique differences. Population, size, and geographic proximity are not always the best indicators of comparability. Age of cities, diversity of revenue streams, development growth potential, and philosophical decisions concerning staffing are all additional considerations to be taken into account when determining the cities to select. Further, given the nature of the prevailing recent history of newer cities incorporating as “contract cities”, it is important to include these types of cities as well for comparative purposes.

For purposes of this analysis, 6 cities were selected for comparison. Two cities, San Jacinto and Beaumont were selected due to their general comparison to population. Both cities are primarily full service, although they do contract some services, specifically law enforcement and fire protection. Lake Elsinore was selected due to its proximity to Wildomar. Lake Elsinore is also primarily a full service city, contracting some services, primarily law enforcement and fire protection. Goleta was selected as the most recently incorporated city in the state. Although this city was initially formed as a “full contract city”, recently this city has begun to transition many services into city staffed services. Goleta does contract law enforcement services, and fire protection is provided by the county fire district at no cost to the city. Aliso Viejo and Rancho Santa Margarita were selected as two cities that have incorporated within the last 7 years, and maintain the “full contract city” philosophy, contracting virtually all facets of city services and maintaining limited city employee staff. These two cities demonstrate the ability of cities with limited revenue streams to maintain an efficiency level of service provision that maximizes the economy of scale gained by contracting and while minimizing the impact of staff overhead burdens. The fiscal model developed for Wildomar is patterned under this contract city model, consistent with state OPR guidelines. Tables 4-A through 4-C provide comparative data for these cities.

General Fund Comparison

Table 4-A delineates comparative data for major General Fund revenues and costs. As indicated, Wildomar compares favorably to San Jacinto and Beaumont in relative population but does lag behind in overall per capita revenues. However, as compared to Aliso Viejo and Rancho Santa Margarita, larger contract cities, Wildomar compares very favorably in overall per capita revenues. The same comparisons are noted for costs for these cities. As costs are generally a function of available revenues, it would follow that the same comparative results would occur. Of particular note is that per capita revenues for Wildomar for individual revenue streams overall show better diversification than any of the other cities, with the exception of Lake Elsinore. This is a positive indicator of the city’s ability to be able to more readily absorb a downturn in a specific revenue stream.

As expected, Law Enforcement clearly garners one of the highest per capita (and overall) costs for all cities. Although per capita costs for Wildomar are significantly less than the other Riverside County cities and Goleta, they are reflected favorably as compared to Aliso Viejo and Rancho Santa Margarita. Law Enforcement is discussed further below.

Staffing Comparison

As exhibited in Table 4-B, city staffing (excluding contractor support), is literally a function of “full service” versus “contract service”. Wildomar compares very favorably with Rancho Santa Margarita and Aliso Viejo for city staffing levels, both being “full contract cities”. On a staff per population basis, Wildomar actually exceeds both Aliso Viejo and Rancho Santa Margarita in service level. As would be expected, the other cities are relatively “full service” cities, thus significantly greater numbers of city staff. Goleta, had it maintained its contract service provision in planning, engineering, and building & safety, would be similarly comparable to Wildomar from a staffing perspective. It should be noted however, that “contract cities” do have contracted staff that perform the work that city staff members would do in a “full service” city, and those costs are included in the contract service projections. As is noted in the CFA, Wildomar is designed to function as a “full contract city” given the constrained revenues available to the city, a similar comparison to both Aliso Viejo and Rancho Santa Margarita. In today’s statewide climate, forming a city that is not placed under the “full contract city” philosophy, unless unlimited revenue resources are available, would be considered problematic. The comparison to Aliso Viejo and Rancho Santa Margarita supports the conclusion that Wildomar has the ability to succeed as a “full contract city”.

Law Enforcement Comparison

Table 4-C provides a comparative analysis of Law Enforcement costs and servicing levels for each of the cities, where information was available. As is indicated in the data, Wildomar compares favorably to Lake Elsinore in terms of Sworn Personnel / 1,000 of population, however, unfavorably to the smaller cities of Beaumont and San Jacinto. When compared to Aliso Viejo and Rancho Santa Margarita, Wildomar compares significantly favorable. When comparing per capita costs of Law Enforcement service, Wildomar lags behind every city, except Aliso Viejo and Rancho Santa Margarita. However, when viewing this in the context of cost of service as compared to the General Fund expenditures, the model forecast indicates that Wildomar’s ability in maintaining the proportionate service level of sworn personnel can be accommodated by the budget. The percentage cost of law enforcement service remains relatively constant, slightly increasing over the 10 year forecast period, as should be expected, and falls within a reasonable and consistent range of percentage expended to total budget.

CONCLUSION OF FEASIBILITY

Based on the assumptions and analysis contained in this CFA, the following conclusions are evident:

This independent fiscal assessment assumed the incorporation boundaries as submitted by the proponents, and authorized for study by LAFCO. Minor modifications to these boundaries will not significantly impact the financial standing of the new city. However, any significant modifications to the boundaries analyzed could have a material effect on this analysis. If it is determined that additional boundary scenarios beyond those analyzed within are to be studied, a new CFA will need to be developed.

