LOCAL AGENCY FORMATION COMMISSION

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Established by the State of California to serve the Citizens, Cities, Special Districts and the County of San Bernardino

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LEGAL COUNSEL

CLARK H. ALSOP

July 27, 2007

Diane Cummings
ISRF Program Manager
California Infrastructure and Economic Development Bank
1001 "I" Street, 19th Floor
Sacramento, CA 95814

Dear Ms. Cummings:

REF: LAFCO 3070 – Reorganization to Include Formation of the Phelan Pinon Hills CSD, Dissolution of County Service Area 70 Improvement Zone L, et al.

In answer to your letter dated February 15, 2007, the following information is provided to respond to the "Assumption of Agreement" Section 5.09 requirements for Agreement #CIEDB-02-033 between the County of San Bernardino, its CSA 70 Improvement Zone L and the California Infrastructure and Economic Development Bank.

a. Your letter identified that Section 5.09 of the agreement states "an opinion of counsel experienced in matters relating to the tax-exempt status of interest on any obligations secured by this agreement, and approved by CIEDB, to the effect that such transfer would not cause interest on the obligations to be included in gross income for federal income tax purposes" is required.

   Attached to this correspondence is a letter from Mr. Greg Harrington of Orrick, Herrington & Sutcliff LLP, dated July 18, 2007 responding to this requirement. This letter indicates the transfer would not cause interest on the obligation to be included in gross income for federal income tax purposes.

b. Your letter identified that Section 5.09 requires that a report from an Independent Consultant or independent Certified Accountant concluding that the transfer of the agreement would not materially adversely affect the security for the Installment Payment, Additional Payments or rights of the I-Bank under the Agreement.

Attached is a report from the Certified Public Accounting Firm of Rogers, Anderson, Malody & Scott LLP providing the report on these details.

c. Your letter requested "evidence sufficient to the CIEDB that the entity assuming the Purchaser's obligation hereunder is eligible". In addition, the letter indicated that a CSD is generally eligible to receive funding through the I-Bank but you desired the "organizational documents" establishing the district to be evaluated by your attorney for consideration.

Since we are currently in the processing of evaluating the formation of this district, anticipated to be placed on the February 5, 2008 Presidential Primary Election Ballot, we cannot provide the final organizational documents. However, since the receipt of your February 15, 2007 letter we have provided to your office copies of reports and materials associated with the ongoing consideration of this proposal, LAFCO 3070. At present, a hearing on August 15, 2007 anticipates making the final determinations necessary to place this matter on the ballot, with the final resolution anticipated to be adopted at the September 19, 2007 hearing. In order to finalize these matters, we will need to be able to assure the transfer of the I-Bank obligation to the successor agency so that the recipients of this benefit, the water customers of CSA 70 Zone L, continue to pay for this obligation. In order to assist in your review of this determination, I have included the following:

1. A copy of the Transition Plan, including Exhibits, proposed by the County Special Districts Department, to provide for a transition from County governance to the independent CSD.

2. A copy of Senate Bill No. 135, effective January 1, 2006, which rewrote CSD Law. The process for formation is outlined in this material beginning with Government Code Section 61010 et seq.

3. An excerpt from the Cortese-Knox-Hertzberg Local Government Reorganization Act, LAFCO law which specifies the Commission's authority to transfer contractual obligations.

4. A copy of the Draft Conditions of Approval to be presented to the Commission for its consideration in this process.

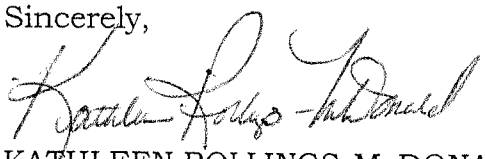
5. A copy of the Feasibility Study presented by the County in submitting its application for review and consideration of this change.

In our telephone conversation regarding submission of these materials, it was indicated that the next available meeting date for consideration by the Board of Directors for the I-Bank would be on August 21st and that you would require at

least a two week review period prior to placement on that agenda. It is my hope that this application can be considered on the August 21st agenda so that the matters related to the formation of this new governmental entity can be resolved by no later than September 19, 2007. I plan on attending this meeting in order to answer questions, or provide additional details, so a confirmation of agenda date would be greatly appreciated.

Should you have any questions on the information provided in this letter, please do not hesitate to contact me directly at (909) 383-9900 or by e-mail at kmcdonald@lafco.sbcounty.gov.

Sincerely,



KATHLEEN ROLLINGS-McDONALD
Executive Officer

Attachments

cc: Clark Alsop, LAFCO Legal Counsel
Paula Nowicki, Chief of Staff, First Supervisorial District
Norm Kanold, Assistant County Administrator, Public and Support Service Group
Tom Sutton, Director, Special Districts Department
Charlie Johnson, Chairman, Proponent Group

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Greg Harrington
(213) 612-2280
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July 18, 2007

California Infrastructure and
Economic Development Bank
Sacramento, California

Enterprise Fund Installment Sale Agreement,
Dated as of December 17, 2002, as amended;
Agreement No. CIEDB-02-033

Ladies and Gentlemen:

The County of San Bernardino, on behalf of County Service Area 70, Improvement Zone L (the "Purchaser"), and the California Infrastructure and Economic Development Bank (the "CIEDB") are parties to the Enterprise Fund Installment Sale Agreement, dated as of December 17, 2002, Agreement No. CIEDB-02-033, as amended by the First Amendment to Enterprise Fund Installment Sale Agreement, dated as of January 1, 2005, the Second Amendment to Enterprise Fund Installment Sale Agreement, dated as of January 1, 2006, and the Third Amendment to Enterprise Fund Installment Sale Agreement, dated as of November 17, 2006 (as so amended, the "Installment Sale Agreement"). On March 18, 2004, CIEDB issued its Infrastructure State Revolving Fund Revenue Bonds (the "Bonds"). The Installment Sale Agreement has been pledged by CIEDB as security for the Bonds. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Installment Sale Agreement.

Proceedings for the formation of the Phelan Pinion Hills Community Services District (the "District") have been initiated pursuant to Section 61000 et seq. of the California Government Code (the "Law"). It is expected that, if and when the District is formed, the entire System will be transferred by the Purchaser to the District and that, in connection with such transfer, the obligations of the Purchaser under the Installment Sale Agreement will be assumed by the District in accordance with Section 5.09 of the Installment Sale Agreement. In connection with the expected transfer and assumption, as counsel to the Purchaser, we have reviewed the Installment Sale Agreement and such other documents, opinions and matters to the extent we deemed necessary to render the opinion set forth herein.

The opinion expressed herein is based on an analysis of existing laws, regulations, rulings and court decisions and covers certain matters not directly addressed by such authorities. Such opinion may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof, and we disclaim any obligation to update this opinion. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any party other than the Purchaser. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Installment Sale Agreement, the Bonds and the instruments pursuant to which the Bonds were issued, including (without limitation) covenants and agreements compliance with which is necessary to assure that actions, omissions or events on and after the date of issuance of the Bonds have not caused and will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We have not undertaken to determine compliance with any of such covenants and agreements or any other requirements of law, and, except as expressly set forth below, we have not otherwise reviewed any actions, omissions or events occurring after the date of issuance of the Bonds or relating to the exclusion of interest on the Bonds from gross income for federal income tax purposes. Accordingly, no opinion is expressed herein as to whether interest on the Bonds is excludable from gross income for federal income tax purposes or as to any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. Nothing in this letter should imply that we have considered or in any manner confirm any of the matters covered in any opinion in connection with the issuance of the Bonds or the original execution of or any amendment to the Installment Sale Agreement.

Based on and subject to the foregoing, and in reliance thereon, and assuming that the District will be duly established pursuant to the Law, as of the date hereof, we are of the opinion that the transfer of the entire System by the Purchaser to the District will not, in and of itself, adversely affect any exclusion of interest on the Bonds from gross income for purposes of federal income taxation.

This opinion is furnished by us as counsel to the Purchaser solely for purposes of Section 5.09 of the Installment Sale Agreement. No attorney-client relationship has existed or exists between our firm and the CIEDB in connection with the Installment Sale Agreement or the Bonds or by virtue of this opinion, and we disclaim any obligation to update this opinion. This opinion is delivered to the addressee hereof pursuant to the Section 5.09 of the Installment Sale

ORRICK

Agreement and is not to be used or relied upon for any other purpose or by any person. This opinion is not intended to, and may not, be relied upon by owners of the Bonds or any other party to whom it is not specifically addressed.

Very truly yours,

Orrick, Herrington & Sutcliffe LLP

ORRICK, HERRINGTON & SUTCLIFFE LLP

ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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JAY H. ZERCHER, C.P.A.
ROBERT B. MEMORY, C.P.A.
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KIRK A. FRANKS, C.P.A.
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JENNY LIU, C.P.A.
BRAD A. WELEBIR, C.P.A.

