



2009-19 LONG RANGE FINANCIAL FORECAST

El Dorado Hills Community Services District

June 2008

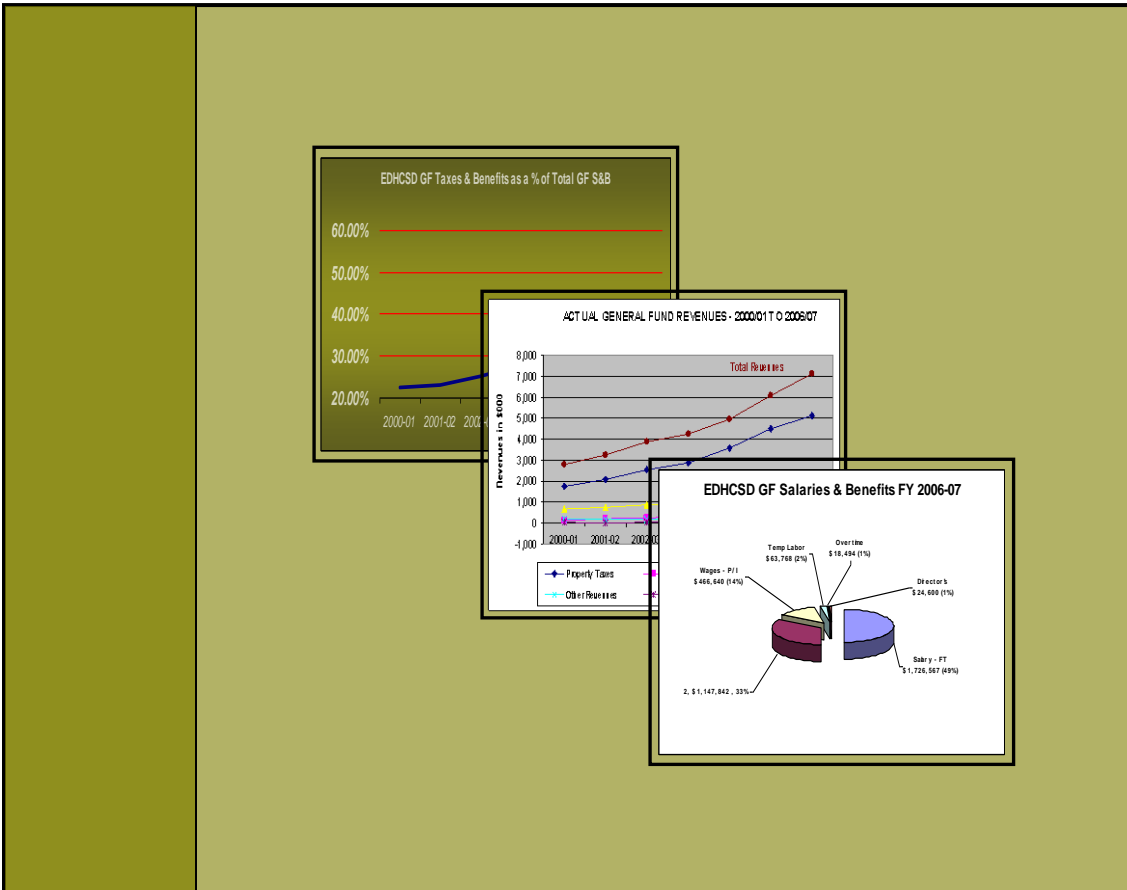


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COMMUNITY SERVICES DISTRICT

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PURPOSE OF THE FORECAST

This is the first long range forecast prepared by District staff. Our intent is to update the current forecast each year and to use it as a tool for estimating revenues and expenditures in the development of future budgets.

The Long Range Financial Forecast 2009-19 takes a forward look at revenues and expenditures in the District's most important fund, the General Fund. It also looks at the Landscaping & Lighting Districts although most of the analysis in this forecast dwells on ongoing operations and the General Fund.

The purpose of the Forecast is to identify financial trends, shortfalls, and issues so the District can proactively address them. It does so by projecting the fiscal results of current service levels and policies ten (10) years into the future, providing a snapshot of what the future would look like as a result of decisions made in the FY 2008-09 and prior year budgets. As a result, any needed course corrections are highlighted.







The word "sustainable" raises fundamental questions about what services and programs can be supported over a long period of time with revenue constraints facing the District.

This report introduces the concept of a sustainable budget. The word "sustainable" raises fundamental questions about what services and programs can be supported over a long period of time with revenue constraints facing the District. These questions are designed to initiate a process and plan that ensure future balanced budgets and acceptable levels of service.

It should be noted that this report is not a budget. It is a forecast and does not present a comprehensive plan for achieving District objectives. It does, however, set the stage for dialogue among the community, the Board and staff in the preparation of future budgets.

KEY POINTS

The following Key Points highlight the significant issues incorporated into the 2009-2019 Long Range Financial Forecast:

-  The forecast assumes the eight-county Sacramento region will be affected as the nation slides into continued slow growth if not recession in calendar year 2008. This recessionary trend will affect forecasts for the period FY 2009-10 and beyond. It is specifically expected to affect the first part of the ten-year forecast with a gentle upswing in revenues occurring in the last 5 years, 2015 to 2019.
-  It is assumed that El Dorado Hills will remain a highly desirable location within the eight-county region to live and to do business. It is further assumed that assessed valuation will increase slightly during the first part of the ten-year forecast with a gentle upswing in revenues occurring in the last 5 years, 2015 to 2019.
-  Over the 7-year period FY 2000-01 through FY 2006-07, salaries as a percentage of total salaries & benefits has decreased while taxes & benefits have increased. It is assumed that payroll taxes & benefit expenditures will continue to increase at a faster rate than salaries alone.
-  The full annual required contribution for other post-employment benefits has been included in the forecast as prepared by the District's actuary. This insures that there will be funds in the future to meet retiree health and other post-employment benefit premiums.
-  While population growth increased year-over-year for the last eight years the percentage increase diminished beginning in 2003. As our population grows, the ability to generate revenues grows but not necessarily at the same rate of growth as during the double-digit population growth years 2001, 2002 and 2003.
-  With prudent fiscal management in the past and a strong management team going forward, the District is in a good position going into times of economic uncertainty.