As depicted in Table 1-A and 1-B in the Appendix, and based upon this fiscal analysis of incorporating the Wildomar community as proposed, the forecasted General Fund revenues minus expenditures for FY 08/09 through FY 17/18 average an approximate \$1,327,222 annual surplus. Forecasted Road Fund revenues minus expenditures for the same time period average an approximate \$121,900 annual surplus. However, during years 4 through 6, moderate Road Fund deficits occur due to the annual 5 year county repayment obligation for the Transition Year services. Slight annual Road Fund deficits also occur in years 9 and 10. Further discussion on mitigations for these deficits follows below. Overall, the cumulative General Fund surplus over the term of the projections is \$13,307,773. The cumulative Road Fund surplus over the term of the projections is \$1,218,997.

General Fund

An analysis of the first two full fiscal years FY 08/09 and FY 09/10 General Fund costs and revenues indicates that revenues exceed expenditures by \$2,424,279. This positive variance indicates an operating cash flow and emergency operating reserve that represents 18% of the General Fund operating costs in FY 09/10. This reserve is adequate to cover cash flow requirements and unexpected or emergency expenditures or economic uncertainties that could negatively affect recurring revenues during the first two start-up years. It should also be noted that the fiscal model carries the assumption that the entire 10% Contingency set aside in each fiscal year is spent. This Contingency amount for FY 08/09 and FY 09/10 equals \$1,342,373.

Although the model forecast assumes that the annual 10% Contingency will be spent each year, in practicality, this will not generally be the case, in particular in the later years as the new city establishes a track record of revenues/costs and will be adjusting budgets accordingly to ensure annual balanced budgets. Additionally, as indicated in the CFA, there will be no revenue neutrality mitigation requirement from the city to the county. As is not the case with any city that has incorporated since the revenue neutrality statute was enacted, this burden of cost has been relieved for the new city, thus freeing up surplus revenues for other purposes.

Table 1-A in the Appendix identifies the minimum 10% operating reserve, and excess reserve, available to the new city. It should be noted that a minimal acceptable reserve fund of no less than approximately 10% of the operating budget is a reasonable level of reserve required because:

- A new city has no historical track record on the cost or level of services required to meet the expectations of a newly incorporated community.

- Unanticipated expenditures could occur due to major disasters, emergencies, liability claims, and litigation settlements.
- A State budget crisis could result in greater mandated costs for cities and a reduction or transfer of property taxes and State subventions.
- Changed economic conditions that could result in a decrease in affected General Fund revenues that are outside the discretionary control of a City Council.
- No funds have been budgeted for non road-related capital improvement projects. As the new city grows in staffing and assumes services from the county, the requirements for facilities, vehicles and other major equipment may be apparent.

The forecast of revenues is dependent to a large degree on a progression of continued development. As a community that is approximately only 50% built out, sustaining balanced development will be critical to achieving sustainable revenues. Development projections in the forecast model were purposely reduced from current projections and historical actuals to ensure that the model forecast does not overstate this critical element. However, it will be incumbent upon the future city government to ensure an aggressive posture towards continued balanced development of the community.

Costs can be controlled for the most part rather easily as compared to revenues. Therefore, it will be incumbent upon the future city government to ensure that the management of the city does not create a governmental structure that exceeds what can reasonably be afforded. With the contract city philosophy, this is readily achieved by allowing service costs to fluctuate with demand, avoiding the pitfalls of potential staff underutilization that plague many full service cities. Successful cities that have incorporated in the post ERAF and revenue neutrality years have only accomplished success through prudent cost management.

Road Fund

An analysis of the first two full fiscal years FY 08/09 and FY 09/10 Road Fund costs and revenues indicate revenues exceed expenditures by \$1,538,578. This substantial positive variance indicates an operating cash flow and an emergency operating reserve that represents 92% of the Road Fund operating costs in FY 09/10. This reserve is adequate to cover cash flow requirements and unexpected or emergency expenditures or economic uncertainties that could negatively affect recurring revenues during the first two start-up years. It should also be noted that the fiscal model carries the assumption that the entire 10% Contingency set aside in each fiscal year is spent. This Contingency amount for FY 08/09 and FY 09/10 equals \$130,699.

The forecast model indicates that the proposed new city will sustain a Road Fund operating deficit each fiscal year from FY 11/12 through FY 13/14. As was referenced prior, this is due to the Transition Year annual repayment obligation. However, given the amount of available revenue carried over from the Transition Year, sufficient operating surplus revenues exist to more than adequately mitigate these deficits. As indicated in the fiscal model, annual cumulative Road Fund surpluses range from 63% to 85% as a ratio against the annual Road Fund expenditures for a given fiscal year during this period of time. Beginning in FY 16/17, annual operating deficits begin to accrue to the city. However, as these projections are significantly far in the future, the new city will be in position to implement appropriate management policies to ensure these potential deficits are mitigated. Additionally, more than significant reserves exist to

carry these deficits, and augmentation from the General Fund as necessary can be utilized. As such, the slight deficits in those late years are considered insignificant and well within manageable parameters.