San Bernardino County
Local Agency Formation Commission
215 North D Street Suite 204
San Bernardino, California 92415

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

We have performed the procedures enumerated below, which were agreed to by you, to calculate pledged net system revenues required to be maintained and encumbered by the proposed Phelan Pinon Hills Community Services District (CSD) in accordance with the Enterprise Fund Installment Sale Agreement between California Infrastructure and Economic Development Bank (CIEDB) and County Service Area 70, Improvement Zone L (Zone L). This engagement is solely to assist the Local Agency Formation Commission (LAFCO) and the CIEDB to determine whether the security for the Installment Payment would be materially affected by the transfer resulting from the proposed formation of the CSD. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of LAFCO and CIEDB. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

Procedure: Read the California Infrastructure and Economic Development Bank Enterprise Fund Installment Agreement focusing specifically on the pertinent provisions of the Agreement pertaining to the covenants of the loan pertinent to this engagement.

Findings:

1) Purchaser is required to keep proper books of record and accounts in which complete and correct entries shall be made of all transactions relating to the System Revenues.

2) Pledged Net System Revenues calculated in accordance with Generally Accepted Accounting Principles must amount to al least 1.10 times the Maximum Annual Debt Service.

3) Principal amount to be paid to the CIEDB $4,001,000.

4) Purchaser must submit invoices to the CIEDB for the entire amount of the Project Funds no later than January 1, 2008.

MEMBERS
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PCPS THE AICPA ALLIANCE FOR CPA FIRMS
CALIFORNIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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(909) 889-0871 • (909) 824-6736 • FAX (909) 889-5361
Website: www.ramscpa.net

Procedure: Read Phelan Pinon Hills Community Services District Feasibility Study dated July 18, 2006.

Findings:

1) The residents of the communities of Phelan and Pinon Hills are proposing to reorganize County Service Area 9, Area 56 – Improvement Zone F-1 and Area 70 – Improvement Zones G, L, and L-1 into a new Community Services District to be known as Phelan Pinon Hills Community Services District (CSD).

2) The Proposed CSD will provide water, park and recreation, and street lighting.

3) CSD Feasibility Committee is recommending a contract with the San Bernardino County Special Districts, not to exceed three years to continue operation of the proposed CSD.

Procedure: Read audited financial statements for County Service Area 9, County Service Area 56 – Improvement Zone F-1 and County Service Area 70 – Improvement Zones G, L and L-1 for the year ended June 30, 2006.

Findings:

1) The balance of the Installment Sale Agreement as shown on the CSA 70 Improvement Zone L audited financial statements of $3,286,515 does not agree with the amortization schedule provided by CIEDB of $3,258,837. The overall difference of $27,678 has been determined to be immaterial in regards to this engagement. The Maximum Annual Debt Service will be obtained from the balance shown on the CIEDB amortization schedule.

2) Undisbursed Project Funds totaled $468,522 as of June 30, 2006.

Procedure: Calculate future Maximum Annual Debt Service.

Finding: Obtained Amortization Schedule as in Exhibit E of First Amendment to Enterprise Fund Installment Sale.
Maximum Annual Debt Service:

a) 2007-08 $231,591
b) 2008-09 $231,311
c) 2009-10 $231,021

Procedure:

1) Calculate Pledged Net System Revenues.

2) Obtained Proposed Budget as included in the Phelan Pinon Hills Community Services District Feasibility Study dated July 18, 2006, for the Years ended June 30, 2008, 2009 and 2010.

3) Obtained projected property tax revenues for the year ended June 30, 2008.

Finding: The Pledged Net System Revenues are as follows:

a) 2007-08 $1,303,466
b) 2008-09 $1,329,271
c) 2009-10 $1,242,936

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the Pledged Net System Revenues. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Local Agency Formation Commission and the California Infrastructure and Economic Development Bank and is not intended to be and should not be used by anyone other than these specified parties.

Rogers, Anderson, Malody & Scott, LLP

May 31, 2007

Mailed copy of resolution making determinations; recipients

56882. The executive officer shall mail a copy of the resolution adopted by the commission making determinations addressed to each of the following persons or entities:

(a) The proponents, if any, where the proceedings for change of organization were initiated by petition.

(b) Each affected local agency whose boundaries would be changed by the proposal.

Correction of clerical errors or mistakes before completion

Corrections and reconsideration

56883. The executive officer may, before the completion of a proceeding, on good cause being shown, correct clerical errors or mistakes made through inadvertence, surprise, or excusable neglect that may be contained in the resolution adopted by the commission making determinations, upon written request by any member of the commission, by the executive officer, or by any affected agency. A correction made pursuant to this section shall not be cause for filing a request pursuant to Section 56895.

Disapproval of proposals by commission

Waiting time for new proposal

56884. (a) Except as otherwise provided in subdivision (b), if the commission wholly disapproves any proposal:

(1) No further proceedings shall be taken on that proposal.

(2) No similar proposal involving the same or substantially the same territory shall be initiated for one year after the date of adoption of the resolution terminating proceedings.

(b) The commission may waive the requirements of subdivision (a) if it finds those requirements are detrimental to the public interest.

Article 2. Terms and Conditions

Approval conditions

56885. The commission may, at any time, authorize any legislative body holding a hearing pursuant to this division, to continue the hearing to a date or dates extending beyond the dates specified in this division.

Conditional approval of change of organization or reorganization

56885.5. (a) In any commission order giving approval to any change of organization or reorganization, the commission may make that approval conditional upon any of the following factors:

(1) Any of the conditions set forth in Section 56886.

(2) The initiation, conduct, or completion of proceedings for another change of organization or a reorganization.

(3) The approval or disapproval, with or without election, as may be provided by this division, of any resolution or ordinance ordering that change of organization or reorganization.

(4) With respect to any commission determination to approve the disincorporation of a city, the dissolution of a district, or

the reorganization or consolidation of agencies which results in the dissolution of one or more districts or the disincorporation of one or more cities, a condition prohibiting an agency being dissolved from taking any of the following actions, unless it first finds that an emergency situation exists as defined in Section 54956.5:

Prohibition for agencies being dissolved

(A) Approving any increase in compensation or benefits for members of the governing board, its officers, or the executive officer of the agency.

(B) Appropriating, encumbering, expending, or otherwise obligating, any revenue of the agency beyond that provided in the current budget at the time the dissolution is approved by the commission.

(b) If the commission so conditions its approval, the commission may order that any further action pursuant to this division be continued and held in abeyance for the period of time designated by the commission, not to exceed six months from the date of that conditional approval.

(c) The commission order may also provide that any election called upon any change of organization or reorganization shall be called, held, and conducted before, upon the same date as, or after the date of any election to be called, held, and conducted upon any other change of organization or reorganization.

(d) The commission order may also provide that in any election at which the questions of annexation and district reorganization or incorporation and district reorganization are to be considered at the same time, there shall be a single question appearing on the ballot upon the issues of annexation and district reorganization or incorporation and district reorganization.

No direct land use regulation

56886. Any change of organization or reorganization may provide for, or be made subject to one or more of, the following terms and conditions. If a change of organization or reorganization is made subject to one or more of the following terms and conditions in the commission's resolution making determinations, the terms and conditions imposed shall constitute the exclusive terms and conditions for the change of organization or reorganization, notwithstanding the general provisions of Part 5 (commencing with Section 57300). However, none of the following terms and conditions shall directly regulate land use, property development, or subdivision requirements:

Payments

(a) The payment of a fixed or determinable amount of money, either as a lump sum or in installments, for the acquisition, transfer, use or right of use of all or any part of the

existing property, real or personal, of any city, county, or district.

Taxes, charges, and assessments

(b) The levying or fixing and the collection of any of the following, for the purpose of providing for any payment required pursuant to subdivision (a):

(1) Special, extraordinary, or additional taxes or assessments.

(2) Special, extraordinary, or additional service charges, rentals, or rates.

(3) Both taxes or assessments and service charges, rentals, or rates.

Bonds, contracts, and other obligations

(c) The imposition, exemption, transfer, division, or apportionment, as among any affected cities, affected counties, affected districts, and affected territory of liability for payment of all or any part of principal, interest, and any other amounts which shall become due on account of all or any part of any outstanding or then authorized but thereafter issued bonds, including revenue bonds, or other contracts or obligations of any city, county, district, or any improvement district within a local agency, and the levying or fixing and the collection of any (1) taxes or assessments, or (2) service charges, rentals, or rates, or (3) both taxes or assessments and service charges, rentals, or rates, in the same manner as provided in the original authorization of the bonds and in the amount necessary to provide for that payment.

(d) If, as a result of any term or condition made pursuant to subdivision (c), the liability of any affected city, affected county, or affected district for payment of the principal of any bonded indebtedness is increased or decreased, the term and condition may specify the amount, if any, of that increase or decrease which shall be included in, or excluded from, the outstanding bonded indebtedness of that entity for the purpose of the application of any statute or charter provision imposing a limitation upon the principal amount of outstanding bonded indebtedness of the entity.

Improvement districts

(e) The formation of a new improvement district or districts or the annexation or detachment of territory to, or from, any existing improvement district or districts.

