CAYUCOS SANITARY DISTRICT

200 Ash Avenue / PO Box 333
Cayucos, CA 93430
(805) 995-3290
www.CayucosSanitaryDistrict.gov

GOVERNING BOARD
R. Enns, President
J. Curti, Vice-President
J. Smith, Director
J. Clark, Director
J. Billings, Director

BOARD OF DIRECTORS
REGULAR MEETING AGENDA
THURSDAY, NOVEMBER 19, 2026 AT 5:00PM
200 ASH AVENUE, CAYUCOS, CALIFORNIA 93430

1. ESTABLISH QUORUM AND CALL TO ORDER

2. PUBLIC COMMENT

At this time the public may address the Board on items other than those scheduled on this agenda that are within the jurisdiction of the Board (persons wishing to speak on any item scheduled on this agenda will be given the opportunity at the time that agenda item is being considered). When recognized by the Board President, please state your name for the record (though not required). While the Board encourages public comment, in the interest of time and to facilitate orderly conduct of the meeting, the Board reserves the right to limit individual comments to three minutes. By conditions of the Brown Act, the Board is prohibited from discussing issues not posted on this agenda, but may set items for future agendas.

3. AGENDA REVIEW AND CONSIDERATION OF ITEMS TO BE DEFERRED

4. CONSENT CALENDAR

Consent Calendar items are considered routine and therefore do not require separate discussion, however, any item may be removed from the Consent Calendar by a member of the Board of Directors for separate consideration. Individual items on the Consent Calendar are approved by the same vote that approves the Consent Calendar, unless an item is pulled for separate consideration.

A. Meeting Minutes **Pg. 1**

1. Approval of minutes for the October 15, 2026 Board of Directors Regular Meeting
2. Approval of minutes for the October 22, 2026 Board of Directors Special Meeting

B. Financial Reports: October 2026 **Pg. 6**

1. Cash, Savings, and Investment Report
2. Check Registers – Wells Fargo (General & CIP Checking Accounts)
3. Budget vs. Actual Status Report
4. Capital Improvement Projects Report
5. Quarterly Investment Report

5. STAFF COMMUNICATIONS AND INFORMATIONAL ITEMS

A. District Manager's Report: October 2026 **Pg. 16**

B. Will-Serve Activity: October 2026

1. **New Will-Serves:** None
2. **Extended Will-Serves**
   - 1210 Pacific Ave. / Smith / 064-227-006 / SFR New
3. **Finaled Will-Serves**
   - 3595 Shearer Ave. / Albin / 064-433-009 / SFR New

- 3590 Studio Dr. / Marsden / 064-449-009 / SFR Remodel
- 52 13th St. / Kirk / 064-164-021 / SFR New

6. **DISCUSSION AND CONSIDERATION TO ADOPT RESOLUTION 2026-11 RECOMMENDING CANDIDATES FOR APPOINTMENT TO THE CAYUCOS SANITARY DISTRICT BOARD OF DIRECTORS TO REPRESENT DISTRICTS 2 AND 3** **Pg. 21**

7. **DISCUSSION AND CONSIDERATION OF PROVIDING DENTAL AND VISION INSURANCE COVERAGE FOR EMPLOYEE FAMILIES FOR 2027** **Pg. 24**

8. **DISCUSSION AND CONSIDERATION TO APPROVE RECORDATION OF QUITCLAIM DEED EXTINGUISHING EASEMENT RIGHTS HELD BY CHEVRON LAND AND DEVELOPMENT COMPANY** **Pg. 25**

9. **DISCUSSION AND CONSIDERATION TO PROVIDE COMMENTS ON THE SAN LUIS OBISPO LOCAL AGENCY FORMATION COMMISSION SPHERE OF INFLUENCE UPDATE & MUNICIPAL SERVICE REVIEW** **Pg. 34**

10. **DISCUSSION AND CONSIDERATION OF ANNUAL REVIEW AND UPDATE OF THE CAYUCOS SANITARY DISTRICT INVESTMENT POLICY** **Pg. 78**

11. **BOARD MEMBER COMMENTS**

    This item provides the opportunity for Board members to make brief announcements and/or briefly report on their own activities related to District business.

12. **FUTURE SCHEDULED MEETINGS**
    - **A.** December 17, 2026 – Regular Board Meeting
    - **B.** January 21, 2027 – Regular Board Meeting
    - **C.** February 18, 2027 – Regular Board Meeting

13. **ADJOURNMENT**

This agenda was prepared and posted pursuant to Government Code Section 54954.2. The agenda, staff reports or other documentation relating to each item of business referred to on the agenda can be accessed and downloaded from the District's website at https://www.cayucossanitarydistrict.gov/meetings

All staff reports or other documentation relating to each item of business referred to on the agenda are also on file at the District office, available for public inspection or reproduction at cost. If requested, the agenda shall be made available in appropriate alternative formats to persons with a disability, as required by the Americans with Disability Act. To make a request for disability-related modification or accommodation, contact the District at (805) 995-3290 as soon as possible and at least 48 hours prior to the meeting date.

AGENDA ITEM:
4.A.1

CAYUCOS SANITARY DISTRICT

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GOVERNING BOARD
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J. Billings, Director

BOARD OF DIRECTORS
REGULAR MEETING MINUTES
THURSDAY, OCTOBER 15, 2026 AT 5:00 P.M.
200 ASH AVENUE, CAYUCOS, CALIFORNIA 93430

1. ESTABLISH QUORUM AND CALL TO ORDER

President Enns called the meeting to order at 5:00 p.m.

Directors Present: President Robert Enns, Vice-President John Curti, Director Justin Smith and Director Jim Billings

Directors Absent: Director Joe Clark

Staff Present: District Manager David Athey and Administrative Services Manager/Board Secretary Amy Lessi

2. CLOSED SESSION:
CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION
Significant exposure to litigation pursuant to Government Code section 54956.9(d)(2):
One potential case
Subject Matter: Proposed District Annexation No. 21

At 5:03 p.m., President Enns announced that the Board would transition to Closed Session.

Public Comment: None

Directors Present During Closed Session: President Enns, Vice-President Curti, Director Smith, and Director Billings

Staff Present During Closed Session: District Manager David Athey

3. RECONVENE TO OPEN SESSION & REPORT FROM CLOSED SESSION

Open Session reconvened at 5:12 p.m.

Items to report from Closed Session: None

4. PUBLIC COMMENT

None

5. AGENDA REVIEW AND CONSIDERATION OF ITEMS TO BE DEFERRED

No action was taken.

6. CONSENT CALENDAR

Directors Billings and Curti asked clarifying questions; Manager Athey responded.

DRAFT

Public Comment: None

Motion: By Director Curti to approve items on the Consent Calendar as prepared
Second: By Director Smith
Vote: 4-0 Motion passed

7. STAFF COMMUNICATIONS AND INFORMATION ITEMS

Manager Athey gave a summary of the previous month's activities. Director Billings asked if spare pumps have been procured for each lift station, and Manager Athey confirmed there is at least one spare pump at each station. President Enns wondered why a Will-Serve might be extended and finalized in the same month. Manager Athey explained that a project cannot be finalized while any related fees remain unpaid, which may result in an Extension Fee being paid in the same month the Will-Serve is finalized.

Public Comment: None

Item 4 was received and accepted (no Board action necessary).

8. DISCUSSION AND CONSIDERATION TO APPROVE A GRANT OF LICENSE AND AGREEMENT AFFECTING REAL PROPERTY LOCATED AT 3526 GILBERT AVENUE (APN 064-407-008)

Manager Athey explained his recommendation for approval, based on the fact that the applicant has agreed to remove unpermitted encroachments and remaining encroachments were permitted by the County in the 1970s without being referred to the District.

Public Comment: Project architect Jon McAlpin added that the applicant has been very cooperative – he located and provided historical permit records and agreed to demolish unpermitted improvements.

Motion: By Director Smith to approve a Grant of License and Agreement Affecting Real Property located at 3526 Gilbert Avenue (APN 064-407-008)
Second: By Director Billings
Vote: 4-0 Motion passed

9. DISCUSSION AND CONSIDERATION TO ADOPT RESOLUTION 2026-11 RECOMMENDING CANDIDATES FOR APPOINTMENT TO DISTRICTS 2 AND 3 OF THE CAYUCOS SANITARY DISTRICT BOARD OF DIRECTORS

President Enns announced that qualified candidates had not yet been identified.

Public Comment: Charles Bergson commented that Government Code Section 36512 limits the number of Board members who may be appointed to less than a majority of the Board.

No action was taken on this item.

10. DISCUSSION AND CONSIDERATION TO APPROVE A 5-YEAR SERVICES AGREEMENT WITH SPECTRUM BUSINESS IN THE AMOUNT OF $1,945.00 PER MONTH FOR INSTALLATION OF FIBER CONNECTIONS AND ONGOING SERVICE AT THE ADMINISTRATIVE OFFICE AND LIFT STATIONS

Director Smith pointed out new fiberoptic technology might make remote access to the lift stations possible for staff, and Manager Athey confirmed it would. Director Billings expressed desire for a better price or a longer term.

Public Comment: None

Motion: By Director Smith to approve a 5-year Services Agreement with Spectrum Business in a not-to-exceed amount of $1,945.00 per month, and to direct the District Manager to negotiate a lower rate and/or longer term, for installation of fiber connections and ongoing service at the Administrative Office and lift stations

DRAFT

Second: By Director Curti
Vote: 4-0 Motion passed

11. BOARD MEMBER COMMENTS

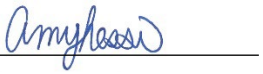
Director Billings suggested that the District explore alternative manufacturers to Flygt, whose products are imported from Sweden, in the event that political policies disrupt imports.

12. FUTURE SCHEDULED MEETINGS

13. ADJOURNMENT

The meeting adjourned at 6:37 p.m.

Minutes Respectfully Submitted By:

X 

Amy Lessi
Administrative Services Manager/Board Secretary

DRAFT

AGENDA ITEM:
4.A.2

CAYUCOS SANITARY DISTRICT

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GOVERNING BOARD
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J. Clark, Director
J. Billings, Director

BOARD OF DIRECTORS
SPECIAL MEETING MINUTES
THURSDAY, OCTOBER 22, 2026 AT 4:00 P.M.
200 ASH AVENUE, CAYUCOS, CALIFORNIA 93430

DRAFT

1. ESTABLISH QUORUM AND CALL TO ORDER

President Enns called the meeting to order at 4:00 p.m.

Directors Present: President Robert Enns, Vice-President John Curti, and Director Joe Clark

Directors Absent: Director Justin Smith and Director Jim Billings

Staff Present: District Manager David Athey and Administrative Accounting Manager Amy Lessi

2. PUBLIC COMMENT ON AGENDA ITEM(S)

None

3. DISCUSSION AND CONSIDERATION TO ADOPT RESOLUTION 2026-12 ACCEPTING THE PROPERTY TAX ALLOCATION RATE OF 0% FROM THE COUNTY OF SAN LUIS OBISPO FOR ANNEXATION 21

Manager Athey relayed to the Board that he will require any future annexation requests to address funding for property tax allocation compensation prior to issuing an Intent-to-Serve Letter for the project.

Public Comment: None

Motion: By Director Curti to adopt Resolution 2026-12 accepting the property tax allocation rate of 0% from the County of San Luis Obispo for Annexation 21
Second: By Director Clark
Vote: 3-0 Motion passed

4. DISCUSSION AND CONSIDERATION TO ADOPT RESOLUTION 2026-11 RECOMMENDING CANDIDATES FOR APPOINTMENT TO DISTRICTS 2 AND 3 OF THE CAYUCOS SANITARY DISTRICT BOARD OF DIRECTORS

President Enns announced that qualified candidates had not yet been identified.

Public Comment: None

No action was taken on this item.

5. ADJOURNMENT

The meeting adjourned at 4:12 p.m.

Minutes Respectfully Submitted By:

X 

Amy Lessi
Administrative Services Manager/Board Secretary

DRAFT

AGENDA ITEM: 4.B.1

CAYUCOS SANITARY DISTRICT
Monthly Financial Report
FY 2026/2027

Cash, Savings and Investments
October 2026

Bank Accounts	Current Balance
Wells Fargo - General Checking	$396,241
Wells Fargo - USDA	$659,287
Petty Cash	$175
Total	**$1,055,703**

Investment Accounts	
CalTrust	$4,435,350
US Bank	$3,085,045
LAIF	$32,360
Total	**$7,552,754**

Grand Total	**$8,608,457**

MCD Wells Fargo Deposit CD (Franchise Deposit)	$25,000

AGENDA ITEM:
4.B.2

Check Registers - Checks Issued
October 2026

Date	Num	Name	Amount
10/06/2026	25590	ALPHA FIRE & SECURITY ALARM CORP	-195.00
10/06/2026	25591	AMAZON - Office Supplies, Safety	-1,036.00
10/06/2026	25592	CAL FIRE STATE FIRE MARSHAL	-100.00
10/06/2026	25593	CAYUCOS BEACH MUTUAL WATER CO. #1	-120.08
10/06/2026	25594	CAYUCOS BEACH MUTUAL WATER CO. #2	-120.08
10/06/2026	25595	COASTAL COPY, INC	-62.98
10/06/2026	25596	COASTAL ROLL OFF SERVICE	-3,289.96
10/06/2026	25597	CULLIGAN OF MORRO BAY	-90.00
10/06/2026	25598	DEEP BLUE INTEGRATION, INC.	-195.00
10/06/2026	25599 - CIP	J.F. BRENNAN COMPANY, INC.	-20,311.00
10/06/2026	25600	MINER'S ACE HARDWARE	-615.17
10/06/2026	25601	MISSION COUNTRY DISPOSAL - WRRF	-339.42
10/06/2026	25602	MISSION UNIFORM SERVICE	-621.65
10/06/2026	25603	MORRO ROCK MUTUAL WATER CO. UTILITY 782	-75.51
10/06/2026	25604	P & F DISTRIBUTORS	-1,040.95
10/06/2026	25605	SPEEDY COASTAL MESSENGER, INC.	-725.00
10/06/2026	25606	SPICE INTEGRATION CORP.	-5,568.00
10/06/2026	25607	USA BLUE BOOK	-122.14
10/14/2026	25608	PATHIAN ADMINISTRATORS	-240.15
10/14/2026	25609	CALNET3	-477.64
10/14/2026	25610	CARMEL & NACCASHA, LLP	-8,619.00
10/14/2026	25611	CSA 10A SLO CO PW LS#3	-217.79
10/14/2026	25612	CSA 10A SLO CO PW LS#4	-217.79
10/14/2026	25613	FIRSTNET (AT&T)	-675.14
10/14/2026	25614	HINSON'S TIRE PROS	-654.99
10/14/2026	25615	JB DEWAR	-1,119.23
10/14/2026	25616	MORRO ROCK MUTUAL WATER CO.	-55.02
10/14/2026	25617	OPTIMIZED INVESTMENT PARTNERS, LLC	-1,001.10
10/22/2026	25619	COLLINS, J - Tuition Reimbursement	-1,220.00
10/22/2026	25620	AMERICAN MEMBRANE TECHNOLOGY ASSN	-700.00
10/22/2026	25621	BUSINESS CARD - Job Posting	-534.00
10/22/2026	25622	CAYUCOS BEACH MUTUAL WATER CO. Jet	-40.08
10/22/2026	25623	COUNTY OF SLO - PUBLIC WORKS DEPT.	-360.00
10/22/2026	25624	CSDA	-9,455.00
10/22/2026	25625	FGL ENVIRONMENTAL	-240.00
10/22/2026	25626	JB DEWAR	-7,053.26
10/22/2026	25627	MORRO ROCK MUTUAL WATER CO.	-18.34
10/22/2026	25628	SOLVE CONSULTING AND MEDIATION, LLC	-1,320.00
10/22/2026	25629	USA BLUE BOOK	-941.76
10/23/2026	25618	ENNS, R	-91.05
10/23/2026	25630	AUTOZONE, INC.	-16.87

Date	Num	Name	Amount
10/23/2026	25631	COUNTY OF SLO - CLERK RECORDER	-44.00
10/23/2026	25632	DXP ENTERPRISES, INC.	-782.79
10/23/2026	25633	SOCAL GAS	-22.54
		Total Issued Checks	**-$70,745.48**

AGENDA ITEM:
4.B.2

Check Registers - ACH/EFT Payments
October 2026

Date	Num	Name	Amount
10/01/2026	EFT69264884	POSTMASTER	-747.49
10/05/2026	HLTH100526	CALPERS (HEALTH)	-20,049.82
10/05/2026	B2627411720	ALLIED ADMINISTRATORS FOR DELTA DENTAL	-959.37
10/08/2026		QuickBooks Payroll Service	-29,441.58
10/09/2026	EDD100926	EDD	-2,492.75
10/09/2026	FED100926	US TREASURY	-11,150.20
10/09/2026	DEF100926	CALPERS (RETIREMENT)	-2,108.00
10/09/2026	PERS100926	CALPERS (RETIREMENT)	-7,914.30
10/14/2026	P1-11947911	INTUIT (QUICKBOOKS)	-105.00
10/19/2026	EFT26091	PG&E LS#1	-755.98
10/19/2026	EFT26701	PG&E LS#2	-1,362.92
10/19/2026	EFT27391	PG&E LS#3	-204.48
10/19/2026	EFT27961	PG&E LS#4	-807.40
10/19/2026	EFT28541	PG&E LS#5	-4,067.22
10/19/2026	EFT29411	PG&E OFFICE	-476.15
10/19/2026	EFT30271	PG&E WRRF	-3,617.40
10/22/2026		QuickBooks Payroll Service	-29,498.71
10/22/2026	ACH5296401	ABALONE COAST ANALYTICAL, INC.	-3,285.00
10/22/2026	ACH5296402	CHARTER INTERNET	-953.59
10/22/2026	ACH5296403	EXECUTIVE JANITORIAL	-225.00
10/22/2026	ACH5296404	REC SOLAR	-13,497.24
10/23/2026	PERS102326	CALPERS (RETIREMENT)	-7,914.30
10/23/2026	DEF102326	CALPERS (RETIREMENT)	-2,108.00
10/23/2026	FED102326	US TREASURY	-11,119.34
10/23/2026	EDD102326	EDD	-2,474.87
10/23/2026	EFT410034	WELLS FARGO VENDOR FIN SERV	-176.96
		Total Issued ACH	**-$157,513.07**

AGENDA ITEM:
4.B.2

Transfers Between Accounts
October 2026

Date	Description	Amount
10/13/2026	Transfer from General Chkg to USDA Loan Acct	-77,907.72
	Total Transfers	**-$77,907.72**

AGENDA ITEM: 4.B.3

Budget vs. Actual
October 2026

	Current Month	YTD Actual Rev/Exp	Approved Budget 26/27	% of Budget	
Ordinary Income/Expense					
Income					
Sewer Income	272,885	1,074,805	3,235,900	33%	
Will Serve Income	175	17,875	88,200	20%	
Rental Income	-	16,924	3,600	470%	*
Solid Waste Income	5,510	34,834	169,500	21%	
SLOCO Tax Assessments	23,797	81,170	1,367,600	6%	
Banking Interest Income	266	740	2,500	30%	
Investment Interest	46,895	83,223	90,000	92%	
Other Income	-	7,510	-	0%	
Total Income	349,528	1,317,081	4,957,300	27%	
Expenses					
Payroll Expenses					
Administrative Payroll	34,919	157,727	422,990	37%	
Collections Payroll	18,592	81,969	267,300	31%	
WRRF Payroll	37,487	169,729	545,000	31%	
Director Payroll	400	1,900	8,000	24%	
Vested Benefits	324	1,296	4,400	29%	
Admin Payroll Taxes & Benefits	9,119	37,855	119,300	32%	
Admin PERS Retirement	3,681	45,944	75,400	61%	**
Collections Payroll Taxes & Benefits	6,905	28,173	107,700	26%	
Coll PERS Retirement	1,331	35,311	49,800	71%	**
WRRF Payroll Taxes & Benefits	10,665	44,209	156,400	28%	
WRRF PERS Retirement	4,047	47,826	85,900	56%	**
Director Payroll Taxes & Benefits	31	143	700	20%	
Total Payroll & Benefits	127,500	652,083	1,842,890	35%	
Operating Expenses					
Administrative Operating Expenses	25,927	76,921	210,750	36%	
LAFCO	-	14,642	15,400	95%	***
Loan Interest Paid	-	197,378	391,000	50%	***
Insurance - Worker's Comp	-	43,339	46,000	94%	***
Insurance - Commercial	-	46,781	65,000	72%	***
Total Admin Operating Expenses	25,927	379,061	728,150	52%	
Collections Operating Expenses	12,032	58,157	262,800	22%	
Treatment Operating Expenses	112,295	464,849	1,468,600	32%	
Total Operating Expenses	150,253	902,066	2,459,550	37%	
Total Expenses	277,753	1,554,150	4,302,440	36%	
Net Income	**71,774**	**(237,069)**	**654,860**		

* Received prior year rent remittance from CMB for Morro Dunes RV Park
** Unfunded liability is payable in July
*** SDRMA Insurance (Worker's Comp & Commercial), LAFCO and USDA interest payments are payable in July and August.

