LOCAL AGENCY FORMATION COMMISSION
COUNTY OF SAN BERNARDINO

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

DATE: **SEPTEMBER 3, 2009**

FROM: **KATHLEEN ROLLINGS-McDONALD, Executive Officer**
MICHAEL TUERPE, LAFCO Analyst

TO: **LOCAL AGENCY FORMATION COMMISSION**

SUBJECT: **Agenda Item #10: Service Reviews for the Communities of Adelanto and El Mirage Including Consideration of LAFCO 3080 – Sphere of Influence Update for the City of Adelanto**

INITIATED BY:

San Bernardino Local Agency Formation Commission

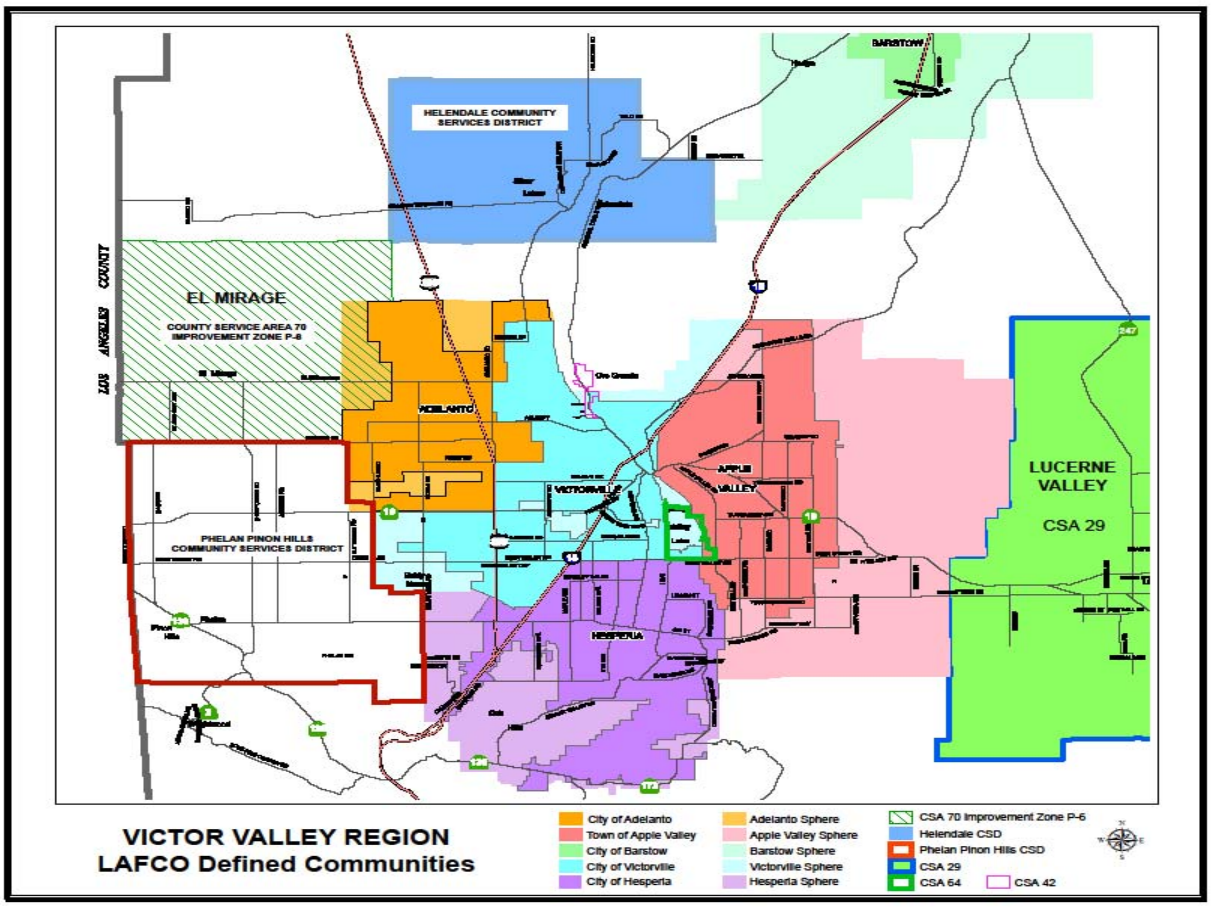
INTRODUCTION

San Bernardino LAFCO has chosen to undertake its Service Reviews on a regional basis. By action taken in February 2002, the Commission divided the county into five separate regions, with the North Desert Region defined as the territory north of the San Bernardino/San Gabriel Mountains, east of the Los Angeles County line, south of the Inyo County line, and generally west of the Mojave Water Agency boundary. The North Desert region service reviews/sphere of influence updates were originally initiated in November 2004. In August 2005 the City of Adelanto submitted its response to the request for Service Review materials, identified for processing as LAFCO 3012. The City's submitted materials identified that it wished no change to the sphere of influence assigned. However, in September 2005, the City rescinded its submission indicating that it had hired a consultant to prepare materials to request a sphere of influence expansion and to work on possible annexations. LAFCO staff closed the file to await the City's determinations.

In the interim, completion of the Service Review program was deferred through consultation with the Commission in order to complete the considerations of the County Fire Reorganization, Formations of the Helendale and Phelan Pinon Hills CSDs, and the Island Annexations for the Cities of Fontana, Loma Linda, and Montclair. In January 2008, LAFCO staff returned to these reviews requesting updated information and in the case of the City of Adelanto, submission of the materials to commence the review once again. In response, the City submitted information requesting affirmation of its existing sphere of influence designation.

As noted in previous discussions, the Commission has adopted policies related to its sphere of influence program determining that it will utilize a community-by-community approach to sphere of influence identification. This report contains the service review and sphere of influence update for the City of Adelanto and includes the service review for Improvement Zone P-6 of County Service Area 70 and Chamisal Mutual Water Company which addresses the community of El Mirage, a portion of which is currently included in the sphere of influence of the City of Adelanto.

LAFCO has defined the Adelanto community as the sphere of influence of the City of Adelanto. Below is a map illustrating the City of Adelanto sphere of influence in a regional context, a copy of which is included in Attachment #1.



The Adelanto community is served by multiple public agencies. The public agencies providing direct services to the residents and landowners within the community are:

City of Adelanto
San Bernardino County Fire Protection District (hereafter shown as "County Fire") and its North Desert Service Zone (City contracts with County Fire to provide fire and emergency medical response services) and Special Tax Service

Zones of FP-3 (fire protection for El Mirage) – overlays roughly 6 ½ square miles within City of Adelanto sphere and Service Zone FP-5 (fire protection) – overlays roughly 64 acres within northeastern City of Adelanto sphere

County Service Area 70 Improvement Zone P-6 (park and recreation for the El Mirage community) – Overlays roughly 6 ½ square miles within City of Adelanto western sphere

Regional service providers include:

County Service Area 60 (airports – overlays entirety of City and its sphere and community of El Mirage)
County Service Area 70 (unincorporated County-wide – sphere territory only)
Mojave Desert Resource Conservation District
Mojave Water Agency
San Bernardino County Flood Control District

COMMUNITY HISTORY:

The following narrative will provide a historical perspective of the community. The first section includes information from the City of Adelanto website[1]:

> Adelanto was founded in 1915 by E. H. Richardson, the inventor of what became the Hotpoint electric iron. He sold his patent and purchased land for $75,000. He had planned to develop one of the first master planned communities in Southern California. Richardson subdivided his land into one-acre plots, which he hoped to sell to veterans with respiratory ailments suffered during World War I. He also hoped to build a respiratory hospital. While Richardson never fully realized his dream, it was his planning that laid the foundation for what is currently the City of Adelanto. The name Adelanto means progress or advance in Spanish, and was first given to the post office that was established for the community in 1917.
>
> Acre after acre of deciduous fruit trees once grew in the community. Famous throughout the state for fresh fruit and cider, the orchards thrived until the depression, when they were replaced by poultry ranches. As the wartime emergency developed early in 1941, the Victorville Army Air Field was established to the east of the community. In September 1950, it was named George Air Force Base in honor of the late Brigadier General Harold H. George. Adelanto provided for its service needs through a community services district until 1970, when the City incorporated, and Adelanto became San Bernardino County's smallest city with 470 registered voters and an estimated population of 2,600 at the time of incorporation. The City became a charter city in November 1992.

A brief history of the major governmental events for this community and its relationship with the Local Agency Formation Commission is described below, listed chronologically by end date:

[1] City of Adelanto. website. www.ci.adelanto.ca.us. Accessed January 27, 2009. Last update unknown.

Prior to 1965	It is understood that the Adelanto Community Services District (Adelanto CSD) was formed primarily for the maintenance and extension of a domestic water system; however the date this took place is not known by LAFCO staff. When it was formed it succeeded to the assets and liabilities of County Waterworks District #2 (a board-governed special district).
1965	Adelanto CSD initiated an application proposing to annex George AFB (LAFCO 210) for the purpose of mutual benefit in case of fire, police, and school matters and approved water contract provisions whereby the CSD supplied water to the base. The Commission determined that no benefits would accrue to George AFB from the Adelanto CSD through approval of the annexation and denied the application.
1969 - 70	In 1969, an incorporation effort was begun by the proponents identified as the committee on incorporation, Adelanto Chamber of Commerce and the Adelanto CSD. They submitted an application for incorporation to LAFCO for its consideration (LAFCO 839). The justification for incorporation was identified in the application as the Adelanto CSD was providing at that time most of the services of a city and that incorporation would result in substantial revenues coming to the City which were not available to the district. In 1970 the Board of Supervisors reviewed the petition to incorporate and determined it was sufficient to initiate the application to LAFCO. Referencing the LAFCO staff reports for the incorporation, it was the opinion of staff that the proposed city would experience financial and service challenges due to the limited resources available to the proposed city, in comparison with other similar areas within the state. Staff recommended that the proposal be denied at that time until the community demonstrated further growth. The LAFCO Commission approved incorporation with conditions, such as the extinguishment of the Adelanto CSD and the transfer of all assets and liabilities of the Adelanto CSD to the City upon successful incorporation. The proposal documents on file state that no request for exclusion or protest to incorporate was received and that this was a unique occurrence. On December 15, 1970 the incorporation of the City of Adelanto was approved by the voters, with 190 in favor and 121 against and it was officially incorporated on December 22, 1970. The original boundaries were that of the former Adelanto CSD (15 square miles), contained 690 homes and 170 mobile homes, and had a population of 2,600.
1970 - 71	In order to complete the technical conditions of the City's incorporation related to the Adelanto CSD's merger with the City, LAFCO 938 was reviewed and approved transferring all Adelanto CSD assets, liabilities, and employees to the City of Adelanto.
1973	The Commission approved a City-initiated application for annexation of non-contiguous City of Adelanto property used for City purposes (well for

domestic water supply), within the sphere of influence of the City of Victorville (LAFCO 1371).

1972 - 76 Since the establishment of LAFCO in 1963, few issues have had more recurring attention than whether the former George Air Force Base (George AFB) should be formally aligned with either the community of Adelanto or Victorville. The history of this inter-community rivalry over George AFB precedes the incorporation of either Adelanto or Victorville. Up until the area of the former base (which is now known as the Southern California Logistics Airport or SCLA) was annexed to the City of Victorville in 1993, LAFCO files include over ten proposals requesting to change Adelanto or Victorville boundaries or spheres in and around the base area. Until George AFB was closed, a review of those proposals would show the basic findings of the Commission that George AFB, a military facility, should not be within the sphere of influence of either city based on the following rationale:

1. George AFB was a regional resource, its function and operation could not be tied to one community or another, and the County was in the best relative position to balance the regional advantages and disadvantages of the military operations at George AFB.

2. The U.S. Air Force had not taken official positions on the issue but had consistently expressed significant concerns about formally joining either city.

3. Neither Adelanto nor Victorville was able to show any substantive benefits to George AFB which would be available through annexation.

4. The mission of George AFB and its impacts on the regional economy superseded the interests or desires of either Adelanto or Victorville.

The discussions identified above regarding George AFB began in 1972 when the sphere of influence was established for the City of Adelanto (LAFCO 1148). At that time, the sphere was established along the southern boundary to designate an area for Adelanto planning and growth in the space between Adelanto and the City of Victorville and George AFB. Sphere establishment did not include George AFB on the basis that there was no evidence that the base should ultimately be in a city.

In 1973 LAFCO reviewed the City's sphere and determined that no change should be made.

In 1976 the Commission reconsidered the sphere establishment for the City. The City requested reconsideration of the City's sphere establishment (LAFCO 1148) to include a sphere expansion to align the western sphere with its General Plan and align the northern sphere with the direction of anticipated growth. The sphere expansion requested by the City included the developed areas of George AFB. The staff report for this item states that

there was no compelling reason for the City's sphere to extend into the base at that time. The item was continued in order for the Commission to receive additional input from the First District Supervisor because of the interrelationships between the City of Adelanto, the City of Victorville, and George AFB.

In the interim, the County, the Cities, and George AFB met to discuss the issue. The consensus of the meeting was to establish a separate sphere of influence for the base coterminous with its boundary. Both cities agreed to the establishment of the sphere for George AFB on the basis that the climate [at that time] of the Air Force favored independence and a policy which would assure keeping the take off and landing area air space free of development. Further, each city agreed not to attempt annexations as long as the Secretary of the Air Force had the policy that Air Force bases can best perform their mission when not encroached upon by adjacent cities. As an outgrowth of the meeting, LAFCO staff initiated an application on behalf of George AFB to establish a sphere for George AFB (LAFCO 1600) and the Commission approved the sphere establishment.

At the continued hearing for the City's reconsideration of its sphere establishment, the Commission approved the sphere expansion to the north and west with the east boundary remaining at the George AFB boundary line as previously established. This decision was to encourage growth of the City away from impacts associated with the military operation of George AFB, most notably noise.

1986 – 87 During the discussion of the future of George AFB outlined above, the Commission expressed its opinion that the City of Adelanto should move westward, away from the land use restrictions of an operating military facility. Future sphere of influence and annexation issues implemented this policy to assist the City. During 1986-87 the City initiated four separate annexations totaling 19.5 square miles to implement the Commission's direction and three were approved, LAFCO 2413 -2.5 square miles, LAFCO 2414 – 11.5 sq. miles, and LAFCO 2415 – 3.5 square miles.

1989-92 In 1989, the Federal government identified that it would be closing George AFB during 1992. In response to this determination, the State Legislature passed special legislation to allow local officials to redevelop George AFB along with privately owned land in close proximity to the base and allowed for the creation of the Victor Valley Economic Development Authority (VVEDA), a joint powers authority, with the same powers as a redevelopment agency [AB 419 (Eaves), Chapter 545, Statutes of 1989]. This measure exempted VVEDA project areas from the existing provisions of the Community Redevelopment Law, including the establishment of a limit on the number of property tax-increment dollars which may be allocated to an agency over the life of a project area, and the establishment of a limit on the amount of bonded indebtedness the agency may have outstanding at any one time.

The City of Adelanto was authorized to join VVEDA; however, in November of 1990 the City determined it would not participate in the joint powers authority.

With George AFB anticipated to close in 1992, the City initiated an application to expand its sphere and annex George AFB (LAFCO 2564 and 2568) to "provide for the future orderly growth of the City of Adelanto and to insure the continued productive use of the area identified as George Air Force Base in a mode of complete compatibility with said City." The Commission denied the sphere of influence expansion request on the basis that the City did not submit information sufficient to justify a sphere expansion at that time, and that a sphere study for all agencies adjacent to the base should be initiated after completion of the base re-use plan. Because the Commission denied the sphere expansion request, it could not consider a proposal for annexation; therefore, the annexation proposal was returned to the City.

1991 The City initiated an application to annex 2,700 acres located in the western portion of the City sphere (LAFCO 2662). Although the lands were vacant and no developments were immediately proposed, the City filed letters of consent from the majority of landowners and the Commission approved the annexation.

1992 The voters within the City approved a measure to make the City a charter city. A City charter is a kind of local "constitution" wherein general state laws are made more locally-specific. A charter cannot contain provisions which attempt to override or counter the State's laws and constitution; instead, the charter is intended to supplement the State laws based upon local circumstances and needs. A charter city has the ability to devise its own governmental structure, without regard to the organizational structures provided by general laws.

1992 – 94 In 1992, the State enacted legislation that shifted partial financial responsibility for funding education to local governments to meet its obligations to fund education at specified levels under Proposition 98. The State instructed auditors to shift the allocation of local property tax revenues from local government to the "Educational Revenue Augmentation Fund" (ERAFs), directing that specified amounts of local government property taxes be deposited into these funds to support schools. On average, city property tax shares were reduced by 24%, but the City of Adelanto was hit particularly hard by reducing its property tax share from around 14% to less than 2%, a reduction of approximately 80%.

1992 – 95 George AFB was officially closed in 1992. The City of Victorville (at the request of Victor Valley Economic Development Authority known as VVEDA[2]) and the City of Adelanto filed separate applications to expand their spheres to include the former base. The Commission approved the sphere of influence expansion for the City of Victorville and its related districts (LAFCO 2721) in

[2] At that time, the Victor Valley Economic Development Authority was composed of the County of San Bernardino, City of Hesperia, Town of Apple Valley, and City of Victorville.

April 1993 and denied the sphere of influence expansion for the City of Adelanto (2722). The Commission based its decision on the service capability advantage of Victorville over Adelanto and the advantages of the regional approach to re-use decision making (as represented through the Victorville proposal as a member of VVEDA). The City of Adelanto requested reconsideration of LAFCO 2721. The Commission approved the request to reconsider, and directed that further environmental review be undertaken.

In 1993, the City of Adelanto filed a lawsuit related to the approval of LAFCO 2721 and 2742 (annexation to the City of Victorville and its related districts). The respondents to the litigation were LAFCO and the Commissioners individually and the real parties in interest included the City of Victorville and its subsidiary districts, among others.

From 1993 through 1995, the matters of the sphere expansion and annexation of George AFB to the City of Victorville and its related districts were a part of seven lawsuits filed by the City of Adelanto, which were ultimately consolidated into a single legal proceeding. In 1995, the Cities of Adelanto and Victorville and their respective Redevelopment Agencies and the Victor Valley Economic Development Authority (VVEDA) signed a settlement agreement related the issues being litigated. This settlement allowed for the dismissal of all seven cases pending on appeal, including the litigation filed against LAFCO, its Commissioners and its staff.

1997 – 98 The Commission received applications initiated by resolution from the Cities of Adelanto and Victorville. The proposals which affected the boundary of the City of Adelanto and its sphere of influence were:

LAFCO 2832 – Sphere of influence expansions for the City of Victorville and its related districts and sphere of influence reduction for the City of Adelanto (initiated by City of Victorville). Through interagency discussions, Victorville indicated that it would remove more than 2.5 square miles from its original request, leaving those 2.5 square miles within the Adelanto sphere. In the interests of promoting successful development of SCLA, Adelanto indicated that it would not oppose this sphere transfer, provided it was authorized to proceed with a proposed annexation in the balance of the area north of SCLA that remained in its sphere of influence.

LAFCO 2833 – Reorganization to include annexations to the City of Victorville and its related districts and detachment from the City of Adelanto (initiated by City of Victorville). This application was modified to coincide with the revised sphere proposal (LAFCO 2832). The proposal included detachment of 280 acres from the City of Adelanto and annexation of that acreage to the Victorville agencies. Adelanto conditionally indicated that it would not oppose this reorganization.

1998 - 99 The City removed itself from the Victor Valley Wastewater Reclamation Authority, the regional sewering joint powers authority, and constructed its own wastewater treatment plant westerly of the Southern California Logistics Airport. The construction of this facility was financed through the issuance of tax increment bonds by the City's Financing Corporation.

1999 - 00 The Fourth Amendment to the VVEDA Joint Exercise of Powers Agreement was approved to include Adelanto as a voting member, and the VVEDA Redevelopment Plan was amended to include portions of City territory within VVEDA.

LAFCO 2858 was submitted by the City proposing to annex territory within the City's northeastern sphere of influence along the northern edge of SCLA. This annexation was completed on June 27, 2000.

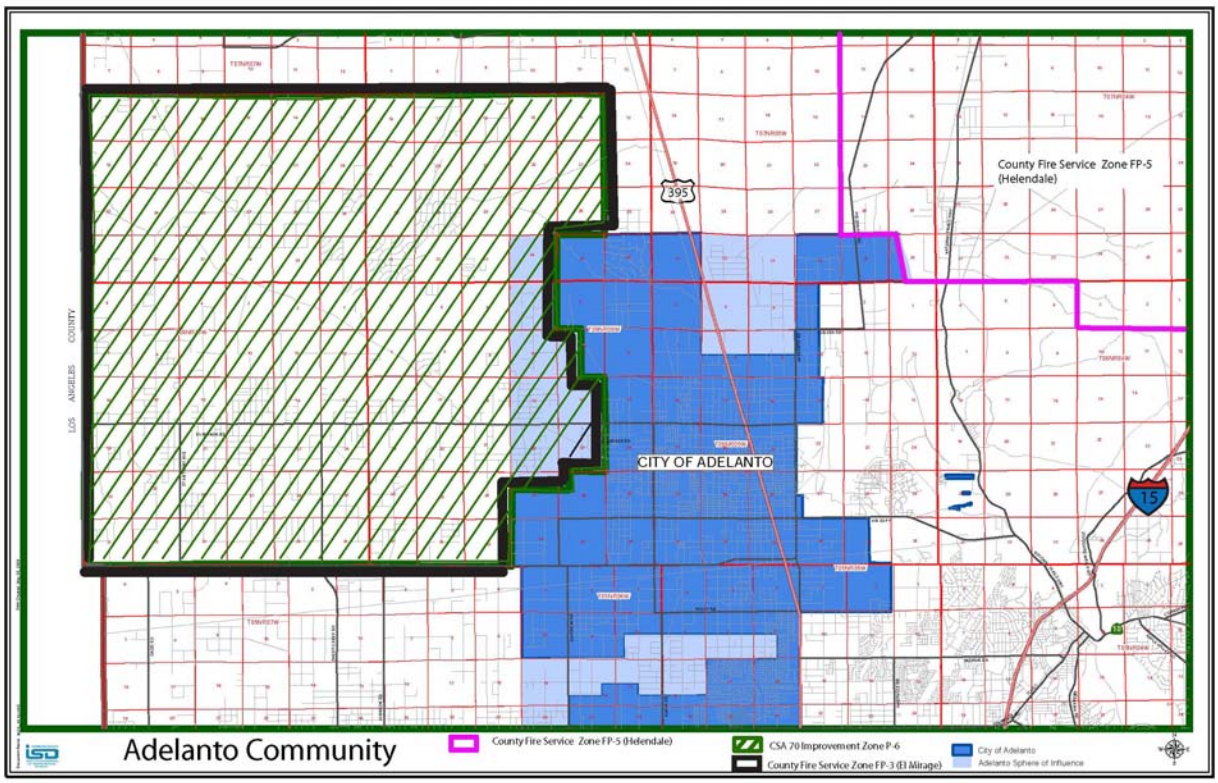
Since 2000 there has been little LAFCO activity for the City of Adelanto, with the exception of the need to fulfill the requirement for this Service Review and Sphere of Influence Update.

ADELANTO COMMUNITY

The Commission's policy guidelines for spheres of influence identify that its approach is defined as a "community-by-community" consideration. This practice employs looking at the whole of the community as defined by the existence of inter-related economic, environmental, geographic and social interests. The Commission's concept is to take this definition designating the area as the sphere of influence for all related service providers.

The Adelanto community has been defined for over 40 years. Before 1970 the community was defined by the boundaries of the Adelanto Community Services District. Since 1972 the community has been defined by the LAFCO designated sphere of influence for the City. There are no other public agencies wholly within the City sphere. Therefore, the City is the sole service agency that comprises the Adelanto community.

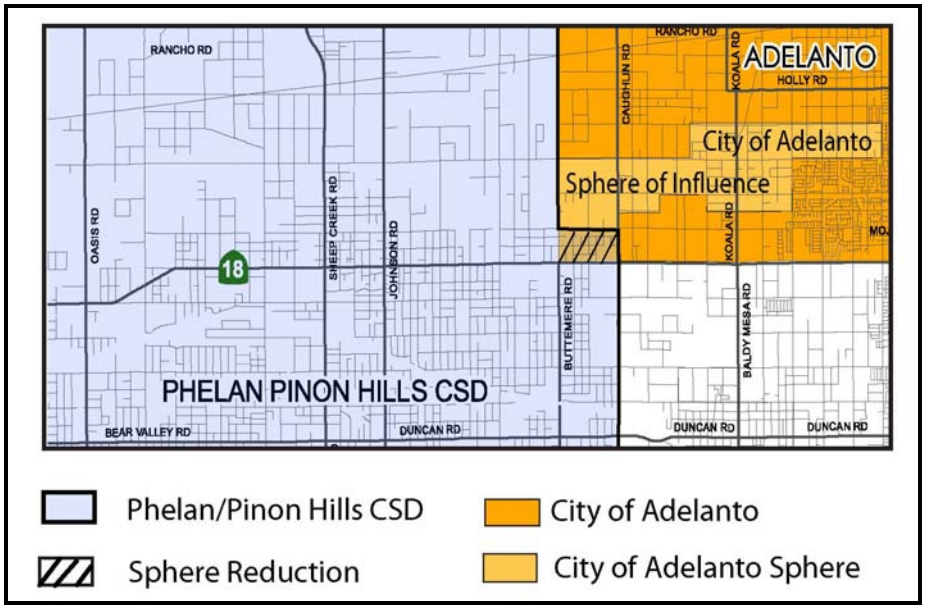
However, there is one improvement zone of County Service Area 70 and two special tax service zones of the San Bernardino County Fire Protection District that extend into the Adelanto sphere. A map of the Adelanto community with the CSA 70 improvement zone and the San Bernardino County Fire Protection District service zones that extend into the Adelanto sphere areas is shown below and is included in Attachment #1.



Issues that require resolution by the Commission as a part of this Service Review and Sphere of Influence Update include:

1. LAFCO staff proposed sphere reduction to exclude area overlaying the Phelan/Pinon Hills CSD

The former County Service Area 70 Improvement Zone L (CSA 70 Zone L) extended into the southwestern edge of the City of Adelanto sphere of influence. In 2007, the Commission approved the formation of the Phelan/Pinon Hills Community Services District which utilized the boundary of CSA 70 Zone L in this area. During the formation process for Phelan/Pinon Hills CSD, LAFCO staff reviewed with City representatives this overlay issue. As indicated in the staff reports (LAFCO 3070) and resolution (LAFCO Resolution 2969) for the CSD formation, the City expressed no opposition to the inclusion of the area and ultimate exclusion of the territory from the City's sphere of influence on the basis that the territory at that time was receiving water service from CSA 70 Zone L and that service could not be easily transferred to the City.



The position of the City has not changed since that time. LAFCO staff recommends that the Commission reduce the sphere of influence of the City of Adelanto to exclude the area identified above which is approximately 320 acres. The map of this area is identified by the hatch lines in the map above and is included as a part of Attachment #2a.

2. LAFCO staff proposed sphere reduction to exclude non-contiguous City-owned land

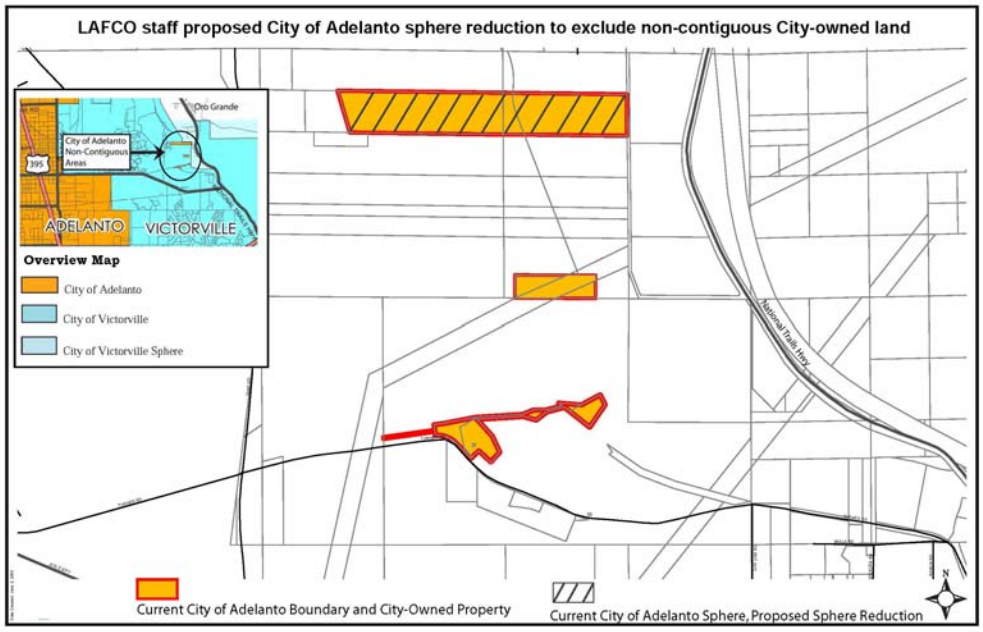
As shown in the maps included for this review, there are three separate, non-contiguous areas that are part of the City, located generally along the Mojave River within the City of Victorville sphere. The City annexed these areas because they were City-owned properties that were used for municipal purposes and such an annexation would remove them from the tax roll. In 1973, the Commission approved a City-initiated application for annexation of City property comprising 12 acres to be

used for City purposes (a well for domestic water), within the sphere of influence of the City of Victorville (LAFCO 1371). In 1989 the Commission approved a sphere expansion and annexation of approximately 31 acres of non-contiguous, municipally owned property, for the stated purpose to obtain jurisdiction over the site which contained a well used to supplement the City water supply (LAFCO 2543 and 2543A).