New indebtedness

(f) The incurring of new indebtedness or liability by, or on behalf of, all or any part of any local agency, including territory being annexed to any local agency, or of any existing or proposed new improvement district within that local agency. The new indebtedness may be the obligation solely of territory to be annexed if the local agency has the authority to establish zones for incurring indebtedness. The indebtedness or liability shall be incurred substantially in accordance with the laws otherwise applicable to the local agency.

Bonds

(g) The issuance and sale of any bonds, including authorized but unissued bonds of a local agency, either by that local

agency or by a local agency designated as the successor to any local agency which is extinguished as a result of any change of organization or reorganization.

Property

(h) The acquisition, improvement, disposition, sale, transfer, or division of any property, real or personal.

Funds

(i) The disposition, transfer, or division of any moneys or funds, including cash on hand and moneys due but uncollected, and any other obligations.

Water

(j) The fixing and establishment of priorities of use, or right of use, of water, or capacity rights in any public improvements or facilities or any other property, real or personal. However, none of the terms and conditions ordered pursuant to this subdivision shall modify priorities of use, or right of use, to water, or capacity rights in any public improvements or facilities that have been fixed and established by a court or an order of the State Water Resources Control Board.

Offices, departments, and boards

(k) The establishment, continuation, or termination of any office, department, or board, or the transfer, combining, consolidation, or separation of any offices, departments, or boards, or any of the functions of those offices, departments, or boards, if, and to the extent that, any of those matters is authorized by the principal act.

Employee benefits and rights

(l) The employment, transfer, or discharge of employees, the continuation, modification, or termination of existing employment contracts, civil service rights, seniority rights, retirement rights, and other employee benefits and rights.

Successor

(m) The designation of a city, county, or district, as the successor to any local agency that is extinguished as a result of any change of organization or reorganization, for the purpose of succeeding to all of the rights, duties, and obligations of the extinguished local agency with respect to enforcement, performance, or payment of any outstanding bonds, including revenue bonds, or other contracts and obligations of the extinguished local agency.

Designation of legislative body

(n) The designation of (1) the method for the selection of members of the legislative body of a district or (2) the number of those members, or (3) both, where the proceedings are for a consolidation, or a reorganization providing for a consolidation or formation of a new district and the principal act provides for alternative methods of that selection or for varying numbers of those members, or both.

Other proposals

(o) The initiation, conduct, or completion of proceedings on a proposal made under, and pursuant to, this division.

Effective date

(p) The fixing of the effective date or dates of any change of organization, subject to the limitations of Section 57202.

Principal act conditions

(q) Any terms and conditions authorized or required by the principal act with respect to any change of organization.

Service continuation

(r) The continuation or provision of any service provided at that time, or previously authorized to be provided by an official act of the local agency.

Levying charges

(s) The levying of assessments, including the imposition of a fee pursuant to Section 50029 or 66484.3 or the approval by the voters of general or special taxes. For the purposes of this section, imposition of a fee as a condition of the issuance of a building permit does not constitute direct regulation of land use, property development, or subdivision requirements.

Continuation of charges

(t) The extension or continuation of any previously authorized charge, fee, assessment, or tax by the local agency or a successor local agency in the affected territory.

Transfer of authority for charges (Mello-Roos, etc.)

(u) The transfer of authority and responsibility among any affected cities, affected counties, and affected districts for the administration of special tax and special assessment districts, including, but not limited to, the levying and collecting of special taxes and special assessments, including the determination of the annual special tax rate within authorized limits; the management of redemption, reserve, special reserve, and construction funds; the issuance of bonds which are authorized but not yet issued at the time of the transfer, including not yet issued portions or phases of bonds which are authorized; supervision of construction paid for with bond or special tax or assessment proceeds; administration of agreements to acquire public facilities and reimburse advances made to the district; and all other rights and responsibilities with respect to the levies, bonds, funds, and use of proceeds that would have applied to the local agency that created the special tax or special assessment district.

Any other matter

(v) Any other matters necessary or incidental to any of the terms and conditions specified in this section. If a change of organization, reorganization, or special reorganization provides for, or is made subject to one or more of, the terms and conditions specified in this section, those terms and conditions shall be deemed to be the exclusive terms and conditions for the change of organization, reorganization, or special reorganization, and shall control over any general provisions of Part 5 (commencing with Section 57300).

Public utilities

56886.1. When applicable, the terms and conditions of any change of organization or reorganization shall provide public utilities, as defined in Section 216 of the Public Utilities Code, 90 days following the recording of the certificate of completion to make the necessary changes to impacted utility customer accounts.

Improvement districts; exclusion of land

56886.3. If the terms and conditions of any change of organization provide for the formation of a new improvement

district, or the annexation or detachment of territory to, or from, an existing improvement district, the commission shall do all of the following:

(a) Exclude any lands proposed to be formed into, or to be annexed to, the improvement district which the commission finds will not be benefited by becoming a part of the improvement district.

(b) Exclude any lands proposed to be detached from an improvement district which the commission finds will be benefited by remaining a part of the improvement district.

Formation of new government; alternative existing agencies

56886.5. (a) If a proposal includes the formation of a district or the incorporation of a city, the commission shall determine whether existing agencies can feasibly provide the needed service or services in a more efficient and accountable manner. If a new single-purpose local agency is deemed necessary, the commission shall consider reorganization with other single-purpose local agencies that provide related services.

(b) If a proposal includes the consolidation of two or more special districts not formed pursuant to the same principal act, the commission shall determine whether any service provided at that time could be discontinued due to a lack of authority under the principal act of the successor. If a new single-purpose local agency is deemed necessary to provide the needed service or services, the commission shall consider the formation of a new district that is authorized to provide the service or services.

(c) This section shall become inoperative on July 1, 2008, and, as of January 1, 2009, is repealed, unless a later enacted statute, that becomes operative on or before January 1, 2009, deletes or extends the dates on which it becomes inoperative and is repealed.

NOTE: Stats. 2004, Ch. 471 direct that on July 1, 2008, Section 56886.5 will become inoperative and be replaced with the adjacent language

56886.5. (a) If a proposal includes the formation of a district or the incorporation of a city, the commission shall determine whether existing agencies can feasibly provide the needed service or services in a more efficient and accountable manner. If a new single-purpose local agency is deemed necessary, the commission shall consider reorganization with other single-purpose local agencies that provide related services.

(b) This section shall become operative on July 1, 2008.

Local coastal program; amendment

56887. Any change of organization or reorganization may be conditionally approved by a local agency formation commission subject to the certification by the California Coastal Commission of an amendment to the local coastal program of a city or a county.

Application of terms and conditions to city or county; exception for indebtedness or liability

56887.5. If any change of organization or reorganization pertains to city or district territory which is located, in whole or in part, within the boundaries of any city or county, any terms and conditions authorized by Section 56886 may be made applicable to that city or county. However, no indebtedness or liability which is subject to the requirement of an election, under the provisions of Section 18 of Article XVI of the California Constitution, shall be incurred or assumed by any city or county, except as provided in Section 18 of Article XVI of the California Constitution.

City annexation of Williamson Act land

56889. If any commission order approving or conditionally approving a change of organization or reorganization would result in the annexation to a city of land that is subject to a contract executed pursuant to the Williamson Act (Chapter 7 (commencing with Section 51200) of Division 1), for which the commission has determined pursuant to Section 56754 that the city shall succeed to the contract, the commission shall impose a condition that requires the city to adopt the rules and procedures required by the Williamson Act, including but not limited to the rules and procedures required by Sections 51231, 51237, and 51237.5.

Application of terms and conditions to districts within local agency

56890. Any of the terms and conditions authorized by Section 56886 may be made applicable to all or any part of any city or district or any improvement district within that local agency or any territory annexed to, or detached from, any city or district or improvement district within that local agency.

Article 3. Reconsideration

Written requests for amendment or reconsideration of resolutions

56895. (a) When a commission has adopted a resolution making determinations, any person or affected agency may file a written request with the executive officer requesting amendments to or reconsideration of the resolution. The request shall state the specific modification to the resolution being requested and shall state what new or different facts that could not have been presented previously are claimed to warrant the reconsideration. If the request is filed by a school district that received notification pursuant to Section 56658, the commission shall consider that request at a public hearing.

(b) Notwithstanding Section 56106, the deadlines set by this section are mandatory. The person or agency shall file the written request within 30 days of the adoption of the initial or superseding resolution by the commission making determinations. If no person or agency files a timely request, the commission shall not take any action pursuant to this section.

