

PROPOSAL NO.: LAFCO 3133

HEARING DATE: April 18, 2012

**RESOLUTION NO. 3123**

**A RESOLUTION OF THE LOCAL AGENCY FORMATION COMMISSION OF THE COUNTY OF SAN BERNARDINO MAKING DETERMINATIONS ON LAFCO 3133 – A SERVICE REVIEW AND SPHERE OF INFLUENCE UPDATE FOR THE CRESTLINE SANITATION DISTRICT (sphere of influence expansion by 872.2+/- acres including two non-contiguous areas adjacent to the Hesperia community [32.2 +/- acres], reduction by 928.3+/- 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, the matter was removed from the hearing calendar and returned for consideration at the April 18, 2012 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,

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**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 of the California Environmental Quality Act (CEQA) and such exemption was adopted by this Commission on April 18, 2012. 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 Crestline Sanitation 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 2 (280+/- acres), Area 5 (320+/- acres), Area 7 (200+/- acres), Area 8 (40+/- acres), and the two District-owned parcels located adjacent to the City of Hesperia (32.2+/- acres);
- (2) Reduce the District's existing sphere of influence to exclude Area 1 (880+/- acres), Area 3 (8.05+/- acres) Area 4 (40+/- acres), and Area 6 (0.25+/- acres); and
- (3) Affirm the balance of the remaining 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, 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.

#### Land Ownership

Within its entire sphere, roughly 59% of the land is privately owned and the remainder, 41%, within the San Bernardino National Forest (owned by the federal government), which are devoted primarily to resource protection and recreational use.

#### **Land Ownership Breakdown (in Acres) Within the Crestline Sanitation District**

<b>Ownership Type</b>	<b>Boundary</b>	<b>Sphere (outside boundary)</b>	<b>Total Area</b>
Private	4,550	1,100	5,650
Public Lands – Federal (BLM), State, & others	950	2,920	3,870
<b>Total</b>	<b>5,500</b>	<b>4,020</b>	<b>9,520</b>

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Land Use

The study area includes territory within Lake Gregory and the areas commonly known as Skyland, Crestline, Crest Forest, Valley of Enchantment, Valley View Park, and Arrowhead Highlands.

The private lands within the District have land use designations of predominantly residential (RS-14M [allowing lots of a minimum of 14,000 square feet] and RL-5 [allowing lots of five acre minimums]), with scattered commercial along State Route 138 and along Lake Drive west of Lake Gregory. The public lands within the District are designated Resource Conservation. The existing sphere area outside of the district is generally residential (for the private lands) and resource conservation and/or open space (for the public lands).

Population Projections

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. 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.

In 2000, the population within the District’s boundaries was 9,625. Based on the 2010 Census, the current population for the area is 10,446. This represented an average annual growth rate of approximately 0.8 percent within the given period.

The projected growth for the District’s boundaries was calculated utilizing a combination of the growth rates identified in the Regional Council of the Southern California Association of Governments (SCAG) Draft 2012 Regional Transportation Plan (RTP) Integrated Growth Forecast for the County’s unincorporated area for the given periods, and the use of average annual growth rate. By 2040, the population within the District is estimated to reach 14,313. This represents a projected annual growth rate of approximately 1.4 percent between 2010 and 2040, which also represents a total population increase of 37 percent from 2010. Of note, SCAG projections for this area coalesce with the actual historic increase percentages for this community. LAFCO has not adjusted these population projections.

**Population Projection 2010-2040  
Within the Crestline Sanitation District**

Census <sup>1</sup>			Population Projection					
1990	2000	2010	2015	2020	2025	2030	2035	2040
7645	9,625	10,446	10,620 <sup>2</sup>	10,796	11,584 <sup>3</sup>	12,431	13,339	14,313

<sup>1</sup> Data derived from the 1990, 2000, and 2010 Census for the Crestline Sanitation District area.

<sup>2</sup> 2015 and 2020 projections were calculated using Average Annual Growth Rate based on the growth rate from SCAG’s 2012 RTP Revised Draft Integrated Growth Forecast (published May 2011) for the unincorporated County area between 2010 and 2020 data.

<sup>3</sup> 2025, 2030, 2035 and 2040 projections were calculated using Average Annual Growth Rate based on the growth rate from SCAG’s 2012 RTP Revised Draft Integrated Growth Forecast (published May 2011) for the unincorporated County area between 2020 and 2035 data.

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Build-out

The table below provides the potential build-out within the District’s territory. This build-out scenario takes into consideration the existing land use designations assigned for the area and the dwelling unit densities assigned for each residential land use<sup>4</sup>. Maximum build-out potential is substantially constrained by the slope-density standards and fuel modification requirements of the County General Plan Fire Safety Overlay.