FORECAST MODEL

The assumed rate of growth for revenues and expenditures over the next ten years is based on the compound annual growth rate (CAGR) model which is defined as:

The year over year growth rate applied to an investment or other part of an activity over a multiple-year period.

Simply put, the CAGR is a forecast that describes the rate at which annual revenue would grow if it grows at a steady rate. For example, the District's total General Fund revenue stream was \$2,812,000 in 2000-01 with revenues in 2006-07 of \$7,116,000. The smoothed out CAGR for this period is 16.73%.

It is this methodology that is used to forecast both revenues and expenditures for the ten-year period of this report. Once these projections are made, the revenues and expenditures are tweaked year-by-year, as necessary, to take into account one time spikes.

This report takes a conservative and prudent approach to forecasting revenues. It takes into account the current downswing in the economy and the fact that no matter how clear your crystal ball may be, no one can predict the future with certainty. Conservative average growth rates, therefore, are forecast year-over-year for the period 2009 through 2019.

The advantage of using this methodology is that it is a widely recognized method for projecting economically sensitive revenues. It is, therefore, a good fit for the El Dorado Hills Community Services District.

2009-2019 GENERAL FUND OVERVIEW

ASSUMPTIONS

The ten year long range financial forecast is based on assumptions regarding what will happen in the regional and State economy over the next few years, and on near-term and long-term revenue and expenditure drivers.

ECONOMIC ASSUMPTIONS

The forecast assumes the eight-county¹ Sacramento region will be affected as the nation slides into slow growth if not recession in calendar year 2008. As a result, inflation will continue to be modest through 2008. This recessionary trend will affect forecasts for the period FY 2009-10 and beyond. It is specifically expected to affect the first part of the ten-year forecast with an upswing in revenues occurring in the last 5 years.

Should the recession not occur as projected, the District will be in a better financial position than forecast.

As noted above, this is a prudent approach to forecasting revenues in times of economic uncertainty. Should the recession not occur as projected, the District will be in a better financial position than forecast.

The California Legislative Analyst's Office (LAO) offers the following outlook on the statewide economy and revenues²:

Economy. We expect both the U.S. and California economies to experience weak performance in the near term. For 2008 as a whole, we forecast economic growth and inflation will be modest, but with the first half of the year especially sluggish. Full-year growth will average well below its 2007 pace, which itself reflected a slowdown from 2006. Although the second half of 2008 should

¹ El Dorado, Sacramento, Placer, San Joaquin, Solano, Yolo, Sutter and Yuba counties.

² Reference page 3 of their February 20, 2008 publication "Highlights of the 2008-09 Analysis".

2009-2019 GENERAL FUND OVERVIEW

strengthen some, significant improvement will likely not come until 2009. The key factors holding down growth will be the depressed housing market and high energy prices. Our forecast is somewhat weaker than the administration's, principally due to more negative developments since its forecast was prepared.

Revenues. Based on our own economic forecast but assuming the Governor's revenue-related proposals, we forecast that General Fund revenues will be \$1.5 billion below the administration's estimate for the current and budget years combined. Most of this shortfall—\$1.4 billion—is due to our lower projected receipts from the state's three major taxes. This reflects our lower forecast for such key revenue-determining variables as taxable personal income, taxable sales, and taxable corporate profits. We also expect lower revenues than the administration from tribal gambling compacts, including the effects of recently approved ballot propositions.

REVENUE DRIVERS

All General Fund revenue sources are forecast to increase annually by 9.54% over the next ten years. The 5 major sources of revenue are forecast to increase as follows:

	2009-10	2018-19	CAGR
Property Taxes	\$6,468,000	\$15,787,000	10.39%
Franchise Fees	\$587,000	\$885,000	4.67%
Parks & Rec Fees	\$1,340,000	\$2,461,000	6.99%
Other Revenue	\$347,000	\$539,000	5.02%
Transfers In	\$40,000	\$54,000	3.34%

2009-2019 GENERAL FUND OVERVIEW

Property Tax

Property taxes are driven by assessed valuation and transfer taxes as units are sold. It is assumed that El Dorado Hills will remain a highly desirable location within the eight-county region to live and to do business. It is further assumed that assessed valuation will increase slightly during the first part of the ten-year forecast with an upswing in revenues occurring in the last five years, 2015 to 2019 as the population of El Dorado Hills continues to grow *and* real estate values begin to climb again. Property taxes are forecast to increase annually by 10.39%.

Franchise Fees

Cable TV franchise fee revenues are driven by the number of residents that subscribe to cable TV, as well as rate increases over time. Cell tower fees are assumed to be insignificant in the near future, and the Solid Waste Franchise Fee is a mandatory service for all residential, commercial and industrial units. It is forecast that all franchise fees will increase annually by 4.67% as a result of both incremental growth in population and future rate increases. The Board of Directors has discretion to increase the Franchise Fees for both Cable and Solid Waste.

Parks & Recreation Fees

Parks & Recreation fee revenues are driven in part by the number of programs, the number of program participants and the perceived benefit of our parks and recreation programs by District residents. Fees are forecast to increase annually by a conservative 6.99%.

Windfall Revenues

In addition to the above, this forecast assumes that the District will channel all windfall revenues into reserves or into one-time capital improvements projects. This assumption assures that the District will not commit its resources to new or ongoing operational programs (or bargaining unit commitments) in peak times only to see them cut or under-funded when revenues return to normal levels.

