

PROPOSAL NO.: LAFCO 3110

HEARING DATE: December 8, 2010

RESOLUTION NO. 3117

A RESOLUTION OF THE LOCAL AGENCY FORMATION COMMISSION OF THE COUNTY OF SAN BERNARDINO MAKING DETERMINATIONS ON LAFCO 3110 – A SERVICE REVIEW AND SPHERE OF INFLUENCE UPDATE FOR THE LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT (sphere of influence expansion by approximately 1,140.3+/- acres which includes non-contiguous territory within the Hesperia community (344 +/- acres) and affirmation of the balance, as shown on the attached maps).

On motion of Commissioner _____, duly seconded by Commissioner _____, and carried, the Local Agency Formation Commission adopts the following resolution:

WHEREAS, a service review mandated by Government Code 56430 and a sphere of influence update mandated by Government Code Section 56425 have been conducted by the Local Agency Formation Commission of the County of San Bernardino (hereinafter referred to as “the Commission”) in accordance with the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Government Code Sections 56000 et seq.); and,

WHEREAS, at the times and in the form and manner provided by law, the Executive Officer has given notice of the public hearing by the Commission on this matter; and,

WHEREAS, the Executive Officer has reviewed available information and prepared a report including her recommendations thereon, the filings and report and related information having been presented to and considered by this Commission; and,

WHEREAS, a public hearing by this Commission was called for December 8, 2010 at the time and place specified in the notice of public hearing and in an order or orders continuing the hearing; and,

WHEREAS, at the hearing, this Commission heard and received all oral and written protests; the Commission considered all plans and proposed changes of organization, objections and evidence which were made, presented, or filed; it received evidence as to whether the territory is inhabited or uninhabited, improved or unimproved; and all persons present were given an opportunity to hear and be heard in respect to any matter relating to the application, in evidence presented at the hearing; and,

WHEREAS, at this hearing, this Commission certified that the sphere of influence update including sphere amendments is statutorily exempt from environmental review pursuant to the provisions

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of the California Environmental Quality Act (CEQA) and such exemption was adopted by this Commission on December 8, 2010. The Commission directed its Executive Officer to file a Notice of Exemption within five working days of its adoption; and,

WHEREAS, based on presently existing evidence, facts, and circumstances filed with the Local Agency Formation Commission and considered by this Commission, it is determined that the sphere of influence for the Lake Arrowhead Community Services District (hereafter shown as the "District") shall be amended as shown on the maps attached as Exhibit "A" to this resolution, defined as follows:

- (1) Expand the District's sphere of influence to include Area 1 (approximately 1.3+/- acres), Area 2 (approximately 760+/- acres), Area 3 (approximately 18.3+/- acres), Area 4 (approximately 6.3+/- acres), Area 5 (approximately 6.4+/- acres), Area 6 (approximately 3.9+/- acres), and the 10 District-owned parcels located in and adjacent to the City of Hesperia (approximately 344.1+/- acres); and,
- (2) Affirm the balance of the District's existing sphere of influence.

WHEREAS, the determinations required by Government Code Section 56430 and local Commission policy are included in the report prepared and submitted to the Commission dated November 30, 2010 and received and filed by the Commission on December 8, 2010, a complete copy of which is on file in the LAFCO office. The determinations of the Commission are:

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

Development in the San Bernardino Mountains is naturally constrained by rugged terrain, public land ownership, limited access, and lack of support infrastructure, as well as by planning and environmental policies which place much of the area off limits to significant development. Maximum build-out potential is substantially constrained by the slope-density standards and fuel modification requirements of the County General Plan Fire Safety Overlay. The Lake Arrowhead Community Plan identifies the private lands within the district as generally residential (RS-14M and RS-1) with scattered commercial along State Route 189, 173, Rim Forest and along the lake (Lake Arrowhead Village). The public lands within the district are designated Resource Conservation.

Roughly one-fifth of LACSD's area is within the San Bernardino National Forest (owned by the federal government), which are devoted primarily to resource protection and recreational use.

In general, the San Bernardino Mountains is one of the most densely populated mountain areas within the country, and is the most densely populated urban forest west of the Mississippi River. However, there is a large seasonal population component as well as a substantial influx of visitors to the mountain resort areas (approximately 25% of the residents are full-time). The seasonal population and visitors are not reflected in available demographic statistics, which count only year-round residents. It is estimated that the seasonal factors can approximately double the peak population.

Utilizing the Lake Arrowhead Community Plan, LACSD is estimated to have about 14,800 full-time residents in 2010. However, the District estimates its current population to be around 16,620. Either way, by 2030 the permanent population is estimated to reach over 22,000. This figure does not take into account seasonal population and tourism. Even with the large increase in population, the District's area is not anticipated to reach its build-out population by the 2030

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horizon of this report. However, its water service area, generally that of the Arrowhead Woods, has denser land use which has impacted LACSD’s ability to provide water.

| Year | 2000 | 2005 | 2010 | 2015 | 2020 | 2025 | 2030 | 2000 to 2030 growth rate |
|--------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------------------|
| Lake Arrowhead CSD | 12,040 | 13,364 | 14,834 | 16,466 | 18,278 | 20,288 | 22,520 | 87.0% |
| TOTAL | 12,040 | 13,364 | 14,834 | 16,466 | 18,278 | 20,288 | 22,520 | 87.0% |

| Build-out | 2030 as % of Build-out |
|-----------|------------------------|
| 61,871 | 36% |

Source: County of San Bernardino 2007 Lake Arrowhead Community Plan

Notes: Does not include seasonal population or visitors

Italicized figures are calculated by LAFCO

2. Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies:

LACSD provides wastewater (sewer) services throughout the district. The LACSD’s primary water service area encompasses approximately 4,900 acres and is essentially the same boundary as the development area known as the Arrowhead Woods (also that of the Arrowhead Lake Association - an association formed for use of the private lake, membership is voluntary and is available to anyone who owns property in Arrowhead Woods). This reflects the District’s boundary at the time of its formation.

There is one improvement district in Deer Lodge Park where water is supplied by the Crestline-Lake Arrowhead Water Agency and groundwater wells but managed by LACSD. In 1985, the District assumed ownership and control of the Deer Lake Water Corporation, which provided water to the residents of Deer Lodge Park ("DLP"). In 1985, the District formed the Deer Lodge Park Water system assessment district for infrastructure upgrades needed for water quality control purposes. Deer Lodge Park is outside of the District’s water service area which uses Lake Arrowhead as source water; therefore, all water sold in Deer Lodge Park is either produced from existing wells within the area or purchased from the Crestline-Lake Arrowhead Water Agency (a State Water Project contractor) for sale in Deer Lodge Park.

Water

Crestline-Lake Arrowhead Water Agency ("CLAWA) is a State Water Project contractor and delivers wholesale water within its boundaries to private and public retail water providers. This area is located in the South Lahontan Hydrologic Region, as designated by the California Department of Water Resources, and is in the Mojave Watershed. Since CLAWA provides wholesale water to over twenty public and private water purveyors and camps.

Water is the lifeblood for communities due to its limited nature. This statement is as true for the San Bernardino Mountains as other areas of the County because it is one of the most densely populated mountain areas within the country and in general relies upon imported water from the State Water Project for domestic use. Therefore, the most significant regional issue is present and future water supply. The *2007 State Water Project Delivery Reliability Report* indicates that SWP deliveries will be impacted by two significant factors. First, it is projected that climate change is altering hydrologic conditions in the State. Second, a ruling by the Federal Court in December 2007 imposed interim rules to protect delta smelt which significantly affects the SWP.

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Further, the *Report* shows, "...a continued eroding of SWP delivery reliability under the current method of moving water through the Delta" and that "annual SWP deliveries would decrease virtually every year in the future..." The *Report* assumes no changes in conveyance of water through the Delta or in the interim rules to protect delta smelt.

The 2007 Reliability Report concluded that contractors to the SWP could anticipate average reliability of 66-69% through the year 2027. The range was provided to account for variable impact associated with different conclusions about the potential effects of modeled climate change. The average assumes that in some years contractors are likely to be allocated less than the stated average and in some years contractors are likely to be allocated more than the stated average.

In 2009 the DWR provided an updated reliability report incorporating new biological opinions in place of the referenced interim rules promulgated by the Federal Court. The new biological opinions were significantly more restrictive than the interim rules and consequently the 2009 reliability analysis indicated a reduction in reliability to 61% for long-term (2029) conditions.

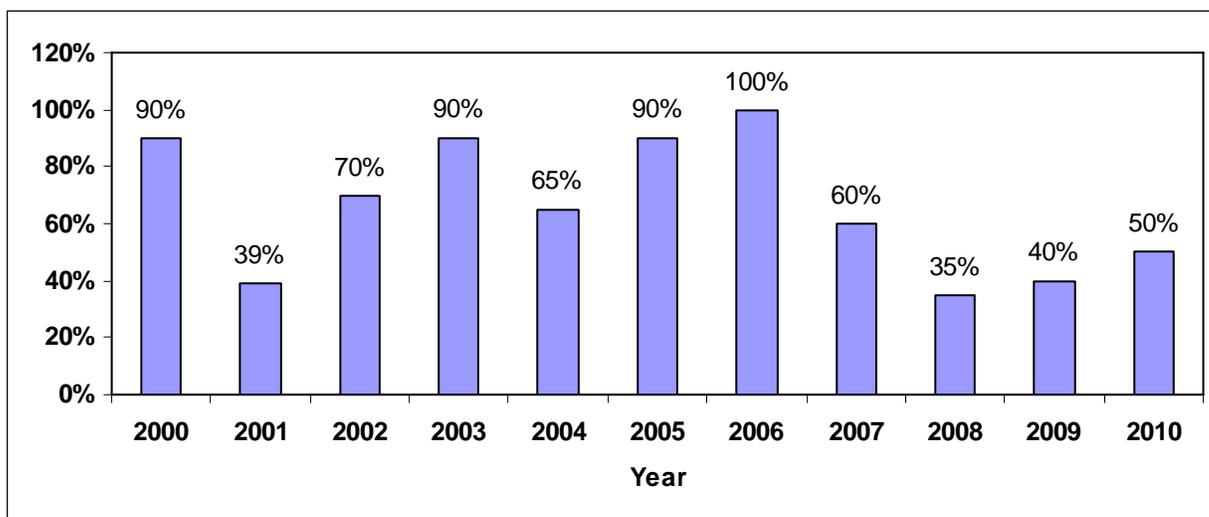
Since preparation of the 2009 Reliability Report, the same Federal Court has found the new biological opinions to be unacceptable (and inappropriately restrictive to Delta water exports) and has ordered them to be redone. At this writing yet another set of interim operational guidelines are being developed with the Court and are expected to be less restrictive to water exports than the biological opinions that were included in the DWR modeling for the 2009 Reliability Report. There is also a major effort underway to develop a habitat conservation plan to address the myriad of issues impacting water supply exports from the Delta. That effort, if accomplished in a manner consistent with the "co-equal goals" of ecosystem restoration and water supply reliability envisioned by the State Legislature's 2009 Comprehensive Water Package, is anticipated to significantly increase reliability of the SWP water supply. The eventual success and/or resulting increase to reliability are unknown at this time; however, the outcome will eventually be reflected in the biennial DWR reliability assessments.