**Land Use Maximum Build-Out  
Within the Crestline Sanitation District**

<b>Land Use</b>	<b>Acreage</b>	<b>Density (D.U. Per Acre)</b>	<b>Maximum Build-out (DU’s)</b>
County Area Residential Land Use			
Resource Conservation	890	0.025	22
RL-5 (Rural Living 5 acres)	1,128	0.2	226
RL (Rural Living 2.5 acres)	94	0.4	38
RS-1 (Single Residential, 1 acre)	364	1.0	364
RS-14M (Single Residential, 14,000 sq.ft.)	2,383	3.0	7,149
RM (Multiple Residential)	68	16.0	1,088
SD-RES (Special Development)	258		
<b>District Total Residential</b>	<b>5,185</b>		<b>8,887</b>

The population projections identified earlier indicates that the population within the District’s territory will be 14,313 by 2040. Based on the maximum residential build-out within the District’s territory, the projected maximum population is anticipated to reach 22,573<sup>5</sup>. Likewise, based on the projected population for 2040, it is anticipated that the number of households within the District’s territory will be 5,635 with a maximum potential build-out to reach approximately 8,887. These imply that the study area will reach 63 percent of its potential household and population capacity by 2040.

**Population and Household Projection  
Within the Crestline Sanitation District**

	<b>Projection 2040</b>	<b>Maximum Build-out</b>	<b>Ratio of 2040 Projection with Maximum Build-out</b>
Population	14,313	22,573	0.63
Households	5,635	8,887	0.63

<sup>4</sup> The information related to densities does not take into consideration the housing units within the Marine Base.

<sup>5</sup> Source: Persons per household @ 2.54 based on the ratio for the Mountain Region as identified in the County’s General Plan.

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

The District provides collection, treatment, and disposal of wastewater for residential and commercial customers in the general Lake Gregory area. The District's system has 6,356 connections available, and in 2010 there were 4,854 residential and commercial properties connected to the system.

At present the District has approximately 90 miles of sewer lines ranging from 8 to 15 inches in size. Many of these lines are old and require continuous preventative maintenance. Other areas more recently sewered require increased administrative and field hours for connection permits and sewer inspections. These systems have also increased the time required to perform the necessary operation and maintenance (O&M). The District owns and operates three wastewater treatment plants known as the Huston Creek Treatment Plant, the Seeley Creek Treatment Plant, and the Cleghorn Treatment Plant. In addition, the District disposes of treated effluent from the Pilot Rock Treatment Plant (owned by the California Department of Forestry) that is pumped into the District's effluent out fall. The effluent outfall traverses around Silverwood Lake and disposal of effluent from these four facilities occurs at the Las Flores Ranch in Summit Valley north of Lake Silverwood Dam. Waste solids after processing are hauled by the District to a composting facility in Redlands.

#### System Challenges

In the *Crestline Sanitation District Governance Commission Report* dated February 2010, District staff indicated that the current system's limited capacity at times has difficulty meeting the needs of the community, particularly during the rainy season when a substantial amount of ground water seepage is introduced into the system. This has caused the present sewage system to operate near capacity.

The California Regional Water Quality Control Board, Lahontan Region informed the County in 2001 that the Crestline Sanitation District needed to expand. Monthly flow rates for Huston Creek have exceeded the State permitted 75% capacity flow rate every winter (525,000 gallons per day) from 2001 through 2008, due to inflow and infiltration from winter rains. Houston Creek Plant expansion is to be funded through a loan from the State Water Resources Control Board, Clean Water Revolving Fund as well as District funds.

The *Report* estimates that there are approximately 2,500 equivalent dwelling units on septic systems within the district boundaries. Areas on septic now include: Cedarpines Park, Arrowhead Highland, Dart Canyon, Horseshoe Bend and Strawberry Flats. If these dwelling units with septic tanks were to be required to be added to the District's system by the Lahontan Regional Board, then its capacity would be adversely affected. Further, if either the Strawberry Flats (Twin Peaks area) or Arrowhead Highlands (along Crest Forest Drive) were required to be connected, the District has identified that expansion of Huston Creek Treatment would be immediately necessary.

