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

PROPOSAL NO.: **LAFCO 3080**

HEARING DATE: **OCTOBER 21, 2009**

RESOLUTION NO. 3069

A RESOLUTION OF THE LOCAL AGENCY FORMATION COMMISSION OF THE COUNTY OF SAN BERNARDINO MAKING DETERMINATIONS ON LAFCO 3080 – A SERVICE REVIEW AND SPHERE OF INFLUENCE UPDATE FOR THE CITY OF ADELANTO (sphere of influence reduction to remove the territory within the Phelan Pinon Hills Community Services District at the southwestern edge of the sphere; reduction to exclude non-contiguous city-owned property from the sphere east of existing city boundaries; and affirmation of the balance of the existing sphere of influence).

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

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

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

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

WHEREAS, a public hearing by this Commission was called for September 16, 2009 at the time and place specified in the notice of public hearing and in any order or orders continuing the hearing; and,

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

WHEREAS, a statutory exemption has been issued pursuant to the provisions of the California Environmental Quality Act (CEQA) indicating that this service review and sphere of influence update are statutorily exempt from CEQA and such exemption was adopted by this Commission on September 16,

2009. The Executive Officer was directed to file a Notice of Exemption within five working days of its adoption;

WHEREAS, based on presently existing evidence, facts, and circumstances filed with the Local Agency Formation Commission and considered by this Commission, it is determined that the following sphere of influence determinations shall be made for the City of Adelanto (hereafter shown as the City): (1) Reduce the sphere of influence to exclude the territory currently a part of the Phelan Pinon Hills Community Services District at the southwestern edge of the City of Adelanto; (2)Reduce the sphere of influence to exclude the non-contiguous City-owned property to the east of existing City boundaries near the Mojave River; and (3) Affirm the balance of the existing sphere of influence for the City as more specifically depicted on the maps attached hereto as Exhibit "A", "A-1",and "A-2", and;

WHEREAS, the determinations required by Government Code Section 56430 and local Commission policy are included in the report prepared and submitted to the Commission dated September 3, 2009 and received and filed by the Commission on September 16, 2009, a complete copy of which is on file in the LAFCO office. The determinations of the Commission are:

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

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 on file in the LAFCO office. In reviewing the map it is important to note that the northern roughly 37 square miles of the General Plan area 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.

According to the State Department of Finance, in 2000 the City had a population of 18,130 and 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. 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, 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. 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.

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 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.

- 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

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 which calculates to 14,159 persons (utilizing 3.69 persons per household). However, under the City's current land use designations it is calculated to be 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.

Inclusion of the Commission approved sphere reductions will have a nominal effect on the growth projections outlined above - a reduction of 273 persons (74 current parcels utilizing a 3.69 coefficient). The maximum reduction given build-out conditions under the County's General Plan land use designations is 78 dwelling units, or 288 persons, and under the City's land use designation is 125 dwelling units, or 461 persons.

The historic trends would indicate moderate to high growth within this service review 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.

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

The City is a full-service City providing 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.

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. 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). 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.

There are two stations located within the City limits providing paramedic service as well as fire and rescue services, Station 321 at 1741 Hardy Avenue and Station 322 at 10370 Rancho Road. Ambulance and patient transportation is provided by American Medical Response. 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.

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.

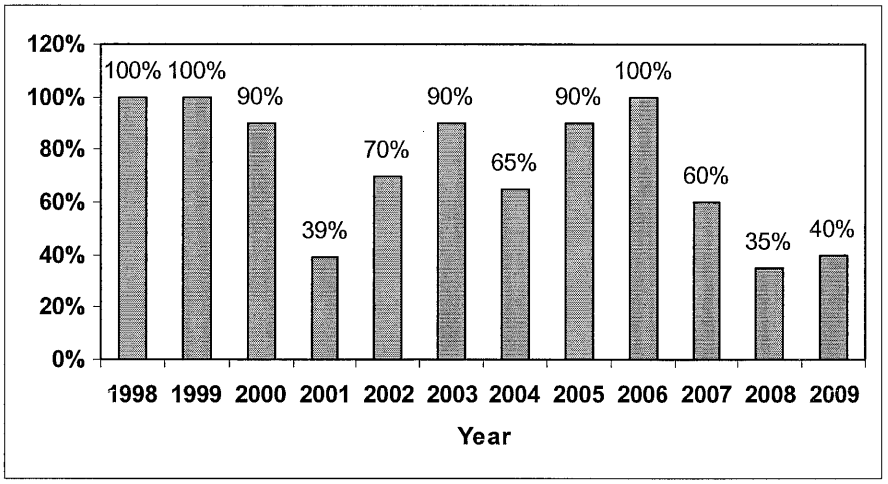
Regional Water

It has been 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. This sharp reduction in supplemental