Capital Improvement Projects Budget
October 2026

AGENDA ITEM: 4.B.4

	Current Month	YTD Actual Rev/Exp	Approved Budget 26/27	% of Budget
Collection Improvements				
Sewer Main Repairs	0	0	50,000	0%
Chaney to Lift Station 5 Main Replacement	568	7,625	100,000	8%
Spare Pump - Lift Station 2	59,055	59,055	50,000	118%
Main Admin				
Capital Improvements Plan	0	0	60,000	0%
WRRF Improvements				
Replacement Vehicle	0	0	65,000	0%
Ocean Outfall & Diffuser Inspection	20,311	20,311	65,000	31%
Total Capital Improvements	**$ 79,934**	**$ 86,991**	**$ 390,000**	22%

AGENDA ITEM:
4.B.5

CAYUCOS SANITARY DISTRICT
STAFF REPORT

TO: **BOARD OF DIRECTORS**

FROM: **OPTIMIZED INVESTMENT PARTNERS**

DATE: **NOVEMBER 19, 2026**

SUBJECT: **INVESTMENT REPORT FOR THE QUARTER ENDED SEPTEMBER 30, 2026**

DISCUSSION

This report summarizes the District's cash and investments as of September 30, 2026.

District staff hired Optimized Investment Partners in September 2025 to help improve the investment returns for the District and to ensure compliance with California Government Code by ensuring safety of principal and sufficient liquidity for operations.

The total cash and investment portfolio book value (cost) held by the District as of September 30, 2026 was $8,486,036.

As of September 30, 2026, the Weighted Yield to Maturity on the Managed Investment Portfolio was 5.03%, and the Weighted Average Maturity was 3.02 years.

During the quarter, no investments matured. The District purchased nine securities totaling $3,165,000 par at a cost of $2,982,508, with a weighted yield to maturity of 5.02%, funded by a $3,000,000 transfer from CalTRUST. The District also transferred $3,563,000 from LAIF to the CalTRUST Liquidity Fund.

Monthly Interest Earnings, Fiscal Year 2026-27



Fiscal year-to-date interest earnings are $72,066.

Yields as of September 30, 2026

Account	Yield
Managed Investment Portfolio (bonds)	5.03%
CalTRUST Medium-Term Fund	3.97%
LAIF	3.97%
CalTRUST Liquidity Fund	3.88%
U.S. Bank money market	3.50%

Summary of Cash and Investments as of September 30, 2026

Portfolio Assets	Par Value (1)	Market Value (2)	Book Value (3)	% of Portfolio
Managed Investments				
U.S. Bank Custodial Cash Account	$61,328	$61,328	$61,328	0.72%
Federal Agency Bonds/Notes	600,000	599,190	600,168	7.08%
Corporate/Medium-Term Notes	2,565,000	2,366,486	2,382,340	28.10%
Asset Backed/Mortgage-Backed Securities	27,866	27,690	28,406	0.34%
Managed Investments Subtotal	*$3,254,194*	*$3,054,693*	*$3,072,242*	*36.24%*
Pooled Investments				
CalTRUST Funds	4,414,265	4,414,265	4,414,265	52.06%
State of CA Local Agency Investment Fund	1,652	1,652	1,652	0.02%
Pooled Investments Subtotal	*$4,415,917*	*$4,415,917*	*$4,415,917*	*52.08%*
Investment Portfolio Subtotal	*$7,670,111*	*$7,470,610*	*$7,488,159*	*88.32%*
Cash/Time Deposits	990,425	990,425	990,425	11.68%
Funds Available for Investment	*$8,660,536*	*$8,461,036*	*$8,478,584*	*100.00%*
Accrued Interest	7,452	7,452	7,452	
Total Cash & Investments Held by District	**$8,667,988**	**$8,468,488**	**$8,486,036**	

Notes: (1) Par value is the principal amount of the investment on maturity. (2) Market values contained herein are received from sources we believe are reliable; however, we do not guarantee their accuracy. (3) Book value is par value of the security plus or minus any premium or discount on the security.

Investment Holdings and Yields

Security	Maturity	Par Value	Book Value	Market Value	Yield to Maturity	September Interest Earned
Federal Farm Credit Bank 4.500%	09/23/2027	600,000.00	600,168.00	599,190.00	4.47%	367.55
John Deere Capital 4.650%	09/11/2028	300,000.00	298,329.00	297,588.00	4.95%	202.31
Intuit 5.125%	09/15/2028	300,000.00	300,675.00	299,454.00	5.00%	205.94
Coca-Cola 2.125%	09/06/2029	300,000.00	276,939.00	275,805.00	4.96%	188.17
Caterpillar 2.600%	09/19/2029	345,000.00	321,674.55	320,225.55	5.07%	223.42
Cummins 1.500%	09/01/2030	370,000.00	321,137.80	318,581.10	5.26%	231.41
Target 2.650%	09/15/2030	300,000.00	272,757.00	270,174.00	5.21%	194.67
Archer-Daniels-Midland 4.829%	09/01/2031	300,000.00	293,142.00	290,385.00	5.36%	215.24
Toyota Motor Credit 1.900%	09/12/2031	350,000.00	297,685.50	294,273.00	5.37%	218.99
Agency mortgage pools (6)	2027–2033	27,866.03	28,406.34	27,689.86	5.00–7.50%	140.57
Money market / cash	Daily	61,327.59	61,327.59	61,327.59	—	1,271.70
Total Managed Portfolio		**3,254,193.62**	**3,072,241.78**	**3,054,693.10**	**5.03%**	**3,459.98**

The nine notes settled September 25, so September interest covers five days.

Interest Earnings Detail, Fiscal Year 2026-27

Month	CalTRUST	Managed Investment Portfolio	LAIF	Total
July 2026	$13,274.00	$276.77	$10,235.78	$23,786.55
August 2026	12,552.52	276.79	10,235.78	23,065.09
September 2026	11,518.66	3,459.98	10,235.79	25,214.43
Fiscal Year-to-Date	**$37,345.18**	**$4,013.55**	**$30,707.35**	**$72,066.08**

Interest earnings do not include capital gains or losses.

Prepared by Optimized Investment Partners, LLC from the District's account statements.

CAYUCOS SANITARY DISTRICT
STAFF REPORT

AGENDA ITEM: 5

TO: **BOARD OF DIRECTORS**

FROM: **DAVID ATHEY, DISTRICT MANAGER**

DATE: **NOVEMBER 19, 2026**

SUBJECT: **MONTHLY MANAGER'S REPORT: OCTOBER 2026**

ADMINISTRATIVE

- **Jon Collins' 15 Year Anniversary:** Jon Collins completed 15 years of employment with the District on October 31, 2026. Jon began his employment with the District in 2011 as a Collections Trainee, during the transition of Collections staff into the newly constructed Ash Avenue Operations & Maintenance Shop. Jon steadily gained experience and by 2014 had advanced to the Lead Collections position. Jon developed a proactive maintenance program to prevent sanitary sewer overflows, which were reduced to zero during his tenure in that position. In 2020, Jon had another big transition, this time to the Water Resource Recovery Facility, where he became a full-time Operator in Training. Over the last six years, he has moved up to Operator Grade III. Jon has written many of the Treatment Plant's Standard Operating Procedures and immersed himself in learning how the plant operates. Jon is a solid team member and is now preparing for the Operator Grade IV test, which he plans to take in December. We congratulate and thank Jon for his successful 15 years of dedicated service to the District.
- **Shirley Lyon Informal Award Presentation:** Board President Enns and staff met with Director Shirley Lyon to present her with the adopted Board Resolution congratulating and thanking her for her dedicated and exceptional 20 years of service on the CSD Board. Shirley was very appreciative of the Board's recognition of her years of dedicated service.
- **Chief Plant Operator ("CPO") Recruitment:** The District received five applications for CPO. The candidates' applications have been reviewed, and interviews will occur on November 12. The top-ranked candidates will come in for additional interviews and meetings with the District Manager. The District's next CPO is projected to start January 4, 2027.
- **El Nino:** Staff is continuing to look for ways to prepare for the upcoming winter storms. The recent high tides have had no effect on District lift stations, however, there will be king tides in November, December, and January. These high king tides, if coupled with major storms and bore (broken wave whitewash), could create potential for flooding at Lift Station 2. Staff met with the State Parks Maintenance Supervisor to discuss the District's use of anchored K-rail in the parking lot for wave protection. The meeting was very productive, cooperative, and the State is letting the District use up to 10' in front of the lift station for a solid barrier. No permit will be required from the State to use this area.
- **WRRF Data Cable Repair**: A rodent ate one of the plant's fiberoptic cables used to transmit operations data around the WRRF earlier this year. Seven of the eight strands in the cable

were damaged and are not useable. Staff is working with IT to replace the fiberoptic cable before the winter storms start. Staff implemented rodent control earlier this year and there has been no additional issues.

- **Cemetery Project:** The County met with the Cayucos-Morro Bay Cemetery District ("CMBCD") in early November to determine the next steps with this project. The CMBCD has provided information to Supervisor Gibson regarding their extensive property search and why this particular site on District property was ultimately chosen. The CMBCD should know in the next several weeks how they can move forward. Staff has offered to help the parties so a good solution can be found for this much-needed community project.
- **The Marine Mammal Center ("MMC"):** MMC is making progress. They are still waiting for their soils report from Geosolutions, meaning grading is not yet finalized. MMC has relayed they would like to come back to the Board in January to finalize the lease.
- **Meeting with Supervisor-Elect Jim Dantona:** The District Manager met with the Supervisor-Elect on October 30th to discuss how the District could assist him – the discussion touched on the status of the Cemetery Project, the Steinmann Annexation, El Nino preparedness, and the Marine Mammal Center.
- **Lift Station Communication Lines:** Staff has gone back to Spectrum to negotiate the contract. Spectrum is going to send staff an updated cost proposal next week. Some tweaks were made to the plan to make the proposed connections work better with our current IT setup. This includes separate connections to the internet for each lift station, rather than running each one back to the Admin. Office. This resolves the issue of losing communication with all the stations should the connection from the Admin. Office go down.
- **Training:** *The Future is Now: MBRs, Nutrients, and Brine Handling to Prepare for the Next Phase of Potable Reuse*. Staff attended this training which addressed the basics of MBR treatment, the importance of nutrient removal, MBR fouling, and how potable reuse is affected by how well the MBR system is run. The seminar focused on important operating parameters such as fine screening removal of inorganics, permeability/trans membrane pressure, and not overaerating the system, which inhibits the nitrification/denitrification cycle. The seminar also discussed the importance of having high-quality sludge, as it tends to clog the filters less than a poor-quality sludge.

CAPITAL PROJECTS

- **Capital Improvement Plan:** Staff completed the collection of all WRRF data that was requested by Water Systems Consulting, Inc. ("WSC"), which included rainfall data, maintenance records, PG&E power usage, REC Solar power usage and generation, and other data. Staff and WSC met on Friday November 13th to go over the preliminary results – plan development is on track.
- **Chaney to Toro Project**: Staff is looking into deploying smart lid flow monitoring equipment. This equipment is surface-based and installed under the manhole lid, which means staff would not need to do a confined space entry into the manhole. The equipment would also allow staff to monitor I&I in a section of pipe. Prices and options are currently being investigated.
- District staff are steadily working their way through the 2026/2027 Capital Improvement Plan projects, which is on track for completion by June 30, 2027. Staff will provide a verbal CIP status update to the Board.

OPERATIONS & MAINTENANCE: OCTOBER 2026

CIP: M. Johnson Construction completed repairs to 90 feet of badly compromised sewer on 15th street. The repairs will seal up the pipe and eliminate I&I. The trees along this street have destroyed the bell joints in the area.

Daily Operations of Note:

- Pumped down, scraped, and bleached wet wells; cleaned probes and tested generators
- Conducted weekly alarm testing at all lift stations
- Jetted 6,320 feet of main lines
- Participated in Vector Training Solutions for SDRMA
- Responded to and marked 34 USAs
- Landscaping and hedge trimming at Lift Stations 1,2, and 5
- Deployed sandbags along the curb at Lift Station 1 to protect the station from the runoff that comes down the bridge
- Adjusted the starting set points to be more aggressive at Lift Station 2 during the storm on October 12th-14th
- Deployed sandbags at Lift Station 2 in case the tide made its way to the station (it did not)
- Got 2 new tires put on the back of the Ford 550
- Airline in the shop failed, so we tore out unnecessary sections of it and repaired the portion that exploded
- Replaced moisture control bags at all station cabinets
- Emptied all rain catches after the storm – we received about 3.2” in 36 hours
- Took notes of all manholes that do not have rain catches and compiled a list of manholes that we will protect with plastic sheeting and sandbags before large upcoming storms
- Weed whacked as well as dug up the concrete around the trunk line manholes along Highway 1 so that we can better cover them during upcoming storms
- Purchased and filled more sandbags for storm prep
- Purchased plastic sheeting to cut and use to cover trunk line manholes during severe storms to help reduce infiltration through the lids
- Cleaned and polished cabinets at all lift stations
- Cleaned low-low float at Lift Station 5 to prevent debris accumulation
- Organized outdoor storage to make access and more room for spare pumps and supplies
- Lubed locks and hinges and knocked webs at all lift stations and the shop
- Received new pump for Lift Station 2; we will swap it with pump #2 and keep that pump as a spare in outside storage
- Scheduled visit from Xylem to swap pumps at Lift Stations 5 and 2

Call Outs: None

WATER RESOURCE RECOVERY FACILITY: OCTOBER 2026

Daily Operations of Note:

- Completed all quarterly, monthly, weekly, and daily maintenance tasks
- Exercised generator and fire pump
- Calibrated on-line meters
- Checked eyewash stations and fire extinguishers
- Completed all daily and weekly lab tests
- Completed all Monthly Reports

- Continued weed abatement activities throughout the month
- October 1: Tested new alarm for Bypass Valve to EQ
- October 1: Cleaned both UV Vessels with citric acid
- October 5-7: Required Annual Chronic Toxicity Testing on both Influent and Effluent
- October 6: Required Annual Ocean Plan Testing on both Influent and Effluent
- October 8: El Niño preparation – stacked recycled water in Equalization Basin for two days, then ran high flow through plant for several hours for staff training and equipment observation
- October 12: Acid Clean in Place started on MOS #2
- October 13: Hypo Clean in Place started MOS #2
- October 14: Replaced leaking pressure gauge on MOS 2 turbidimeter line
- October 15-17: PG&E performed a Public Safety Power Shutoff starting at 12:36 am on Oct. 15 which cut power to the WRRF; ran on generator power, reduced power use as much as possible
- October 16: Received fuel delivery of 900 gallons of diesel for the emergency generator, still running on emergency generator
- October 17: PG&E restored power at 2:55 pm
- October 20: Reinstalled manual gates on Headworks Influent Valve and EQ Bypass Valve; both of these gates are automated, but now manual operation is possible in emergency situations
- October 21: Received diesel delivery of 300 gallons to top off emergency generator
- October 23: Maintenance on solar field ongoing until October 27
- October 26: SLO County started repair work on abutments for Toro Creek Road bridge
- October 27: J. Collins at CWEA Leadership Seminar, M. Arias at SWMOA Membrane Conference
- October 29: Replaced broken temperature sensor in UV Vessel #2

Callouts:

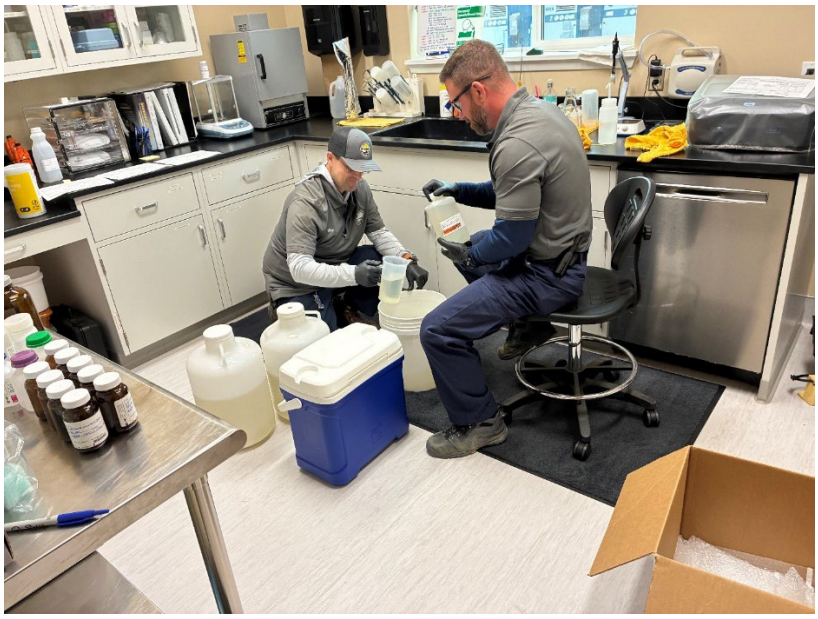
- October 7, 6:16 am: Power glitch, reset OK, SH
- October 10, 10:53 am: Vessel 1 Influent Flow High Alarm, JC
- October 10, 7:26 pm: MOS Tank 3 Turbidimeter Fail, JC
- October 11, 1:09 pm: UV 1 High and High-High Flow, JC
- October 15, 12:36 am: Power Outage (PSPS), all reset OK, JC
- October 17, 2:55 pm: Power Restoration, all reset OK, MA
- October 21, 4:53 pm: MBR Sump Level High Alarm, pumped down, MA
- October 21, 5:50 pm: MBR Sump Level High Alarm, pumped down, 6:16-7:35 pm numerous Fine Screen and Chemical Sump High Alarms, pumped down OK, MA

WRRF Influent

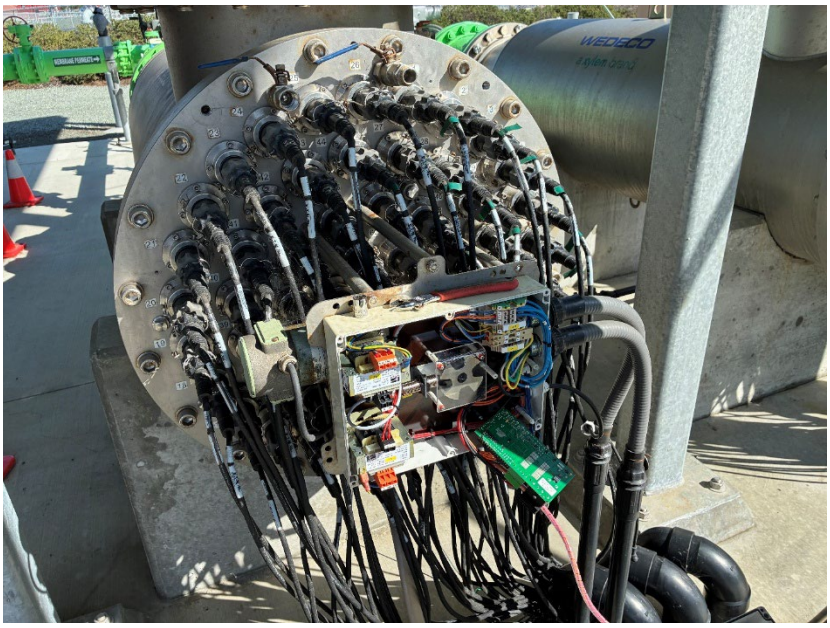
- Highest flow day October 22: **552,002 gallons**
- Average influent for October: **231,057 gallons per day**
- Total influent for October: **7.16 million gallons**

WRRF Effluent

- Highest flow day October 22: **590,632 gallons**
- Average effluent for October: **261,135 gallons per day**
- Total effluent for October: **8.10 million gallons**
- Average recycled water use (in-plant): **64,500 gallons per day**



Jon and Nick filling (many) sample bottles for Ocean Plan Sampling



UV Vessel 2 during Temperature Sensor Replacement

CAYUCOS SANITARY DISTRICT
STAFF REPORT

AGENDA ITEM: 6

TO: **BOARD OF DIRECTORS**

FROM: **DAVID ATHEY, DISTRICT MANAGER**

DATE: **NOVEMBER 19, 2026**

SUBJECT: **DISCUSSION AND CONSIDERATION TO ADOPT RESOLUTION 2026-11 RECOMMENDING CANDIDATES FOR APPOINTMENT TO THE CAYUCOS SANITARY DISTRICT BOARD OF DIRECTORS TO REPRESENT DISTRICTS 2 AND 3**

DISCUSSION

No candidates filed to run for Division 2 or 3 in the November 2026 General Election. Division 2's term runs from December 2026 to December 2030. Division 3's term runs from December 2024 to December 2028. Any candidate appointed to Division 3 will serve the remaining two years of that term.