The Las Flores Ranch located near Hesperia is where the District has discharged its effluent via an outfall line since the 1970s. The outflow from all of the treatment plants travels through an outflow line that runs around Silverwood Lake and ends at the District-owned property located adjacent to Las Flores Ranch. The District outflow water is used on Las Flores Ranch for irrigation purposes. The outflow line failed during the winter rains of 2004-2005 and the District was fined by the California Regional Water Quality Control Board, Lahontan Region. During the Commission's

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discussions of the Crestline Sanitation District in December 2010, the issue of the lack of a current contract with Las Flores Ranch for disposal of the District's effluent was reviewed. At the time, the District began negotiations with owners of Las Flores Ranch to review and consider a new contract. During April 2012 the District provided LAFCO with a new contract for the discharge of the treated effluent on Las Flores Ranch properties, which is a year-to-year agreement. The District has no current plan to address its disposal needs should the contract be terminated and does not have sufficient storage capacity on its own properties to hold its treated effluent. The Commission remains concerned that should the contract not be renewed, one year is insufficient time to address how to handle the disposal of the District's treated effluent. The Commission questions whether this ongoing risk for the District should be considered acceptable.

### District System

The remainder of this section provides more detailed information on the District's system.

### *Pump Stations*

The District has two primary sewage pump stations and one small backyard pump station serving three residences within the collection system. The Lake Gregory Pump Station is located on the east side of Lake Gregory and receives raw sewage from Assessment Districts 2, 11, 12 and the Pinecrest area. The pump station was built in 1968 and was expanded in 1988 to accommodate flows from Camp Pinecrest. The Forest Shade Pump Station was constructed in 1979 to eliminate possible sewage overflows to Lake Gregory during storm conditions and to serve future unsewered areas. It operates only when sewage backs up in the gravity trunk main along Lake Gregory and overflows into the wet well. The Bernard Drive Pump Station was constructed prior to 2000 and provides sewer service to three homes on Bernard Drive that previously had been served by gravity until the gravity pipeline was washed out and no longer provided service.

### *Huston Creek Treatment Plant*

Originally constructed in 1952 to accommodate domestic sewage flow from Assessment District No. 1, the plant has been modified, improved and expanded several times, the latest modification occurring in 2001. The plant is the largest of the District's three treatment facilities with a design capacity of 0.7 mgd. This plant also serves as a central sludge dewatering facility for primary and secondary sludge produced at all three of the District's treatment plants and (by contract) the Pilot Rock Plant. The Huston Creek WWTP is a fixed-film secondary treatment plant. Chlorine is used to disinfect the effluent. Wastewater enters the plant through two parallel gravity sewer mains. Treated effluent is discharged to a gravity effluent outfall system.

The Huston Creek Treatment Plant is the only plant within the District that accepts septic tank wastes from local septic tank pumpers. The District receives approximately 300,000 gallons per year of septage, primarily during the summer months. The Huston Creek Treatment Plant capacity used has not been identified. However, the District's WWTP Evaluation from 2008 identified that the flows to the plant range from 0.4 MGD to 1.04 MGD while the plant's design is rated for 0.7 MGD, no further information related to capacity available was identified by LAFCO. Expansion of this facility is anticipated to occur as outlined above and is needed as the flow rates identify.

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### *Seeley Creek Treatment Plant*

The Seeley Creek WWTP is the second largest of the District's three treatment facilities with a design capacity of 0.5 mgd. This facility went through a major plant expansion in 1985 and, accordingly, it can be considered to be the newest of the three treatment plants. Seeley Creek was originally constructed in 1974 as a 0.20-mgd package activated sludge facility to treat flows from Assessment District No 5. The treatment system consisted of an in-ground circular tank containing an activated sludge aeration basin, secondary clarifier, chlorine contact chamber and digester.

As flow approached design capacity, the District constructed a 0.1 MG flow equalization basin in 1983. The flow equalization basin captured the peak flow and released it during low flow, thus extending the overall treatment capacity and efficiency of the treatment plant. This system served its purpose for the next two years leading up to the 1985 construction of a new 0.5-mgd facility. The new facility utilized a fixed film process to provide secondary treatment followed by chlorine disinfection. This process allowed gravity flow, increased reliability and reduced operation and maintenance costs. Solids dewatering is accomplished at the Huston Creek WWTP. Effluent is discharged to the Seeley Creek gravity outfall system. Seeley Creek WWTP is at 30% capacity and no expansion is anticipated.

### *Cleghorn Treatment Plant*

The Cleghorn Plant is the smallest of the District's three wastewater treatment plants with a design capacity of 0.2 mgd. The facility was originally constructed in 1974 by the District to serve the needs of the California Department of Parks and Recreation campgrounds at Lake Silverwood and the administrative and housing facilities upstream of the plant. The Cleghorn WWTP is owned and operated by the District, but is located on lands owned by the State. By agreement, the State Parks and Recreation Department reimburses the District for annual operation and maintenance costs. The State Parks and Recreation Department still maintains and operates the collection system that includes five lift stations. Only one of these pump stations has emergency power, which is supplied from the Cleghorn Plant. Periodic dewatering, cleaning and recoating is carried out on a scheduled basis to avoid failures.