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 of the Mojave groundwater basin in its entirety, the primary source of supply, is an infrastructure deficiency. The groundwater basin is adjudicated 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.

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". 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, or $246 per AF.

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.

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 noted in the Water Rights and Production presentation 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. The Commission 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 general outline 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.
>
> 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 available at the LAFCO staff office). 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. The Commission 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.

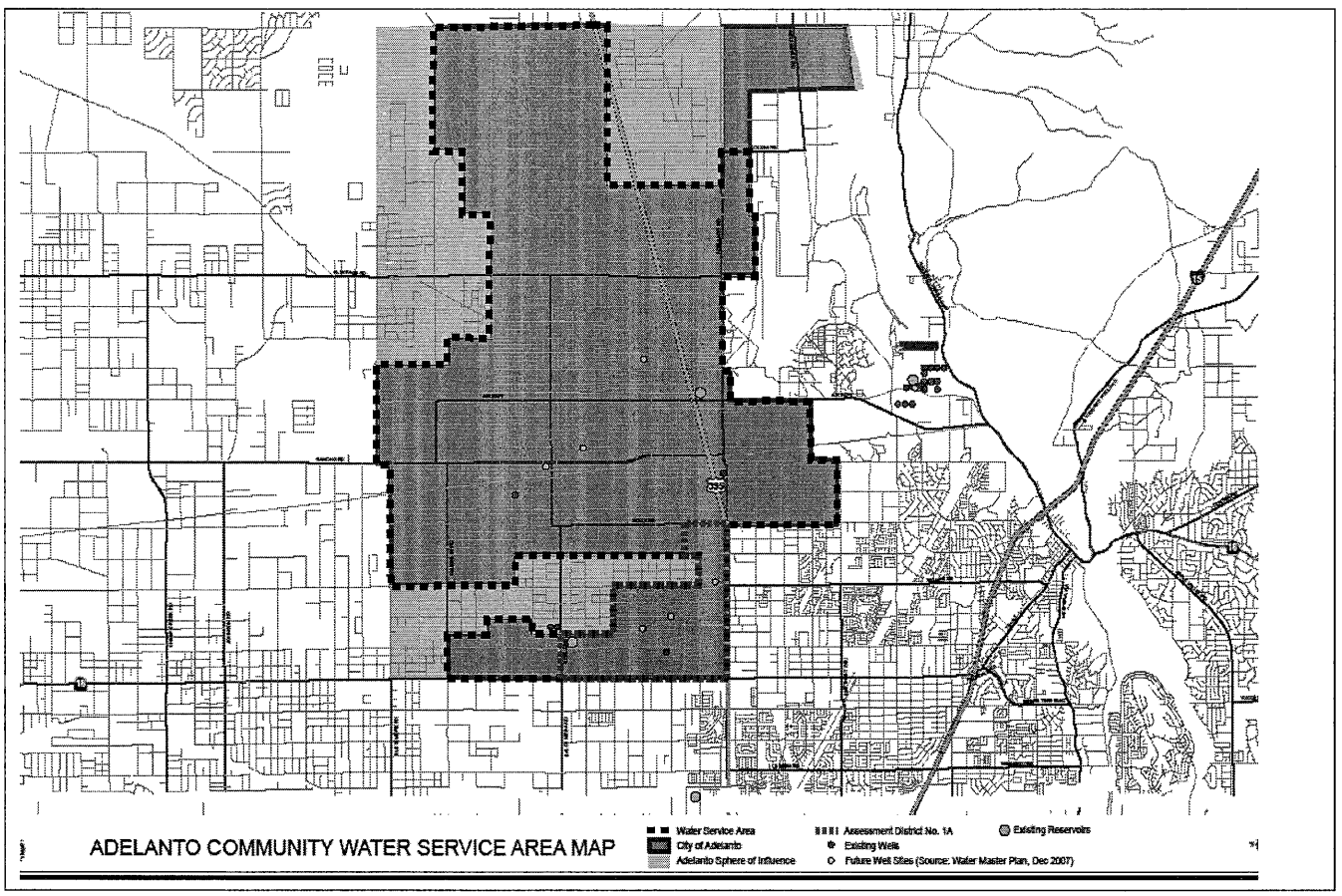
For the past six years roughly half of the total verified City production is attributable to "Adelanto, City of – George AFB". Even with the "Adelanto, City of – George AFB" base allocation, the City for the past two years has been obligated to pay the Replacement Water costs of the Watermaster. Should 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.

