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July 1, 2009

Kathleen Rollings-McDonald, Executive Officer
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INDEPENDENT FINANCIAL REVIEW OF LAFCO 3076 – RESPONSES TO COMMENTS FROM MUNI AND SBVWCD ON 2ND ADMINISTRATIVE DRAFT OF THE REPORT TO THE COMMISSION

Dear Ms. Rollings-McDonald:

The following presents RSG's responses to comments received from San Bernardino Valley Municipal Water District ("MUNI") and San Bernardino Valley Water Conservation District ("SBVWCD") on the 2nd Administrative Draft of the Report to the Commission ("2nd Administrative Draft") for Independent Financial Review ("IFR") of LAFCO 3076.

On June 3, 2009, RSG electronically submitted the 2nd Administrative Draft to LAFCO staff and e-mailed copies to MUNI and SBVWCD staff representatives. On June 11, 2009, RSG electronically received comments prepared by MUNI and SBVWCD detailing their review of the 2nd Administrative Draft. On June 16, 2009, LAFCO staff and RSG jointly reviewed MUNI's and SBVWCD's comments and agreed that, while all of the comments from both subject agencies were well-articulated and well-reasoned, they failed to fully consider the underlying purpose and assumptions of the IFR. No substantive revisions were made to the Final Report to the Commission based on the comments received. Revisions were limited to clarifications or edits requested by LAFCO staff and legal counsel. RSG has prepared the following responses to comments for consideration by the Commission at its July 15, 2009 hearing on LAFCO 3076. All responses are attached and cross-referenced with the June 11, 2009 letters from MUNI and SBVWCD.

If you have any questions or concerns, please do not hesitate to contact either one of us at any time at (714) 541-4585.

Sincerely,
ROSENOW SPEVACEK GROUP, INC.

Jim Simon
Principal

Ken Lee
Senior Associate

RESPONSES TO COMMENTS FROM SUBJECT AGENCIES ON 2ND ADMINISTRATIVE DRAFT OF REPORT TO THE COMMISSION ON INDEPENDENT FINANCIAL REVIEW OF LAFCO 3076

The following are RSG's responses to comments submitted to San Bernardino LAFCO on June 11, 2009 by MUNI and SBVWCD regarding the 2nd Administrative Draft of the Report to the Commission for Independent Financial Review ("IFR") of LAFCO 3076. The transmittal letters from the subject agencies are attached and have been annotated to reference each comment with section numbers. The following responses to comments are cross-referenced with the section numbers.

I. RESPONSES TO COMMENTS SUBMITTED BY MUNI

I-A: As described on Page 15 of the Report, the forecast methodology used to estimate future interest income to MUNI in FY 08-09 and the first five years following consolidation was a straight-line trend projection based on FY 95-96 to 07-08 data. Page 19 of the Report provides that: "The five-year trend projections used a conservative approach to forecasting future interest income based on past linear trends. It is quite likely that SBVWCD's investments could generate greater than a 3% return, especially since MUNI is proposing to sell the two SBVWCD properties, Redlands Plaza and Mentone, and deposit the proceeds, estimated at $3,240,000 as of November 2006, into the investment pool. Although the estimated appraisal of those properties can be expected to be significantly lower in today's economy and real estate market, the increase in investments will generate additional interest income beginning in Year 1." As stated, the IFR anticipates that additional interest income beginning in Year 1 will be generated, but that a conservative approach to forecasting future interest income was used to address the large range of SBVWCD's annual return on investments (1.1 and 6.1%).

I-B-1: IFR Assumption 1.2.1 (Page 10) provides that MUNI will continue all SBVWCD contracts for professional services and employment for the length of time provided for in the contracts. This assumption was based on a statement made by MUNI at an April 13, 2009 joint meeting of RSG, LAFCO, MUNI, and SBVWCD that MUNI would continue all existing SBVWCD contractual obligations. RSG concurs that the continuation of contracts does not preclude, in any way, MUNI from reducing the use of professional services under those contracts. For purposes of this IFR, however, the cost for providing services funded out of a Segregated Basin Management Account should be projected based on historical trends. Again, this does not preclude LAFCO from considering the potential operational efficiencies gained through consolidation, including the reduction of redundancies in services and costs, such as "Legislative Services."

I-B-2: The trending of costs for activities related to the Santa Ana River Water Rights Application(s) was based on reoccurring expenditures across nine fiscal years from FY 99-00 to 07-08. Although SBVWCD withdrew their application in 2007, the IFR assumed that MUNI would continue other efforts to secure additional water supplies for water spreading in the SBVWCD service territory, which are likely to incur some costs.

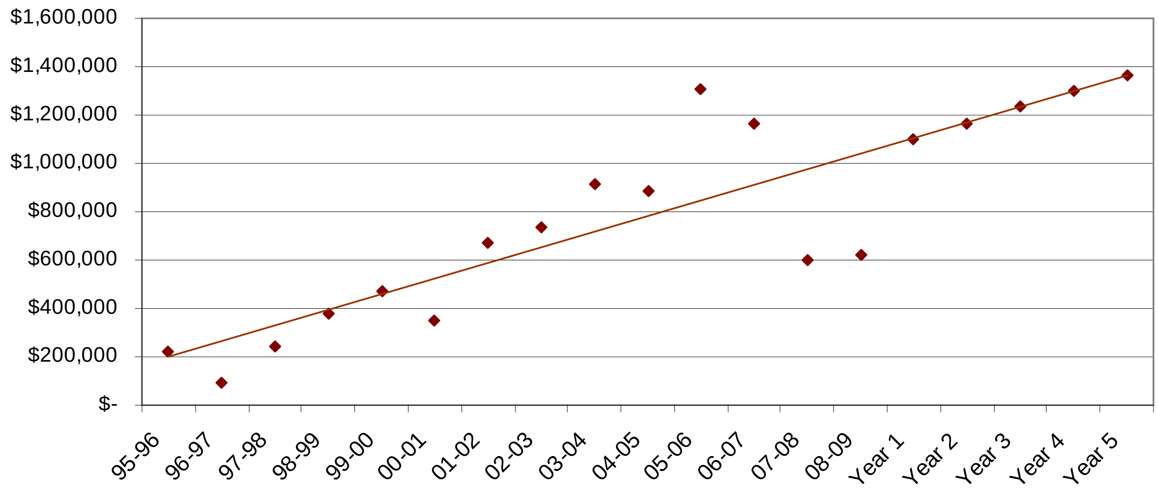
I-B-3: RSG's compilation of SBVWCD's historical financial data did not reveal what specific costs were reported as "Administrative/Staff Expense." Although RSG agrees that some portion of the projected expenditures will likely be reduced upon consolidation, without a detailed year-to-year breakdown of the line item, RSG is unable to conservatively project what that level of reduction will be.

I-C: The IFR assumed that one-time costs would be borne in Year 1. MUNI will have the ability to budget for One-Time Consolidation Costs as appropriate and legally permitted.

II. RESPONSES TO COMMENTS SUBMITTED BY SBVWCD

II-A-1: As described in the "Reoccurring Revenues" table on Page 14, mining income projections for Years 1 to 5 are based on a trends analysis of: (1) historical data from FY 95-96 to 07-08; and (2) estimated mining income in FY 08-09, which is an average of income from FY 95-96 to 07-08. The figure of $1,103,102 for Year 1 is not a base year value. It is a projection derived from a regression analysis of historical trends as shown on the graph below (Page 19 of the Report).

MINING INCOME
FY 95-96 TO YEAR 5 AFTER CONSOLIDATION



The Report's Findings and Conclusions were very deliberate in describing the limitations of the IFR: "Based on the scope of work, the IFR is premised on a trends analysis that did not factor in certain economic variables affecting mining royalties and interest income. A much more in-depth economic study of the mining industry would have been required, including market analyses, supply and demand forecasts, and a full assessment of the trickle-down effect of the 2009 American Recovery and Reinvestment Act on local infrastructure projects and aggregate demand." Without an in-depth economic study of the mining industry, and a regional analysis of how the 2009 American Recovery and Reinvestment Act will impact local aggregate demand for road and highway construction projects, LAFCO would not be able to qualify SBVWCD's suggested mining income projection of $162,000 for Year 1.

It is important for the Commission to understand both the volatility of mining income and the efficiencies gained through consolidation. Under the section "Baseline Budget Projections" on Page 18 of the Report, RSG emphasized that "It is important to be reminded that these projected budgets are based on historical trends and do not factor in economic variables affecting mining royalties and interest incomes, or the typical types of operational efficiencies that are realized from consolidation through economies of scope." In other words, just as the IFR's assumptions for mining income projections do not account for a broad range of economic variables, the IFR's assumptions for cost projections do not account for anticipated cost savings that will likely result from increased economies of scale and scope through consolidation, especially those resulting from the elimination of operational redundancies, such as redundant contracts for professional services and employment (e.g., legal, legislative, audit/accounting, engineering, administration).