The Cleghorn Wastewater Treatment Plant is an extended aeration (i.e., oxidation ditch) activated sludge plant with effluent chlorine disinfection. All wastewater flow from the majority of the park campground enters the plant through a 4-inch force main. An 8-inch gravity main serves the administration center, staff housing and group campgrounds. Final effluent is pumped via force main into the District's effluent outfall system for disposal at the Los Flores site. Cleghorn WWTP is at 10% capacity and no expansion is anticipated.

### *Effluent Outfall System*

Treated effluent from all three District facilities and the effluent pumped from the Pilot Rock Conservation Camp Treatment Facility (0.01-mgd capacity) are conveyed via pipeline to the Las Flores Ranch north of Lake Silverwood. There, the effluent is used for pasture irrigation. The pipeline was built in 1970 to transport effluent around Lake Silverwood.

The pipeline from the Huston Creek facility is 23,400 feet in length, ranges in size from 12 to 21 inches in diameter and has accommodated up to 6.0 mgd. The Seeley Creek facility outfall line is 6,000 feet in length, ranges in size from 10 to 15 inches in diameter and connects to the pipeline from Huston Creek along Highway 138. An emergency storage pond, about 1500 feet downstream

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of the Seeley Plant, can store 0.20 MG during an emergency. The combined pipeline also has a capacity of 5.0 mgd, has a total length of 34,200 feet in length and ranges in size from 10 to 21 inches in diameter. The total length of outfall system from the Huston Creek plant to the effluent disposal site is approximately 11 miles.

*Effluent Disposal Site*

The effluent outfall system terminates at a receiving channel and flood-irrigates a pasture area of the Las Flores Ranch in Summit Valley. During emergency, the flow can also be diverted to the adjacent sand beds for percolation. The District has an agreement with the Las Flores Ranch to accept treated effluent. This contract is on a year-to-year basis ending in December of each year. The most recent contract term expires December 31, 2012. Disposal is upon land owned by the District and Las Flores Ranch. The disposal facilities have one monitoring well upstream and three monitoring wells located downstream from the discharge area. Groundwater from these wells is tested quarterly. All District facilities are operated under discharge monitoring requirements issued by the Lahontan Regional Water Quality Control Board. The District has delivered reclaimed wastewater to the Mojave Basin Area for disposal in the following amounts<sup>6</sup>:

<b>Water Year</b>	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10
<b>Acre-feet</b>	944	833	1,198	819	674	799	714	839

**3. Financial ability of agencies to provide services:**

**Long-term debt**

On January 16, 1997, the District received a revolving fund loan from the State Water Resources Control Board in the amount of \$2,159,508. The proceeds of the loan were used to fund construction of the Huston Creek treatment plant effluent storage reservoir. Of the \$2,159,508 loan amount, \$359,925 was funded by local matching funds. The loan will be repaid in March 2018. At June 30, 2011, the outstanding principal balance is \$706,431. A summary of loan payments for the remaining fiscal years is as follows:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 95,833	\$ 12,142	\$ 107,975
2013	97,480	10,495	107,975
2014	99,156	8,819	107,975
2015	100,860	7,115	107,975
2016	102,594	5,382	107,976
2017 - 2018	210,508	6,443	216,951
<b>Total</b>	<b>\$ 706,431</b>	<b>\$ 50,396</b>	<b>\$ 756,827</b>

**Net Assets**

In reviewing the financial documents, net assets have increased nominally since FY 2006-07, as shown on the chart below. As of June 30, 2011, the District had \$16.4 million in net assets, of which \$7.7 million is unrestricted. As for restricted assets, the District issued bonds to finance

<sup>6</sup> Mojave Basin Watermaster. Watermaster reports for Water Years 2002-03 through 2009-10.

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certain sewer improvements. All the District's bonds matured as of July 2, 1996. The portion of the matured bonds held by the County Treasurer amounting to \$48,939 through FY 2008-09 was reported as restricted cash.