<u>Adelanto Water Reports and Plans</u>

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*, 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. The Commission has been presented with information related to the DWR report to the Legislature for the 2005 urban water management plans, and the report identifies that the City of Adelanto did not submit a 2005 urban water management plan. 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 forecasts in the *Water Master Plan* includes the potential Lewis Company development which would be located in the northern portion of the City. However, as mentioned previously in the *Growth and Population Projections* section, the development is still in the concept stage and no development application has been officially received. The following map illustrates the service area as identified by the Water Master Plan, by the black dashed outline which notably excludes the northeastern most portion of the City.



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

<u>Supply</u>

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 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 service review 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

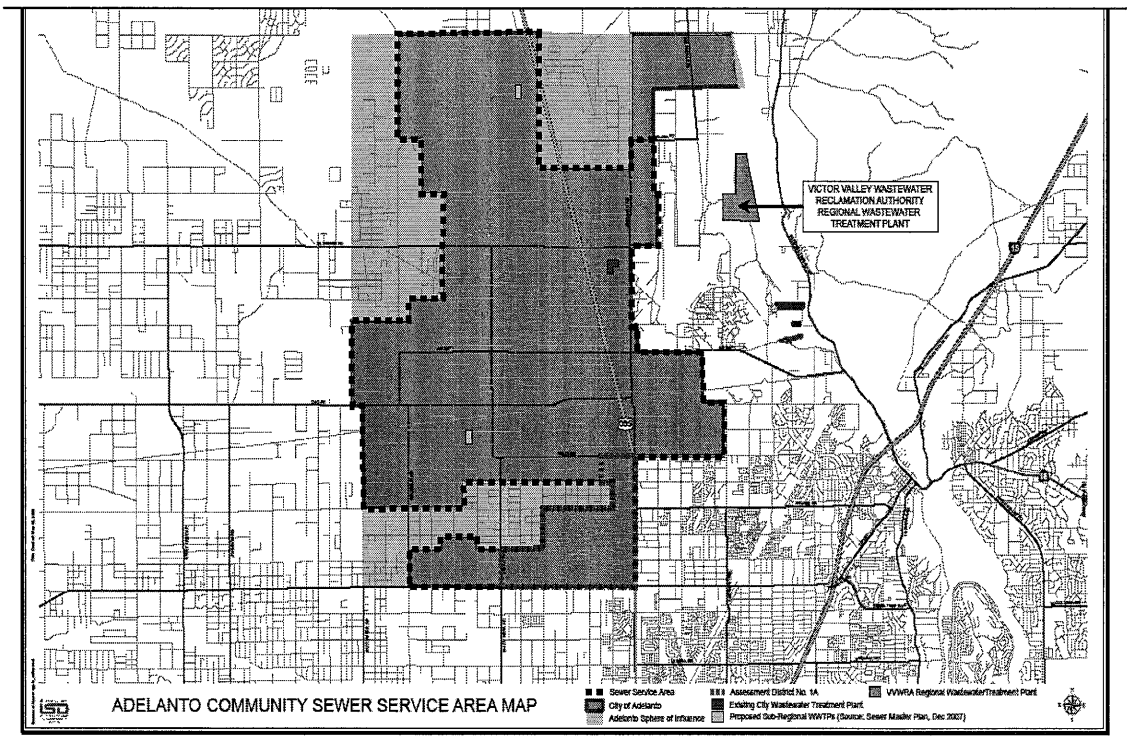
The *Water Master Plan* states, "City of Adelanto attempts to provide adequate high quality water supply, storage for fire flow protection, and distribution capacity to all developments within its service boundary. However, this objective of Adelanto's water department is affected by declining groundwater 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. A map of the defined service area is shown below:



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, 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 presentation 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

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. The Commission 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%

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

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 the Commission.