2009-2019 GENERAL FUND OVERVIEW

EXPENDITURE DRIVERS

Similar to revenue projections, expenditure projections are based on a combination of historical trends, assumptions about future growth rates and other “judgment” calls. All General Fund expenditures sources are forecast to increase annually by 8.54% over the next ten years.

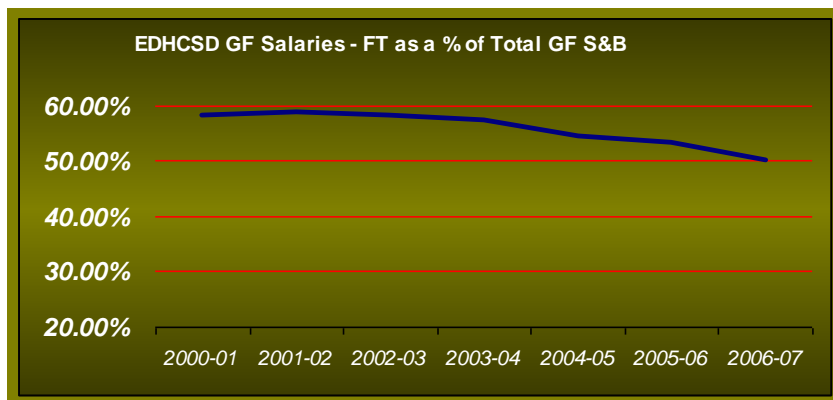
The three major sources of expenditure are forecast to increase as follows:

	2009-10	2018-19	CAGR
Salaries & Benefits	\$4,434,000	\$9,655,000	9.03%
Services & Supplies	\$3,273,000	\$6,717,000	8.32%
Capital Equipment	\$521,000	\$830,000	5.31%

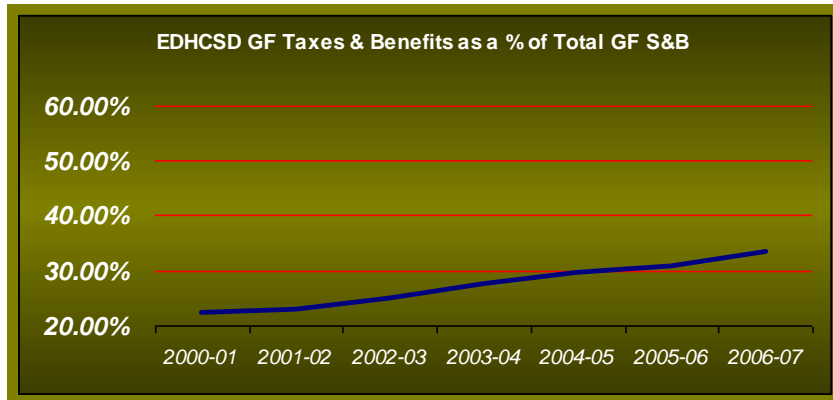
Salaries & Benefits

Salaries & Benefits is the largest operating expense category. Salary and benefit projections are based primarily on existing labor agreements and the recent “Total Compensation Study”. This category of expenditures is forecast to increase annually by 9.03%.

Over the 7-year period FY 2000-01 through FY 2006-07, full time salaries as a percentage of total salaries & benefits has decreased while taxes & benefits have increased. The following two charts show this trend.



2009-2019 GENERAL FUND OVERVIEW



It is assumed that payroll taxes & benefit expenditures will continue to increase at a faster rate than salaries alone.

It is further assumed that the District will invest in the California Employees' Benefit Retirement Trust (CEBRT) at CalPERS. We have included the full annual required contribution (ARC) in the current year of \$193,747 to meet other post-employment benefit expenses. Should the District decide to transfer less than the full amount of the ARC to CalPERS at the beginning of each fiscal year, future financial forecasts can discount this amount as appropriate.

Services & Supplies

Services & supplies expenditures are forecast to increase annually by 8.32%. This Forecast assumes the District will *not* be involved in the operation of or be financially impacted by the El Dorado Hills Golf Course.

Gone are the days when oil costs less than \$100 per barrel. As a result, it is assumed that energy costs will increase significantly over the next ten years. This is addressed in more detail in the Risks section below.

Capital Equipment

It is assumed that capital equipment expenditures will remain at the same level as FY 2008-09 with a conservative increase year-over-year. It

2009-2019 GENERAL FUND OVERVIEW

is further assumed that the Browning Reserve Group study will continue to identify both capital equipment and infrastructure replacement costs and that prudent reserves will be maintained in subsequent budgets for replacement as necessary. It is forecast that Capital Equipment expenditures will increase annually by 5.31%.

Debt Service

The general obligation bond for the El Dorado Hills Community Park will be paid in full in August 2009. It is assumed that this will free up capacity within the community to back future bond initiatives.

RISKS

The District will always face fiscal challenges and opportunities which create upside potential and downside risks in the Forecast. Some of these challenges and prospects are immediate while others are viewed as longer term and therefore part of the District's sustainable budget effort.