	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
Current assets	7,641,764	7,174,921	7,108,316	7,307,511	7,877,384
Capital assets, net	8,514,046	9,385,098	9,945,851	9,668,141	9,412,011
<b>Total assets</b>	<b>16,155,810</b>	<b>16,560,019</b>	<b>\$17,054,167</b>	<b>\$16,975,652</b>	<b>\$17,289,395</b>
Current liabilities	256,898	559,909	440,029	162,812	200,024
Long-term liabilities	984,324	893,267	800,645	706,431	703,919
<b>Total liabilities</b>	<b>1,241,222</b>	<b>1,453,176</b>	<b>1,240,674</b>	<b>869,243</b>	<b>\$903,943</b>
<b>Total Net Assets</b>	<b>\$14,914,558</b>	<b>\$15,106,843</b>	<b>\$15,813,493</b>	<b>\$16,106,409</b>	<b>\$16,385,452</b>
<b>Net Assets:</b>					
Invested in capital assets – net of related debt	7,440,204	9,385,098	9,945,851	8,867,496	8,705,580
Restricted	48,939	48,939	48,939	0	0
Unrestricted	7,425,445	5,672,806	5,818,703	7,238,913	7,679,872
<b>Total Net Assets</b>	<b>\$14,914,558</b>	<b>\$15,106,843</b>	<b>\$15,813,493</b>	<b>\$16,106,409</b>	<b>\$16,385,452</b>

**Cash Flows and Investments**

Considering net assets does not indicate if an agency has enough liquidity to operate short and long-term operations. As shown below, cash and investments decreased in FY 2007-08 and FY 2008-09, but increased the past two fiscal years and are at the highest levels in this five-year range.

<b>Cash &amp; Investments</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
Cash & cash equivalents	6,814,089	6,301,570	5,989,382	6,392,176	886,231
Restricted Cash	48,939	48,939	48,939	48,939	0
Investments					6,018,912
<b>Total Cash &amp; Investments</b>	<b>\$6,863,028</b>	<b>\$6,350,509</b>	<b>\$6,038,321</b>	<b>\$6,441,115</b>	<b>\$6,905,143</b>

As shown in the charts above and below, Cash and Investments equaled Cash and Cash Equivalents for 2006-07 through 2009-10 – when the County Treasury acted as the District's depository. In FY 2010-11 when the District became an independent special district, its funds were transferred from the County Treasury – which invested funds in a pool on behalf of all County entities and trust agencies. Subsequent to the transfer and in control of its own finances, the District invested roughly \$6 million. This shift accounts for the changes from Cash and Cash Equivalents into Investments.

<b>Cash Flows – activities:</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
Operating	(847,819)	(595,126)	(710,696)	(344,297)	(243,049)
Non-capital financing	1,290,374	1,245,282	1,266,777	1,147,179	1,130,761
Capital & related financing	(481,239)	(1,512,072)	(1,115,135)	(483,387)	(421,949)
Investing	346,408	349,397	246,866	83,299	(6,020,647)
<b>Total Cash &amp; Cash equivalents</b>	<b>\$6,863,028</b>	<b>\$6,350,509</b>	<b>\$6,038,321</b>	<b>\$6,441,115*</b>	<b>\$886,231</b>

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\* Identified incorrectly in the FY 2009-10 financial statements as \$6,038,321.

### Revenues and Expenditures

The chart below aggregates the Operating and Non-operating activities for the past five years. However, a comparison for salary and benefits before and after the District's independence by line-item is not readily identified. The County classified the salary and benefits activities as a professional service since the County transferred funds from the District to its shell agency, County Service Area 70, which would then provide salary and benefits payments. Nonetheless, for this time period, annually there is a loss from operations with a gain from non-operating activities, resulting in an annual positive change. Important to note, is the trend of a decrease in the loss from operations with a reduction in the gain from non-operating activities. Overall, the District's Total gain has decreased for each of the past three years.