When no candidate runs for an open seat, California Election Code Section 10515 stipulates that the San Luis Obispo ("SLO") County Board of Supervisors ("BOS") must appoint persons to the open division seats. The County Clerk Recorder notified District staff that the Cayucos Sanitary District Board should forward a list of desired candidates for appointment by the BOS. The BOS may appoint the candidates forwarded by the District at its next available meeting.

Board President Enns formed an Ad-Hoc Committee with Vice-President Curti to search for eligible candidates in each division. The Committee had not yet identified candidates for Divisions 2 or 3 by Board agenda publishing dates. Therefore, all eligible candidates will be introduced and available for interview at November's regular meeting.

OPTIONS

1. Interview prospective Division 2 and 3 candidates and instruct staff to forward the Board-selected candidates' names to the BOS for appointment

RECOMMENDATION

Staff recommends that the Board of Directors interview eligible candidates and vote to adopt Resolution 2026-11 recommending that the SLO County BOS appoint the selected candidates to the Division 2 and 3 Director seats.

ATTACHMENTS

1. Resolution 2026-11

RESOLUTION NO. 2026-11

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CAYUCOS SANITARY DISTRICT RECOMMENDING NOMINEES FOR APPOINTMENT TO DISTRICTS 2 AND 3 OF THE CAYUCOS SANITARY DISTRICT BOARD OF DIRECTORS

WHEREAS, the Cayucos Sanitary District ("District") is a special district organized and existing under the laws of the State of California; and

WHEREAS, the November 3, 2026 General Election includes four seats on the Cayucos Sanitary District Board of Directors, including the seats representing Divisions 1, 2, 3, and 4; and

WHEREAS, no person filed a Declaration of Candidacy for the offices of Director representing **Division 2 or Division 3** during the applicable nomination period; and

WHEREAS, pursuant to California Elections Code Section 10515(b), when no person has filed a Declaration of Candidacy for an elective office of a special district, the supervising authority shall appoint a person who is qualified on the date the election would have been held; and

WHEREAS, the San Luis Obispo County Board of Supervisors is the supervising authority responsible for making appointments to fill the vacant Division 2 and Division 3 seats pursuant to California Elections Code Section 10515; and

WHEREAS, the Board of Directors recognizes the importance of maintaining full representation on the Cayucos Sanitary District Board and has undertaken efforts to identify qualified members of the community who are willing to serve; and

WHEREAS, following the District's recruitment efforts, the Board of Directors has identified **[NAME]** as a qualified and suitable nominee to serve as Director representing **Division 2**, and **[NAME]** as a qualified and suitable nominee to serve as Director representing **Division 3**; and

WHEREAS, the Board of Directors desires to formally recommend these individuals to the San Luis Obispo County Board of Supervisors for appointment to the respective vacant seats.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Cayucos Sanitary District as follows:

SECTION 1. The Board of Directors hereby recommends that the **San Luis Obispo County Board of Supervisors appoint [NAME] to serve as Director representing Division 2** of the Cayucos Sanitary District.

SECTION 2. The Board of Directors hereby recommends that the **San Luis Obispo County Board of Supervisors appoint [NAME] to serve as Director representing Division 3** of the Cayucos Sanitary District.

SECTION 3. The Board of Directors authorizes the District Manager or designee to transmit this Resolution and the names of the recommended nominees to the San Luis Obispo County Board

of Supervisors and/or the appropriate County elections official for consideration pursuant to California Elections Code Section 10515.

SECTION 4. This Resolution shall take effect immediately upon its adoption.

PASSED AND ADOPTED by the Board of Directors of the Cayucos Sanitary District at a regular meeting held on _____, 2026, by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

_____	_____
Robert Enns	Amy Lessi
President	Admin. Services Manager/Board Secretary

CAYUCOS SANITARY DISTRICT
STAFF REPORT

AGENDA ITEM: 7

TO: **BOARD OF DIRECTORS**

FROM: **DAVID ATHEY, DISTRICT MANAGER**

DATE: **NOVEMBER 19, 2026**

SUBJECT: **DISCUSSION AND CONSIDERATION OF PROVIDING DENTAL AND VISION INSURANCE COVERAGE FOR EMPLOYEE FAMILIES FOR 2027**

DISCUSSION

The Board authorized full premium coverage for the Blue Shield Access+ HMO Family Plan at the August 20, 2026 Board meeting, covering general health insurance for the staff member and all eligible dependents for 2027.

Staff is now returning to discuss dental and vision benefits for 2027 to determine if the Board wants to extend coverage to all eligible dependents:

- The current cost for dental and vision insurance for one employee plus one dependent is **$111.24 per month**.
- The cost for dental and vison insurance for one employee plus their entire family in 2027 would be **$173.41 per month** (**an increase of $62.17 per month**).

The staffing changes occurring in the coming year make it difficult to project what the actual annual cost increase would be if coverage is granted to families in 2027. However, staff estimates a total increase of **$2,984.16** for all of 2027 (staff estimates four employees with eligible family members). This would not necessitate an adjustment to the fiscal year 2026/2027 budget.

OPTIONS

1. Provide coverage for the employee and each of their dependents
2. Continue to provide for the employee and one dependent
3. Send this item back to staff for further analysis

RECOMMENDATION

Staff recommends that the Board of Directors authorize full premium coverage for the employee and all dependents in 2027.

ATTACHMENTS

None

CAYUCOS SANITARY DISTRICT
STAFF REPORT

AGENDA ITEM: 8

TO: BOARD OF DIRECTORS

FROM: DAVID ATHEY, DISTRICT MANAGER

DATE: NOVEMBER 19, 2026

SUBJECT: DISCUSSION AND CONSIDERATION TO APPROVE RECORDATION OF QUITCLAIM DEED EXTINGUISHING EASEMENT RIGHTS HELD BY CHEVRON LAND AND DEVELOPMENT COMPANY

DISCUSSION

As part of the District's 2016 purchase of Lots 8 and 10, Chevron Land and Development Company ("CLDC") retained several easements across both lots for the benefit of their neighboring properties. These easements provided access and potential for installation of water lines and treatment facilities in the future if CLDC were to develop their other lots.

Lot 6W is located west of Highway 1, as shown in Attachment 1. Instead of developing, CLDC has chosen to sell Lot 6W "as is," without installing a water distribution or treatment system.

In April of 2020, August of 2020, and October of 2024, CLDC quitclaimed similar easements back to the District. The current Quitclaim Deed is for the sale of Lot 6W to the County of San Luis Obispo. The County is currently working with CLDC on the final draft of the Quitclaim Deed, which will be provided to the District for execution once complete.

OPTIONS

1. Approve the Quitclaim Deed eliminating easement rights owned by Chevron Land and Development Company
2. Send this item back to staff for additional review and analysis

RECOMMENDATION

Staff recommends that the Board of Directors approve the recordation of the Quitclaim Deed eliminating Lot 6W easement rights owned by Chevron Land and Development Company appurtenant to Lots 8 & 10, subject to review and modification of the Quitclaim Deed by District Legal Counsel.

ATTACHMENTS

1. Lot 6W Location Map
2. Draft Quitclaim Deed

Lot 6W Location Map



RECORDING REQUESTED BY
First American Title Company

AND WHEN RECORDED MAIL THIS DEED TO:

Cayucos Sanitary District
200 Ash Avenue
P.O. Box 333
Cayucos, CA 93430

APN: 065-022-009 (SPACE ABOVE THIS LINE FOR RECORDER'S USE ONLY)

EXEMPT FROM RECORDING FEE PER GOV'T CODE §§ 6103 and 27383

EXEMPT FROM FEE PER GOV'T CODE § 27388.1(a)(2)(D)

DRAFT

QUITCLAIM DEED

FOR GOOD AND VALUABLE CONSIDERATION, receipt and sufficiency of which is hereby acknowledged, **CHEVRON LAND AND DEVELOPMENT COMPANY**, a Delaware corporation ("**GRANTOR**")

HEREBY REMISES, RELEASES AND FOREVER QUITCLAIMS TO **CAYUCOS SANITARY DISTRICT**, a political subdivision of the State of California, ("**GRANTEE**") all of the GRANTOR'S right, title and interest under that certain Easement Agreement between and among Grantee, Grantor, Chevron U.S.A. Inc. a Pennsylvania corporation, Chevron Pipe Line Company, a Delaware corporation and Texaco Downstream Properties Inc., a Delaware corporation dated July 19, 2016, recorded July 26, 2016 as Instrument Number 2016035935, in the Office of the County Recorder of San Luis Obispo County, California ("Official Records") as amended by that certain Amendment to Easement Agreement dated November 1, 2018, recorded November 1, 2018 in the Official Records as Instrument No. 2018045636 (the "Easement Agreement") with respect to that certain parcel of real property located in Morro Bay, CA 93442, APN: 065-022-009 as more particularly described in Exhibit A, "Benefitted Property" under the Easement Agreement.

IN WITNESS WHEREOF, Grantor has caused its name to be affixed hereto and this instrument to be executed by the person named below duly authorized.

GRANTOR:

Dated: _____, 2026

Chevron Land and Development Company,
a Delaware corporation

By: _____

Name: _____

Its: _____

DRAFT

ACKNOWLEDGMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy or validity of that document.

STATE OF _____)
) ss.
COUNTY OF _____)

On _____ before me, _____, Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of Texas that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____ (Seal)

DRAFT

ACCEPTANCE

GRANTEE hereby accepts this Quitclaim Deed

CAYUCOS SANITARY DISTRICT,
a political subdivision of the State of California,

By: _____

Name: _____

Its: _____

DRAFT

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

STATE OF CALIFORNIA)
) ss.
COUNTY OF ALAMEDA)

On [month] ___, 2026, before me, _____ (here insert name and title of the officer), personally appeared David M. Fitzgerald who proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____ (Seal)

DRAFT

Exhibit A
Legal Description

That portion of the land described in Certificate of Compliance recorded November 2, 2012 in Document No. 2012063818 and Document No. 2012063819 in the County Recorder's Office, County of San Luis Obispo, State of California, described as follows:

Beginning at a point on the westerly line of the land described in the grant deeds to the State of California recorded in Book 1090 at Page 258 of Official Records and Book 1090 at Page 263 of Official Records in the County Recorder's Office of said County (State Highway One) being North 11°23'26" West, a distance of 612.98 feet from the southerly terminus of the line described as Course No. 4 (North 11°23'26" West, 817.99 feet) in said grant deeds to the State of California; thence,

Northerly along said westerly line to a point being an arc distance of 696.64 feet from the northerly terminus of the curve described as Course No. 9 (curve to the left with a radius of 4879 feet through an angle of 11°45'32" for a distance of 1001.32 feet) in said grant deeds to the State of California; thence,

Leaving said westerly line, South 80°34'29" West, a distance of 26.67 feet; thence,

North 73°38'47" West, a distance of 36.70 feet; thence,

North 38°30'11" West, a distance of 75.80 feet; thence,

North 80°39'34" West, a distance of 95.21 feet; thence,

South 72°39'00" West, a distance of 106.64 feet more or less to the mean high water line of Estero Bay; thence,

Southerly along said mean high waterline to a point being South 78°36'34" West from the Point of Beginning; thence,

Leaving said mean high water line, North 78°36'34" East, a distance of 187.20 feet more or less to the Point of Beginning.

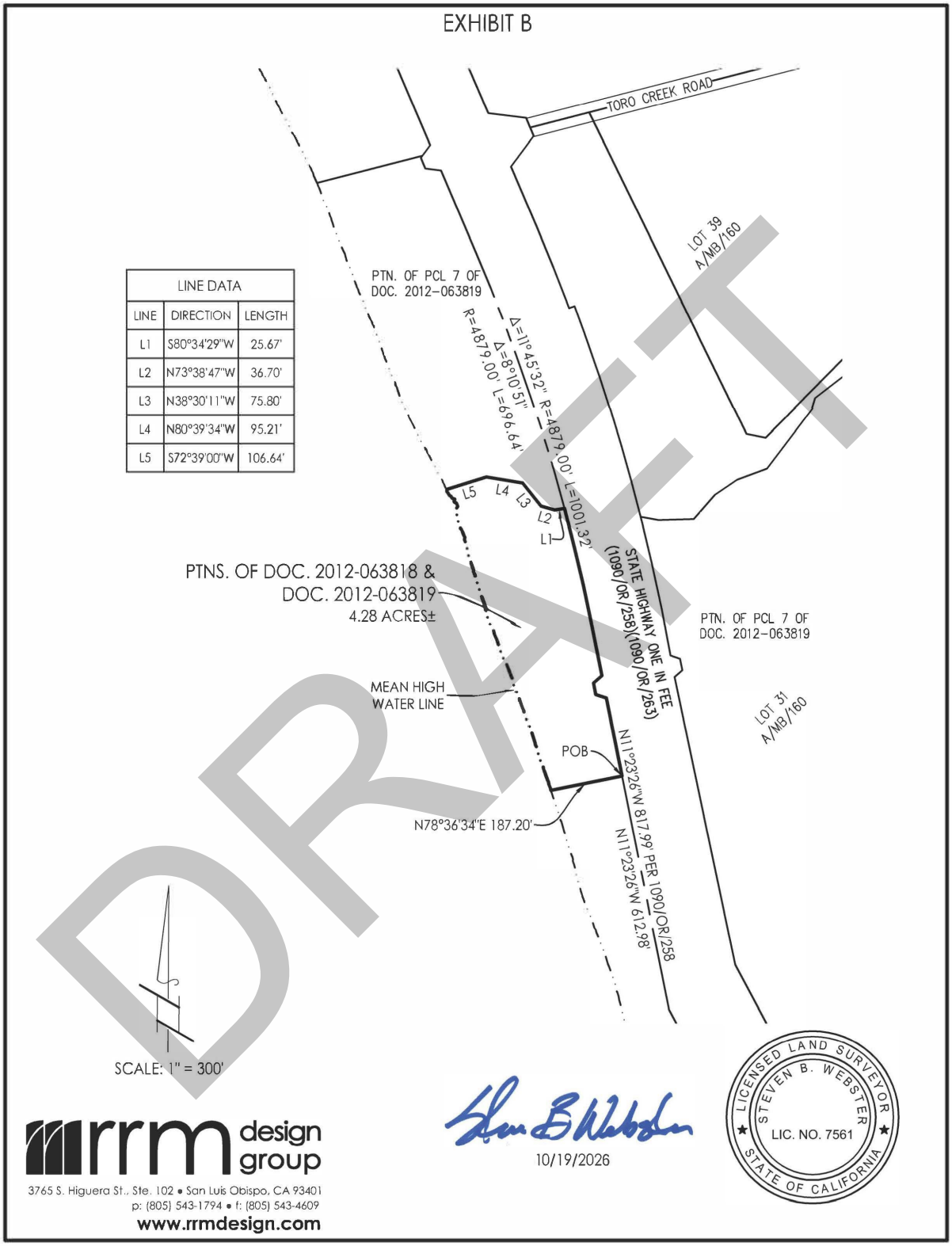
The land described contains 4.28 acres more or less and is shown graphically on Exhibit B herein attached.

10/19/2026

LICENSED LAND SURVEYOR
STEVEN B. WEBSTER
LIC. NO. 7561
STATE OF CALIFORNIA

DRAFT

EXHIBIT B



LINE DATA		
LINE	DIRECTION	LENGTH
L1	S80°34'29"W	25.67'
L2	N73°38'47"W	36.70'
L3	N38°30'11"W	75.80'
L4	N80°39'34"W	95.21'
L5	S72°39'00"W	106.64'

DRAFT

rrm design group
3765 S. Higuera St., Ste. 102 • San Luis Obispo, CA 93401
p: (805) 543-1794 • f: (805) 543-4609
www.rrmdesign.com

10/19/2026

LICENSED LAND SURVEYOR
STEVEN B. WEBSTER
LIC. NO. 7561
STATE OF CALIFORNIA

CAYUCOS SANITARY DISTRICT
STAFF REPORT

AGENDA ITEM: 9

TO: BOARD OF DIRECTORS

FROM: DAVID ATHEY, DISTRICT MANAGER

DATE: NOVEMBER 19, 2026

SUBJECT: DISCUSSION AND CONSIDERATION TO PROVIDE COMMENTS ON THE SAN LUIS OBISPO LOCAL AGENCY FORMATION COMMISSION SPHERE OF INFLUENCE UPDATE & MUNICIPAL SERVICE REVIEW

DISCUSSION

Local Agency Formation Commissions (LAFCOs) are independent, state-mandated agencies that are responsible for coordinating local government boundaries and the provision of public services. LAFCOs regulate special district actions to either activate new service functions and service classes or divest existing services. LAFCOs are also responsible for making Sphere of Influence ("SOI") determinations and preparing Municipal Service Reviews ("MSRs").

An SOI is a plan for the likely boundary and service area for a local district. SOIs are typically reviewed every five years as a long-range planning tool with a 20-year planning horizon.

An MSR is used to inform the SOI. MSRs consider growth and population trends, disadvantaged community locations within an SOI, existing or planned capacity of public facilities, financial solvency, the ability to share services, governance, and other matters related to service delivery.

Together, the SOI/MSR provide information that helps LAFCO make decisions on a variety of topics, including annexations, activation of powers, and dissolution of special districts.

The San Luis Obispo County LAFCO recently developed an SOI/MSR for the Cayucos Sanitary District (District) and is requesting review and comments (see Attachment 1).

Staff met with LAFCO in July to provide clarification and comments on the existing Sphere of Influence and provided information regarding the wastewater collection and treatment system. Staff also recommended that two areas that are currently in the District's SOI be removed – the Estero Bluffs, which cannot be developed with permanent structures, and property up Cayucos Creek Road, just east of the Highway 1 bridge. While there is currently no long-range plan for developing this property, it is large enough to accommodate onsite septic systems if it is developed in the future.

District Counsel has reviewed and provided comments on the draft.

OPTIONS

1. Review and provide comments to LAFCO
2. Send this item back to staff for further review
3. Take no action

RECOMMENDATION

Staff recommends that the Board of Directors review the SOI/MSR and provide comments to LAFCO.

ATTACHMENTS

1. Administrative Draft Cayucos Sanitary District Municipal Service Review and Sphere of Influence Study

Administrative Draft

Cayucos Sanitary District Municipal Service Review and Sphere of Influence Study

Prepared by

The San Luis Obispo Local Agency Formation Commission

Adopted ___, 2027

Resolution No. ____

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ABOUT LAFCO

Authority and Objectives

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

Regulatory Responsibilities

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

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Planning Responsibilities

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

Sphere of Influence

A Sphere of Influence (SOI) is defined by Government Code Section 56425 as a plan for the probable physical boundary and service area of a local agency or municipality. An SOI is generally considered a 20-year, long-range planning tool. LAFCOs establish, amend, and update SOIs for all applicable jurisdictions in California every five years, or as necessary. When updating an SOI, LAFCOs are required to consider and prepare a written statement of their determinations concerning each of the following five factors:

1) The present and planned land uses in the area, including agricultural and open-space lands.
2) The present and probable need for public facilities and services in the area.
3) The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.
4) The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency.
5) For an update of a sphere of influence of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection, that occurs pursuant to subdivision (g) on or after July 1, 2012, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence.

The intent in preparing the written statements is to orient LAFCOs in addressing the core principles underlying the sensible development of local agencies consistent with the anticipated needs of the affected communities.

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Municipal Service Reviews

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

1) Growth and population projections for the affected area.
2) The location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence.
3) Present and planned capacity of public facilities, adequacy of public services, and infrastructure needs or deficiencies, including needs or deficiencies related to sewers, municipal and industrial water, and structural fire protection in any disadvantaged, unincorporated communities within or contiguous to the sphere of influence.
4) Financial ability of agencies to provide services.
5) Status of, and opportunities for, shared facilities.
6) Accountability for community service needs, including governmental structure and operational efficiencies.
7) Any other matter related to effective or efficient service delivery, as required by commission policy.