DOWNSIDE RISKS

Housing Crisis

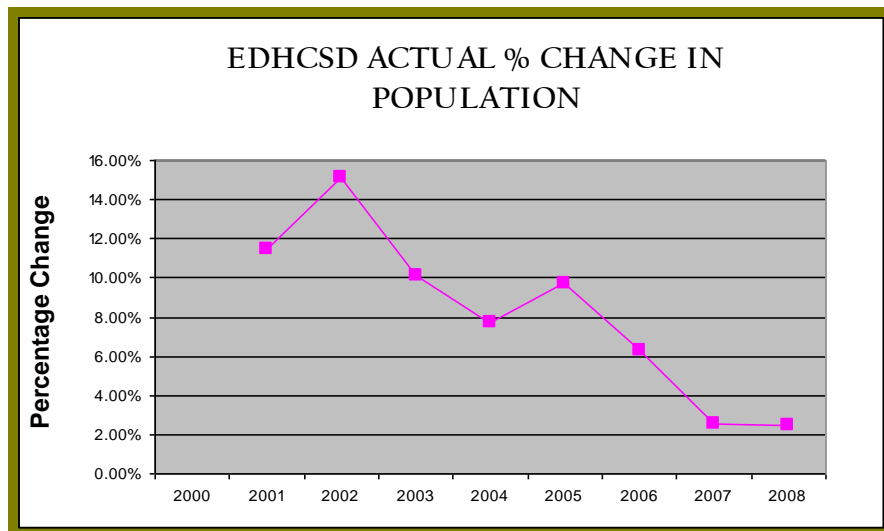
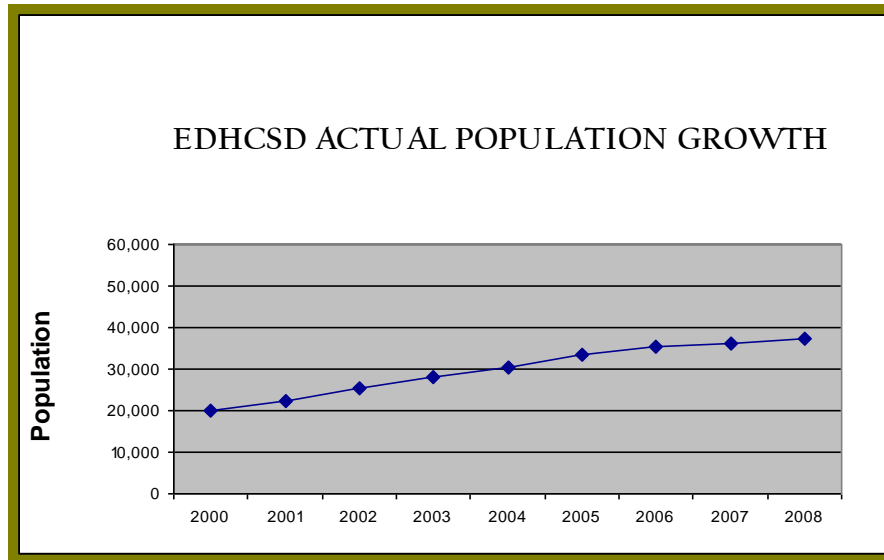
The primary risk on the revenue side is the housing market. Percentage increases to property tax revenue will move downward as the housing market continues to decline. It will take a year or two after this current market slide bottoms out for revenue percentage increases to resume their upward trend. The good news is that an actual loss of revenues year-over-year is not expected. A slow growth in revenues is expected in the forecast for the period 2008-09 through 2012-13 with growth accelerating moderately thereafter.

Population Growth

While population growth increased year-over-year for the last eight years, the percentage increase diminished beginning in 2003. For example, the growth rate for the 8-year period January 1, 2000 through

2009-2019 GENERAL FUND OVERVIEW

January 1, 2008 is 8.18%³. The growth rate for the 5-year period January 1, 2003 through January 1, 2008 is 5.75%. The growth rate for the 2-year period January 1, 2006 through January 1, 2008 is 2.52%. This trend is seen in the following two charts:



³ Based on population figures from the California State Department of Finance, – Demographic, Economic, Financial Research Unit

2009-2019 GENERAL FUND OVERVIEW

As our population grows, the ability to generate revenues grows as well but not necessarily at the same rate of growth as during the double-digit population growth years 2001, 2002 and 2003.

As double-digit growth rates are not forecast over the next ten years there is the risk that a diminishing population growth rate will impact revenues while expenditures per capita disproportionately increase to maintain appropriate levels of service.

Cable TV Franchise Fees

There is the potential of losing cable TV franchise fees ten years from now. Our current Comcast TV franchise agreement runs out in 2019 after which the State of California will be the franchising authority. At this point in time it is thought that the District will still receive its fair share of franchise fees from the state but a lot can happen to the state's fiscal landscape in the next ten years. We will continue to stay on top of this issue.

DRC/CC&Rs

The Design Review process and enforcement of Covenants, Codes and Restrictions has become a drain on the District's resources. This program should be reviewed to see if the benefit to the community justifies the cost, and if not, to determine how to change the process to become more self-sustaining or to discontinue the program.

Energy Prices

The cost of oil will continue to increase past the \$100/barrel mark of six months ago. The increasing cost of energy is therefore a risk to the District. The cost of gasoline for maintenance supervisors and their crews, the cost for recreation program transportation and the cost of heating/cooling administrative buildings and recreation facilities will need to be monitored for the cumulative effect on operational expenses. The risk of increasing energy costs applies to the heating of our recreational swimming pools but to a lesser extent than transportation or building maintenance.

2009-2019 GENERAL FUND OVERVIEW

Prevailing Wage Differentials

If prevailing wage differentials surface, as comparisons are made with benchmark districts and cities that provide park and recreation services, balancing salaries to estimated revenues will be more difficult than in the past. Should this happen, there is the risk that salary expenditures will be driven above the Forecast. There is the risk that this will apply to employee and retiree benefits as well.

Landscaping & Lighting Districts (LLADs)

There is the risk that the General Fund will necessarily fund assessment shortfalls within the LLADs over time. Currently eight LLADs are underfunded year-over-year. This risk may be mitigated with the passage of an “umbrella” assessment placed on all current and future assessment districts. Also, there is a pending court ruling that may require the General Fund to participate in funding the maintenance and operations of certain LLAD maintained improvements.

New Projects

If the district identifies new projects or priorities that are not included in the forecast new revenue sources and/or expenditure cuts would be necessary to fund them. Similarly, if current multi-year projects are under-funded and therefore require significant subsidization from the General Fund, the Forecast will need careful review and probable recalculation.