	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Operating Revenue</b>					
Charges for services	\$2,333,309	\$2,197,759	\$2,669,143	\$2,326,064	\$2,304,777
Permit & inspection fees	--	--	--	--	25,253
Special assessments	--	--	46,554	--	--
Connection fees	--	--	--	--	9,987
Other service			--	--	155,184
<b>Total Operating Revenue</b>	<b>2,333,309</b>	<b>2,197,759</b>	<b>2,715,697</b>	<b>2,326,064</b>	<b>2,495,201</b>
<b>Operating Expenses</b>					
Salaries & benefits	--	--	--	1,955,157	1,726,655
Professional services	2,121,169	2,274,804	2,200,881	0	316,053
Services & supplies	673,166	705,500	691,253	766,289	642,569
Utilities	113,880	92,721	93,074	0	139,227
Depreciation	560,285	548,696	495,364	483,748	570,103
<b>Total Oper. Expenses</b>	<b>3,468,500</b>	<b>3,621,721</b>	<b>3,480,572</b>	<b>3,205,194</b>	<b>3,394,607</b>
<b>Loss from Operations</b>	<b>(1,135,191)</b>	<b>(1,423,962)</b>	<b>(764,875)</b>	<b>(879,130)</b>	<b>(899,406)</b>
<b>Non-Operating Revenues (Expenses)</b>					
Investment earnings	362,609	340,185	208,544	70,905	50,238
Property taxes	962,619	1,124,303	1,114,378	1,039,504	994,471
Other taxes	82,644	0	19,142	15,596	0
Special assessments	57,812	43,698	0	35,330	46,630
Federal/State assistance	13,480	13,593	104,541	13,217	13,443
Other revenue	194,625	2,256	0	10,169	87,429
Interest expense	(19,970)	(18,457)	(16,919)	(15,353)	(13,762)
Gain on sale of assets	0	15,651	7,330	2,678	0
Other	0	94,988	34,509	0	0
<b>Total Non-Operating Revenues (Expenses)</b>	<b>1,653,819</b>	<b>1,616,217</b>	<b>1,471,525</b>	<b>1,172,046</b>	<b>1,178,449</b>
<b>Change in Net Assets</b>	<b>\$518,628</b>	<b>\$192,255</b>	<b>\$706,650</b>	<b>\$292,916</b>	<b>\$279,043</b>

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### Appropriations Limit

Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative)<sup>7</sup>, the District is restricted as to the amount of annual appropriations from the proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller, returned to the taxpayers through revised tax rates or revised fee schedules, or an excess in one year may be offset against a deficit in the following year. Furthermore, Section 5 of Article XIII B allows the District to designate a portion of fund balance of general contingencies to be used in future years without limitation. Government Code Section 7910<sup>8</sup> expands upon the Gann Initiative and requires each local government to annually establish its appropriation limit by resolution.

In reviewing the question of the current appropriation limit with the District staff, it was indicated that the district did not take action to accept the County's existing appropriation limit after transition for FY 2010-11 and none was adopted during the budget approval process for FY 2011-12. However, once the matter was identified with the District it has sought to prepare the limit for the current fiscal year through its accounting firm, and a copy of the calculation is on-file at the LAFCO office. This action does not resolve the issue for the prior fiscal year.

Section 1.5 reads that the annual calculation of the appropriations limit for each entity of local government shall be reviewed as part of an annual financial audit. A review of the financial statements for the past five fiscal years identifies that proceeds of taxes did not exceed appropriations. In the audits for 2010 and 2011, the audit firm identified that the District had not exceeded the appropriation limit even though the District had not approved the constitutionally mandated limit. This seems to be a recurring theme for the audits of special districts; statements are included regarding appropriation limits that cannot be substantiated.

It is the request of the Commission that the District provide a copy of the resolution once adopted which sets the appropriation limit for FY 2011-12 and that a copy of the resolution for FY 2012-13 be provided during the District's upcoming budget review.

### **Post-Employment Benefits**

#### Pension

The District is a participating member of the San Bernardino County Employees' Retirement Association (SBCERA). The District's financial statements do not identify if the District is fully funded or has met its annual contribution obligations.

#### Other Post-Employment Benefits

The financial statements do not identify if the District offers other post-employment benefits.

### **Filing Requirements**

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<sup>7</sup> In 1979 the voters amended the California Constitution by passing Proposition 4 (the Gann Initiative), requiring each local Government to set an annual appropriations limit (the Gann Limit).

<sup>8</sup> Added by Stats.1980, c. 1205, p. 4059, § 2. Amended by Stats.1988, c. 1203, § 1; Stats.2007, c. 263 (A.B.310), § 25.

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Government Code Section 26909 requires districts to file a copy of its annual audit with the county auditor within 12 months of the end of the fiscal year. According to records from the County Auditor, the FY 2010-11 financial statements are due July 2012.

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

Under agreement, the District currently owns and operates the Cleghorn Treatment plant at the Silverwood Lake and provides, on request, staff and equipment support on the State Parks and Recreation Department's collection system.

The District accepts the California Division of Forestry, Pilot Rock Conservation Camp's effluent discharge into the District outfall and dewater, disposes, and hauls the camps waste biological solids. The District receives payment for these services based upon monthly invoices provided to CALFire at an agreed upon rate of a minimum of \$650 per month or actual cost above that amount.

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

##### Local Government Structure and Community Service Needs

Effective October 1, 2010, the District is an independent special district governed by a five-member board of directors. The first board was elected on August 3, 2010 and determined its staggered terms. The current board composition is shown below.