LAFCO Decision-Making

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

LAFCOs are generally governed by a board comprised of county supervisors, city council members, independent special district members, a representative of the general public, and an alternate member for each category. SLO LAFCO is governed by a seven-member board comprised of two county supervisors, two city council members, two independent special district members, one representative

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of the general public, and an alternate member for each category. All members serve four-year terms and must exercise their independent judgment on behalf of the interests of residents, landowners, and the public as a whole. LAFCO members are subject to standard disclosure requirements and must file annual statements of economic interests. LAFCOs are independent of local government, with their own staff. All LAFCOs, nevertheless, must appoint their own Executive Officers to manage agency activities and provide written recommendations on all regulatory and planning actions before the Commission. In addition, all LAFCOs must also appoint their own legal counsel.

SLO LAFCO

Regular Commissioners

Chair Heather Moreno	County Member
Vice Chair David Watson	Public Member
Dawn Ortiz-Legg	County Member
Ed Waage	City Member
Steve Gregory	City Member
Edy Eby	Special District Member
Navid Fardanesh	Special District Member

Alternate Commissioners

Bruce Gibson	County Member
Carla Wixom	City Member
John Joyce	Special District Member
Michael Draze	Public Member

Staff

Rob Fitzroy	Executive Officer
Imelda Marquez-Vawter	Senior Analyst
Morgan Bing	Analyst
Holly Whatley	Legal Counsel

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Contact Information

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

Acknowledgments

San Luis Obispo LAFCO gratefully acknowledges the time and effort of staff with the Cayucos Sanitary District in assisting in the preparation of this report, including – but not limited to – the following individuals:

David Athey, PE, District Manager

Gayle Good, Administrative Accounting Manager

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DISTRICT MSR & SPHERE OF INFLUENCE STUDY

Overview

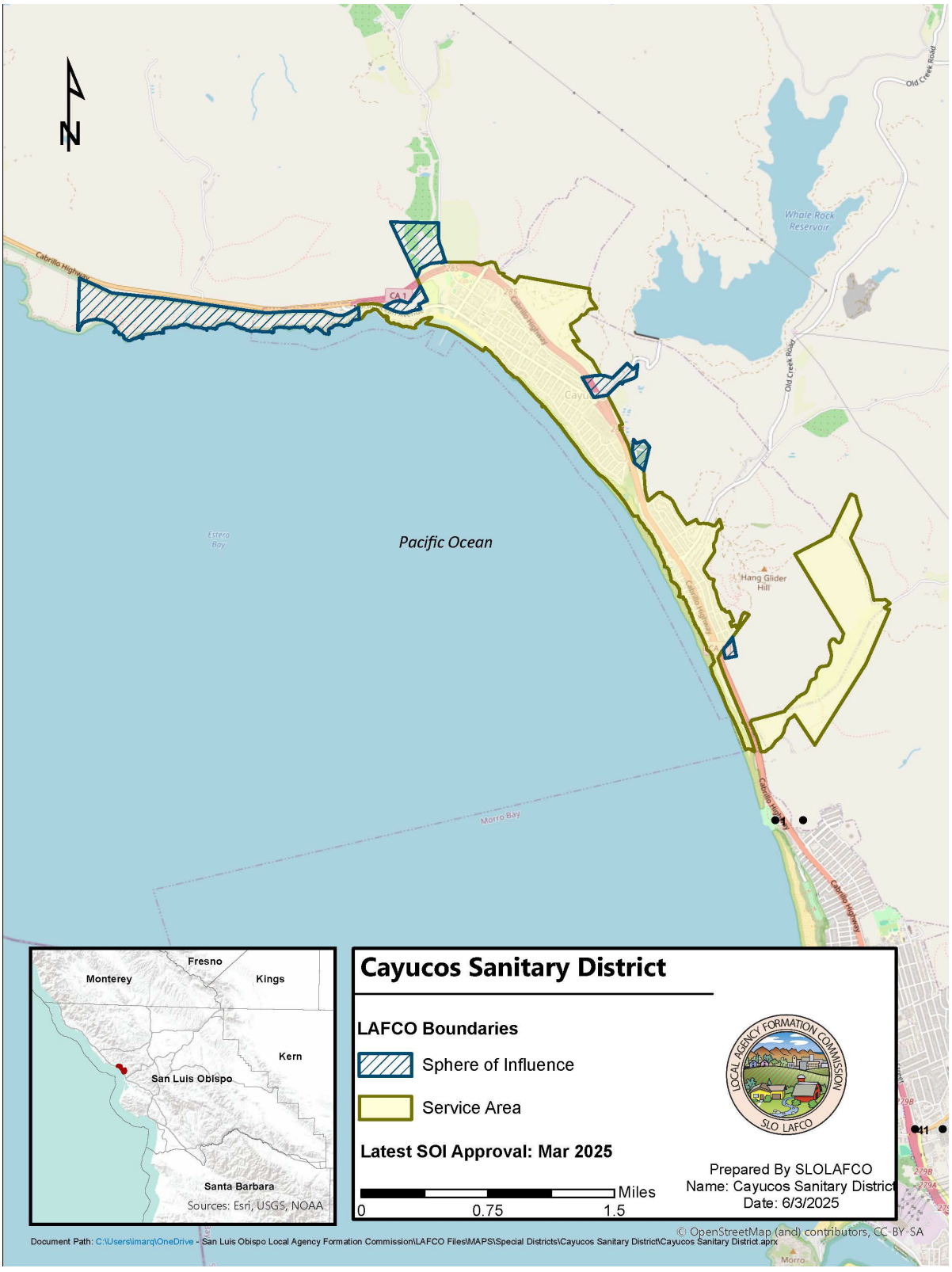
This report represents San Luis Obispo LAFCO's scheduled municipal service review and sphere of influence study for the Cayucos Sanitary District (District), located in the central coast region of San Luis Obispo County (County). The report has been prepared by staff in accordance with the requirements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

The period for collecting data to inform the Commission's analysis and related projections on population growth and service demands have been set to cover any major updates and changes since the last time the MSR and SOI Study was updated in 2015. The financial analysis has been set to cover the last five years audited fiscal year period. The timeframe for the report has been generally oriented to cover the next five to seven-year period, with the former (ten years) serving as the analysis anchor as contemplated under State law. The document outline serves to inform all the state-mandated requirements outlined in Government Code Sections 56430 and 56425. Written determinations have been included as the concluding chapter of this document.

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Boundary Map

Figure 1: Cayucos Sanitary District Service Area and Sphere of Influence (Adopted March 2025)



At A Glance

Table 1: District Profile

Agency Name	Cayucos Sanitary District
Formation	1942
Legal Authority	Sanitary District Act of 1923 (Health and Safety Code Sections 6400-6982)
Mailing Address	PO Box 333, Cayucos, CA 93430
Website	https://www.cayucossanitarydistrict.gov/
General Manager	David M. Athey, PE
Public Meetings	The Board of Directors meets on the third Thursday of the month at 5:00 PM at 200 Ash Ave., Cayucos, CA 93430
Board of Directors	Five members elected to four-year terms
District Service Area	893-acres
Population	2,505

Background

The Cayucos Sanitary District was formed in 1942 to construct, operate, and maintain a sewer collection system and wastewater treatment facility serving the unincorporated community of Cayucos in western San Luis Obispo County. In 1954, the District entered into a Joint Powers Agreement (JPA) with the Morro Sanitary District (now the City of Morro Bay) to construct and operate a shared wastewater treatment plant and conveyance system.

For decades, the District and the City of Morro Bay jointly operated the Morro Bay–Cayucos Wastewater Treatment Plant (MBC WWTP). However, in January 2013, the California Coastal Commission denied a Coastal Development Permit for a proposed upgrade to the existing facility, determining that the project was inconsistent with Coastal Act policies. The Coastal Commission recommended that any replacement facility be located outside the coastal zone and incorporate a significant water reclamation component. As a result, the jurisdictions were effectively required to abandon plans to upgrade the existing coastal facility.

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Following this decision, the District evaluated alternatives and, in 2015, the District Board elected to develop an independently owned and operated wastewater treatment facility rather than continue the joint partnership with the City of Morro Bay.

In August 2018, the District broke ground on the Cayucos Sustainable Water Project (CSWP). The CSWP included a new $25 million sewer treatment plant at 800 Toro Creek Road featuring a Membrane Bioreactor treatment facility, infrastructure to convey plant discharge to the ocean outfall, reconfiguration of the pipeline system controlling inflow and outflow through Lift Station 5, and a solar field to mitigate electrical costs. Reclaimed water is to be available for onsite and local agricultural uses.

The Cayucos Water Resource Recovery Facility (WRRF) was completed and dedicated to the community in June 2021. Wastewater conveyance to the Morro Bay facility ceased on September 14, 2021, marking the District's full transition to independent wastewater treatment operations. The District and the City of Morro Bay formally dissolved the Joint Powers Agreement that governed the MBC WWTP in July 2026.

Population Profile

Based on 2020 US Census Data, the Cayucos Census Designated Place, which closely coincides with the District's service area boundary, has an estimated population of 2,505. The build-out population, defined as the maximum population that can occur considering zoning and land use designations, is estimated to be 3,096, with an estimated buildout year of 2055.[1] Therefore, the District is considered more than 80% built out. However, the permanent resident population fluctuates because of the varying proportion of seasonal residences, vacation homes, and second homes within the community.

Disadvantaged Unincorporated Communities

LAFCO is required to evaluate Disadvantaged Unincorporated Communities (DUCs) as part of this MSR and SOI Study, including the location and characteristics of any such community. Per California Senate Bill 244 and Government Code Section 56033.5, a DUC is defined as any area with 12 or more registered voters where the median household income (MHI) is less than 80% of the statewide MHI. The legislative

[1] San Luis Obispo Council of Governments, 2050 Regional Growth Forecast for San Luis Obispo County, June 2017

intent is to prohibit selective annexations by cities of tax-generating land uses while leaving out underserved, inhabited areas with infrastructure deficiencies and a lack of access to reliable potable water, wastewater, and fire protection services.

To identify the MHI within the County and determine which areas meet the DUC MHI threshold, LAFCO relied on U.S. Census American Community Survey (ACS) five-year reports for Census Block Groups (CBG) and Census Designated Places (CDP) data. When a CBG or CDP met the DUC MHI threshold, LAFCO subsequently verified that the area was inhabited, consistent with the requirements of Government Code Section 56033.5, using registered voter data from the County Clerk-Recorder.

Using this methodology, two DUCs were identified within or adjacent to the District's service area, as seen in Figures 2 and 3. A summary of information for these areas, including MHI and registered voter counts, is provided in Table 2.

Cayucos DUC Area No. 1 includes territory both within the District's existing service area and SOI, as well as lands adjacent to the north of the District that are currently uninhabited and designated as open space. This area also includes lands to the east of the District that are zoned agriculture, where no current need for wastewater services has been identified. Cayucos DUC Area No. 2 similarly contains areas within the District's current service area and SOI, along with lands outside the service area boundary that appear to be uninhabited and zoned agriculture. There is no known need for wastewater service within this area. Should the need for wastewater service within either DUC area be identified in the future, inclusion within the District's SOI and service area boundary should be studied further.

Table 2: Disadvantaged Unincorporated Communities

DUC	Census Block Group	Median Household Income	Registered Voters
Cayucos DUC Area No. 1	105.04.1	$67,273	505
Cayucos DUC Area No. 2	105.04.3	$59,444	686

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Figure 2: Cayucos DUC Area No. 1

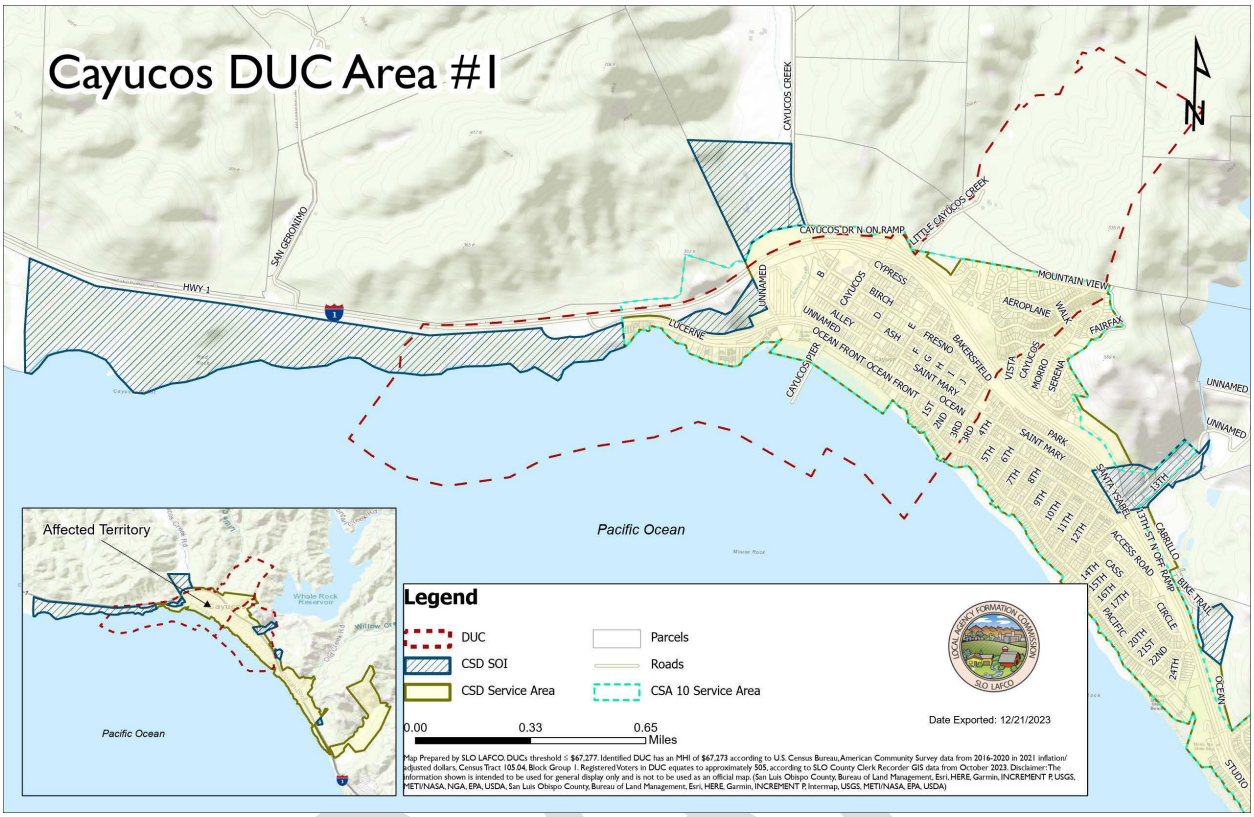
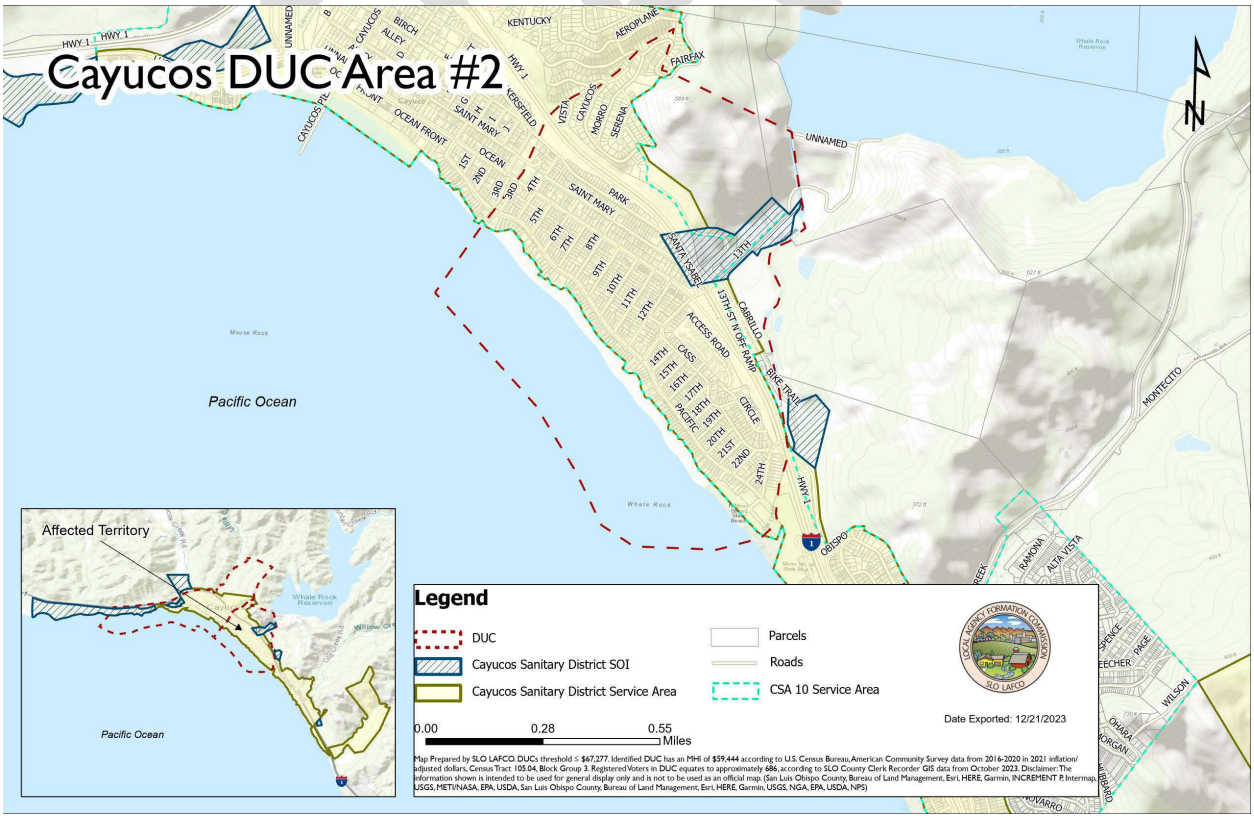


Figure 3: Cayucos DUC Area No. 2



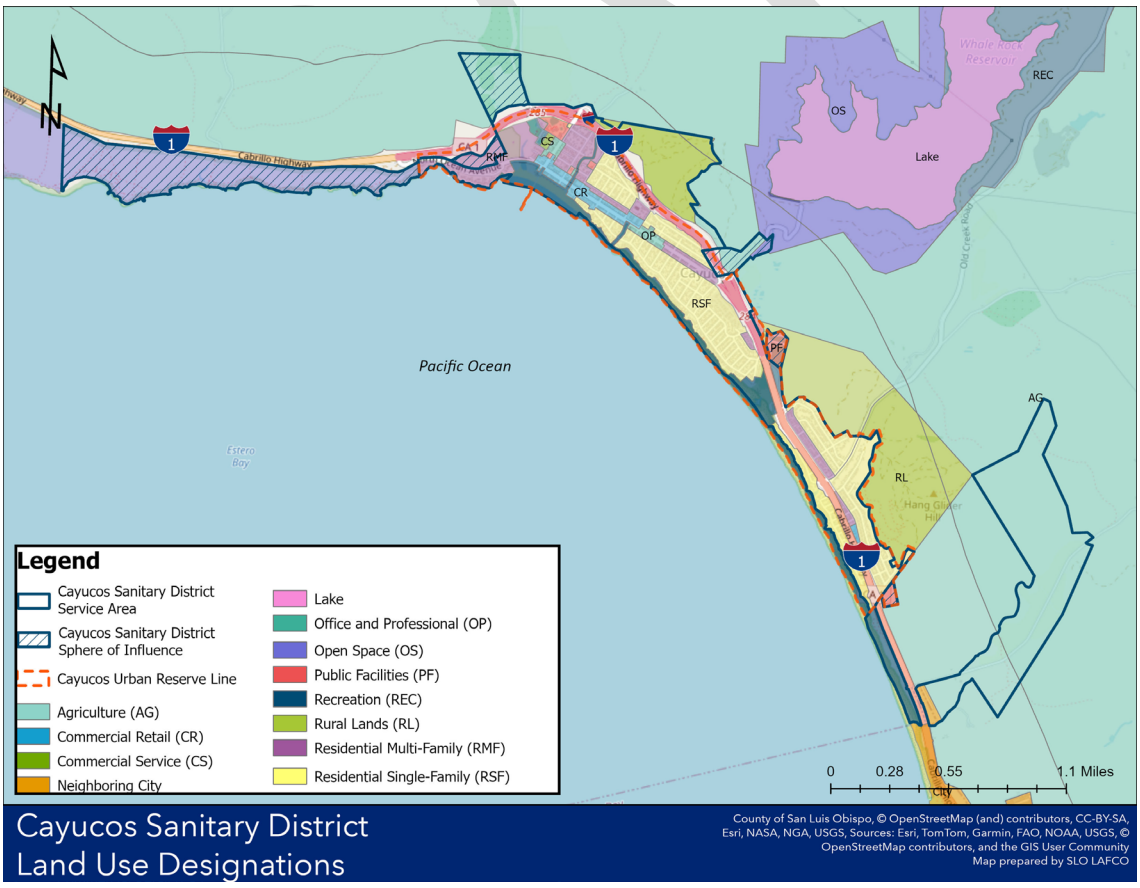
Social or Economic Communities of Interest in the Area

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

Present and Planned Land Use

The District's service area is characterized primarily by coastal residential development, supported by limited commercial, visitor-serving, and public facility uses. Surrounding areas outside the District service area include a mix of agricultural and open-space lands. No significant conversion of agricultural or open-space lands to urban uses is anticipated within the District's SOI. Planned land uses within the District are governed by the County General Plan and Local Coastal Program, which emphasize preservation of coastal resources, maintenance of community character, and managed, low-density infill development. Future growth within the District is expected to be minimal and limited primarily to infill on existing legal lots, redevelopment of existing parcels, and minor expansions consistent with current zoning and environmental constraints. The location and distribution of land uses within the District is presented below in Figure 4.