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.

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 for those roads within the County-maintained system.

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 with peaks climbing to 2,200 per hour. Of this amount, trucks represent 3,287, or 17.3 percent of vehicles. By 2035, average daily trips are anticipated to increase to over 49,000. 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. 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 within the southeastern portion of the City. 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, copies are available in the LAFCO Staff office.

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 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 the area south of Palmdale Road (unincorporated County), San Bernardino County Flood Control District staff has informed the Commission that it has already completed a drainage master plan for this area. For areas 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) (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 available at the LAFCO staff office. 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.

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 available at the LAFCO office. 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 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. The Commission determined that there is concern with the operational weaknesses identified in the audit and the potential effects that the Facility's weaknesses may have on the City itself.

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.

3. Financial ability of agencies to provide services:

The City has provided the most recent audits accepted by the City, current budget, bond information, and Adelanto Redevelopment Agency 2005-2009 Implementation Plan. Additional materials obtained were 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. .

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

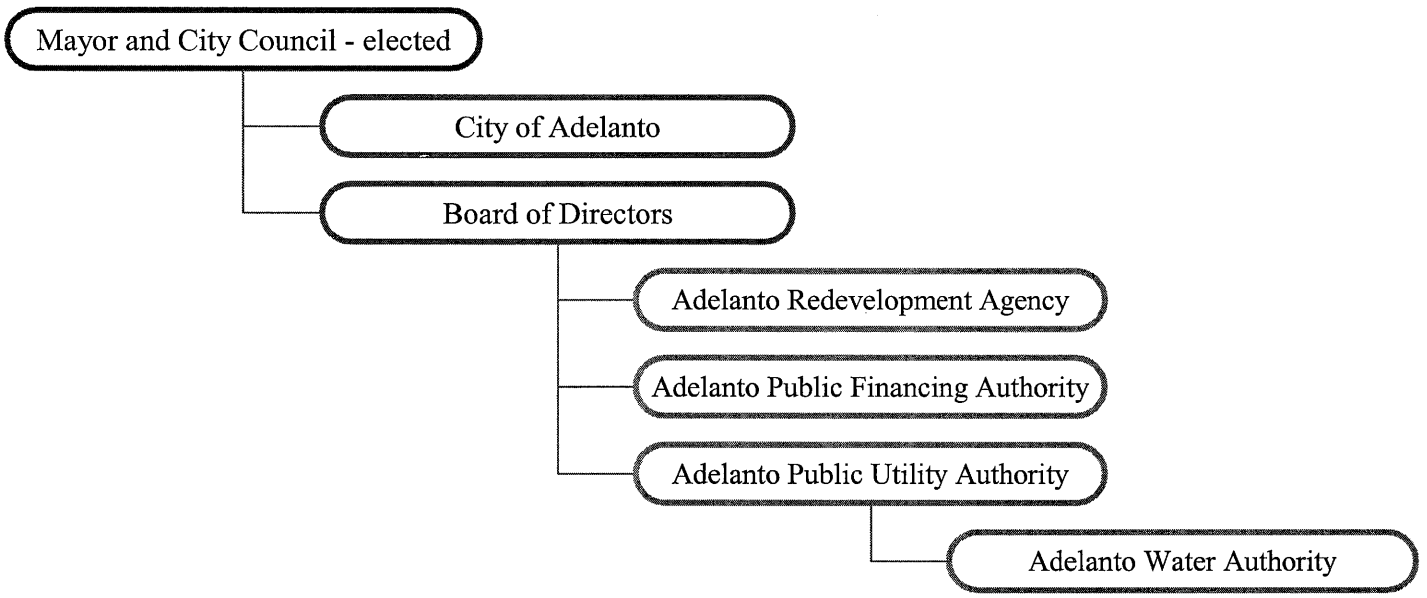
- Adelanto RDA for FY 2007-08, completed December 29, 2008

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 service review 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 could not be provided.