II-A-2: This comment assumes that, in the absence of the groundwater charge, reoccurring revenues, upon consolidation, will not be sufficient to cover reoccurring expenditures. See above response to II-A-1 for a discussion of both income volatility and the efficiencies gained through consolidation (e.g., economies of scope/scale). LAFCO staff will also provide a response to this comment in its staff report for LAFCO 3076.

II-B-1: The April 6, 2009 Preliminary Summary Report (Appendix B-1 of the Report) proposed Assumption 2.0 which assumed that "Existing SBVWCD facilities are in fair condition and do not require major repairs or deferred maintenance." At the April 13, 2009 joint meeting of RSG, LAFCO, MUNI, and SBVWCD, both District staffs concurred that existing facilities are in fair condition and agreed to strike the last part of the assumption "… or deferred maintenance." Both District staffs also made the distinction between existing and future facilities, and concurred that existing facilities are in fair condition and may continue to be maintained on a "pay-as-you-go" basis. For future facilities, the Districts have been cooperatively involved in a "Joint Optimization Study" that is proposing major capital improvements in the SBVWCD service territory, including the construction and maintenance of new recharge facilities. Based on the joint meeting, Assumption 2.0 was revised as follows: "Existing SBVWCD facilities are in fair condition and do not require major repairs." As such, intermittent, pay-as-you-go expenditures for facilities maintenance were treated as non-reoccurring expenditures, which the IFR did not project in the first five years following consolidation.

It is also important to note the second to last paragraph on Page 22 of the Report:

"While SBVWCD's reserve fund would be expected to cover reoccurring expenditures in deficit years, this might not be true if some form of a major non-reoccurring expenditure is required for facilities replacements, upgrades, or repairs in those same years. For purposes of the IFR, all existing SBVWCD facilities were assumed to be in fair condition. However, LAFCO should consider whether a portion of the reserve fund, or a separate fund, should be created for capital outlay."

II-B-2: The IFR's Findings and Conclusions for Public Service Costs on Pages 21 and 22 of the Report address the assumption that MUNI will continue all SBVWCD services, programs, contracts, and employment levels upon consolidation. While MUNI has stated that, in the short-term, it will not terminate any existing SBVWCD contracts for professional services, MUNI will have the discretion to not use services under those contracts and therefore not incur any public service costs under them. The IFR, however, conservatively assumed that the costs for services under those contracts would continue at trended rates. In the long-term, "It can be assumed that, over time, consolidation will result in management and operational efficiencies that will reduce redundancies and create significant cost savings to the public through reduced Salaries and Benefits and more cost-effective contracts for Professional Services that benefit the current water conservation activities of both SBVWCD and MUNI" (Page 22 of the Report).

II-C-1: At the April 13, 2009 joint meeting of RSG, LAFCO, MUNI, and SBVWCD, MUNI staff requested that the last paragraph of Page 1 of the April 6, 2009 Preliminary Summary Report be revised to omit references to public access to groundwater resources by retail water agencies. Their request was made under the premise that groundwater rights are not at issue here and that access to groundwater is to be cooperatively addressed by the Water Agencies Stakeholder Group. SBVWCD staff concurred and did not offer a dissenting opinion at the meeting regarding this issue. The Report was therefore revised to clarify that "Public access to groundwater is not addressed by the IFR."

II-C-2: The last paragraph on Page 8 of the Report reads:

"As observed in the table in APPENDIX C-1, SBVWCD's budgeting and accounting systems frequently shifted between years from FY 95-96 to FY 07-08. Different reporting categories (e.g., general field maintenance, land management plan, monitoring wells) and object codes (e.g., 1205, 4010, 6310) were used from year to year, which presents challenges to preparing a historical trends analysis that requires the grouping of like-for-like revenue sources and expenditure types across fiscal years. To help mitigate these challenges, RSG and LAFCO's Executive Officer met with SBVWCD administrative staff on May 15, 2009 and reviewed 33 different questions about the definitions of various reporting categories and a number of data anomalies or inconsistencies. SBVWCD was able to provide detailed responses to several questions, but some could not be addressed due to changes in reporting systems or practices. RSG's questions, SBVWCD staff's responses, and the summary meeting notes are all included in APPENDIX C-2 of this Report."

Although inconsistencies in SBVWCD's financial reporting practices from year-to-year raised some concerns about the accountability and transparency of the District's finances to the public, the Report's Findings and Conclusions on Financial Accountability focused on MUNI's capacity and ability to integrate the proposed Segregated Basin Management Account with its existing financing structure and operations, especially with respect to the backfilling of the Account in deficit years. In addition to these findings and conclusions, however, the Commission will need to carefully balance other factors impacting the public accountability of SBVWCD's operations, both status quo and if consolidation is approved.

Based on LAFCO staff's independent research conducted during the Municipal Service Review process for SBVWCD (LAFCO 2919), LAFCO staff will also provide a response to this comment in its staff report to the Commission.

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June 11, 2009

via email (Original to follow by mail)

Ms. Kathleen Rollings-McDonald
Executive Officer
San Bernardino County Local Agency Formation Commission (LAFCO)
215 North "D" Street, Suite 204
San Bernardino, CA 92415-0490

Subject: Response to 2nd Administrative Draft of the Independent Financial Review of LAFCO 3076

Dear Ms. Rollings-McDonald:

We appreciate the opportunity to provide responses to the 2nd Administrative Draft of the Independent Financial Review (IFR) of LAFCO 3076. Although we provide a list of minor comments below, we strongly concur with the findings and conclusions of the IFR that the proposed consolidation would result in sufficient revenues to maintain existing services, reduced costs for the public, and increased financial accountability. The IFR gives LAFCO a firm basis to complete the proposed consolidation.

We also note that, even though the elimination of the "Groundwater Charge" is outside the scope of the IFR, the proposed consolidation would result in a savings to the public of $600,000 per year without any reductions in services.

Interest Earnings

I-A

It appears that RSG assumed interest revenues will continue to trend downward while, at the same time, assuming that the property related income is eliminated. We request that the interest income be increased to recognize the increased reserve balance that will result from the sale of assets identified in the Plan For Service. The property sale proceeds were conservatively estimated to be over $3.2 million in 2006. However, based on the current state of the real estate market in Southern California, it is now estimated that $2.0 million is an appropriate value of the assets to be sold upon consolidation. These additional funds will earn additional interest of $60,000 annually at the conservative interest rate listed in the IFR of 3%.

Ongoing Expenses

The IFR concludes that "In the short term, public service costs are likely to be substantially similar to SBVWCD's current costs of operation," which meets the standard in Government Code sections 56668 and 56881. However, we request that RSG reconsider its inclusion of several categories of costs in its analysis: (i) Legislative Services ($107,000 to $138,000 per year), (ii) Santa Ana River Water Rights Applications ($8,000 to $21,000 per year, and (iii) Administrative/Staff Expenses ($82,000 to $86,000 per year).

I-B-1 **Legislative Services** – Valley District has its own lobbyists and sees no need to continue to utilize public monies to provide duplicative services after consolidation. This line item would result in additional savings of at least $107,000 per year.

I-B-2 **Santa Ana River Water Rights Applications** – The SBVWCD sent a letter to the State Water Resources Control Board in April 2007 withdrawing their water rights application. Since that time there has been no additional effort by the SBVWCD to secure water rights from the Santa Ana River. This line item would result in additional savings of at least $8,000 per year.

I-B-3 **Administrative/Staff Expenses** – This expense category includes travel costs for both Directors and staff. At a minimum, the travel costs for the Directors, which represents approximately 50% of the total, should be eliminated as no travel or expenses are expected other than the costs of the Advisory Board, which is estimated to cost $10,000 per year for the first 4 years following consolidation. Further, Valley District's staff travel policies are much more restrictive that the SBVWCD's which will result in further reductions in these expenses. This line item would result in additional savings of at least $82,000 per year.

Although Valley District is confident that a significant portion of the remaining projected ongoing expense categories will be eliminated within the first few years after the consolidation, we accept the remaining estimates listed in Appendix C-6 based on our understanding of the stated purpose of the IFR. The line items identified above will result in a total additional savings of at least $197,000 per year.

I-C

One Time Expenses

The IFR assumes one-time expenses of $150,000 for the first year after consolidation. $50,000 of this total is for the establishment of the Advisory Board and employee transfer costs. The remaining $100,000 is an estimate of the accrued salaries and benefits of SBVWCD employees that will be transferred to Valley District. While Valley District does not disagree with the values shown in the IFR, we do question the assignment of all of the accrued salaries and benefits to Year 1 of the projected expenses.

In conclusion, the unbiased and independently prepared IFR provides adequate justification to move forward with the proposed consolidation. The consolidation will allow Valley District to provide all existing services at the same or lesser cost to the public and will immediately and permanently eliminate the Groundwater Charge currently assessed by the SBVWCD, resulting in an annual savings of over $600,000 to the water users in the San Bernardino Valley.

Please feel free to contact me if you need further information.