Figure 4: Land Use Designations



Accountability

The District is an independent special district governed by a five-member Board of Directors, each elected by district for four-year terms. Regular meetings of the Board of Directors are held at 200 Ash Avenue, Cayucos, CA at 5:00 PM on the third Thursday of each month. Agendas and staff reports for meetings are available to the public for review at the District office and on the District's website. Every agenda for a regular meeting provides an opportunity for members of the public to directly address the Board of Directors.

Table 3: Board of Directors

Board Member	Title	District	Term
Robert Enns	President	District 5	December 2024 – December 2028
John Curti	Vice President	District 1	December 2022 – December 2026
Open	Director	District 4	December 2022 – December 2026
Open	Director	District 2	December 2024 – December 2026
Open	Director	District 3	May 2025 – December 2026

The District maintains an up-to-date website in compliance with Senate Bill 929 that provides public access to District contact information, current agendas, financial transaction and compensation reports, and an SB 272 Enterprise System Catalog, as seen in Table 4. Approved minutes from the Board of Director's regular meetings are also posted on the website for public review. In addition, the District reports that all Form 700 Statements of Economic Interests are current and in full compliance with state disclosure requirements.

Table 4: Website Requirements for Special Districts

Requirement	District Website
Contact Information	✓
Most Recent Agenda	✓
Financial Transaction Report	✓
Compensation Report	✓
Enterprise System Catalog	✓

Services & Capacity

Authorized Services

The District's governance authority is established under the Sanitary District Act of 1923 (Health and Safety Code Sections 6400-6982). This principal act identifies a range of services that a Sanitary District may provide, including but not limited to:

- Sewer and Wastewater Services
- Stormwater Management
- Solid Waste and Garbage Services
- Infrastructure Development and Operations
- Water Recycling and Distribution Systems

Pursuant to Government Code Section 56425(i), when LAFCO adopts, updates, or amends a SOI for a special district, it must also determine the nature, location, and extent of the functions or services the district is authorized to provide. Furthermore, under Government Code Section 56050.5, any service authorized by the district's principal act that is not currently being exercised is considered a latent power, requiring LAFCO approval prior to activation.

In accordance with Government Code Section 6512, the District is authorized to execute the following powers:

> A district may acquire, plan, construct, reconstruct, alter, enlarge, lay, renew, replace, maintain, and operate garbage dumpsites and garbage collection and disposal systems, sewers, drains, septic tanks, and sewerage collection, outfall, treatment works and other sanitary disposal systems, and storm water drains and storm water collection, outfall and disposal systems, and water recycling and distribution systems, as the board deems necessary and proper, and in the performance of these functions, either in or out of the district, it may join through joint powers agreements pursuant to the provisions of Chapter 5 (commencing with Section 6500) of Division 7 of Title 1 of the Government Code, or through other means with any county or municipality or any other district or governmental agency.

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All other powers granted under the Sanitary District Act of 1923 that are not currently exercised by the District are considered latent powers, subject to LAFCO approval prior to activation.

The MSR and SOI Study provides a discussion on present and long-term service demands and resource capabilities of the local agency. LAFCO reviews and evaluates 1) the resources and services that are currently available, and 2) the ability of the District to expand such resources and services in line with increasing demand. An adequate ability to provide service should be documented to support areas in the sphere envisioned for eventual annexation and service by a jurisdiction. If warranted, different governance options may be reviewed for the District, including potential jurisdictional changes such as consolidation, reorganization, and dissolution.

Services & Facilities

Wastewater

The District provides wastewater collection and treatment services to residential and commercial users within its service area, serving an estimated population of 2,505. The District has approximately 2,115 service connections which are comprised of roughly 90% residential and 10% commercial uses.

In August 2018, the District initiated construction of the Cayucos Sustainable Water Project (CSWP). This project included a $25 million wastewater treatment facility located at 800 Toro Creek Road, featuring a state-of-the-art membrane bioreactor (MBR) system. Additional project components include infrastructure to convey treated effluent to the existing ocean outfall, improvements to the pipeline system regulating flows through Lift Station 5, and installation of a solar field to offset electrical costs. The CWSP also incorporates water reuse elements, with reclaimed water available for onsite and local agricultural uses. The District estimates that there will be about 200 acre-feet of reclaimed water that could be re-used yearly.

The Cayucos Water Resource Recovery Facility (WRRF), completed in 2021, is a modern wastewater treatment facility with a maximum permitted capacity of 1.2 million gallons per day (MGD) and an average daily permitted capacity of approximately 0.34 MGD. The facility is designed to serve the existing and build-out population within the District's service area. The WRRF includes headworks with screening and grit removal, a membrane bioreactor system with multiple aeration and anoxic tanks, membrane filtration units, solids dewatering via screw press, and ultraviolet disinfection. The District

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uses sewer modeling and infiltration and inflow analysis as methods to evaluate the system and ensure there will be adequate capacity in the sewer collection and conveyance system for system build-out.

The District's collection system consists of approximately 23 miles of pipeline constructed of vitrified clay, PVC, HDPE, and cast iron, along with five lift stations. The system is monitored using a Supervisory Control and Data Acquisition (SCADA) system, with after-hours monitoring conducted by on-call staff. The District prohibits stormwater inflow into the sewer system and conducts smoke testing to identify and reduce inflow and infiltration. Private sewer laterals are the responsibility of the property owner in accordance with District Ordinance No. 26.

Ultimate flow demands were estimated based on the County's Planning Department and Cayucos 2004 Water Management Plan Update estimates for the District's build-out population. Average daily flow was recalculated in 2020 based on daily flow averages recorded at Lift Station 5 over the course of 2018-2020. Flow estimates are based on historical sewer connection data, water use data, and the number of vacant lots available for development. Current and future average daily base wastewater flows were analyzed again in 2020 based on average daily flows seen at Lift Station 5. These flows are displayed on the table below.

Table 5: Wastewater Treatment Plant Flows and Capacity

Description	Amount
Average Flow	0.227 MGD
Ultimate Flow	0.33 MGD
Permitted Dry Weather Flow	0.34 MGD
Permitted Wet Weather Flow	1.2 MGD

The District maintains essential equipment to support operations and emergency response, including a trailer-mounted hydraulic line cleaner, emergency generators, and a bypass pump. Preventive maintenance, CCTV inspections, and targeted cleaning programs are regularly performed to ensure system reliability and inform capital planning.

Solid Waste

The District provides solid waste collection services to District customers through a franchise agreement with Mission Country Disposal (MCD), originally executed in 2006 and last amended in 2025.

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Under the agreement, MCD is responsible for providing solid waste, recyclable materials, and green waste collection services within the District boundaries.

The franchise agreement establishes service requirements, rate-setting and adjustment procedures, and allowable profit margins. MCD is responsible for furnishing all labor, supervision, equipment, containers, materials, and supplies necessary to perform these services. Solid waste services are funded primarily through user fees charged to residents.

Staffing & Personnel

The District maintains two Legally Responsible Officials (LROs) for the collection system and WRRF, with overall operations managed by the District Manager. Collections staff includes a lead worker and two collections workers responsible for operating and maintaining approximately 23 miles of sewer lines, five lift stations, and related infrastructure. Staff provides 24/7 emergency response and performs regular maintenance, inspections, and regulatory program implementation. Treatment Plant staff includes one Chief Plant Operator and three full-time Operators. Staff operates and maintains the WRRF, monitors treatment processes, and responds to emergencies on a 24/7 basis. District staff support ongoing system reliability through routine maintenance, asset management, and participation in training and professional development.

Infrastructure Needs and Deficiencies

The District has conducted capacity assessments in areas where extreme wet weather events have historically contributed to sanitary sewer overflows (SSOs), as part of its ongoing evaluation of the collection and conveyance system. These assessments utilize hydraulic modeling to evaluate system performance under both existing and projected future flow conditions.

Historically, SSOs have been minor and limited to extreme wet weather events, primarily due to temporary hydraulic constraints. The District has implemented targeted improvements to increase wet weather capacity and reduce the likelihood of overflows. The District has no history of SSOs caused by hydraulic deficiencies during dry weather and, given the limited growth potential within the service area, does not anticipate such issues in the future.

To maintain system capacity and reduce inflow and infiltration, the District conducts targeted smoke testing and implements corrective actions where deficiencies are identified. These efforts have

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successfully reduced I&I and improved overall system reliability. Additional wet weather capacity improvements are identified in the District's Capital Improvement Program (CIP).

Capital improvements are prioritized through a formal process that incorporates system needs, operational issues, and hydraulic modeling results. Projects identified in the CIP are ranked by District staff and evaluated annually as part of the budgeting process, with consideration given to risk, service demand, and available funding. The District uses updated modeling and flow monitoring data to guide project selection and prevent future capacity deficiencies. The CIP will be updated in 2026-2027 to reflect completed projects and emerging priorities. The CIP program and its implementation is carried out under the direction of the District Manager.

Other Matters Related to Efficient Service Delivery

The community of Cayucos is served by a combination of public agencies and private service providers. Public services are provided by the District (wastewater/solid waste) and County Service Area (CSA) 10 (water). In addition, water service is also provided by two private water mutual companies – Morro Rock Mutual Water Company and Cayucos Beach Mutual Water Company. While private mutual water companies are not subject to LAFCO's direct authority, LAFCO may make recommendations regarding their inclusion in future governance or service delivery structures, particularly in relation to efficient service delivery.

Historically, LAFCO has considered opportunities to improve service efficiency in Cayucos through consolidation. A 1982 SOI study recommended evaluating the formation of a Community Services District to consolidate services. Subsequent efforts, including a 1998 proposal focused on water service and a 2004 reorganization plan to consolidate local districts into a Community Services District, were approved by LAFCO but ultimately rejected by voters.

More recently, in 2022, the District's Board of Directors revisited the concept of service consolidation, including the potential consolidation of water, wastewater, parks, and other services (such as lighting, weed abatement, and solid waste) into a single district. The District Board approved a consultant services agreement to evaluate consolidation options for the community. However, the District is currently evaluating options to determine whether to continue to pursue the consolidation.

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Shared Facilities

The District currently has no shared facilities. Historically, the District and the City of Morro Bay jointly owned several facilities associated with their shared wastewater infrastructure. However, following the development of independent Water Resource Recovery Facilities by both agencies, the need for jointly owned facilities was eliminated. In 2026, the District sold its 40 percent ownership interest in the former wastewater treatment plant properties located at 160 and 180 Atascadero Avenue in Morro Bay to the City. The sale was based on a jointly obtained appraisal and a negotiated Purchase and Sale Agreement approved by both the City Council and the District Board. Completion of the transaction eliminated the remaining shared facilities and concluded the agencies' joint ownership obligations under the Joint Powers Agreement, which was dissolved as part of the sale.

The City of Morro Bay has adopted a resolution to initiate proceedings for detachment of property (APN 065-022-010) that is currently within both the City and District's service areas. LAFCO received an application for the proposed detachment on October 9, 2026. The subject property proposed is owned by the District and includes sewer infrastructure improvements operated by the District. The property is located at the northern boundary of the City of Morro Bay and is surrounded on three sides by real property located in the County unincorporated jurisdiction. The District desires to have the property removed from the City's jurisdiction and returned to the unincorporated county to simplify permitting processes for any future projects initiated by the District.

Opportunities for shared facilities moving forward are primarily related to regional water supply and recycled water use. The District's WRRF produces high-quality recycled water which can be used for agricultural irrigation and to offset potable water demand. The facility also positions the community for future direct potable reuse, creating a local drought-proof water supply. Any direct potable re-use will be subject to further technical, regulatory, financial, and environmental review.

Future construction phases include installation of conveyance infrastructure that could allow delivery of advanced treated water to the CSA 10 Water Treatment Facility for potential direct potable reuse, pending regulatory approval and regional demand. This presents a long-term opportunity for coordinated water supply development between the District, the County, and other local purveyors, particularly as a drought-resiliency strategy.

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Finance

LAFCO is required to make a determination regarding the financial ability of the District to provide public services. This section provides a general overview of the District's financial health and establishes the context for LAFCO's financial determinations. The primary data sources for this evaluation are the District's audited financial statements from Fiscal Years (FY) 2020-21 through FY 2024-25. To evaluate the District's overall financial condition, LAFCO utilizes four key financial indicators:

- *Revenues and Expenditures*: Assessment of gross governmental fund revenues and expenditures to account for all or most general activities and fund balance;
- *Operating Ratio:* Assessment of operating revenues relative to operating expenditures;
- *Liquidity Ratio:* Analysis of assets and liabilities to gauge short-term financial stability;
- *Net Position:* Measurement of the District's overall financial position

Budget

The District develops its annual operating and CIP budgets using a combination of current-year actual expenditures, anticipated cost increases, and identified operational needs. Draft budgets are prepared by staff and presented to the Budget Committee for review and input prior to consideration by the full Board. The operating budget is structured to maintain existing service levels while limiting increases when practical, with adjustments made for known cost pressures such as healthcare, pensions, and utilities. The CIP budget prioritizes projects, studies, and equipment purchases that improve operational efficiency, reduce ongoing maintenance demands, and enhance system reliability. Overall, the District's budgeting process is intended to align projected revenues with expenditures while supporting long-term financial stability and system performance.

Audited Financial Statements

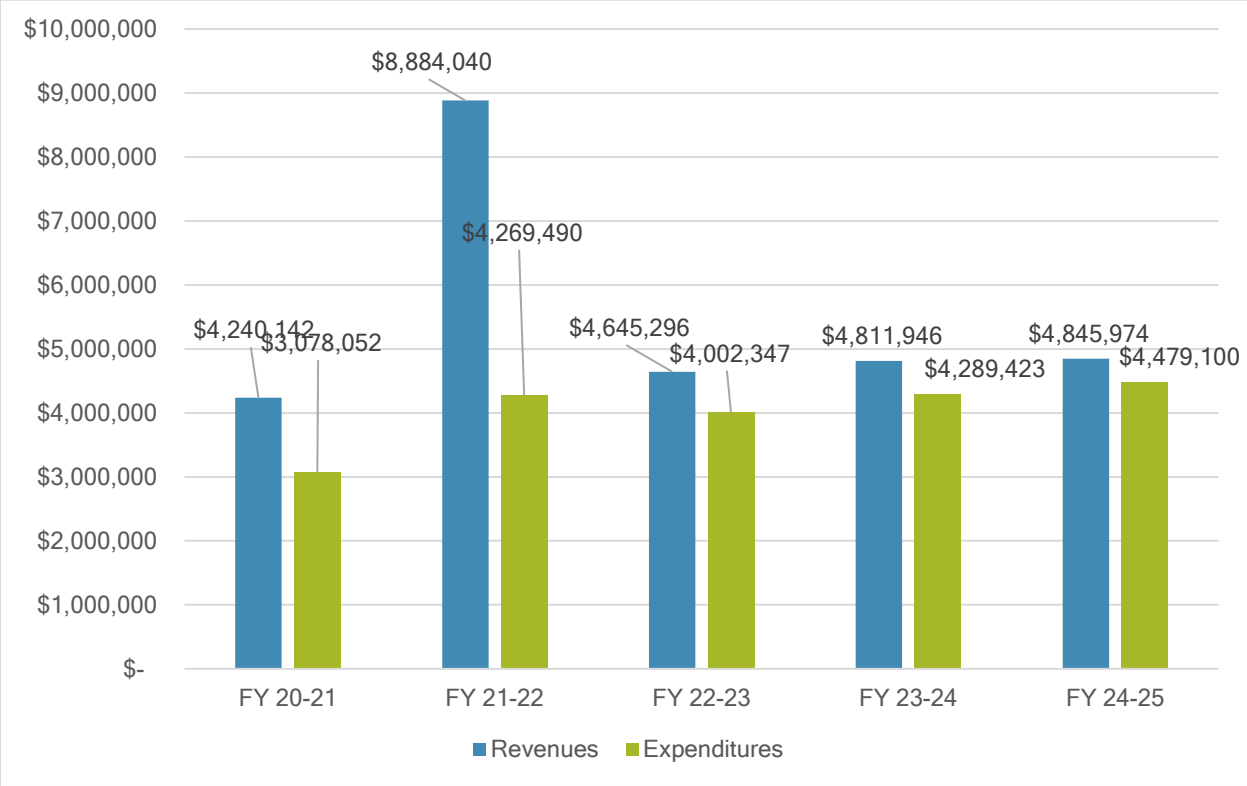
The District is required to hire an outside accounting firm to perform an annual audit in accordance with established Governmental Accounting Standards Board accounting standards. This includes auditing the District's financial statements with respect to verifying overall assets, liabilities, and net position. These audited statements provide quantitative measurements in assessing the District's short and long-term fiscal health with a specific focus on delivering its active service functions.

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Revenues and Expenditures

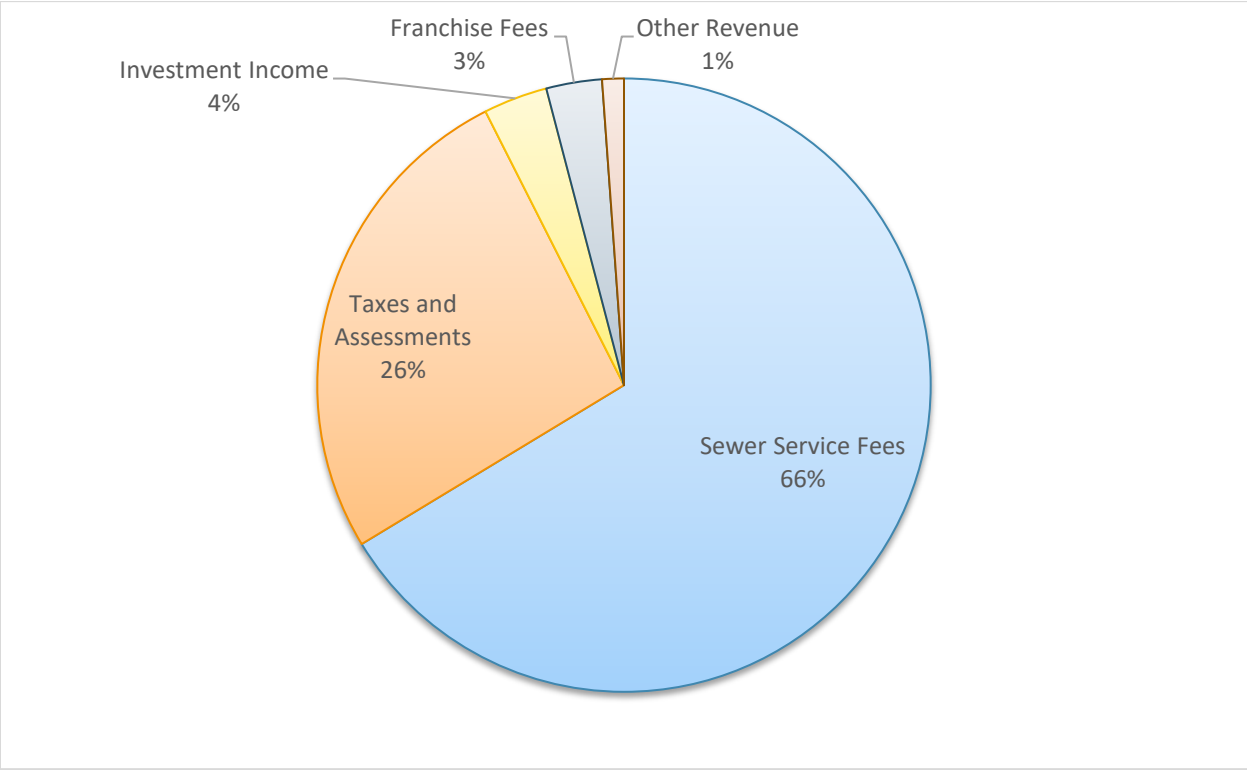
The District is primarily funded through service charges, property taxes, and investment income. Figure 5 provides audited revenues and expenditures over several fiscal years to show overall trends and year-to-year changes. Overall, the District's revenues consistently exceed its expenditures.