The figure below shows the allocation percentage that State Water Contractors were allowed to purchase since 1998. For example, CLAWA (the State Water Contractor for the area) is entitled to purchase up to 5,800 acre-feet of imported water per year. As of June 23, 2010, for 2010 the allocation percentage is 50%¹; therefore, CLAWA can purchase up to 2,900 acre-feet in 2010. This sharp reduction in supplemental water supply will reduce the amount of water that CLAWA can deliver to its retail and wholesale customers. This prompts water purveyors to scale back consumption annually, to aggressively promote water conservation measures, and to buy more expensive imported water. Finding efficiencies in managing limited supply sources is critical for the future of the community.

Department of Water Resources State Water Project Allocation Percentages Statewide (1998-2010)

¹ State of California. Department of Water Resources. "Late Spring Weather Allows DWR to Increase Water Allocation", Press Release. 23 June 2010.

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source: Department of Water Resources

A complete service review was conducted for CLAWA in July 2010 (LAFCO 3107). The following are key points identified in the CLAWA service review.

- To date, CLAWA has indicated that the SWP allocation reductions have not adversely impacted the agency's ability to serve its retail and wholesale customers. CLAWA's retail deliveries averaged roughly 270 acre-feet/year for the past 10 years, which is a fraction of total water deliveries (16% of total deliveries to CLAWA from Lake Silverwood). Wholesale deliveries comprise the majority of CLAWA's water deliveries and the local retailers use this water to supplement their own local groundwater resources. CLAWA staff indicates that the local groundwater supply has been sufficient to date to satisfy local demand. Given this, retail and wholesale demand has not exceeded CLAWA's SWP allocation to date.
- CLAWA's SWP contract allows it to carry-over the unused portion of its allocation in the San Luis Reservoir in Merced County for use by CLAWA in a later year. The carry-over of water is subject to Department of Water Resources determining that there is adequate storage space in the reservoir. Anticipating that local and imported supply is not static, CLAWA has indicated that as of March 2010, it had 2,398 acre-feet of accumulated carry-over water at San Luis Reservoir for use in subsequent years if needed, dependent upon storage space in the reservoir.
- CLAWA pumps surface water from Silverwood Lake, treats and disinfects the water at a "multi-barrier" treatment plant located near the south shore of the Lake, then pumps the treated water uphill to CLAWA's storage and pipeline distribution system. Once the water is treated and pumped up the mountain, it can then be delivered to its wholesale purveyors and retail customers. However, some retail water purveyors may provide additional treatment for their own local water supplies and blend the supplemental supply with their groundwater resources.

Community Water

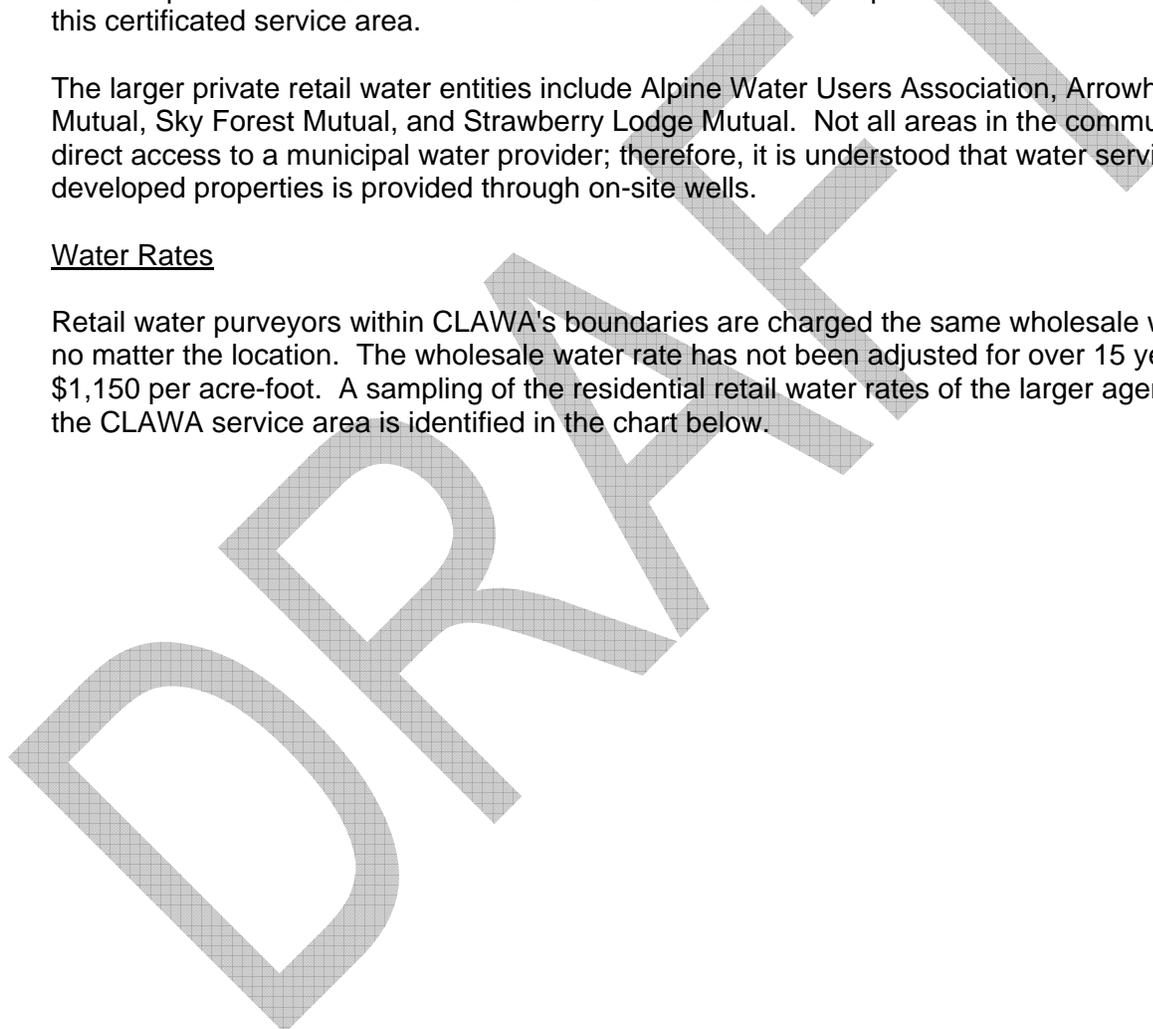
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In the Lake Arrowhead Community, water is produced from local groundwater sources, Lake Arrowhead, and imported State Water Project Water. Lake Arrowhead Community Services District is the main retail water provider in the community and provides retail water from wells and Lake Arrowhead. Other public retail water providers include four improvement districts to CLAWA, County Service Area 70 Zone CG, and the Rimforest portion of the City of Big Bear Lake Department of Water and Power. Big Bear Lake - DWP succeeded to the water service territory previously assigned the Southern California Water Company – Big Bear District through the State Public Utilities Commission upon its acquisition by the City of Big Bear Lake. As a condition of the City’s condemnation for acquisition, it was required to assume service responsibility for all of Southern California Water Company’s service area in the mountains – including the Rimforest portion. In 1995, LAFCO granted the City of Big Bear Lake an exemption from the provisions of Government Code Section 56133 for the provision of water service within this certificated service area.

The larger private retail water entities include Alpine Water Users Association, Arrowhead Villas Mutual, Sky Forest Mutual, and Strawberry Lodge Mutual. Not all areas in the community have direct access to a municipal water provider; therefore, it is understood that water service to those developed properties is provided through on-site wells.

Water Rates

Retail water purveyors within CLAWA's boundaries are charged the same wholesale water rate no matter the location. The wholesale water rate has not been adjusted for over 15 years and is \$1,150 per acre-foot. A sampling of the residential retail water rates of the larger agencies within the CLAWA service area is identified in the chart below.



Residential Water Rate Comparison (2010)
(rates measured in units, or one hundred cubic feet)

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| Agency | Water Use Rate | | | | Monthly Meter Charge (3/4" Meter) | Monthly Avg. Cost (20 units of water) |
|--|----------------|----------|------------|-----------|-----------------------------------|---------------------------------------|
| | Tier One | Tier Two | Tier Three | Tier Four | | |
| Alpine Water Users Association | \$3.30 | \$6.60 | - | - | \$30.00 | \$112.50 |
| Arrowbear Park County Water District | - | 4.90 | - | - | 19.50 | 88.10 |
| Cedar Pines Park Mutual Water Co. | 5.50 | 7.00 | 10.00 | - | 30.76 | 179.76 |
| County Service Area 70 Zone CG | 4.69 | 5.21 | 5.73 | 6.30 | 61.80 | 158.72 |
| Crestline-Lake Arrowhead Water Agency (Improvement Districts A & C)¹ | - | \$7.25 | - | - | 15.00 | 141.88 |
| Crestline-Lake Arrowhead Water Agency (Improvement District B)¹ | - | \$5.00 | - | - | 10.00 | 97.50 |
| Crestline-Lake Arrowhead Water Agency (Improvement District D)^{1,2} | - | \$7.25 | - | - | 25.00 | 151.88 |
| Crestline Village Water District | 4.20 | 6.30 | - | - | 19.75 | 118.45 |
| Department of Water & Power City of Big Bear Lake | 4.43 | - | - | - | 40.60 | 129.20 |
| Green Valley Mutual Water Company | 2.40 | 7.75 | - | - | 30.50 | 137.35 |
| Lake Arrowhead Community Services District (Arrowhead Woods) | 0.68 | 1.74 | 6.21 | 12.93 | 20.60 | 79.27 |
| Lake Arrowhead Community Services District (Deer Lodge Park) | 3.27 | 3.90 | - | - | 22.52 | 94.22 |
| Running Springs Water District | 3.26 | - | - | - | 18.15 | 83.35 |
| Rates rounded to the nearest hundredth ¹ CLAWA retail rates are for 5/8" meter ² \$25 monthly meter charge includes \$10 charge for loan repayment | | | | | | |

Supply

The District currently has three sources of water for potable use to serve its primary water service area also known as the Arrowhead Woods; (1) groundwater from six wells located in the Grass Valley Basin, (2) surface water from Lake Arrowhead, and (3) State Water Project water delivered by Crestline-Lake Arrowhead Water Agency (described in detail below).

(1) *Groundwater from five wells located in the Grass Valley Basin*

The Lake Arrowhead water service area comprises approximately 4,900 acres of mountainous terrain where about 40% of the land has slopes of more than 30% grade. The ground underneath the surface is mostly dense, fractured and jointed granite. This terrain is very difficult to develop groundwater wells. In contrast, the Big Bear area is comprised mostly of loose gravel, sand, and silt which allows for an ample storage capacity of groundwater.

Nevertheless, LACSD currently has five productive wells in the Grass Valley area that provide approximately 200 acre feet of groundwater. There are two production wells in the Deer Lodge Park service area; they are currently out of service awaiting installation of a treatment system to remove uranium. It expects their return to service in 2011.

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Although the wells have been recently renovated, their historic production is roughly of 24-36 acre-feet/year each. LACSD has no plans in the foreseeable future to construct additional wells.

LACSD has base annual production (water rights) of 658 acre-feet per year in the Alto sub-basin through the adjudication of the Mojave River basin. Alto is currently at 80% rampdown, which allows LACSD to produce 527 acre-feet per year. LACSD did not purchase any water rights in the Alto sub-basin of the Mojave groundwater basin. The District acquired an agricultural entitlement from many years of growing alfalfa on the property and upon adjudication received the 658 acre-foot right. The well for the caretaker's house is the only current active use and represents usually less than one acre foot of use per year (the well production is metered). For the last several years LACSD has sold its available 527 acre-feet of Free Production Allowance to various other water users within the Alto basin. The District views this asset as a potential tool for negotiations for some sort of long-term permanent supplemental water supply or transportation agreement with the Mojave Water Agency.