For the determinations which follow, the base year is FY 2004-05; and where materials were made available 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.

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. 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 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. The total debt per capita is around $5,442 per capita, while 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.

The Commission 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. It is the Commission's determination that the failure by the City to complete audits within the statutory timeframe 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, 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 presentation is provided 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." The Commission expresses its concern that a fair representation of the City's 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, the Commission 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.

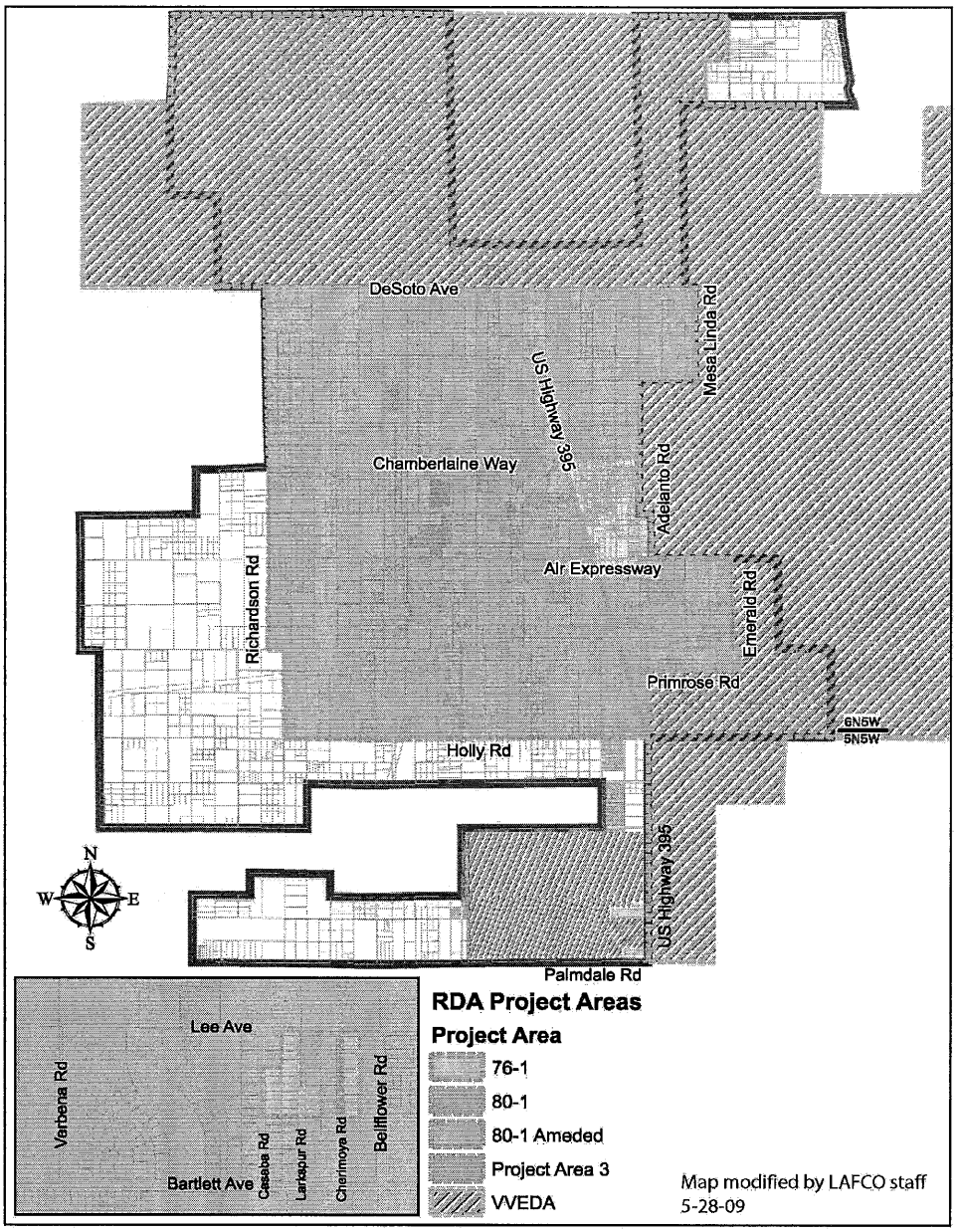
The chart which follows identifies that for Fiscal Year 2009-10, the largest revenue source is from the category entitled "Transfers" at $6,023,691. However, no explanation of the source of revenue is provided in the budget materials.

