

City of Adelanto

Substantiation

The water operations of the Adelanto Public Utilities Authority (“APUA”), a component unit of the City, are tied to the APUA’s sewer service and the City. The water service (“Water Authority”) is in debt to the City, and the APUA is in debt to the Water Authority. Due to the consolidation of redevelopment oversight boards, effective July 2018, all long-term obligations of the APUA (a joint powers authority) will become long-term obligations of the City.

The FY 2015-16 independent auditor’s report indicates that the APUA’s flawed reporting could lead to financial misinformation, abuse, or fraud if not changed. The audit identified four material weaknesses and four significant deficiencies. Further, a review of the APUA audits identifies that operating revenues substantially cover operating expenses - this is due to the large rate increases. However, revenue gain from operations has not been adequate to support its capital and related financing activities. Not until 2014 was principal paid on capital debt.

The auditors in the 2014 audit stated that the APUA may not be able to continue as a going concern² due to the inability to secure financing to address the payment of an outstanding settlement. The APUA was able to satisfy this settlement obligation, but had to incur bond debt secured by water and wastewater rates to do so.

As of March 27, 2018, the most recent audit for the APUA is for FY 2015-16 (dated November 17, 2017) and FY 2013-14 for the City (dated May 13, 2016). In February 2018, the City informed LAFCO that it is finishing up the APUA 2016-17 audit and will start the City 2014-15 audit soon after. Therefore, the financial picture of the City and APUA remains unclear due to the lack of current financial statements.

Analysis

The 2009 service review determined that there were serious financial, operational, and managerial challenges for the City and APUA. The materials reviewed for this service review related to water and water operations do not reveal significant improvement in these deficiencies.

In 2009 as a part of its service review/sphere update, the Commission reduced the City’s sphere to remove territory within the Phelan-Piñon Hills Community Services District at the southwestern edge of the then sphere, and excluded non-contiguous city-owned property from the sphere east of the city boundary.³ In looking anew at the City’s sphere, the

² A going concern is an entity that functions without the threat of liquidation for the foreseeable future, usually regarded as at least within 12 months. It implies for the e the basic declaration of intention to keep running its activities at least for the next year. Hence, the declaration of going concern means that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

³ LAFCO Resolution 3069 for LAFCO 3080. 22 October 2009.

<http://www.sbcounty.gov/uploads/lafco/proposals/servicereviews/adelanto/Reso3069forLAFCO3080.pdf>

dilemma is its long-term sustainability and the size of its boundary and sphere outside of its boundary. LAFCO staff has analyzed the aerial images of the sphere areas outside of the boundary which do not show activities warranting municipal services (or social services) from the City. These area are:

- Northern sphere area (peninsula) and
- Western sphere area (a portion of the El Mirage community) which is in:
 - County Service Area 70 Zone P-6 for park and recreation service, and
 - San Bernardino County Fire Protection District Service Zone FP-3 for fire and paramedic service.

In the southern sphere area there are activities which could benefit from the City's services, as there are existing out-of-agency services agreements for water and sewer.

As a part of its Countywide Service Review for Water (LAFCO 3187), the Commission at its July 19, 2017 hearing indicated its intent to reduce the City of Adelanto's sphere of influence following the completion of the upcoming countywide wastewater service review.

Recommendation

Based upon the information provided in Section VII, Section VIII, and the City's profile a part of Appendix D, staff recommends that the Commission initiate a sphere of influence update for the City of Adelanto to review the appropriate sphere of influence for the City, and direct that this process include a meeting between City and County representatives to discuss the current sphere area and LAFCO staff's proposed sphere amendment. This recommendation is reiterated at the end of this Section.