Although as noted previously, the model forecast assumes that the annual 10% Contingency will be spent each year, in practicality, this will not generally be the case, in particular in the later years as the new city establishes a track record of revenues/costs and will be adjusting budgets accordingly to ensure annual balanced budgets. Table 1-B in the Appendix identifies the minimum 10% operating reserve, and excess reserve, available to the new city. It should be noted that the minimal acceptable operating reserve fund is generally considered to be no less than approximately 10% of the operating budget. As shown, the overall reserve revenues significantly exceed the minimum. These revenues will allow an adequate amount of cash flow and emergency reserve funds, and funds for future capital projects. Coupled with the Contingency reserve built into the model forecast previously discussed, and the ability for these revenues to be augmented by the General Fund, the Road Fund reserve posture is positive.

County Augment

On July 31, 2007, The Riverside County Board of Supervisors amended its policy on "Local Agency Formation Commission Matters", Policy Number A-46, to allow for the county to authorize a county contribution to newly incorporating cities where the calculations of costs transferred versus revenues transferred results in a net reduction in county costs. This action was taken in acknowledgement of the fact that the initial contribution of the savings back to the new cities provides benefits to the county in transferring these net costs in the long term. During that same action, the Board of Supervisors approved a ten year revenue augment for the new city, if incorporation is approved, to be paid annually. The payments were developed utilizing the net county savings calculated under the revenue neutrality calculation for the Base Year FY 05/06, with a 3% annual inflation rate applied. The action also stipulates that if revenues for sales tax exceed those projected for a given fiscal year in the ten year fiscal model in the CFA, then the county augment would be reduced by a like amount of the excess for that fiscal year. However, as this is a direct offset of one revenue for another, the total amount of revenue is unchanged. These revenues have been included in Table 1-A in the Appendix in the General Fund Revenues section of the Summary Table.

Clinton Keith Fire Station

One significant cost that is anticipated in the model, starting in the second year of incorporation, is the requirement for the new city to absorb the full operational cost of the proposed Clinton Keith Fire Station. Tentatively scheduled to be opened in FY 09/10, the county Fire Department anticipates purchasing the land for the facility in FY 07/08, and construction to be performed in FY 08/09. In recognition of the potential impact that this requirement has placed on the early years of the incorporation, the Riverside County Board of Supervisors on April 24, 2007 took an official policy action directing county staff to enter into negotiations with the new city, if the incorporation is approved, for purposes of providing for a cost sharing arrangement of the Clinton Keith Station for a limited period of time. The purpose of this action is to further assist in the relief of the burden of absorbing this significant cost in the early stages of the new city's formation, thus providing an additional mechanism for enhancing the new city's fiscal posture in the early years. However, as the amount of future cost sharing cannot be identified until future negotiations, no projection of a potential cost sharing arrangement has been included in the CFA.

Sensitivity Analysis

As sales tax is a significant revenue stream for any city, a sensitivity analysis is included for the purpose of analyzing the impact of an outward shift in projected retail development, and resultant sales tax revenue, in the early years of the incorporation. The forecast model includes a projection of an additional 350,000 square feet of retail development occurring from FY 06/07 through FY 08/09. This projection is significantly less than what is actually either completed, under construction, or in the planning approval and permitting phase for this time frame. Although the allocation of the additional retail development over the four fiscal years does not necessarily take into consideration the timing of specific projects, one significant project that is currently on a track to be opened by FY 09/10, and would conceivably be viewed as a significant impact if delayed, is the proposed Super Walmart. As this project is a significantly large project, adjustments in the retail development projections have been made to depict a shift of this project to FY 10/11 and FY 11/12.

As depicted in Table 5-A in the Appendix, shifting the opening of this project to FY 10/11 does create an annual deficit for FY 09/10, however, more than adequate operating and excess reserves remain to absorb this one year deficit. Total reserves remaining in FY 09/10 are over \$1,900,000 or 15% of the General Fund Expenses for that year. Table 5-B in the Appendix depicts the impact of shifting this project opening to FY 11/12. As is shown, annual deficits occur in FY 09/10 and in FY 10/11, however sufficient operating and excess reserves remain to absorb the deficits. Total reserves remaining in FY 11/12 are \$1,480,186 or 10% of the General Fund Expenses for that year.

As is shown, shifting of the opening of the project into future years does impact to a degree the overall fiscal posture of the new city in the preceding years. However, in each case, the reserve posture of the new city remains well within acceptable parameters. As such, it can be concluded that there is sustainability for absorption of a potential delay in the materialization of future sales tax revenues.

Conclusion

It can be concluded by this analysis that the City of Wildomar, as proposed, is financially viable in all respects. The City of Wildomar can be a fiscally viable city, operating within the parameters as established within this CFA forecasting model in the short term, as well as in the long term. As indicated in the fiscal model, It can also be concluded that through prudent fiscal management, the new city will not only retain the ability to enhance existing services to the community, but will also gain the potential to develop additional public services and programs currently unavailable.