California Infrastructure and Economic Development Bank

I BANK

RECEIVED
FEB 22 2007
LAFCO
San Bernardino County

Arnold Schwarzenegger
Governor

Board Members:

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Chair
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Bill Lockyer
State Treasurer

Michael C. Genest
Director
Department of Finance

Rosario Marin
Secretary, State and Consumer Services Agency

D. Everett Rice
Governor's Appointee

Executive Director:

Stanton C. Hazelroth

Mailing Address:
P.O. Box 2830
Sacramento, CA 95812-2830

Office Address:
1001 I Street, 19th Floor
Sacramento, CA 95814

(916) 322-1399
(916) 322-6314 FAX
www.ibank.ca.gov

February 15, 2007

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

Re: Proposal to Form the Phelan Pinon Hills Community Services District and Assume Agreement #CIEDB-02-033

Dear Ms. Rollings-McDonald:

Your letter dated February 1, 2007 addressed to James A. Young of my staff at the California Infrastructure and Economic Development Bank (CIEDB) requested clarification of three items relative to Section 5.09 Assumption of Agreement of the Enterprise Fund Installment Sale Agreement (Agreement) between the County of San Bernardino Acting on Behalf of County Service Area (CSA 70), Improvement Zone L and the California Infrastructure and Economic Development Bank (CIEDB) (Agreement #CIEDB-02-033).

a) The CIEBD has determined that Clark Alsop of Best, Best & Krieger is an acceptable attorney to provide an opinion of counsel relative to the tax exempt status of interest on obligations secured by the Agreement. (Section 5.09(a))

b) As we discussed during our telephone conversation on Thursday, February 8, 2007, a report from the County Auditor/Controller-Recorder regarding the affect of the transfer on the security for the Installment Payments is not acceptable. The Agreement requires the report to be signed by an Independent Consultant or Independent Certified Accountant. The County Auditor/Controller-Recorder is not deemed to be independent in this matter. (Section 5.09(b))

c) In section "c" of your letter, you requested a determination of whether the new Community Services District (CSD) under consideration by the San Bernardino County Local Agency Formation Commission (LAFCO) for formation is eligible to

receive funding through CIEDB. Generally, CSDs are eligible to receive funding through CIEDB. However, a copy of the ordinance, charter, or other organizational document(s) establishing the Phelan Pinon Hills Community Services District (CSD) and certification from the CSD's counsel or chief administrative officer that the organization documents are sufficient to create the CSD are subject to review by CIEDB's attorney before a final eligibility determination is made. (Section 5.09(c))

Please contact me if you have any questions.

Sincerely,

Diane Cummings
ISRF Program Manager
California Infrastructure and Economic Development Bank
(916) 324-4805
dcummings@ibank.ca.gov

3070

LOCAL AGENCY FORMATION COMMISSION

215 North "D" Street, Suite 204 • San Bernardino, CA 92415-0490
(909) 383-9900 • Fax (909) 383-9901
E-mail: lafco@lafco.sbcounty.gov • www.sbclafco.org

Established by the State of California to serve the Citizens, Cities, Special Districts and the County of San Bernardino

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STAFF

KATHLEEN ROLLINGS-McDONALD
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LAFCO Analyst

MICHAEL A. TUERPE
LAFCO Analyst

DEBBY CHAMBERLIN
Clerk to the Commission

ANGELA M. SCHELL
Deputy Clerk to the Commission

LEGAL COUNSEL

CLARK H. ALSOP

February 1, 2007

James A. Young
Municipal Finance Specialist
California Infrastructure and Economic Development Bank
P.O. Box 2830
Sacramento, CA 95812-2830

Dear Mr. Young:

In October 2006, an e-mail was forwarded to the San Bernardino County Local Agency Formation Commission (LAFCO) indicating that in order to comment on the proposal for formation of the Phelan Pinon Hills Community Services District (hereafter "CSD"), certain items were needed. No official follow-up to that e-mail was provided, so I am writing to clarify that request and to gain specifics on the consideration regarding the "Assumption of Agreement" currently between CSA 70 Improvement Zone L and the California Infrastructure and Economic Development Bank (Agreement #CIEDB-02-033).

a. You have identified that Section 5.09 of the agreement states "an opinion of counsel experienced in matters relating to the tax-exempt status of interest on any obligations secured by this agreement, and approved by CIEDB, to the effect that such transfer would not cause interest on the obligations to be included in gross income for federal income tax purposes" is required. We will request that LAFCO Legal Counsel, Clark H. Alsop of Best, Best & Krieger, provide such a determination as a part of the consideration. If you have any concern with the requested opinion being rendered by this firm, please provide that notification within 10 working days of receipt of this letter.

b. Since the County of San Bernardino is the applicant for this proposal, we will request that the County Auditor/Controller-Recorder provide this report. If you have any concern with this option, please provide my office with notification within 10 working days of the receipt of this letter.

c. You requested "evidence sufficient to the CIEDB that the entity assuming the Purchaser's obligation hereunder is eligible". The action before LAFCO for consideration is the formation of a new government entity, a Community Services District, as defined by Government Code Section 61100 et seq. Please provide my office

with a determination if such an entity is not eligible to receive funding through the CIEDB. Also, please provide an outline of those public agencies eligible to receive this financing.

Should you have any questions on the information provided in this letter, please do not hesitate to contact me directly at (909) 383-9900.

Sincerely,

KATHLEEN ROLLINGS-McDONALD
Executive Officer

Attachment:

Installment Sale Agreement between CIEDB and CSA 70 Improvement Zone L (Agreement #CIEDB-02-033)

cc: Clark Alsop, LAFCO Legal Counsel
Paula Nowicki, Chief of Staff, First Supervisorial District
Norm Kanold, Assistant County Administrator, Public and Support Service Group
Tom Sutton, Director, Special Districts Department
Charlie Johnson, Chairman, Proponent Group

ENTERPRISE FUND INSTALLMENT SALE AGREEMENT

by and between the

COUNTY OF SAN BERNARDINO ACTING ON BEHALF OF COUNTY SERVICE AREA 70, IMPROVEMENT ZONE L,

as Purchaser

and the

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK,

as Seller

Dated as of December 17, 2002

Agreement # CIEDB-02-033

(c) The Purchaser intends to utilize the Project or cause the Project to be utilized as a "public development facility" within the meaning of the Act.

(d) The Project will be located wholly within the corporate limits of County Service Area 70, Improvement Zone L in San Bernardino County, California.

(e) To the best of the Purchaser's knowledge no officer or official of the CIEDB has any material interest whatsoever in the Project or in the transactions contemplated by this Agreement.

(f) All applicable local governmental agency, State and federal government certificates, approvals, permits and authorizations with respect to the construction of the Project have been obtained or will be obtained as soon as practicable.

SECTION 4.14. Existing Obligations. As of the Effective Date, there is no other debt secured by the Purchaser's Pledged Net System Revenues.

ARTICLE V

AFFIRMATIVE COVENANTS OF THE PURCHASER

SECTION 5.01. Punctual Payment. The Purchaser will punctually pay, or cause to be paid, all payments required hereunder in strict conformity with the terms of this Agreement, and it will faithfully observe and perform all of the conditions, covenants and requirements of this Agreement.

SECTION 5.02. Payment of Claims. The Purchaser from time to time will pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies, which, if unpaid, might become liens or charges upon the properties owned by the Purchaser, including the System, or upon the Pledged Net System Revenues or any part thereof, or upon any funds in the hands of the CIEDB, or which might impair the security for the payment of the Installment Payments or Additional Payments. Nothing herein contained shall require the Purchaser to make any such payment so long as the Purchaser in good faith shall contest the validity of said claims.

SECTION 5.03. Books and Accounts; Financial Statements.

(a) The Purchaser will keep proper books of record and accounts in which complete and correct entries shall be made of all transactions relating to the System Revenues. Such books of record and accounts shall at all times during business hours be subject to the inspection of the CIEDB or its designee.

(b) The Purchaser will prepare and file with the CIEDB annually as soon as practicable, but in any event not later than one hundred eighty (180) days after the close of each Fiscal Year, so long as this Agreement has not been discharged by the CIEDB, an audited financial statement of the Purchaser relating to the System Revenues and Enterprise Fund for the preceding Fiscal Year, prepared by an Independent Accountant. The Purchaser will furnish to the

CIEDB such reasonable number of copies of such audited financial statements as may be required by the CIEDB for distribution (at the expense of the Purchaser).

(c) Simultaneously with the delivery of the annual audited financial statements, the Purchaser will deliver to the CIEDB a Certificate of the Purchaser stating the following:

(1) The number of System users as of the end of the Fiscal Year;

(2) Calculation of the coverage ratios described in Section 5.06 and a certification that adopted rates and charges comply with the requirements of that section;

(3) Notification of the withdrawal of any System user generating four percent (4%) or more of System Revenues since the last reporting date;

(4) Any significant System facility retirements or expansions planned or undertaken since the last reporting date;

(5) Notification of any Parity Debt or Subordinate Debt since the last reporting date and certification that there has been no default or noncompliance under any Parity Debt or Subordinate Debt;

(6) Certification that no Event of Default has occurred and no event has occurred which, with the passing of time would constitute an Event of Default; and

(7) Notification of any other event or circumstance that would materially affect completion of the Project and/or payment of the Purchase Price.

(d) The Purchaser shall, upon request, furnish to the CIEDB, in a format provided by the CIEDB, information concerning employment and other public benefits connected to the Project.