In processing the annexation in 1989 of non-contiguous territory, LAFCO staff, at the time, interpreted the statutes to require that every annexation proposal be consistent with adopted spheres of influence; therefore, the annexation proposal required a sphere of influence expansion. However, LAFCO staff interprets the past and present statute for non-contiguous annexations as not requiring inclusion within the annexing City's sphere of influence. The position is based on Section 56373.5 which states,

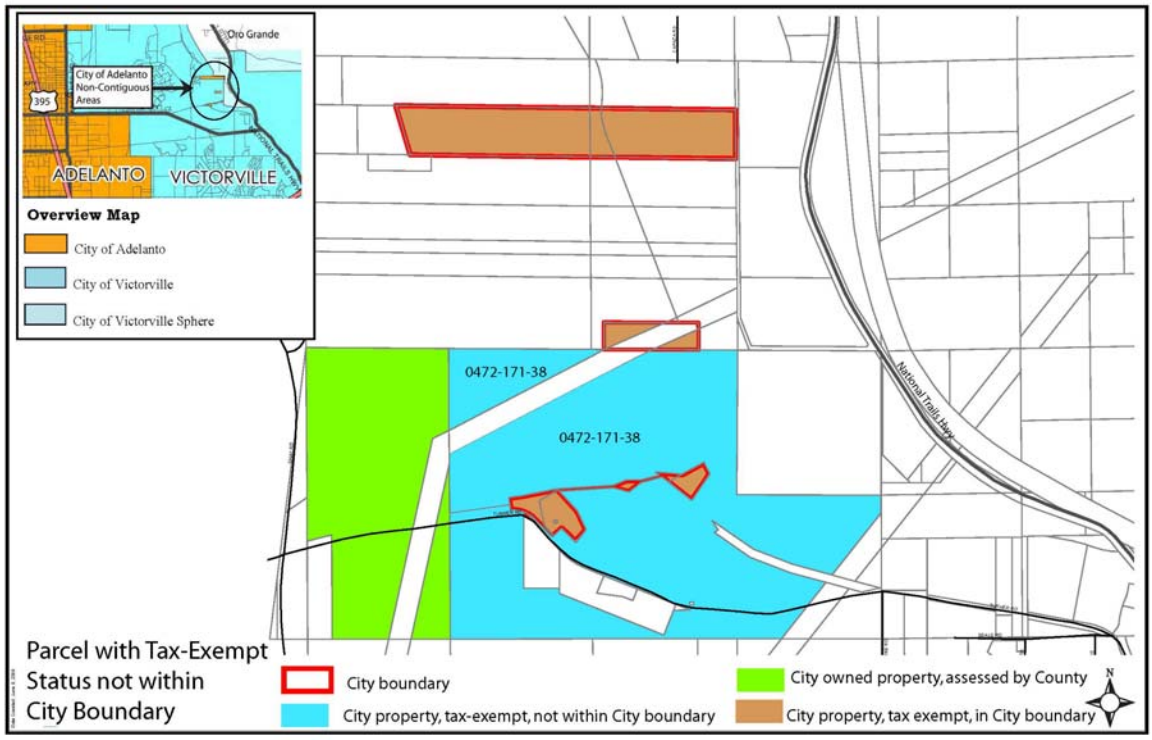
> "Every determination made by a commission regarding the matters provided for by subdivisions (a), (m), and (n) of Section 56375 and by subdivision (a) of Section 56375.3 shall be consistent with the spheres of influence of the local agencies affected by those determinations".

The provision to annex non-contiguous territory that is owned by a city and used for municipal purposes is subdivision (d) of 56375, not identified in the determinations requiring sphere consistency. For that reason, all of the City's non-contiguous territory need not be within the City's sphere of influence. Therefore, staff is recommending that the Commission reduce the City's sphere to exclude its non-contiguous territory; approximately 31 acres from the sphere of influence added 1989. Such an action would then allow for clarification of the City of Victorville sphere for future planning. The map of this area is shown below and is included as a part of Attachment #2a.



3. Tax exempt status for municipally owned parcel not within City limits

While the following has no direct effect on the sphere of influence of the City of Adelanto, LAFCO staff has an area of concern related to non-contiguous City owned property that is not a part of the City. The areas identified in green are parcels owned by the City which are currently taxed.



The City purchased parcel 0472-171-38 in 1998, which has been assigned tax exempt status since the year of purchase. This parcel is in the vicinity of the non-contiguous City territory along the Mojave River and is identified in blue in the map above. Tax exempt status for non-contiguous municipally owned parcels requires that the parcel be a part of the City. It is the staff's position that this parcel should either be taxed in the same manner as the parcels to the west, or the City should propose to annex the parcels in compliance with State Law regarding municipally-owned property. In evaluating this circumstance, to bring the City into compliance, it is the staff position that there are two available options:

1. The Commission direct LAFCO staff to notify the County Assessor of the need to correct the tax status for APN 0472-171-38 through written correspondence, or

2. For the next City application received, the Commission could modify the proposal to include the annexation of this property to the City under the provision of a non-contiguous municipally owned parcel. However, the parcel is currently within the City of Victorville and would require consent from the City of Victorville for detachment.

Staff's recommendation is that the Commission direct LAFCO staff to notify the County Assessor of this situation through written correspondence, as it would be the most direct and cost-effective method towards achieving compliance.

The evaluation of the balance of the service review and sphere of influence update will be based upon the above-described staff recommendations for alteration of the City of Adelanto sphere of influence.

CITY OF ADELANTO
Service Review and Sphere of Influence Update

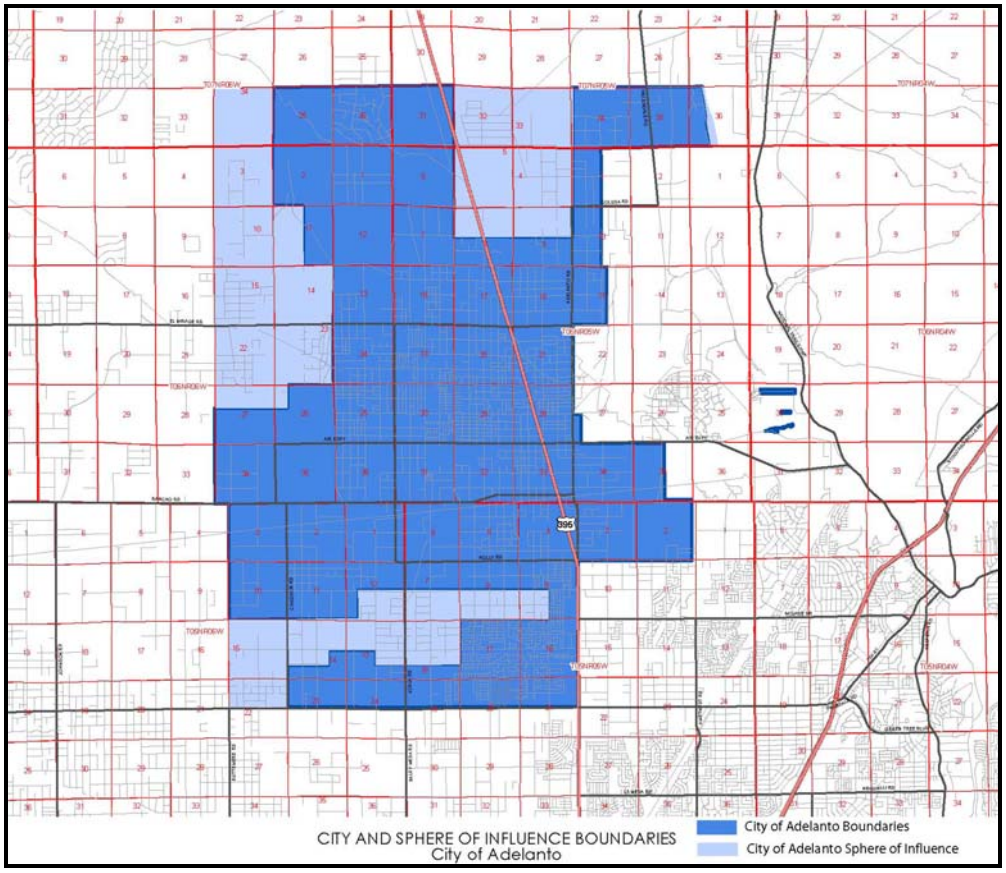
INTRODUCTION:

LAFCO 3080 consists of a service review pursuant to Government Code Section 56430 and sphere of influence update to include a sphere modification pursuant to Government Code 56425 for the City of Adelanto (hereafter identified as City). The City's response and supporting materials provided in response to the LAFCO's original and supplemental requests for information are included as Attachments #3 and 6 to this report and are incorporated in the information below.

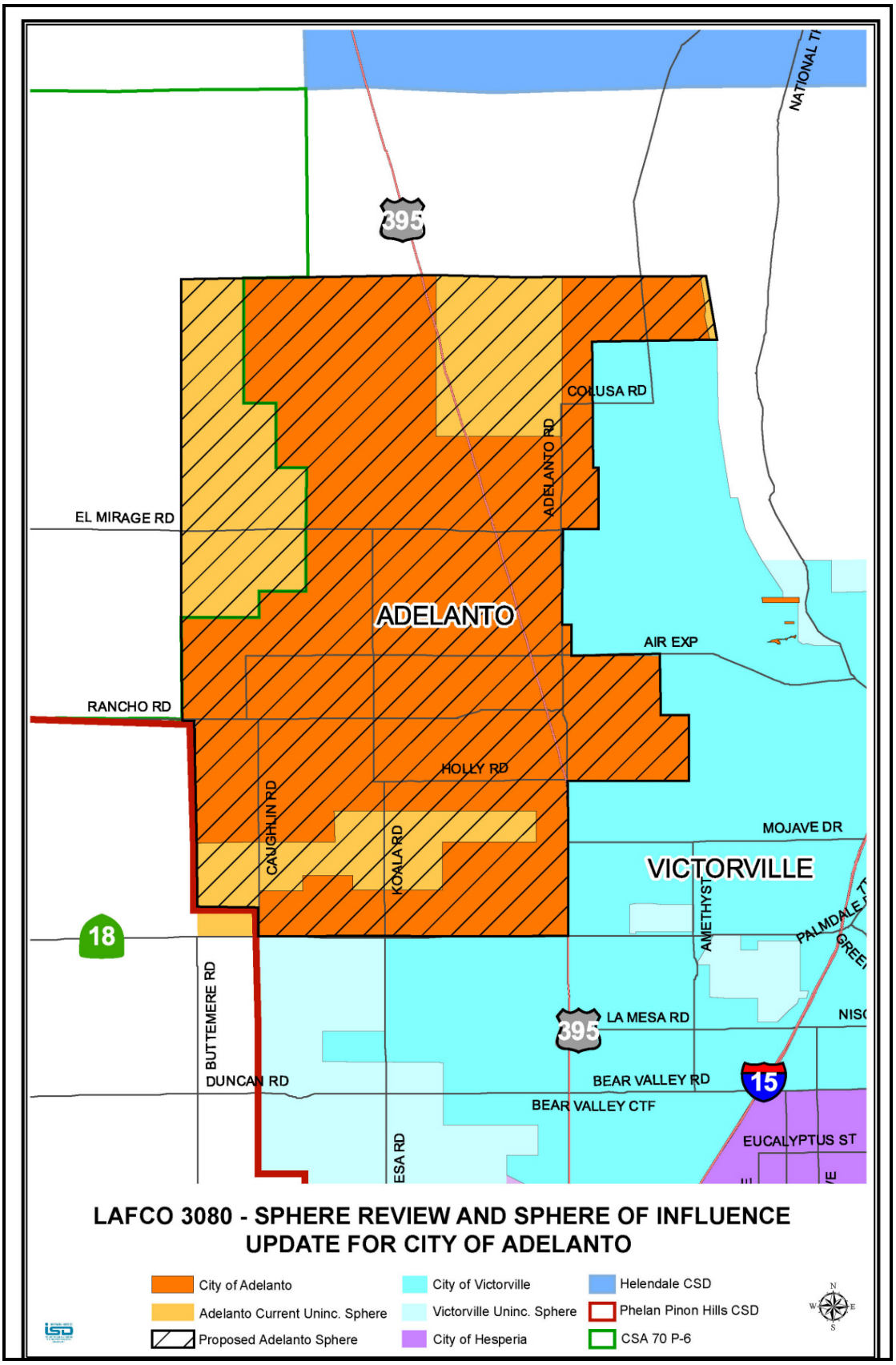
The City incorporated in 1970 following both LAFCO and local voter approval and operated as a general law city until 1992 when the voters within the City approved a measure to make it a charter city. The City Council is made up of five members, who are elected at large, and the mayor holds one of those seats. The City encompasses approximately 52 +/- square miles and its sphere extends an additional 19 +/- square miles. Since 2000, the City's population has increased by 55% from 18,130 to 28,181 in 2008, making it one of the fastest growing cities in the County and the State. However, as more fully outlined below, the economic realities of the downturn in the economy, the high foreclosure rate in the Victor Valley region, and the loss of sale and property tax revenues have hit the City of Adelanto hard.

LOCATION AND BOUNDARIES:

The City is in the southwestern portion of the Mojave Desert, north of the San Gabriel Mountains, approximately 40 miles north of the City of San Bernardino. The City is bisected by U.S. Highway 395, while the Southern California Logistics Airport (SCLA, former George Air Force Base) forms the eastern edge of the community. The service review and sphere study area includes the corporate boundaries of the City and its unincorporated sphere of influence which includes the eastern portion of the unincorporated community of El Mirage, as defined by the boundaries of County Service Area 70 Improvement Zone P-6 and County Fire Service Zone FP-3. The study area is generally northeast of the Phelan/Pinon Hills Community Services District, east of the community of El Mirage, southeast of the El Mirage Dry Lake Off-Highway Vehicle Recreation Area, south of the Helendale Community Services District, and west and north the City of Victorville. Below is a map of the City's current boundaries and sphere.



As discussed in this report, staff is recommending sphere reductions of the area overlaying the Phelan/Pinon Hills CSD and of the non-contiguous lands east of the City. The area of the recommended sphere of influence for the City of Adelanto is shown on the map below and included as a part of Attachment #2a:


395
NATIONAL TI
COLUSA RD
ADELANTO RD
EL MIRAGE RD
ADELANTO
AIR EXP
RANCHO RD
HOLLY RD
CAUGHLIN RD
KOALA RD
MOJAVE DR
VICTORVILLE
AMETHYST
PALMDALE
18
BUTTEMERE RD
LA MESA RD
395
DUNCAN RD
BEAR VALLEY RD
15
BEAR VALLEY CTF
EUCALYPTUS ST
ESA RD
LAFCO 3080 - SPHERE REVIEW AND SPHERE OF INFLUENCE
UPDATE FOR CITY OF ADELANTO
City of Adelanto
Adelanto Current Uninc. Sphere
Proposed Adelanto Sphere
City of Victorville
Victorville Uninc. Sphere
City of Hesperia
Helendale CSD
Phelan Pinon Hills CSD
CSA 70 P-6

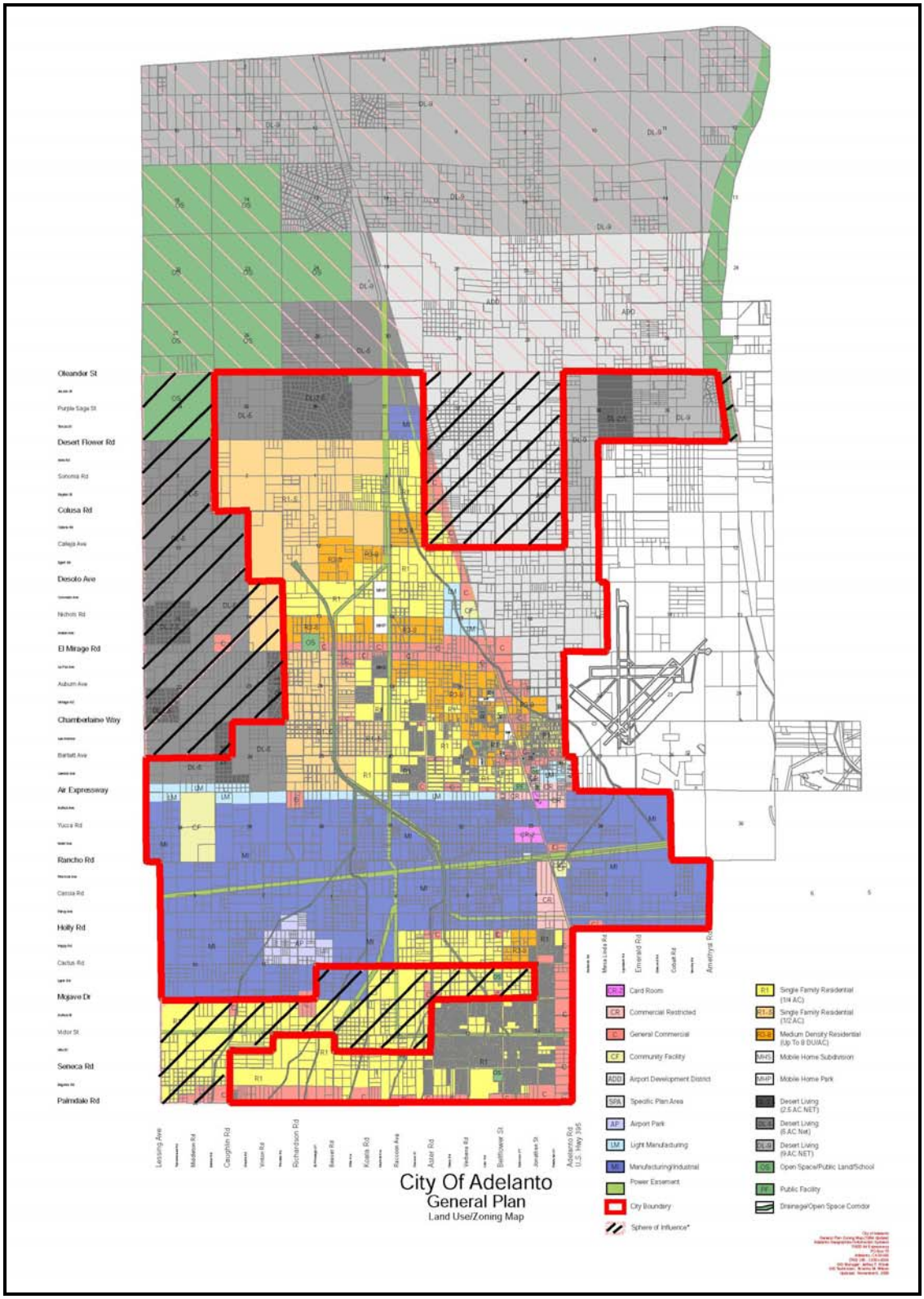
SERVICE REVIEW SUMMARY

The City's response to LAFCO's original and updated requests for materials includes, but is not limited to, the City's budgets, audits, water and sewer master plans (to be adopted) and the most current Urban Water Management Plan for the city. Copies or excerpts of these documents are included in the Attachments to this Report.

Growth and population projections for the affected area.

City Limits

According to the City, about 15% of the land within the City limits is developed. The majority of the City's development is manufacturing/industrial and residential (consisting of single-family housing) with commercial acreage fronting Palmdale Road and Highway 395 and towards the north-end of the City along El Mirage Road. The City's anticipated land use is outlined on its General Plan Land Use Map shown below. Of significance when viewing the map, is that the northern roughly 37 square miles is not a part of the City of Adelanto sphere of influence.



The most significant growth has occurred over the past ten to fifteen years within the southeastern portion of the City, with continuing growth in the central part of the City.

Based on historic growth within the City boundary, it is expected that single-family residential will continue to account for the majority of new growth in the short-run with associated commercial/industrial developments[3].

According to the State Department of Finance, in 2000 the City had a population of 18,130 and had an estimated population of 28,265 in January 2009. This increase of 56% places Adelanto as the 25th fastest growing city within the State (top five percent) in terms of percentage increase.[4] The annual population since 2000 is shown below:

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
18,130	18,286	18,780	19,450	21,317	23,342	24,801	27,019	28,012	28,265

The City's population projections, which were developed using the 2008 Southern California Association of Government (SCAG) Growth Forecast[5], are listed in five-year increments, as follows:

2010 – 40,742 2015 – 56,674 2020 – 71,877 2025 – 86,629
2030 – 100,814 2035 – 114,398

As indicated above, the City's population estimate for 2010 is 40,742. This represents an increase of roughly 12,000 (45%) within two years. However, recent economic and development conditions have altered the short-term projections, supported by the City's current stagnant population growth (253 population increase from 2008 to 2009, or 0.9%). First, the 2008 SCAG Growth Forecast, utilizing data obtained in 2007 and 2008, took into account a potential development identified as the "Lewis Homes Development project". This potential project which encompasses approximately 5,269 acres for development within the northern portion of the City, east and west of Highway 395 is still in the concept stage and no official application for development has been filed with the City. If completed, the development has the potential for a maximum of 16,846 units, or 62,162 persons.[6] In comparison, the 2007 SCAG Growth Forecast estimated a 2010 population of 25,939 and did not take into account the potential Lewis Homes development. Clearly, the City has surpassed the 2007 SCAG projection but is not likely to meet or surpass the 2008 SCAG projection for the year 2010.

Second, the issuance of building permits has plummeted since 2006 when the City issued 330 single-family residential and 47 commercial permits. In 2008 through November it issued four single-family residential and 13 commercial permits[7].

Third, foreclosure activity has affected the nation in general and the City of Adelanto is no exception. According to data obtained from staff of the County of San Bernardino

[3] City of Adelanto. *Water Master Plan*. December 2007. Prepared by So & Associates Engineers, Inc.
[4] State of California, Department of Finance, *January 2009 Cities and Counties Ranked by Size, Numeric, and Percent Change*. Sacramento, California, May 2009.
[5] Southern California Association of Governments. *Final 2008 Regional Transportation Plan*, May 2008.
[6] Number of units obtained from *2007 Water Master Plan*, page 2-11, under the City's land use designations. Number of persons calculated by LAFCO staff by utilizing a coefficient of 3.69 persons per household for the City as identified by the Department of Finance.
[7] Edwards, Brooke and Natasha Lindstrom, "Residential Building Plummets in Valley," *Victorville Daily Press*, 11 January 2009, sec. High Desert, p. B1.

Assessor's Office, from 2004 to 2006 the City had 35 foreclosures. The number rose sharply to 286 in 2007 and escalated to 958 in 2008. For 2009 through mid-July the number is 471. Since 2004, the total number of foreclosures has been 1,750. For the purposes of generally representing the extent of the foreclosure activity, the County identifies that there were 10,329 residential parcels within the City in 2007. The foreclosure of 1,750 homes represents 17% of the parcels or roughly one out of six homes within the City has been in foreclosure since 2004, with the vast majority occurring within the past two years. Therefore, given the current economic conditions and development activity, the City is not likely to experience the expansive growth that it experienced from 2003 to 2008. Nonetheless, the long-term population trend remains – the City is projected to experience growth through 2035.

According to the documents submitted by the City as a part of this review, the projected build out population from the City's General Plan land use designations is 117,749. Comparing this number to the SCAG Growth Forecast above, the City is not anticipated to approach this figure within the 2035 horizon of this report.

Within the City limits are three correctional facilities with an additional facility currently in the planning process. The inmates at these facilities add to the number of persons living within the City limits. These facilities are:

- Adelanto Detention Center – owned and operated by the County, houses County inmates, currently has 740 inmates. By 2012, this facility is estimated to contain a rated capacity of 2074 beds.[8]

- Adelanto Community Correctional Facility – owned and operated by the City, houses State inmates through contract with the State, rated for 500 inmates.

- Desert View Modified Community Correctional Facility – owned and operated by a private company, houses State inmates through contract with the State, had 643 inmates in 2006.

Also within the City limits is a proposed project to construct a 750 bed private correctional facility that would be located adjacent to the Adelanto Detention Center and Desert View Facility. If the project comes to fruition, an additional 750 persons would reside within the City limits.

Within Sphere of Influence

Utilizing the growth forecast for transportation analysis zones, as identified in the SCAG 2008 Growth Forecast, the City's current sphere of influence population projections are as follows:

2010 – 1,364 2015 – 1,475 2020 – 1,609 2025 – 1,735 2030 – 1,873

[8] Funding through the *Public Safety and Offender Rehabilitation Services Act of 2007* (AB 900 – Solorio). The County requested and received $100 million from the California Department of Corrections and Rehabilitation to expand the Adelanto Detention Center. According to County Sheriff representatives, construction is estimated to begin late 2009 with completion late 2012.

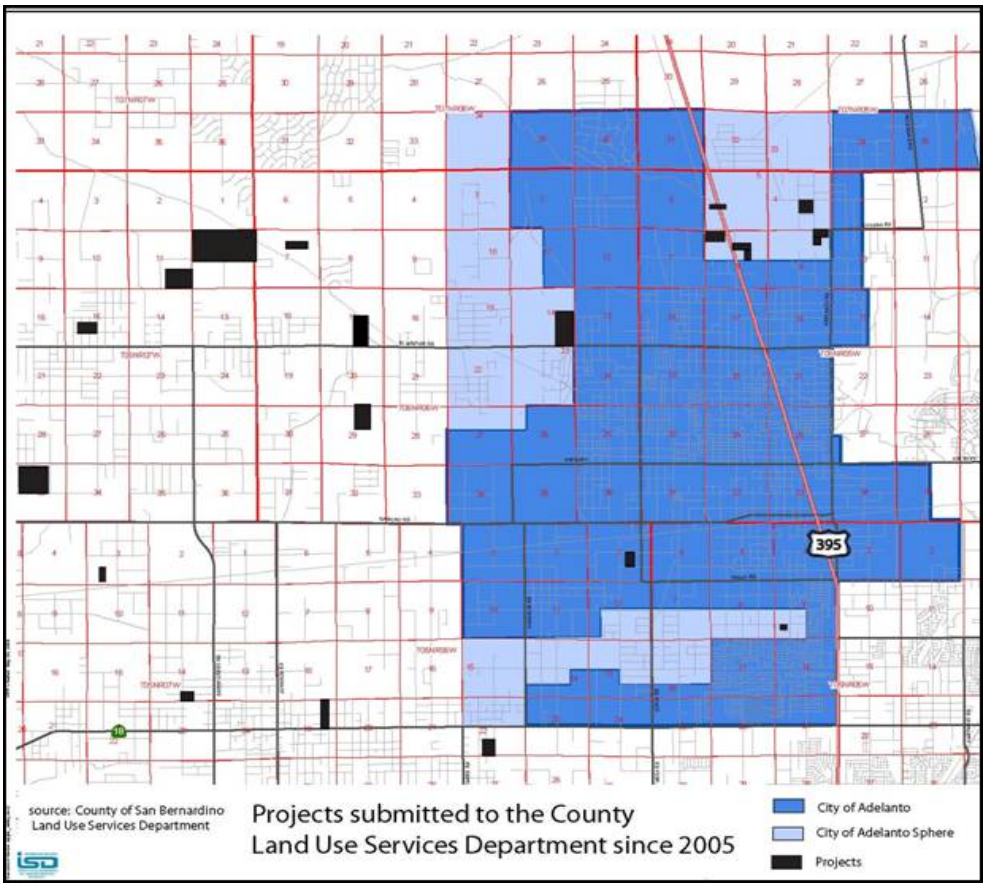
The City's sphere land use designations have low density designations, and the projections above are vastly lower than the build-out potential within the City. According to the County's General Plan, the City's sphere has a residential build-out of 3,837 dwelling units[9] which calculates to 14,159 persons (utilizing 3.69 persons per household). However, under the City's current land use designations, LAFCO staff calculates roughly 10,638 dwelling units at residential build-out, or 39,254 persons. The unincorporated sphere area is not anticipated to approach either of these figures within the 2035 horizon of this report.

Should the Commission approve the sphere reductions proposed as discussed in the Community Discussion in this report, the reduction to the above projections within the unincorporated sphere would be nominal - a reduction of 273 persons (74 current parcels utilizing a 3.69 coefficient). The maximum reduction given build-out conditions under the City's General Plan land use designations is 78 dwelling units, or 288 persons, and under the County's land use designation is 125 dwelling units, or 461 persons.

Project Notices Received

LAFCO staff has received project notices from the County of San Bernardino which anticipate General Plan Amendments, tentative tract developments, and Conditional Use Permits for increased residential and commercial development within the sphere area. A review of the project notices that have been submitted for County Land Use Planning review from 2005 through present indicate the potential for creation of 334 lots. These projects are adequately accounted for in the projections listed above. The figure below shows the location of the projects submitted to the County Land Use Services Department since 2005.

[9] County of San Bernardino County. 2007 *General Plan*, Table LU-2.



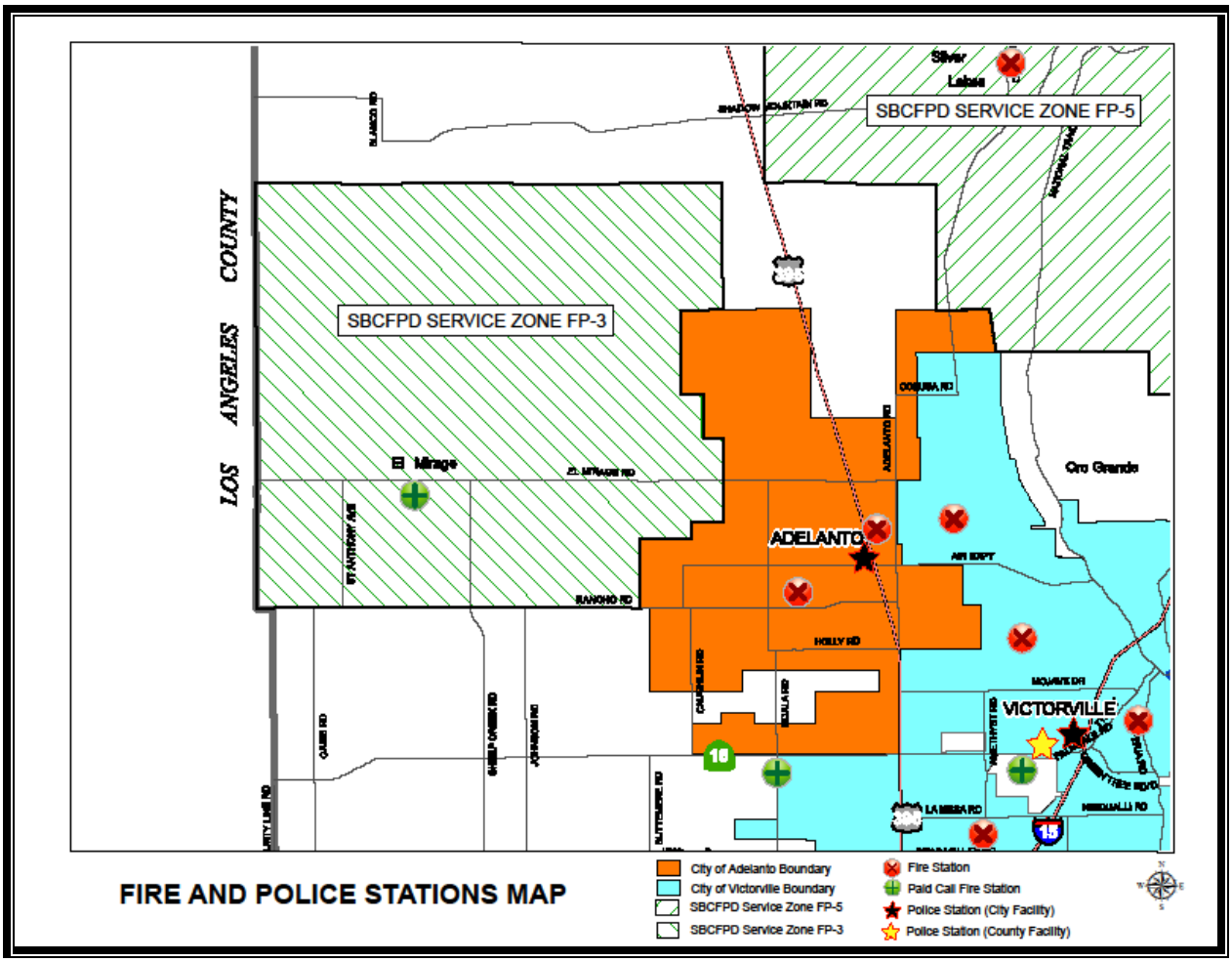
The larger of these projects are included in the following chart.