(2) *Surface water from Lake Arrowhead*

The Arrowhead Lake Association (ALA) (owners of Lake Arrowhead and Grass Valley Lake) oversee the recreational use of Lake Arrowhead and the immediate lake shoreline and owns the land under the lake as well. In general, ALA has control over the lake's recreational use and LACSD has entitlement over the lake's retail water use. After experiencing near average precipitation during 2007-08, the precipitation in the Mojave River Watershed during 2008-09 as measured at Lake Arrowhead amounted to 13.76 inches, which is about 33 percent of the base period average of 41.50 inches.

During the recent period of drought, the level of Lake Arrowhead dropped dramatically causing many of the Arrowhead Woods residents to complain. As a result of inquiries made regarding the extraction of water from the Lake, the Department of Water Resources reconfirmed its original permit and ordered that the level of the lake be maintained for recreational uses, restricting the extractions for water consumption. In 2006, the State Water Resources Control Board issued Order No. WR 2006-001 (Order). The Order limits the District's withdrawals from Lake Arrowhead to 1,566 acre feet per year (afy) beginning in 2008 (a reduction of over 40%) and determines the lake level set at a specific elevation point. This prompted the LACSD to scale back consumption, to aggressively promote water conservation measures, and to find efficiencies in managing the limited supply. As a result, the District entered into a Memorandum of Understanding with the Arrowhead Lake Association to establish a goal to maintain the elevation of Lake Arrowhead at or above 5,100 foot elevation. The water master plan identifies that the District does not have adequate water supplies to meet the long-term demands of its current customer base as a result of a 40% reduction in the District's entitlement to Lake Arrowhead water.

Currently the District has not developed a reserve policy since it essentially has no reserve capacity due to the reduction in lake consumptive capacity.

(3) *State Water Project water delivered by CLAWA*

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When CLAWA was originally proposed for formation in the State Legislature, its boundaries included Lake Arrowhead and the surrounding community of Arrowhead Woods. At the last minute, however, the major property owner of Lake Arrowhead elected to exclude the Lake Arrowhead community (Arrowhead Woods) from CLAWA's boundaries, confident that local water supplies in Lake Arrowhead would be sufficient to satisfy the consumptive needs of that community. The amended legislation excluded the Lake Arrowhead community but the original State Water Project entitlement amount (Table A water) of 5,800 acre-feet/year remained. The result through the years has been a lesser population repaying the debt service of the original 5,800 acre-feet/year entitlement.

As described above, the Department of Water Resources restricted the Lake Arrowhead water extractions for water consumption and determined that the lake be set at a specific elevation point. One option considered by LACSD was to import State Water Project Water directly from CLAWA. However, Arrowhead Woods is not within the boundaries of CLAWA, and pursuant to CLAWA Law and its contract with the State, CLAWA could not provide supplemental water outside of its boundaries.

To address water shortage concerns in Lake Arrowhead while also strengthening the reliability of CLAWA's supply to its own customers, in 2005 CLAWA entered into short term agreements with San Bernardino Valley Municipal Water District ("Muni") and with LACSD for the purchase of water from Muni, treatment and transportation of that water through CLAWA's transmission system (as capacity may be available in the CLAWA's system during periods of off-peak demands) for delivery of that treated water into the LACSD's system for its use in lieu of water from Lake Arrowhead. A significant element of the arrangement is that CLAWA has pre-purchased 7,600 acre-feet of water from Muni, which will be taken from Muni's future allocations of imported water from the State Water Project. During August 2005, and in accordance with the agreement, CLAWA paid to Muni the total sum of \$4,006,680 as full payment for the Exchange Water, approximately \$527 per acre foot.

This arrangement does not involve the delivery of any portion of CLAWA's State Water Project water, since the water comes from Muni, but it commits virtually all of CLAWA's off-peak treatment and transmission system capacity for the delivery of treated water to LACSD. The term of the arrangement is for approximately ten to fifteen years, or until the total of 7,600 acre-feet of water purchased from Muni has been delivered to LACSD. However, the arrangement has produced only a temporary solution to the water supply issues confronting the Lake Arrowhead area. CLAWA anticipates that the parties may wish to extend the short-term arrangement into a long-term arrangement designed to address the water shortage concerns in the Arrowhead Woods area.

CLAWA has issued the following as an explanation of the project and the significant terms of the arrangement²:

1. *Muni receives an annual allocation of imported water from the State Water Project. Its allocated water flows into Silverwood Lake, then through the San Bernardino Tunnel for delivery to Muni in the valley below. Unlike CLAWA, Muni has the unique right to sell and deliver its annual allocation of State water to areas beyond its boundaries.*

² CLAWA. "News and Notes". website, www.clawa.org, Accessed 27 April 2010, Last update unknown.

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2. *CLAWA has facilities in place to take water from Silverwood Lake, treat the water at its treatment plant on the south shore of the lake, pump the water uphill nearly 2,000 feet to Crestline, store the treated water, and then pump it eastward through transmission pipelines to a location near the retail water system of the LACSD.*
3. *CLAWA has purchased from Muni the right to take 7,600 acre-feet of imported water over a period of 15 years from Muni's future allocations of water from the State Water Project.*
4. *CLAWA has entered into an agreement with LACSD for the purchase, treatment, pumping, transportation and delivery of that water to LACSD's retail water system through CLAWA facilities as capacity in those facilities may be available. This capacity is in excess of the capacity needed by CLAWA to treat and deliver water to its own customers. None of the water delivered to LACSD pursuant to this arrangement will come from CLAWA's annual allocation of water from the State. All of it will come from Muni's allocation.*
5. *CLAWA's charge to LACSD for the purchase, treatment, pumping, storage, transportation and delivery of this water consists of several elements as follows:*
 - a. *The price which CLAWA must pay to Muni in the year of delivery for water taken from Muni's allocation of imported water that year, which is equal to Muni's actual charges paid to the State for the water (not including Muni's capital costs). That charge is estimated to be \$527.19 per acre-foot, but may vary from year to year, to reflect what Muni must pay to the State that year for water delivered to Silverwood Lake.*
 - b. *\$100 per acre-foot of water delivered to LACSD, to recover lost earnings on funds advanced by CLAWA to pre-purchase 7,600 acre-feet of water.*
 - c. *Approximately \$2,000 per acre-foot for the cost of treating the water, pumping it up the mountain to the LACSD system, and recovery of an amortized portion of the capital cost of CLAWA's intake facilities, treatment plant, pump stations, reservoirs and pipeline facilities to treat, pump, store, transport and deliver the water to the LACSD's retail water system. This charge is subject to adjustment each year to reflect changes in the actual cost of energy incurred in treating, pumping and transporting the water.*

In September 2009, LACSD and CLAWA amended the agreement to include annual minimum purchases by LACSD and adjustments to the price charged to LACSD per acre-foot of water.

The total charge to LACSD is roughly \$2,627 per acre-foot (subject to annual adjustment) for purchase, treatment, pumping, storage, transportation, and delivery of the supplemental water. As of June 30, 2009, LACSD has purchased 1,221.59 acre-feet from CLAWA, at an estimated cost of \$2,787.83 per acre-foot. A summary of the LACSD purchases of Exchange Water is shown in the figure below:

| Year Ending June 30 | Lake Arrowhead CSD Purchase | | Exchange Water Remaining |
|------------------------|-----------------------------|-------------|-----------------------------|
| | acre-feet | cost | |
| 2007 | 81.49 | \$230,012 | 7,518.51 |
| 2008 | 970.52 | \$2,716,345 | 6,547.99 |
| 2009 | 169.58 | \$459,237 | 6,378.41 |

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Source: CLAWA Financial Statements for FY 2007-08 and FY 2008-09

Demand

The District owns and operates three water treatment plants with a combined permitted treatment capacity of seven million gallons per day (mgd). The current average annual daily demand on the water system is 2.3 mgd. However, because the residential makeup of the District is highly seasonal, daily demand increases during weekends and holidays. Summer holiday peak daily demand can reach six mgd and at full build out the peak daily demand is estimated to be 7.25 mgd, which will require an upgrade to one of the two water treatment plants. Build out of the District's water service area is not expected to occur until sometime after 2025 depending on the rate of growth and the number of buildable lots. The District currently maintains 18 water storage reservoirs, nine pressure tanks, and 22 water pumping stations.

The District currently has roughly 8,200 water connections in the Arrowhead Woods water service area and over 200 connections in the Deer Lodge Park service area with new water connections averaging less than one percent per year for the period 1995 through 2009. In order to help maintain this rate of new water connections, in June 2006 the District adopted Ordinance 65 to limit the number of new water connection permits to five per month. This was in response to State Water Resources Control Board Order WR 2006-0001 (described further below). The chart below taken from the FY 2008-09 audit shows the number of connections since 2000.

| Fiscal Year | Arrowhead Woods | | | Deer Lodge Park (DLP) | | |
|----------------|-----------------------|-----------------------|------------|-----------------------|-----------------|------------|
| | New Water Connections | Water Connections (1) | % Increase | New DLP Connections | DLP Connections | % Increase |
| 2000 | 88 | 7,294 | 1.22% | 1 | 164 | 0.61% |
| 2001 | 81 | 7,375 | 1.11% | 0 | 164 | 0.00% |
| 2002 | 84 | 7,459 | 1.14% | 2 | 166 | 1.22% |
| 2003 | 67 | 7,526 | 0.90% | 0 | 166 | 0.00% |
| 2004 | 64 | 7,590 | 0.85% | 1 | 167 | 0.60% |
| 2005 | 65 | 7,655 | 0.86% | 1 | 168 | 0.60% |
| 2006 | 171 | 7,826 | 2.23% | 7 | 175 | 4.17% |
| 2007 | 34 | 7,860 | 0.43% | 7 | 182 | 4.00% |
| 2008 | 43 | 8,289 (2) | 0.55% | 2 | 209 (2) | 1.10% |
| 2009 | 24 | 8,187 (4) | -5.89% | 0 | 209 | -11.96% |
| Average | 72 | | | 2 | | |

After reaching a peak water usage in 2002, water use per customer has declined with a sharp drop in 2008 (as shown on the table below). After reviewing the District's water conservation programs this past year, the Board adopted Ordinance 69 to enable the District to restrict certain types of non-essential water uses and prioritize local water supplies for essential uses. The effect of this new ordinance should reduce average water use even further. According to the FY 2008-09 budget, the three largest rate payers were Lake Arrowhead County Club (210.31 acre-feet), Lake Arrowhead Resort (25.83 acre-feet), and Rim of the World Unified School District (28.04 acre-feet).

| Calendar Year | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---------------|------|------|------|------|------|------|------|------|------|
| Avg. acre- | 0.29 | 0.29 | 0.30 | 0.25 | 0.25 | 0.23 | 0.23 | 0.24 | 0.18 |

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| | | | | | | | | | |
|----------------------|--|--|--|--|--|--|--|--|--|
| foot per customer | | | | | | | | | |
|----------------------|--|--|--|--|--|--|--|--|--|

source: Lake Arrowhead CSD FY 2008-09 Financial Statements

Wastewater

The sewer system consists of approximately 200 miles of sewer pipelines and 21 lift stations that convey wastewater to one of the two wastewater treatment plants. The District currently has nearly 10,600 wastewater connections in its service area. Shown on the chart below is the connection activity since 2000. According to the FY 2008-09 Financial Statements, the three largest sewer customers were Lake Arrowhead Resort (\$54,203), Lake Arrowhead Village (\$50,450), and Rim of the World Unified School District (\$47,735).

| Wastewater | | | | |
|----------------|----------------------------|------------------------|-----|------------|
| Fiscal Year | New Wastewater Connections | Wastewater Connections | | % Increase |
| 2000 | 90 | 10,088 | | 0.90% |
| 2001 | 103 | 10,191 | | 1.02% |
| 2002 | 84 | 10,275 | | 0.82% |
| 2003 | 68 | 10,343 | | 0.66% |
| 2004 | 64 | 10,407 | | 0.62% |
| 2005 | 67 | 10,474 | | 0.64% |
| 2006 | 105 | 10,579 | | 1.00% |
| 2007 | 106 | 10,695 | (3) | 1.10% |
| 2008 | 46 | 10,741 | | 0.43% |
| 2009 | 39 | 10,592 | (4) | -1.39% |
| Average | 77 | | | |

The two treatment plants have a combined permitted treatment capacity for dry weather average daily flow of 3.75 mgd. Partially treated effluent is conveyed from the Willow Creek treatment plant to the Grass Valley treatment plant for final treatment. Treated wastewater is then conveyed through the District's 10-mile outfall pipeline where the water is used for crop irrigation and also to infiltrate effluent through percolation ponds on a 350 acre facility owned by the District in Hesperia, approximately two miles north of the Mojave Forks Dam.