Board Member	Title	Term Expiration
Matthew L. Philippe	Chairman	December 2015
Penny J. Shubnell	Vice Chairman	December 2015
Ken Nelsen	Secretary	December 2013
Sherri L. Fairbanks	Director	December 2015
Jack P. Winsten	Director	December 2013

The District's office is located in Crestline at 24516 Lake Drive. Regular meetings of the board are scheduled for the second Thursday of the month at 3:00p.m.

##### Operational Efficiency

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

The District is active in the Water Environment Federation, California Water Environment Association, California Association of Sanitation Agencies, Southern California Alliance of Publicly Owned Treatment Works, American Water Works Association, Tri-TAC (a technical advisory committee representing three California associations: League of California Cities, California Association of Sanitation Agencies, California Water Environment Association), as well as other organizations involved in the water and wastewater industries.

##### Government Structure Options

There are two types of government structure options:

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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:*

Under agreement, the District currently owns and operates the Cleghorn Treatment plant at Silverwood Lake and provides, on request, staff and equipment support on the State Parks and Recreation Department’s collection system.

The District accepts the California Division of Forestry, Pilot Rock Conservation Camp’s effluent discharge into the District outfall and hauls, dewateres and disposes of the camps waste biological solids. The original contract for this service lapsed several years ago. However, it is known that it was entered into prior to 2001 and therefore is grandfathered without requirement to comply with the provisions of Government Code Section 56133. In requesting an updated contract for this service, the General Manager of the Crestline Sanitation District and administrators of CALFire have indicated that it would be cumbersome and difficult to enter into a new contract pursuant to existing State contracting requirements. These include the mandatory requirement for solicitation of bids for the service – one which only Crestline Sanitation District has an existing outfall line to address. They have indicated their intent to continue the utility agreement currently in place which requires the payment of a minimum charge of \$650 per month or the actual cost of providing the service.

### *Government Structure Options:*

While the discussion of some government structure options may be theoretical, a service review should address possible scenario for future discussion by the community.

- Formation of a Community Services District. The option of forming a single, multi-purpose special district, through reorganization of the existing service providers, is a preferred form of government that is feasible for the Crest Forest community. The agencies within the community could be reorganized into a community services district (CSD), which would assume the responsibility for providing the services provided by the agencies proposed to be reorganized (i.e. Crestline Sanitation District, Crestline Village Water District, Crest Forest Fire, CSA 18, etc.). The new CSD would assume the responsibilities and all functions, obligations, assets, liabilities, and equipment of the agencies that are to be reorganized. This scenario would provide for an efficient service delivery pattern for the full range of services available within the community through a single agency.

In addition, such a formation would solidify the community as outlined in the preamble to CSD law, which states that a CSD is:

“... (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.*

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- (3) *A form of governance that can serve as an alternative to the incorporation of a new city.*  
(4) *A transitional form of governance as the community approaches cityhood.*

For San Bernardino LAFCO, the establishment of a Community Services District has been used to establish independent government structures that allow for the fostering and nurturing of communities for a possible future incorporation, maintaining their separate identity. With the support of the Crest Forest community such a distinction could be achieved for the area; however, no clear expression of interest has been conveyed to LAFCO during this consideration. However, the establishment of the community designation for Crest Forest is a potential first step in this process.

- Consolidation with the Crestline Village Water District. The Crestline Village Water District was formed under *County Water District Law* and currently only provides water service to its customers. However, the Water District and the Crestline Sanitation District could consolidate with the Water District as the successor agency (since county water districts can provide sewer, not vice versa). If this were to occur, the Water District's boundaries and sphere of influence would need to be adjusted to match Crestline Sanitation District's boundaries. This scenario could allow for scales of economy, allow for the joint use of maintenance personnel and administrative functions for billing, legal, board administration, and promote a single voice for water and wastewater services in the community.
- Regional cooperation for distributing reclaimed and/or recycled water. Crestline-Lake Arrowhead Water Agency (CLAWA) does not perform reclamation services; although CLAWA Law allows for it to perform reclamation services (treatment and reclamation of sewage and storm water) within its boundaries and the request for authorization to perform the services would be subject to LAFCO approval. However, within its boundaries and sphere of influence there are three agencies that provide this service: Crestline Sanitation District (collection and treatment), Running Springs Water District (collection and treatment; also a JPA with Arrowbear Park Water District and CSA 79), and Lake Arrowhead Community Services District (collection and treatment).

As a regional agency, in cooperation with other water entities CLAWA is responsible for managing the water resources within its boundaries to ensure a sustainable supply of water for the benefit of its constituents. As such, CLAWA could help coordinate a regional plan for distribution of reclaimed water in the mountains. Such a structure could reduce duplication of planning efforts and provide the opportunity for economies of scale while maintaining the independence of each district.