UPSIDE POTENTIAL

Developments that would positively impact the District’s General Fund include the following.

City Incorporation

There is the potential for a successful city incorporation ballot measure in the near term. Should this happen new revenue streams would be available for operations and capital improvement projects including sales tax revenue from existing and new retail establishments (Montano de El Dorado), state gas tax revenues, road fund property taxes, TDA funds, motor vehicle registration fees, opportunities for grants and other one-time funding that would not otherwise be available to a special district.

2009-2019 GENERAL FUND OVERVIEW

Community Resources

The District continues to work diligently to develop and to maintain relationships with community service organizations and school districts. The upside potential is additional joint-use ventures with school districts and the El Dorado Irrigation District (Sellwood Sports Field).

In addition, partnerships with service clubs and other public benefit organizations help to stretch limited District resources. An example is the District partnership with El Dorado Hills Community Vision to raise funds for the renovation of Bertelsen Park's ball field in honor of Deputy Jeff Mitchell and all of our local public service heroes. A further example is the \$105,000 donation from the El Dorado Hills Rotary Club for our Teen Center.

Annexation

Three areas south of the District have the potential to become part of the District through annexation: the Business Park, Springfield Meadows CSD, and Marble Mountain CSD. If these areas come into the District, it will strengthen the revenue foundation and allow the District to continue to grow its programs and services for the region.

2009-2019 SPECIAL FUNDS OVERVIEW

SPECIAL FUNDS OVERVIEW

In addition to income that accrues to the General Fund and is unrestricted in use, the District receives income that has restrictions placed on its use. This income accrues to “Special Funds”. The District’s Special Fund classifications are:

- Compliance/Design Review (Fund 11)
- In Lieu Fees (Fund 12)
- Donations (Fund 17)
- Park Impact Fees (Fund 18)
- Oak Tree Preservation (Fund 19)
- Landscape & Lighting Districts (Fund Numbers 20-55)

Of these 6 classes of Special Funds, Landscape and Lighting District funds are most important going forward.

LANDSCAPE & LIGHTING ASSESSMENT DISTRICTS

As of the date of this report, the District has 21 active Landscape and Lighting Assessment Districts (LLADs). Each district is an enterprise in itself relying on assessment revenues. Assessments are based on the estimated cost to operate, maintain and service the improvements that provide a direct and special benefit to properties within each LLAD. A list of the current LLADs is as follows:

Stonegate	Bass Lake A
Green Valley	Bass Lake B
Promontory	Roadway
Oakridge	Highland Hills 2
Crescent	Creekside
La Cresta	Francisco Oaks
Lake Forrest	Highland View
Marina Hill	Hollow Oaks
Highland Hills 3	North Commercial Blvd.
Wild Oaks	Oaktree
Silva Valley	

SUSTAINABLE BUDGET

A sustainable budget is defined as a budget plan to keep spending within one's means over the long run. Another definition is a plan that meets the needs of the *present* without compromising the ability to provide services to *future* generations.

The idea of a sustainable budget emerged from the financial disruptions of the “dot-com” bust and the concern that cities, counties and special districts would not be able to continue to support the variety and level of services demanded by their residents over the long run. As populations continued to grow, this concern was compounded by the need for new programs that competed with existing services for finite resources.

The goal of a sustainable budget is not as simple as it appears. Dynamic forces such as economic cycles, changing demographics and social needs, rising energy costs, new facility needs and other factors impact the best of budget strategies. Tough questions must be raised and addressed to provide the flexibility necessary to achieve a sustainable budget. These include:

Maintaining such a budget takes considerable discipline. By taking a proactive approach to finding answers to the questions below, the District can avoid budget balancing difficulties in times of economic uncertainty.

- What are the District's basic program (and therefore spending) priorities both now and in the future? For example, one of the most difficult balancing acts is to provide a rich and varied level of service while expanding infrastructure. What are the District's priorities vis-à-vis recreation programs and park maintenance?
- How long can current expenditure patterns continue? What costs can be reduced or eliminated to achieve a balanced budget while sustaining levels of service?
- Can current service levels be provided in a more cost-effective manner?
- What revenue sources can be counted on to remain the same or perhaps increase both now and in the future? What sources are likely to decline?

2009-2019 SUSTAINABLE BUDGET

- How will the District address the deficit in the five older landscape & lighting districts that are subsidized by the General Fund?
- To what extent are the District and the community able and willing to “grow” revenue sources when needed (ex. Jeff Mitchell field)?
- Should the District incur more debt for capital projects (ex. New Community Services Building) so as to spread the cost burden over current and future budgets?
- How can the District control expenditures that grow at a faster clip than inflation rates and still provide acceptable levels of service?
- Can a meaningful dialogue be initiated between District administration and the bargaining units on sharing future increases in medical premiums (for both employees and retirees)?

To develop a truly sustainable budget, it is critical that the District raise and respond to the questions above on an annual and ongoing basis. This implies that as new expectations, initiatives and programs arise, they are grounded in reality in regards to available resources and competing priorities.

Maintaining such a budget takes considerable discipline. By taking a proactive approach to finding answers to the questions above, the District can avoid budget balancing difficulties in times of economic uncertainty and maintain the core budgeting value that “all current operating expenditures will be financed with current revenues”.



CONCLUSION

The District is in good fiscal health. The CAGR for expenditures closely mirrors that for revenues. Simply put the District has been living, year-over-year, within its means. The challenge for the District going forward will be to continue to live within its means.

The District will always face fiscal challenges and opportunities which create upside potential and downside risks in the Forecast. Some of these challenges are immediate while others are viewed as longer term and therefore part of the District's sustainable budget effort.

The challenge going forward will be to continue to live within its means.