Year Submitted	Location	Applicant	Project Description
2005	El Mirage	General Atomics Aeronautical Systems	CUP to establish a 14,125 sf Integration/Assembly Area Building, a 5,875 sf office, a 4,125 sf office 14,125 sf integration/assembly are buildings with a 5,875 sf office & 4,125 sf office on 320 acres
2007	El Mirage	General Atomics Aeronautical Systems	A) CUP to extend an existing runway in Los Angeles County 3,000' into San Bernardino County on 17.8 acres B) merge nine lots on 140.97 acres
2007	El Mirage	P200601234/CF	A) General Plan land use district amendment from PH/RL-5 TO PH/RL ON 10 acres B) Tentative Parcel Map 18382 to create four parcels on 10 acres
2007	Adelanto	P200601142/TPM 18049	TPM 18049 to create four parcels and a remainder on 30 acres
2007	Adelanto	County Arch. and Engin. Depart.	Adelanto Detention Center Expansion
2007	El Mirage	P200700403/CF 18003	TPM 18003 to create four parcels and a remainder parcel with a major variance for width to depth ration on 20 acres
2007	Adelanto El Mirage	P200700791/CF	Pre-Application conference to discuss GPA from RL-5 TO RS and Tentative Tract 18374 to create 280 lots on 80 acres
2007	El Mirage	P200700710/TPM 18733	TPM 18733 to create four parcels and a remainder on 20 acres
2008	El Mirage	P200701054/TPM PM 18961	TPM 18961 to create four parcels and a remainder on 80 acres
2008	El Mirage	P200701001/TPM 18640	TPM 18640 to create four parcels on 40 acres
2009	El Mirage	P200701014/TPM 18307	4 parcels on 40 acres

The historic trends would indicate moderate to high growth within this area. However, the current economic and housing downturn has drastically reduced development activity, not only in comparison with the height of the housing boom but with normal activity. Nonetheless, any future projects will increase the need for municipal services within the City's existing boundaries as well as within the unincorporated sphere territory. However, the single most tangible factor that could limit growth will be the availability of water.

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

The City provides services directly within its City limits which include retail water, wastewater collection and treatment, animal control, and park and recreation services. As a municipality, the City is responsible for law enforcement and fire protection within its boundaries and it has chosen to contract with the County for law enforcement services and the San Bernardino County Fire Protection District for fire protection and emergency medical response services. The Sheriff and County Fire stations located within the Adelanto and the surrounding community is shown on the map below and included as a part of Attachment #1.



Police

The City contracts with the County Board of Supervisors for the County Sheriff to provide law enforcement services within the City and has done so since 2002. The contract has no sunset date, is revised annually, and can include annual increases in payment. The Sheriff's Department provides the City with full service law enforcement, traffic services, investigations, and a wide variety of safety services. The Adelanto Sheriff's Station is located at 11613 Bartlett Street, just off of Highway 395 and north of Air Expressway Boulevard. Under the command of a Captain, the Sheriff's station has 31 employees of which 24 are sworn officers. The Sheriff's station also coordinates neighborhood watch programs, Crime Free Multi-housing programs, and has a Citizen Patrol volunteer unit. The City's FY 2008-09 budget for police protection services is $5,001,500, with capital costs of $15,000 and grant revenue from the State COPS grant program at $100,000. The County Detention Facility operated in Adelanto does not impact this budget unit.

The City operates the Adelanto Community Correctional Facility and its sworn correctional officers and administrative staff are city employees. Custody personnel number 85 (69 full time, 15 part time, 1 provisional) and management, administrative, and support personnel number 29 (25 full time, 1 part time, 3 provisional). The City has contracted with the California Public Employees Retirement System to provide retirement benefits for all City employees, which includes all Facility personnel. The City's FY 2009-10 Budget identifies a total operating and capital improvement budget of $10,318,592, and revenues estimated at $19,328,355 (including a fund balance of $8,978,763).

Fire Protection

The City contracts with the San Bernardino County Fire Protection District (County Fire) to provide fire protection and emergency medical response services within the City and has done so since 1999. The current contract was signed in 2004 and has a sunset date of June 1, 2014. Under the agreement, County Fire provides fire protection services, fire prevention, fire investigation, fire suppression, rescue, advanced life support, hazardous materials, and household hazardous waste. In turn, the City leases to County Fire its fire assets which include real property, vehicles, apparatus, and equipment for $1 per year. Since FY 2003-04 the cost for fire protection through the County has roughly doubled. In 2008, the City and the County amended the contract by upgrading staffing at the second station from limited term firefighters to full-time firefighter/paramedics and increased the City's annual payment from roughly $1.6 million to roughly $3.1 million.[10] In June 2009, the City and the County entered into an agreement to provide for a contract increase of $106,616 from FY 2008-09 (no additional services or increase in staffing identified).[11] County Fire provides its fire response for the El Mirage community funded through Service Zone FP-3 through the facilities within the City of Adelanto.

[10] County of San Bernardino contract 04-1240-A-3
[11] June 24, 2009 City of Adelanto staff report.

There are two stations located within the City limits providing paramedic service as well as fire and rescue services. Ambulance and patient transportation is provided by American Medical Response. The locations of the stations are as follows[12]:

Station 321 1741 Hardy Avenue

This station is located in the northeast portion of Adelanto between U.S. Highway 395 and the Southern California Logistics Airport. On duty each day are one Captain, one Firefighter Paramedic, and one Limited Term Firefighter. These personnel staff the ICS Type 1 Structure Fire Engine located here. In addition, Station 321 backs up the County Fire Station 11 in El Mirage (this station currently is not staffed full time and utilizes paid-call personnel) located west of the City. Station 321 regularly responds to calls for service on Highway 395 both in the City and north into the unincorporated area.

Station 322 10370 Rancho Road

This station is located in the southwest portion of Adelanto. The North Desert Battalion Headquarters is located here as well. The personnel staff one Telesquirt fire engine, one Water Tender for fires in rural areas, and a reserve fire engine. Daily staffing consists of one Captain, one Firefighter Paramedic, and one Limited Term firefighter. This station also is home to a paid-call firefighter program that augments the normal staffing as needed.

Station 322 works closely with Station 321 to protect the City including three large commercial industrial zones in their primary response due area. They also respond to the City of Victorville, U.S. Highway 395, and surrounding unincorporated County areas as needed.

Pursuant to the terms of the contract, County Fire is to maintain one engine and one paramedic within the City limits at all times. In the event that a response is required outside of the City limits, County Fire will backfill the City's station from another location, such as Victorville, in order to maintain one engine and one paramedic within the City limits. As for the three correctional facilities within the City, Stations 321 and 322 provide primary response for fire and paramedic services along with AMR as a transport agency in the event that an inmate needs emergency medical aid/transportation.

The City and County Fire have future plans to construct an additional facility at the corner of Mojave Drive and Verbena Road which would serve both the City and its sphere. Staffing for this new station would include nine personnel, three per shift. The cost associated with building a new fire station is approximately $4 million dollars which includes land acquisition, facilities, and equipment, the cost for manning the station and administration would be estimated at approximately $1 million dollars per year. Due to financial considerations, according to County Fire representatives, at this time an estimated construction date has not been set.

[12] Station descriptions are taken from the County Fire website. San Bernardino County Fire. www.sbcfire.org. Accessed February 2, 2009. Last update unknown.

In 2007, County Fire responded to a total of 1,055 calls within the City with an average response time ranging from seven to ten minutes. The breakdown of the response time by station is as follows:

Incident Type	Station 322	Station 321
Medical Aid	10:08	7:06
Fire Incident	8:32	9:02
Structure Fire	8:00	7:35

Water

Currently, the Adelanto Public Utilities Authority (Utilities Authority) is the single domestic water service provider within the community. The Utilities Authority, a joint powers authority between the City and the Redevelopment Agency, was formed in 1996 by action of the City Council/RDA Board for the purpose of purchasing and operating the City's wastewater operations. On January 9, 1996, the City of Adelanto formed the Adelanto Water Authority, which purchased the City's municipal retail water system. In 2000, the Utilities Authority purchased from the Water Authority, and now operates, the City's water system. In the sphere of influence areas there are no known municipal water providers; therefore, it is understood that water service to those developed properties is provided through on-site wells.

Regional Water

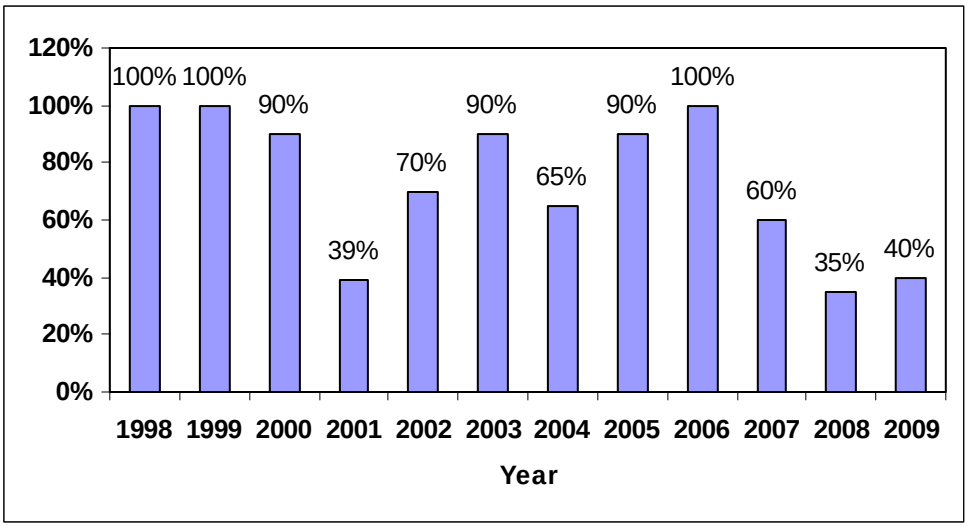
As LAFCO staff has stated on many occasions, water is the lifeblood for communities located in the desert. Therefore, the most significant regional issue is present and future water supply. The *2007 State Water Project Delivery Reliability Report* indicates that State Water Project (SWP) deliveries will be impacted by two significant factors. First, it is projected that climate change is altering hydrologic conditions in the State. Second, a ruling by the Federal Court in December 2007 imposed interim rules to protect delta smelt which significantly affects the SWP. Further, the *Report* shows, "…a continued eroding of SWP delivery reliability under the current method of moving water through the Delta" and that "annual SWP deliveries would decrease virtually every year in the future…" The *Report* assumes no changes in conveyance of water through the Delta or in the interim rules to protect delta smelt.

The figure below shows the allocation percentage that State Water Contractors were allowed to purchase for the past twelve years. For example, Mojave Water Agency (MWA) (the State Water Contractor that overlays the Adelanto community) is entitled to purchase up to 75,800 acre-feet of imported water per year. For 2009 the allocation percentage is 40%; therefore, MWA can purchase up to 30,320 acre-feet in 2009. Since the State Water Project began allocating deliveries in 1968, there have been only three other final allocations lower than this year's: 35% in 2008, 39% in 2001 and 30% in 1991[13]. This sharp reduction in supplemental

[13] State of California. Department of Water Resources. "DWR Raises SWP Deliveries to 40 Percent", Press Release. 20 May 2009.

water supply will reduce the amount of water that MWA can place into the groundwater basin where the community pumps its water.

Department of Water Resources State Water Project Allocation Percentages Statewide (1998-2009)



source: Department of Water Resources

The high growth rate in the region, coupled with a continued overdraft[14] of the Mojave groundwater basin in its entirety, the primary source of supply, is an infrastructure deficiency. The groundwater basin is adjudicated[15] under a stipulated judgment that specifies the amount of groundwater that can be extracted by major groundwater producers (those using over 10 acre-feet per year), the purpose of which is to balance water supply and demand and address the groundwater overdraft. Producers are required to replace any water pumped above their Free Production Allowance by paying the Watermaster to purchase supplemental water or by purchasing unused production rights from another party. Due to the ongoing overdraft of the basin and challenges associated with the State Water Project, future supplies are limited and demand will exceed supplies unless the Department of Water Resources allocates additional amounts. This prompts water purveyors to scale back consumption annually, to aggressively promote water conservation measures, and to buy more expensive imported water. Finding efficiencies in managing limited supply sources is critical for the future of the community.

[14] Overdraft is defined as "the condition of a groundwater basin in where the amount of water withdrawn exceeds the amount of water replenishing the basin over a period of time". California. Department of Water Resources, *California Water Plan Update - Bulletin 160-98,* pg. G-3 (November 1998).

[15] Adjudication is defined in the *2005 California Water Plan* as the "Act of judging or deciding by law. In the context of an adjudicated groundwater basin, landowners or other parties have turned to the courts to settle disputes over how much groundwater can be extracted by each party to the decision." California. Department of Water Resources, *California Water Plan Update 2005*, Vol 4, Glossary (2005).

Water Rights and Production

The City has water production rights (also known as Base Annual Production) of 7,112 acre-feet (AF). Of the 7,112 AF the City itself has rights to 3,679 AF, and the remaining 3,433 is identified in the Watermaster reports as "Adelanto, City of – George AFB" and that the ownership of this amount is in dispute. The City is within Alto sub-region, and Free Production Allowance (FPA) is currently at 60% of Base Annual Production, which permits the City a combined 4,268 AF of FPA for 2008-09.

As noted in the most recent Watermaster Annual Report, "further rampdown is not warranted in Alto at this time" [16]. Producers are required to replace any water pumped above their FPA by paying the Mojave Basin Area Watermaster a replacement assessment to purchase supplemental water or by purchasing unused production rights from another party in the sub-area for the applicable production year. As indicated in the table below, the recent trend for Adelanto's water production indicates that it produces more than its FPA. Thus, it has to purchase water from other agencies within the sub-basin to avoid paying the higher replacement water and make-up water rates charged by the Watermaster. Moreover, for three years it has been obligated to pay for Replacement Water that otherwise could have been purchased from other water agencies. As indicated in the table below, for FY 2005-06 Adelanto produced 2,270 AF in excess of FPA. To offset the over production, the City transferred-in 739 AF from other agencies. In turn, the replacement water obligation to the Watermaster was reduced to 1,531 AF at a cost of $376,626.

Each water producer within the Alto sub-basin, when applicable, is subject to the Watermaster replacement to the downstream Centro sub-basin (obligation is in acre-feet). This obligation is called Make-up Water Obligation and can generally be satisfied by: 1) paying the Watermaster assessment directly, 2) purchasing the acre-feet obligation from Centro water producers at a two-to-one ratio, or 3) purchasing transfer water from Centro producers before-hand. As a cost savings measure in order to not be subject to the higher Make-up water assessments of the Watermaster, the City has purchased FPA and Prior Year Carryover water from Centro water producers before-hand. For 2006-07, the Make-up Obligation was 198 AF. However, the City purchased Centro water before-hand (at a lower cost) and used this to satisfy its Make-up obligation.

[16] Mojave Basin Area Watermaster, *15th Annual Report of the Mojave Basin Watermaster: Water Year 2007-08,* (1 May 2009), Ch. 5.

Adelanto Water Production and Water Obligations
(units in acre feet unless otherwise noted)

Water Year	Free Production Allowance (FPA)	Carryover from Previous Year and Transfers from Other Agencies	Verified Production	Unused FPA or (Agency Overdraft)[1]	Replacement Water Obligation (Agency Overdraft)	Makeup Water Obligation (Watermaster Replacement to Centro Sub-basin) [2]
2003-04	4,952 [3]	3,422	6,062	2,312	0	321.24 obligation 643 purchased at a total cost of $51,440
2004-05	4,624	2,312	6,795	141	0	0
2005-06	4,268	739	6,538	(1,531)	1,531 at a cost of $376,626	221 obligation 442 purchased at a total cost of $44,200
2006-07	4,268	0	4,653	(385)	385 at a cost of $106,645	198 obligation 397 purchased at a total cost of $0 [4]
2007-08 [5]	4,268	150	5,326	(908)	908 at a cost of $305,996	246 at a cost of $82,885
2008-09 [6]	4,268	0	n/a	n/a	n/a	n/a
2009-10	4,268	-	-	-	-	-

sources: Mojave Basin Area Watermaster, Annual Reports of the Mojave Basin Area Watermaster for Water Years 2003/04 through 2006/07, (April 1, 2005 through April 1, 2008).

Mojave Basin Area Watermaster, *Request for Assignment of Carryover Right in Lieu of Payment of Replacement Water Assessments Recommended for Filing*, For Water Years 2002/03 through 2006/07.

[1] Unused FPA is equal to the total FPA (FPA, carryover, and transfers) minus total Verified Projection, but not greater than FPA and FPA transfers.

[2] Obligation to the Centro basin is purchased at a two-to-one ratio.

[3] The ownership of the Base Annual Production for the entry shown as "Adelanto, City of – George AFB" is in dispute.

[4] Since Water Year 2006-07, the City of Adelanto has both FPA and Carryover in the Centro sub-basin which it uses to satisfy the Make-up Obligation of the Watermaster.

[5] Transfers from other water agencies not reconciled yet and data is subject to amendment in Appendix I in Sixteenth Annual Report of the Watermaster due April 2010.

[6] Draft data (Appendix B) not available until early 2010.

Base Allocation Dispute

As outlined in the discussion of Water Rights and Production above, of the 7,112 AF base allocations shown for Adelanto, the City itself has rights to 3,679 AF, and the remaining 3,433 is identified in the Watermaster reports as "Adelanto, City of – George AFB". The

ownership of the George AFB amount remains in dispute. LAFCO staff is of the understanding that the allocation is in dispute because the City no longer serves the Southern California Logistics Airport (SCLA). The following provides the LAFCO staff's general understanding of this situation:

> In 1956, a predecessor agency to the City [presumably the Adelanto CSD or County Waterworks District #2] leased water rights to the Air Force to support George AFB. The Air Force was required to return the water rights to the CSD or the City as its successor agency upon deactivation of the base. In September 1993, the Air Force announced that the water rights would remain with George AFB and the recipient of the base would also acquire the water rights held by the Air Force[17].
>
> In 1995, the City of Adelanto entered into an agreement with the Mojave Water Agency whereby the City agreed to be bound by the adjudication, and the agreement allowed the City to have use of the "City of Adelanto/GAFB" rights listed in the Watermaster annual report until the ownership of the disputed amount is determined. The City filed a claim against the U.S. Air Force to return the water rights and property belonging to the City. The case was decided by the Armed Services Board of Contract Appeals in Case No. 48633 in August 1996 (copy included as Attachment #4 to this report). The decision determined that the property belonged to the City of Adelanto and had been leased to the United States (a copy of the decision is on file at the LAFCO staff office). However, final resolution by the base transition commission on the ownership of the water right has not occurred. The lack of determination of the base transition commission is the reason for the footnote in the Watermaster reports. LAFCO staff is not aware of the rationale for lack of decision by the base transition commission on this water right, which is a property right, to resolve the matter.

For the past six years roughly half of the total verified City production is attributable to "Adelanto, City of – George AFB". Even with the "Adelanto, City of – George AFB" base allocation, the City for the past two years has been obligated to pay the Replacement Water costs of the Watermaster. Should the City lose the ownership of the "Adelanto, City of – George AFB" base allocation in whole or in part, the City, and thereby its ratepayers, would be further subject to the higher Replacement Water costs.

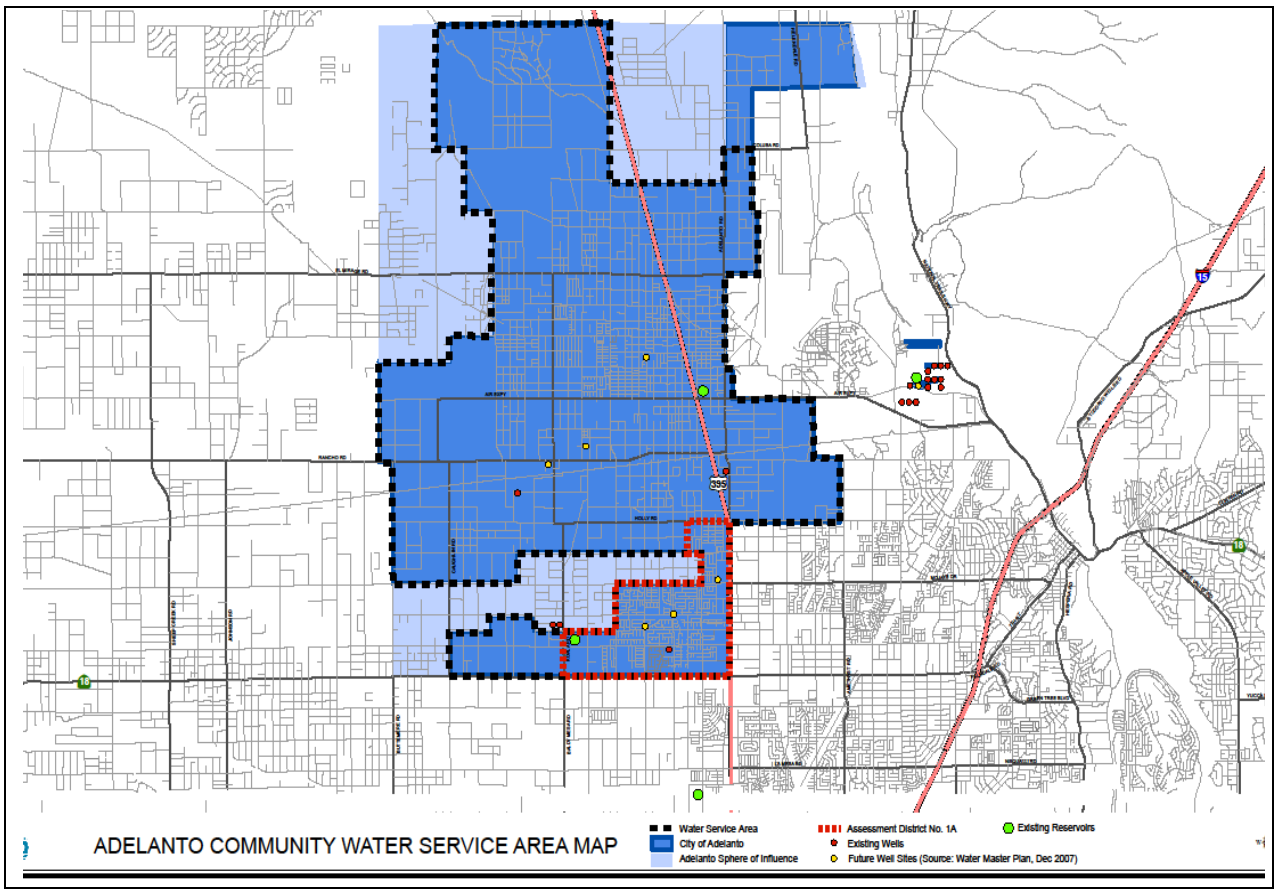
Adelanto Water Reports and Plans

The most recent Urban Water Management Plan for the City is for the year 2000, adopted in 1997. Pursuant to the *Urban Water Management Planning Act*[18], each urban water supplier shall update its plan at least once every five years on or before December 31, in years ending in five and zero, and shall file with the Department of Water Resources (DWR) a copy of the plan. In years ending in six and one, DWR submits a report to the State Legislature summarizing the status of the plans and identifies the outstanding elements of the individual plans. LAFCO staff has reviewed the DWR report to the Legislature for the 2005 urban water management plans, and the report identifies that the City of Adelanto did

[17] Letter dated July 26, 1994 from State Auditor Kurt Sjoberg to Governor and State Legislature regarding Adelanto RDA. Copy on file at the LAFCO staff office.
[18] California Water Code, Division 6, Part 2.6, Section 10610, et seq.

not submit a 2005 urban water management plan[19]. The City is currently working with So and Associates Engineers to complete an update to the 2000 Urban Water Management Plan for filing in 2010.

An additional report referenced for this service review is the *City of Adelanto Water Master Plan* prepared by So and Associates Engineers in December 2007. This plan was prepared to enable the City to meet its current and future water demands over the next five to 20 years. According to correspondence from the City, the *Water Master Plan* was approved by City Council at its January 23, 2008 regular meeting; however, additional information has indicated that the report was presented but not adopted at the January meeting. A complete copy of this report is on file at the LAFCO staff office. The results and recommendations of the reports are discussed in the remainder of this staff report, and excerpts from the reports are included as Attachment #3. The forecasts included in the *Water Master Plan* include the potential Lewis Company development which would be located in northern portion of the City. However, as mentioned previously in the *Growth and Population Projections* section of this report, the development is still in the concept stage and no development application has been officially received. The following map (included as a part of Attachment #1) illustrates the service area as identified by the Water Master Plan, by the black dashed outline:



[19] California. Department of Water Resources, "Summary of the Status of 2005 Urban Water Management Plans", Report to the Legislature. 31 December 2006.

The following information regarding the City's water system is obtained from the City's *2000 Urban Water Management Plan*, *Water Master Plan* and the City's service review responses.

Supply

Currently, the primary source of supply is groundwater from vertical wells. The City has 14 active vertical wells with total pumping capacity of approximately 6,718 gallons per minute and two inactive vertical wells currently under rehabilitation. Most of the wells are located approximately two miles east of the City proper near the Mojave River on City-owned property. Within the city limits the City provides water service to its residents and businesses which include the LA Department of Water and Power facility, and the three correctional facilities (Desert View Community, Adelanto Community, and Adelanto Detention Center). Outside the City limits, up through closure of the George Air Force Base, the City imported water from the Base well field. After closure of the base, the wells were transferred back to the City. From 2000 to 2005 the City sold water to SCLA (the former base) and the Victorville federal correctional facility because the City's water lines were adjacent to these facilities. The Victorville Water District is currently the water provider to these facilities.

The *Water Master Plan* states that in the short-run several additional new wells are required to meet the State mandate for minimum daily demand. In the long-run, the lowering of the groundwater table and the continuous pumping of ground water is a major concern as it affects water quality, quantity, and pumping efficiency. The lowering of the groundwater table will increase the pumping energy cost and have an impact on water pricing and the City's ability to deliver cost effective service to its existing and future customers. The *Water Master Plan* further states that in order to meet the water demand at near-saturation, the supply system must have the ability to meet max-day demands per the State Department of Health Services. Many existing wells within the City are not capable of producing even 500 gallons per minute of water; drilling more new wells will not be a solution to meet future demands. In the absence of other alternative sources of water supply, water wells that extract water from the Upper Mojave Groundwater Basin will remain the primary supply source to meet the immediate and near future demands. In the long-run, according to the *Water Master Plan*, the primary new supply sources will be through the City's proposed modular water treatment plant and the Mojave Water Agency's R-Cubed Project (described below). However, as mentioned above, the State Water Project allocation is currently at 40%. This will hinder the Watermaster's ability to purchase supplemental water not only for delivery but also for replenishment and replacement obligations.

The Mojave Water Agency's R-Cubed Project (Regional Recharge Recovery) Project will assist Adelanto to meet future demands. This project plans to store up to 40,000 acre-feet (13 billion gallons) annually for recharging the Mojave Groundwater Basin. According to MWA staff, all water pumped will be offset by State Water Project water recharged into the River. In years when demand is high, the MWA will extract the water from the replenishing wells and deliver it to water purveyors. MWA is aiming for its completion by 2010. An incentive for financial participation is that those local agencies that participate financially would have priority in the capacity of the project. This would provide such local agencies

with a more reliable source of water. City staff has indicated to LAFCO staff that the City intends to buy-in to R-Cubed; however, the reduction in State Water Project deliveries will influence the effectiveness of this project.

As an outgrowth from the *Water Master Plan*, the City has a new component for connection fees for all new developments. This fee covers the cost to purchase supplemental water through acquisition of permanent water rights and the development of alternate water supply sources. Additionally, the City has adopted landscape requirements to significantly reduce water demand in future developments, and in order to have the ability to adequately serve future developments the City is targeting at least a 30% water conservation effort by requiring new developments to adopt drought tolerant landscaping and eliminate front and backyard lawns. Through these efforts, the City is striving to reduce water consumption of future households to roughly 450 gallons per day or 0.5 acre-feet of water per year.

The *Water Master Plan* recommends that the City plan for the application of reclaimed water for landscaping/irrigation, schools, parks, etc. for use by 2025. This would decrease the reliance on the stressed groundwater supply. Recycled water storage requirements are estimated to cost approximately $20.1 million, which include the construction of proposed modular water treatment plant.

Demand

In 2004-05, the City provided water service to approximately 6,900 equivalent dwelling units (EDUs). The City experienced a 56% increase in EDUs from 2000 to 2005 and this correlates with the sharp increase in the population during that time. According to the City's municipal service response, in 2007 there were 7,390 water connections of which slightly over 7,000 were residential connections. As of June 2009, there were 7,746 service connections of which 7,138 were residential connections. EDUs at near build-out capacity are approximately 87,163, but the City is not projected to reach this figure within the horizon of this report as shown in the Projected EDU chart below.