Very truly yours,

Randy Van Gelder
General Manager

SAN BERNARDINO VALLEY WATER CONSERVATION DISTRICT
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June 11, 2009

Mr. Ken Lee
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309 W. Fourth Street
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Re: Response to Second Administrative Draft—Report to the Commission: Independent Financial Review of LAFCO 3076

Dear Mr. Lee:

Thank you for forwarding the "Second Administrative Draft—Report to the Commission: Independent Financial Review of LAFCO 3076," dated June 2, 2009 ("Report"). The Conservation District has reviewed the Report and submits this letter as our formal response. In general, the Conservation District commends much of the Report. We also believe some refinements are needed, particularly with regards to an overstatement of revenues, an understatement of costs, and the elimination of the Public Access and Accountability section. With some additional information that is provided in this letter, the Conservation District believes RSG will have a more accurate perspective to refine the Report, ensure its accuracy and guarantee that conclusions drawn are based on objective facts.

The Conservation District agrees with the following aspects of the Report and commends RSG for its work.

- The Report appears thoroughly researched in many areas, and is presented in a readable and understandable style and format.
- The structure and methodologies adopted for the analysis are sound. The division of core and non-core expenditures is appropriate, and the conclusion that over 94% of Conservation District expenditures relate to core functions is gratifying.
- The Report appropriately distinguishes between reoccurring and non-reoccurring revenues and expenditures. This cuts through past confusion about supposed savings, and presents a realistic picture of "going forward" operations.
- If accurate numbers are used, the five-year window for the projection of revenues and expenditures provides a sound basis for analysis of the real costs and impacts of the proposed consolidation.

The Conservation District believes the Report needs to be modified in three critical areas:

- **Sufficiency of Public Revenues**
  - *The Report grossly overstates future mining revenues.*
  - *The elimination of the groundwater charge does not create significant cost savings to the general public, but rather, it shifts costs from Riverside County ratepayers to San Bernardino County taxpayers.*

- **Public Services Costs**
  - *The Report must account for some Capital Improvement costs.*
  - *No factual data is presented to support a conclusion that Valley Municpal (Muni) will experience long-term cost savings.*

- **Public Access and Accountability**
  - *Without an analysis of access to groundwater resources as was originally agreed to be included in the scope of the Independent Financial Review, the Report section on "Public Access and Accountability" should be eliminated completely.*
  - *The Report cannot objectively reach a conclusion on Financial Accountability without analyzing Muni's financial records.*

The Conservation District appreciates the opportunity to review the Report and offer these comments. While the methods of analysis and research in the Report are sound, the conclusions and findings must be supported factually. To do this properly, the Conservation District believes that the Report needs to (1) be updated with more accurate revenue data; (2) reflect that where conclusions are drawn, they be based upon the factual analysis that precedes them; and (3) revise or delete conclusions that are contrary to the Report's factual findings, or based upon speculation. The District has included in this response its analysis of these issues and the additional factual information it believes is relevant for the Report to be updated and accurate.

Attached is our detailed analysis of the Report.

Sincerely,

R. Robert Neufeld

General Manager

II-A-1

I. **Sufficiency of Public Revenues**.

A. The Report grossly overstates future mining revenues.

In order to establish projections for the next five years, the Report takes a 13-year historical look at mining revenues. The Report establishes Year 1 revenue at $1,103,102, and then grows it by $64,679 per year (Report p. 18). *By using the figure of $1,103,102 as a base and then building upon it in the 4 out years, the report significantly overestimates mining revenue.*

In order to make these projections most accurately, particularly in this unprecedented economic recession, current known economic trends and factors cannot be ignored. The Conservation District believes future mining revenues are overstated in the Report and that three indicators should be considered:

1. Actual mining revenues received by the Conservation District in 2008-2009.
2. Projections of the mine operator under contract with the Conservation District (Cemex).
3. Published industry projections in this sector and region.

Using these indicators in conjunction with the historical information can more accurately reflect both trends and current economic realities.

1. 2008-09 Actual Revenue. The Conservation District's total actual mining revenues for the 2008-09 fiscal year through June 9, 2009 are $152,759.36 and can realistically be projected through June 30, 2009, to be no more than $162,000 (Tab 1).

2. Projections of Cemex. Cemex operates the Highland mine on land owned by the Conservation District. Cemex itself projects that production in 2009-2010 will be no greater than it was 2008-2009 (Tab 2). Cemex has actually shut down its processing plant in Highland – it is currently not mining at all. As all other mining operations are subleases through Cemex, the only revenue that will accrue to the Conservation District are the minimum monthly rents. Therefore, Year 1 revenue in the report should start at $162,000, not $1,103,102.

3. Industry Projections. Mining industry experts are calling this mining recession "the worst in mining history." Using any industry projections, revenues from mining in the upcoming years can be nowhere close to revenues from 2007-08, as has been projected in the Report.[1]

[1] The Fraser Institute's 2008-2009 annual mining survey shows a dismal outlook for the mining industry. According to the report, at least 30% of the nation's exploration companies are expected to shut down, with a majority of the remainder pacing to severely curtailing their production. This is true in areas hardest hit by the new home construction slow-down in the Inland Empire. These forecasts match the industrial market trend from the U.S. Federal Reserve report of March of 2009 that production in the mining sector across the country had dropped significantly.

Most of the aggregate mined from Conservation District properties has been used for construction in and around the local area. Consensus projections, both public and private, indicate little prospects for rapid economic recovery in this market sector. According to a Housing Market Outlook analysis prepared by the Southern California Association of Governments, housing starts are, and will remain, at all-time historic lows, as part of a region wide housing recession creating pressure on local governments from loss in home values, and the attendant drops in property tax revenues (Tab 3).

II-A-1

Using the more accurate $162,000 revenue figure from 2008-2009 and the projections of Cemex, the mining industry and the prospects for expansion of the local housing market, it is clear that using $1,103,102 for Year 1 mining revenue is inaccurate. The fastest recession recovery in the past 25 years has been 15% growth (Tab 4). Therefore, using a 15% growth factor assumes the most robust recovery of the modern era. Even then, when a true base year of $162,000 in mining revenue is considered, significant operating losses are inevitable if consolidation occurs and groundwater charges are lost. While the Report already concludes a cumulative 5 year projected deficit of $66,849, once the corrected mining revenue information is considered, the deficit could be fifteen times that amount in Year 1 alone. Year 1 losses will exceed $1 million, while the five year cumulative losses will exceed $5 million (Tab 5).

B. The elimination of the groundwater charge does not create significant cost savings to the general public, but rather, it shifts costs from Riverside County ratepayers to San Bernardino County taxpayers.

The Report states, at page 21: "While the elimination of the groundwater charge will offer producers and the general public significant cost savings, it will also require Muni to rely on less consistent revenue sources which are sensitive to economic variables that are outside Muni's control, based on the mining lease agreements."

II-A-2

The Report is spot-on regarding the variability of mining revenues, but errs in concluding that elimination of the groundwater charge will offer water producers and the general public significant savings. Elimination of this charge will merely shift the sources of revenues. Currently, approximately 1/3 of all groundwater charges come from customers in Riverside County, averaging more than $175,000 per year in revenue (Tab 6). Whatever source of revenue Muni ultimately would decide to rely upon to make up for the loss of the groundwater charge, it will have to come from the taxpayers of San Bernardino County exclusively. Therefore, *the elimination of the groundwater charge will result in a windfall to ratepayers in Riverside County, as the future costs of the Conservation District's functions will become the sole burden of San Bernardino County taxpayers.*

II. **Public Service Costs**.

The Conservation District believes there are two issues in the Public Services Costs analysis which need to be refined: (1) An erroneous assumption that there will be no dollars allocated in the next five years to Capital Improvements to Conservation District facilities; and (2) the factually unsupported conclusion that long term public services costs will be less after consolidation.

A. The Report must account for some Capital Improvement costs.

The Report assumes that the Conservation District's existing facilities are in fair condition, and do not require major repairs (Report, p.10). Therefore, the Report specifically uses a zero budget for Capital Improvements. This assumption appears contrary to historical spending on Capital Improvements, and a joint study performed by Muni and the Conservation District (Joint Optimization Study) that identifies projected capital expenditures that will be made to Conservation District facilities, as well as the reality that Muni is already in negotiations with customers for Capital Improvements if consolidation is approved.

II-B-1

Working cooperatively, the Conservation District and Muni studied the need for capital improvements to upgrade Conservation District's Santa Ana River facilities to increase capacity. The studies alone have cost the two agencies in excess of $800,000 ("Joint Optimization Study"). This report indicates that at system capacities favored by Muni, over $18 million of capital expenditures on Conservation District facilities could be required within the next few years.

Muni has also recognized the need for capital improvements to the Conservation District's Mill Creek spreading grounds facilities. The City of Redlands staff report of 4/7/09, relating to a proposed extension of a MOU the city had with Muni, indicates the parties' negotiations included Muni paying Redlands for "improvements to the spreading grounds to provide safety measures or enhance water percolation" (Tab 7 p. 2.). While this MOU renewal was tabled, the fact that Muni was in negotiations for these improvements demonstrates that Capital Improvements are needed to Conservation District facilities, and therefore must be accounted for in some way in assessing costs Muni could incur over the next five years.