The primary risk on the revenue side is the housing market. Percentage increases to property tax revenue will move downward as the housing market continues to decline. It will take a year or two after this current market slide bottoms out for revenue percentage increases to resume their upward trend. The good news is that an actual loss of revenues year-over-year is not expected.

On the upside, the District continues to work diligently to develop and to maintain relationships with community service organizations and school districts. The upside potential includes additional joint-use ventures with school districts and the El Dorado Irrigation District. In addition, partnership with service clubs and other public benefit organizations help to stretch limited District resources.

With prudent fiscal management in the past and a strong management team going forward, the District is in a good position going into times of economic uncertainty.

 **DEFINITIONS OF REVENUES & EXPENDITURES**

Revenues:

Property Tax

General Fund. Property taxes are collected by El Dorado County from owners of real and personal property equal to one percent (1%) of the assessed value of the property. The District receives 10% of the 1%, less the ERAF shift, netting approximately 7% of these property taxes, with revenues distributed to the District three times a year in January, May, and September. Property taxes are the single largest source of revenue for the District comprising approximately 74% of the General Fund.

Franchise Fees

General Fund. Includes fees from Waste Connections, wireless towers and cable TV (CATV) franchises. Fees are paid to the District quarterly by Waste Connections at the rate of 5% of gross revenues. CATV fees are paid quarterly by Comcast at the rate of 3% of gross revenues.

Parks & Recreation Fees

General Fund. Includes fees from youth programs, adult sports, aquatic programs, special interest programs, teen programs, senior programs in addition to building, park and athletic field use fees.

Other Revenues

General Fund. Includes reimbursements, donations, interest, grants, proceeds from sales, recycling income and miscellaneous income.

Landscaping & Lighting District Assessments

LLAD Funds (No's 20 – 55). Revenue derived from assessments levied on parcels within each district. Assessments accrue to each assessment district fund. The assessments are collected by El Dorado County and distributed to the District in January, May and September.

Expenditures:

Salaries & Benefits

Full time, part time and seasonal salaries including health and retirement benefits as appropriate.

Services & Supplies

Includes but is not limited to equipment purchases and maintenance, government fees and permits, contract services, office supplies, postage, legal services, advertising, training, travel and utilities.

Capital Equipment

Includes vehicles, office equipment, pool equipment, recreation equipment, maintenance equipment with a purchase price of \$5,000 or more.

 **BASIC FORECAST METHODOLOGY**

The assumed rate of growth for the next ten years is based on the compound annual growth rate (CAGR) of prior years. The definition of CAGR is:

The year over year growth rate applied to an investment or other part of an activity over a multiple-year period.

CAGR is computed using the following formula: $[(Pv/Po)^{(1/n)}]-1$

Where

Pv = Present Value

Po = Beginning Value

N = Number of Periods

Simply put, the CAGR is a forecast that describes the rate at which annual revenue would grow if it grows at a steady rate. For example, using the District's property tax revenues in 2000-01 as the beginning value (Po = \$1,746,000), the District's property tax revenues in 2006-07 as the present value (PV = \$5,135,000) and setting the number of periods accordingly (N =6), the smoothed out CAGR is 19.70% for the previous six years. By way of contrast, the basic average percentage change for this same period of time is 19.75%.

The advantage of using this methodology is that it is a widely recognized method for projecting economically sensitive revenues and/or expenditures. One of the disadvantages of this method is that it does not account for significant changes in revenue receipts such as the arrival or departure of major tax or other revenue-generating businesses. Because the District's General Fund is heavily dependent on a stable property tax revenue stream (primarily residential property taxes) this approach is seen as ideal for our purposes.

 **TRENDS AND FORECASTS**

The Economy

The LAO makes this economic forecast for the near future:

Both the U.S. and California experienced continued economic expansion with modest inflation in 2007. For the year as a whole, though, economic growth was slower than in recent years and less than previously forecast. The pace of growth also varied considerably within the year, making it difficult at times to discern exactly where the economy was heading. The year's fourth quarter was quite soft, however, making it clear the economy had fallen into a pronounced slow-growth mode and its performance in 2008 was likely to be very subdued.

Like most economists at this time, for 2008 we forecast that growth will continue but be very modest for the nation and California. For the year as a whole, 2008 growth will average well below its 2007 pace, but with the first half of the year especially weak. Later in the year, things should start to strengthen a bit as the housing sector begins to stabilize. However, significant improvement will likely not occur until 2009. We expect that the state's performance will generally be similar to the nation's, although somewhat weaker in those areas most directly affected by the housing market's problems.

The current economic expansion has now lasted over six years and, thus, is comparatively old by historical standards. Although most economists were still predicting slow growth but not an outright recession as of the start of 2008, continued negative economic reports caused concerns to spread that a downturn could very easily develop. By February, some economists had shifted to predicting a mild recession. Thus, the economy clearly faces downside risks. Reflecting this concern, federal

policy makers adopted in February an economic stimulus package containing tax rebates and investment incentives to provide support to the economy¹.