Historical Growth, Water Production, and Consumption

Year	Total EDUs	Water Production (AF/yr)	Imported Water From GAFB (SCLA) to Adelanto (AF/yr)	Water Sold to GAFB (SCLA) and LA DWP (AF/yr)	Water Sold to Three Correction Facilities (AF/yr)	Water Consumed by City (AF/yr)
1994	3,764	2,683	242	--	--	2,925
1995	3,922	1,834	1,406	--	--	3,240
1996	4,115	3,128	526	--	--	3,654
1997	4,254	3,267	335	--	--	3,602
1998	4,377	3,216	160	--	--	3,376
1999	4,405	3,673	--	--	--	3,673
2000	4,409	4,272	--	640	--	3,632
2001	4,454	5,231	--	1,243	95	3,893
2002	4,633	5,590	--	1,267	207	4,115
2003	4,964	5,739	--	1,219	198	4,322
2004	5,798	6,179	--	1,104	212	4,863
2005	6,900	6,179	--	543	153	5,482

source: City of Adelanto. *Water Master Plan*. Prepared by So and Associates. December 2007.

Projected EDU and Water Usage at 600 gpd/EDU
(based on past five year growth)

Year	EDUs	Acre feet/year
2005	6,900	6,504
2010	9,930	8,744
2015	12,960	10,984
2025	19,020	15,465

source: *Water Master Plan*

Storage

Water storage for domestic and fire flow supply consists of five welded steel storage reservoirs totaling 16.75 million gallons (MG) that range from 0.75 MG to 5 MG. As shown in the chart below, at the current capacity of 16.75 MG, the 2005 "Max Daily Demand plus Fire Flow" is satisfied, but is not satisfied when "Operational Storage" is added as a storage requirement. Further, with the current storage, "Max Daily Demand + Fire Flow" will not be satisfied in 2010.

According to the *Water Master Plan*, there is currently a 6.3 million gallon deficiency in storage within the system including approved tentative tracts (using 2.5 max-day demand factor), and the *Plan* recommends that two new 5 MG reservoirs be constructed. Once these additional storage facilities are constructed, it is anticipated that the supply well pumping and boosting operations could run during the off-peak electrical rate periods and maintain adequate capacity for operational storage and fire flow. The City has currently added a new 5 million gallon reservoir, brought on line in March 2009, which increases total storage to 21.75 MG. The ten-acre project site already includes two existing 5 million gallon reservoirs and a storm water retention basin. With the current and planned facilities, the City will meet "Operational Storage" but is not anticipated to reach "Max Daily Demand + Fire Flow + Operational Storage" requirements given the projections provided in the *Water Master Plan*. In order to meet future growth, additional storage facilities will have to be constructed.

Projected Water Storage Requirements
(at 600 gpd use and 606 EDU growth)

Year	EDU	Max Daily Demand (MDD) [1]	Fire Flow	**MDD + Fire Flow**	Operational Storage [2]	**MDD + Fireflow + Operational Storage**
2005	6,900	14.5	0.3	**14.8**	4.3	**19.1**
2010	9,930	19.5	0.3	**19.8**	5.8	**25.6**
2015	12,960	24.5	0.3	**24.8**	7.3	**32.1**
2025	19,020	34.5	0.3	**34.8**	10.3	**45.1**

* Storage requirements represented in millions of gallons.
[1] Maximum Daily Demand = 2.5 x Average Daily Demand
[2] Operational Storage = 30% of Maximum Daily Demand
source: *Water Master Plan*

Facility Condition and Proposed Water System Improvements

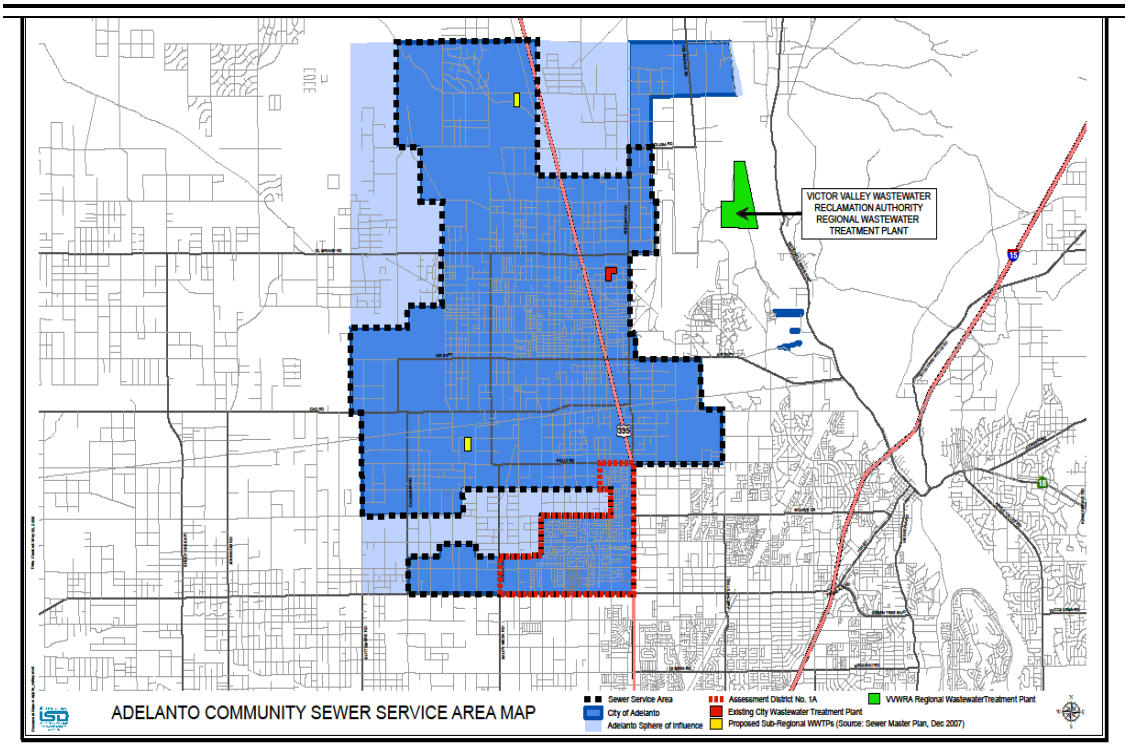
The *Water Master Plan* states, "City of Adelanto attempts to provide adequate high quality water supply, storage for fire flow protection, and distribution capacity to all developments within its service boundary. However, this objective of Adelanto's water department is affected by declining groundwater table, and the need to construct additional water storage facilities, and expanding distribution system." The City's primary water supply system ranges primarily in age from about 15 to 35 years, with the newer systems located in the south end of the City and extension being completed with new development. Most of the water storage system and primary distribution lines were completed about 15 years ago. Water wells have been upgraded as needed throughout the years.

According to the *Water Master Plan*, proposed water system improvements include the installation of new wells, storage facilities, pipelines, pressure reducing stations, water treatment plan (for imported water consideration), and booster stations. Proposed improvements, at a total estimated cost of approximately $547.6 million, include the following:

- Install/upgrade 890,199 lineal feet (168.59 miles) of transmission lines (from 10 to 24 inch).
- Construct 31 new reservoirs.
- Construct and equip up to 4 new wells and 10 new booster stations.
- Construct water treatment plan for imported water.
- Install nine pressure reducing stations included associated piping.

Sewer

Information for the following review of the City's sewer system is obtained from the *City of Adelanto Sewer Master Plan* prepared by So and Associates Engineers in December 2007 and documentation from the California Regional Water Quality Control Board – Lahontan Region. The *Sewer Master Plan* was prepared to identify the sewer system deficiencies and recommend improvements necessary to maintain a reliable sewage conveyance and treatment system over the next five to 20 years and at build-out. According to correspondence from the City, the *Sewer Master Plan* was approved by the City Council at its January 23, 2008 regular meeting; however, other materials indicate that the Plan was presented at the January 2008 meeting but not adopted. A complete copy of this report is on file at the LAFCO staff office with excerpts included as a part of Attachment #3 and a map of the defined service area is shown below and included as a part of Attachment #1:



The forecasts included in the *Sewer Master Plan* include the potential Lewis Company development which would be located in northern portion of the City. However, as mentioned previously in the *Growth and Population Projections* section of this staff report, the development is still in the concept stage and no application for development has been received, so where possible, it has been removed from the discussion of facilities.

Sewer System

In FY 1998-99, the City removed itself from the Victor Valley Wastewater Reclamation Authority (VVWRA). By this action the City became responsible for wastewater collection and treatment within its boundaries. In order to provide for treatment, the City constructed its own wastewater treatment plant westerly of the Southern California Logistics Airport. After FY 1999-00, total wastewater flow in the Adelanto treatment plant primarily consists of domestic flow generated by residential and commercial uses and also includes the City of Los Angeles Department of Water and Power facility and three correctional facilities located within the City.

The Adelanto Public Utility Authority owns and operates the Adelanto domestic wastewater treatment facility (Adelanto Treatment Facility), which collects, treats, and disposes of an average 2.2 million gallons per day (MGD) of domestic and industrial wastewater generated within the City into four percolation ponds. As shown in the chart below, from 1998-99 to 2004/05 total EDUs increased 62% while total flow increased at a lesser rate of 42%. According to the 2009 Sewer Rate Increase report, currently there are 6,191 residential EDUs, 638 industrial and commercial EDU, and 747 correctional facility EDUs, representing 7,576 total EDUs, an additional increase of 86.4% in five years.

Historical Connections (Equivalent Dwelling Units) and Wastewater Flow

Year	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05
New EDUs	--	478	158	193	139	123	28	4	45	179	331	834	1,102
Total EDUs	2,928	3,406	3,564	3,757	3,896	4,019	4,047	4,051	4,096	4,275	4,606	5,440	6,542
Total Flow (MGD)	--	--	--	--	--	--	1.00	0.80	0.83	0.87	0.87	1.01	1.42

Note: In 1998-99, Adelanto began operation of its own wastewater treatment plant
Total Flow is Total Wastewater Flow in million gallons per day
source: City of Adelanto. *Sewer Master Plan*. Prepared by So and Associates. December 2007.

The population growth has continued and resulted in wastewater flows exceeding the capacity of the facility which is 1.5 MGD. Further, the *Sewer Master Plan* reviewed the development density of recent tracts, and with the recent tracts the original design density has been exceeded. This impacts available capacity in the existing sewer system and will require relief measures. At build-out, the projected average flow is 17 MGD with a peak flow of 40.8 MGD.

Projected EDU and Wastewater Flow
(based on past five-year growth of 606 EDU per year)

Year	EDUs	Annual Average Flow	
		MGD	MG/yr
2004/05	6,542	1.31	478
2009/10	9,572	1.91	699
2014/15	12,602	2.52	920
2024/25	18,662	3.73	1,362

source: *Sewer Master Plan*

Proposed Sewer System Improvements

Short-term sewer improvements for the system's existing condition with approved tracts and tentative tracts consist of gravity sewer pipelines, manhole installations, and pavement repair at a total estimated cost of approximately $2.8 million. Long-term sewer improvements (at build-out condition) consist of gravity sewer pipe line, force main pipe line, manhole, pump installation, and pump station upgrade. The total estimated cost of the improvements is approximately $74.6 million. The potential Lewis Homes development is anticipated to add an additional $21.1 million. With contingency and other costs, the total improvements cost is approximately $121.8 million.

Plant Expansion

The original Adelanto facility was designed to produce disinfected tertiary water using subsurface diffusion aerators; however, poor quality effluent is being produced. According

to staff reports and Orders from the California Regional Water Quality Control Board – Lahontan Region (Water Board), the Adelanto Public Utility Authority (Authority) has been issued a Cease and Desist Order (No. R6V-2007-24) to address violations associated with its wastewater treatment plant. Specifically, these violations are for exceeding the flow limit, exceeding the effluence limit for biochemical oxygen demand, and discharging into a percolation pond without a permit from the Water Board.

The Order requires interim and long term corrective actions to correct violations of Waste Discharge Requirements and to achieve final compliance by December 31, 2008. The interim measures proposed by the Order are:

1. Septage is no longer accepted at the facility;
2. Replace inoperable aerators; and
3. Incorporate additional flow equalization into the treatment process.

The Water Board's sampling of the water indicates that while total nitrogen is somewhat reduced in the effluence, the plant performance did not improve significantly after implementing the interim measures, and the violations continue. It further states that insufficient plant capacity is the primary antagonistic factor that is negating the effect of interim corrective actions on the discharge.

To address the long-term actions to achieve final compliance with the Waste Discharge Requirements, the City has designed and is constructing a new technology treatment process plant expansion that will increase the treatment capacity from the current 1.5 MGD to 4.0 MGD. Of the 4.0 MG, 3.0 MGD will be handled by the new treatment process and 1.0 MGD will be treated by the existing treatment facility. The proposed wastewater treatment plant will utilize a new filtration process called a Micro Media Filtration process. With this process, the existing plant can be expanded to an ultimate capacity of 8.5 MGD. In addition, after completion of the plant expansion, one of the existing aeration basins can be converted to just treating the septic waste. According to the Water Board's staff reports which reference the City's reports to the Water Board, this plan should be able to handle the equivalent population increase for approximately 14 years.

The estimated construction cost of the plant expansion using Micro Media Filtration process equipment, including allowance for headwork expansion, additional land, new effluent ponds, off-site piping, and minor contingency allowance is approximately $15 million (excluding project contingency, engineering, inspection, and administration). The City is funding this project from the issuance of revenue bonds in the name of the Adelanto Public Utilities Authority. Additionally, a fifth percolation pond is planned to be completed in 2009 based on the anticipated need for additional percolation capacity.

According to the Water Board's new *Waste Discharge Requirements for Adelanto Public Utility Authority* dated June 10, 2009, the Water Board's evaluation shows that the proposed localized degradation in the vicinity of the wastewater treatment facility meets the conditions of the Water Board. The document further finds that the degradation is reasonable, acceptable, and appropriate provided the Adelanto Public Utility Authority meets conditions that include requirements for monitoring the long-term trends in concentrations to dissolved solids, nitrates, and other constituents.

Sub-regional Wastewater Reclamation Plant

Also proposed in the long-run is the construction of an upstream wastewater reclamation plant. The preliminary location is north of Holly Road, and between Richardson Road and Beaver Road. The reclaimed water could be used for irrigation at parks and school sites, or groundwater recharge. Estimated upstream plant capacity will be about 6.0 MGD, and the proposed sub-regional plant capacity for the potential Lewis Homes development will be about 3.0 MGD.

Water and Sewer Rates and Charges

2009 Water and Sewer Rate Increase

The last time the City raised its water and sewer rates was 2002. On August 12, 2009, the City/Utilities Authority increased its water and sewer rates and implemented a three tiered water usage (commodity) rate structure. The rates were adopted as sufficient protest was not submitted. According to the City's April 22, 2009 staff report regarding the proposed rate adjustment, since 2002 instead of adjusting rates, the Utilities Authority has utilized connection fee revenues to stabilize the rates. LAFCO staff is concerned with the use of connection fees to stabilize rates because connection fees are restricted funds for the purpose of capital improvements and to repay debt service. Because the slowdown in residential development has resulted in a decrease in connection fees, the City adopted "a rate adjustment to protect the Authority against insolvency." According to the *Notice of Proposed Water and Sewer Rate Adjustment* dated April 27, 2009,

> "APUA (Utilities Authority) utility customers have been paying the same rates since 2001. Since then the costs to operate the utilities have increased substantially. The APUA has utilized reserves and revenue from new service connections to pay for the increased costs. Reserves are now close to depletion and the new service connections have halted due to the downturn in the residential construction market."

The increase in water and sewer rates will increase overall revenue to meet the costs of providing the service and to meet liability obligations (debt service). According to the City's staff report dated August 12, 2009 for the water and sewer rate increase, the current operations cost include the cost of debt service, which consists of the outstanding 2005 bonds and the Authority's amortized obligation to the City General Fund, which amounts to $5.4 million in FY 2009-10. Due to the magnitude of the rate increase, reserves are not a component of the rate increase. Further, should reserves be used, there is no existing policy to fund reserves or for reserve replacement. In the case of an emergency, without adequate reserves the Utilities Authority could end up paying more or reducing services.

Water

Estimated revenue requirements for 2009-10 through 2012-13 exceed estimated revenue projections at 2008-09 rates. This has resulted in a need to increase overall revenues by 29% for FY 2010-11 with additional increases in future years. According to the water rate

study, the immediate increase was necessary to cover the full cost of service and meet debt obligations. The rate increase for 2009-10 is intended to be the first step of annual increases, with the largest increase effective July 1, 2010 of 196% over 2008-09 rates. The overall increase needed by FY 2012-13 is 229% over 2008-09 rates. The chart below, taken from the water rate study, shows that without the rate increase that was recently approved expenditures would greatly outpace revenues.

TABLE 27
RESULTS OF OPERATIONS AT PROPOSED RATES
FOR 2010-13 YEARS

		Estimated (in dollars) For year ending June 30,			
Description	Table No.	2010	2011	2012	2013
Revenue Sources:					
Service charge revenues	25	$1,327,872	$1,908,369	$1,916,470	$2,675,792
Commodity revenues	26	2,823,006	7,859,236	8,157,688	8,157,688
Other revenues	15	1,873,251	1,873,251	1,873,251	1,873,251
Subtotal revenues		6,024,129	11,640,856	11,947,409	12,706,731
Less:					
Operating expenses	8	4,194,172	4,427,947	4,631,907	4,849,700
Capital program	9	0	0	0	0
Debt service	10	5,743,479	7,180,601	7,180,601	7,831,076
Reserves	11	-	-	-	-
Subtotal use of revenue		9,937,651	11,608,548	11,812,508	12,680,776
Less:					
Use of reserves	20	(3,913,402)	-	-	-
Total use of revenues		6,024,249	11,608,548	11,812,508	12,680,776
Surplus (Deficit)		$ (120)	$ 32,308	$ 134,901	$ 25,955
Percent		0%	0%	1%	0%

source: Adelanto Water Authority. "Revenue Requirement Report and Water Rate Calculation". June 2009. Attachment to August 12, 2009 staff report.

Sewer

Estimated revenue requirements for 2009-10 through 2012-13 exceed estimated revenue projections at 2008-09 rates. This has resulted in a need to increase overall revenues by 294% for 2009-10 with additional increases in future years. According to the sewer rate

study, at 2008-09 rates the 2009-10 total estimated revenues are $3.12 million short of operating expenses. The rate increase for 2009-10 is intended to be the first step of annual increases, with the rates increases by 404% over 2008-09 rates. The rate increase is also designed to allow the Utilities Authority to begin funding a general reserve intended to accumulate funds to replace aging infrastructure. The development of reserves would reduce the need for an increase in connection fees or borrowing. The chart below, taken from the sewer rate study, shows that without the rate increase that was recently approved expenditures would greatly outpace revenues.

TABLE 20
RESULTS OF OPERATIONS AT PROPOSED RATES

		Estimated (in dollars) For year ending June 30,			
Description	Table No.	2010	2011	2012	2013
Sources					
Service charge revenues	19	$ 4,179,851	$ 4,527,827	$ 4,935,233	$ 5,443,377
Connection charges	11	-	-	-	-
Availability fee	12	275,000	275,000	275,000	275,000
Total revenues		$ 4,454,851	$ 4,802,827	$ 5,210,233	$ 5,718,377
Uses					
Operating expenses	5	$ 1,782,000	$ 1,835,460	$ 1,890,527	$ 1,947,244
Capital program	6	-	-	-	-
Debt service	7	2,320,621	3,319,299	3,319,299	3,771,324
Reserves	8	352,000	(352,000)	-	-
Total revenue requirements		$ 4,454,621	$ 4,802,759	$ 5,209,826	$ 5,718,568
Surplus (Deficit)		$ 230	$ 68	$ 407	$ (191)
Percent		0%	0%	0%	0%

Water and Sewer Rate Comparison

A comparison of the residential water rates charged by the agencies within the Victor Valley Region is identified in the chart below.

Water Agency Rate Comparison (2009)
(rates measured in units, or one hundred cubic feet)

Agency	Water Use Fee				Monthly Meter Charge (3/4" Meter)	Monthly Average Cost (20 units of water)
	Tier One	Tier Two	Tier Three	Tier Four		
Apple Valley Ranchos Water Company	$2.02	2.14	2.25	-	$29.16	$70.30
Victorville Water District [1]	1.47	-	-	-	17.50	46.90
Hesperia Water District [2]	1.43	1.20	1.47	1.74	18.16	44.46
Golden State Water Company – Apple Valley Service Area	2.11	-	-	-	19.15	61.35
City of Adelanto (Adelanto Public Utilities Authority) [2]	1.25	2.16	2.50	-	13.38	38.38
Helendale CSD [3]	0.81	0.90	1.01	-	10.66	28.03
Phelan Pinon Hills CSD	1.81	2.01	2.08	-	13.01	50.41
CSA 42	1.64	1.82	1.97	-	34.39	68.27
CSA 64	0.64	0.78	0.85	-	10.51	24.15
CSA 70 Zone J	1.57	1.80	2.36	-	13.29	46.07

[1] Effective November 2009
[2] Effective September 2009
[3] Meter charge is for 1"

A comparison of the residential sewer rates charged by the agencies within the Victor Valley Region is identified in the chart below.

Sewer Agency Rate Comparison (2009)
(rates per equivalent dwelling unit)

Agency	Monthly Average Cost
Town of Apple Valley	$23.58
Helendale CSD	36.64
City of Victorville	23.70
CSA 42	72.22
CSA 64	32.32
Hesperia Water	22.38
CSA 70 SP-2	33.02
City of Adelanto * (Adelanto Public Utilities Authority)	47.82

* Effective Sept 2009

Additional Charges or Fees

In addition to service rates, other charges or fees collected for water and sewer are:

- Standby Charges – Standby charges are levied, by property tax assessments, on vacant undeveloped properties which benefit from the availability for water or sewer capacity. The charges vary due to property acreage and proximity to services.

- Water Acquisition Fee - $1,350 for each new meter. These fees are restricted and have not been used to offset revenue requirements. The funds are used to purchase additional permanent water such as the purchase of permanent water rights from the Watermaster.

- Water Connection Fee - $5,800 per EDU. The fees were adopted in 2008 based on the recommendation of the Water Master Plan. The fees are restricted for capital improvements and to repay debt service issued to construct projects to support future growth.

- Sewer Connection Fee - $3,050 per EDU. The fees were adopted in 2008 based on the recommendation of the Water Master Plan. The fees are restricted for capital improvements and to repay debt service issued to construct projects to support future growth.

- Assessment District 1A assessment – Assessment District 1A is located in the southern portion of the City and assesses each parcel. The per parcel charge is not known by LAFCO staff.

Parks

The City owns and maintains five parks throughout its boundaries totaling 32 acres along with the Stater Bros. Stadium. These facilities are:

- Howard Park – .61 acres at Jonathan Street and Air Expressway

- Marconi Park – 7.29 acres at Lee Avenue and Casaba Road

- Mgrdichian Park – 4.62 acres at Bellflower Street and Seneca Road

- Richardson Park – 9.2 acres at Highway 395 and Air Expressway

- Sierra Park – Neighborhood park comprising 0.58 acres at Bonanza Road and Daisy Road

- State Bros. Stadium – Holds 3,808 people and is currently home to the High Desert Mavericks minor league baseball team

Other parks available to the community but neither owned nor maintained by the City are:

- Adelanto Park – Four acres off of Jonathan Street adjacent to the Community Swimming Pool, owned and maintained by the Adelanto School District

- Community Swimming Pool – Roughly one quarter-acre, owned and maintained by the Adelanto School District located at 11824 Air Expressway

- Racetown USA – Private park for motorcycle activity comprising 31 acres

The City has adequate funds to operate and maintain its traditional parks, but the high cost of maintaining the Stater Bros. Stadium is adversely affecting its viability. The City, through its Redevelopment Agency, built the stadium in 1991 and no major renovations have been made since its construction. However, this year the City laid new sod on the field. According to the City Manager, the City loses about $200,000 a year in maintenance costs for the stadium. The condition of the stadium is a direct result of the City's position that it does not have sufficient revenues to adequately maintain the stadium. To make the stadium an attractive venue as the home field of the High Desert Mavericks, the City needs to make approximately $3.5 million in renovations.[20]

Pursuant to the Quimby Act, a minimum of three acres per thousand population should be dedicated for recreational and/or open space purposes. Taking into account all of the public parks and the Stater Bros. Stadium field, the community has about 31.7 acres for recreational and/or open space purposes with an estimated population of 28,181 in 2008. Based on the Quimby Act ratio, the community should have a minimum of 84 acres.

The City is in the process of establishing a Park Master Plan that would include the opportunity for shared facilities and future park facilities.

Roads

Within the city limits, the City of Adelanto is the responsible entity to provide road maintenance services. Exceptions include State Highway 395 and State Route 18 (Palmdale Road). The City Streets Department consists of an assistant public works superintendent, a lead maintenance worker, and ten maintenance workers. Within the unincorporated sphere of influence the County is the responsible entity to provide road maintenance services.

The goals of the Circulation Element of the *City of Adelanto General Plan Update* from 1994 include improved circulation, safety, durability, and adequate capacity to accommodate future growth. To help fund the goals of the General Plan, the City currently charges a development impact fee for transportation of $4,452 per dwelling unit for single-family residences, $3,076 for multi-family residences, and $16,917 for non-residential developments.

Spanning across several communities of the North Desert, State Highway 395 is a heavily traveled corridor originating south of Victorville at Interstate 15 and terminating in Seattle, Washington. For 2007, the intersection of Highway 395 and Route 18 (Palmdale Road) is estimated to have had an average daily traffic volume ranging between 19,000 and 25,000

[20] Lindstrom, Natasha, "Community Campaign Launched to Upgrade Facility" and "Future in Jeopardy," *Victorville Daily Press*, 11 February 2009, sec. High Desert, p. B1.

with peaks climbing to 2,200 per hour[21]. Of this amount, trucks represent 3,287, or 17.3 percent of vehicles[22]. By 2035, average daily trips are anticipated to increase to over 49,000.[23] In relation to other travel corridors in the region, the total vehicle volume and truck volume is high for a highway that at times consists of one lane in each direction.

A major transportation improvement for Southern California is anticipated for placement through the center of the City by utilizing the current alignment of Air Expressway identified as the High Desert Corridor. The County of San Bernardino, County of Los Angeles, and the Cities of Adelanto, Victorville, Apple Valley, Lancaster, and Palmdale have formed a joint powers authority to develop a new freeway/expressway from SR14 to I-15. The High Desert Corridor will provide a complete east/west connection between Interstates 5 and 15 though State Routes 14 and 138. It is anticipated that the High Desert Corridor will improve the movement of freight between the ports and their national destinations; reduce freight travel time and relieve traffic congestion for Interstates 5, 15, and 210; and reduce air pollution. Further, the Corridor will connect the inland ports planned in Palmdale and Victorville (Southern California Logistics Airport). The Corridor is a strategic component of regional plans such as the Southern California Association of Governments (SCAG) Regional Transportation Plan and the California Goods Movement Action Plan and is officially designated as a High Priority Corridor on the National Highway System from Los Angeles to Las Vegas.[24] Upon the Corridor's completion, the use of Palmdale Road (currently also known as State Route 18) as a major connector to I-15 will be reduced and will be removed from the State road system.

In October 2005 the City created the Adelanto Landscape Maintenance Assessment District No. 1 for the purpose of providing landscape maintenance service to respective developments. Landscape maintenance services are provided to streetscapes and perimeter masonry walls. The district is comprised of six tracts (Tracts 16829, 17030, 17045, 16917, 16848, and 13896) totaling 527 lots. For FY 2008-09, the assessments range from $185 to $272.94 with an estimated total of $117,426.

Drainage

The following information about drainage within the Adelanto community is taken from the County of San Bernardino General Plan Hazard maps and the City's Environmental Impact Report for the South Adelanto Annexation, prepared by RBF Consulting, dated February 27, 2009.

The most recent comprehensive drainage document for the City is from November 1992 and is titled *Adelanto Master Plan of Drainage*. The City's Environmental Impact Report for the South Adelanto Annexation, states that the San Bernardino County Flood Control District, in cooperation with the City, is updating the existing 1985 drainage study of the

[21] State of California. Department of Transportation, Division of Traffic Operations. *2007 Traffic Volumes on the California State Highway System*. 2007.
[22] State of California. Department of Transportation, Division of Traffic Operations. *2007 Annual Average Daily Truck Traffic on the California State Highway System*. 2007.
[23] RBF Consulting. *Adelanto Annexation Project Traffic Analysis*. 3 Sept 2008.
[24] The High Desert Corridor JPA website is http://www.co.san-bernardino.ca.us/dpw/transportation/high_desert_corridor.asp

Adelanto and Baldy Mesa areas. The new study will consider the existing County land use designations in the Baldy Mesa and Phelan areas and those within the City. The study will enable the City to make revisions to its *Drainage Master Plan.*

However, for area south of Palmdale Road (unincorporated County), San Bernardino County Flood Control District staff has informed LAFCO staff that it has already completed a drainage master plan for this area. For area north of Palmdale Road, County Flood Control District staff indicates that it received a proposed drainage master plan from the City for this area in 2004/05 and that comments were provided to the City as to inaccuracies where the two plans meet, at Palmdale Road. County Flood Control District staff is unaware if the City has made the suggested changes to the proposed plan.

There are two drainage areas within the City. The first is the Baldy Mesa drainage area and includes most of the populated portions of the City, about 75% of the City, and its sphere of influence. Storm water and runoff originate south of the City in the elevated Baldy Mesa area and extends northerly along the Fremont Wash north of the City. The eastern boundary of the drainage divides flows between Adelanto and Victorville, and the western boundary is the Fremont Wash. The second is the Phelan drainage area which includes the western most portions of the City and its sphere. Both drainage areas flow northeast into the Fremont Wash which flows into the Mojave River.

Since the City is located along the western edge of the Mojave River, this area is susceptible to periodic flooding. Generally, the area north of Holly Road is within a FEMA Flood Plain Safety Overlay District of FP2 (500 year flood plain). A portion of the area immediately west of the Southern California Logistics Airport has a designation of FP1 (100 year flood plain). The southern portion of the City is within an area designated as Zone D on FEMA's Flood Plain Map (area of undermined but possible flood hazard).

Currently, the City does not have a comprehensive drainage system. Instead, drainage improvements are constructed on a project basis according to the 1985 *Drainage Master Plan* which typically flows into a channel or detention/retention facilities. The development pattern of the City is scattered and this has created a scattered drainage system. As development occurs, the gaps of the drainage system will be reduced.