Failure to account for these Capital Improvement expenditures significantly skews the financial analysis, and therefore must be corrected.

B. No factual data is presented to support a conclusion that Muni will experience long-term cost savings.

II-B-2

The Report concludes that short term public service costs are likely to be similar to the Conservation District's trended current costs. The Report also concludes there are <u>no cost savings</u> from this consolidation over the analyzed five year term. However, without any objective, empirical data cited, the Report also concludes that public service costs in the long term are likely to be less than the Conservation District's current costs. The Conservation District finds no factual basis for this conclusion in the Report and believes it should be stricken from the Report's final version.

III. **Public Access and Accountability**.

A. Without an analysis of access to groundwater resources as was originally agreed to be included in the scope of the Independent Financial Review, the Report section on "Public Access and Accountability" should be eliminated completely

II-C-1 In the agreed scope of work, RSG was to undertake an analysis of public access to groundwater, stating at page 6 of the Preliminary Summary Report of April 6, 2009: "The IFR will specifically address how the consolidation affects public access to groundwater resources by retail water agencies in the Bunker Hill Basin..."(Tab 8). Contrary to this, the Report now states: "Public access to groundwater was not addressed in the IFR or this Report (Report p. 22). What happened to this analysis? It is entirely missing from the current Report, without any explanation of the shift from the agreed-upon scope. While Public Access and Accountability is a critical analysis that must be made by LAFCO in reaching a consolidation decision, it may be a subjective analysis that lacks factual objectivity and therefore may be inappropriate for inclusion this Report. Without the analysis of access to groundwater, the Conservation District believes this Report should focus solely on Revenues and Costs – objective financial data – and leave the subjectivity of a determination of accountability to the commission.

B. The Report cannot objectively reach a conclusion on Financial Accountability without analyzing Muni's financial records.

The Report notes that the Conservation District's audited and unaudited financials reconcile, (Report, p. 9), indicating the Conservation District accurately accounts for revenues and expenditures. The Report then concludes that public accountability is better served by Muni--an agency whose books it did not even analyze (Report, p. 22).

II-C-2 *"Public Accountability" implicates more than just financial reporting of revenues.* A limited review of such reporting, along with vague references to potential, internal fund transfers Muni might undertake in the future, does not support a finding on the broader statutory criteria the Report purports to address.

Government Code section 56881(b)(2) calls for consideration of "public access and accountability for community services' needs and financial resources." The statutory directive is significantly broader than mere financial reporting, and implicates political questions such as elimination of a voter-selected Board, reorganization of existing Conservation District voters into significantly larger districts, with subsequent dilution of their votes, and elimination of Conservation District Board meetings as a long-standing political forum for expression of public preferences on water policies.

Such broader political questions may fall outside the scope of RSG's Report, but that is exactly the point. The Report cannot offer a finding on these statutory factors when it has looked at only one narrow area, and then on only one side of the comparison it supposes to make.

Throughout this review process, the Conservation District has made its files and staff resources available for a thorough examination of its revenues, its expenses, and its practices in tracking them both. The Conservation District is pleased that RSG finds that its financial reporting has been accurate, with less than 1.5% variance between audited and un-audited financial statements (Report, p. 9).

There has been no similar analysis of Muni's financial reporting. Put simply, the Report cannot conclude that Muni offers the superior financial accountability of the two agencies, when it has looked only at the Conservation District. There is no comparison done, and therefore there is no support for the proffered conclusion.

II-C-2

The sole fact offered to support the Report's conclusion appears to be an implied critique—i.e., that a less than 2% return on investment of the Conservation District's reserves in 2003-2004 somehow indicates underperformance in financial management (Report, p. 19). However, such returns are a function of variations in the Local Agency Investment Fund rates, and not poor investment decisions by the Conservation District. For the period complained of, all LAIF interest rates remained below 2% (Tab 9).

LAIF is the sole repository of the Conservation District's reserve funds[2], because the Conservation District follows a conservative investment policy, which it believes is most consistent with its role as a trustee of public funds. The Conservation District is mindful of the principal losses incurred by Orange County, and recently by other local agencies, associated with riskier investments for speculative higher returns. Contrary to the Report's suggestion, pursuit of such a conservative investment strategy is completely consistent with public accountability. The Report offers no factual or policy bases for concluding otherwise.[3]

The Report also relies on troubling, non-specific promises of "backfilling" by Muni of revenue shortfalls with internal loans, or fund transfers (Report, p. 20). Neither the sources, amounts, nor legal restrictions on any such proposed "backfilling" fund transfers are enumerated. There are numerous legal restraints on the use of property taxes and other revenues that Muni relies upon for its operations. Without specific indication of what Muni proposes to do, in what amounts, and on what terms, these representations amount to little more than assurances that

[2] It should also be noted that $5,000,000 of the amount included in the Conservation District's reserves are actually pre-paid royalties from Robertson's Ready Mix, which will not be earned until Robertson's permits its mining operations, presently planned to occur as a part of the Wash Plan. These "reserves" cannot be used to "backfill" operational deficits resulting from consolidation. Once, and if, Robertson's obtains permits to mine, no royalties will be paid to the Conservation District until the $5,000,000 is depleted.

[3] The Report does not identify any source for the 3% benchmark it apparently considers is the minimum return on public investments. (Report, p. 19). Moreover, liquidating Conservation District real estate holdings, referenced at page 15 of the Report, will not increase the value of such assets. The rate of return on LAIF investments will not significantly change; such liquidation will only convert existing non-cash assets to cash, which themselves have appreciated more over time than LAIF interest rates. Given the likely raid on special district property tax revenues by Sacramento in the State's budgeting processes, selling such assets now, in a depressed market, does not promote public financial accountability. Such liquidation would also increase post-consolidation rent expenditures, eliminating the Conservation District's current rent-free occupancy of office space it owns free and clear, since former Conservation District employees will have to be housed in office space now leased by Muni.

II-C-2 Muni will internally manipulate its already complicated accounting system. These alone cannot serve as a basis for a finding of public accountability, financial or otherwise.[4]

While the Conservation District appreciates the solid work RSG has done in a very short period of time, it believes the Report has not provided facts on which to base its conclusions in the Public Access and Accountability section. If the Report is to offer any basis to be used for a finding with respect to Government Code section 56881(b)(2), it must be limited to the scope of the Report's analysis, and supported by something other than speculation regarding future internal accounting moves by Muni.

The Conservation District looks forward to a revision of the Report, consistent with the comments presented in this letter.

SAN BERNARDINO VALLEY WATER
CONSERVATION DISTRICT,

R. Robert Neufeld

General Manager

cc: Kathleen Rollings-McDonald, Executive Officer

[4] Furthermore, Muni is accountable to the property tax payers within its service area and to bond holders that provide income for repayment of bonded indebtedness for the SWP and for maintaining a portion of the State Water Project system that Muni is responsible for.

TAB 1

12:52 PM
06/09/09
Accrual Basis

San Bernardino Valley Water Conservation District
Budget vs. Actual
July 1, 2008 through June 9, 2009

	Jul 1, '08 - Jun 9, 09	Budget	$ Over Budget	% of Budget
Income				
4010 · Interest Income	220,874.14	230,464.00	-9,589.86	95.84%
4020 · Groundwater Charge	554,377.81	550,000.00	4,377.81	100.8%
4030 · Mining Income	152,759.36	211,000.00	-58,240.64	72.4%
4035 · Deferred Income	932,290.84	932,291.00	-0.16	100.0%
4040 · Miscellaneous Income	1,728.09	1,500.00	228.09	115.21%
4050 · Property Tax	111,658.69	72,000.00	39,658.69	155.08%
4055 · SBVMWD Easement Agreement Reimb	12,791.00	12,791.00	0.00	100.0%
4060 · Property Income	50,769.25	66,000.00	-15,230.75	76.92%
4080 · Exchange Plan	24,486.48	20,000.00	4,486.48	122.43%
4085 · AB 303 Grant	0.00	0.00	0.00	0.0%
Total Income	2,061,735.66	2,096,046.00	-34,310.34	98.36%
Operating Expenses				
5050 · Regional Programs	161,542.29	125,000.00	36,542.29	129.23%
5100 · Professional Service	832,148.37	862,550.00	-30,401.63	96.48%
5200 · Field Operations	7,223.50	34,500.00	-27,276.50	20.94%
5300 · Vehicle Operations	16,710.12	17,500.00	-789.88	95.49%
5400 · Utilities	31,280.04	32,500.00	-1,219.96	96.25%
6000 · General Administration	93,850.81	118,780.00	-24,929.19	79.01%
6100 · Benefits	253,484.63	241,715.00	11,769.63	104.87%
6200 · Salaries	551,108.47	545,000.00	6,108.47	101.12%
6300 · Insurance	23,297.52	30,017.00	-6,719.48	77.61%
6400 · Board of Directors' Expenses	136,792.97	131,250.00	5,542.97	104.22%
6500 · Administrative/Staff Expenses	25,695.32	31,050.00	-5,354.68	82.76%
Total Operating Expenses	2,133,134.04	2,169,862.00	-36,727.96	98.31%
Capital Expenditures				
7000 · Construction	45,942.59	203,000.00	-157,057.41	22.63%
7100 · Land & Buildings	11,846.15	14,846.00	-2,999.85	79.79%
7200 · Equipment & Vehicles	74,856.17	56,000.00	18,856.17	133.67%
7300 · Professional Services	380,429.34	606,246.00	-225,816.66	62.75%
Total Capital Expenditures	513,074.25	880,092.00	-367,017.75	58.3%
Total Expenditures	2,646,208.29	3,049,954.00	-403,745.71	86.76%
Income/Expenditures Balance	-584,472.63	-953,908.00	369,435.37	

TAB 2

ctheuer

From: Cosgrove, David [dcosgrove@rutan.com]

Sent: Tuesday, June 09, 2009 4:48 PM

To: ctheuer

Subject: FW: Budget

Here is the production information I received from Cemex.