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. The chart which follows provides information on the redevelopment areas.

RESOLUTION NO. 3069



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 year 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. 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.

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 the Commission 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.

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 resolution.

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 as it utilizes a contract operator. 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 a payment of $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 the Commission is the information below shows a marked decline in charges for service from FY 20065-06 to FY 2008-09, of 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 Commission view, 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

While concern regarding its financial viability have been expressed over the years, it is the Commission position that the 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.

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.
- 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 presentation which follows 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. The Commission 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. 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:

- 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.

- 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. The Commission'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 presentation provided in Section 6 above for the Enterprise funds using the most recent audit for the Utilities Authority, FY 2006-07. It is the Commission's understanding that this Audit was required for the issuance of bond debt during

the fiscal year. The following presentation 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-term 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.

The Commission finds notable 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, the Commission 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, the Commission would question the future payment of these obligations.

In addition, it is the understanding of the Commission 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, the Commission questions 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 presentation provided in Section 6 above for the Governmental Funds with the most recent audit for the Redevelopment Agency, FY 2007-08. The following presentation 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 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

The Commission expresses its 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.

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.

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, the Commission 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?

- 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 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. The Commission, 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 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 had 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 signals a continuing financial challenge for the City of Adelanto. The Commission 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 available at the LAFCO staff office), 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 the Commission.

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

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

5. 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.

However, 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.

    - 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. 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. The potential for expansion of the City's sphere westward to follow the High Desert Corridor to the County line was discussed with City representatives. 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, the Commission could not support such a change unless there were to be a mechanism to transfer the funding necessary to provide the services. Without a secured means to support the service, neither County Fire nor the Commission would support this change.

- Maintenance of the status quo. At this time, the City is not requesting any changes to its governmental structure. However the following changes have been approved:

    - 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. 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. The Commission directs its staff to work 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.

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

1. 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%**

2. 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 wither directly by the City or 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.

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

The City provides or contracts for all municipal-level services within its current service area. 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 generally 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; however,this year the City laid new sod on the field.

4. <u>Social and Economic Communities of Interest</u>

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), neither agency boundary giving further direction on a community of interest determination.

5. Additional Determinations

- Legal advertisement of the Commission's consideration has been provided through publication in *The Daily Press* through a publication of an 1/8th page legal ad, as required by law. In accordance with Commission Policy #27, an 1/8th page legal ad was provided in lieu of individual notice because the service review for the community would have exceeded 1,000 notices.

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

- Comments from landowners/registered voters and any affected agency were reviewed and considered by the Commission in making its determinations.

WHEREAS, having reviewed and considered the findings as outlined above, the Commission determines to modify the sphere of influence as follows: (1) Reduce the sphere of influence to

exclude the territory currently a part of the Phelan Pinon Hills Community Services District at the southwestern edge of the City of Adelanto; (2) Reduce the sphere of influence to exclude the non-contiguous City-owned property to the east of existing City boundaries near the Mojave River; and, (3) Affirm the balance of the existing sphere of influence for the City as outlined on the attached exhibits to this resolution and directs its staff to resolve the questions of tax exempt properties identified in the service review with the office of the County Assessor.

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

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

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

AYES:	**COMMISSIONERS:**	**Cox, Curatalo, Derry, McCallon, and Pearson**
NOES:	**COMMISSIONERS:**	**None**
ABSENT:	**COMMISSIONERS:**	**Biane, Mitzelfelt (Derry voting in his stead), and Nuaimi**