Adelanto Correctional Facility

The City owns and operates the Adelanto Correctional Facility (Facility) which houses State inmates. The Facility was built under the auspices of Penal Code 2910.5(a)[25] (SB 1591) which allows the State Department of Corrections and Rehabilitation (Corrections) to enter into a contract with a city or county to place parole violators and state inmates in a facility designed for such a purpose. A copy of SB 1591 is included in Attachment #5. The contract gives the City responsibility for providing inmate housing and sustenance as well as coordinating inmate activities within the Facility, with reimbursement from the Department of Corrections, as allowed under Penal Code 6256. Under the direction of on-site Corrections staff, the City also assists with the custody of inmates and the security of the Facility. The Facility began operations in 1990 and is designed to house 500 inmates.

[25] Senate Bill 1591 (Presley) in 1987. (Stats.1987, c.1450, §2).

Pursuant to the contract, the Facility's funding is a combination of a flat rate reimbursement for expenditures and per diem funding for each inmate. The flat rate reimbursement includes payments for salaries and benefits, insurance, administrative overhead, general operating expenditures, and service fees. For FY 2004-05 and FY 2005-06, the monthly flat rate funding was $413,543 and $417,148, respectively. The per diem reimbursement includes payment for food, clothing, and additional expenditures due to overcrowding. For FY 2004-05 and FY 2005-06, the maximum annual amount that the Facility could receive for per diem reimbursement was $949,365. This figure is a combination of the regular per diem rate (annual max of $527,060), overcrowding rate (annual max of $375,293), and high occupancy rate (annual max of $47,012). Additionally, the contract provides that Corrections make payments to the City for the bonded indebtedness of the Facility. The terms of the bond payments are from October 1991 through April 2010. The City has indicated that in September 2009 negotiations will begin on the terms for the renewal of the contract.

All Facility personnel are employees of the City. Custody personnel number 85 (69 full time, 15 part time, 1 provisional) and management, administrative, and support personnel number 29 (25 full time, 1 part time, 3 provisional). The City has contracted with the California Public Employees Retirement System to provide retirement benefits for all City employees, which includes all Facility personnel.

In 2007 at the request of Corrections, the California Department of Finance, Office of the State Audits and Evaluations, performed a fiscal compliance audit of the contract between Corrections and the City for fiscal years 2004-05 and 2005-06. A copy of the audit is included in Attachment #5. The audit objectives were:

- To determine whether the Facility's cost reports accurately represent revenue received and expenditures incurred.
- To determine whether the Facility's internal control allows for the accurate and timely development of cost reporting data and adequate safeguarding of state assets.
- To determine the Facility's compliance with the contract's fiscal and reporting requirements.

The following items are the findings and identified risks that have been summarized in the Department of Finance audit:

- *<u>Inmate Telephone Revenue Fund Access Prohibited</u>: The City of Adelanto (City) only allowed access to the Inmate Telephone Revenue Fund (ITRF) records starting July 1, 2004. In October 2004, the Facility transferred $286,191 from the ITRF to a new account maintained by the City. Access to the new account was requested but it was denied. As a result, material ITRF transactions, including the beginning balances, were not audited and the aggregate ending ITRF balance as of June 30, 2006 could not be substantiated. Prohibited access to the ITRF was noted in prior audit reports.*

- *<u>Misstated Equipment Replacement Fund Balance</u>: Prior to March 2000, the Facility did not maintain an Equipment Replacement Fund (ERF). Rather, ERF funding was*

retained as part of operating revenue. In March 2000, the Facility established the ERF with an initial deposit of $5,000; however, the amount was not based on the actual contracted monthly deposit due to the ERF. The Facility is in the process of calculating the appropriate ERF balance and has compiled a Master Property Inventory List (List) to support eligible ERF purchases since contract inception. However, multiple errors were found on the List and several items listed did not meet the criteria for non-expendable equipment. Additionally, the overcrowding funding was not calculated or deposited into the ERF resulting in contributions being less than the contract requirement.

- *Questioned Expenditures: Questioned expenditures of $48,000 in unallowable fines, penalties, and legal expenditures and $1,811 in unallowable employee morale expenditures were identified.*

- *Unsupported Administrative Overhead Expenditures: The Facility reported $226,752 during fiscal years 2004-05 and 2005-06 as administrative overhead. However, these amounts were the budgeted contract amounts and were not based on a formal citywide cost allocation plan with written justification for the methodology used. Additionally, the plan, which contains unallowable and unsupported expenditures, was not submitted to Corrections for approval.*

- *Inaccurate Statements of Program Income and Expenses: Our review of the Facility's general ledgers identified variances between the general ledgers and the Statements. Interest income, ERF transfers, and service fees were not accurately reflected in the Statements.*

- *Misstatement of the Inmate Welfare Fund Balance: The Inmate Welfare Fund (IWF) may be misstated. Specifically, our audit identified that the Inmate Trust Fund (ITF) is maintained in an interest bearing account; however, earned interest is transferred to the Facility's General Fund instead of the IWF. Also, the IWF contained "Due To" and "Due From" balances. The City explained that these balances were not truly due to/due from other funds; however, the City could not provide adequate support to substantiate these balances.*

- *Internal Control Weakness: For the IWF and General Fund, inadequate separation of duties exists with the Facility's cash receipting and disbursement functions. Other instances of inadequate separation of duties were outlined over the ITF and the canteen. The ITF also has numerous outstanding checks dating as far back as 1999.*

- *Inaccurate Annual Reports: Purchases of equipment have not been added to the annual reports' fixed asset categories for 2003-04, 2004-05, and 2005-06; therefore, the annual reports submitted to Corrections are unreliable.*

The Correctional Facility provided a response to the Audit findings presented to the Department of Finance. As indicated in the audit, the Correctional Facility's response statements to the Department of Finance's findings do not rectify the concerns of the audit.

LAFCO staff expresses concern with the operational weaknesses identified in the audit and the potential effects that the Facility's weaknesses may have on the City itself.

Additionally, in July 2008 the City Council approved a conditional use permit for the construction of a new 750-bed prison planned in the industrial park at Koala and Holly Roads. Final approval and issuance of building permits for the prison will trigger the receipt of an up-front payment of $4 million for fiscal impact mitigation. This project is anticipated to create jobs and add revenue to the City. However, the potential for this project may be impacted by the City's sale of its existing prison to the Company proposing this new facility as well as changes in State policies for incarceration.

Solid Waste

In 2004, the California Integrated Waste Management Board issued a compliance order that required the City to cooperate with the Board to determine the gaps in diversion programs and to implement new ones. The City hired a recycling coordinator, trained with Board personnel, organized a recycling team, and launched public outreach programs. As a result, the City, which previously failed to meet the state requirement of diverting at least 50 percent of its waste from landfills, increased its diversion rate from 38 percent to more than 60 percent.[26]

Financial ability of agencies to provide services.

Sources and Methodology

The City has provided LAFCO staff with the most recent audits accepted by the City, current budget, bond information, and Adelanto Redevelopment Agency 2005-2009 Implementation Plan (included in Attachment #6). LAFCO staff has also obtained financial and tax data from California State Controller reports for counties, cities, special districts, and redevelopment agencies; assessment and foreclosure data from the San Bernardino Assessor's Office; and development activity statistics from the *Victorville Daily Press*. The most recent audits available for the City and its component units are:

- City of Adelanto for FY 2004-05, completed February 12, 2008. At the time this report, LAFCO staff is aware that a draft audit for FY 2005-06 has been made available to the City but has not been accepted as Final. Pursuant to correspondence received from the City of Adelanto dated August 5, 2009, copy included as a part of Attachment #6b, a schedule for review and completion of the City Financial Reports has been determined.

- Adelanto Public Utility Authority for FY 2006-07, completed December 29, 2008

- Adelanto RDA for FY 2007-08, completed December 29, 2008

[26] Lindstrom, "Adelanto Waste-deep in Joy," 3 Oct 2008, sec. High Desert, p. B1.

Also referenced in this report is the audit for the City of Adelanto Portion of Victor Valley Economic Development Authority for FY 2007-08, completed December 29, 2008, although it is not a component unit of the City.

The materials identify that the City is not directly obligated for bond debt. Rather, the bonds are in the name of its component units (described in detail below). Further, the water and sewer functions are provided through the Adelanto Public Utilities Authority, an enterprise authority of the City. These situations lead to difficulty in presenting and discussing the City's financial data for this report because the most recently adopted audit for the City as a whole is for FY 2004-05 with more recent audits available for its component units, as identified above. Therefore, a complete presentation of the City's current financial position cannot be provided in this report.

For the discussion which follows, the base year is FY 2004-05; and where materials are available, staff has updated the financial information for later years. The numbered sections which follow discuss the City's historic financial challenges and its current financial situation, as shown by documents submitted to LAFCO. A listing of the remaining sections of the Financial portion of this report are:

Section 1 describes the governmental structure of the City and its component units

Section 2 provides an overview of the City's financial situation

Section 3 describes the financial operations of the City as a whole presented in four parts:

A) Governmental funds - primarily the City general fund
B) Redevelopment Agency
C) Enterprise activities – primarily the Utilities Authority (water and sewer) and Correctional Facility operations, and
D) Deficit fund balances

Section 4 discusses the effect that Educational Relief Augmentation Fund (ERAF) has had on the City

Sections 5 through 8 present the long-term obligations of the City and its component units.

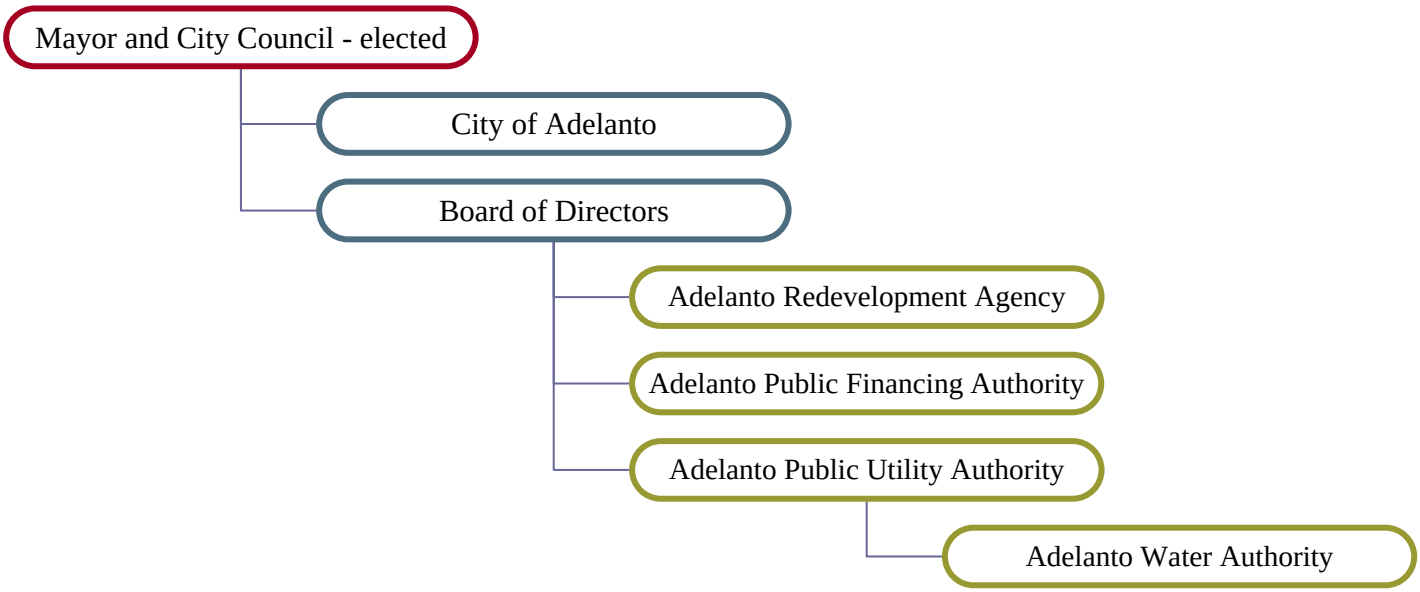
Section 5 discusses the Adelanto RDA's ever increasing debt obligations as a result of a settlement agreement between the City and the County
Section 6 discusses the long-term liabilities for the City as whole for FY 2004-05,
Sections7 and 8 expand on the FY 2004-05 City audit for the Utilities Authority and the Redevelopment Agency with their respective subsequent audits

Section 9 discusses the current economic climate and future growth potential

Section 10 is a summary and conclusion of the City's financial situation

1. Governmental Structure

The City's financial statements and budgets include the City and the component units that the City Council serves as the governing board[27]. These component units are separate legal entities and are shown in the following diagram with a description of each below:



- Adelanto Redevelopment Agency (RDA) – The RDA was established in 1976 to implement plans for the improvement, rehabilitation, and development of blighted areas within the City. The RDA is also known as the Adelanto Improvement Agency.

- Adelanto Public Financing Authority – The authority was established in 1989 pursuant to a Joint Powers Agreement by and between the City and the RDA for the purpose of providing financing for public capital improvements for the City and the RDA. The authority has the power to issue bonds to pay the cost of any public capital improvements.

- Adelanto Public Utility Authority (Utilities Authority) – The Utilities Authority is a joint powers authority formed in 1996 between the City and the Adelanto Redevelopment Agency for the purpose of purchasing from the City the wastewater operations and subsequently operating the system. The Utilities Authority does not have ad valorem taxing power, but it is authorized to issue revenue bonds for the purpose of financing water and wastewater capital improvement projects. In conjunction with

[27] The City Council also has established the following permanent agencies of the City Council: Adelanto Industrial Development Authority, Adelanto Housing Authority, and the Adelanto Surplus Property Authority (City Council Resolution 08-93). On April 8, 2009, the City Council approved the Articles of Incorporation for the Adelanto Community Benefits Corporation (a non-profit corporation) and directed staff to file the Articles of Incorporation with the Secretary of State (City of Adelanto April 8, 2009 regular hearing minutes).

the purchase of the City's wastewater operations, the Utilities Authority issued bonds to finance the down payment to the City and the construction of a wastewater treatment plant. The Utilities Authority also issued a note payable to the City to finance the purchase of the existing wastewater assets.

In 2000, the Utilities Authority entered into a purchase agreement with the Adelanto Water Authority (formed by the City in 1996) to purchase the Adelanto Water Authority's water system. The purchase price consisted of amounts sufficient to refund all of the outstanding prior water bonds and assumption of the Adelanto Water Authority's obligations under the original 1996 agreement under which the Water Authority was formed by the City.

The audits of the Utilities Authority report two major funds: the Utilities Authority fund for the sewer operations, and the Adelanto Water Authority fund for the Authority's water operations.

- Adelanto Water Authority – In 1996, the Adelanto Water Authority purchased the water delivery system assets of the City. In 2000, the water system of the Adelanto Water Authority was purchased by the Utilities Authority. The Adelanto Water Authority still exists but on paper only; therefore, it does not have its own audit. Rather, it is reported as a separate fund in the Utilities Authority audit.

2. Overview

The financial documents provided by the City, in addition to data obtained from the State Controller, indicate that the City has had and continues to experience financial challenges and difficulties. Moreover, the amount of City territory within a redevelopment area coupled with the sharp decline in development activity will further strain the assets of the City and could hinder its delivery of non-enterprise services. In general, the City through its component units has high debt and receives one of the lowest shares of the ad valorem property tax levied in the County. Whereas the total debt per capita is not atypical (around $3,500 per capita), the revenues generated present challenges to the City in providing adequate services and has resulted in the deferral of some of its long-term obligations. If the City were to issue annual payment on each long-term obligation, it would not have enough revenue to support its operations. Further, the downturn in the economy will reduce sales tax receipts and the re-assessment of foreclosed properties will reduce the tax increment revenues received. Sales tax receipts and development related user fees are anticipated to rebound when the overall economy rebounds.

LAFCO staff is concerned that audits for the City have not been conducted within 18 months after the end of the fiscal year as required by State Law. The failure by the City to complete audits within the statutory timeframe, in the staff opinion, is a prime indicator of the governance challenges that face the City. Each year the proposed budget is presented to the City Council during a public hearing and is adopted along with the annual appropriation limit by the Council through resolution, without benefit of audited information on its financial position. In response to this concern, the Interim Finance Director, Mr. George Harris, has submitted a letter dated August 5, 2009 (a copy of

which is included in Attachment #6b), which outlines the timeline for completion of the outstanding comprehensive audits for the City as a whole. That anticipated timeline is as follows:

Fiscal Year 2005-06	Draft available by end of August 2009
Fiscal Year 2006-07	Draft available for City Staff review August 2009, Final Publication in September 2009
Fiscal Year 2007-08	Field work in mid-September 2009, draft available for City staff at the end of October 2009
Fiscal Year 2008-09	Begin review in October 2009

Additionally, Mr. Harris has indicated that the FY 2008-09 audit for the Adelanto Public Utilities Authority is being conducted in conjunction with the City audits listed above.

3. Financial Operations

This section provides an overview of the current financial operations of the City and its component units. For the City as a whole for FY 2009-10, the estimated beginning balance is $45.0 million, revenues are projected to be $62.7 million, and expenditures are estimated to be $77.3 million. At the end of the year, total funds are estimated to decrease roughly $14.2 million. However, the City is in the process of upgrading and expanding its wastewater treatment plant and this cost contributes to the year-end negative balance for the Sewer Fund. For these costs, the majority of the bond revenues to finance the projects were received in prior years. Funds that are anticipated to have a negative balance at year's-end are: Stater Bros. Stadium Fund ($2.3 million), Sewer Fund ($11.5 million), Community Development Block Grant ($47,792), and Sanitation ($49,331).

For the remainder of this section, a discussion is presented for the Governmental Funds, Redevelopment Agency, and the City's Enterprise activities.

A. Governmental Funds

The Governmental funds of the City are comprised of the General Fund, Sanitation Special Revenue Fund, and the Redevelopment Agency Debt Service Fund. The independent financial audits submitted by the City for this service review state that the City has not recorded capital assets in the governmental activities except for the Redevelopment Agency's capital assets, and accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The audits specifically state that, "These amounts are not reasonably determinable...the financial statements of the governmental activities do not represent fairly...the financial position of the governmental activities of the City and the respective changes in financial position for the fiscal year." LAFCO staff expresses concern that a fair representation of its governmental assets and activities cannot be provided because the City's capital assets and depreciation expenses are not recorded in the governmental activities.

The City has submitted a copy of its FY 2009-10 budget, in which the staff report states that it provides a balanced budget for the General Fund. Total revenues have been relatively consistent since FY 2006-07 at roughly $14 million to $15 million per year. However, the key revenue sources such as Licenses and Permits have reduced dramatically from $2.25 million to just $315,200. Budgeted expenditures total $14.4 million, of which 57% is for the police and fire protection contracts with the County.

The FY 2008-09 and FY 2009-10 budgets state that the General Fund budgets is balanced, in part, by the use of reserves generated during the building boom of the past couple of years. However, the budgets do not specifically show the source of the reserve revenue, identify the account for use of reserves as a part of the budget and how much from reserves was needed to balance the budget. Further, LAFCO staff expresses concern that with the downturn in the economy, the reduction in assessed valuation due to the high foreclosure rate in Adelanto, and the sharp decline in construction activity, the use of reserves may not be able to support the filling of future budget gaps.

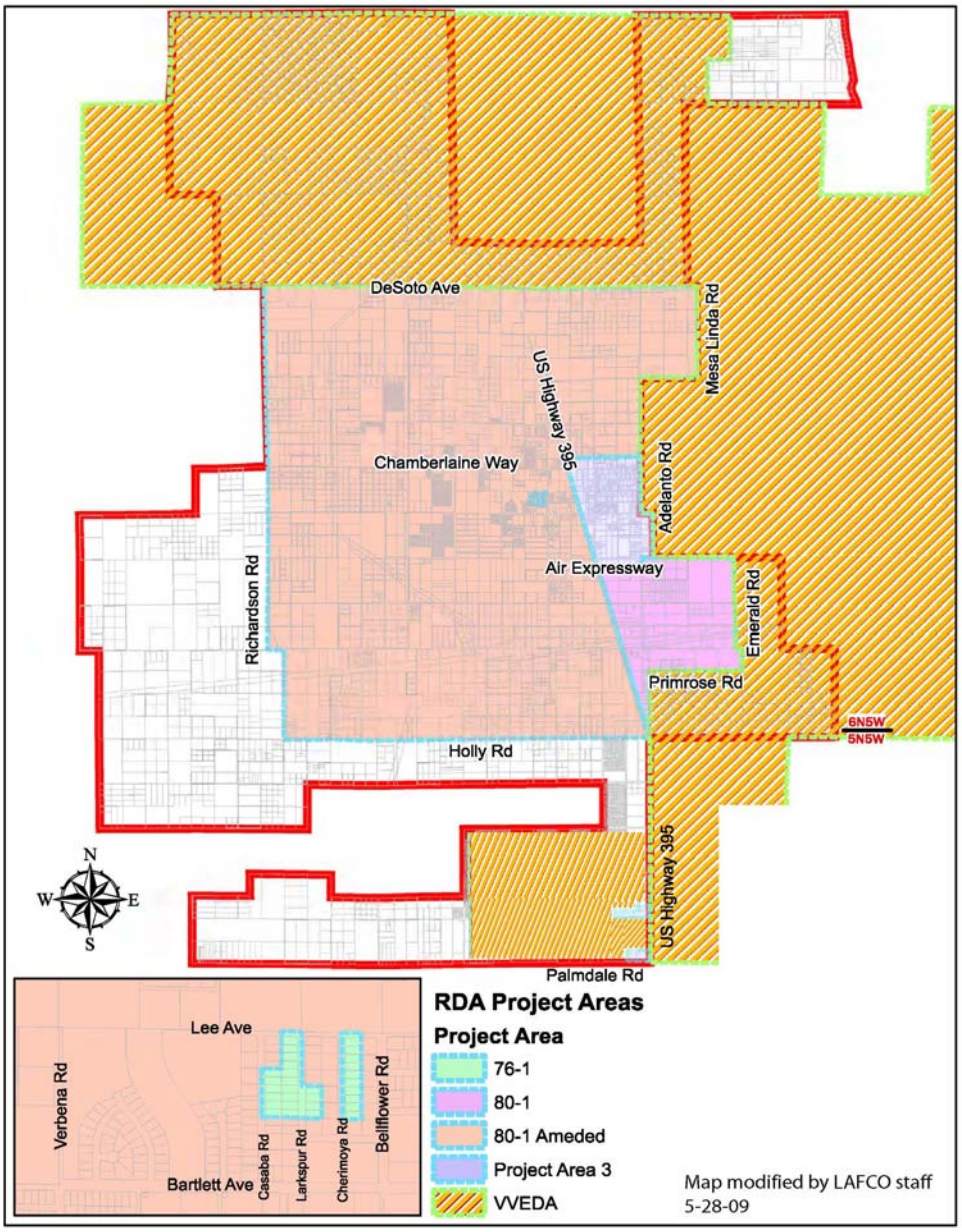
The chart which follows identifies that for Fiscal Year 2009-10, the largest revenue source is from the category entitled "Transfers" at $6,023,691. However, no explanation of the source of revenue is provided in the budget materials.

General Fund						
Activity	**Audit FY 2004-05**	**Actual FY 2005-06**	**Actual FY 2006-07**	**Actual FY 2007-08**	**Estimated FY 2008-09**	**Budget FY 2009-10**
Taxes and assessments	$ 2,762,558	$ 2,334,449	$ 2,594,978	$ 2,236,725	$ 2,251,500	$ 2,570,000
Licenses and permits	$ 1,100,527	$ 2,064,267	$ 2,251,864	$ 445,487	$ 302,000	$ 315,200
Fines and forefeitures	$ 91,212	$ 116,165	$ 144,067	$ 132,184	$ 146,450	$ 147,500
Intergovernmental revenue	$ 1,537,143	$ 2,904,723	$ 3,644,192	$ 5,212,764	$ 4,803,500	$ 1,234,310
Charges for services	$ 1,536,538	$ 910,680	$ 1,350,872	$ 628,693	$ 244,100	$ 310,500
Other	$ 87,926	$ 1,157,714	$ 1,565,050	$ 1,477,453	$ 1,500,000	$ 3,899,000
Transfers	$ 1,830,198	$ 3,336,804	$ 3,330,795	$ 4,332,361	$ 5,063,100	$ 6,023,691
Total Revenues	**$ 8,946,102**	**$ 12,824,802**	**$ 14,881,818**	**$ 14,465,667**	**$14,310,650**	**$ 14,500,201**
Public Safety	$ 5,262,127	$ 5,703,689	$ 5,889,097	$ 7,580,623	$ 8,057,550	$ 8,241,539
Other	$ 3,811,568	$ 5,316,604	$ 6,850,788	$ 6,595,113	$ 6,237,515	$ 6,154,774
Total Expenditures	**$ 9,073,695**	**$ 11,020,293**	**$ 12,739,885**	**$ 14,175,736**	**$14,295,065**	**$ 14,396,313**
Net	**$ (127,593)**	**$ 1,804,509**	**$ 2,141,933**	**$ 289,931**	**$ 15,585**	**$ 103,888**
Maverick Stadium Budget Deficit	n/a	$ (110,700)	$ (117,627)	not applicable	not applicable	not applicable
Measure I Loan Repayment	n/a	$ (1,500,000)	$ -	$ -	$ -	$ -
Projected Surplus	**n/a**	**$ 193,809**	**$ 2,024,306**	**$ 289,931**	**$ 15,585**	**$ 103,888**
sources: FY 2004-05 City Audit pg 8, FY 2008-09 Budget pg 1, FY 2009-10 Budget pgs 5 & 77						

B. Redevelopment

As described above, Governmental Funds include the Redevelopment Agency. However, a separate overview of the Redevelopment Agency is provided due to its large presence within the City. Within the City there are three redevelopment project areas, two are under the jurisdiction of the City (95-1 Merged is comprised of three

separate areas) and one is under the jurisdiction of the joint powers authority, the Victor Valley Economic Development Authority (comprised of two separate areas) known as VVEDA. A map of the redevelopment areas is shown below and is included as a part of Attachment #1. The chart which follows provides information on the redevelopment areas.



Project Area		Size (acres)	Adoption	Location	Purpose	Est. Completion
95-1 Merged	76-1	8	1976	Mid-City, west of Hwy 395	16 City lots	2033
	80-1	1,094	1981	South of Air Expressway, east of Hwy 395	Manufacturing & industry	
	80-1 Amended	12,551	1983	Center of the City	Streets, flood control, & water & sewer facilities	
Project Area 3		606	2002	North of Air Expressway, east of Hwy 395	Residential, Industrial, Commercial, Public	2047
VVEDA		7,860	1999	North of DeSoto Avenue	Airport development	2045
VVEDA		1,920	2006	Southeast Adelanto	Airport development	n/a

sources: City of Adelanto. *Adelanto Redevelopment Agency 2005-2009 Implementation Plan*.
State of California. California State Controller. *Redevelopment Agencies Annual Report*, for FY 2006-07.
VVEDA, *Amendment #8*, 2006.

The City comprises 52 square miles or approximately 33,280 acres. The total land within a redevelopment area is roughly 24,039 acres, which represents approximately 72% of the total City. Excluding the discussion of the pros and cons of redevelopment and with all other things being equal, the inclusion of more than two-thirds of the City's territory within a redevelopment area will preclude the City from receiving the tax increment above base year that otherwise could have gone to the City. As shown in the chart above, these redevelopment areas are not scheduled to expire within the 2030 time horizon of this review.

Therefore, the City will not receive any tax increment above the base years until the expiration dates of the respective redevelopment areas, and the lack of tax increment received will hinder the City's ability to provide non-enterprise type services not only to the redevelopment areas but to the City as a whole. For example, the City has adequate funds to operate and maintain its traditional parks, but the high cost of maintaining the Stater Bros. Stadium is adversely affecting its viability. As discussed in further detail earlier in this staff report, according to the City Manager the City loses about $200,000 a year in maintenance costs for the stadium, and its condition is a direct result of the lack of sufficient revenues to adequately maintain the stadium.

The *Adelanto Redevelopment Agency 2005-2009 Implementation Plan* states that the RDA is in a unique position in that it is actually experiencing a negative cash flow, is in debt, and is projected to remain so throughout the planning period of the Implementation Plan. Therefore, the challenges to maximize its revenues directly affect the viability of the redevelopment project areas.

As for the redevelopment project area within VVEDA, it was not until FY 2007-08 that tax increment generated by the land exceeded the City's portion of VVEDA's administrative costs and was transferred to the Adelanto RDA. It is unclear at present to LAFCO staff why the revenues were transferred to the Adelanto RDA since the revenues were generated outside its jurisdictional boundaries. As of December 2008, the project area was vacant with no current plans on the use of

funds at this time. As for the low and moderate set-aside requirement, the Adelanto portion of VVEDA has a reserve fund balance of $236,640.[28]

C. Enterprise (Business-type) Activities

The Enterprise Funds of the City discussed in this report are the Correctional Facility Enterprise Fund, Public Utility Authority Enterprise Fund (sewer), and the Water Authority Fund (water). The independent financial audits state that the business-type activities of the City are in conformity with accounting principles. Further, the business-type activities generate revenues in excess of operating expenditures and have adequate funds to pay debt annually.

The charts below show the yearly activity for each of these funds. Of concern to LAFCO staff is the that the FY 2006-07 Actuals as identified in the FY 2008-09 Budget and FY 2009-10 Budgets show different figures even though the column header reads "Actual 6/30/07". The FY 2009-10 budget does not provide a disclosure through a footnote or explanation as to the changes. Typically, government practice is to maintain the fiscal year actuals as static since budgets generally use the cash basis of accounting. Since the most recent adopted audit for the City is for FY 2004-05, it is the opinion of LAFCO staff that the budget actuals have been adjusted to represent figures in the modified accrual basis of accounting (revenues are recognized in the period they become available and measurable and expenditures are recognized in the period the liability is incurred).

Correctional Facility

The Adelanto Correctional Facility is owned and operated (under the supervision of the State Department of Corrections and Rehabilitation) by the City of Adelanto. The following chart is the activity of the Correctional Facility Fund since FY 2004-05. Pursuant to the contract, the Facility's funding is a combination of a flat rate reimbursement for expenditures and per diem funding for each inmate. Additionally, the contract provides that Corrections make payments to the City for the bonded indebtedness of the Facility. For details of the contract, refer to the Adelanto Correctional Facility section of this staff report.