David B. Cosgrove
Rutan & Tucker, LLP
611 Anton Boulevard, 14th Floor
Costa Mesa, CA 92626
714-662-4602 Direct
714-546-9035 Fax
dcosgrove@rutan.com
www.rutan.com

From: Christine M Jones [mailto:christinem.jones@cemex.com]
Sent: Friday, June 05, 2009 3:53 PM
To: Cosgrove, David
Subject: Re: Budget

Yes - at or near the same levels as the past year (July 1, 2008 to June 30, 2009).

CEMEX

Christine Jones

Environmental Manager

Office : (909)974-5471, Fax: (909)974-5521

Address: 3990 E. Concours Street, Suite 200, Ontario, CA 91764

e-Mail: christinem.jones@cemex.com

www.cemex.com

******PLEASE NOTE NEW MAILING ADDRESS ABOVE******

"Cosgrove, David" <dcosgrove@rutan.com>

06/02/2009 06:03 PM

To Christine M Jones/US/Cemex@CEMEX

cc

TAB 3

The Housing Market Outlook for 2009 and 2010

Prepared by
Joseph Carreras
Housing Program Manager
January 16, 2009

One of the biggest problems facing cities and counties today is that revenue from sales and property taxes are declining together for the first time in decades. There is a "perfect Storm" of financial woe facing local governments as housing prices decline, sales and property taxes decline and consumer confidence declines in the face of rising foreclosures and rising unemployment. This is why stabilizing communities by rescuing Real Estate Owned properties and "upside down" home owners is such an important issue as dilapidated properties harm surrounding property values as they are almost never well maintained, invite squatters and other problems needing both police response and code enforcement. The strain on local governments is compounded by the impact on the State budget as the State attempts to balance its budget by using funds needed by local governments for redevelopment, education and public works...

Anticipated Strain on Local Budgets due to the Housing Market Downturn

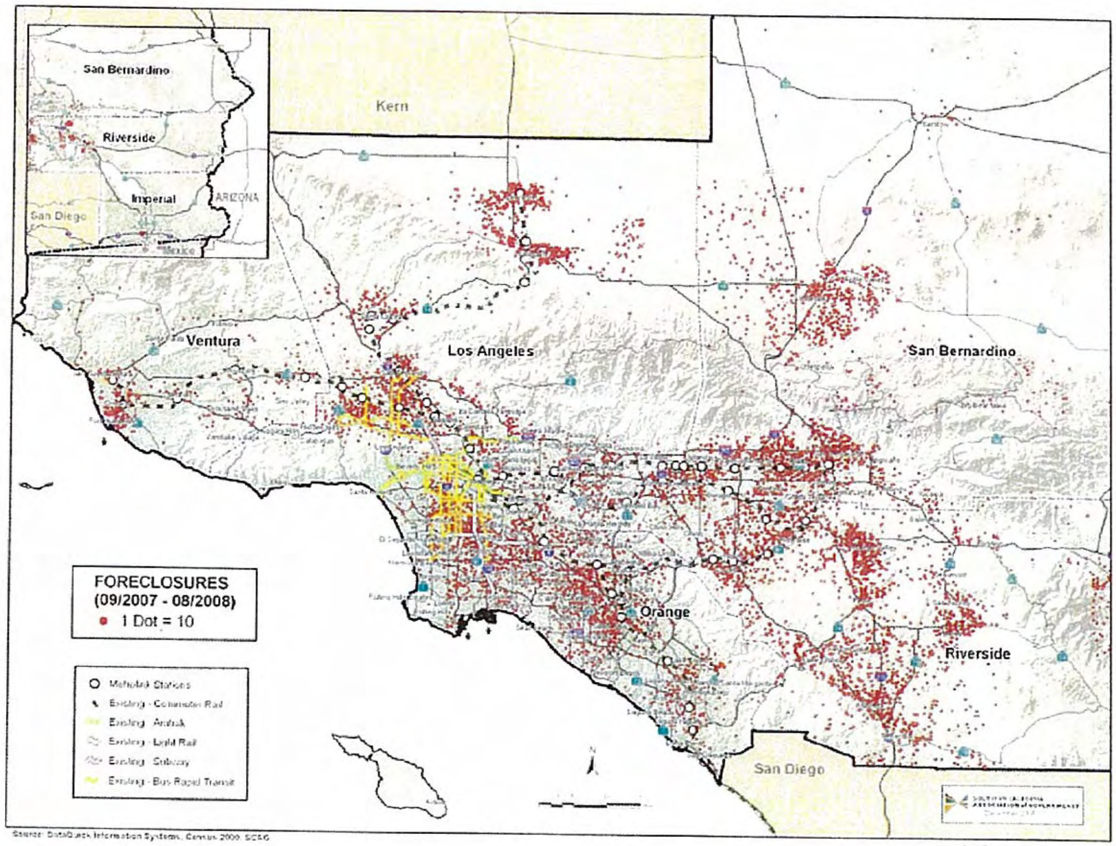
Examples of local governments facing cutbacks include the City of Riverside because of construction related fiscal impacts (less building, less revenue from impact fees and permits combined with falling property values and retail sales tax) and Long Beach where fiscal impacts are raising the question of whether the Long Beach Airport should be sold off to help balance the budget. LA City is also facing a large budget deficit.

The LA Times reports that about 2/3 rds of southern California Cities had less sales tax revenue in the last 6 months of 2008 than in the same period of 2007. An on-line interactive map is available to show the change in sales tax revenue by local jurisdiction: http://www.latimes.com/news/local/la-me-recession-proof16-2009feb16-fl,0,3451653.flash

The situation should stabilize when home prices, rents and incomes are in a more reasonable relationship with each other as evidenced by: home price decline ceases, distress sales stop, and foreclosures return to low historical levels. An improvement in economic conditions spurred by lower unemployment is also needed to ensure stability.

As consumer confidence falls in the face of declining home values, people are less likely to make big-ticket purchases. In Riverside, Calif., in the region's hard hit Inland Empire, the city budget was cut by $10 million from 2007 to 2008 and numerous departments saw reductions. Riverside saw 2,500 foreclosures and could have another 7,500 homes at risk as home values continue to fall.

Across the region the foreclosure picture is serious with a heavy cluster of foreclosure along our transit and transportation network. A key problem is that despite the sharp decline in home values, prices remain historically high when compared with people's incomes. So even though home prices have come down, people can't afford to buy them. And the exotic mortgage products that made it possible to buy expensive houses in the past are no longer available. Low interest rates can make pricey properties more affordable, but that's meaningless if you can't get a loan, and most lenders have tightened their requirements so much that even people with good credit often don't qualify.



The main cause of all these foreclosure related problems is the decline in house prices, which has led to a collapse in the value of mortgage securities. House prices almost certainly have further to fall. Supply is another key factor affecting home values. When there are too many homes on the market, there is downward pressure on prices, and this is the case in our region.

	Sales Volume			Median Price		
All homes	Nov-07	Nov-08	%Chng	Nov-07	Nov-08	%Chng
Los Angeles	4,468	5,037	12.70%	$499,000	$340,000	-31.90%
Orange	1,567	2,177	38.90%	$582,750	$400,000	-31.40%
Riverside	2,503	3,719	48.60%	$356,500	$220,000	-38.30%
San Bernardino	1,719	2,385	38.70%	$330,000	$185,250	-43.90%
San Diego	2,400	2,673	11.40%	$440,000	$305,000	-30.70%
Ventura	516	729	41.30%	$521,250	$355,000	-31.90%
SoCal	13,173	16,720	26.90%	$435,000	$285,000	-34.50%

Source: DQNews.com

Neighborhood Stabilization Funds

The Neighborhood Stabilization Program (NSP) program sponsored by the U.S. Department of Housing and Urban Development (HUD) allows localities to renovate and rehabilitate foreclosed and vacant homes, eliminating blight and reinvigorating and stabilizing the affected neighborhoods. This program was part of HR 3221, the American Housing Rescue and Foreclosure Prevention Act of 2008. Among the Act's numerous provisions is the Neighborhood Stabilization Program (NSP), which provided $3.9 billion nation-wide in funds to state and local governments to purchase abandoned and foreclosed homes and residential property. About a half billion dollars was allocated to California. Funding may be provided directly to a locality by HUD or through the State Housing and Community Development Department (HCD) to a locality or to communities working together to establish a program. The funds can be used to:

1. Purchase and rehabilitate homes to sell, rent or redevelop
2. Create land banks for homes that have been foreclosed upon
3. Demolish blighted structures
4. Redevelop demolished or vacant properties
5. Establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties

For instance, the City of Los Angeles was allocated $32.8 million dollars by HUD. The Los Angeles Housing Department (LAHD) has been monitoring the impact of foreclosures in the City of Los Angeles and working with other agencies for several months to develop a neighborhood-based post-foreclosure stabilization strategy that will focus on the City's most affected neighborhoods. This plan notes that "a key goal of the program is to prevent the downward spiral of property abandonment and crime in neighborhoods that can result when vacant, boarded up properties sit without attention for weeks or months at a time. Such conditions can have a chilling effect on public safety and property values; therefore, it is urgent to address this crisis before City neighborhoods deteriorate further."