The Housing Crisis

The Legislative Analyst's Office (LAO) sums up the housing crisis within the state as follows:

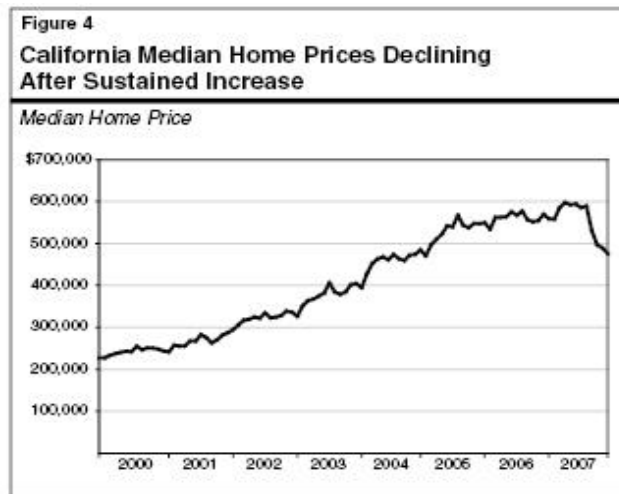
As 2007 progressed, the problems relating to the housing sector continued to deepen and took on new dimensions. Residential building activity in the U.S. contracted further, home sales weakened, housing prices continued to soften, and mortgage delinquencies and foreclosures rose. In addition, financial market problems not only intensified in the narrowly defined subprime mortgage market, but also increasingly spilled over into certain portions of the home-equity loan market, non-subprime mortgage market, equities markets involving financial firms who invested in various mortgage-backed securities, and international investors. The latter include some major foreign governments, like China, who have purchased billions of dollars of such securities. As of early 2008, lenders and investors had already written off some \$120 billion of uncollectable mortgage loans.

More housing market deterioration is expected in the near future. Although certain steps such as loan modification programs have been recently taken, a large volume of subprime mortgages are scheduled to reset to higher interest rates during 2008. This will bring the threat of even more delinquencies and foreclosures. Thus, the ongoing problems relating to the housing sector are a

¹ LAO Analysis of the 2008-09 Budget Bill - Perspectives on the Economy and Demographics – Summary

major uncertainty and negative factor in the economic outlook for 2008 and 2009².

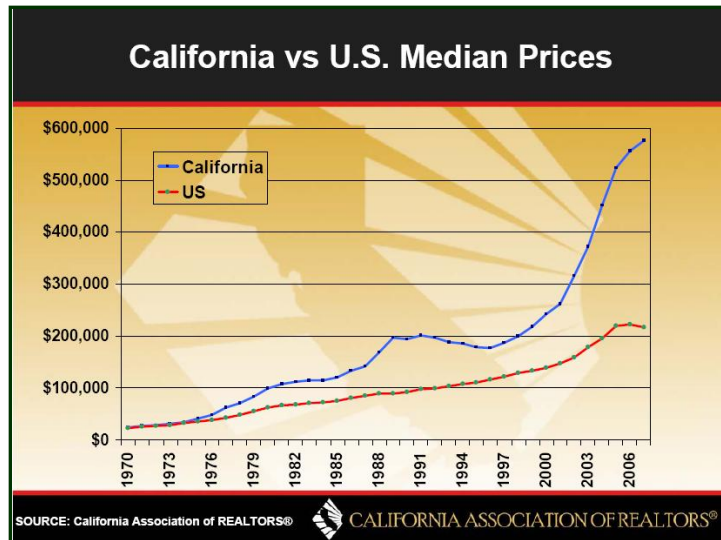
This chart is from the LAO's Analysis of the 2008-09 Budget Bill and depicts this trend in median home prices for the period 2000 through 2007.



The California Association of Realtors provides the graph on the following page. It shows the rise in homes in California versus median home prices throughout the nation for the 36-year period through 2006³. It mirrors the LAO's "sustained increase" chart above while showing how out-of-whack California median home prices have been since 2002 in comparison to the rest of the nation. A market correction was inevitable and finally appeared (see LAO chart above) in third quarter 2007. As noted in the LAO analysis above, the decreasing trend in median home prices is expected to continue through 2008 and perhaps into 2009.

² LAO Analysis of the 2008-09 Budget Bill - Perspectives on the Economy and Demographics – Recent U.S. Developments

³ 2008 Real Estate Market Forecast dated October 10, 2007 by Leslie-Appleton Young, California Association of Realtors.



The recent decline in home prices has a negative effect on property values in El Dorado County and therefore a negative effect on property tax revenues to the District. In an April 11, 2008 Sacramento Business Journal article, the local housing crisis is summed up as follows:

New-home prices fell for the eighth consecutive quarter to the lowest levels since 2003, creating more financial headaches for homebuilders but making home ownership possible for more residents. The Sacramento area's median new-home price declined to \$359,000 during the first quarter, a 7.5 percent drop compared to \$388,000 in the fourth quarter 2007 – and \$107,000 less than the peak two years ago.⁴

In addition to the decline in home prices, home sales have declined as well.

⁴ Sacramento Business Journal, Michael Shaw, April 11, 2008.

2009-2019 APPENDIX C

New home sales plummeted 43 percent in February (2008) from a year ago in the Sacramento region, the most recent evidence of a dismal housing market...⁵

Home starts are also slow going into 2008. An article in the Sacramento Bee states that:

Home builders in the (Sacramento) region sold 1,304 homes in January, February and March, the slowest beginning for a new year since the Gregory Group began counting sales in 1999⁶.

This same article provides the following chart for sales in El Dorado County:

	Q1 2008 Sales	Change from Q4 2007	Change from Year Ago	Q1 2008 Ave. Price	Change from Year Ago
El Dorado Hills	32	-62.80%	-63.60%	\$675,179	-21.80%
Cameron Park	0	0.00%	-100%	\$189,000	-38.90%