[28] City of Adelanto. *City of Adelanto Portion of Victor Valley Economic Development Authority Basic Financial Statements*, 30 June 2008.

Correctional Facility Fund							
Activity	**Audit FY 2004-05**	**Actual FY 2005-06**	**Actual FY 2006-07 [1]**	**Actual FY 2006-07 [2]**	**Actual FY 2007-08**	**Estimated FY 2008-09**	**Budget FY 2009-10**
Lease Payment	$ 1,294,632	$ 1,254,638	$ 1,463,744	$ 1,254,638	$ 1,253,238	$ 1,251,800	$ 1,252,475
Intergovernmental Revenue	$ 6,075,402	$ 6,357,055	$ 6,479,642	$ 6,480,461	$ 7,932,111	$ 8,723,484	$ 8,791,484
Interest	$ 56,919	$ 34,959	$ 25,782	$ 83,804	$ 88,827	$ 40,000	$ 22,000
Transfers & Other	$ -	$ -	$ -	$ -	$ 269,230	$ 225,000	$ 283,633
Total Revenue	**$ 7,426,953**	**$ 7,646,652**	**$ 7,969,168**	**$ 7,818,903**	**$ 9,543,406**	**$ 10,240,284**	**$ 10,349,592**
Prior Year Fund Balance	**n/a**	**$ 4,606,653**	**$ 4,785,942**	**$ 6,415,614**	**$ 7,273,396**	**$ 8,424,379**	**$ 8,978,763**
Salaries & Benefits	$ 3,464,981	$ 3,736,424	$ 4,166,565	$ 4,189,353	$ 4,915,700	$ 5,605,000	$ 6,165,300
Other Expenditures	$ 2,729,700	$ 3,730,939	$ 3,666,500	$ 2,771,768	$ 3,476,723	$ 4,080,900	$ 4,153,292
Total Expenditures	**$ 6,194,681**	**$ 7,467,363**	**$ 7,833,065**	**$ 6,961,121**	**$ 8,392,423**	**$ 9,685,900**	**$ 10,318,592**
Net	**$ 1,232,272**	**$ 4,785,942**	**$ 4,922,045**	**$ 7,273,396**	**$ 8,424,379**	**$ 8,978,763**	**$ 9,009,763**

sources: FY 2004-05 City Audit page 11; FY 2008-09 and FY 2009-10 Correctional Facility Fund Budget Detail
[1] Figures taken from FY 2008-09 Correctional Facility Budget Detail
[2] Figures taken from FY 2009-10 Correctional Facility Budget Detail

Sewer and Water Funds

The following two charts show the activities of the Sewer Fund and Water Fund of the Adelanto Utilities Authority since FY 2005-06 as outlined in the City's adopted budgets for FY 2008-09 and FY 2009-10. The Utilities Authority is responsible for water delivery and wastewater collection and treatment. As the charts below show, expenditures for the Sewer Fund do not include payments for salaries and benefits for its operators. Instead, the Water Fund is used to pay for the salaries and benefits of all employees of the Utilities Authority, which includes both the water and sewer operations. According to the City's staff report dated August 12, 2009 for the water and sewer rate increase, the current operations cost include the cost of debt service, which consists of the outstanding 2005 bonds and the Authority's amortized obligation to the City General Fund, which amounts to $5.4 million in FY 2009-10.

Additionally, the Sewer and Water funds received excess revenue over expenditures for FY 2005-06 and FY 2006-07 but incurred expenditures over revenue for FY 2007-08 with the same estimated for FY 2008-09 and budgeted for FY 2009-10. This year the Utilities Authority will be using approximately $6 million of its accumulated fund balance to fund expenditures of $31.2 million, which includes capital improvement projects funded by 2005 bond proceeds. Specifically for the Sewer Fund, it has operated with deficits as shown on the chart below. The sharp increase in operating loss estimated for FY 2008-09 is for the expansion of the Wastewater Treatment Plant. Of concern to LAFCO staff is the information below shows a marked decline in charges for service from FY 20065-06 to FY 2008-09, approximately $1.4 million for the sewer fund and $3.1 million in the water fund, yet increasing costs for operation in both units. This is, in the staff opinion, the precursor to the City's statements in rate increase documentation that the substantial increase is necessary to maintain solvency of these enterprise units.

Sewer Fund

Activity	Actual FY 2005-06	Actual FY 2006-07 [1]	Actual FY 2006-07 [2]	Actual FY 2007-08	Estimated FY 2008-09	Budget FY 2009-10
Charges for Services	$ 2,727,328	$ 2,188,932	$ 2,176,296	$ 1,521,233	$ 1,290,000	$ 4,788,000
Bond Proceeds	$ -	$ -	$ -	$ -	$ 7,000,000	$ 9,240,000
Transfers In from Water Fund	$ 1,600,000	$ 800,000	$ 800,000	$ 300,000	$ 1,600,000	$ 3,156,500
Other Revenue	$ 348,572	$ 1,511,826	$ 1,511,826	$ 1,390,706	$ 675,000	$ 275,000
Total Revenue	**$ 4,675,900**	**$ 4,500,758**	**$ 4,488,122**	**$ 3,211,939**	**$ 10,565,000**	**$ 17,459,500**
Prior Year Fund Balance	**$ (648,708)**	**$ (523,467)**	**$ 1,069,666**	**$ 1,159,313**	**$ (2,207,879)**	**$ (10,374,079)**
Salaries & Benefits	$ -	$ -	$ -	$ -	$ -	$ -
Capital Expenditures	$ -	$ -	$ -	$ -	$ 7,000,000	$ 9,240,000
Debt Service Payments	$ 3,000,000	$ 2,487,093	$ 2,487,093	$ 4,277,041	$ 10,000,000	$ 5,350,000
Other Expenditures	$ 1,550,659	$ 1,637,631	$ 1,911,382	$ 2,302,090	$ 1,731,200	$ 4,037,684
Total Expenditures	**$ 4,550,659**	**$ 4,124,724**	**$ 4,398,475**	**$ 6,579,131**	**$ 18,731,200**	**$ 18,627,684**
Net	**$ (523,467)**	**$ (147,433)**	**$ 1,159,313**	**$ (2,207,879)**	**$ (10,374,079)**	**$ (11,542,263)**

sources: FY 2008-09 and FY 2009-10 Sewer Fund Budget Detail
[1] Figures taken from FY 2008-09 Sewer Fund Budget Detail
[2] Figures taken from FY 2009-10 Sewer Fund Budget Detail

Water Fund

Activity	Actual FY 2005-06	Actual FY 2006-07 [1]	Actual FY 2006-07 [2]	Actual FY 2007-08	Estimated FY 2008-09	Budget FY 2009-10
Water Rights Fees	$ 921,350	$ 203,850	$ 203,850	$ 144,450	$ 11,200	$ 12,000
Charges for Services	$ 7,419,516	$ 5,549,509	$ 5,549,509	$ 4,125,777	$ 4,361,500	$ 3,992,000
Bond Proceeds	$ 5,000,000	$ -	$ -	$ -	$ -	$ 1,650,000
Other Revenue	$ 1,782,930	$ 2,642,449	$ 2,642,449	$ 2,290,186	$ 2,340,000	$ 2,100,000
Total Revenue	**$ 15,123,796**	**$ 8,395,808**	**$ 8,395,808**	**$ 6,560,413**	**$ 6,712,700**	**$ 7,754,000**
Prior Year Fund Balance	**$ 19,871,284**	**$ 21,925,898**	**$ 30,483,153**	**$ 30,833,104**	**$ 29,443,281**	**$ 23,981,953**
Salaries & Benefits	$ 664,031	$ 710,790	$ 710,790	$ 870,801	$ 993,107	$ 849,212
Other Expenditures	$ 12,405,151	$ 7,335,067	$ 7,335,067	$ 7,079,435	$ 11,180,921	$ 11,761,154
Total Expenditures	**$ 13,069,182**	**$ 8,045,857**	**$ 8,045,857**	**$ 7,950,236**	**$ 12,174,028**	**$ 12,610,366**
Net	**$ 21,925,898**	**$ 22,275,849**	**$ 30,833,104**	**$ 29,443,281**	**$ 23,981,953**	**$ 19,125,587**

sources: FY 2008-09 and FY 2009-10 Water Fund Budget Detail
[1] Figures taken from FY 2008-09 Water Fund Budget Detail
[2] Figures taken from FY 2009-10 Water Fund Budget Detail

4. ERAF and its Effect on the City

As stated earlier in this staff report, LAFCO staff expressed concern during the City's incorporation that the proposed city would experience financial and service challenges due to the limited resources available to the proposed city. However, LAFCO staff's review of the history of the City's finances points to the year 1992 as the time that the City began to experience difficult financial challenges. In 1992, the State enacted legislation that shifted partial financial responsibility for funding education to local governments to meet its obligations to fund education at specified levels under Proposition 98. The State instructed auditors to shift the allocation of

local property tax revenues from local government to an Educational Relief Augmentation Funds (ERAFs), directing that specified amounts of local government property taxes be deposited into these funds to support schools. On average, city property tax shares were reduced by 24%, but the City of Adelanto was hit particularly hard by reducing its property tax share from around 14% to less than 2%, an approximate 80% reduction. The first two phases of the ERAF shift continue to cause ongoing reductions of property tax revenue. Through FY 2007-08, the net impact of ERAF and ERAF mitigations, not including the redevelopment agency ERAF, has resulted in a loss of $6.9 million for the City of Adelanto[29].

5. Pass-Through Agreement with County of San Bernardino

In response to the loss of property tax revenues due to ERAF, the early to mid-1990s recession, and to settle a lawsuit filed by the County, the Adelanto RDA entered into a settlement agreement with the County that provided the RDA annually with pass-through increment funds but with an ever increasing debt obligation. The following describes this agreement and its consequences, with an introduction of the precursor agreement from the 1980s.

> In 1981, the RDA entered into an agreement with the County, whereby incremental property taxes relating to the County Library District and the County Flood Control District that are generated within the Adelanto Improvement Project Area would be given to those entities. In 1983, the RDA entered into an agreement with the County which provides for continued pass-through of the Library and Flood Control increment. The 1983 agreement was amended in 1985 to include additional territory.
>
> As a result of the mid-1990s recession and ERAF shift, in 1993 the RDA sold $46.8 million of tax allocation bonds secured by tax increment revenue from the Merged Project Area which at the time of sale had been projected to increase six percent per year for the first four years and then two percent per year thereafter. Unfortunately, the next fiscal year's assessed valuations actually decreased 14.6 percent; in none of the following three years did assessed valuations meet projections.
>
> Also in 1993, the County filed a lawsuit against the City and the RDA contending, among other things, that the provisions of the original and amended agreements were not being carried out. As a consequence of the lawsuit and its settlement, during fiscal year 1996 the RDA and the County amended the pass-through agreement for incremental property taxes in the Project Area. Under the revised agreement:
>
> - RDA was to follow designated fiscal practices.
> - RDA was to provide the County with $5 million in FY 1995-96.

[29] ERAF figures from County Auditor reports to the State Controller. Cited in "Net Impact of ERAF, Prop 172, COPs," Coleman Advisory Services. July 2008. website. www.californiacityfinance.com. Last updated 10 Feb 09.

- RDA was required to relinquish approximately 33% of incremental property taxes to the County, of which approximately one-half (16.26%) would be subordinate to the RDA's existing long-term debt.
- The County would loan to the RDA, at the rate of 7% per annum, the amount of the deferred incremental property taxes needed to meet debt service requirements on the refunding bonds plus amounts needed, up to $100,000 annually, to administer the RDA's long-term debt. Any such loans are subordinate to the Series A, B, and C of the Adelanto Public Financing Authority refunding bonds, but senior to the Series D bonds.

During FY 2007-08, the County loaned the Adelanto RDA its share of incremental property taxes aggregating approximately $1,404,002, and the balance outstanding grew to $14,738,770. The activity of this loan since 1996 is shown on the chart below through data obtained from the County of San Bernardino. In accordance with the settlement agreement reached with the County, because property tax increment revenues have been insufficient to meet total debt service obligations on the 1995 Series A, B, and C bonds, repayment of the obligation has been deferred and the amount is included in the financial statements as a loan payable. Payment of the 1995 Series D bonds is subordinate to the County's claim on the Adelanto RDA.

Adelanto 80-1 Deferral Calculation

FISCAL YEAR	AMOUNT DEFERRED *	# OF YEARS OUTSTANDING	INTEREST	YEAR TOTAL	BALANCE OUTSTANDING
1996-97	$607,400.22	12	$760,579.10	$1,367,979.32	$1,367,979.32
1997-98	$649,164.30	11	$717,228.32	$1,366,392.62	$2,734,371.94
1998-99	$704,823.50	10	$681,668.97	$1,386,492.47	$4,120,864.41
1999-00	$739,379.61	9	$619,937.77	$1,359,317.38	$5,480,181.79
2000-01	$693,620.32	8	$498,146.79	$1,191,767.11	$6,671,948.90
2001-02	$701,998.42	7	$425,256.04	$1,127,254.46	$7,799,203.36
2002-03	$710,553.73	6	$355,794.31	$1,066,348.04	$8,865,551.40
2003-04	$769,397.72	5	$309,720.98	$1,079,118.70	$9,944,670.10
2004-05	$772,554.93	4	$240,105.70	$1,012,660.63	$10,957,330.73
2005-06	$847,835.78	3	$190,798.27	$1,038,634.05	$11,995,964.78
2006-07	$1,082,386.86	2	$156,836.71	$1,239,223.57	$13,235,188.35
2007-08	$1,404,002.07	1	$98,280.14	$1,502,282.22	$14,737,470.57
Total	$9,683,117.47		$5,054,353.10	$14,737,470.57	
		Correction from 2002-03 interest:	$1,298.97	$1,298.97	
		Total interest:	$5,055,652.07		
				$14,738,769.54	

*Based on 16.26% of gross RDA increment.
source: County of San Bernardino

6. FY 2004-05 Audit for the City as a Whole

This section provides information on the long-term liabilities for the City as whole for FY 2004-05, the most recent audit completed for the City which includes its component units. The activity of the Governmental Activities that took place during FY 2004-05 reveal that all of the governmental funds increased in balance by $457,000, even with the General Fund incurring expenses above final appropriations. While sales taxes were $1 million and property taxes were $5.3 million, interest alone on long-term debt was about $4.7 million. The Stater Bros. supermarket that opened in 2006 provided an opportunity for the City to capture sales tax revenues that previously were lost to surrounding cities. Subsequent audits for the City will include the sales tax revenues related to the supermarket.

In addition to the City's obligation to the County as described in detail above, the City as a whole has incurred bond debt for acquisition of water/sewer facilities, improvement and redevelopment projects. The City of Adelanto is not directly obligated for bond debt. Rather, the bonds are in the name of its component units: the Utilities Authority, the Adelanto Public Financing Authority, and the RDA; however, these units are made up of only the City of Adelanto. Therefore, only the residents and taxpayers of the City are obligated for ultimately paying the obligations of these entities.

The City's financial documents divide long-term debt into those of the Governmental Funds and the Enterprise Funds. The discussion to follow is presented for the Governmental funds, the Enterprise funds, General Fund advance to the RDA funds, notes receivable and payable, cash and investments, and deficit fund balances.

A. Long-Term Liabilities as of FY 2004-05 for the Governmental Funds

The Long-term liabilities of the Governmental Funds are primarily related to the activities of the Redevelopment Agency. As of June 30, 2005, the Governmental Funds' long-term liabilities were:

Governmental Funds

Tax allocation refunding bonds	$11,315,000
Revenue bonds	$39,450,069
Intermountain Power Agency settlement	$ 1,989,390
San Bernardino County tax increment loans	$ 8,945,746
Compensated Absences	$ 97,062
Total	**$61,797,267**

Excluding the increase in compensated absences, the long-term debt of the governmental funds increased by $1.2 million due to the annual loan from the County for which the City has not yet made any payments and the repayments to the 1995 Series C and D bonds being less than additions. Each of the bonds in the chart below are payable solely from tax increment revenues from the RDA's 95-1 Merged Redevelopment Project Area.

Note 8 **Long-Term Liabilities – Governmental Funds**

a. The following is a summary of changes in the City's long-term liabilities for the fiscal year ended June 30, 2005:

	Balance July 1, 2004	Additions/ Accretions	Repayments	Balance June 30, 2005	Due within one year
Adelanto Improvement Project, Tax Allocation Bonds, Issue 1993B	$ 11,315,000	$ -	$ -	$ 11,315,000	$ -
Adelanto Public Financing Authority, Local Agency Taxable Subordinated Revenue Bonds 1995 Series A	5,290,000		380,000	4,910,000	400,000
Adelanto Public Financing Authority, Local Agency Second Subordinated Revenue Bonds 1995 Series B	16,455,000		220,000	16,235,000	235,000
Adelanto Public Financing Authority, Local Agency Third Subordinated Revenue Bonds 1995 Series C	13,533,827	985,904	786,712	13,733,019	398,168
Adelanto Public Financing Authority, Local Agency Fourth Subordinated Revenue Bonds 1995 Series D	4,320,252	322,690	70,892	4,572,050	
Total indebtedness	50,914,079	1,308,594	1,457,604	50,765,069	1,033,168
Compensated Absences	68,956	28,106		97,062	
Intermountain Power Agency Settlement Agreement	1,989,390			1,989,390	
San Bernardino County Tax Increment Loans	7,588,041	1,357,705		8,945,746	
Total other long-term obligations	9,646,387	1,385,811		11,032,198	
Total long-term obligations	$ 60,560,466	$ 2,694,405	$ 1,457,604	$ 61,797,267	$ 1,033,168

source: City of Adelanto FY 2004-05 Audit

B. Long-Term Liabilities as of FY 2004-05 for the Enterprise Funds

The long-term liabilities of the enterprise funds are related to the water, wastewater, and Correctional Facility activities. For FY 2004-05, the total long-term debt for the Enterprise Funds decreased by $1.1 million and totaled about $49.9 million.

Note 9 **Long-Term Liabilities – Enterprise Funds**

The following is a schedule of changes in long-term debt of the City for the fiscal year ended June 30, 2005:

	Balance July 1, 2004	Additions/ accretions	Reductions	Balance June 30, 2005	Due within one year
Adelanto Public Utility Authority Revenue Bonds, 2000 Series A	$ 9,385,000	$ -	$ -	$ 9,385,000	$ -
Adelanto Public Utility Authority Revenue Bonds, 2000 Series B	21,285,000			21,285,000	
Adelanto Public Utility Authority Revenue Bonds 2000 Series C	13,655,000			13,655,000	
Adelanto Correctional Facility Lease Revenue Refunding Bonds - 2001	6,435,000		(1,000,000)	5,435,000	1,000,000
Compensated absences	299,078		(128,393)	170,685	
Total long-term debt	$ 51,059,078	$ -	$ (1,128,393)	$ 49,930,685	$ 1,000,000

source: City of Adelanto Audit for FY 2004-05

C. General Fund Advance to RDA Funds

As of June 30, 2005, the General Fund has made advances to the RDA funds totaling $2.1 million that were not expected to be repaid within one year. The advances made between the City and the RDA has no stated interest rate, and there is no future minimum debt service requirement as repayment will be made when funds are available.

According to the City's audits, deferral of payments, issuance of the note payable to the City, and subordination of the current amounts due the City to the outstanding bonds was to allow the RDA to defer debt payments, reduce annual debt service requirements, and provide cash for certain immediate needs. However, issuance of these debts does not eliminate the RDA's long-term liquidity concerns. The audits further state that the projections of City management indicate that estimated future RDA resources will be sufficient to pay maturing long-term obligations as they become due. LAFCO staff identifies its concern that the economic and housing downturn has been in effect for two years and may continue for some years, coupled with a lack of development within the RDA areas, the City and the RDA will be faced with ever growing debt due to compounding interest and reduced resources to fund the obligation.

D. Notes Receivable and Payable

The City has notes receivable from the Utilities Authority from the sale of the water and wastewater systems. All payments on the notes are recorded as transfers from the Utilities Authority to the City. The original purchase notes accrued interest at 7.5%, but in 1998 the governing board of the Utilities Authority and the City Council amended the terms to eliminate the accrual of interest from July 1996 until such time as all outstanding Water Authority (a part of the Utilities Authority) and Utilities Authority bonds are paid. The Utilities Authority is a component unit of the City;

therefore, the note has been eliminated from the audits for reporting purposes. LAFCO staff points out that while these obligations are eliminated from the audits for reporting purposes, the Utilities Authority is responsible for the repayment of these obligations to the City General Fund. The details of these notes are as follows:

- As mentioned previously, the purchase of the City's water operations and related note was originally established by the Adelanto Water Authority, which was acquired by the Adelanto Public Utility Authority. The note payable is for $29,293,413, and payment of not less than $500,000 annually (plus surplus water revenues) is required under the terms of this note. A review of the Audits provided by the City show no change in the note payable value.

- Additionally, the Utilities Authority purchased the City's wastewater operations. The note payable is for $6,431,169. The terms of the note are annual payments of amounts equal to surplus revenues, which are defined as gross wastewater revenues, plus amounts on deposit in the wastewater rate stabilization fund, less payment of operating and maintenance costs, and debt service requirements of the Utilities Authority. However, as the budget and audits identify, these operations continue to operate at a deficit. In addition, as noted in the bullet above, the City audit notes show no change in the note payable value through the years.

E. Deficit Fund Balances

According to the FY 2004-05 audit, the net asset balances identified above and the deficit fund balances identified below have occurred due to the spending of funds prior to the receipt of revenues. The City projects that future resources will be sufficient to pay long-term obligations as they become due. The following funds contained a deficit fund balance as of June 30, 2005:

Major Funds	
General	($1,145,361)
Sanitation Special Revenue	($ 29,969)
Non-major Funds	
Special Revenue – Maverick Stadium	($1,864,580)
Capital Project - RDA Project Area 3	($ 125,116)

The audit further states that the fund balances will be restored in the near future as revenues are received. However, since there are no audits for the following year, it is unknown if the fund balance was restored. Staff's concern is that the Budget for FY 2008-09 shows expenditures are estimated to exceed revenues by $13.4 million, thereby reducing the estimated year-end balance to $30.3 million.

7. FY 2006-07 Audit for the Adelanto Public Utilities Authority

This section expands upon the FY 2004-05 discussions provided in Section 6 above for the Enterprise funds using the most recent audit for the Utilities Authority, FY 2006-07.

This Audit, LAFCO staff understands, was required for the issuance of bond debt during the fiscal year. The following discussion for the Utilities Authority includes long-term debt, bond history, and concentration of investment risk.

A. Long-term Debt for the Utilities Authority

Since the FY 2004-05 audit, the Utilities Authority issued two bonds with total balances at the end of FY 2006-07 of $70,635,000 to advance refund the 2000 Series A, B, and C bonds identified in Section 6B and to finance improvements to the water and wastewater systems (an increase of approximately $26.3 million in long-term bond debt).

- The 2005 Series A Bond of $55.6 million is an advance refund of $30.7 million for the Revenue Bonds 2000 Series A and B. The remaining amount of $20.5 million is to be used to finance improvements to the water and wastewater system to include the expansion of the sewer plant and building of new transmission lines.

- The 2005 Series B Bond of $15.0 million is an advance refund of the Revenue Bonds, 2000 Series C Bonds.

As of June 30, 2007, the long-tem debt of the Utilities Authority was $70,635,000, as shown in the figure below. For FY 2008-09, the budget identifies the APUA's total debt payment as roughly $5 million consisting of the 2005 Series A and B bonds and the APUA's obligation to the City's General Fund for the purchase of the water and wastewater systems.

Note 5 Long-Term Debt

The following is a schedule of changes in long-term debt of the Authority for the fiscal year ended June 30, 2007:

	Balance July 1, 2006	Additions/ accretions	Principal payments	Balance June 30, 2007	Due in 1 year
Adelanto Public Utility Authority Refunding Revenue Bonds, 2005 Series A	$ 55,615,000	$ -	$ -	$ 55,615,000	$ -
Adelanto Public Utility Authority Refunding Revenue Bonds, 2005 Series B	15,020,000			15,020,000	
Total long-term debt	$ 70,635,000	$ -	$ -	$ 70,635,000	$ -

source: Adelanto Public Utilities Authority Audit for FY 2006-07

B. Bond History for the Enterprise Funds

The figure below outlines the bond obligations of the Enterprise Funds at June 30, 2007 with the original issuance cost. The figure also includes the history of any bonds that have been refunded. The majority of the Enterprise Fund debt is for the water and sewer systems of the APUA; however, shown in the chart below is the

2001 bond for the Adelanto Correctional Facility (issued by the Adelanto Public Finance Authority) with an outstanding amount of $5.4 million as of June 30, 2006. The bond is scheduled to mature in 2010.

Also, shown on the chart below is the anticipated 2009 revenue refunding bonds that will be used to advance refund the 2005 bonds. The issuance of this new debt increases the obligations of the APUA to $77,995,000, a $7,360,000 increase in obligation.

ENTERPRISE FUNDS - OUTSTANDING BONDS

The following bonds are in the name of the name of the Adelanto Public Utility Authority except for the bonds related to the Adelanto Community Correctional Facility which is the name of the Adelanto Public Financing Authority. The history of any bonds that have been refunded from the outstanding bonds since 1993 is included.

1990 Correctional Facility	$ 9,185,000 as of 2000	Certificates of Participation - Adelanto Correctional Facility
1995 Series A Revenue	$23,330,000 as of 2000	Water System Acqusition Project
1996 Series A Revenue	$ 9,255,000 as of 2000	Wastewater System Project
1998 Series A Parity	$ 3,410,000 as of 2000	Water System

↓

2000 Series A Revenue	$9,385,000	Advance refund of $9,255,000 of 1996 Series A (paid-off)
2000 Series B Revenue	$21,285,000	This amount plus proceeds from 2000 Series C used to: Advance refund of $17 million of 1995 Series A (paid-off) Advance refund of $3.4 million of 1998 Series A (paid-off) Remaining $5.1 million used to fund a water project fund for $3.6 million and a wastewater project fund for $1.5 million. The water project fund includes $2.8 million to pay the cost of a 4 million gallon water tank.
2000 Series C Revenue	$13,655,000	Advance refund portion of 1995 Series A (paid-off)
2001 A Revenue Refunding	$9,185,000	Advance refund 1990 C.O.P. (paid-off)

↓

2005 Series A Revenue Refunding	$55,615,000	Advance refund $30,670,000 of 2000 Series A & B (paid-off) Remaining $20.5 million used to finance improvements to water and wastewater system
2005 Series B Revenue Refunding	$15,020,000	Advance refund of 2000 Series C (paid-off)

↓

2009 Series A Revenue Refunding	$61,350,000	Advance refund 2005 Series A (scheduled for delivery in late 2009)
2009 Series B Revenue Refunding	$16,645,000	Advance refund 2005 Series B (scheduled for delivery in late 2009)

C. Investments – Concentration of Risk

Whereas the City has no investments that are highly sensitive to interest rate fluctuations, the audit does identify concentration of risk. The audit states the investment policy of the City contains limitations on the amount that can be invested in any one issuer. The Utilities Authority's FY 2006-07 audit identifies over $40

million in investments that represent over 5% or more of total Utilities Authority investments (other than U.S. Treasury securities, mutual funds, and external investment pools). They are:

Issuer	Amount	Investment Type
IXIS Investment Agreements	$23,326,173	Investment Contracts
Adelanto Public Financing Authority *	$17,491,948	Bonds

* The Utilities Authority's water system (hereafter shown as Water Authority) holds investments (including amounts held by bond trustees) in the Adelanto Public Financing Authority bonds in the amount of $17,491,948. The bonds are $14,045,208 in 1995 Series C Bonds and $3,446,740 in 1995 Series D Bonds. In FY 2006-07, the RDA made payments to the Water Authority of $862,067 and $1,427,481 for the Series C and D bonds, respectively.

What LAFCO staff finds notable is that the water system of the Utilities Authority (hereafter shown as Water Authority) holds significant investments in the Adelanto Public Financing Authority bonds. The 1995 Series C and D bonds of the Adelanto Public Financing Authority have been purchased by the Water Authority (now a component of the Utilities Authority). The Financing Bonds are pledged by revenues to be generated from the Merged 95-1 redevelopment area. However, LAFCO staff is concerned that with the downturn in the economy, the reduction in assessed valuation due to the high foreclosure rate in Adelanto, and the sharp decline in construction activity, the water system of the Utilities Authority may not realize a return on its investment for some time. This situation, in turn, would affect the ability of the RDA to repay the 1995 Series C and D bonds; therefore, LAFCO staff would question the future payment of these obligations.

In addition, it is the understanding of LAFCO staff that the 1995 Series D bonds are subordinate to the County's loan. If no payments have been made to the County on its loan as referenced in the financial documents, LAFCO staff would question the appropriateness of the $1,427,481 payment made in FY 2006-07 on the Series D bond.

8. FY 2007-08 Audit for the Adelanto Redevelopment Agency

This section expands upon the FY 2004-05 discussion provided in Section 6 above for the Governmental Funds with the most recent audit for the Redevelopment Agency, FY 2007-08. The following discussion for the Redevelopment Agency includes long-term debt, bond history, deferred payments, and advances.