LACSD is required to send effluent to the Mojave Basin as a result of *City of Barstow et al. v. City of Adelanto et. al.* Superior Court Case No. 208568, Riverside County, CA (1990). The LACSD water/wastewater service area is not within the Mojave Basin adjudication. Currently all water transported to the Hesperia disposal site is percolated into the Mojave Basin. LACSD has delivered reclaimed wastewater to the Mojave Basin Area for disposal in the following amounts³:

³ Mojave Basin Watermaster. Watermaster reports for Water Years 2002-03 through 2008-09.

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| Water Year | Acre-feet |
|------------|-----------|
| 2002-03 | 1,740 |
| 2003-04 | 1,498 |
| 2004-05 | 2,451 |
| 2005-06 | 1,504 |
| 2006-07 | 1,677 |
| 2007-08 | 1,277 |
| 2008-09 | 1,432 |

The District's Wastewater system is operated under a set of Waste Discharge Requirements (WDR) as part of Regional Board Order No. R6V-2009-0037 issued June 10, 2009 by the Regional Water Quality Control Board. The District developed and implemented a Sewer System Management Plan to improve its spill prevention and prevention programs as required by the WDR. The primary goal of the program is to eliminate all spills from the Collection System. In an effort to bring the District in to compliance, the District is in the process of upgrading and expanding its Grass Valley Wastewater Treatment Plant to meet California Department of Public Health Title 22 tertiary standards for wastewater treatment and obtaining an emergency discharge permit so that in extreme wet weather events the District may discharge flows that exceed the capacity of the treatment and disposal system to Grass Valley Creek.

Reclamation

Prior to 2004, reclaimed (recycled) water was not permitted by the Lahontan Regional Water Quality Control Board in the Mountain region. In April 2004, the District's request for an amendment to the State Water Quality Control Board Lahontan Region Basin Plan to allow the use of reclaimed water for outdoor irrigation at elevations above 3,200 feet was approved. Phase 1 was completed in the summer of 2010. A portion of funding for the project is through an Environmental Protection Agency (EPA) grant.

The District is in the process of designing and constructing facilities to deliver reclaimed water to large irrigation users. The first phase of the Recycled Water Project is complete and has delivered water for irrigation of the Lake Arrowhead County Club golf course and immediate surrounding areas such as Grass Valley Lake Park.

Las Flores Ranch Corporation and Mojave River County Water District v. Lake Arrowhead Development Company

The Mojave River County Water District (Mojave River CWD) obtained a Judgment in 1966 to limit the amount of water that could be taken by entities upstream of the Mojave River CWD. In 1995, LAFCO approved the dissolution of the Mojave River CWD (LAFCO 2795), and as a condition of the dissolution the Mojave Water Agency (MWA) succeeded to the responsibilities of the Mojave River CWD related to the judgment. Specifically, MWA intervened in the lawsuit *Las Flores Ranch Corporation v. Lake Arrowhead Development Company*. By intervening in the case, MWA "shall monitor compliance with the Judgment". The monitoring effort involves determination of minimum water flows through a metered facility from Grass Valley Lake into Grass Valley Creek, a tributary to the Mojave River, as prescribed by the Judgment.

The actual responsibility to monitor and report the data resides with the Arrowhead Lake Association, and the Arrowhead Lake Association uses data collected from the LACSD for monitoring and reporting. MWA's role is to maintain water transfer records of discharge into Grass Valley Creek and to maintain water transfer records from Grass Valley Creek and Grass

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Valley Lake into Lake Arrowhead. MWA is fulfilling its obligation by maintaining the discharge and transfer records. To ensure consistent and accurate reporting and to share costs related to the operation of Lake Arrowhead, Arrowhead Lake Association and Lake Arrowhead CSD have entered into a memorandum of understanding to address a comprehensive monitoring program at Lake Arrowhead and the division of costs. A copy of the updated agreement, dated November 2007, is available through LACSD, MWA, or LAFCO.

3. Financial ability of agencies to provide services:

The Commission has reviewed the District's budgets, audits, 2008 Financial Master Plan, and State Controller reports for special districts.

Funds and General Operations

In reviewing the financial documents, the District has been operating with an annual positive change in net assets since at least FY 2005-06, as shown on the figure below. For FY 2007-08 and FY 2008-09, net assets increased by \$5.76 million and \$8.98 million, respectively. As of June 30, 2009, LACSD had \$74.80 million in net assets. Not including capital assets value and debt, the District had roughly \$15.67 million in restricted and unrestricted net assets. Of this amount \$11.59 million is unrestricted.

| | Fiscal Year | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2005 | 2006 | 2007 | 2008 | 2009 |
| Business-type activities: | | | | | |
| Invested in capital assets, net of related debt | 28,277,098 | 30,227,499 | 34,945,404 | 42,757,347 | 59,231,500 |
| Restricted | 8,786,694 | 10,457,876 | 11,280,883 | 10,333,134 | 3,971,746 |
| Unrestricted | 13,104,460 | 13,024,649 | 13,835,208 | 12,732,250 | 11,594,330 |
| Total business-type activities net assets | <u>50,168,252</u> | <u>53,710,024</u> | <u>60,061,495</u> | <u>65,822,731</u> | <u>74,797,576</u> |

source: FY 2008-09 financial statements

The accounts of LACSD are organized into three enterprise funds considered as separate accounting functions. Therefore, general administrative costs, operations, fees paid, and corresponding expenses are separated as follows:

- Water Enterprise – Accounts for the retail water operations confined to the water service area. In the past audited fiscal year, net assets increased by \$7.4 million (23%) due to investment in recycled water projects, automatic meter reading upgrade, and water pipeline installation. In 2004, LACSD implemented a new Supplemental Water Supply Fee in order to diversify the district's water supply to eliminate reliance on the lake as the sole source of water supply.
- Wastewater Enterprise – Accounts for the wastewater operations throughout the district. For FY 2008-09, net assets increased by \$1.7 million (5%) due to investment in pipeline rehabilitation and improvements made to Lift Stations 9 and 10.
- Deer Lodge Park Enterprise – Accounts for the purchase of water or pumping activities of the Deer Lodge Park 94-1 assessment district. For FY 2008-09, net assets decreased by

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\$163,000 (8%) due to a write-off of \$166,000 of the assessment receivable as uncollectible.

Revenues

Revenues are derived primarily from 1) charges for services, 2) share of the one percent general levy property tax, 3) supplemental water supply fee, 4) interest, and 5) grant income

1. *Charges for Services*

The main source of revenue income for the District is from charges for water and sewer services. Rates for residential water service include a fixed monthly charge for water service based on meter size applicable to each property, even if unoccupied, and a consumption charge for water service based on a tiered rate. Both water and wastewater customers are billed on a monthly basis. However, wastewater only customers are charged a fixed fee equivalent to \$40.16 per month billed on the annual property tax bill.

During fiscal year 2008-09, the District finalized a comprehensive Financial Master Plan to ensure the continued financial stability of the District. The water and wastewater rates have been restructured based on the Financial Master Plan and the District moved from bi-monthly billing to monthly billing. The rate structure adjusts fixed charges and volume charges so that the net effect more fairly allocates costs to those customers that are high volume users and enhance the positive economic signal to users that conserve. A three percent rate increase was approved with the adoption of the FY 2009-10 Budget, effective January 1, 2010.

2. *Share of One Percent General Levy*

LACSD receives a share of the one percent general ad valorem tax levy. The receipt of a share of the general levy is to the District as a whole and it has chosen to restrict these revenues to its wastewater activities. When the LACSD assumed responsibility for the wastewater activities of the former Lake Arrowhead Sanitation District, the Sanitation District's share of the general levy was transferred to LACSD (LAFCO 2186).

3. *Supplemental Water Supply Fee*

The Supplemental Water Supply Fee was put in place in 2004 to collect fees to: 1) pay for the cost of importing State Water Project water; and 2) pay for the cost of permanent water supply projects such as groundwater wells, recycled water for outdoor irrigation, and additional imported water. The Supplemental Water Supply fee is collected through the County of San Bernardino Property Tax Rolls. It is not part of a customer's regular monthly water bill. The fee consists of a fixed annual charge for all water connections and a variable water charge based on previous calendar year water usage. The fixed annual charge increases each year by two percent and is \$242.13 for FY 2010-11. Parcels already paying a CLAWA fee and those without a meter are exempt from the supplemental fee. The fee was established for 15 years and FY 2010-11 is the sixth year of the fee. The District Board of Directors has taken action to restrict use of the Supplemental Water Fee Funds by way of Ordinance 61.

Through December 31, 2009, the Supplemental Water Fees have generated \$20.4 million along with \$7.1 million in funding provided by the State Revolving Fund grant and loan

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proceeds. The use of the funds totals \$23.0 million comprised of \$4.4 million in water purchases from CLAWA and \$18.6 million in capital projects. The largest of the capital projects is Phase 1 of the Recycled Water project at \$12.3 million through December 31, 2009.

4. *Interest*

The District has approximately \$40 million in its reserve accounts which generates considerable interest. However, interest earnings have dropped significantly due to market conditions, which also affect the three enterprise funds.

5. *Grant Income*

The District actively pursues grant funding for its projects. Over the last five audited fiscal years, it has received over \$3.7 million in grant funding to include:

- \$431,000 from the Environmental Protection Agency (EPA) for the District's recycled water program. The District has received the total grant amount and applied it towards the engineering services during construction and other professional services related to the Recycled Water Phase I project.
- \$250,000 from the United States Bureau of Reclamation for a portion of the Integrated Water Regional Plan (IWRP) related to groundwater management.
- \$492,000 from the Bureau of Reclamation portion of the House Energy and Water Appropriations Bill to develop the IWRP. The District and the Bureau worked together to complete the IWRP Final Report in 2007 and the next steps are to begin implementation including surface and groundwater management activities.
- \$208,000 from the Bureau of Reclamation toward an Automatic Meter Reading conservation program.
- The District has secured another appropriation totaling \$1,000,000 in the Federal Fiscal Year 2010 Bureau of Reclamation portion of the House Energy and Water Appropriations Bill. The funds are to be used for a reservoir hydrodynamic study (\$139,792), USGS Precipitation and Stream Gauge Stations (\$167,625), and Water Supply-Renewable Energy Appraisal Study (\$560,038). The District was unable to fully utilize the \$1 million and the agreement with the Bureau is for \$867,455.