(e) Not later than thirty (30) days after the start of each Fiscal Year, the Purchaser will adopt and make available to the CIEDB, a budget approved by the governing board of the Purchaser setting forth the estimated System Revenues, Operations and Maintenance Costs, Debt Service and all other obligations to be paid from System Revenues for the current Fiscal Year; provided, that any such budget may be amended at any time during any Fiscal Year and such amended budget shall be made available to the CIEDB. Purchaser's budget must meet the requirements of Section 5.06 and Purchaser shall certify to the CIEDB annually that its budget is in compliance with Section 5.06.

(f) The Purchaser shall notify the CIEDB forthwith upon the filing of a stop notice, litigation or any other legal proceeding which may impact the completion of the Project.

SECTION 5.04. Protection of Security and Rights. The Purchaser will preserve and protect the security for payment of the Installment Payments, Additional Payments and the rights of the CIEDB. From and after the date hereof, the Agreement shall be incontestable by the Purchaser.

SECTION 5.05. Payments of Taxes and Other Charges. The Purchaser will pay and discharge, or cause to be paid and discharged, all taxes, service charges, assessments and other governmental charges, or charges in lieu thereof, which may hereafter be lawfully imposed upon the Purchaser, the System or the System Revenue when the same shall become due. Nothing herein contained shall require the Purchaser to make any such payment so long as the Purchaser in good faith shall contest the validity of said taxes, assessments or charges. The Purchaser will duly observe and conform with all valid requirements of any governmental authority relative to the System or any part thereof.

SECTION 5.06. Maintenance of System Revenues.

(a) The Purchaser will fix, charge and collect, or cause to be fixed, charged and collected, in each Fiscal Year, such rates and charges for the use of and for the service furnished by the System so that Pledged Net System Revenues are in an amount which will be sufficient to be at least equal to one hundred ten percent (110%) of Maximum Annual Debt Service.

(b) If for any reason Pledged Net System Revenues prove insufficient to comply with the requirements of subsection (a), the Purchaser agrees to increase Pledged Net System Revenues through increased rents, rates, fees, charges, and/or assessments not later than one hundred eighty (180) days following the date on which Pledged Net System Revenues fail to meet those requirements. The Purchaser may make adjustments from time to time in such rents, rates, fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rents, rates, fees, and charges then in effect unless the Pledged Net System Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements of this section.

SECTION 5.07. Tax Covenants. The Purchaser recognizes that the Project Funds consist of proceeds of a tax-exempt financing program. In order to maintain the tax-exempt status of the financing, the Purchaser will not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of the Code, and the Purchaser specifically agrees to comply with all terms and conditions contained in the Tax Certificate.

SECTION 5.08. Operation of System. The Purchaser will, so long as the Purchase Price is unpaid, maintain and operate the System in good condition, repair and working order, and will operate the System in an efficient and economical manner, and will pay all Operations and Maintenance Costs as they become due and payable. The Purchaser shall ensure that all activities undertaken by the Purchaser with respect to the operation of the System are undertaken and accomplished in conformity with all applicable requirements of law.

SECTION 5.09. Assumption of Agreement. The obligations of the Purchaser under this Agreement may not be assumed by another entity except in connection with a transfer of the entire System by the Purchaser and only upon prior written approval of the CIEDB and:

(a) an opinion of counsel experienced in matters relating to the tax-exempt status of interest on any obligations secured by this Agreement, and approved by the CIEDB, to the effect

that such transfer would not cause interest on the obligations to be included in gross income for federal income tax purposes;

(b) a Report signed by an Independent Consultant or Independent Certified Accountant concluding that such transfer would not materially adversely affect the security for the Installment Payments, Additional Payments or the rights of the CIEDB; and

(c) evidence sufficient to the CIEDB that the entity assuming the Purchaser's obligation hereunder is eligible pursuant to the Act.

SECTION 5.10. Completion of Project; Construction Contracts.

(a) The Purchaser shall ensure that all activities undertaken with respect to the completion of the Project are undertaken and accomplished with due diligence and in conformity with all requirements of the Act and other applicable law.

(b) All construction contracts shall be let to the lowest responsible bidder at a fixed price subject to increase only for allowable extra work, change orders approved by Purchaser, and damages or delays authorized by the laws of the State. Purchaser shall not approve any change orders cumulatively resulting in an increase in Project costs of more than five percent (5%) of the original construction contract amount without having funds committed for the increased Project costs.

SECTION 5.11. Payment from Tax-Exempt Debt. The Purchaser hereby covenants to notify the CIEDB forty-five (45) days before making any repayment or prepayment of this Agreement from the proceeds of any tax-exempt debt incurred by the Purchaser.

SECTION 5.12. Further Assurances. The Purchaser will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably required by the CIEDB as necessary or proper to carry out the intention or to facilitate the performance of this Agreement and for the better assuring and confirming unto the CIEDB of the rights and benefits provided in this Agreement.

SECTION 5.13. Agreement to Complete.

(a) The Purchaser agrees that it will acquire, construct or install the Project, and construct, acquire and install other facilities and real and personal property deemed by the Purchaser necessary for the operation of the Project. The Purchaser may supplement or amend the Project description with written approval from the CIEDB from time to time, provided that no such supplement or amendment shall cause the Project or any portion thereof to fail to constitute a "project" within the meaning of the Act.

(b) At any time, upon request of the CIEDB, the Purchaser agrees to make available to the CIEDB for review and copying all then current plans and specifications for the Project. The Purchaser may identify any proprietary information in such plans and specifications and, to the extent legally permissible, the CIEDB agrees to keep such information confidential.

(c) As soon as the Project is completed, the Purchaser shall evidence such completion by providing a certificate to the CIEDB stating that (i) construction of the Project has been completed substantially in accordance with the final plans and specifications therefor and all labor, services, materials and supplies used in construction have been paid for, and (ii) all other facilities necessary in connection with the Project have been constructed, acquired and installed in accordance with the final plans and specifications therefor and all costs and expenses incurred in connection therewith have been paid. Notwithstanding the foregoing, such certificate may state that it is given without prejudice to any rights of the Purchaser against third parties for the payment of any amount not then due and payable which exist at the date of such certificate or which may subsequently exist.

SECTION 5.14. Collection of Rates, Fees and Charges. The Purchaser will have in effect at all times rules and regulations requiring each user of the System to pay the rates, fees and charges applicable to the services provided by the System to each user. The Purchaser will not permit any part of the System or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or person, or by any public agency (including the United States of America, the State and any city, county, district, political subdivision, public corporation or agency of any thereof); provided, that the Purchaser may without charge use the services provided by the System.

SECTION 5.15. Purchaser's General Responsibility. The Purchaser is solely responsible for the design, construction, operation and maintenance of the Project. Any review or approval of plans, specifications, bid documents or other construction documents by the CIEDB is solely for the purpose of proper administration of Project Funds by the CIEDB and shall not be deemed to relieve or restrict the Purchaser's responsibility or result in any duty, obligation or responsibility on the part of the CIEDB or the officers and agents thereof.

SECTION 5.16. Purchaser's Assurances and Commitments.

(a) Compliance with Laws and Regulations. The Purchaser shall at all times comply and require its contractors and subcontractors to comply with all applicable federal and State laws, rules and regulations, and all applicable local ordinances, specifically including, but not limited to, contractor pre-qualification, prevailing wage, environmental, procurement and safety laws, rules, regulations, and ordinances. Purchaser agrees that its failure to act in accordance with the provisions of this subsection (a) will not result in any duty, obligation or responsibility on the part of the CIEDB or the officers and agents thereof.

(b) Archeological or Historical Resources. Should a potential archeological or historical resource be discovered during construction, the Purchaser agrees that all work in the area of the find will cease until a qualified archeologist has evaluated the situation and the Purchaser has determined appropriate actions regarding preservation of the resource.

(c) Construction Activities. The Purchaser shall assure that adequate supervision and inspection of Project construction activities are maintained. The CIEDB reserves the right to conduct an audit of Purchaser's construction expenditures during construction and for up to three (3) years following receipt by CIEDB of notice of completion or other evidence of completion

satisfactory to CIEDB. The CIEDB, at its discretion, may require the Purchaser to conduct an interim and/or a final audit at the Purchaser's expense, such audit to be conducted by and a report prepared by an Independent Accountant.

SECTION 5.17. Project Access. The Purchaser shall assure that the CIEDB or its designee will have suitable access to the Project site at all reasonable times so long as the Purchase Price remains unpaid and shall include provisions assuring such access in all contracts and subcontracts relating to the Project.

SECTION 5.18. Operation and Maintenance of the Project. The Purchaser agrees to commence operation of the Project upon completion of construction. The Purchaser covenants and agrees that it will operate and maintain the Project in accordance with all governmental laws, ordinances, approvals, rules, regulations and requirements including, without limitation, such zoning, sanitary, pollution and safety ordinances and laws and such rules and regulations thereunder as may be binding upon the Purchaser. The Purchaser further covenants and agrees that it will maintain and operate the Project and will maintain and operate the same, now or hereafter at any time constituting part of the Project, in good repair, working order and condition, and that it will from time to time make or cause to be made all needful and proper replacements, repairs, renewals and improvements, in each case to the extent necessary so that the efficiency and value of the Project shall not be impaired.