Figure 5: Audited Revenues and Expenditures



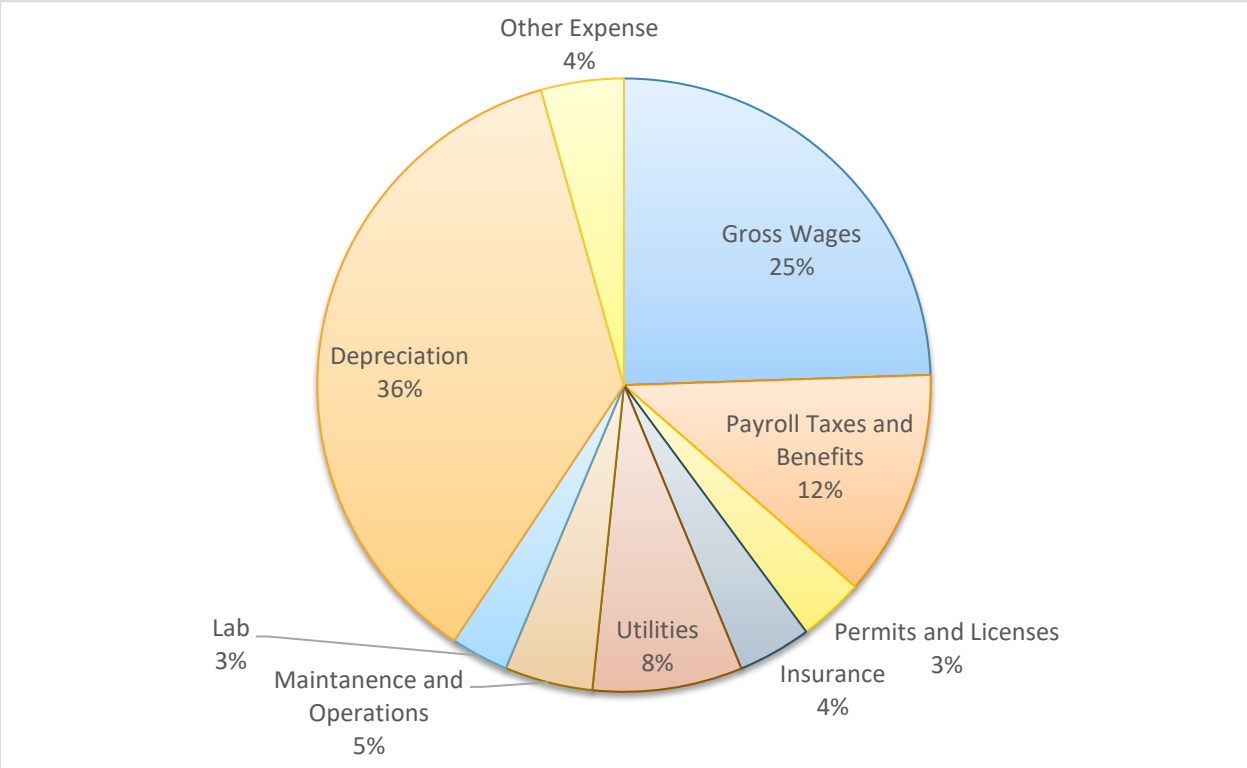
Total revenue for FY 2024-25 was $4,845,974. Sewer service charges remain the District's primary revenue source, generating $3,208,696 in FY 2024-25, or approximately 66% of total revenues. The District also receives a pro rata share of County collected property tax revenues for properties within its service area which totaled $1,280,050 in FY 2024-25, accounting for approximately 26% of total revenues. Over the past five fiscal years, property tax revenue has increased by about 31%, reflecting steady growth in assessed values within the District. Revenues in FY 2021-22 were elevated due to a one-time grant of $4,503,344 from the USDA Department of Rural Development specifically earmarked for the reduction of the debt to build the WRRF. Figure 6 depicts the District's revenues from FY 2024-25.

Figure 6: FY 2024-25 Revenues



The District's primary expenses are related to depreciation, payroll, and utilities. In FY 2024-25, total expenditures were $4,479,100, representing an increase of $190,938 or 4% from the prior fiscal year. The increase was primarily due to higher pension costs, along with rising utilities and maintenance expenses. Permits and license costs also increased due to re-permitting requirements associated with the WRRF's National Pollutant Discharge Elimination System (NPDES) permit. Figure 7 depicts the District's expenses in FY 2024-25.

Figure 7: FY 2024-25 Expenses

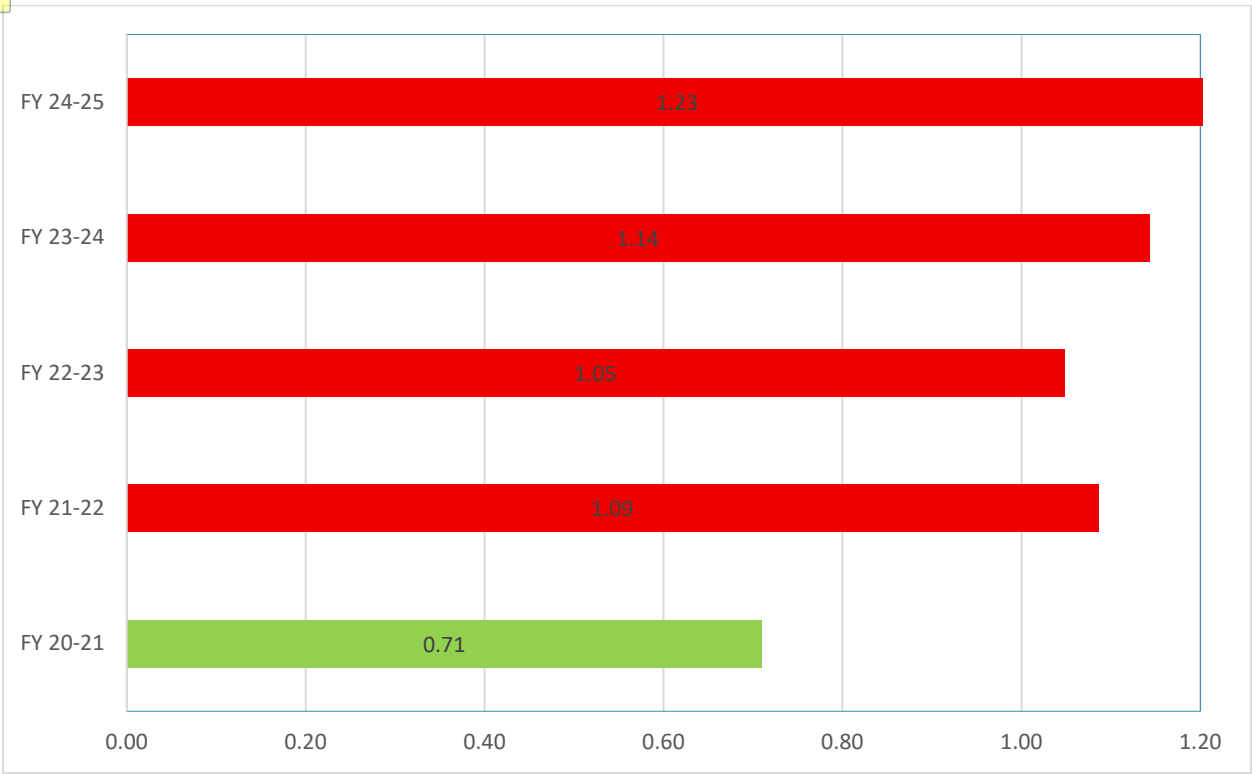


To assess the District's ability to meet its financial obligations, Figure 8 displays the District's Operating Ratio for the past five audited FYs. This ratio, calculated as annual operating expenses divided by annual operating revenues, serves as a basic indicator of financial performance:

- A ratio **below 1.0** indicates the agency is operating at a surplus
- A ratio **above 1.0** indicates the agency is operating at a deficit

Over the five-year period, the District's Operating Ratio only exceeded 1.0 in four of the five years, indicating that operating expenses were often greater than operating revenues, resulting in consistent paper operating losses. As shown in Figure 7, however, the District receives significant non-operating revenues, including property tax allocations, which help offset operating deficits and allowing service rates to remain relatively low. The District's current rate structure was established through the Proposition 218 process and was developed with the expectation that these ongoing non-operating revenues would continue to support the cost of providing sewer services.

Figure 8: Operating Ratio



Assets and Liabilities

An agency's assets represent resources that provide current, future, or potential economic benefits. These assets may include items the agency owns, or amounts owed to the agency. In this section, agency assets will be reviewed in two separate categories as defined below:

- *Current Assets:* Cash and other assets that are expected to be converted to cash within a year
- *Noncurrent Assets:* Long-term investments that are not expected to become cash within an accounting year

Over the past five audited years, the District's total assets have decreased to $50.9 million at the end of FY 2024-25 which is about an 8% decrease from the previous fiscal year. Approximately 11% of these assets are classified as current, with the largest current asset being cash and investments. The remaining assets are classified as noncurrent assets, mainly consisting of facilities and land.

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net assets that applies to a future period(s) and will not be recognized as an outflow of resources

(expense/expenditure) until then. In FY 2024-25, the District reported deferred outflows related to pensions and other post-employment benefits (OPEB) totaling $337,825.

Table 6: Audited Assets and Deferred Outflows

Category	FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25
Current Assets	$6,847,285	$6,601,675	$7,427,319	$8,237,845	$5,567,158
Noncurrent Assets	$50,004,683	$49,445,659	$47,990,217	$46,718,345	$45,401,488
Total Assets	**$56,851,968**	**$56,047,334**	**$55,417,536**	**$54,956,190**	**$50,968,646**
Total Deferred Outflows of Resources	$166,490	$166,694	$372,720	$392,891	$337,825

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

- *Current Liabilities:* an agency's short-term financial obligations due to be paid within a year
- *Noncurrent Liabilities:* an agency's long-term financial obligations that are due more than a year away

At the close of FY 2024-25, the District's audited liabilities totaled approximately $24.4 million, a decrease of 15% from the prior year. Of this amount, current liabilities accounted for about 3% of total liabilities, a majority of which is related to accrued interest and payments due within the next 12 months. The remaining balance, $23,719,433 in noncurrent liabilities, is largely attributable to the loan related to the Cayucos Sustainable Water Project.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. For FY 2024-25, the District reported $166,709 in deferred inflows, consisting of pensions and leases.

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Table 7: Audited Liabilities and Deferred Inflows

Category	FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25
Current Liabilities	$5,465,239	$1,439,094	$1,292,612	$1,307,533	$695,160
Long-Term Liabilities	$30,669,533	$28,694,540	$28,098,916	$27,386,507	$23,719,433
Total Liabilities	**$36,134,772**	**$30,133,634**	**$29,391,528**	**$28,694,040**	**$24,414,593**
Total Deferred Inflows of Resources	$25,268	$607,426	$282,811	$223,903	$166,709

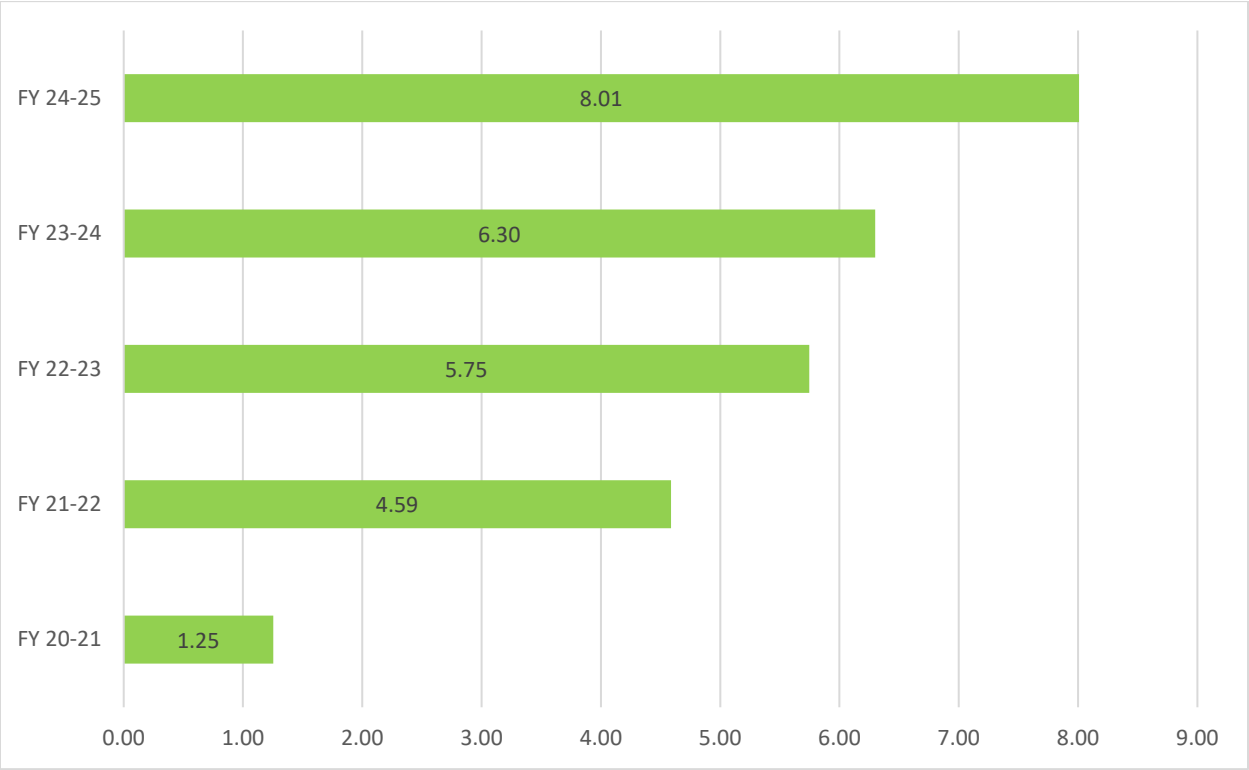
Figure 9 illustrates the District's Liquidity Ratios from FY 2020-21 through FY 2024-25. This ratio measures the District's ability to meet its short-term financial obligations by comparing unrestricted current assets to current liabilities.

- A ratio **above 1.0** indicates that the District has sufficient short-term resources to cover its liabilities, reflecting strong financial health.
- A ratio **below 1.0** signals potential liquidity concerns, suggesting short-term resources may be insufficient to meet immediate obligations.

Generally, the higher the ratio, the greater the District's short-term financial stability. Over the five-year period, the District's liquidity ratio has consistently remained above 1.0, demonstrating a stable ability to meet short-term obligations.

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Figure 9: Liquidity Ratio



Net Position

The government-wide financial statements utilize a net position presentation to assess the District's financial position at a specific point in time. Net position is defined as the difference between total assets and total liabilities, and it serves as a key indicator of an agency's overall financial health.

- A **positive net position** indicates that the District possesses more assets than liabilities, reflecting fiscal health
- A **negative net position** may suggest fiscal distress or an inability to meet long-term obligations

As of June 30, 2025, the District's net position increased to $26.7M, reflecting 28% growth over the past five audited years. This increase indicates that the District's total assets exceed its total liabilities, indicating the District is in a financially healthy state.

Table 8: Net Position

Category	FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25
Net Investment in Capital Assets	$14,993,244	$20,060,184	$19,581,483	$19,308,563	$22,288,876
Restricted for construction	$11		$233,934	$250,130	$265,769
Restricted for debt service			$733,512	$822,345	$910,809
Unrestricted	$5,865,163	$5,412,784	$5,566,988	$6,050,100	$3,259,715
Total Net Position	**$20,858,418**	**$25,472,968**	**$26,115,917**	**$26,431,138**	**$26,725,169**

Sphere of Influence Study

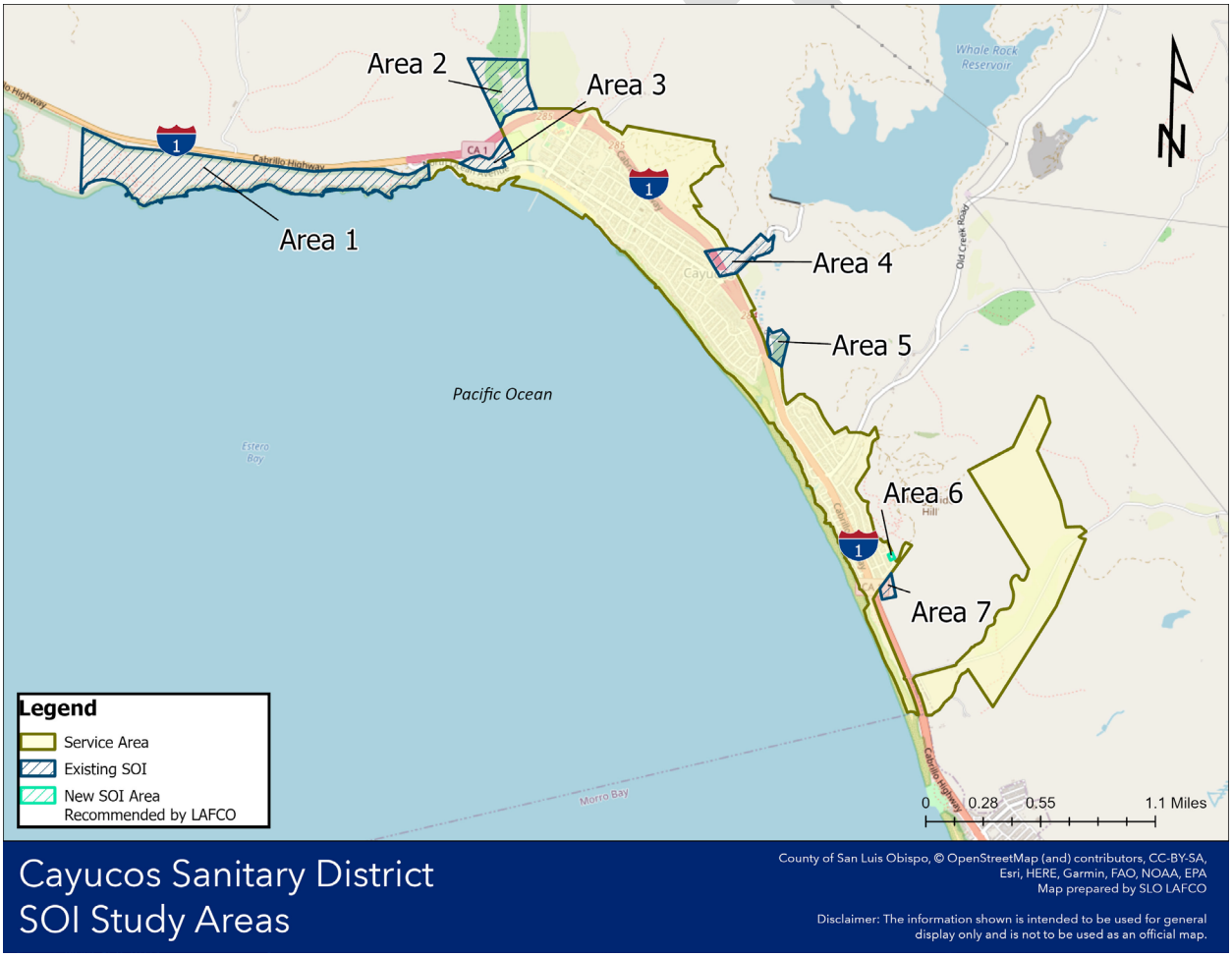
This section evaluates six Sphere of Influence (SOI) Study Areas currently within the District's existing SOI and studies one additional study area currently located outside of the District's SOI. The purpose of the SOI Study is to assess which parcels should remain within, be added to, or removed from the SOI. LAFCO's policies encourage and provide for well-ordered, efficient urban development patterns, balanced with preserving open space and agricultural land while discouraging urban sprawl. The proposed SOI discourages urban sprawl and encourages the preservation of open space and agricultural land. Table 9 summarizes the SOI study area and the map presented in Figure 10 shows the District's existing SOI as well as the additional study area being considered.