Expenditures

As shown below, for FY 2010-11 personnel, materials and supplies, and utilities and waste disposal comprise the majority of the major expenditure categories. The percentage representation below generally is the same for the past few years, with the exception of water purchases increasing in cost for some years.

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| Activity | Expenditure | Percentage |
|----------------------------------|---------------------|-------------|
| Personnel | \$5,853,562 | 58% |
| Materials & Supplies | \$1,240,420 | 12% |
| Utilities & Waste Disposal | \$1,061,050 | 11% |
| Professional & Other Services | \$807,560 | 8% |
| General Liability Insurance | \$300,000 | 3% |
| Water Purchases | \$253,000 | 3% |
| Maintenance, Contracts & Permits | \$217,760 | 2% |
| Training & Travel | \$186,860 | 2% |
| Rebate Programs | \$150,000 | 1% |
| TOTAL | \$10,070,212 | 100% |

Based on recommendations in the Financial Master Plan adopted on September 9, 2008, the District is pursuing debt financing and has taken advantage of low costs loans and grants through the State Revolving Fund. The major addition to capital assets this year was the completion of the Automatic Meter Reading project, water pipeline replacement and sewer pipeline rehabilitation along with lift station upgrades and equipment purchases.

In November 2009, the District sold \$22 million of Certificates of Participation. Approximately \$6 million was to pay-off the outstanding balance of the 1999A debt with a net present savings of over \$300,000. Approximately \$15 million was new money for capital improvement projects in water (25%) and wastewater (75%). The capital improvement projects will also be partially funded with existing District reserves, according to LACSD.

Capital improvement activity focuses heavily on recycled water projects. These projects include replacing aging infrastructure and will provide efficiencies to both the water and wastewater systems. Funding for these projects are from the 2009 certificates of participation proceeds, district reserves, and state and federal grants. The number of projects is still robust, but several significant projects, including the recycled water Grass Valley Wastewater Treatment Plant upgrade, recycled water transmission line, and conversion of the Lake Arrowhead Country Club golf course for recycled water use were completed in the prior budget year.

Long-Term Debt

Long-term liabilities are \$17.8 million as of June 30, 2009. Of this amount, the District had \$15.3 million in outstanding long-term debt, compared to \$14.6 million in fiscal year 2007-2008, a net increase of \$2.6 million. On September 4, 2007 the State Water Board adopted the 2007-08 State Revolving Fund (SRF) Loan Program which included the District's Recycled Water Phase 1 Project. The total amount approved for the District's SRF loan is \$6,220,000 that will be disbursed to the District as reimbursement requests based upon project expenditures are submitted to the State Water Board. The loan has a repayment period of twenty years, with the first repayment due one year after completion of construction, with an interest rate of 2.5%. As of June 30, 2009 the total amount drawn down of the SRF loan was \$2,895,655.

The outstanding debt at June 30, 2009 and 2008 is shown in the following figure.

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| Table D-1 LACSD Outstanding Long-Term Debt (in millions of dollars) | | | | | | |
|---|--------|------------|------------|------------|---------------------------------|--|
| | Water | Wastewater | Total 2009 | Total 2008 | Total % Change 2008- 2009 | |
| 2002 Revenue Refunding Bonds | \$ - | \$ 6.1 | \$ 6.1 | \$ 7.5 | (18.7%) | |
| 1993 Revenue Refunding Bonds | - | - | - | - | 0.0% | |
| 1999 CSCDA Revenue Bonds | 2.8 | 3.5 | 6.3 | 7.1 | (11.3%) | |
| State Revolving Fund | 2.9 | - | 2.9 | - | 100.0% | |
| | \$ 5.7 | \$ 9.6 | \$ 15.3 | \$ 14.6 | 4.8% | |

In addition, the Deer Lodge Park fund owes the Water fund \$183,855 as of June 30, 2009 for an advance to pay for legal fees. The amount is being paid off over a 20-year period with an interest rate of five percent.

Additional Information

Regular Audits

Government Code Section 26909 requires all districts to provide for regular audits; LACSD conducts annual audits and meets this requirement. Section 26909 also requires districts to file a copy of the audit with the State Controller and county auditor within 12 months of the end of the fiscal year. According to records from the County Auditor, the last audit received was for FY 2008-09.

Appropriations (GANN) Limit

Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), LACSD is subject to the Gann limit. Therefore, an agency is restricted as to the amount of annual expenditures from the proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller or returned to the taxpayers through revised tax rates, revised fee schedules or other refund agreements. As a part of the annual budget process, the District adopted by resolution the appropriation limit for the wastewater function for FY 2010-11. A review of the financial statements for the fiscal years ended June 30, 2008 and 2009 show that proceeds of taxes did not exceed appropriations and the wastewater expenditures did not exceed its adopted appropriation limit.

Awards

The California Society of Municipal Finance Officers awarded a Certificate for an Award for Outstanding Financial Reporting to LACSD for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2008. This was the eighth year that the District has achieved this award.

Pension Obligations

A review of the most recent audited financial statements indicates that LACSD has a zero net pension obligation. In addition, LACSD does not pay for post-employment benefits.

4. Status of, and opportunities for, shared facilities:

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As discussed above, LACSD has entered into short term agreements with San Bernardino Valley Municipal Water District ("Muni") and with the Crestline-Lake Arrowhead Water Agency ("CLAWA") for the purchase of water from Muni, then treatment and transportation of that water through CLAWA's transmission system (as capacity may be available in the Agency's system during periods of off-peak demands) for delivery of that treated water into the LACSD's system for its use in lieu of water from Lake Arrowhead. All of the water supplied by CLAWA is treated to the California Department of Public Health standards at the agency's Silverwood Water Treatment Plant.

5. Accountability for community service needs, including governmental structure and operational efficiencies:

Local Government Structure and Community Service Needs

LACSD is an independent special district governed by a five-member board of directors. Members are either elected by the electorate at the November consolidated election in odd numbered years or are appointed in-lieu of election by the County Board of Supervisors to four-year staggered terms. The most recent selection round in November 2009 produced three appointed members. The current board, positions, and terms of office are shown below:

| Board Member | Title | Term | Selection |
|---------------------|----------------|-------------|-------------------------------|
| Geoffrey Goss | President | 2013 | Appointed in Lieu of Election |
| David Ben-Hur | Vice President | 2011 | Elected |
| Joyce Barkley | Director | 2013 | Appointed in Lieu of Election |
| Glenn Goodwin | Director | 2013 | Appointed in Lieu of Election |
| Ralph Wagner | Director | 2011 | Elected |

Regular Board meetings occur on the second and fourth Tuesday of each month at 6:30 p.m. at the Willow Creek Board Room in Lake Arrowhead. Notice of each Board meeting is posted for public review and on the agency website at least 72 hours in advance and is also mailed to anyone who may have requested notice in writing. LACSD's office is located in Lake Arrowhead and is open Monday through Friday 7:30 a.m. to 5:00 p.m.

Operational Efficiency

Operational efficiencies are realized through several joint agency practices, for example:

- The District participates in a joint venture with forty-three other participants in California Sanitation Risk Management Authority ("CSRMA") for workers' compensation and forty members pooled liability insurance. CSRMA has a self-insured retention of \$750,000 per occurrence for workers' compensation and pooled liability, workers' compensation does not have a deductible and pooled liability has a \$50,000 deductible.
- Beginning March 1, 2003, the District contributes to the California Public Employees Retirement System ("PERS"), a cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investments and administrative agent for participating public entities with the State of California. On March 11, 2009 the remaining 16 participants of the 401(a)

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pension plan rolled over their investment to PERS giving the District 100% participation in PERS.

- The County of San Bernardino has transferred approximately 12.88 acres previously purchased by County Service Area 70 Zone D-1 to LACSD. LACSD plans to use this site for a new district office and maintenance yard.

Government Structure Options

There are two types of government structure options:

1. Areas served by the agency outside its boundaries through “out-of-agency” service contracts;
2. Other potential government structure changes such as consolidations, reorganizations, dissolutions, etc.

Out-of-Agency Service Agreements:

CLAWA Law and its contract with the State Department of Water Resources prohibit CLAWA from delivering any portion of its imported water supply for use outside of its boundaries. However, as noted throughout this report, there is a three-party agreement between CLAWA, San Bernardino Valley Municipal Water District (“Muni”), and LACSD for the purchase of water from Muni, treatment and transportation of that water through the CLAWA’s transmission system (as capacity may be available in CLAWA’s system during periods of off-peak demands) for delivery of that treated water into the LACSD’s system for its use in lieu of water from Lake Arrowhead.

Government Structure Change Options:

While the discussion of some government structure options may be theoretical, a service review should address possible options.

- Annexation of surrounding territory. LACSD, landowners, or registered voters could submit an application to expand the sphere of influence of LACSD and annex surrounding territory. However, much of the surrounding lands are either served by another district or are public lands not requiring municipal level services through LACSD or any other public agency. Further, the District does not have any specific policies related to annexation but it has stated its past practice has been to refuse to annex new territory to the primary water service area. However, it has assumed the obligation for water service under a separate system.
- Annexation of district-owned land in Hesperia. LACSD desires to bring into its sphere of influence and annex ten parcels in the City of Hesperia. The property is owned by LACSD which it uses for effluent disposal and agricultural production. As a cost savings measure, if LACSD were to annex these parcels and continue its municipal use, then it would benefit from tax exempt status for the parcels and would not be subject to paying the ad valorem property tax.
- Assumption of streetlighting and road maintenance responsibility as well as other municipal level services for the community. LACSD overlays CSA 59 and CSA 69 (roads) and a portion of CSA 54 (streetlights). As a multi-function, independent special district,

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LACSD has the statutory authority to provide streetlighting and road maintenance services (although activation of such service is subject to LAFCO authorization). In this scenario, LACSD could assume responsibility for providing the services within its boundaries.

Such a change is in concert with the Commission's community service ideology, there would be a single agency providing the full range of municipal services within a community (along with a transfer of the property tax share of each respective agency) and reduction of multiple agencies providing the same service. The Commission bases this possibility upon the following:

- The Commission approved the formation of the LACSD with the condition that the district continue to explore possibilities of adding additional services at the earliest possible time,
- Legislature's intent in LAFCO Law and Community Services District Law.
 - The preamble to LAFCO Law reads that while the Legislature recognizes the critical role of many limited purpose agencies, especially in rural areas, it finds and declares that a single multipurpose governmental agency accountable for community service needs and financial resources may be the best mechanism for establishing community service priorities.

- Government Code Section 61001(b) states:

The Legislature finds and declares that for many communities, community services districts may be any of the following:

- (1) *A permanent form of governance that can provide locally adequate levels of public facilities and services*
- (2) *An effective form of governance for combining two or more special districts that serve overlapping or adjacent territory into a multifunction special district.*
- (3) *A form of governance as the community approaches cityhood.*
- (4) *A transition form of governance as the community approaches cityhood.*

The San Bernardino LAFCO has utilized CSD as a service mechanism to nurture communities and protect them from intrusion by other service providers for a future incorporated city.

- Further, the preamble to Community Services District Law states that the intent of the Legislature for CSD Law is to encourage LAFCOs to use their service reviews, spheres of influence, and boundary powers, where feasible and appropriate, to combine special districts that serve overlapping or adjacent territory into multifunction community services districts.

LACSD was requested to provide its response to this option. This option was discussed by the LACSD board at its September 14 meeting and was met with amusement. The District's written response to LAFCO states that the directors considered the request and

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determined that because the street lighting and road maintenance district were so small, it would not be economical for LACSD to attempt to operate the districts.