SECTION 5.19. Performance and Payment Bonds.

(a) The Purchaser shall require its contractor to certify under penalty of perjury, and provide the Purchaser with such certified copy, which shall be available for the CIEDB's inspection if requested, that a bond or bonds by one or more authorized surety companies satisfactory to the Purchaser; surety companies must be authorized to do business in California and have an agent for service of process in California. The Purchaser shall require that the Purchaser be named as an additional payee on the performance and payment bonds required herein and shall provide the CIEDB with an insurance certificate to that effect.

(b) Said bond shall be in the amounts and for the following purposes: (i) an amount not less than one hundred percent (100%) of the total estimated cost of the Project construction contract amount conditioned upon the faithful performance of the terms of this Agreement including the maintenance of the work for a period of one (1) year from the date of final acceptance of work or improvements by the Purchaser against any defective work or labor done, or defective materials furnished, and (ii) an additional amount not less than one hundred percent (100%) of the estimated cost of the Project securing payment to the contractor, his or her subcontractors and to persons renting equipment or furnishing labor or materials to them for the Project.

SECTION 5.20. Continuing Disclosure. Upon the request of the CIEDB, the Purchaser covenants to furnish certain financial and operating data pertaining to the Purchaser that may be required to either: (i) enable the CIEDB to secure an Indenture by this Agreement and issue any Bonds; or (ii) enable any underwriter to comply with Rule 15c2-12(b)(5) of the Securities and Exchange Commission in connection with the Bonds. The Purchaser further

SPECIAL DISTRICTS DEPARTMENT

157 West Fifth Street, Second Floor San Bernardino, CA 92415-0450 (909) 387-5940
Fax (909) 387-5968

COUNTY OF SAN BERNARDINO
PUBLIC AND SUPPORT
SERVICES GROUP

THOMAS L. SUTTON
Director

November 17, 2006

California Infrastructure and Economic Development Bank
Attention: Tom Martin, Loan Officer
P.O. Box 2830
Sacramento, CA 95812-2830

Subject: CIEDB Infrastructure Loan Extension (CIEDB-02-033)
County Service Area 70, Improvement Zone L

Dear Mr. Martin,

The County of San Bernardino Special Districts Department (Department), acting on behalf of County Service Area 70, Improvement Zone L (District), would like to request an extension of the deadline for submitting invoices for payment from November 15, 2006 to July 31, 2007 for the above-referenced loan. The Department has pursued the completion of the project in earnest; however, due to unforeseen construction delays and the need to allocate resources to address emergency repairs caused by recent natural disasters, the District requires additional time to complete the project.

The project includes the environmental compliance, engineering, surveying, construction, and construction management for four 1.0 million gallon (MG) reservoirs, the drilling and equipping of a new water well (Well No. 14) and several water pipelines. The four 1.0 million gallon reservoirs were completed in the first quarter of 2004 and are all permitted by the state and actively serving the District. Drilling for Well No. 14 was completed on April 14, 2004. The last reach of the pipelines was completed in March 2006 and all the pipelines are in service. The balance of the project consists of the final equipping of Well No. 14 and can be completed by July 31, 2007. A contract was awarded, in the amount of 229,334, on August 8, 2006 for the purchase and installation of the well pump and motor. Approval to bid the electrical and final phase of the well equipping goes to the County Board of Supervisors on November 21, 2006.

As you can see, the District has made significant progress on the project despite experiencing delays due to shortages in construction materials and available contractors. Recent disasters, including the 2005 fires, in San Bernardino County, and the recent hurricanes are the cause of the shortages in materials and contractors. Design and construction efforts on the loan project were directly impacted by the disasters as District staff was temporarily reassigned to focus on repairs of District facilities damaged during the fires and the flooding that occurred after the fires. These repairs are completed now and the District has refocused on completing this loan project.

I hope this update and explanation are sufficient to address the need for an extension. Please let me know if you need additional information regarding this request. Thank you in advance for your time and consideration.

Sincerely,

Thomas L. Sutton
Director
Special Districts Department
(909) 387-5967
tsutton@sdd.sbcounty.gov

cc: James A. Oravets, Engineering and Construction Division Manger; Diana Lovelace, Budget Officer

MARK UFFER
County Administrative Officer
NORMAN A. KANOLD
Assistant County Administrator
Public and Support
Services Group

Board of Supervisors
BILL POSTMUS, Chair ..... First District
PAUL BIANE, Vice Chair ..... Second District
DENNIS HANSBERGER ..... Third District
GARY C. OVITT ..... Fourth District
JOSIE GONZALES ..... Fifth District

REPORT/RECOMMENDATION TO THE BOARD OF SUPERVISORS OF SAN BERNARDINO COUNTY, CALIFORNIA AND RECORD OF ACTION

29

April 17, 2007

FROM: **THOMAS L. SUTTON**, Director
Special Districts Department

SUBJECT: **AMENDMENT NO. 3 TO THE ENTERPRISE FUND INSTALLMENT SALE AGREEMENT #CIEDB-02-033 BETWEEN COUNTY SERVICE AREA 70, IMPROVEMENT ZONE L AND THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK**

RECOMMENDATION: Acting as the governing body of County Service Area 70, Improvement Zone L (District), approve Amendment No. 3 to the Enterprise Fund Installment Sale Agreement No. 02-033 (Agreement), with the California Infrastructure and Economic Development Bank (CIEDB), that extends the final disbursement date to January 1, 2008.

BACKGROUND INFORMATION: On December 18, 2001, the Board of Supervisors adopted Resolution No. 2001-311 authorizing the Special Districts Department to submit a loan application to the CIEDB in the amount of $5,001,000 to fund improvements to the District water system, bringing it up to a condition that would meet maximum day demand for residents of the District. On May 28, 2002, the CIEDB approved the Infrastructure State Revolving Fund financing for the District. On December 17, 2002, the Board adopted Resolution No. 2002-353 approving the Agreement in the amount of $5,001,000. The District receives loan proceeds as the costs for system improvements are incurred.

On December 17, 2002, the Board also adopted Resolution No. 2002-354 accepting a grant in the amount of $433,250 from the SB 5X Incentive Fund Peak Load Reduction/Energy Efficiency Program for Water & Wastewater Facilities from the California Energy Commission administered by HDR Engineering, Inc. The District received the grant on April 21, 2004.

Due to receipt of the Energy commission grant ($433,250), increased revenues ($370,000), and the additional District local funds available ($196,750), the District petitioned the CIEDB on September 16, 2004 for an amendment to the Agreement which would reduce the original loan amount by $1,000,000. On March 29, 2005, the Board approved Amendment No. 1 to Agreement No. 02-033, thereby reducing the principal amount of the Agreement to be repaid by the District by $1,000,000, resulting in an amended loan amount of $4,001,000.

Record of Action of the Board of Supervisors

The revenue from the loan is being used to fund the construction of a capital improvement project consisting of four 1.0-million gallon water storage reservoirs, the drilling and equipping of one new water production well and the construction of approximately 5 miles of water pipeline. The project is currently 90 percent complete. All four water reservoirs and the pipelines have been completed and are serving the District as approved by the Department of Health Services. The water production well has been drilled and plans are being finalized for the equipping portion of the well. It is anticipated that the entire capital improvement project will be completed by the middle of November 2007.

Approval of Amendment No. 3 of the Agreement would extend the final construction disbursement date by thirteen and one-half months allowing for the District to submit invoices to the CIEDB no later than January 1, 2008. The current loan amount of $4,001,000 will remain the same, and there is no change in the overall total project funding sources/uses.

REVIEW BY OTHERS: This item has been reviewed by County Counsel (Dawn M. Messer, Deputy Counsel, 387-8900) on April 2, 2007; and by the County Administrative Office (Wayne Thies, Administrative Analyst, 387-5409) on April 6, 2007.

FINANCIAL IMPACT: Amendment No. 3 extends the timeframe of the Agreement that will result in the District having sufficient time to complete the project and submit invoices for construction cost reimbursement from the CIEDB. There is no change in loan amount, no change in the overall total project funding sources/uses, and no budgetary adjustments required related to this action. There is no impact to the County General Fund.