A. Long-term Debt for the Adelanto RDA

Between FY 2004-05 and FY 2007-08, the long-term debt of the redevelopment agency increased by approximately $4.1 million (not including long-term advances between funds). As shown in the chart below, long-term debt increased for tax allocation refunding bonds and the San Bernardino County tax increment loans, decreased for revenue bonds, and remained constant for the Intermountain Power Agency settlement. Each of the bonds in the chart below are payable solely from tax increment revenues from the RDA's 95-1 Merged Redevelopment Project Area. The

most recent bonds were issued in 2007 totaling $3.56 million for the purpose of 1) funding redevelopment projects of the RDA, 2) funding the reserve requirement, and 3) paying the cost of issuance of the bonds. The RDA's planned improvements include curbs, gutters, sidewalks, water, and sewer lines. Bond proceeds will also be used for land acquisition. As of June 30, 2008, the debts of the RDA were:

Activity	FY 2004-05 City Audit	FY 2007-08 RDA Audit
Tax allocation refunding bonds	$11,315,000	$14,875,000
Revenue bonds	$39,450,069	$34,157,029
Intermountain Power Agency settlement	$ 1,989,390	$ 1,989,390
San Bernardino County tax increment loans	$ 8,945,746	$14,738,770
Long-term advances	**$ 0**	**$ 2,524,243**
Total	**$61,700,205**	**$68,284,432**

NOTE 7 – LONG-TERM DEBT

The following is a summary of long-term debt activity of the Agency for the fiscal year ended June 30, 2008:

	Balance July 1, 2007	Additions/ Accretions	Principal Repayments	Balance June 30, 2008	Due within one year
Adelanto Improvement Project, Tax Allocation Bonds, Issue 1993B	$ 11,315,000	$ -	$ -	$ 11,315,000	$ -
Adelanto Public Financing Authority, Local Agency Taxable Subordinated Revenue Bonds 1995 Series A	4,080,000		455,000	3,625,000	485,000
Adelanto Public Financing Authority, Local Agency Second Subordinated Revenue Bonds 1995 Series B	15,755,000		265,000	15,490,000	280,000
Adelanto Public Financing Authority, Local Agency Third Subordinated Revenue Bonds 1995 Series C	14,045,209	1,014,372	900,817	14,158,764	364,272
Adelanto Public Financing Authority, Local Agency Fourth Subordinated Revenue Bonds 1995 Series D	3,446,740	167,166	2,730,641	883,265	904,355
Adelanto Improvement Project No. 3 2008 Tax Allocation Bonds		3,560,000		3,560,000	110,000
Total bonded indebtedness	48,641,949	4,741,538	4,351,458	49,032,029	2,143,627
Note payable to City	722,028			722,028	
Long-term advances due to City	1,802,215			1,802,215	
Total amounts due to City	2,524,243			2,524,243	
Intermountain Power Agency Settlement Agreement	1,989,390			1,989,390	
San Bernardino County Tax Increment Loans	12,370,635	2,368,135		14,738,770	
Total other long-term obligations	14,360,025	2,368,135		16,728,160	
Total long-term obligations	$ 65,526,217	$ 7,109,673	$ 4,351,458	$ 68,284,432	$ 2,143,627

source: Adelanto Redevelopment Agency Audit for FY 2007-08. (Re-typed by LAFCO staff)

B. Bond History for the Governmental Funds (Adelanto RDA)

As compiled from the documents provided by the City, the figure below outlines the bond obligations of the Adelanto Public Financing Authority (issued by the RDA

through the Adelanto Public Financing Authority) as of June 30, 2008 with the original issuance cost. The figure also includes the history of any bonds that have been refunded from the outstanding bonds since 1993.

GOVERNMENTAL FUNDS - OUTSTANDING BONDS

The following bonds were issued by the Adelanto Redevelopment Agency, through the Adelanto Public Financing Authority. The history of any bonds that have been refunded from the outstanding bonds since 1993 is included.

1993 Series B Tax Allocation Refunding	$15,095,982
1993 Series C Tax Allocation Refunding and Improvement	$31,695,000

↓

1995 Series A, B, C, D Revenue		$46,179,261
Purpose:	Advance refund	1993 Series B Capital Apprciation Bonds $2.3 million of original principal 1993 Series C Term Bonds (paid-off) 1993 Series C Serial Bonds $10,060,000 of the outstanding amount County Settlement of $4,439,871 Implementation of Revelopment Plan $41,165

2007 Tax Allocation	$3,560,000
Purpose:	Fund development projects of the RDA (curbs, gutters, sidewalks, water & sewer line, & land acquisition)

2006 Revenue Refunding	$7,530,000
Purpose:	To refund and defease the 1994 bonds for Assessment District 1A Not reported as a direct liability for the City, but for Assessment District 1A

Shown as the last item in the chart above is a 2006 bond for Assessment District 1A in the amount of $7,530,000. Assessment District 1A is for water and sewer improvements to a defined district in the southeastern portion of the City. However, the City's independent financial statements do not include this as an obligation of the City or any of its component units. Rather, the liability is identified as a fiduciary fund, whereby the City acts in a trustee capacity to manage the fund. According to the bond documents, "The bonds are not general or special obligations of the City nor general obligations of the [Financing] Authority, but are special, limited obligations of the [Financing] Authority payable exclusively from revenues provided in the indenture." These revenues are the assessments for Assessment District 1A.

According to the letter from the City's Interim Finance Director, Mr. George Harris, the following represents information on the status of this Assessment District (included as a part of Attachment #6b). The Assessment District bonds were refinanced in 2006, but the maturity date remains unaffected, September 15, 2015. The following tables outline the debt service and the assessment levies for the district:

- The debt service schedule for the 2006 Series Bonds is as follows:

Period Ending	Principal	Coupon	Interest	Debt Service	Remaining Principal
09/15/2007	$720,000.00	3.650%	$228,734.00	$948,734.00	$6,810,000
09/15/2008	665,000.00	3.750%	285,630.00	950,630.00	6,145,000
09/15/2009	690,000.00	3.900%	260,692.50	950,692.50	5,455,000
09/15/2010	715,000.00	4.050%	233,782.50	948,781.50	4,740,000
09/15/2011	745,000.00	4.050%	204.825.00	949,825.00	3,995,000
09/15/2012	770,000.00	4.200%	174,652.50	944,652.50	3,225,000
09/15/2013	800,000.00	4.300%	142,312.50	942.312.50	2,425,000
09/15/2014	830,000.00	4.450%	107,912.50	937,912.50	1,595,000
09/15/2015	1,595,000.00	4.450%	70,977.50	1,665,977.50	0
	$7,530,000.00		$1,709,519.00	$9,239,519.00	

Note: Neither the 1994 or the 2006 refinancing extended the maturation term beyond the original 1990 Bond Term of 2015.

- The following table shows the revenue collected/levied in assessments vs. the debt service paid and projected through the 2010 levy.

Fiscal Year	Assessment Levy Collected/Levied*	Debt Service	Surplus Retained for Delinquencies/Administration Costs
09/15/2007	995,124.00	948,734.00	46,390
09/15/2008	1,133,621.51	950,630.00	182,991.51
09/15/2009(1)	1,082,971.28	950,692.50	132,279.28
09/15/2010(1)*	1,039,399.80	948,781.50	90,618.30

(1) Unaudited

LAFCO staff expresses concern over the long-term viability of Assessment District 1A given the high rate of foreclosures within the City and the other financial and service challenges that face the City. Of primary concern is the $1,665,977 final balloon payment due in September 2015, which is 40% higher than the anticipated assessments collected in September 2010.

C. Deferred Payment

The City's annual debt obligations described above do not allow the City to issue annual payment on each long-term obligation of the RDA. The following are excerpts from the City's audits where the City has deferred payment:

1. Pass-through Agreement with the County of San Bernardino

During FY 2007-08, the County loaned the Adelanto RDA its share of incremental property taxes aggregating approximately $1,404,002, and the balance outstanding was $14,738,770. Further information regarding this agreement is available above in Item 5 - Pass-Through Agreement with County of San Bernardino.

2. Intermountain Power Agency Agreement

The RDA entered into an agreement with the Intermountain Power Agency (IPA) in 1993 regarding reimbursement of certain incremental property taxes generated by parcels owned by IPA within the RDA project areas for 1992 and prior years. Amounts due to the IPA under this agreement are subordinate to all tax allocation bonds of the RDA. Based on the assessment reduction received by the IPA for 1993, the liability that the RDA has incurred under this agreement is $1,989,390. Scheduled payments have been deferred by the RDA due to subordination to the tax allocation bonds outstanding. As of June 30, 2008, no payments have been made by the RDA under this agreement.

3. Deferred payment of housing set-aside

California Redevelopment Law generally requires that redevelopment agencies set aside 20% of tax increment earned into a separate housing fund to be used for improving the supply and quality of housing benefiting low and moderate-income households. Prior to the merging of the redevelopment projects areas in 1995, the RDA's governing board determined that there was a sufficient supply of adequate housing for low and moderate-income households for the foreseeable future and that no set-aside was required. Subsequent to merging the project areas in 1995, the RDA was required to set aside 20% of its tax increment in a Housing Fund, regardless of any prior determinations regarding low and moderate housing. Because of the RDA's existing obligations, in accordance with California Health and Safety Code Section 33334.6(d), the RDA's governing board has determined to defer payment of such housing set-aside amount for fiscal years 1996-2008. Such deferral has a total of $10,902,816. The deferred payment of housing set-aside is considered a long-tem obligation of the RDA and is subordinate to all other RDA indebtedness. Therefore, such obligation is not likely to be funded in the foreseeable future.

D. Advances

The City advanced $1.2 million in FY 1994-95, $100,000 in FY 2003-04, $100,000 in FY 2004-05, $200,000 in FY 2005-06, and $200,000 in FY 2006-07 to the RDA for certain operating expenses. No amount was advanced for FY 2007-08. For FY 2003-04, $25,000 has been paid back to the City. The advances payable are non-interest bearing and are subordinate to the RDA bonded indebtedness. As of June 30, 2008, the balance outstanding was roughly $1.8 million.

9. Beyond FY 2008-09

A. Development Activity

According to the *Cities Annual Report* issued by the State Controller, for FY 2003-04 revenue generated from construction permits totaled $1,004,090, sharply increased to $1,917,636 in FY 2004-05, and was $1,812,310 in FY 2005-06. However, building permits issued have plummeted since 2006 when it issued 330 single-family residential and 47 commercial permits. In 2008 through November it issued four single-family residential and 13 commercial permits[30].

Data obtained from staff of the County of San Bernardino Assessor indicates that from 2003 to 2007 the assessed value of property increased 170%. For 2008, total assessed property only increased 0.52% and the information released on June 29, 2009 by the County Assessor indicates that the City of Adelanto had a decline of 21.1% on the 2009-10 Assessment roll.

Foreclosure activity has affected the nation in general and the City of Adelanto is no exception. According to data obtained from staff of the County of San Bernardino Assessor, from 2004 to 2006 the City had 35 foreclosures. The number rose sharply to 286 in 2007 and escalated to 958 in 2008. For 2009 through mid-July the number is 471. Since 2004, the total number of foreclosures has been 1,750. For the purposes of generally representing the extent of the foreclosure activity, the County identifies that there were 10,329 residential parcels within the City in 2007. The foreclosure of 1,750 homes represents 17% of the parcels or roughly one out of six homes within the City has been in foreclosure since 2004, with the vast majority occurring within the past two years. Due to the foreclosures and subsequent resale at lower prices, these properties will be re-assessed at a lower value. As a result, the City will receive fewer property tax receipts and the RDA a lower share of tax increment revenue. The City already receives one of the lowest tax rates in the County, under two percent, and according to the *FY 2005-06 Cities Annual Report*, the City received $204,700 in secured and unsecured property taxes for the year.

However, the following projects will greatly benefit the City, through much needed revenue, if they come to fruition:

- In July 2008 the City Council approved a Conditional Use Permit allowing for the construction of a new 750-bed prison planned in the industrial park at Koala and Holly Roads. Approval of the Development Agreement related to the prison project includes the provision of a $4 million fiscal mitigation payment prior to the issuance of any building permit. Should this project come to fruition, it will create jobs and add revenue to the City. However, LAFCO staff must then ask the question, does four prison facilities within the City limits actually provide more revenue than it costs for the provision of municipal services?

[30] Edwards, Brooke and Natasha Lindstrom, "Residential Building Plummets in Valley," *Victorville Daily Press,* 11 January 2009, sec. High Desert, p. B1.

- A 180,000 square-foot Target Supercenter is planned at Highway 395 and Mojave Drive.

- Hanson Structural Precast Pacific has purchased an 80-acre site at Koala and Holly for a new concrete plant and will employ about 100 people when complete.

- The Adelanto Gateway Logistics Center is a 74-acre industrial project that is expected to break ground late by the end of the year across from SCLA. It will serve as a distribution center for the southwest of the country. The Gateway Center will consist of 10 to 15 industrial buildings that will range from 550,000 to 1.5 million square feet each.

B. Financing Future Growth

There is one assessment district in the southeast of the City for water and wastewater collection. The City's assessment district includes assessments for water/sewer (Assessment District 1A), streetlights, and landscape maintenance. In October 2005 the City created the Adelanto Landscape Maintenance Assessment District No. 1 and the Adelanto Streetlight Maintenance Assessment District No. 1. The districts are comprised of the same six tracts (Tracts 16829, 17030, 17045, 16917, 16848, and 13896) totaling 527 lots. For FY 2008-09, the Landscape Maintenance assessments range from $185 to $273 with an estimated total of $117,426, and the Streetlighting Maintenance assessments range from $30 to $36 totaling $16,634. No information is included in the audit reports provided to LAFCO staff which outlines the revenues received for these entities; whether or not the costs are covered by the revenues received; or whether the improvements owned by the entity. LAFCO staff, therefore, cannot make a determination regarding these entities.

The City collects water and sewer standby fees for all vacant land within the City. The fees are pledged to bonds, which were used to finance the construction of water and sewer-related infrastructure. The City has adopted Development Impact Fees for parks, drainage facilities, transportation facilitates, and fire facilities for implementation of master plans and adequate fire response times and to provide for more timely development of these facilitates in conjunction with new residential and non-residential development. These are in addition to the existing water and sewer fees. According to the municipal service review materials submitted by the City, additional infrastructure will be funded primarily from new development which would benefit from the extension of new infrastructure. The Adelanto Public Utilities Authority has already issued bonds for some major improvements, including expansion of the sewer treatment plant, extension of a major sewer line, new water wells, and new water storage facilities.

10. Financial Discussion Summary

The financial documents provided by the City, in addition to data obtained from the State Controller, indicate that the City has and continues to experience financial challenges. This is evidenced by the challenges in reducing debt, the deferral of payment of certain debt, excess of expenditures over appropriations in more than one fund which includes the General Fund, and the lack of funding to adequately provide non-enterprise services. Further, the use of reserves generated during the building boom of the past couple of years to balance the current budget, in the staff view, signals a continuing financial challenge for the City of Adelanto. LAFCO staff expresses concern that with the downturn in the economy, the reduction in assessed valuation due to the high foreclosure rate in Adelanto, and the sharp decline in construction activity, the use of reserves may not be able to close future budget gaps due to their depletion in prior years. Moreover, the amount of City territory within a redevelopment area coupled with the sharp decline in development activity will further strain the assets of the City and could hinder its delivery of non-enterprise services. Reserves for the water and sewer funds are now close to depletion and new service connections have halted due to the downturn in the residential construction market. As stated in the water and sewer rate increase notice (copy included as a part of Attachment #6g), the City rate adjustment is to protect the Adelanto Public Utilities Authority **"against insolvency**". Publication of such a position by City staff illustrates the serious financial position of this enterprise activity.

Even with the current financial challenges, the Stater Bros. supermarket that opened in 2006 provided an opportunity for the City to capture sales tax revenues that previously were lost to surrounding cities. Subsequent audits for the City will include the sales tax revenues related to the supermarket. However, due to the lack of current audits for the City and its component units, the actual financial benefits to the City are unknown and the real financial picture of the City of Adelanto is unclear to LAFCO staff.

Status of, and opportunities for, shared facilities.

The City has identified that there are no shared facilities with other agencies.

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

Local Government Structure and Community Service Needs

The City is a charter city and is governed by five council members elected at large to four-year staggered terms, and the mayor holds one of those seats. The City Council also serves as the Board of Directors of the Adelanto Public Utilities Authority, Adelanto Redevelopment Agency, and Adelanto Public Financing Authority. Below is the composition of the current council, their positions, and terms of office:

Council Member	Title	Term
Charley B. Glasper	Mayor	2010
Edgar Camargo	Council Member	2012
Trinidad Perez	Council Member	2010
Gene Piehe	Council Member	2010
Cari Thomas	Council Member	2012

The City Council meets twice a month on the second and fourth Wednesday evening at 6:00 p.m. for closed session and at 7:00 p.m. for regular business at the Adelanto Governmental Center. The City Council convenes joint or separate meetings as the Council or the respective board of directors as necessary. The public is invited to all open session meetings. The agenda is available to the public in the lobby of City Hall, at the meeting, and online. The City provides news and general information regarding the City as an insert into the water bills which are mailed to all water customers in the City.

Operational Efficiency

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

- Alliance for Water Awareness (AWAC). The City, as an AWAC member, participates in workshops, outreach events, and public education to communicate the conservation message.

- California Public Employees Retirement System (PERS). The City terminated the City of Adelanto Public Money Purchase Pension Plan in 2003 and has contracted with PERS to provide retirement benefits for its employees. PERS is an agency multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries, and acts as a common investment and administrative agency for participating public entities within the state. A review of the City's financial statements through FY 2004-05 indicates that the City does not have a net pension obligation to PERS.

- County of San Bernardino. The City coordinates with the County to pave roads that improve circulation to the City and its unincorporated sphere such as the Pearman Street relief sewer pipeline and a joint drainage project crossing Highway 395 with the City, County, and City of Victorville.

- High Desert Corridor Joint Powers Authority. The County of San Bernardino, County of Los Angeles, and the Cities of Adelanto, Victorville, Apple Valley, Lancaster, and Palmdale have formed a joint powers authority to develop a new freeway/expressway from SR14 to I-15. The High Desert Corridor/E220 is officially designated as a High Priority Corridor on the National Highway System from Los Angeles to Las Vegas via Palmdale and Victorville

- Public Entity Risk Management Authority (PERMA). The City is a member of PERMA, a joint powers authority of 24 California entities, for the purpose of pooling their general liability losses and claims with those of other member cities.

- Victor Valley Economic Development Authority (VVEDA). The City is a participant in this joint powers authority that is comprised of the Town of Apple Valley; Cities of Adelanto, Hesperia, and Victorville; and the County to coordinate the transition of George Air Force Base from military to civilian use.

- Victor Valley Transit Authority. The City is a member of this entity whose members are the same as the Victor Valley Economic Development Authority. The purpose of this authority is to implement a public transit system to serve the Victor Valley and to provide connecting services to other areas.

Government Structure Options

There are two types of government structure options:

1. Areas served by the agency outside its boundaries through "out-of-agency" service contracts;

2. Other potential government structure changes such as consolidations, reorganizations, dissolutions, etc.

Out-of-Agency Service Agreements:

There are no out-of-agency service contracts on file with LAFCO, and the City has indicated in the materials submitted for this review that it provides no services outside of its boundaries. However, the Utilities Authority previously provided water to the Southern California Logistics Airport in the City of Victorville and currently provides water and sewer to the Bradach Elementary School located in the City's southern sphere of influence. The City began providing service to these agencies outside of its boundaries when LAFCO Commission approval did not apply to contracts involving two or more public agencies.

LAFCO staff understands that a water and sewer feasibility study has been approved for the proposed Adelanto High School, to be located in the City's southern sphere of influence. Currently, LAFCO approval applies to contracts involving two or more public agencies. Therefore, service by the City to the proposed Adelanto High School would require either annexation of the school property to the City or an out-of-agency service agreement, both of which require LAFCO review and approval.

Government Structure Options:

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

- Expansion of the City to encompass the entirety of its North or South sphere areas. The City has considered annexation of the entirety of these areas to bring the areas inside its limits to avoid a "pocket area" of County unincorporated land. As these areas begin to develop, the City believes it will be best suited to provide

services and handle the demands of development. However, in portions of these areas there is historical opposition to City annexation.

- North sphere area. This area comprises approximately 3,287 acres. The City held a community meeting on December 6, 2006 regarding the potential for annexation of this area. LAFCO staff is unaware that the City has begun the pre-zoning process necessary to initiate an annexation.

- South sphere area. This area comprises approximately 2,800 acres. The City held a community meeting on November 15, 2006 regarding the potential for annexation of this area. On March 25, 2009, the City certified the Final Environmental Impact Report and adopted the pre-zoning for this area. Additionally, LAFCO has received an application initiated by landowners to annex a portion (80 acres) of the South sphere area. This application is being processed as LAFCO 3083.

Should LAFCO receive a complete application that is initiated by City resolution for annexation of the entirety of either the North or South sphere area, the Commission would not have the authority to deny the annexation if it makes the findings as required by Government Code 56375(a)(4). However, the annexation would be subject to protest from either the landowners or the registered voters. LAFCO staff's analysis indicates that both the North and South sphere areas meet all of the conditions identified in 56375(a)(4).

- Expansion of the City to encompass its West sphere area. The City's General Plan has a land use designation of Desert Living which provides for a minimum lot size of 2.5 and 5 acres. Annexation of the western sphere area at this time is not desired by the City. From the LAFCO staff perspective, the land uses designated by the existing City General Plan does not support the need for municipal level services; therefore, annexation would not appear warranted in the near future.

- Sphere expansion to the west along the High Desert Corridor/E220. The City of Adelanto sphere is generally south of the Helendale Community Services District and its proposed sphere of influence, west and north of the City of Victorville, and northeast of the Phelan/Pinon Hills Community Services District. With the limits of noise that will be associated with SCLA as it becomes more active, the likely direction for expansion of the Adelanto community would be westward as it was defined by the Commission during the military operation of George AFB. LAFCO staff discussed with City representatives the potential for expansion of the City's sphere westward to follow the High Desert Corridor to the County line. This would place the City in a position to be the municipal service provider along this corridor that is planned for travel from Los Angeles to Las Vegas. The City has not provided a written response to requests for a position on this matter.

- Annexation to County Fire. Since County Fire is the contracted agency to provide actual fire support, one possibility would be to terminate the current contract or upon its sunset in 2014, expand the sphere of influence of the San

Bernardino County Fire Protection District and concurrently annex the City to County Fire and its North Desert Service Zone. While there are benefits to regionally providing services such as fire protection and potential economies of scale that could be achieved, the City has not indicated support for the overlay of a Board-governed fire protection district at this time.

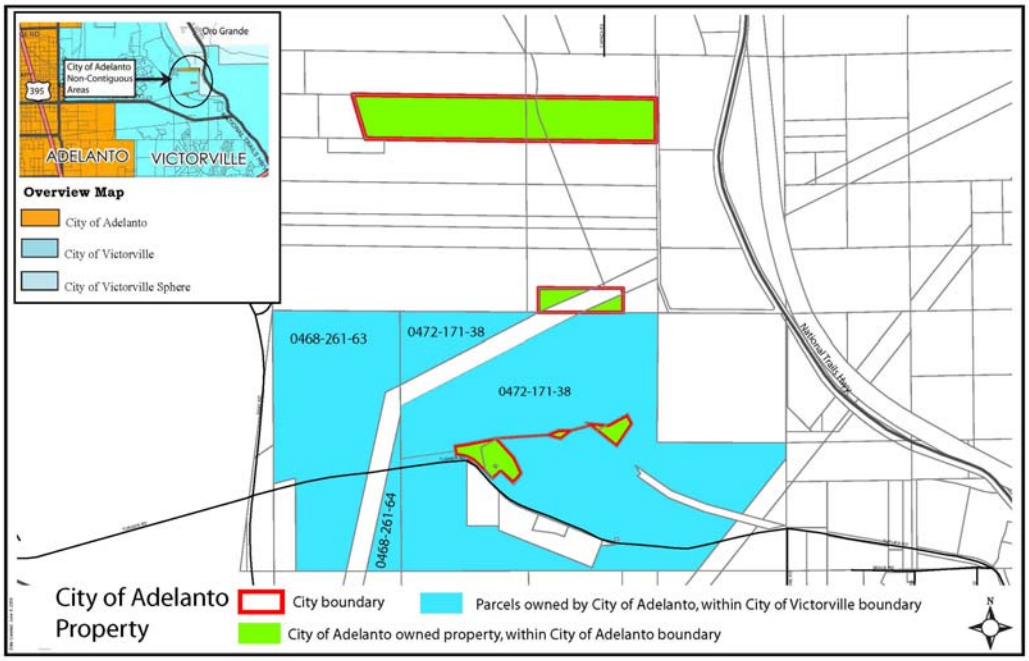
However, LAFCO staff could not support such a change unless there were to be a mechanism to transfer the funding necessary to provide the services. LAFCO staff is not aware, at this time, of the source of revenues to support this service since property tax revenues are only about $350,000 a year. Without a secured means to support the service, neither County Fire nor LAFCO staff would support this change.

- Maintenance of the status quo. At this time, the City is not requesting any changes to its governmental structure. However, as discussed in the *Community Discussion* section of this staff report, LAFCO staff is recommending:

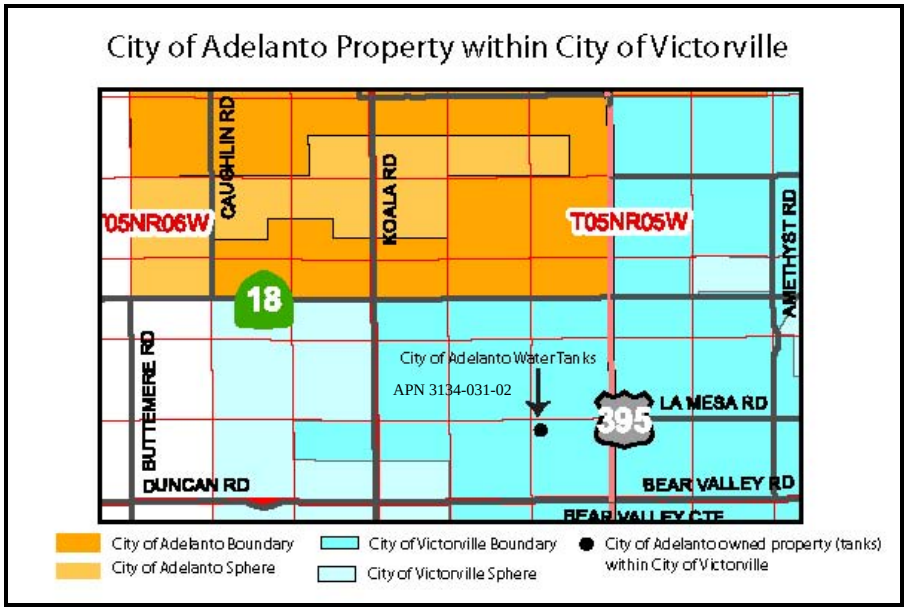
    - Sphere reduction to exclude area overlaying the Phelan/Pinon Hills CSD;' and,
    - Sphere reduction to exclude non-contiguous City-owned land.

- The City of Adelanto owns four parcels within the City of Victorville that have municipal uses. Maps of the areas containing these parcels are included as a part of Attachment #1. As a cost savings measure, if the City of Adelanto were to annex these parcels and continue its municipal use, then it would benefit from tax exempt status for the parcels and would not be subject to paying the ad valorem property tax.

  Three of the parcels are located east of the City of Adelanto city limits proper along the Mojave River. The three parcels are identified in blue in the map below. Of the three, two of the parcels have assessed values and one is tax exempt even though it is not within City of Adelanto boundaries. LAFCO staff is working with the County Assessor's office to resolve questions related to the removal of parcels from the tax roll. Requirements for non-contiguous city annexations include that the total area not exceed 300 acres and that the territory be used for municipal purposes. These parcels meet these requirements and are eligible for annexation to the City of Adelanto. However, such a proposal would include detachment from the City of Victorville and would require City of Victorville consent.



The fourth parcel is located south of the City limits proper. This parcel has an assessed value for which the City pays taxes. This parcel is 10 acres and currently contains two active water tanks with one proposed for construction. Therefore, it meets the requirements of LAFCO law authorizing non-contiguous city annexation. However, such a proposal would include detachment from the City of Victorville and would require City of Victorville consent.



SPHERE OF INFLUENCE REVIEW

LAFCO staff recommends that the Commission modify the City's sphere of influence as outlined in the Community Discussion section of this report to exclude the area overlaying the Phelan/Pinon Hills Community Services District and exclude the non-contiguous City-owned land.

The City's boundary currently encompasses approximately 52 +/- square miles, and its sphere of influence extends an additional 19 +/- square miles.

County Development Code Chapter 82.22 establishes a "sphere standards overlay" to allow the implementation of by the County of standards that closely conform to city development standards. Adoption of such a sphere standard would "ensure that the County's approval of a proposed development in a sphere of influence is consistent with the shared objectives of the County" and the city.

Pursuant to Government Code 56425(b), as a part of the sphere of influence updates for cities conducted by LAFCO, the city and the County are required to meet and discuss the sphere of influence of the city. The City and the County fulfilled the meeting requirement; however, no information has been provided on whether or not agreements were reached on development standards or utilization of the sphere of influence overlay within the City's existing sphere of influence that the Commission would be required to consider.

FACTORS OF CONSIDERATION:

The City was requested to provide information regarding the sphere of influence update as required by State law. Staff responses to the mandatory factors of consideration for a sphere of influence review (as required by Government Code Section 56425) are identified as follows:

Present and Planned Uses

Overall, the City's boundaries and sphere include the full range of densities from high density to non-developable land. Land uses also include the full range which includes open space, rural living, and residential. About two-thirds of the City is within a redevelopment area and approximately 65% of the lands within City boundaries are currently vacant. The majority of the sphere area is a combination of vacant lands with Rural Living and Resource Conservation land use designations. A portion of the northern western sphere area is managed by the Bureau of Land Management. The landownership breakdown of the community is as follows:

Land Owner	Sq Miles	Percentage
Private	69.6	97.5%
US Bureau of Land Management	1.8	2.5%
Total	**71.4**	**100.0%**

Present and Probable Need for Public Facilities and Services

The City of Adelanto currently provides a full range of municipal services to its residents, including park and recreation, sewer, police (through contract with the County Sheriff), fire protection and emergency response (through contract with the San Bernardino County Fire Protection District) and economic development. These services are adequately provided through the contract. Future projects will increase the need for municipal services within the City's existing boundaries as well as within the unincorporated sphere territory. However, the single most tangible factor that could limit growth will be the availability of water. In the unincorporated sphere area, the present need for municipal services is minimal due to its primarily vacant nature with low residential density. The City indicates that as the sphere develops, the County will have to determine the need for public facilities and infrastructure in the sphere area. The City and County Administrative staff met to review the sphere of influence update but no Memorandum of Understanding on future development or sphere overlay standards authorized by the County General Plan and Development Code were agreed upon.

Present Capacity of Public Facilities and Adequacy of Public Services

The City provides or contracts for all municipal-level services within its current service territory. Overall, current facilities and services delivered are adequate. The City's Public Utility Authority provides retail water and distribution within its boundaries. The City's primary water supply system primarily ranges in age from about 15 to 35 years, with the newer systems located in the south end of the City and extension being completed with new development. Most of the water storage system and primary distribution lines were completed about 15 years ago. Water wells have been upgraded as needed throughout the years. The capacity of the Authority's facilities does present challenges. The groundwater basins that serve as the primary water supply are over-drafted, and the Authority produces more than its free production allowance as defined by the Mojave Basin Watermaster. Currently, the water system lacks storage with operational storage at approximately 30 percent of the maximum-daily-demand. However, the Authority has constructed a new 5 million gallon reservoir, which came on-line in March 2009, increasing total storage to 21.75 MG.