The Commission returns to the Legislature's intent in LAFCO Law and Community Services District Law in that a single multi-function agency may be the best mechanism to coordinate and provide service within a community. It is evident that the current situation results in multiple governing bodies, administration, overhead, and financial reporting. It is also apparent that the District currently provides for the receipt of service by contract (as snow removal is accomplished) and through direct payment to Southern California Edison for services.

- Assumption of CSA 70 Zone D-1's dam maintenance (flood control) and park services by Lake Arrowhead Community Services District (LAFCO 3144). This proposal was continued from the July hearing to this month's agenda at the a request of the Lake Arrowhead CSD. The proposal was to authorize activation of the District's latent flood control and park and recreation services within its boundaries. The rationale for this request was the future intent to assume responsibility for providing those services currently a function of CSA 70 Zone D-1 along with a transfer of all its assets, revenues, and liabilities. Since that time, LACSD has withdrawn its application. However, as outlined above the transfer of this service obligation remains a long-term option given the primary role of the agency to protect the viability of Lake Arrowhead, the primary source of water for consumption within the District's jurisdiction. However, if the District is not interested in the assumption of regional services, as evidenced by its response on road and streetlighting, the transfer of these services remains problematic. The Commission's position remains that for maintenance of the dam, such an action could reduce the layers of government in the area and provide for local control of the dam and Papoose Lake.
- Assumption of public retail water service within LACSD boundaries. There are three public agencies that provide water within LACSD's boundaries but outside of its water service area. These scenarios would reduce multiple public agencies overlaying the same area that provide the same service. Since the service areas of these agencies are already within the boundaries of LACSD, these scenarios would not require LAFCO approval and would be subject to negotiation between the appropriate agencies or a vote of the electorate.
 - *CSA 70 Zone CG.* In this scenario, LACSD would assume responsibility for County Service Area 70 Zone CG's (Zone CG) water service and would succeed to Zone CG's water system, assets, and liabilities.
 - *Crestline-Lake Arrowhead Water Agency Improvement Districts.* At the time that CLAWA created Improvement Districts A, B, C, and D there was no other public water agency available to provide the service. However, in 1983, LACSD was expanded to include the boundaries of the Lake Arrowhead Sanitation District and assumed that agency's services; the majority of CLAWA's improvement districts are within LACSD. LACSD currently provides water service to the Arrowhead Woods area (its original service area) and the territory within Deer Lodge Park. LACSD could assume the retail responsibility for Improvement Districts A and C, the majority of Improvement District B and the developed portions of Improvement District D.

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- *City of Big Bear Lake Department of Water and Power.* The City of Big Bear Lake Department of Water and Power succeeded to the water service territory previously assigned the Southern California Water Company – Big Bear District upon its acquisition by the City of Big Bear Lake. As a condition of the City's acquisition through condemnation, it was required to assume service responsibility for all of Southern California Water Company's service area in the mountains – which included the Rimforest portion in the Lake Arrowhead community. In 1995, LAFCO granted the City of Big Bear Lake an exemption from the provisions of Government Code Section 56133 for the provision of water service within the State Public Utilities Commission assigned certificated service area. In 2004, the Commission authorized the expansion of the Rimforest Service to include the Mountain Pioneer Mutual Water Company due to the devastating effects of the Old Fire on the system. The question has been raised of transferring this service obligation to the LACSD due to its proximity (City of Big Bear Lake DWP is more than 30 miles away). LACSD has indicated its interest in assuming service responsibility for this area as well as succeed to the system's assets; however, no official response has been received from the City of Big Bear Lake DWP.
- CLAWA annexation of Arrowhead Woods. While CLAWA is willing to continue cooperation with LACSD and assist in delivering supplemental water obtained by alternative means, CLAWA's Board strongly opposes annexation of the Arrowhead Woods area. CLAWA staff has provided two main reasons for the opposition to annexation of the Arrowhead Woods area. First, imported water supply may not be sufficient to satisfy existing and anticipated demand for supplemental water and the agency would not be comfortable adding demand with no additional supplemental supply. Second, the additional population would alter the board representation with the Lake Arrowhead community possibly comprising two of the five board seats.

Should Arrowhead Woods ever be annexed into CLAWA, the Commission's analysis indicates that board divisions would need to be realigned to allow for proportional representation. All levels of public agencies are evolving entities and boundary and representation modifications are a common occurrence.

A 2003 study funded by CLAWA indicates that if Arrowhead Woods were to be annexed to the agency, the annexation fee to be paid to CLAWA would be approximately \$39.7 million. This figure was based upon CLAWA's rules and regulations, which state that an annexation fee shall equal the sum of back property taxes and back standby charges. With roughly 9,500 parcels⁴ composing the Arrowhead Woods area, the average annexation fee to CLAWA would be roughly \$4,200. Additionally, this figure was derived in 2003 and would increase each year as property taxes and standby charges are levied. However, according to CLAWA's FY 2008-09 Financial Statements, CLAWA's future commitment for State Water Project costs over the years 2009 to 2035 is estimated at \$49.9 million. For illustrative purposes, by simply adjusting the 2003 estimated \$39.7 million annexation fee for inflation, the Arrowhead Woods area would be charged \$47.0 million in 2010. Therefore, the general statement can be made that annexation of Arrowhead Woods to CLAWA along with the annexation fees would roughly equal CLAWA's commitment for State Water Project costs through 2035 and remove that

⁴ The 2003 study funded by CLAWA identifies that roughly 9,500 parcels are within the Arrowhead Woods exclusion area. A parcel count provided by the County of San Bernardino Information Services Department in May 2010 identifies that there are 9,852 parcels within this area.

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obligation from CLAWA's current residents and landowners. If such annexation were to be proposed, an improvement district could be formed to isolate the Arrowhead Woods area, much like Improvement Districts A, B, C and D, to be responsible for the future State Water Project costs. This scenario would afford the Arrowhead Woods with accessibility to supplemental water and substantially reduce or even eliminate the future State Water Project costs that those currently within CLAWA's boundaries pay. No opinion regarding this possibility has been received from CLAWA, LACSD, or those representing the Arrowhead Woods area. However, LACSD states that due to political factions, this option is not likely at this time.

- Consolidation of all public water agencies and/or service areas. Another scenario would be to consolidate all of the public water agencies providing retail water service within CLAWA's boundaries. These agencies include Arrowbear Park County Water District, County Service Area 70 Zone CG, CLAWA, Crestline Village Water District, LACSD, Running Springs Water District, and the Rim Forest portion of the City of Big Bear Lake Department of Water and Power. This option could reduce duplication of administrative efforts and provide the opportunity for economies of scale. Further, it would provide a single voice for this part of the mountain region regarding water issues. This option could also alleviate the need for short-term solutions for water delivery. This is a viable option, and appears more practical for the Crest Forest and Lake Arrowhead communities. However the details of a possible consolidation would need to consider the other services provided by the agencies and if annexation of additional territory would be included.
- Maintenance of the status quo. No interest has been expressed from LACSD, landowners, or residents in exploring the options above.

Maintenance of the existing organizational structure would maintain the delivery of retail water and sewer within the respective service areas with no additional services provided. However, the Commission is recommending sphere expansions to include district-owned land in Hesperia and to encompass the Lake Arrowhead community, as defined by the Commission.

WHEREAS, the following determinations are made in conformance with Government Code Section 56425 and local Commission policy:

1. Present and Planned Uses:

Land uses within the district boundaries consist of residential with limited commercial and institutional uses to support regional retail requirements. There is no agricultural use within the District. Open space areas are either not yet developed land (residential), recreational (golf course) or commercial related (conference centers). The three lakes are designated as open space, with one publicly owned (Papoose Lake).

2. Present and Probable Need for Public Facilities and Services:

Due to the high housing density (3 to 4 dwellings units per acre), hard rock soil conditions, and proximity to lake waters present an on going need for water and wastewater services. The population density creates demands that far exceed the ability of local natural water resources to adequately and reliably satisfy. The regulatory reduction in the entitlement to Lake Arrowhead water will require the District to identify and secure an alternative reliable source of imported water to meet existing and future demands.

RESOLUTION NO. 3117

The present and probable need for supplemental water service in the Arrowhead Woods area (7.4 square miles) has been addressed through the three-party agreement between Crestline-Lake Arrowhead Water Agency ("CLAWA"), San Bernardino Valley Municipal Water District ("Muni"), and the LACSD for the purchase of water from Muni, then treatment and transportation of that water through the CLAWA's transmission system (as capacity may be available in CLAWA's system during periods of off-peak demands) for delivery of that treated water into the LACSD's system for its use in lieu of water from Lake Arrowhead. However, the three-party agreement is a short-term solution with the contract expiring in 2020. Further, there are no known plans on providing a long-range and comprehensive solution to the water challenges in the mountain area after 2020.

3. Present Capacity of Public Facilities and Adequacy of Public Services

The present capacity of the facilities is adequate for the District's services. LACSD states that within the next seven years alternative water supply sources must be identified and secured for long-term water supply reliability.

4. Social and Economic Communities of Interest:

The social communities of interests are the Rim of World Unified School District, Arrowhead Woods development, and the surrounding communities. The economic communities of interest are Lake Arrowhead, Lake Arrowhead Village, and businesses along the highways.

5. Additional Determinations

- As required by State Law notice of the hearing was provided through publication in a newspaper of general circulation, *The Sun*. Individual notice was not provided as allowed under Government Code Section 56157 as such mailing would include more than 1,000 individual notices. As outlined in Commission Policy #27, in-lieu of individual notice the notice of hearing publication was provided through an eighth page legal ad.
- As required by State law, individual notification was provided to affected and interested agencies, County departments, and those agencies and individuals requesting mailed notice.
- Comments from landowners/registered voters and any affected agency have been reviewed and considered by the Commission in making its determinations.

WHEREAS, pursuant to the provisions of Government Code Section 56425(i) the range of services provided by the Lake Arrowhead Community Services District shall be limited to the following:

| FUNCTIONS | SERVICES |
|------------------|---|
| Water | Retail, domestic, operation of water, conservation, reclaimed water for irrigation purposes |
| Sewer | Collection, transportation, treatment, reclamation, disposal |

RESOLUTION NO. 3117

WHEREAS, having reviewed and considered the findings as outlined above, the Commission determines to expand the Lake Arrowhead Community Services District's sphere of influence by approximately 1,140.3+/- acres and affirms the balance of its existing sphere of influence.

NOW, THEREFORE, BE IT RESOLVED by the Local Agency Formation Commission of the County of San Bernardino, State of California, that this Commission shall consider this to be the sphere of influence for the Lake Arrowhead Community Services District; it being fully understood that establishment of such a sphere of influence is a policy declaration of this Commission based on existing facts and circumstances which, although not readily changed, may be subject to review and change in the event a future significant change of circumstances so warrants;

BE IT FURTHER RESOLVED that the Local Agency Formation Commission of the County of San Bernardino, State of California, does hereby determine that the Lake Arrowhead Community Services District shall indemnify, defend, and hold harmless the Local Agency Formation Commission of the County of San Bernardino from any legal expense, legal action, or judgment arising out of the Commission's affirmation of the sphere of influence, including any reimbursement of legal fees and costs incurred by the Commission.