SUPERVISORIAL DISTRICT(S): First

PRESENTER: Thomas L. Sutton, Director, 387-5967

Post-it® Fax Note 7671	Date 30 Jul 07	# of pages ▶ 1+5= 6
To KATHY McDonald	From RANDY BOOKER	
Co./Dept. LAFCO	Co. SDD	
Phone # 383-9900	Phone # 909-387-5971	
Fax # ✓ 9901	Fax # ✓ ✓ 5968	

District

FAS

CONTRACT TRANSMITTAL

FOR COUNTY USE ONLY

☐ New ☐ Change ☐ Cancel	Vendor Code	SC	Dept.	A	Contract Number 02-1358 A-3
County Department San Bernardino County County Service Area 70, Improvement Zone L		Dept.	Orgn.		Contractor's License No.
County Department Contract Representative Randy Booker, Division Manager		Telephone (909) 387-5971			Total Contract Amount

Contract Type: ☐ Revenue ☐ Encumbered ☐ Unencumbered ☒ Other:

If not encumbered or revenue contract type, provide reason:

Commodity Code	Contract Start Date	Contract End Date	Original Amount	Amendment Amount

Fund	Dept.	Organization	Appr.	Obj/Rev Source	GRC/PROJ/JOB No.	Amount
Fund	Dept.	Organization	Appr.	Obj/Rev Source	GRC/PROJ/JOB No.	Amount
Fund	Dept.	Organization	Appr.	Obj/Rev Source	GRC/PROJ/JOB No.	Amount

Project Name	Estimated Payment Total by Fiscal Year					
	FY	Amount	I/D	FY	Amount	I/D

CONTRACTOR California Infrastructure and Economic Development Bank (CIEDB)

Federal ID No. or Social Security No.

Contractor's Representative Stanton C. Hazelroth, Executive Director

Address Sacramento, CA Phone

Nature of Contract: *(Briefly describe the general terms of the contract)*

Acting as the governing body of County Service Area 70, Improvement Zone L, (District) approve Amendment No. 3 to Agreement No. 02-033 the Enterprise Fund Installment Sale Agreement (Agreement) with the California Infrastructure and Economic Development Bank (CIEDB) extending the final disbursement date and modifying the project budget.

THIS IS NOT A CONTRACT
THIS IS A COVER
TRANSMITTAL ONLY

(Attach this transmittal to all contracts not prepared on the "Standard Contract" form.)

Approved as to Legal Form (sign in blue ink)	Reviewed As to Contract Compliance	Presented to BOS for Signature
▶	▶	▶
County Counsel		Department Head
Date 4/10/07	Date	Date 4-10-07

Auditor/Controller-Recorder Use Only

☐ Contract Database	☐ FAS
Input Date	Keyed By

THIRD AMENDMENT TO

ENTERPRISE FUND INSTALLMENT SALE AGREEMENT

by and between the

COUNTY OF SAN BERNARDINO ACTING ON BEHALF OF COUNTY SERVICE AREA 70, IMPROVEMENT ZONE L,

as Purchaser

and the

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK,

as Seller

Dated as of November 17, 2006

Agreement No. CIEDB 02-033

THIS THIRD AMENDMENT TO THE ENTERPRISE FUND INSTALLMENT SALE AGREEMENT (the "Third Amendment") is made and entered into as of November 17, 2006, by and between the County of San Bernardino acting on behalf of County Service Area 70, Improvement Zone L, a public body, corporate and politic duly organized and existing under the laws of the State of California, as Purchaser (the "Purchaser"), and the California Infrastructure and Economic Development Bank (the "CIEDB"), duly organized and validly existing pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act, constituting Division 1 of Title 6.7 of the California Government Code (commencing at section 63000 thereof) as now in effect and as it may from time to time hereafter be amended (the "Act"), as seller.

WITNESSETH

WHEREAS, the Purchaser and the CIEDB entered into that certain ENTERPRISE FUND INSTALLMENT SALE AGREEMENT dated as of December 17, 2002 and a First Amendment dated as of January 1, 2005 and a Second Amendment dated as of January 1, 2006 (collectively, the "Installment Sale Agreement");

WHEREAS, the Purchaser and the CIEDB desire to amend certain terms of the Installment Sale Agreement;

WHEREAS, all acts and proceedings required by law necessary to make this Third Amendment, when executed by the Purchaser and the CIEDB, the valid, legal and binding obligation of the Purchaser and the CIEDB, and to constitute this Third Amendment a legal, valid, and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution of this Third Amendment has been in all respects duly authorized; and

WHEREAS, all capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Installment Sale Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained, the parties hereto do hereby agree as follows:

Section 1. Section 2.04(c) of the Installment Sale Agreement is hereby deleted and replaced with the following:

> (c) Purchaser must both: (1) begin Project construction no later than twelve (12) months after May 28, 2002, and (2) submit invoices to the CIEDB for the entire amount of the Project Funds no later than January 1, 2008. If the Purchaser fails to meet either of these conditions, the CIEDB may unencumber any and all undisbursed Project Funds and the unencumbered amounts shall henceforth not be available to the Purchaser. If the Purchaser fails to meet the January 1, 2008 requirement, the CIEDB may elect to hold any or all undisbursed funds and apply such funds to the optional redemption of Bonds in accordance with the Indenture

(in which event the principal amount of the Purchase Price shall be reduced by the principal amount of Bonds so redeemed).

Section 2. Section 5.03(b) of the Installment Sale Agreement is hereby deleted and replaced with the following:

(b) The Purchaser will prepare and file with the CIEDB annually as soon as practicable, but in any event not later than two hundred ten (210) days after the close of each Fiscal Year, so long as this Loan Agreement has not been discharged by the CIEDB, an audited financial statement of the Purchaser relating to the Project Area for the preceding Fiscal Year, prepared by an Independent Accountant; provided, however, that in the event that such audited financial statement is not available by the above-referenced filing date, an unaudited financial statement may be substituted therefore. In the event an unaudited financial statement is submitted, the Purchaser shall file the audited financial statement with the CIEDB as soon as it becomes available. The Purchaser will furnish to the CIEDB such reasonable number of copies of such financial statements as may be required by the CIEDB for distribution (at the expense of the Purchaser).

Section 3. All other terms and conditions of the Installment Sale Agreement shall remain in full force and effect.

[The balance of this page is intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Third Amendment to be signed by the respective officers, all as of the day and year first above written.

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK, as seller

By _____
Stanton C. Hazelroth
Executive Director

ATTEST

By _____
Roma Cristia-Plant
Secretary

COUNTY OF SAN BERNARDINO ACTING ON BEHALF OF COUNTY SERVICE AREA 70, IMPROVEMENT ZONE L, as Purchaser

By _____
Paul Biane APR 1 7 2007
Chairman, Board of Supervisors

ATTEST

By _____
Dena Smith
Clerk of the Board of Supervisors

BOARD OF SUPERVISORS SAN BERNARDINO COUNTY CA

HP Fax K1220

Log for
LAFCO
909 387-5871
Jul 30 2007 10:14am

Last Transaction

Date	Time	Type	Identification	Duration	Pages	Result
Jul 30	10:11am	Received	9093875968	1:23	6	OK

California Infrastructure and Economic Development Bank

I-BANK

Arnold Schwarzenegger
Governor

Board Members:

Philip Angelides
State Treasurer

Donna Arduin
Director, Department of Finance

Executive Director:

Stanton C. Hazelroth

April 29, 2004

Division Chief, Finance and Budget
County of San Bernardino
County Service Area 70, Improvement Zone L
157 West 5th Street, Second Floor
San Bernardino, CA 92415-0450

Re: Installment Sale Agreement No. CIEDB-02-033

Dear Division Chief:

This letter is to notify the County of San Bernardino acting on behalf of County Service Area 70, Improvement Zone L ("Purchaser") that the California Infrastructure and Economic Development Bank ("CIEDB") issued its Infrastructure State Revolving Fund Revenue Bonds ("Bonds") on March 18, 2004 (the "Bond Date"). Installment Sale Agreement No. 02-033 ("Agreement") between the Purchaser and the CIEDB was pledged as security for the Bonds.

As provided for in the Agreement, payment term changes effective on the Bond Date are described below.

Optional Prepayment Terms and Conditions. Pursuant to Section 2.05(a) of the Agreement, the Purchaser's ability to optionally prepay the Agreement is subject to the prepayment conditions of the Bonds. The Bond documents provide that:

(a) Purchaser may at any time request CIEDB's approval to prepay, without premium, all or a portion of the principal component of the Purchase Price. A request for reduction in the Project Funds is a request for a prepayment. The CIEDB shall promptly respond to any such request, and shall make every effort to accommodate the request consistent with Bond requirements, which includes a coverage test to be maintained before the reduction of any obligation pledged to the Bond is allowed.

(b) Notwithstanding (a) above, the Purchaser shall be authorized to prepay all or a portion of the principal amount of Purchase Price, without premium on or after October 1, 2014.

(c) Notwithstanding (a) and (b) above, the Purchaser may on any date provide for the legal defeasance of the amount outstanding under the Agreement by providing an amount sufficient to pay in full the Purchase Price and Additional Payments to be due on October 1, 2014.

Mailing Address:
P.O. Box 2830
Sacramento, CA 95812-2830

Office Address:
1001 I Street, 19th Floor
Sacramento, CA 95814

(916) 322-1399
(916) 322-6314 FAX
www.ibank.ca.gov

Interest Rate. The interest rate charged in the Agreement during the pre-Bond period was .26% less than the actual interest rate approved by the CIEDB Board. As specified in Section 2.03(c)(2) of the Agreement, the interest rate will be at the Board approved rate of 3.50% as of the Bond Date.