Table 9: Recommended SOI Changes

SOI Study Area	Description/Location	Status	District's SOI Request	LAFCO's SOI Recommendation
Study Area No. 1	Estero Bluffs State Park	Existing	Remove	Remove
Study Area No. 2	Cayucos Creek Road	Existing	Remove	Remove
Study Area No. 3	Steinmann Annexation Area	Existing	Remain	Remain

Study Area No. 4	13th Street	Existing	Remain	Remain
Study Area No. 5	Cayucos – Moro Bay Cemetery District	Existing	Remain	Remain
Study Area No. 6	Gilbert Ave	New	Include	Include
Study Area No. 7	Cayucos Fire Station 11	Existing	Remain	Remain

Figure 10: SOI Study Areas



Study Area No. 1 |Proposed to be Removed from the SOI

Study Area No. 1 contains Estero Bluffs State Park and has been included within the District's SOI for more than two decades. The District does not currently provide services within this area, nor is there a foreseeable need for service extension to this area in the future.

Historically, the area may have been included in the SOI to accommodate the potential construction of restroom facilities at the State Park that may have required wastewater service from the District. However, according to District staff, the property is subject to a perpetual conservation easement held by the Cayucos Land Conservancy, which restricts the development of permanent facilities, including restrooms. As a result, there are no longer future service needs within Study Area No. 1. Therefore, LAFCO staff recommend removing Study Area No. 1 from the District's SOI.

Study Area No. 2 |Proposed to be Removed from the SOI

Study Area No. 2 consists of a single parcel (Assessor Parcel Number 046-191-020) with an agriculture land use designation. The approximately 38.5-acre property is developed with two single-family residences and has been included within the District's SOI for more than 20 years.

The parcel is currently served by an onsite private septic system and does not receive wastewater services from the District. District staff have requested that the area be removed from the SOI, noting that extending the District's collection system to serve the property would likely be cost-prohibitive relative to the cost of replacing the existing septic system, should the existing system fail in the future. Accordingly, LAFCO staff recommend removing Study Area No. 2 from the District's SOI.

Study Area No. 3 |Proposed to Remain within the SOI

LAFCO is currently processing an annexation proposal for the property contained within Study Area No. 3, consisting of approximately 9.69 acres. The annexation has been proposed by the landowner in order to obtain sanitary sewer service from the District for a County approved residential subdivision associated with a Development Plan / Coastal Development Permit (Vesting Tract Map, Tract 3164, SUB2021-00023) and Variance (CDRC2022-00029). The County approved project authorizes a Vesting Tentative Tract Map (Tract 3164) to subdivide the 9.69-acre parcel into eight single-family residential lots and one open space lot, including site grading, private access roads, drainage, and utility extensions. The District has issued a Conditional Intent to Serve letter which states that the District has adequate capacity to serve the project. Due to the active LAFCO proposal and the demonstrated capacity to serve the project, LAFCO staff recommends that Study Area No. 3 remain within the District's SOI.

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Study Area No. 4 | Proposed to Remain within the SOI

Study Area No. 4 includes the following parcels along 13th Street (APN 073-095-003, 073-095-004, 073-095-005, 073-095-006, 073-095-007, 073-095-008[2]). The area is developed with several single-family residences and the Whale Rock Commission facility. District staff have indicated that there are no immediate plans to annex this area. However, because the area is already developed and may require connection to District services in the future, particularly if existing septic systems fail, the District does not request removal of Study Area No. 4 from the SOI. Accordingly, LAFCO staff recommend that Study Area No. 4 remain within the District's SOI.

Study Area No. 5 | Proposed to Remain within the SOI

Study Area No. 5 has been included within the District's SOI for more than 20 years. The property includes the Cayucos – Morro Bay Cemetery District that is currently served by an on-site septic system for its restroom facilities. The District has noted that, should the existing septic system fail in the future, the Cayucos – Morro Bay Cemetery District may need to connect to District services. Accordingly, LAFCO staff recommends that Study Area No. 5 remain within the District's SOI.

Study Area No. 6 | Proposed to be Included within the SOI

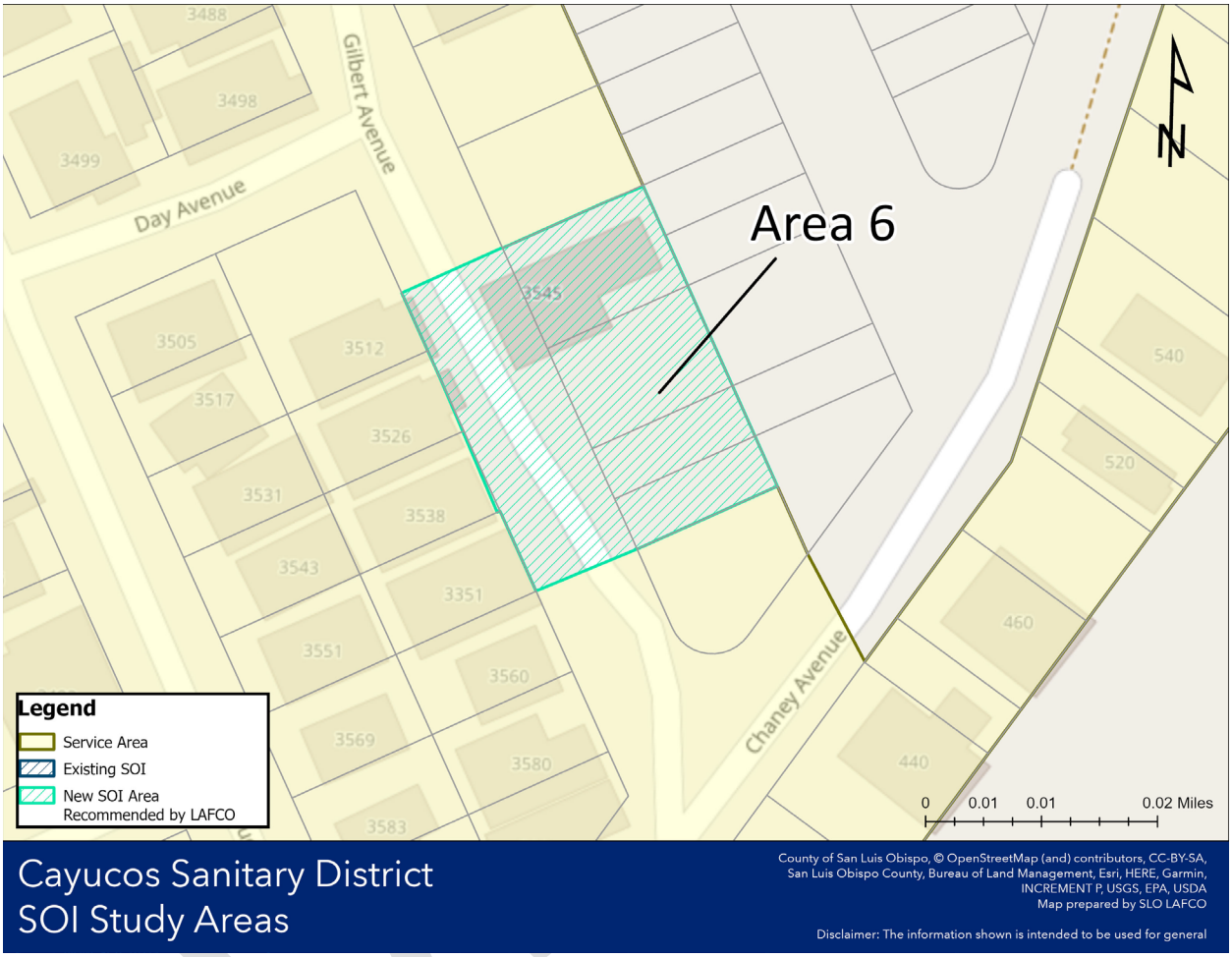
Study Area No. 6 consists of 4 parcels located on Gilbert Ave (APNs 064-405-041, 064-405-013, 064-405-014, 064-405-015). APN 064-405-041 is developed and currently receives service from the District despite being outside of the District's SOI and service area. The reason the parcel was not previously annexed into the District is unknown.

LAFCO has also recently approved annexations for two additional parcels on Gilbert Ave, indicating that infrastructure is either in place or being extended on Gilbert Ave and that sufficient service capacity may be available to serve the remaining parcels. Given the existing service connection to APN 064-405-041 and the potential for future wastewater service demand over the next 20 years for the remaining parcels, LAFCO staff recommends inclusion of this area within the SOI. District staff have noted that properties annexing into the District's service area would be subject to applicable buy-in costs and

[2] This parcel appears to partially be within the District's service area, with the remaining portion located within the District's Sphere of Influence. This parcel appears to be County-owned.

standby fees. As such, District staff recommends that each parcel proceed through annexation individually. Therefore, LAFCO staff recommends that Study Area No. 6 be included within the District's SOI.

Figure 11: SOI Study Area No. 6



Study Area No. 7 | Proposed to Remain within the SOI

Study Area No. 7 includes the San Luis Obispo County Fire Department's Cayucos Fire Station 11. This property has received service from the District for more than 40 years, dating back to its prior use as a California Department of Forestry station. It is unclear why this area was never annexed. District staff recommend that this area remain within the SOI. Similarly, LAFCO staff also recommends that Study Area No. 6 remain within the District's SOI and further recommend that annexation of the fire station be pursued in the near term.

Conclusion

Overall, the proposed SOI boundary reflects logical and orderly planning by retaining and including areas with potential future service needs. The recommendations are consistent with District staff input and LAFCO policies. The proposed SOI boundary is shown below in Figure 12.

Figure 12: Recommended SOI



DETERMINATIONS

Municipal Service Review Determinations

As set forth in Government Code Section 56430(a), in order to update the SOI in accordance with Government Code Section 56425, the commission shall conduct a service review of the municipal services provided in the County or other appropriate area designated by the Commission. The Commission shall include in the area designated for a service review the County, the region, the sub-region, or any other geographic area as is appropriate for an analysis of the service or services to be reviewed, and shall prepare a written statement of its determinations with respect to each of the following:

1. **Growth and population projections for the affected area.**

   Based on 2020 US Census Data, the Cayucos Census Designated Place has an estimated population of 2,505. The build-out population, defined as the maximum population that can occur considering zoning and land use designations, is estimated to be 3,096, with an estimated buildout year of 2055. Therefore, the District is over 80% built out. However, the permanent resident population fluctuates due to the varying proportion of seasonal residences, vacation homes, and second homes within the community.

2. **The location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence.**

   The District's service area boundary and SOI contain two areas that meet the criteria for a DUC as defined by Government Code Section 56033.5. These areas, Cayucos DUC Area No. 1 and Cayucos DUC Area No. 2, are both inhabited and have a Median Household Income (MHI) that is less than 80% of the statewide MHI. If the District considers future SOI amendments or annexations, it is recommended that these DUCs be evaluated further, in alignment with objectives to ensure equitable access to public services and infrastructure.

3. **Present and planned capacity of public facilities, adequacy of public services, and infrastructure needs or deficiencies, including needs or deficiencies related to sewers, municipal and industrial water, and structural fire protection in any disadvantaged, unincorporated communities within or contiguous to the sphere of influence.**

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The District currently provides wastewater and solid waste services to residential and commercial customers within its service area, serving an estimated population of 2,505. The Cayucos Water Resource Recovery Facility, completed in 2021, operates as a modern wastewater treatment facility with a maximum daily permitted flow of 1.2 million gallons per day (MGD) and an average permitted daily flow of 0.34 MGD. The facility is designed to accommodate both the existing population and projected build-out within the District's service boundary. Current average flows are approximately 0.227 MGD, with an ultimate projected flow of 0.33 MGD, indicating available capacity to meet future demands.

The District provides solid waste collection services through a franchise agreement with Mission Country Disposal (MCD), originally executed in 2006 and most recently amended in 2025. Under this agreement, MCD delivers solid waste, recycling, and green waste collection services throughout the District.

Capital improvements are prioritized through a formal process that incorporates system needs, operational issues, and hydraulic modeling results. Projects identified in the CIP are ranked by District staff and evaluated annually as part of the budgeting process, with consideration given to risk, service demand, and available funding. The District uses updated modeling and flow monitoring data to guide project selection and prevent future capacity deficiencies. The CIP is periodically updated to reflect completed projects and emerging priorities, and implementation is carried out under the direction of the District Manager. The District appears to maintain adequate capability and capacity to serve its current service population and anticipated growth at build-out.

4. **Financial ability of agencies to provide services.**

The District Board of Directors adopts an annual budget in accordance with generally accepted accounting principles. The District's primary revenues sources include service charges, property taxes, and investment income. To evaluate overall financial health, key fiscal indicators, including Revenues and Expenditures, Operating Ratio, Liquidity Ratio, and Net Position, were analyzed across the five most recent fiscal years.

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From FY 2020-21 through FY 2024-25, the District consistently reported total revenues in excess of total expenditures, demonstrating strong overall fiscal performance. While the Operating Ratio, which compares operating revenues to operating expenses, indicated that user fee revenues were insufficient to fully cover operating expenses in four of the five audited fiscal years, the District continued to maintain positive financial results. This is largely attributable to the District's property tax revenues and other non-operating income sources, which supplement service charge revenues and are available to support operating costs. As a result, total revenues exceeded total expenses throughout the review period, contributing to the District's strong financial position.

The District's Liquidity Ratio demonstrated strong short-term financial health and an ability to meet immediate financial obligations. The District's Net Position, defined as the difference between total assets and total liabilities, increased by approximately 28% over the five-year audited period, reflecting long term financial growth and stability. Overall, these financial indicators demonstrate that District is in a sound financial position with sufficient resources to sustain operations and deliver essential services.

5. **Status of, and opportunities for, shared facilities.**

The District currently has no shared facilities. Historically, the District and the City of Morro Bay jointly owned several facilities associated with their shared wastewater infrastructure. However, following the development of independent Water Resource Recovery Facilities by both agencies, the need for jointly owned facilities was eliminated. In 2026, the District sold its 40 percent ownership interest in the former wastewater treatment plant properties located at 160 and 180 Atascadero Avenue in Morro Bay to the City. The sale was based on a jointly obtained appraisal and a negotiated Purchase and Sale Agreement approved by both the City Council and the District Board. Completion of the transaction eliminated the remaining shared facilities and concluded the agencies' joint ownership obligations under the Joint Powers Agreement, which was dissolved as part of the sale.

Separately, the City of Morro Bay has initiated proceedings to detach a District-owned property from the City. The subject property proposed for detachment is owned by the District and includes sewer infrastructure improvements operated by the District. The District desires to

have the property removed from the City's jurisdiction and returned to the County to simplify permitting processes for their wastewater infrastructure.

Opportunities for shared facilities moving forward are primarily related to regional water supply and recycled water use. The District's WRRF produces high-quality recycled water which can be used for agricultural irrigation and to offset potable water demand. The facility also positions the community for future direct potable reuse, creating a local drought-proof water supply.

6. **Accountability for community service needs, including governmental structure and operational efficiencies.**

   The District is governed by a five-member Board of Directors that is elected by district to four-year terms. Regularly scheduled monthly Board meetings are held, and all meetings are open to the public and are publicly posted a minimum of 72-hours prior to the meeting in accordance with the Brown Act. The District maintains an up-to-date website in compliance with Senate Bill 929 that provides public access to District contact information, current agendas, financial transaction and compensation reports, and a Senate Bill 272 Enterprise System Catalog.

7. **Any other matter related to effective or efficient service delivery, as required by Commission policy.**

   There are no other matters related to the efficiency of services.

Sphere of Influence Determinations

In order to carry out its purposes and responsibilities for planning and shaping the logical and orderly development of local governmental agencies to advantageously provide for the present and future needs of the county and its communities, the Commission shall develop and determine the Sphere of Influence of each local agency, as defined by Government Code Section 56036 and 56425, and enact policies designed to promote the logical and orderly development of areas within the sphere. In determining the Sphere of Influence of each local agency, the Commission shall consider and prepare a written statement of its determinations with respect to the following:

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

   Land uses within the District's existing and proposed SOI are established by the County's General Plan and include a range of designations including Open Space, Agriculture, Residential Multi-Family, Public Facilities, and Residential Single Family. Planned land uses within the proposed SOI are not expected to deviate from the existing County land use designations. Accordingly, the District's SOI should be updated to reflect LAFCO's recommendations outlined in the "Sphere of Influence Study" section of this report.

2. **The present and probable need for public facilities and services in the area.**

   There is both a present and probable need for public facilities and services within the proposed SOI areas. One property within the existing SOI is already receiving service from the District (e.g. Study Area No. 7), while the other areas are likely to require service in the near term as development occurs or as existing private septic systems fail. Accordingly, the District's SOI should be updated to reflect the recommendations outlined in the "Sphere of Influence Study" section of this report.

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

   The District has demonstrated adequate capacity to provide wastewater and solid waste services within the existing and proposed SOI areas. The District's Water Resource Recovery Facility's current average flows are approximately 0.23 MGD, with an ultimate projected flow at build-out of 0.34 MGD, indicating adequate capacity to meet future demands. In addition, capital improvements are prioritized through a formal process and reviewed annually as part of the District's budgeting process. Accordingly, the District's SOI should be updated to reflect the recommendations outlined in the "Sphere of Influence Study" section of this report.

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

   There are no known social or economic communities of interest within the District service area boundary.

5. **For an update of the sphere of influence of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire**

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

Within the District's proposed SOI, two DUCs have been identified – Cayucos DUC Area No. 1 and Cayucos DUC Area No. 2. There is a present and probable need for wastewater and solid waste services within the proposed SOI areas. No additional needs for services have been documented within the area surrounding the District's existing service area or the proposed SOI. However, should the District pursue future SOI amendments or annexations, disadvantaged communities should be considered further in alignment with objectives to ensure equitable access to public services and infrastructure. Accordingly, the District's SOI should be updated to reflect the recommendations outlined in the "Sphere of Influence Study" section of this report.

California Environmental Quality Act

The California Environmental Quality Act (CEQA) is contained in the Public Resources Code Section 21000, et seq. Under this law, public agencies are required to evaluate the potential environmental effects of their actions. The Cayucos Sanitary District MSR and SOI Study is exempt from CEQA review pursuant to Section 15306 of the CEQA Guidelines, Class 6 – Information Collection, and Section 15061 (b)(3) the General Rule Exemption. This report is based on the use of the MSR as a tool for data collection and service evaluation. The MSR and SOI Study will not result in any significant environmental impact, as it does not authorize new municipal service powers. Additionally, the study does not involve changes to land use or introduce activities that would affect the environment.

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CAYUCOS SANITARY DISTRICT
STAFF REPORT

AGENDA ITEM: 10

TO: BOARD OF DIRECTORS

FROM: DAVID ATHEY, DISTRICT MANAGER

DATE: NOVEMBER 19, 2026

SUBJECT: DISCUSSION AND CONSIDERATION OF ANNUAL REVIEW AND UPDATE OF THE CAYUCOS SANITARY DISTRICT INVESTMENT POLICY

DISCUSSION

California Government Code Section 53646(A)(2) asserts that Special Districts should review investment policies annually in a public meeting. While annual review and adoption is not required by statute, it is District policy for the Board of Directors to annually review the Investment Policy. A public review and vote signifies that the Board of Directors shares fiduciary responsibility with the District Manager, increases the authority and legitimacy of the Investment Policy, and provides for transparency and disclosure to the public. Annual review and adoption is a financially sound organizational practice that should be maintained even if there is no change to the policy.

The Investment Policy was last updated and adopted by the Board in 2025, which brought it into conformance with state law. The review was comprehensive and included changes to the authorized investments that the District could purchase.

Staff reviewed the 2025 policy and is recommending minor amendments. The policy remains current and continues to align with the California Municipal Treasurer's Association guidance with the following proposed edits:

Summary of Key Updates (2025 Policy vs. 2026 Policy)

1. Minor editorial changes to Sections 4160.7, 4160.8.3, 4160.8.7, 4160.9
2. Section 4160.8.5: The percentage of funds that can be held in Time Deposits was reduced from 50% to 30% by state law
3. Section 4160.8.11 adds another potential investment type related to bonds issued by the local agency
4. The summary table of Authorized Investment Types has been updated to reflect changes made to the policy and by state law

Reviewing and adopting an updated Investment Policy meets best investment practices while maintaining a conservative list of authorized investments. The District will maintain the ability to invest in a broader range of safe investments without having to name individual banks as potential investment partners.