The Adelanto Public Utility Authority has been issued a Cease and Desist Order (No. R6V-2007-24) by the Water Quality Control Board to address violations associated with its wastewater treatment plant. Specifically, these violations are for exceeding the flow limit, exceeding the effluence limit for biochemical oxygen demand, and discharging into a percolation pond without a permit from the Water Board. Short-term sewer improvements for the system's existing condition with approved tracts and tentative tracts consist of gravity sewer pipelines, manhole installations, and payment repair at a total estimated cost of approximately $2.8 million. To address the long-term actions to achieve final compliance with the Waste Discharge Requirements, the City has designed and is constructing a new technology treatment process plant expansion that will increase the treatment capacity from the current 1.5 MGD to 4.0 MGD.

The City has adequate funds to operate and maintain its traditional parks, but the high cost of maintaining the Stater Bros. Stadium is adversely affecting its park system viability. The City built the stadium in 1991 and no major renovations have been made since its construction, but this year the City laid new sod on the field.

Social and Economic Communities of Interest

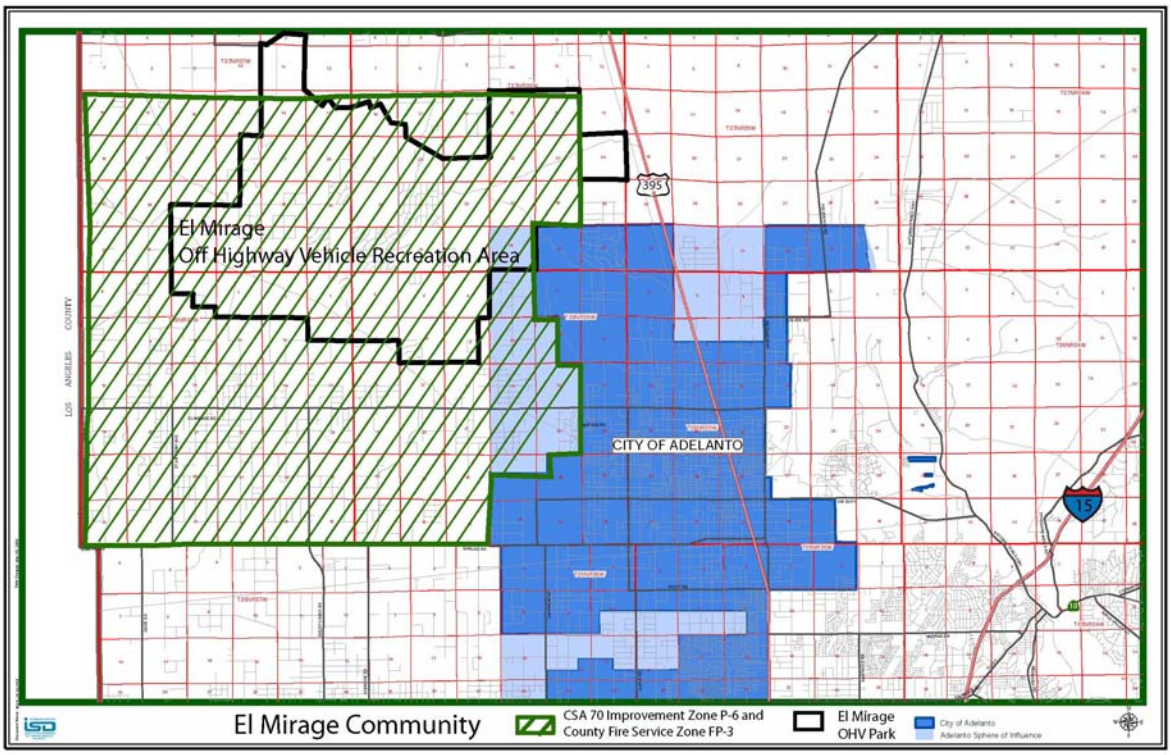
The City of Adelanto is the social and economic community of interest for the Adelanto community. There is no distinct social community wholly within the Adelanto sphere, but the community of El Mirage extends into the western Adelanto sphere, as defined by the boundaries of County Service Area 70 Improvement Zone P-6 and County Fire Service Zone FP-3. Economic communities of interest are the Highway 395 and Hi-Desert Corridors and the industries adjacent to the Southern California Logistics Airport. The community is within the Adelanto Elementary School District (western county line to the Mojave River) and the Victor Valley High School District (western county line to I-15).

EL MIRAGE COMMUNITY

The western sphere of influence of the City of Adelanto extends into the unincorporated El Mirage community. The El Mirage community extends westward to the County line and includes the El Mirage Off-Highway Vehicle Area which is managed by the Bureau of Land Management. As shown on the map below, the El Mirage community is generally defined by the boundaries of the two overlaying service providers - County Service Area 70 Improvement Zone P-6 for park and recreation and San Bernardino County Fire Protection District (County Fire) Service Zone FP-3 for fire protection and paramedic response. As an agency extending into the Adelanto community, a service review is provided for County Service Area 70 Improvement Zone P-6.

The reorganization of County Fire (LAFCO 3000), effective July 1, 2008, included the dissolution of County Service Area 38 Zone N and the formation of County Fire Service Zone FP-3 within the same boundary. The companion proposal to the reorganization of County Fire, LAFCO 3001, included a sphere of influence amendment for the Yucca Valley Fire Protection District and service review for the former County Service Area 38 and its improvement zones. Therefore, a service review for County Fire Service Zone FP-3 is not provided in this report.

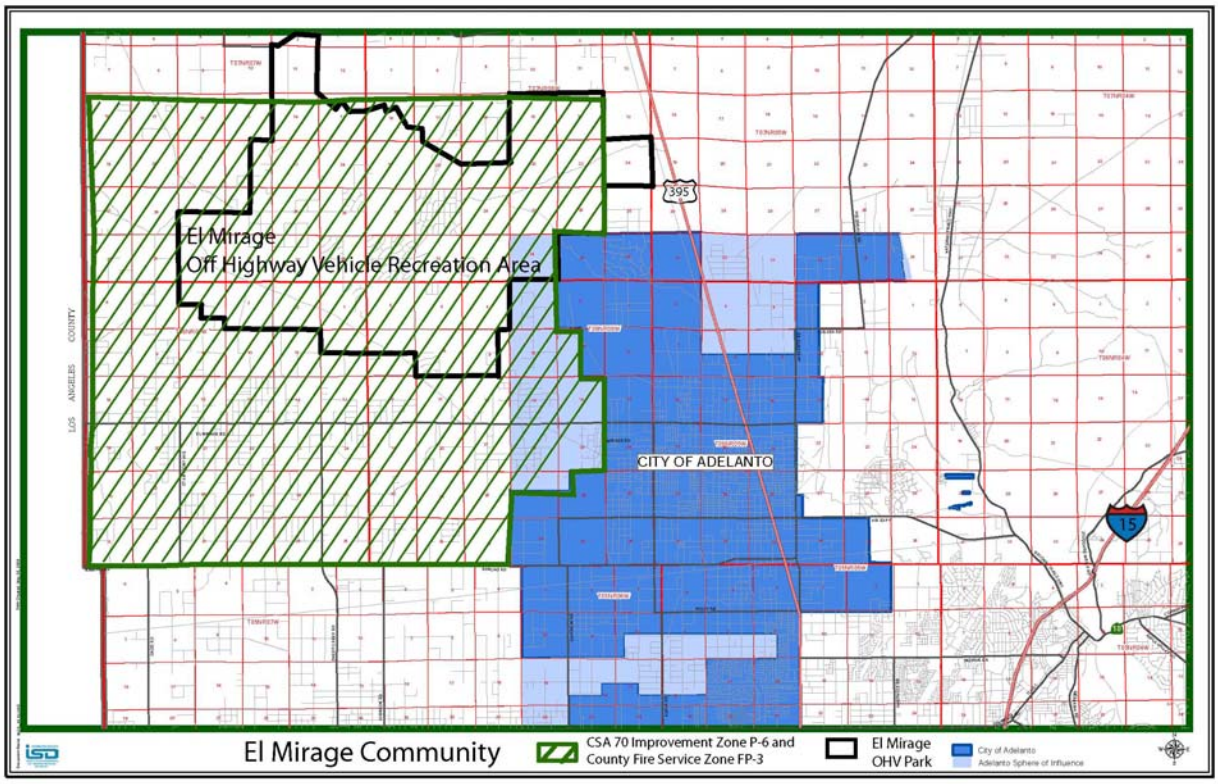
Additionally, the Chamisal Mutual Water Company (hereafter shown as Chamisal) is the only identified water provider within the El Mirage community. Information regarding Chamisal was obtained to allow staff to better process the service reviews and sphere updates for the agencies under LAFCO's purview. Chamisal is not under LAFCO purview, therefore only information related to a service review is provided in this report.



COUNTY SERVICE AREA 70 IMPROVEMENT ZONE P-6 (El Mirage) Service Review

INTRODUCTION:

In 1990, residents of El Mirage submitted petitions to the County Board of Supervisors requesting formation of an improvement zone for the purpose of providing park and recreation services. The Board of Supervisors scheduled a public hearing to consider formation of County Service Area 70, Improvement Zone P-6 (P-6) to provide recreation and park services and called a special tax and appropriations limit election. The election provided for a special tax with an annual rate not to exceed $9 per parcel for the El Mirage community. In 1991, the voters approved the formation of P-6 by more than the two-thirds required approval.



SERVICE REVIEW SUMMARY

LAFCO has no direct jurisdiction over P-6; therefore, only service review information is provided. The Special Districts Department responded to LAFCO staff's request for information by providing budget, and audit information which are summarized below and are included as a part of Attachment #8.

Growth and population projections for the affected area.

P-6 is generally located west of the City of Adelanto, extends into the western sphere of the City, and its western edge is bordered by the county line, it is bordered on the south by the Phelan Pinon Hills CSD and section lines on the north. As shown in the map above, with the exception of roughly two square miles, the whole of the El Mirage Off-Highway Vehicle Recreation Area is within P-6. The majority land use designations assigned by the County General Plan include Rural Living (varying from one unit to 5 acres to one unit to 40 acres) and Resource Conservation. Other land use designations are Agricultural and Industrial. There is the possibility of general plan amendments, tract maps and/or lot splits, which would increase the population, if services could support the use.

According to the United States Census, the 2000 population for the area was approximately 1,300. Anticipated growth within P-6 is expected to be nominal in raw numbers, but the percentage increase is roughly double. Utilizing the growth forecast for transportation analysis zones, as identified in the SCAG 2008 Regional Transportation Growth Forecast, the District's population projections are as follows:

2010 – 1,598 2015 – 1,814 2020 – 2,059 2025 – 2,252 2030 – 2,455

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

P-6 owns and operates a community park and community/senior center on an approximate 4.25 acre parcel. The park contains a baseball field, basketball court, playground, picnic areas, and an open grass area. The park and community center is located at 1400 Community Lane, north of El Mirage Road and west of St. Anthony Avenue. According to Special Districts Department staff, the community center was built by the El Mirage Improvement Association around 1962 for the seniors of the community to socialize and hold functions and transferred to County Special Districts when P-6 was formed in 1990.

Financial ability of agencies to provide services.

The primary source of revenue for P-6 is its receipt of the per parcel $9 special tax. It also collects about $1,300 annually from rents and concessions.

The FY 2008-09 budget identifies $82,535 from Proposition 40 funding for a park improvement/capital improvement project, and the project is estimated to cost $101,049. According to Special Districts Department staff, Special Districts fronted the $101,049 funding for the project and P-6 received an $80,000 reimbursement from the State. The remaining Prop 40 funding should be received once the State releases additional Prop 40 funds. The park improvement project was completed this past summer and includes a complete renovation of the existing baseball field along with other improvements.

For the past three years at least, expenditures have exceeded revenues. The FY 2008-09 Budget anticipates $178,278 in expenditures with $26,947 being for reserves and contingencies. Excluding reserves and contingencies the expenditures anticipated are

$151,331 with revenues at $117,064. Given the current rate of excess expenditures over revenues, the fund balance will be soon exhausted and services will need to be scaled back unless additional revenues are provided. However, the District is anticipated to receive roughly $21,000 of remaining Prop 40 funding from the State for the park improvement project.

CSA 70 Zone P-6 (Park) Activity

Year	Revenues	Expenditures	Revenue Over (Under) Expenditures	Fund Balance
FY 05-06 Actual	$40,256	$43,864	$(3,608)	$74,471
FY 06-07 Actual	49,494	54,764	(5,270)	69,201
FY 07-08 Actual	37,760	45,747	(7,987)	61,214
FY 08-09 Estimate	113,169	148,493	(35,324)	$25,890
FY 2009-10 Budget	32,088	57,978*	(25,890)	$0**
source: FY 2007-08, 2008-09, & 2009-10 Budgets * Does not include reserves or contingencies ** Estimated by LAFCO staff, does not include $21,000 from Prop 40 funding				

Long Term Debt

The audits of P-6 do not identify any long-term debt.

Appropriation Limit

An appropriation limit is required by Article XIIIB of the State Constitution and limits the expenditure of the proceeds of taxes. P-6 was approved by the voters with the establishment of a base-year appropriations limit of $100,000. The most recent action taken by the Board of Supervisors of the County of San Bernardino on June 16, 2009 establishing preliminary appropriation limits does not indicate an appropriation limit for County Service Area 70 Improvement Zone P-6. LAFCO staff recommends the County prepare and adopt the appropriations limit for P-6 for Fiscal Year 2009-10.

Status of, and opportunities for, shared facilities.

The Special Districts Department consolidates the administrative operations and facilities for county service areas under the auspices of CSA 70.

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

Local Government Structure and Accountability for Community Service Needs

P-6 is an improvement zone of County Service Area 70 and is governed by the County Board of Supervisors and administered by County Special District Department; it is within the political boundaries of the First Supervisorial District. P-6 has a municipal advisory council (MAC), authorized under Government Code Section 31010, that utilizes the El Mirage Community Center for meetings. MAC members are appointed by the First District Supervisor and must reside within the boundaries of P-6. Issues and concerns regarding P-

6's services are placed on the monthly MAC agendas. At these meetings, Special Districts Department staff and community members have the opportunity to address the issues. The El Mirage MAC meets at 7:00 p.m. every other month on the third Thursday of the month at the community center.

P-6 budgets are prepared as a part of the County Special Districts Department's annual budgeting process. P-6's annual budget is presented to the County Administrative Office and Board of Supervisors for review and approval. As noted above, the P-6 park and recreation operations annually exceed its receipt of revenues. Given the current rate of expenditures in excess of revenues, its fund balance will be exhausted and services will need to be scaled back unless an additional source of revenues is determined.

Operational Efficiency

As a mechanism to control costs, the County of San Bernardino Special Districts Department has consolidated many of the administrative and technical functions necessary to manage the various services provided under County Service Area 70. Therefore, P-6 has no direct employees; it pays for a proportional share of salaries and benefits costs necessary to serve it, and it pays a proportional cost of the administrative functions of the County Special Districts Department**.** To pay for these functions, the FY 2009-10 Budget indicates a transfer to CSA 70 Countywide of $9,809 for management and support services ($7,342 for Salaries and Benefits and $2,467 for Services and Supplies). P-6 also benefits from grant management being provided by the Special Districts Department.

Government Structure Options

There are two types of government structure options:

1. Areas served by the agency outside its boundaries through "out-of-agency" service contracts;

2. Other potential government structure changes such as consolidations, reorganizations, dissolutions, etc.

Out-of-Agency Service Agreements:

Special Districts Department staff has indicated that P-6 does not provide any direct service outside of its jurisdiction.

Government Structure Options:

While the discussion of some government structure options may be theoretical, a service review should address possible options, especially in light of P-6's financial challenges. However, there are no other entities available to provide this service other than another Improvement Zone. Therefore, it is viewed that the only option is maintenance of the current structure. LAFCO has no purview over P-6; however, the financial challenges outlined above will need to be addressed by the community in the near term.

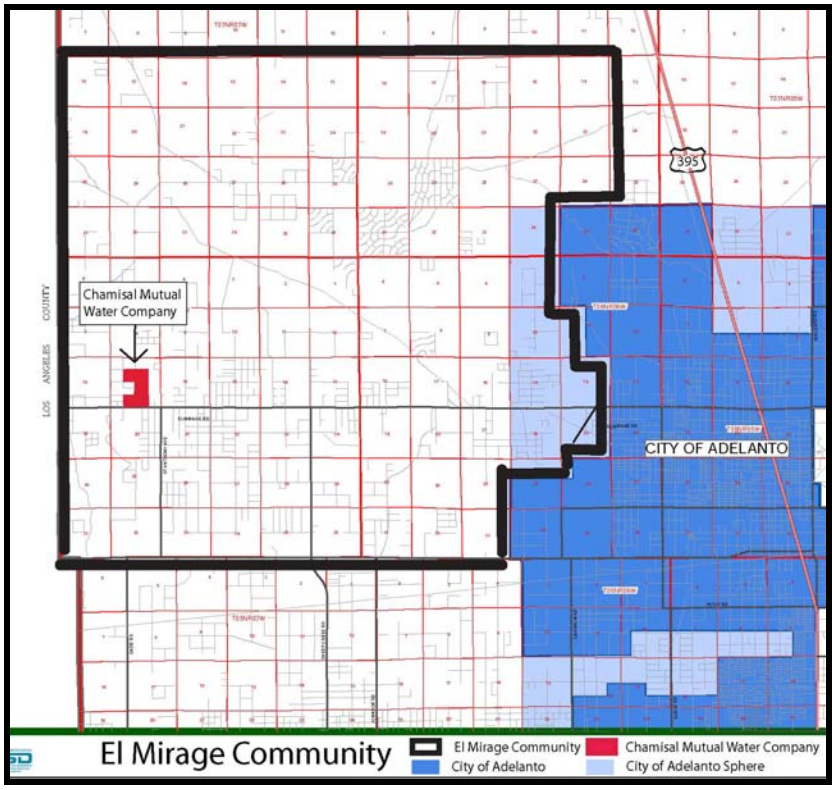
CHAMISAL MUTUAL WATER COMPANY
Service Review

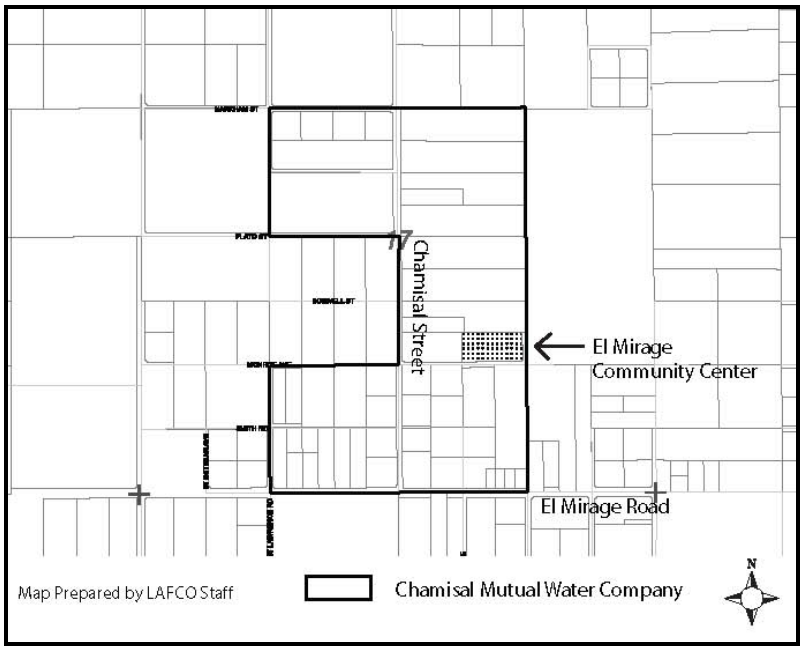
INTRODUCTION:

The Chamisal Mutual Water Company (Chamisal) is the only identified organized water provider within the El Mirage community. Information regarding Chamisal was obtained to allow staff to better process the service reviews for the communities which LAFCO reviews as a part of its Service Review responsibilities. Chamisal is a mutual water company that serves residential customers and can be classified as a community water system. The system is regulated by the San Bernardino County Department of Public Health – Division of Environmental Health Services (County Environmental Health Services) which has issued a water supply permit to Chamisal pursuant to the California Health and Safety Code. As a mutual water company, Chamisal provides water to shareholders and is required to file with the California Department of Corporations. Chamisal is not under LAFCO purview, therefore only information related to a service review is provided for this report.

BOUNDARIES:

The current service area is located in the El Mirage community approximately 1.5 miles east of the Los Angeles County line. Chamisal comprises 49 parcels on approximately 200 acres bordered by El Mirage Road on the south and is bisected by Chamisal Street. Chamisal's service area (as filed with County Environmental Health Services) is shown below and is included as a part of Attachment #8.





SERVICE REVIEW SUMMARY

Information was obtained from County Environmental Health Services which includes, but is not limited to, Chamisal's 2002 Drinking Water Source Assessment conducted by County staff, 2000 Emergency Contingency Plan, Source Water Assessment and Protection Program, 2008 Consumer Confidence Report, and 2008 Survey Report conducted by County staff. These materials are incorporated in the information below. The data obtained from County Environmental Health Services did not include information regarding number of shares issued or number of shares currently available.

Growth and population projections for the affected area.

The general land use is residential and undeveloped. Referencing Chamisal's documents from 2000 and 2002, there were 23 residential connections. The number has increased to 29 residential connections, according to the 2008 Survey Report, for an estimated population of 78 (2.68 residents per household). Given the current composition of 49 parcels, there is growth potential for an additional 20 residential connections. However, the average parcel size within the Chamisal boundary is 4.08 acres with a County General Plan Land Use designation of Rural Living, 2.5 acre parcel size. At buildout, which would calculate to be a potential of 80 residential lots, it would have an estimated population of 214 (80 units multiplied by the average household size in the north desert of 2.68 persons).

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

Water delivered to customers in Chamisal is from groundwater pumped from the El Mirage Valley sub-basin of the Mojave River Basin. According to the annual Small Water System Sanitary Survey Report prepared by County Environmental Health Services staff in

December 2008, Chamisal's production is able to meet peak demand and has adequate source and storage capacity. The system consists of two vertical wells. Well #1 was drilled in 1962 and is capable of pumping up to 218 acre-feet a year. Well #2 was drilled in 1956 and is capable of pumping up to 137 acre-feet a year. A review of the 2008 Consumer Confidence Report indicates that the water meets quality standards. However, both wells are considered vulnerable to low density septic systems, but the wells are not associated with any detected contaminants. Storage consists of two steel welded hydropneumatic tanks with total storage of 7,500 gallons (4,000 and 3,500 gallons). Pipes range in size from 2 to 8 inches and total 1.5 miles in length.

Chamisal currently has water production rights (also known as Base Annual Production) to assure 96 acre-feet (AF) annually. Chamisal is within the Oeste sub-region, and Free Production Allowance (FPA) is currently at 75% of Base Annual Production, which permits 72 AF of FPA for FY 2009-10. Producers are required to replace any water pumped above their FPA by paying the Mojave Basin Area Watermaster a replacement assessment to purchase supplemental water or by purchasing unused production rights from another party in the sub-area for the applicable production year. As indicated in the table below, the historical trend for Chamisal's water production indicates that it does not produce more than its FPA. Thus, it has no replacement or make-up water obligations. Transfer records from the Watermaster do no indicate Chamisal sells its unused FPA to other agencies. The sale of its unused FPA could be an additional source of revenue.

Chamisal Mutual Water Company
Water Production and Water Obligations in Oeste Sub-basin
(units in acre feet unless otherwise noted)

Water Year	Free Production Allowance (FPA)	Carryover from Previous Year	Verified Production	Unused FPA[1]	Replacement Water Obligation (Agency Overdraft)	Makeup Water Obligation (Watermaster Replacement to Centro Sub-basin) [2]
2003-04	77	50	29	77	$0	$0
2004-05	77	77	25	77	$0	$0
2005-06	77	77	23	77	$0	$0
2006-07	77	77	24	77	$0	$0
2007-08	77	77	30	77	$0	$0
2008-09 [3]	77	77	n/a	n/a	n/a	n/a
2009-10	72	-	-	-	-	-

sources: Mojave Basin Area Watermaster, Annual Reports of the Mojave Basin Area Watermaster for Water Years 2003/04 through 2006/07, (April 1, 2005 through April 1, 2008).
Mojave Basin Area Watermaster, *Request for Assignment of Carryover Right in Lieu of Payment of Replacement Water Assessments Recommended for Filing*, For Water Years 2002/03 through 2006/07.

[1] Unused FPA is equal to the total FPA (FPA, carryover, and transfers) minus total Verified Projection, but not greater than FPA and FPA transfers.
[2] Obligation to the Centro basin is purchased at a two-to-one ratio.
[3] Draft data (Appendix B) not available until early 2010.

Financial ability of agencies to provide services.

Financial information, rate structure, or share information was not included as a part of the materials obtained from County Environmental Health Services. LAFCO staff attempted to contact the Water Company and the California Department of Corporations to gather data on the number of shares authorized, number of shares issued, and other financial information. However, to date, no response has been provided.

Status of, and opportunities for, shared facilities.

LAFCO staff is not aware of any shared facilities. Due to the Chamisal's distance from other water retailers, it is unlikely that it has any inter-ties with other water systems.

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

Chamisal is regulated by the California Department of Corporations and also abides by the regulations of the San Bernardino County Department of Public Health – Division of Environmental Health Services.

ADDITIONAL DETERMINATIONS

The following determinations are related to the overall service review for the Communities of Adelanto and El Mirage as required by Commission policy and State law:

1. The Commission's Environmental Consultant, Tom Dodson and Associates, has determined the changes outlined in this report for the City of Adelanto is statutorily exempt from environmental review. Mr. Dodson's response is included as Attachment #7.

2. As required by State Law notice of the hearing was provided through publication in a newspaper of general circulation, the *Victorville Daily Press*. 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.

3. As required by State law, individual notification was provided to affected and interested agencies, County departments, and those agencies and individuals requesting mailed notice.

4. Comments from landowners/registered voters and any affected agency will need to be reviewed and considered by the Commission in making its determinations.

CONCLUSION:

Over the past 18 months LAFCO staff has worked with representatives of the City of Adelanto, both its employees and contract staff, to prepare this Service Review/Sphere Update document. It has been the staff's experience that as a group they are striving to right the ship for the City of Adelanto and working diligently to solidify its financial position. However, without current financial documents to clearly show the financial position of the City, LAFCO staff cannot fully assess the probability of achieving that goal.

One element that is missing from the service review and sphere update discussion is a recommendation for a LAFCO mechanism to assist in solving the financial issues presented in this report. That is because, in the LAFCO staff view, there are no LAFCO options to resolve the issues; there is no jurisdictional change that can resolve the financial issues currently facing the city. So, the report will end with the recommendation for affirmation of the existing sphere of influence for the City on the west, north and east, and the reduction of the sphere of influence to exclude the sphere territory currently within the Phelan Pinon Hills Community Services District on the south and the non-contiguous City-owned territory.

RECOMMENDATION:

Staff recommends that the Commission take the following actions:

1. For environmental review, certify that LAFCO 3080 is statutorily exempt from environmental review and direct the Clerk to file the Notice of Exemption within five (5) days.

2. Receive and file the service reviews for the City of Adelanto and the Community of El Mirage; making the findings related to the service review for the City of Adelanto required by Government Code 56430 as outlined in the staff report and direct the staff to resolve the questions of tax exempt properties identified in this report with the office of the County Assessor.

3. Take the actions related to LAFCO 3080 to update and amend the sphere of influence for the City of Adelanto as outlined in this report.

4. Continue adoption of the Resolution setting forth the Commission's findings and determinations to the October 21, 2009 hearing.

KRM/mt

ATTACHMENTS

1. Maps of Adelanto Community
    a. Victor Valley Region – LAFCO Defined Communities
    b. Current Adelanto Community
    c. Current Adelanto Boundary and Sphere of Influence
    d. Redevelopment Areas
    e. City General Plan Map
    f. Fire and Police Stations
    g. Water Facilities
    h. Sewer Facilities
    i. City Owned Property East of City Limits Proper
    j. City Owned Property South of City Limits Proper

2. Recommended Sphere Reductions and Modifications
    a. Maps of Recommended Sphere Reductions and Modifications
    b. Map of Parcel with Tax-Exempt Status not within City Boundary

3. City Information to Include:
    a. Municipal Service Review and Sphere of Influence Update Information
    b. Excerpts from 2007 Water and Sewer Master Plans
    c. Excerpts from 1997 Urban Water Management Plan
    d. Joint Powers Agreement forming the Adelanto Public Utilities Authority

4. Information on Water Rights Related to the Former George Air Force Base – Armed Service Board of Contract Appeals Case No. 48633

5. Information Regarding Adelanto Community Correctional Facility including SB 1591 (Presley) from 1987 and 2007 Fiscal Compliance Audit of the Facility

6. Financial Information
    a. Excerpts from FY 2009-10 City Budget Adopted June 10, 2009 with Resolution Establishing Appropriation Limit
    b. Letter from George Harris, Interim Finance Director for City Outlining Schedule for Completion of City Audits and FY 2004-05 Annual Financial Report for the City of Adelanto Adopted February 12, 2008
    c. FY 2006-07 Financial Statements for the Adelanto Public Utilities Authority Dated December 29, 2008
    d. FY 2007-08 Financial Statements for the Adelanto Redevelopment Agency Dated December 29, 2008
    e. FY 2007-08 Financial Statements for the Adelanto Portion of VVEDA Dated December 29, 2008
    f. Cover Sheet to Bond Issuances
    g. Notice of Proposed Water and Sewer Rate Increase, City Staff Report Dated April 22, 2009, City Staff Report Dated August 12, 2009 with Excerpts from Attachments

7. Response from Tom Dodson and Associates

8. El Mirage Community: County Service Area 70 Improvement Zone P-6 and Chamisal Mutual Water Company
    a. Map with Overlay of El Mirage Off-Highway Vehicle Recreation Area
    b. Map of Mutual Water Company
    c. CSA 70 Zone P-6 Financial Information to include Budget and Audit