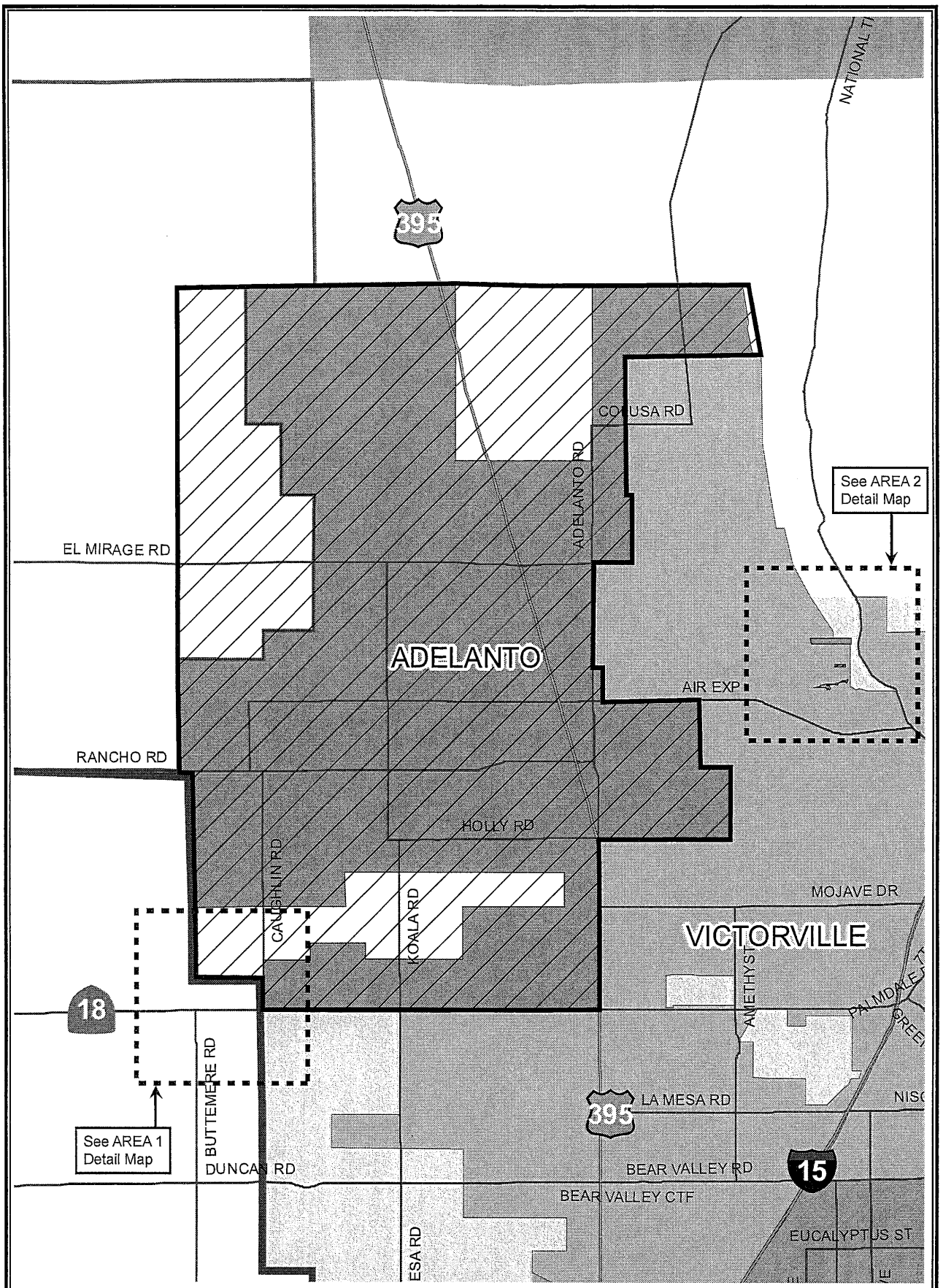
****

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

I, KATHLEEN ROLLINGS-McDONALD, Executive Officer of the Local Agency Formation Commission of the County of San Bernardino, California, do hereby certify this record to be a full, true, and correct copy of the action taken by said Commission, by vote of the members present, as the same appears in the Official Minutes of said Commission at its meeting of October 21, 2009.