THIS ACTION APPROVED AND ADOPTED by the Local Agency Formation Commission of the County of San Bernardino by the following vote:

AYES: COMMISSIONERS:

NOES: COMMISSIONERS:

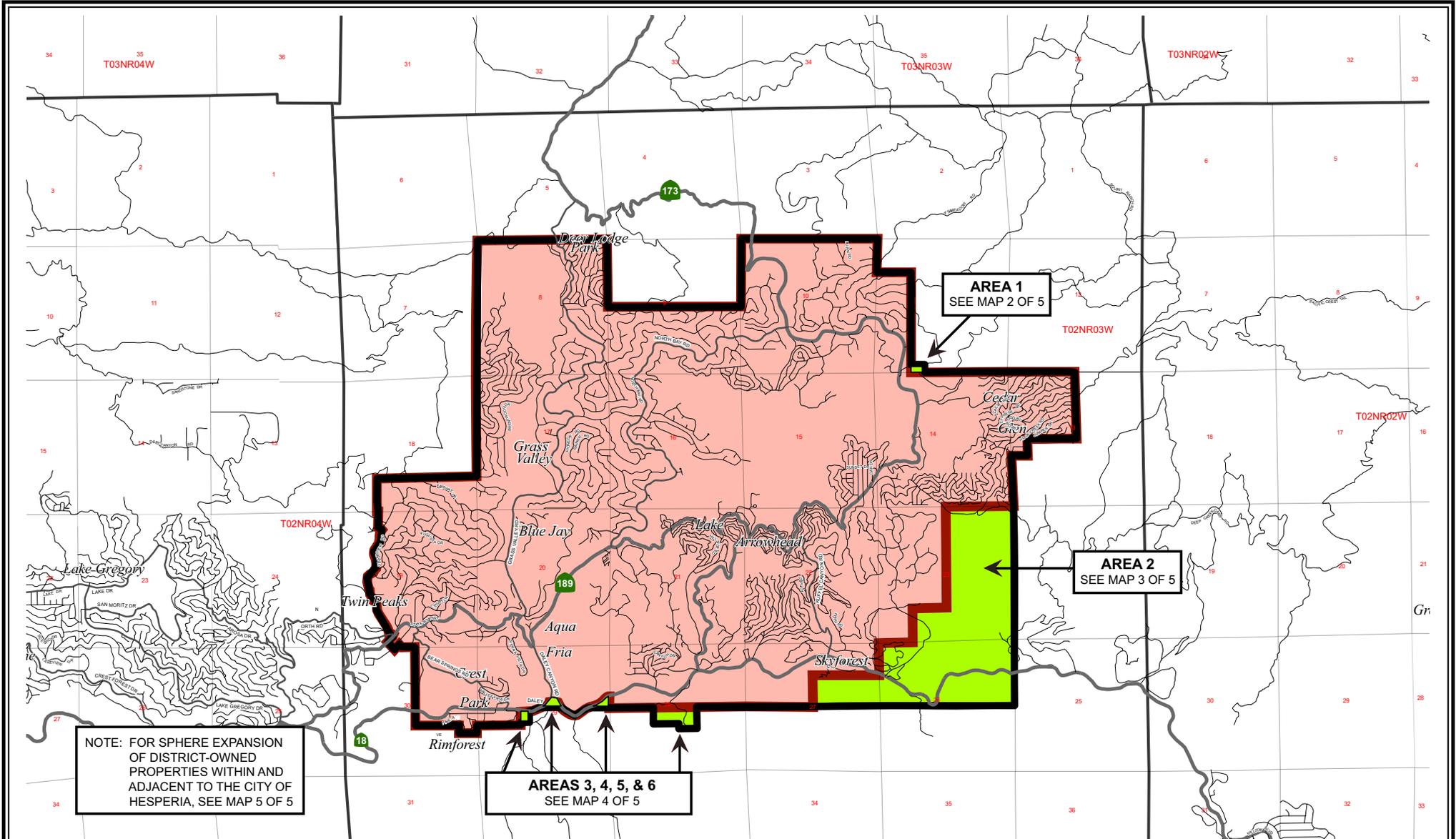
ABSENT: COMMISSIONERS:

STATE OF CALIFORNIA)
) ss.
COUNTY OF SAN BERNARDINO)

I, KATHLEEN ROLLINGS-McDONALD, Executive Officer of the Local Agency Formation Commission of the County of San Bernardino, California, do hereby certify this record to be a full, true, and correct copy of the action taken by said Commission, by vote of the members present, as the same appears in the Official Minutes of said Commission at its meeting of December 8, 2010

DATED:

KATHLEEN ROLLINGS-McDONALD
Executive Officer



NOTE: FOR SPHERE EXPANSION OF DISTRICT-OWNED PROPERTIES WITHIN AND ADJACENT TO THE CITY OF HESPERIA, SEE MAP 5 OF 5

AREAS 3, 4, 5, & 6
SEE MAP 4 OF 5

AREA 1
SEE MAP 2 OF 5

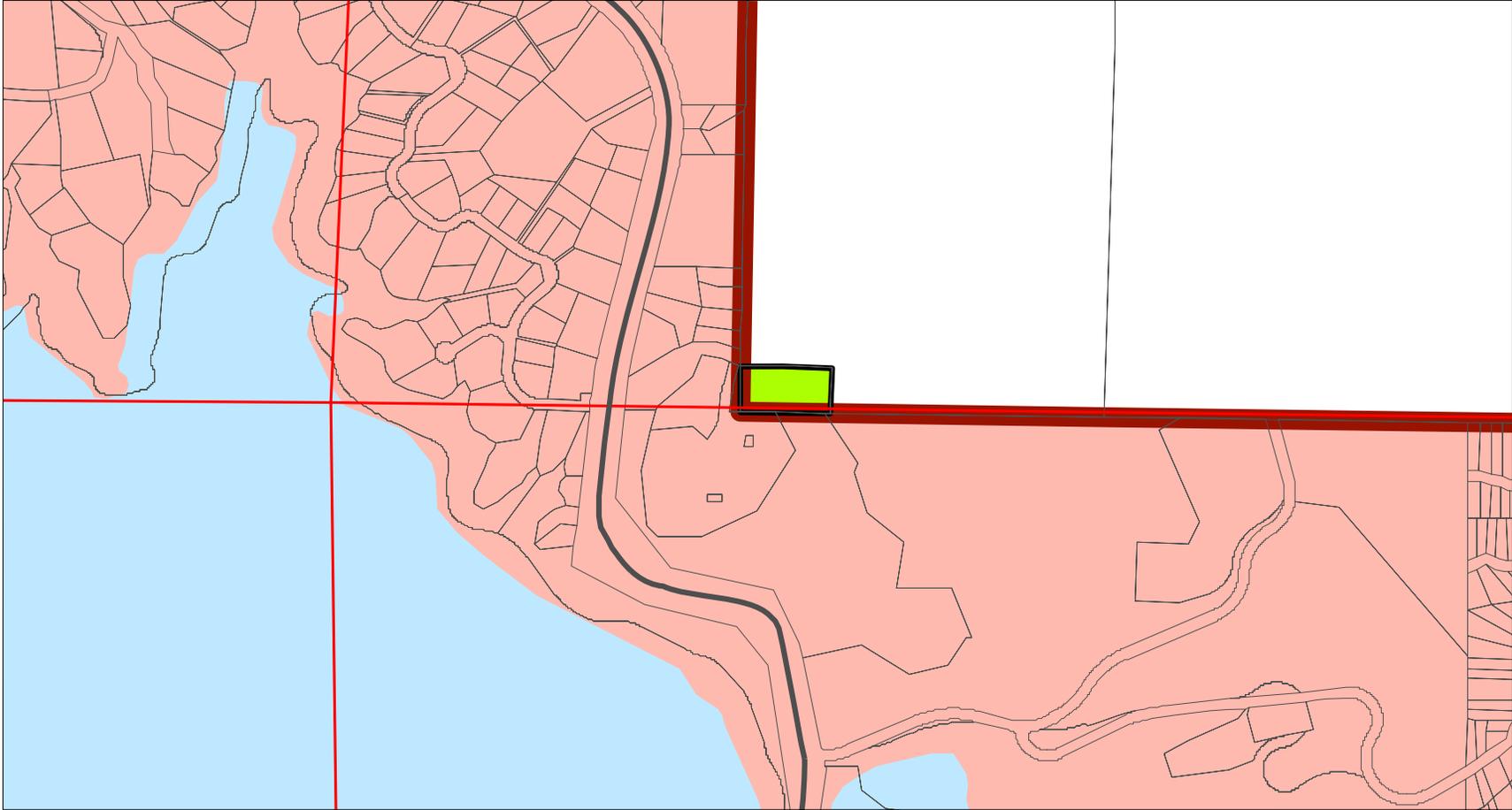
AREA 2
SEE MAP 3 OF 5

LAFCO 3110 - SERVICE REVIEW AND SPHERE OF INFLUENCE UPDATE FOR LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT

 LACSD
 LACSD Existing Sphere

 Sphere Expansion Areas



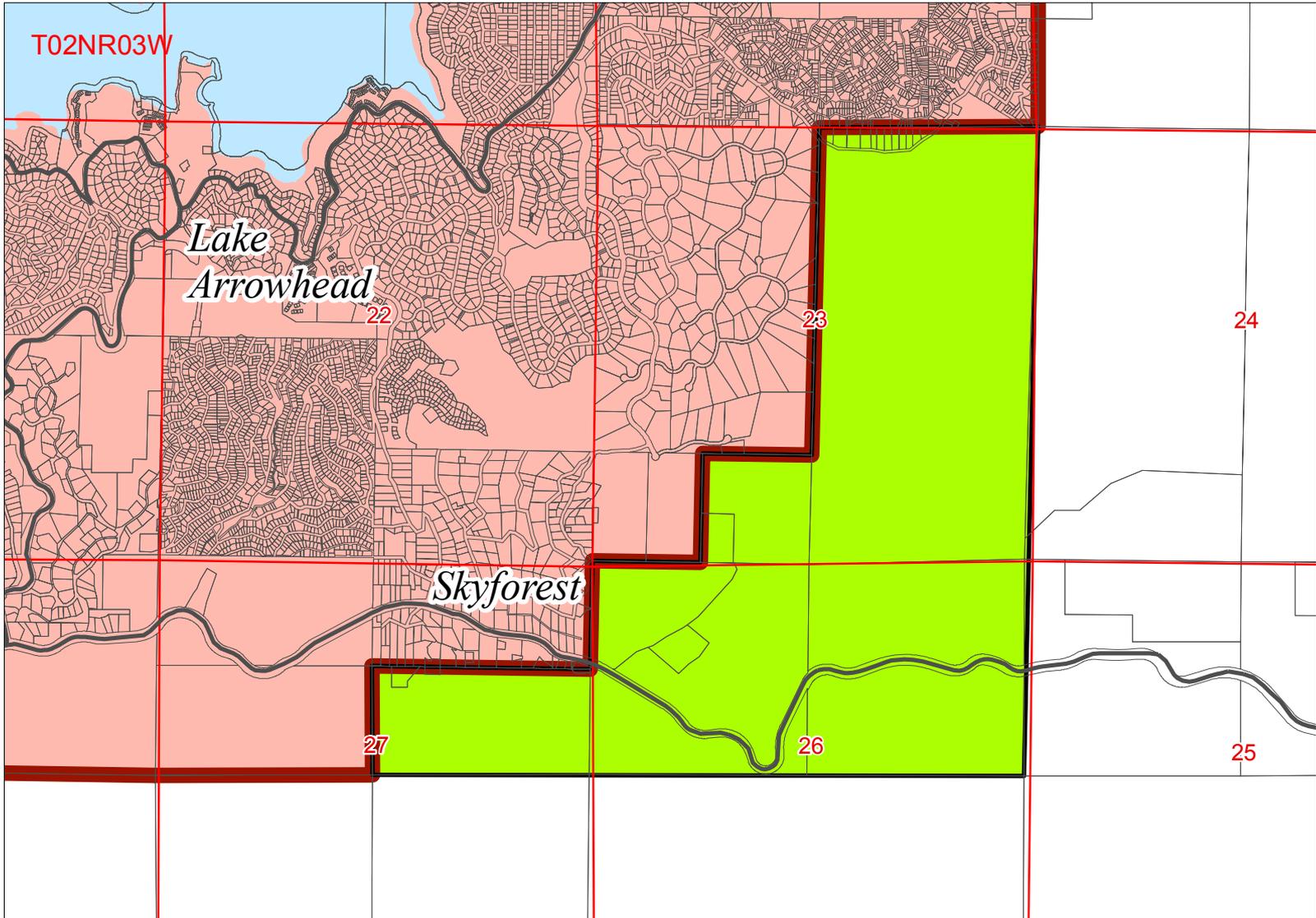


LAFCO 3110 - SPHERE OF INFLUENCE AMENDMENT (EXPANSIONS) FOR
LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT

AREA 1 - Sphere Expansion for Lake Arrowhead Community Services District

Portion of Section 11, Township 2 North, Range 3 West, San Bernardino Meridian, containing 1.3 acres, more or less.