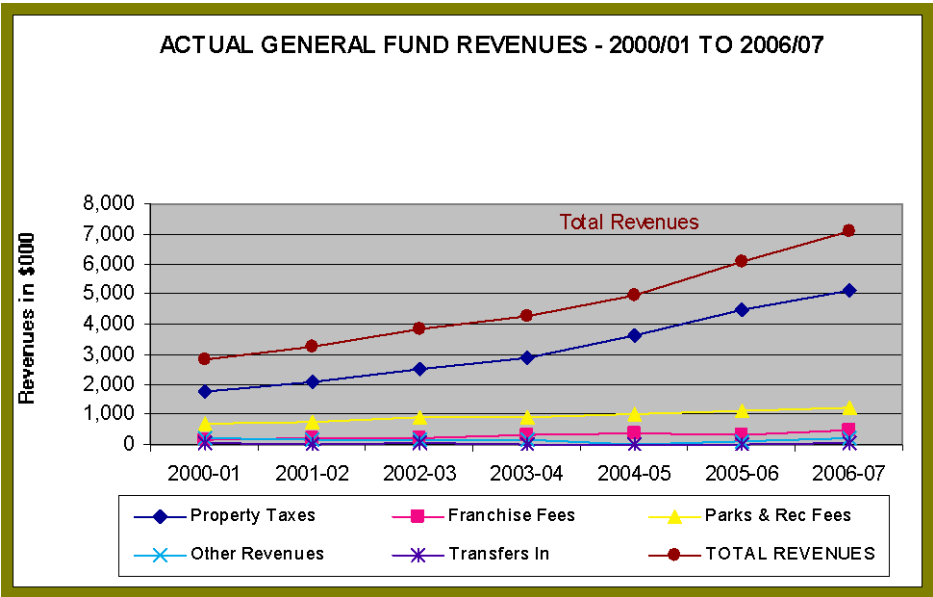
⁵ Sacramento Business Journal, staff report, April 18, 2008.

⁶ Sacramento Bee, April 11, 2008.

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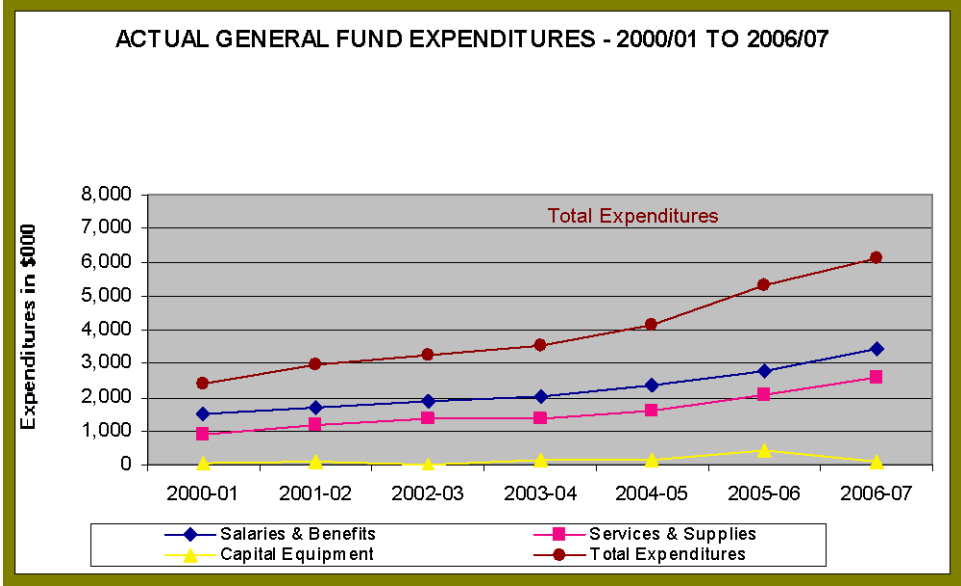
HISTORICAL TRENDS

Historical trends help to portray the context in which the District operates and are carefully considered in preparing the Financial Forecast. The first chart shows the five major sources of General Fund revenues: property taxes, franchise fees, parks & recreation fees, transfers in and other revenues. Property tax revenues are the most significant source of revenue for the District. They are growing at a steady rate of 19.70% for the last six years.



The next chart shows operating expenditures for the three major categories of District expenses: salaries & benefits, services & supplies and capital equipment. This chart shows that salaries & benefits expenditures are the majority of District operational costs. They are growing at a steady rate of 15.01% over the last seven years.

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The next two charts provide consumer price index trends growth trends over the last ten years. This data is helpful in making revenue and expenditure forecasts.

U.S. CONSUMER PRICE INDEX

Fiscal Year	Amount	Percent Change
1997	160.3	-
1998	163.0	1.7%
1999	166.2	2.0%
2000	172.4	3.7%
2001	178.0	3.2%
2002	179.9	1.1%
2003	183.7	2.1%
2004	189.7	3.3%
2005	194.5	2.5%
2006	202.9	4.3%
2007	208.4	2.7%
Average Annual Growth Rate		
Last 2 Years	3.5%	
Last 5 Years	3.0%	
Last 10 Years	2.7%	

BAY AREA CONSUMER PRICE INDEX

Fiscal Year	Amount	Percent Change
1997	160.0	-
1998	165.5	3.4%
1999	171.8	3.8%
2000	179.1	4.2%
2001	190.9	6.6%
2002	193.2	1.2%
2003	196.3	1.6%
2004	199.0	1.4%
2005	201.2	1.1%
2006	209.1	3.0%
2007	216.1	3.3%
Average Annual Growth Rate		
Last 2 Years	3.6%	
Last 5 Years	2.3%	
Last 10 Years	3.1%	

Source: U.S. Department of Labor – Bureau of Labor Statistics (June of each year)

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Note that population growth has increased over time but at a diminished rate. The growth rate over the last eight years was an average 8.18%. Over the last two years the average was 2.52%.

DISTRICT POPULATION GROWTH

Fiscal Year	Population	Y-O-Y Percent Change
2000	19,927	-
2001	22,204	11.43%
2002	25,571	15.16%
2003	28,155	10.11%
2004	30,319	7.69%
2005	33,272	9.74%
2006	25,367	6.30%
2007	36,265	2.54%
2008	37,172 ¹	2.50%
Average Annual Growth Rate		
Last 8 Years		8.18%
Last 5 Years		5.75%
Last 2 Years		2.52%

Source: State Department of Finance – Demographic
Economic, Financial Research Unit
¹ Estimated by EDHCS Staff