The clusters of foreclosures in the City are in Central, East and South Los Angeles and in the North and South Valley areas and total nearly 13,000 units. Although $32.8 million is a large sum, given the cost of housing and property rehabilitation in Southern California, the City estimates that it will only enable it to address approximately 300 units of housing, according to its proposed HUD Action Plan, "nowhere near the total number of foreclosed properties, present or future."

Riverside County's economy is struggling largely as a result of the difficulties being experienced by the housing market. In August 2008, a time-sensitive "Red Team" comprised of representatives from the private and public sectors to identify and, if feasible, work to implement stimulus measures to address the housing issues existing in the subregion. At the January 5 meeting, the Executive Committee of the Western Riverside Council of Governments (WRCOG) endorsed a series of recommendations developed through the "Riverside Red Team" effort aimed at addressing the region's economic crisis.

WRCOG, in conjunction with the County of Riverside, City of Riverside, Riverside County Chapter of the Building Industry Association and the Riverside Chamber of Commerce, contracted with Dr. John Husing to perform a survey of key leaders in western Riverside County and develop this list of strategies that could be pursued among the subregion's public and private sector entities to help invigorate the local economy. The report and recommendations focused on the following:

Gaining an understanding of the magnitude of the problems in the Inland Empire and western Riverside County that are related to the downturn in the region's economy and associated impacts on the housing market;

- Developing tools that local jurisdictions can consider for responding to the surge in foreclosed and abandoned properties in their communities. This includes reducing the flow of foreclosures;
- Examining opportunities for participating in the process regarding how, when, and to whom foreclosed units will be sold; and
- Examining opportunities that local jurisdictions can consider related to high costs associated with new housing construction.

The following eight recommendations were endorsed:

1. Development of a uniform database to identify and track foreclosures, notices of default and "properties at risk."
2. Survey jurisdictions and identify "best practices" for maintaining abandoned properties.
3. Survey jurisdictions to compare code enforcement efforts and develop list of approaches for review by WRCOG members.
4. Coordinate activities between jurisdictions and other agencies to work with lenders, area realtors and others to steer foreclosure home turnover from investors to owner-occupants.

5. Continue to examine efforts to acquire foreclosed homes in bulk, refurbish and resell.
6. Encourage development of federal legislation that would require local input to efforts related to reducing the flow of foreclosures and restructuring existing loans.
7. Support efforts to increase outreach and counseling to homeowners at risk of foreclosure.
8. Support legal examination regarding the extent to which significant temporary fee reductions could be implemented without jeopardizing project mitigation ("nexus") requirements.

Meanwhile, San Bernardino County will use the largest share of its $22.8 million in NSP funds to provide subsidized second mortgages to low- and moderate-income residents buying foreclosed homes. Other communities including Huntington Beach, Fountain Valley in Orange County and Lancaster in Los Angeles County are considering plan to buy foreclosed homes and sell them for affordable housing.

Impact of Subprime Foreclosures on Neighboring Homes and Local Tax Bases

The Center for Responsible Lending has estimated how many homes—including families who are paying their mortgage on time—will suffer a decline in property values because of foreclosures in their neighborhoods. They also estimate the monetary value of these losses in terms of lower property value and a reduced tax base for communities. The projected decrease in the SCAG region's six county tax base from Subprime Foreclosures from 2005/2006 equals $39,587,387,638.

Impact of Subprime Foreclosures on Neighboring Homes and Local Tax Bases

County	Projected Homes Lost through Subprime Loans from 2005/2006	Number of Homes Losing Value	Average Decrease in House Value	Projected Decrease in County's House Values & Tax Base from Foreclosures
Imperial	669	19,712	$801	$55,220,070
Los Angeles	38,843	2,545,978	$10,706	$27,257,444,619
Orange	8,661	670	$8,576	$5,750,060,854
Riverside	18,436	398,158	$7,044	$2,804,543,196
San Bernardino	18,337	423,605	$7,058	$2,989,697,004
Ventura	1,980	114,188	$6,397	$730,421,895
Total	86,926	3,502,311	$40,582	$39,587,387,638

Source: Center for Responsible Lending

Anticipated Strain on State Budgets due to the Mortgage and Lending Crisis

At least 37 states and the District of Columbia have faced or are facing budget gaps totaling $66 billion in the 2009 fiscal year, according to a New York Times study. Most states, which rely on sales, income and property taxes, are seeing a significant drop in such revenues or increase that, are below the inflation rate, compared to the same period last year. Click on California, using the link below, and see the per capita budget gap in California and on Revenues to see the gap in tax revenue collection between 2007 and 2008. Unlike the federal government, states are generally required to balance their budgets each year. This is why the Governor has called for the special legislative session in California to balance the budget.
http://www.nytimes.com/interactive/2008/11/17/us/20081117_budget

National foreclosure activity in November hit the lowest level since June 2008, a decline attributed to new foreclosure notification requirements and more aggressive loan modification programs and holiday foreclosure moratoriums adopted by private lenders and government lenders Fannie Mae and Freddie Mac. It won't help that, according to the U.S. Office of Thrift Supervision, more than half of homeowners who received loan modifications to reduce their mortgage payments in the first half of 2008 are already delinquent on their loans again. Bailouts for auto makers, financial institutions and builders, yes even they are lining up for assistance in these difficult times, may not work as planned as we stumble into 2009.

In 2009, the housing market in the nation and the region will continue its sharp decline and not hit a bottom. Foreclosures will spike this year after a short reprieve granted by moratoriums that have delayed the inevitable and as a second wave of Alt A loan foreclosures sweeps over the nation. This will happen throughout the country, but especially impact the Inland Empire and LA County, where median home price declines are projected to be the steepest in the Country (-25%), according to the Case-Shiller Home Price Index. But this projected decline will be only slightly exceed the fall in prices forecasted in the Inland Empire (-23%) and Orange County (-22%).

But not only are homeowners having problems coping with unaffordable mortgages, but rising unemployment will add to foreclosures as people who lose jobs fail to keep up payments and local and state governments run big deficits as sales and property taxes as well as municipal revenues decline sharply in response to housing and economic distress. The Inland Empire metro area has, for instance, one of the highest unemployment rates in the nation and is one of the hardest hit metro areas for declining home prices and foreclosures.

The SCAG region is at the epicenter of the national housing crisis and the economic distress it will wreck on communities. The hardest hit households are typically minority households and immigrants seeking home loans. For instance, The Center for Responsible Lending has reported that nationally that about half of all 2006 home loans to African American families were subprime and two fifths of all home loans to Hispanic and Latino families were subprime; while only one fifth of all home loans to white non-

Hispanic families were subprime. Much of the future growth in the region will be fueled by immigrants and minority households who will struggle to recover from the recession and related housing and economic challenges.

Regional Well Being in 2009

Several Regional Council planning priorities are emerging in the coming year and include: 1) synchronize the 2012 Regional Transportation Plan (RTP) and Regional Housing Needs Allocation Plan (RHNA) planning process; 2) finalize a 2009 task force report on RHNA reforms, and: 3) conceptualize a SB 375 sustainability strategy that will set land use efficiency goals for reducing vehicle miles traveled (VMT) targets for autos and light trucks and 2010 Green House Gas (GHG) emissions targets.

Clearly there is a strong relationship between the 2009 State of the Region, State of the Economy, State of the Housing Market, State of the Environmental Sustainability (Air Quality), and the future fiscal well being of local government. Housing market stability and economic recovery will be closely tied together in 2009 and will carry over into 2010.

Housing Forecast for 2009 and 2010

Both Coastal and Inland areas in the region are expected to see a further decline of between 20 and 25% below the existing median home values. The LA Metro Area is projected as the #1 Worst Housing Market for 2009 by Fortune Magazine, as housing market distress moves and intensifies from east to west.