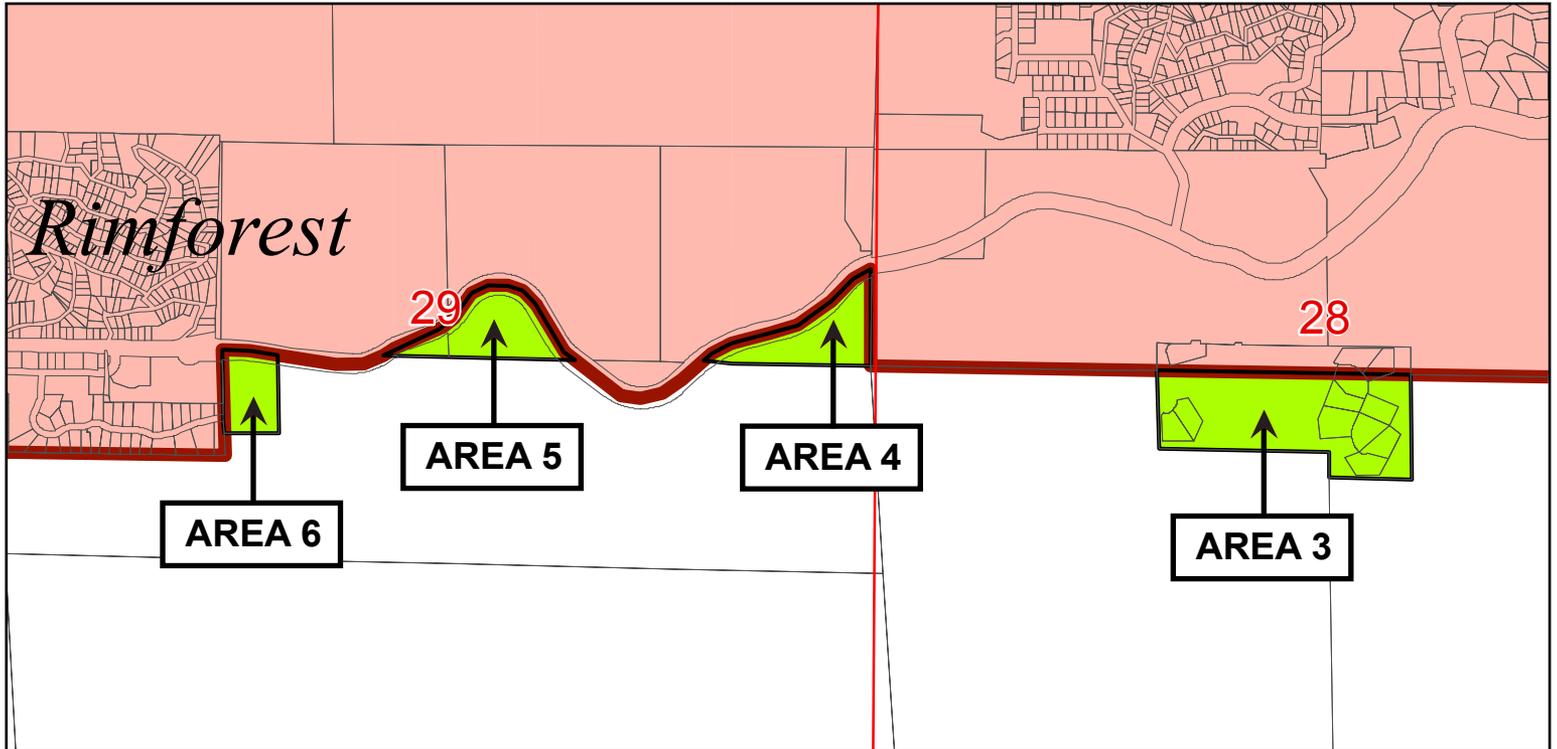


LAFCO 3110 - SPHERE OF INFLUENCE AMENDMENT (EXPANSIONS) FOR LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT

AREA 2 - Sphere Expansion for Lake Arrowhead Community Services District

Portions of Section 23, 26, and 27, Township 2 North, Range 3 West, San Bernardino Meridian, containing 760 acres, more or less.





LAFCO 3110 - SPHERE OF INFLUENCE AMENDMENTS (EXPANSIONS) FOR LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT

AREA 3 - Sphere Expansion for Lake Arrowhead CSD

Portion of Section 28, Township 2 North, Range 3 West, San Bernardino Meridian, containing 18.3 acres, more or less

AREA 4 - Sphere Expansion for Lake Arrowhead CSD

Portion of Section 29, Township 2 North, Range 3 West, San Bernardino Meridian, containing 6.3 acres, more or less

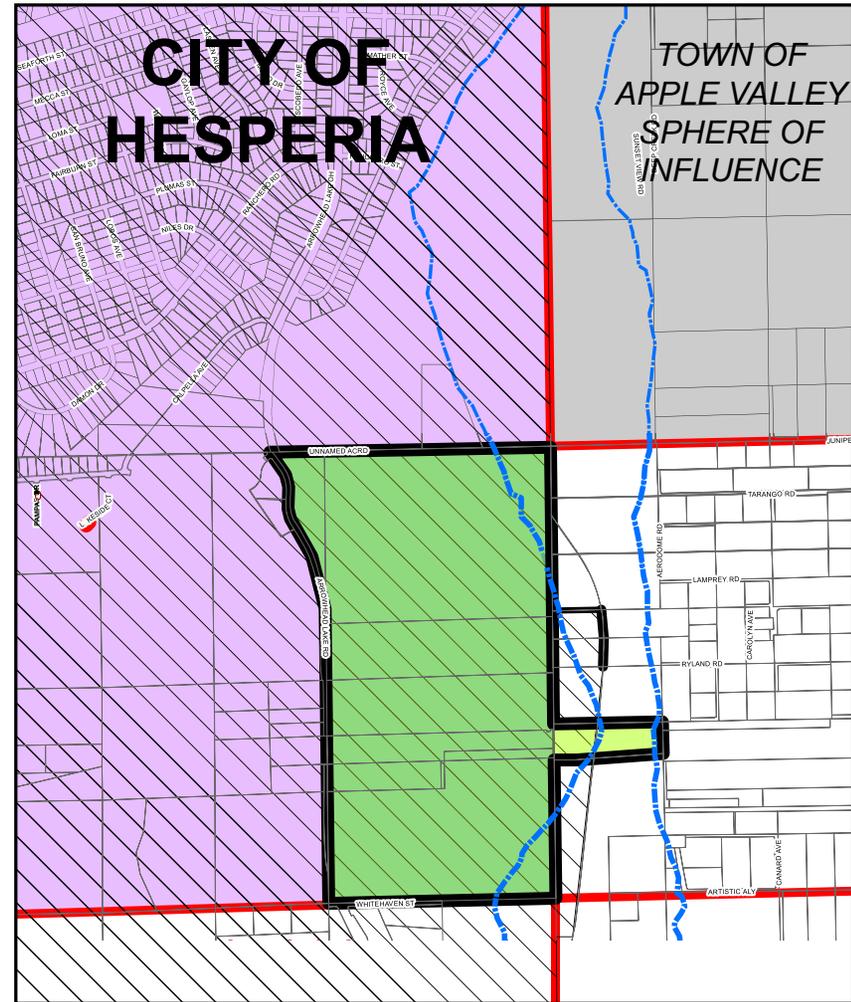
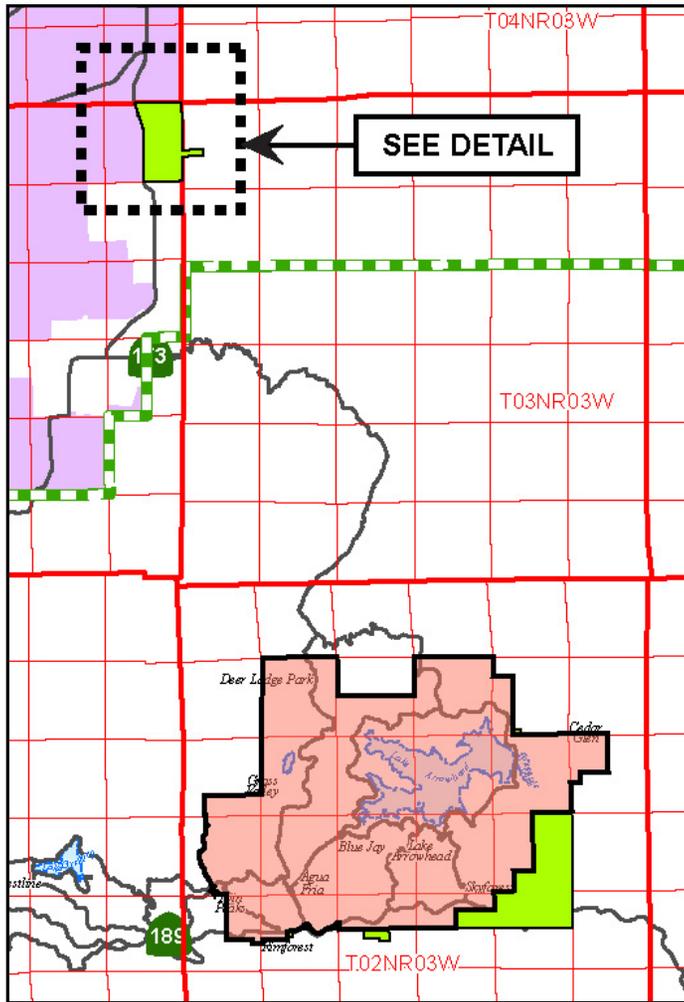
AREA 5 - Sphere Expansion for Lake Arrowhead CSD

Portion of Section 29, Township 2 North, Range 3 West, San Bernardino Meridian, containing 6.4 acres, more or less

AREA 6 - Sphere Expansion for Lake Arrowhead CSD

Portion of Section 29, Township 2 North, Range 3 West, San Bernardino Meridian, containing 3.9 acres, more or less





LAFCO 3110 - SPHERE OF INFLUENCE AMENDMENT (EXPANSIONS) FOR LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT

Sphere Expansion for Lake Arrowhead Community Services District to Include 10 District-Owned Properties Within and Adjacent to the City of Hesperia

Portion of Section 1, Township 3 North, Range 4 West, and portion of Section 6, Township 3 North, Range 3 West, San Bernardino Meridian, containing 344.1 acres, more or less.

- Sphere Expansion
- Existing Sphere
- District Boundary
- City of Hesperia
- Hesperia Sphere