Interest Payments. A specified in Section 2.03(c) of the Agreement, prior to the Bond Date, the Purchaser paid interest on the amount of funds actually disbursed. As of the Bond Date, the Purchaser will pay interest on the full amount of the Purchase Price less any principal payments. Undisbursed funds have been invested by the CIEDB, and the Purchaser will be credited for actual interest earnings on any undisbursed funds up to 3.50%. Attached is a final amortization schedule that replaces the amortization schedule contained in the Agreement.

Payments. All future payments are to be sent to Wells Fargo Bank, as Trustee for the Bonds. Information about the payment process will be included with the next billing statement. Since the Agreement is pledged as security for the Bonds, it remains critical that the Purchaser make the scheduled Installment Payments on or before the due date. Late payments may be disclosed in the offering document of future bonds issued by the CIEDB.

In order to simplify the process necessary to implement these changes, we are using this letter instead of an amendment to the Agreement as formal notification of the change. These changes will be incorporated as part of any future Agreement amendment. If you would like to formally amend the Agreement at this time to incorporate these changes, please let me know and we will accommodate that request. Either way, the amendments and clarifications discussed in this letter are effective as and when described herein.

Please contact Merrill Stevenson by e-mail at mstevenson@ibank.ca.gov or by phone at (916) 322-0623 if you have any questions. We appreciate your business and look forward to a continued successful working relationship.

Sincerely,

Blake Fowler
Assistant Executive Director

cc: Carol Montag
Administrative Supervisor

County of San BernardinoCounty Service Area 70, Improvement Zone L
Installment Sale Agreement No. CIEDB-02-033
Amortization Schedule
(As of April 29, 2004)

Payment Date	Ending Principal Balance	Principal Payment	Interest Payment	Total Principal & Interest	Annual Fee	Total Payment	Total Payment Fiscal Year Ending 30-Jun
1-Aug-2003	$1,233,971.10		$9,111.42	$9,111.42	-	$9,111.42	
1-Feb-2004	$1,980.400.05	$102,247.36	$30,925.40	$133,172.76	$6,247.94	$139,420.70	$148,532.12
1-Aug-2004	$4,898,752.64		$71,910.36	$71,910.36		$71,910.36	
1-Feb-2005	$4,792,926.62	$105,826.02	$85,728.17	$191,554.19	$14,696.26	$206,250.44	$278,160.80
1-Aug-2005			$83,876.22	$83,876.22		$83,876.22	$0.00
1-Feb-2006	$4,683,396.70	$109,529.93	$83,876.22	$193,406.14	$14,378.78	$207,784.92	$291,661.14
1-Aug-2006			$81,959.44	$81,959.44		$81,959.44	$0.00
1-Feb-2007	$4,570,033.23	$113,363.47	$81,959.44	$195,322.92	$14,050.19	$209,373.11	$291,332.55
1-Aug-2007			$79,975.58	$79,975.58		$79,975.58	$0.00
1-Feb-2008	$4,452,702.03	$117,331.19	$79,975.58	$197,306.78	$13,710.10	$211,016.88	$290,992.46
1-Aug-2008			$77,922.29	$77,922.29		$77,922.29	$0.00
1-Feb-2009	$4,331,264.24	$121,437.79	$77,922.29	$199,360.07	$13,358.11	$212,718.18	$290,640.46
1-Aug-2009			$75,797.12	$75,797.12		$75,797.12	$0.00
1-Feb-2010	$4,205,576.13	$125,688.11	$75,797.12	$201,485.23	$12,993.79	$214,479.03	$290,276.15
1-Aug-2010			$73,597.58	$73,597.58		$73,597.58	$0.00
1-Feb-2011	$4,075,488.94	$130,087.19	$73,597.58	$203,684.78	$12,616.73	$216,301.50	$289,899.09
1-Aug-2011			$71,321.06	$71,321.06		$71,321.06	$0.00
1-Feb-2012	$3,940,848.70	$134,640.24	$71,321.06	$205,961.30	$12,226.47	$218,187.77	$289,508.82
1-Aug-2012			$68,964.85	$68,964.85		$68,964.85	$0.00
1-Feb-2013	$3,801,496.04	$139,352.65	$68,964.85	$208,317.51	$11,822.55	$220,140.05	$289,104.90
1-Aug-2013			$66,526.18	$66,526.18		$66,526.18	$0.00
1-Feb-2014	$3,657,266.05	$144,230.00	$66,526.18	$210,756.18	$11,404.49	$222,160.67	$288,686.85
1-Aug-2014			$64,002.16	$64,002.16		$64,002.16	$0.00
1-Feb-2015	$3,507,988.00	$149,278.05	$64,002.16	$213,280.20	$10,971.80	$224,252.00	$288,254.16
1-Aug-2015			$61,389.79	$61,389.79		$61,389.79	$0.00
1-Feb-2016	$3,353,485.22	$154,502.78	$61,389.79	$215,892.57	$10,523.96	$226,416.53	$287,806.32
1-Aug-2016			$58,685.99	$58,685.99		$58,685.99	$0.00
1-Feb-2017	$3,193,574.85	$159,910.37	$58,685.99	$218,596.37	$10,060.46	$228,656.82	$287,342.81
1-Aug-2017			$55,887.56	$55,887.56		$55,887.56	$0.00
1-Feb-2018	$3,028,067.61	$165,507.24	$55,887.56	$221,394.80	$9,580.72	$230,975.52	$286,863.08
1-Aug-2018			$52,991.18	$52,991.18		$52,991.18	$0.00
1-Feb-2019	$2,856,767.62	$171,299.99	$52,991.18	$224,291.17	$9,084.20	$233,375.38	$286,366.56
1-Aug-2019			$49,993.43	$49,993.43		$49,993.43	$0.00
1-Feb-2020	$2,679,472.13	$177,295.49	$49,993.43	$227,288.92	$8,570.30	$235,859.23	$285,852.66
1-Aug-2020			$46,890.76	$46,890.76		$46,890.76	$0.00
1-Feb-2021	$2,495,971.29	$183,500.83	$46,890.76	$230,391.60	$8,038.42	$238,430.01	$285,320.77
1-Aug-2021			$43,679.50	$43,679.50		$43,679.50	$0.00
1-Feb-2022	$2,306,047.93	$189,923.36	$43,679.50	$233,602.86	$7,487.91	$241,090.77	$284,770.27
1-Aug-2022			$40,355.84	$40,355.84		$40,355.84	$0.00
1-Feb-2023	$2,109,477.25	$196,570.68	$40,355.84	$236,926.52	$6,918.14	$243,844.66	$284,200.50
1-Aug-2023			$36,915.85	$36,915.85		$36,915.85	$0.00
1-Feb-2024	$1,906,026.60	$203,450.65	$36,915.85	$240,366.51	$6,328.43	$246,694.94	$283,610.79
1-Aug-2024			$33,355.47	$33,355.47		$33,355.47	$0.00
1-Feb-2025	$1,695,455.17	$210,571.43	$33,355.47	$243,926.89	$5,718.08	$249,644.97	$283,000.44

Payment Date	Ending Principal Balance	Principal Payment	Interest Payment	Total Principal & Interest	Annual Fee	Total Payment	Total Payment Fiscal Year Ending 30-Jun
1-Aug-2025			$29,670.47	$29,670.47		$29,670.47	$0.00
1-Feb-2026	$1,477,513.74	$217,941.43	$29,670.47	$247,611.89	$5,086.37	$252,698.26	$282,368.72
1-Aug-2026			$25,856.49	$25,856.49		$25,856.49	$0.00
1-Feb-2027	$1,251,944.37	$225,569.38	$25,856.49	$251,425.87	$4,432.54	$255,858.41	$281,714.90
1-Aug-2027			$21,909.03	$21,909.03		$21,909.03	$0.00
1-Feb-2028	$1,018,480.06	$233,464.30	$21,909.03	$255,373.33	$3,755.83	$259,129.16	$281,038.19
1-Aug-2028			$17,823.40	$17,823.40		$17,823.40	$0.00
1-Feb-2029	$776,844.51	$241,635.56	$17,823.40	$259,458.96	$3,055.44	$262,514.40	$280,337.80
1-Aug-2029			$13,594.78	$13,594.78		$13,594.78	$0.00
1-Feb-2030	$526,751.71	$250,092.80	$13,594.78	$263,687.58	$2,330.53	$266,018.11	$279,612.89
1-Aug-2030			$9,218.15	$9,218.15		$9,218.15	$0.00
1-Feb-2031	$267,905.66	$258,846.05	$9,218.15	$268,064.20	$1,580.26	$269,644.46	$278,862.61
1-Aug-2031			$4,688.35	$4,688.35		$4,688.35	$0.00
1-Feb-2032	$0.00	$267,905.66	$4,688.35	$272,594.01	$803.72	$273,397.73	$278,086.07
Total Payments:		$ 5,001,000.00	$ 2,891,372.39	$ 7,892,372.39	$251,832.52	$ 8,144,204.90	$ 8,144,204.90