The good news is that housing affordability, as measured by the relationship of median income to median home asking price, will markedly improve, but coming with this improvement will be a rise in unemployment and an increase in local, state and federal government fiscal distress caused by a loss in municipal revenues from reduced property taxes, redevelopment tax increments, retail sales taxes and other business related revenues. Much more stringent lending standards and frozen capital markets will also tend to keep potential buyers on the sidelines as the recession moves into 2009 and re-enforces deflationary pressures in the economy and housing market.

A second wave of foreclosures (Alt A and Option ARM loans) will sweep over the nation and will be fueled by declining median home values, especially in the SCAG region. This in turn will spur more foreclosures as more and more households fall "under water" and mortgage loans reset to higher levels. Dynamic and printable maps and data on subprime and Alt A lending and foreclosures by zip code are available on-line from the Federal Reserve Bank of New York - click on California; your County and your zip code.

Foreclosure related sales already account for half of all sales in LA and Orange County and 70% of sales in the Inland Empire. Foreclosures and vacant homes in older, existing neighborhoods and an excess of supply in newer inland subdivisions will hamper an economic comeback and new residential construction in 2009 may be no better than in 2008, which is one of the lowest production years on record.

With home prices declining and lenders discounting foreclosed and distressed properties, bargain hunters do not want to pay "retail" prices for new homes, so builders are holding back inventory and shelving new development projects. This reduces construction activity and slows down any market recovery. A downturn in retail and commercial construction may also follow as the recession deepens. The California Building Industry Association notes that, "2008 will finish with a total of 66,000 newly constructed units – 25% of normal and the lowest level in recorded history."

Within this market context, local governments will be challenged to facilitate and sustain mixed use, transit oriented development, housing affordability, and home ownership achievement as capitol markets try to revive and the existing inventory glut is sold off. More than ever, the linkage between local and regional transportation, housing and environmental planning will increase as the "nuts and bolts" of metropolitan area planning are tightened through the implementation of SB 375 requirements.

The Nation's 10 worst real-estate markets for 2009 and their Outlook for 2010
(SCAG Region Markets are in Bold)[1]

The housing market hasn't bottomed out yet. For the third quarter of 2008, the closely-watched S&P Case-Shiller national home-price index fell 16.6%, and experts are predicting further declines. Of the top 100 markets, here are 10 with the worst forecasts. Only two of the ten most distressed housing markets in the Nation are outside of California, with three of the hardest hit metro areas in the SCAG region - Los Angeles County, Inland Empire and Orange County. Within the region, the down turn in 2009 will see a continued sharp decline in home prices. Prices will also decline in 2010, and may not flatten out or see an increase until 2011. In the long run, this will be good for the region as the relationship between prices, rents; incomes and affordability achieve a much more sustainable relationship with each other.

1. Los Angeles
2008 median house price: $375,340
2009 projected change: -24.9%
2010 projected change: -5.1%
The median home price in the L.A.-Long Beach-Glendale metro area is projected to fall nearly 25% in 2009 - the biggest drop in the country.

2. Stockton

3. Riverside, Calif.
2008 median house price: $256,540
2009 projected change: -23.3%
2010 projected change: -4.8%

4. Miami

---

[1] Source: CNN Money and Fortune Magazine

5. Sacramento

6. Santa Ana-Anaheim
2008 median house price: $532,810
2009 projected change: -22.0%
2010 projected change: -3.5%

7. Fresno

8. San Diego

9. Bakersfield

10. Washington DC

TAB 4

SB & RVS Co.

Year	Buildings (ea)
1990	23,833
1991	13,331
1992	13,882
1993	12,436
1994	12,449
1995	10,547
1996	11,793
1997	13,999
1998	16,450
1999	19,187
2000	19,296
2001	23,955
2002	30,371
2003	36,643
2004	43,994
2005	46,206
2006	34,194
2007	16,484
2008	6,064
2009	

Event Year	During	After	Annual Chg-%
1995	10547		
1996		11793	10.57% (1996 to 1995)
1997		13999	15.76% (1997 to 1996)
1998		16450	14.90% (1998 to 1997)
1999		19187	14.26% (1999 to 1998)
Average of 4 years			13.87%
1999	19187		
2000	19296		0.56% (2000 compared to 19
2001		23955	19.45% (2000 to 2001)
2002		30371	21.13% (2001 to 2002)
2003		36643	17.12% (2002 to 2003)
2004		43994	16.71% (2003 to 2004)
Average of 5 years			14.99%

Projected using above Avg. % increases

SBVWCD	$ on 99-04
2009	$162,000
2010	$186,289
2011	$214,219
2012	$246,337
2013	$283,270
2014	$325,740

Source: U.S. Census Bureau, Private Building Permits Issued San Bernardino and Riverside Counties

TAB 5

5 year Projection of Reoccuring Revenues and Expenditures

Assuming a 15% annual economic recovery

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
REOCCURING REVENUES						
Mining Income	$ 162,000.00	$ 186,300.00	$ 214,245.00	$ 246,381.75	$ 283,339.01	$ 1,092,265.76
Property Tax	$ 73,224.00	$ 74,689.00	$ 76,182.00	$ 77,706.00	$ 79,260.00	
Groundwater Charge	$ -	$ -	$ -	$ -	$ -	
Reimbursements for Exchange Plan	$ 17,849.00	$ 16,786.00	$ 15,722.00	$ 14,658.00	$ 13,594.00	
Interest Income totals	$ 229,061.00	$ 210,196.00	$ 191,330.00	$ 172,465.00	$ 153,599.00	
Miscellaneous Income	$ 17,835.00	$ 18,855.00	$ 19,875.00	$ 20,895.00	$ 21,916.00	
Property Income	$ -	$ -	$ -	$ -	$ -	
Total Reoccuring Income	$ 499,969.00	$ 506,826.00	$ 517,354.00	$ 532,105.75	$ 551,708.01	
REOCCURING EXPENDITURES						
Salaries and Benefits	$ 929,004.00	$ 965,638.00	$ 1,002,272.00	$ 1,038,906.00	$ 1,075,540.00	
Board of Directors Fees	$ 10,000.00	$ 10,000.00	$ 10,000.00	$ 10,000.00		
Reoccuring Professional Services	$ 248,767.00	$ 256,658.00	$ 264,548.00	$ 272,439.00	$ 280,329.00	
Reoccuring Field & Operations Services	$ 58,698.00	$ 57,557.00	$ 56,415.00	$ 55,273.00	$ 54,132.00	
Reoccuring Services and Supplies	$ 172,999.00	$ 180,366.00	$ 187,733.00	$ 195,101.00	$ 202,468.00	
LAFCO Contribution	$ -	$ -	$ -	$ -	$ -	
One-Time Consolidation Costs	$ 150,000.00	$ -	$ -	$ -	$ -	
Total Reoccuring Expenditure	$ 1,569,468.00	$ 1,470,219.00	$ 1,520,968.00	$ 1,571,719.00	$ 1,612,469.00	
Surplus (Deficit)	$ (1,069,499.00)	$ (963,393.00)	$ (1,003,614.00)	$ (1,039,613.25)	$ (1,060,760.99)	$ (5,136,880.24)

TAB 6

GROUNDWATER ASSESSMENTS - RIVERSIDE COUNTY

NAME	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
City of Riverside	$148,352.00	$158,204.00	$94,580.00	$84,118.56	$152,583.49	$153,063.18	$141,060.54
Gage Canal	$29,092.00	$31,278.00	$40,320.00	$52,071.08	$52,554.38	$56,279.19	$62,077.80
TOTALS	$177,444.00	$189,482.00	$134,900.00	$136,189.64	$205,137.87	$209,342.37	$203,138.34

TAB 7

COUNCIL AGENDA ITEM F-7
COUNCIL MEETING OF 04/07/09

REQUEST FOR COUNCIL ACTION

SUBJECT: Agreement between the San Bernardino Valley Municipal Water District and the City of Redlands regarding to the Local Agency Formation Commission's Matter No. 3076 Relating to the Possible Consolidation of the San Bernardino Valley Water Conservation District and the San Bernardino Valley Municipal Water District

MOTION:

"I move that the City Council determine that the agreement with the San Bernardino Valley Municipal Water District regarding to the Local Agency Formation Commission's matter No. 3076 relating to the possible consolidation of the San Bernardino Valley Water Conservation District and the San Bernardino Valley Municipal Water District is categorically exempt pursuant to Section 15061(b)(3) of the California Environmental Quality Act."

I move approval of the agreement between the San Bernardino Valley Municipal Water District and the City of Redlands regarding to the Local Agency Formation Commission's matter No. 3076 relating to the possible consolidation of the San Bernardino Valley Water Conservation District and the San Bernardino Valley Municipal Water District.

STAFF RECOMMENDATION:

Staff recommends Council determine the agreement is categorically exempt under the California Environmental Quality Act ("CEQA"). Staff also recommends City Council approve the proposed agreement with San Bernardino Valley Municipal Water District regarding the Local Agency Formation Commission's ("LAFCO") matter No. 3076 relating to the possible consolidation of the San Bernardino Valley Water Conservation District and the San Bernardino Valley Municipal Water District.