OPTIONS

1. Approve the updated 2026 Annual Cayucos Sanitary District Investment Policy
2. Send this item back to staff for further analysis

RECOMMENDATION

Staff recommends that the Board of Directors approve the proposed modifications for the annual review of the Cayucos Sanitary District Investment Policy.

ATTACHMENTS

1. Redline Investment Policy

POLICY TITLE: **Investment Policy**
POLICY NUMBER: **4160**
ADOPTION DATE: **November 20, 2025**

4160.1 Policy

The Cayucos Sanitary District shall invest public funds in such a manner as to comply with state and local laws; ensure prudent money management; provide for daily cash flow requirements; and meet the objectives of the Policy, in priority order of Safety, Liquidity and Return on investment. In accordance with the Policies of the Cayucos Sanitary District and under authority granted by the Board of Directors, the District Manager is responsible for investing the unexpended cash in the District Treasury.

4160.2 Scope

The investment policy applies to all investment activities and financial assets of the Cayucos Sanitary District as accounted for in the Annual Comprehensive Financial Report (ACFR). This policy is applicable, but not limited to, all funds listed below:

- Enterprise Funds
- General Fund
- Capital Funds
- Other Special Revenue Funds, Debt Service Funds, Internal Service Funds
- Any new fund created by the Board of Directors unless specifically exempted.

4160.3 Prudence

The standard of prudence to be used by the designated representative shall be the "prudent investor" standard and shall be applied in the context of managing the overall portfolio. Persons authorized to make investment decisions on behalf of local agencies investing public funds are trustees and therefore fiduciaries subject to the prudent investor standard which states, "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency".

The District Manager and other individuals assigned to manage the investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

4160.4 Objectives

The District's primary investment objectives, in order of priority, shall be:

1. Safety: Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The District shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.
    a. Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in issuers that carry the direct or implied backing of the U.S. Government (including, but not limited to, the U.S. Treasury, U.S. Government Agencies, and federally insured banks). The portfolio will be diversified so that the failure of any one issuer does not unduly harm the District's capital base and cash flow.

    b. Market risk, (aka "interest rate risk") defined as market value fluctuations due to overall changes in the general level of interest rates shall be mitigated by limiting the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis eliminating the need to sell securities prior to maturity and avoiding the purchase of long-term securities for the sole purpose of short-term speculation. Moreover, it is the District's full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars. Limited exceptions will be granted for security swaps that would improve the portfolio's yield and/or credit quality.

2. Liquidity: The District's investment portfolio will remain sufficiently liquid to enable the Cayucos Sanitary District to meet all operating requirements which might be reasonably anticipated.

3. Return on Investments: The District's investment portfolio shall have the objective of attaining a comparative performance measurement or an acceptable rate of return throughout budgetary and economic cycles. These measurements should be commensurate with the District's investment risk constraints identified in this Investment Policy and the cash flow characteristics of the portfolio.

4160.5 Delegation of Authority

The Policies of the Cayucos Sanitary District and the authority granted by the Board of Directors assign the responsibility of investing unexpended cash to the District Manager. Daily management responsibility of the investment program may be delegated to the Administrative Accounting Manager, who shall establish procedures for the operation consistent with this investment policy.

4160.6 Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program or impairs their ability to make impartial investment decisions. Additionally, the District Manager and the Administrative Accounting Manager are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission (FPPC). Furthermore, Investment officials must refrain from undertaking personal investment transactions with the same individual(s) employed by the financial institution with whom business is conducted on behalf of the District.

4160.7 Authorized Dealers and Institutions

The Administrative Accounting Manager will maintain a list of approved financial institutions authorized to provide investment services to the public agency in the State of California. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). Best practices include the following: 1) A determination that all approved broker/dealer firms,

and individuals covering the public agency, are reputable and trustworthy; 2) the broker/dealer firms should have the ability to meet all their financial obligations in dealing with the Public Agency; 3) the firms, and individuals covering the agency, should be knowledgeable and experienced in Public Agency investing and the investment products involved; 4) no public deposit shall be made except in a qualified public depository as established by the established state laws; 45) all financial institutions and broker/dealers who desire to conduct investment transactions with the public agency may supply the Administrative Accounting Manager or District Manager with audited financial statements, proof of FINRA certification, trading resolution, proof of State of California registration, a completed broker/dealer questionnaire, certification of having read the Public Agency's investment policy and depository contracts.

The Administrative Accounting Manager or District Manager may conduct an annual review of the financial condition and registrations of qualified dealers & institutions.

4160.8 Authorized and Suitable Investments

Investment of District funds is governed by the California Government Code Sections 53600 et seq. Within the context of the limitations, the following investments are authorized, as further limited herein:

1. United States Treasury Bills, Bonds, and Notes or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio that can be invested in this category, although a five-year maturity limitation is applicable.

2. Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

3. Local Agency Investment Fund (LAIF), which is a State of California managed investment pool, and the San Luis Obispo County Investment pool, may be used up to the maximum permitted by California State Law. A review of the pool/fund is required when part of the list of authorized investments, with the knowledge that the pool/fund may include some investments allowed by statute but not explicitly identified in this investment policy. Additionally**,** shares of beneficial interest issued by a joint powers authority organized pursuant to CA Code (Section 6509.7) that invests in the securities and obligations in compliance with CA Code 53601 (subsection 'a' to 'r', inclusive) are also authorized. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

   - The adviser is registered or exempt from registration with the Securities and Exchange Commission.
   - The adviser has not less than five years of experience investing in the securities and obligations authorized in CA Code (subsection 'a' to ~~'r'~~'q', inclusive).
   - The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

4. Negotiable Certificates of Deposit issued by nationally or state-chartered banks (FDIC insured institutions) or state or federal savings institutions. Purchases of negotiable certificates of deposit may not exceed 30% of total portfolio. Principal and accrued interest on these investments must not exceed the $250,000 FDIC insurance limit. A maturity limitation of five years is applicable.

5. Time deposits or placement service deposits, non-negotiable and collateralized in accordance with the California Government Code, may be purchased through banks or savings and loan associations. Since time deposits are not liquid, no more than ~~50~~30% of the investment portfolio may be invested in this investment type. A maturity limitation of five years is applicable. Effective January 1, ~~2020~~2026, no more than ~~50~~ 30 percent of the agency's money may be invested in deposits, including certificates of deposit, through a placement service as authorized under 53601.8 (excludes negotiable certificates of deposit authorized under Section 53601(i)). ~~On January 1, 2026~~2031~~, the maximum percentage of the portfolio reverts back to 30 percent.~~ Investments made pursuant to 53635.8 remain subject to a maximum of 30 percent of the portfolio.

6. Various daily money market funds administered for or by trustees, paying agents and custodian banks contracted by the Cayucos Sanitary District may be purchased as allowed under the State of California Government Code. Only funds holding U.S. Treasury or Government agency obligations can be used.

7. Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or its equivalent or better by an NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section. A local agency, other than a county or a ~~District~~city and a county, may invest no more than 10 percent of its total investment assets in the commercial paper and the medium-term notes of any single issuer.

8. State warrants or treasury notes/bonds-Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

9. Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

10. Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

11. Bonds issued by the local agency, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.

The following summary of maximum percentage limits, by instrument, are established for the District's investment portfolio:

Authorized Investment Type	Government Code	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment in One Issuer
Treasury obligations (bills, notes, & bonds)	53601(b)	5 Years	N/A	100%	N/A
US Government Agency and Federal Agency Securities	53601(f)	5 Years	N/A	100%	N/A
Local Agency Investment Fund (LAIF)	16429.1	Upon Demand	N/A	As permitted by LAIF ~~(currently $65 million per account)~~	N/A
San Luis Obispo County Investment Pool	53684	Upon Demand	N/A	As permitted by County Treasurer (currently no limit)	N/A
Joint Powers Authority Pool	53601(p)	N/A	See ~~§ 8.3~~Section 4160.8, Item 3 (above)	As permitted by each JPA	N/A
Negotiable Certificates of Deposit	53601(i)	5 Years	N/A	30%	N/A
Placement Service Deposits	53601.8 and 53635.8	5 Years	N/A	50%	N/A
Medium-term notes	53601(k)	5 Years	"A" or its equivalent or better by an NRSRO	30%	~~10%~~5 %
State warrants or treasury notes/bonds	53601(c)	5 Years	N/A	N/A	N/A
Bonds, notes, warrants, or other evidences of indebtedness of a local agency within California	53601(e)	5 Years	N/A	N/A	N/A
Registered treasury notes or bonds of any of the other 49 states, including California	53601(d)	5 Years	N/A	N/A	N/A
Bonds issued by the local agency	53601(a)	5 Years	N/A	N/A	N/A

4160.9 Review of Investment Portfolio

The securities held by the Cayucos Sanitary District must be in compliance with Section ~~8.04~~4160.8 "Authorized and Suitable Investments" at the time of purchase. The Administrative Accounting Manager or District Manager should review the portfolio (at least annually) to identify those securities that do not comply.

The Administrative Accounting Manager or District Manager should establish procedures to report any major and critical incidences of noncompliance identified through the review of the portfolio.

4160.10 Investment Pools / Money Market Funds

A thorough investigation of the investment pool/money market fund is required prior to investing, and on a continual basis. Best efforts will be made to acquire the following information:

1. A description of eligible investment securities, and a written statement of investment policy and objectives.

2. A description of interest calculations and how it is distributed, and how gains and losses are treated.

3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.

4. A description of who may invest in the program, how often, and what size deposit and withdrawal are allowed.

5. A schedule for receiving statements and portfolio listings.

6. Are reserves, retained earnings, etc. utilized by the pool/fund?

7. A fee schedule, and when and how it is assessed.

8. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

4160.11 Collateralization

Collateralization will be required on two types of investments: non-negotiable certificates of deposit and repurchase (and reverse repurchase) agreements. To anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value for non-negotiable certificate of deposit and 102% for reverse repurchase agreements of principal and accrued interest.

Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained.

The District may waive the collateralization requirements for any portion of the deposit that is covered by Federal Deposit Insurance.

4160.12 Safekeeping and Custody

All security transactions shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian designated by the Administrative Accounting Manager or District Manager and evidenced by safekeeping receipts.

4160.13 Diversification

The District shall diversify the investments within the portfolio to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities. To promote diversification, no more than 5% of the portfolio may be invested in the securities of any one issuer, regardless of security type, excluding U.S. Treasuries, federal agencies, and pooled investments such as LAIF, money market funds, or local government investment pools.

4160.14 Maximum Maturities

To the extent possible, the Cayucos Sanitary District will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the District will not directly invest in securities maturing more than 5 years from the date of purchase. Any investment longer than 5 years must be done with advance permission from Board of Directors.

4160.15 Internal Controls

The Administrative Accounting Manager or District Manager is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Cayucos Sanitary District are protected from loss, theft, fraud or misuse.

Separation of functions between the Administrative Accounting Manager or District Manager is designed to provide an ongoing internal review to prevent the potential for converting assets or concealing transactions.

Investment decisions are made by and confirmed by the District Manager. All wire transfers initiated by the Administrative Accounting Manager must be reconfirmed by the appropriate financial institution to the District Manager. Proper documentation obtained from confirmation and cash disbursement wire transfers is required for each investment transaction. Timely bank reconciliation is conducted to ensure proper handling of all transactions.

The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by the Administrative Accounting Manager on a monthly basis. An independent analysis by an external auditor shall be conducted annually to review and perform procedure testing on the District's cash and investments that have a material impact on the financial statements. The District Manager shall review and assure compliance with investment process and procedures.

4160.16 Performance Standards

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

The District intends to spread its investments relatively evenly between 0 and 5 years and hold those investments to maturity.

Therefore, an appropriate performance benchmark will be a market-based index or blended benchmark that reflects the portfolio's actual composition and weighted average maturity. This may include Treasury indices, government/credit indices, or other publicly available benchmarks consistent with the investment types authorized in the District's policy. The selected benchmark shall be reviewed periodically and adjusted as needed to remain aligned with the District's investment objectives and evolving portfolio structure.

4160.17 Reporting

The Administrative Accounting Manager or District Manager shall review and render quarterly reports to the Board of Directors that include the following information:

- Investment type (e.g. U.S. Treasury Note, U.S. Government Agency Bond)
- Name of the issuer (e.g. Federal Farm Credit Bank, Federal Home Loan Bank)
- Maturity date
- Yield to maturity
- Current market value and source of market value
- Par and dollar amount for each security the District has invested in
- Par and dollar amount on any money held by the District (e.g. LAIF balance, Cash Balance).

The report shall also include a description of any of the District's funds, investments, or programs that are under the management of contracted parties, including lending programs.

The quarterly report shall state compliance of the portfolio to the investment policy, or manner in which the portfolio is not in compliance.

The quarterly report shall include a statement denoting the ability of the District to meet its expenditure requirements for the next six months or provide an explanation as to why sufficient money shall (or may not) be available.

The quarterly reports shall be placed on the Board of Directors meeting agenda for its review and approval no later than 45 days after the quarter ends. If there are no Board meetings within the 45-day period, the quarterly report shall be presented to the Board at the soonest possible meeting thereafter.

Investment Trade Reporting: Within 3 business days of executing an investment trade, the District Manager or their designated representative shall distribute trade confirmation documents to all members of the Board of Directors.

4160.18 Investment Policy Adoption

The Cayucos Sanitary District investment policy shall be adopted by resolution or action of the Board of Directors. The policy shall be reviewed annually by the Board of Directors and any modifications made thereto must be approved by the Board of Directors.

The Administrative Accounting Manager or District Manager shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to safekeeping, master repurchase agreements, wire transfer agreements, banking service contracts, and collateral/ depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Cayucos Sanitary District.

4160.19 Glossary of Terms in this Policy

Accrued Interest: Interest earned but not yet received.

Annual Comprehensive Financial Report (ACFR): The official annual financial report for the District. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP).

Bond: A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Bond Swap: Selling one bond issue and buying another at the same time in order to create an advantage for the investor. Some benefits of swapping may include tax-deductible losses, increased yields, and an improved quality portfolio.

Broker: In securities, the intermediary between a buyer and a seller of securities. The broker, who usually charges a commission, must be registered with the exchange in which he or she is trading, accounting for the name registered representative.

Certificate of Deposit: A deposit insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC) at a set rate for a specified period of time.

Collateral: Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

Constant Maturity Treasury (CMT): An average yield of a specific Treasury maturity sector for a specific time frame. This is a market index for reference of past direction of interest rates for the given Treasury maturity range.

Custody: A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement that also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

Delivery vs. Payment (DVP): Delivery of securities with a simultaneous exchange of money for the securities.

Diversification: Dividing investment funds among a variety of securities offering independent returns and risk profiles.

Federal Deposit Insurance Corporation (FDIC): Insurance provided to customers of a subscribing bank that guarantees deposits to a set limit (currently $250,000) per account.

Interest Rate: The annual yield earned on an investment, expressed as a percentage.

Liquidity: Refers to the ability to rapidly convert an investment into cash.

Market Value: The price at which a security is trading and could presumably be purchased or sold.

Maturity: The date upon which the principal or stated value of an investment becomes due and payable.

Portfolio: Collection of securities held by an investor.

Primary Dealer: A group of government securities dealers that submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.

Purchase Date: The date on which a security is purchased for settlement on that or a later date.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Risk: Degree of uncertainty of return on an asset. Safekeeping: See Custody.

Settlement Date: The date on which a trade is cleared by delivery of securities against funds.

Time Deposit: A deposit in an interest-paying account that requires the money to remain on account for a specific length of time. While withdrawals can generally be made from a passbook account at any time, other time deposits, such as certificates of deposit, are penalized for early withdrawal.

Treasury Obligations: Debt obligations of the U.S. Government that are sold by the Treasury Department in the forms of bills, notes, and bonds. Bills are short-term obligations that mature in one year or less. Notes are obligations that mature between one year and ten years. Bonds are long-term obligations that generally mature in ten years or more.

U.S. Government Agencies: Instruments issued by various US Government Agencies most of which are secured only by the credit worthiness of the particular agency.

Yield: The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

Yield to Maturity: The rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

4160.20 Glossary of General Investment Terms

Active Deposits: Funds that are immediately required for disbursement.

Amortization: An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.

Asked Price: The price a broker dealer offers to sell securities. Basis Point: One basis point is one hundredth of one percent (.01). Bid Price: The price a broker / dealer offers to purchase securities.

Book Entry Securities: Securities, such stocks held in "street name," that are recorded in a customer's account, but are not accompanied by a certificate. The trend is toward a certificate-free society to cut down on paperwork and to diminish investors' concerns about the certificates themselves. All the large New York District banks, including those that handle the bulk of the transactions of the major government securities dealers, now clear most of their transactions with each other and with the Federal Reserve through the use of automated telecommunications and the "book-entry" custody system maintained by the Federal Reserve Bank of New York. These banks have deposited with the Federal Reserve Bank a major portion of their government and agency securities holdings, including securities held for the accounts of their customers or in a fiduciary capacity for the District. Virtually all transfers for the account of the banks, as well as for the government securities dealers who are their clients, are now effected solely by bookkeeping entries. The system reduces the costs and risks of physical handling and speeds the completion of transactions.

Book Value: The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

Bullet Bond: *See "Non-callable Bond."*

Callable Bond: A debit obligation where the bond issuer (i.e. borrower) has the option to *call the bond* or pay it off early (before the scheduled maturity date). For instance, a 5-year bond might be "callable quarterly"—meaning that, although the bond has a scheduled end date 5 years from now, it could end in 3 months (and every 3 months after that, until the scheduled maturity date).

Coupon: The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

Credit Analysis: A critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.

Current Yield: The interest paid on an investment expressed as a percentage of the current price of the security.

Discount: The difference between the cost of a security and its value at maturity when quoted at lower than face value.

Duration: The weighted average maturity of a bond's cash flow stream, where the present value of the cash flows serve as the weights; the future point in time at which on average, an investor has received exactly half of the original investment, in present value terms; a bond's zero-coupon equivalent; the fulcrum of a bond's present value cash flow time line.

Fannie Mae: Trade name for the Federal National Mortgage Association (FNMA), a U.S. sponsored corporation.

Federal Reserve System: The central bank of the U.S. that consists of a seven member Board of Governors, 12 regional banks and approximately 8,000 commercial banks that are members.

Fed Wire: A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.

Freddie Mac: Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. sponsored corporation.

Investment Agreements: An agreement with a financial institution to borrow public funds subject to certain negotiated terms and conditions concerning collateral, liquidity and interest rates.

Nationally Recognized Statistical Rating Organizations (NRSRO): A U.S. Securities & Exchange Commission registered agency that assesses the creditworthiness of an entity or specific security. NRSRO typically refers to Standard and Poor's Ratings Services, Fitch Ratings, Inc. or Moody's Investors Services.

New Issue: Term used when a security is originally "brought" to market.

Non-callable Bond: Also known as, *"Bullet Bond."* A non-callable bond is a debt obligation where the bond issuer does not have the option to "call the bond" i.e.-end the bond before the scheduled maturity date.

Perfected Delivery: Refers to an investment where the actual security or collateral is held by an independent third party representing the purchasing entity.

Repurchase Agreement (REPO): A transaction where the seller (bank) agrees to buy back from the buyer (District) the securities at an agreed upon price after a stated period of time.

Reverse Repurchase Agreement (REVERSE REPO): A transaction where the seller (District) agrees to buy back from the buyer (bank) the securities at an agreed upon price after a stated period of time.

Secondary Market: A market made for the purchase and sale of outstanding issues following the initial distribution.

Yield Curve: The yield on bonds, notes or bills of the same type and credit risk at a specific date for maturities up to thirty years.

The "Big Three" Rating Agencies

These are the most recognized and influential globally:

Moody's Investors Service (Moody's)

- Uses a letter-grade scale (e.g., Aaa, Aa1, Aa2, etc.)
- Covers government, corporate, and structured finance securities

S&P Global Ratings (formerly Standard & Poor's)

- Uses a similar letter-grade scale (e.g., AAA, AA+, AA, etc.)
- Widely used by investors, particularly in the U.S. municipal bond market

Fitch Ratings

- Also uses a letter-grade scale comparable to S&P
- Focuses on both global and regional markets