- Annexation of sphere territory. Should any area currently within the District's sphere but outside of its current boundary, require sewer service, the residents, landowners, or the District could submit an application for annexation. However, it is estimated that there are approximately 2,500 equivalent dwelling units on septic systems within the district's existing boundaries. These areas are more likely to connect to the District's system before any future territory seeks to annex for service.
- Maintenance of the status quo. The lack of interest in the scenarios listed above makes them unlikely options at this time; therefore, the Commission recommends maintenance of the current structure.

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Based upon the determinations outlined above, the Commission does not identify any potential governmental structure changes at this time for further discussion with the District or its constituents.

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

### 1. Present and Planned Uses:

Development in the San Bernardino Mountains is naturally constrained by rugged terrain, 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 private lands within the district have land use designations of predominantly residential (RS-14M and RL-5), with scattered commercial along State Route 138 and along Lake Drive west of Lake Gregory. The public lands within the district are designated Resource Conservation. The existing sphere area outside of the district is generally residential (for the private lands) and resource conservation and/or open space (for the public lands).

Roughly 80% of the land ownership is privately owned with the remainder within the San Bernardino National Forest (owned by the federal government), which are devoted primarily to resource protection and recreational use. The current sphere of influence (including district) contains 60% private lands.

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

The California Regional Water Quality Control Board, Lahontan Region has ordered areas within the District's boundary to be connected to a sewer system. With growth within its boundaries estimated to increase 37% from 2010 to 2030, it is anticipated that additional areas will be required to connect to the sewer system.

The *Crestline Sanitation District Governance Commission Report* estimates that there are approximately 2,500 equivalent dwelling units on septic systems within the district boundaries. Areas on septic now include: Cedarpines Park, Arrowhead Highland, Dart Canyon, Horseshoe Bend and Strawberry Flats. If these dwelling units with septic tanks were to be required to be added to the District's system by the Lahontan Regional Board, then its capacity would be adversely affected. Further, if either the Strawberry Flats (Twin Peaks area) or Arrowhead Highlands (along Crest Forest Drive) were required to be connected, the District states that expansion of Huston Creek Treatment would be immediately necessary.

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

At present the District has approximately 90 miles of sewer lines ranging from 8 to 15 inches in size. Many of these lines are old and require continuous preventative maintenance. Other areas more recently sewered require increased administrative and field hours for connection permits and sewer inspections. These systems have also increased the time required to perform the necessary operation and maintenance (O&M).

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In the *Crestline Sanitation District Governance Commission Report* dated February 2010, District staff indicated that the current system’s limited capacity at times has difficulty meeting the needs of the community, particularly during the rainy season when a substantial amount of ground water seepage is induced into the system. This has caused the present sewage system to operate at near capacity.

The California Regional Water Quality Control Board, Lahontan Region informed the County in 2001 that the Crestline Sanitation District needed to expand its treatment facilities. Monthly flow rates for Huston Creek have exceeded the State permitted 75% capacity flow rate every winter (525,000 gallons per day) from 2001 through 2008, due to inflow and infiltration from winter rains.

**4. Social and Economic Communities of Interest:**

The District comprises the majority of the Crest Forest community. The social and economic communities of interest are the Rim of the World Unified School District, Lake Gregory and areas commonly known as Crestline, Valley of Enchantment, Aqua Fria, Blue Jay, Twin Peaks, Cedarpines Park, and Rim Forest.

**5. Additional Determinations**

- As required by State Law, notice of the original hearing was provided through publication in a newspaper of general circulation, the *San Bernardino Sun*. The current consideration has been advertised in *The Alpenhorn*, a newspaper of general circulation within the area as required by State Law, due to LAFCO 3133’s removal from the Commission’s hearing calendar. 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. In addition, on November 17, 2010 LAFCO staff met with the District and representatives to review the determinations and recommendations made within its draft report, to solicit comments on the determinations presented and to respond to any questions of the District.
- 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 Crestline Sanitation District shall be limited to the following:

<b>FUNCTIONS</b>	<b>SERVICES</b>
Sewer	Collect, treat, and/or dispose of sewage, wastewater, recycled water, and storm water

**WHEREAS**, having reviewed and considered the findings as outlined above, the Commission determines to expand the Crestline Sanitation District’s sphere of influence by approximately 872.2+/- acres, reduce its existing sphere of influence by approximately 928.3+/- acres, and affirm the balance of the sphere of influence.