DISCUSSION:

At the December 2, 2008, Council meeting staff presented information regarding the progress of LAFCO's consideration of the proposed consolidation of the San Bernardino Valley Water Conservation District ("Conservation District") and the San Bernardino Valley Municipal Water District ("Valley District"). After public comments at that meeting, Council directed staff to continue monitoring LAFCO's proceedings on this matter.

On January 20, 2008, staff presented to Council information regarding the progress of the LAFCO proceedings regarding LAFCO's consideration of its matter No. 3076 relating to the possible consolidation of the San Bernardino Valley Water Conservation

District with the San Bernardino Valley Municipal Water District (the "Consolidation Proposal"). At that meeting, Council directed staff to remain neutral and represent the City's interests. Staff has been following the proceedings and attending meetings as necessary.

On January 21, 2009, LAFCO certified its environmental impact report regarding the Consolidation proposal. This action requires LAFCO to take action within 90 days of the certification. Because of this action, LAFCO staff requested the City work with Valley District to develop an "Agreement" regarding the Mill Creek Spreading Grounds presently owned by the Conservation District. As requested, the City and Valley District have prepared the attached Agreement which provides recommended terms and conditions for Redland's ownership, management, operation, and maintenance of the Mill Creek Spreading Grounds, Valley District's responsibilities to fund Redlands' Mill Creek Spreading Grounds management activities, and the elimination of ground water assessment charges to Redlands and its residents. This Agreement is necessary to define these responsibilities in the event LAFCO determines that consolidation of the Conservation District with Valley District is appropriate.

LAFCO Commissioner Curatalo requested that LAFCO staff prepare an independent financial analysis of the Valley District "2006 Plan for Service" and updated documentation to determine if the "2006 Plan for Service" document is still valid. The Agreement between Redlands and Valley District is necessary for LAFCO's consultant to complete that financial analysis. Currently, LAFCO has a hearing scheduled for April 15, 2009 to consider the Consolidation Proposal.

Over the past several weeks City staff has worked with Valley District staff to prepare the requested Agreement. Staff is recommending the City Council approve the Agreement, which generally provides, but is not limited to the following:

- Abolishing the imposition of the water pump tax assessed against the City of Redlands;
- Prohibiting the reinstatement of the pump tax without written consent of City of Redlands;
- Returning ownership of the Mill Creek Spreading Grounds to the City of Redlands;
- Providing the City of Redlands with cost recovery for the on-going management, record keeping and maintenance expenditures associated with the Mill Creek Spreading Grounds;
- Providing provisions to provide for cost recovery for non-maintenance costs for improvements to the spreading grounds to provide safety measures or enhance water percolation; and
- Providing provisions to site City water production wells and appurtenances as formerly-owned Conservation District lands

Should LAFCO not approve the Consolidation Proposal with Valley District, the Agreement will terminate and the current practice of replenishing the Bunker Hill Groundwater Basin at the Mill Creek Spreading Grounds by the Conservation District will be preserved.

ENVIRONMENTAL DETERMINATION:

The adoption of this agreement is not subject to the California Environmental Quality Act (CEQA) pursuant to Section 15061(b)(3) of the CEQA Guidelines. This section is referred to as the "general rule" and applies to those projects where it is seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment. This activity involves Redlands and Valley District forwarding an agreement to LAFCO recommending the inclusion of certain terms and conditions, if LAFCO decides to approve the Consolidation Proposal. There is no possibility that the activity will result in physical change in the environment and therefore, the activity does not constitute a "project" for purposes of CEQA.

FISCAL IMPACT:

This Agreement was prepared to ensure the City's interests are protected. Signing the Agreement should have no fiscal impact. At the conclusion of the LAFCO consultant's independent financial analysis, additional information will be available regarding the costs associated with the Valley District's "2006 Plan of Service."

ALTERNATIVES:

Council could suggest revisions to the proposed Agreement.

Council could reject the Agreement. However, staff believes that the ownership and management of the Mill Creek Spreading Grounds affords the greatest protection to assure Redlands continues to receive replenishment water from Mill Creek tributary has been historically provided.

ATTACHMENTS:

Agreement with San Bernardino Valley Municipal Water District

Prepared by:

CHRIS DIGGS
Water Resources Manager

Recommended by:

N. ENRIQUE MARTINEZ
City Manager

Reviewed by:

ROSEMARY HOERNING
Municipal Utilities and Engineering Director

Reviewed by:

OSCAR W. ORCI
Community Development Director

Reviewed by:

DANIEL J. McHUGH
City Attorney

TAB 8

APPROACH AND ASSUMPTIONS

FACTORS AND DETERMINATIONS

In reviewing LAFCO 3076, the Commission must consider certain factors and make specified determinations, including, but not limited to the following.

- Sufficiency of Revenues: "The ability of the newly formed or receiving entity to provide the services which are the subject of the application to the area, including the sufficiency of revenues for those services following the propose boundary change" (§56668(j)). The IFR will evaluate the sufficiency and reliability of anticipated revenues that MUNI proposes to use to fund water conservation activities which MUNI would assume upon consolidation.
- Public Service Costs: "Public service costs of a proposal that the commission is authorizing are likely to be less than or substantially similar to the costs of alternative means of providing the service" (§56881(b)(1)). The IFR will evaluate whether public service costs are likely to be less than or substantially similar to SBVWCD's current costs for providing services.
- Access and Accountability: "A change of organization or reorganization that is authorized by the commission promotes public access and accountability for community services needs and financial resources" (§56881(b)(2)). The IFR will specifically address how the consolidation affects public access to groundwater resources by retail water agencies in the Bunker Hill Basin and public accountability for financial resources involving water conservation activities.

The IFR will seek to address these factors and determinations in its evaluation of MUNI's Plan for Services and the anticipated financial impacts of the consolidation.

APPROACH

The purpose of this IFR is to provide a third-party, independent evaluation of the financial models, analyses, and assumptions used in the preparation of the Plan for Services for LAFCO 3076, inclusive of subsequent analyses as deemed appropriate by LAFCO. Therefore, while the IFR may use trend analyses to verify revenue and cost assumptions from prior financial models and analyses, the purpose of this IFR is not to create or recreate any budgetary, cash flow, or pro forma models. The IFR is intended to provide LAFCO a due diligence assessment of financial issues involving consolidation so that the Commission can make a balanced and well-informed decision on LAFCO 3076. The final IFR report will be an expanded and more comprehensive version of this Preliminary Summary Report, providing an evaluation of prior financial analyses and a complete identification of financial variables that may have not been adequately addressed to date. A major component of the IFR will be the review of existing and proposed agreements and contractual obligations that have been or are proposed to be entered into by MUNI and SBVWCD, which may have a financial impact on the proposed consolidation. RSG's approach to the IFR will include:

- A detailed review and evaluation of financial assumptions used in prior financial models and analyses, including the November 15, 2006 Plan for Services and November 2008 Cash Flow Analysis.
- Trend analyses of:
  - Actual expenditures for "core" and "non-core" SBVWCD services.
  - Actual revenues from property tax revenues and, if appropriate, mining leases and royalties.
- A review of the trend analyses based on the Commission's factors to be considered and the determinations required by the CKH Act.
- Identification and analysis of fiscal implications from existing and proposed agreements and contractual obligations.
- Summary of findings and issues.

TAB 9

Bill Lockyer, State Treasurer
Inside the State Treasurer's Office

LOCAL AGENCY INVESTMENT FUND
QUARTERLY APPORTIONMENT RATES

	MARCH	JUNE	SEPTEMBER	DECEMBER
1977	5.68	5.78	5.84	6.45
1978	6.97	7.35	7.86	8.32
1979	8.81	9.10	9.26	10.06
1980	11.11	11.54	10.01	10.47
1981	11.23	11.68	12.40	11.91
1982	11.82	11.99	11.74	10.71
1983	9.87	9.64	10.04	10.18
1984	10.32	10.88	11.53	11.41
1985	10.32	9.98	9.54	9.43
1986	9.09	8.39	7.81	7.48
1987	7.24	7.21	7.54	7.97
1988	8.01	7.87	8.20	8.45
1989	8.76	9.13	8.87	8.68
1990	8.52	8.50	8.39	8.27
1991	7.97	7.38	7.00	6.52
1992	5.87	5.45	4.97	4.67
1993	4.64	4.51	4.44	4.36
1994	4.25	4.45	4.96	5.37
1995	5.76	5.98	5.89	5.76
1996	5.62	5.52	5.57	5.58
1997	5.56	5.63	5.68	5.71
1998	5.70	5.66	5.64	5.46
1999	5.19	5.08	5.21	5.49
2000	5.80	6.18	6.47	6.52
2001	6.16	5.32	4.47	3.52
2002	2.96	2.75	2.63	2.31
2003	1.98	1.77	1.63	1.56
2004	1.47	1.44	1.67	2.00
2005	2.38	2.85	3.18	3.63
2006	4.03	4.53	4.93	5.11
2007	5.17	5.23	5.24	4.96
2008	4.18	3.11	2.77	2.54
2009	1.91			