DATED: October 22, 2009

KATHLEEN ROLLINGS-McDONALD
Executive Officer

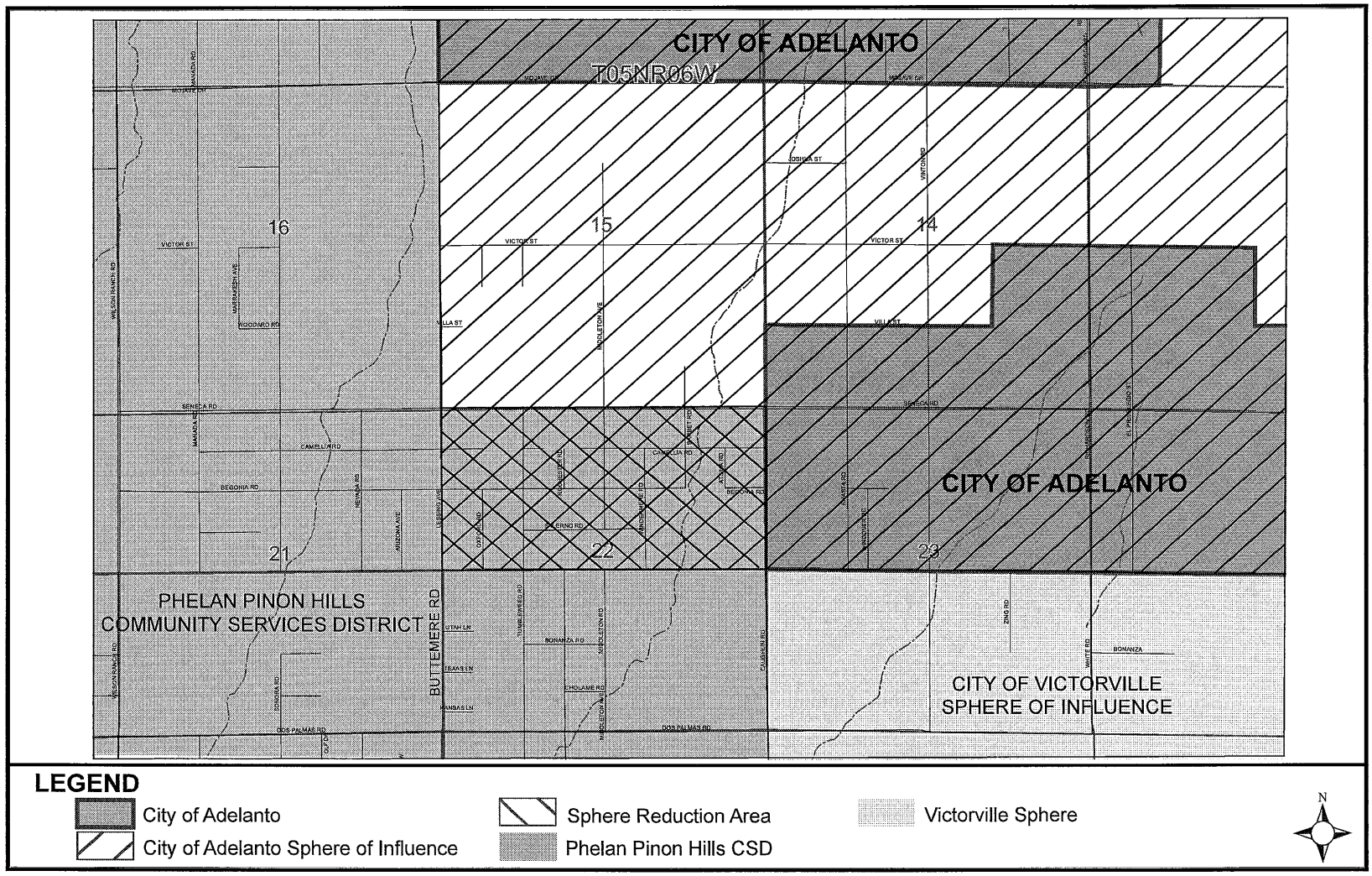


LAFCO 3080 - SPHERE REVIEW AND SPHERE OF INFLUENCE UPDATE FOR THE CITY OF ADELANTO

City of Adelanto
Adelanto Current Uninc. Sphere
City of Adelanto Sphere
City of Victorville
Victorville Uninc. Sphere
City of Hesperia
Helendale CSD
Phelan Pinon Hills CSD
CSA 70 P-6

N W E S

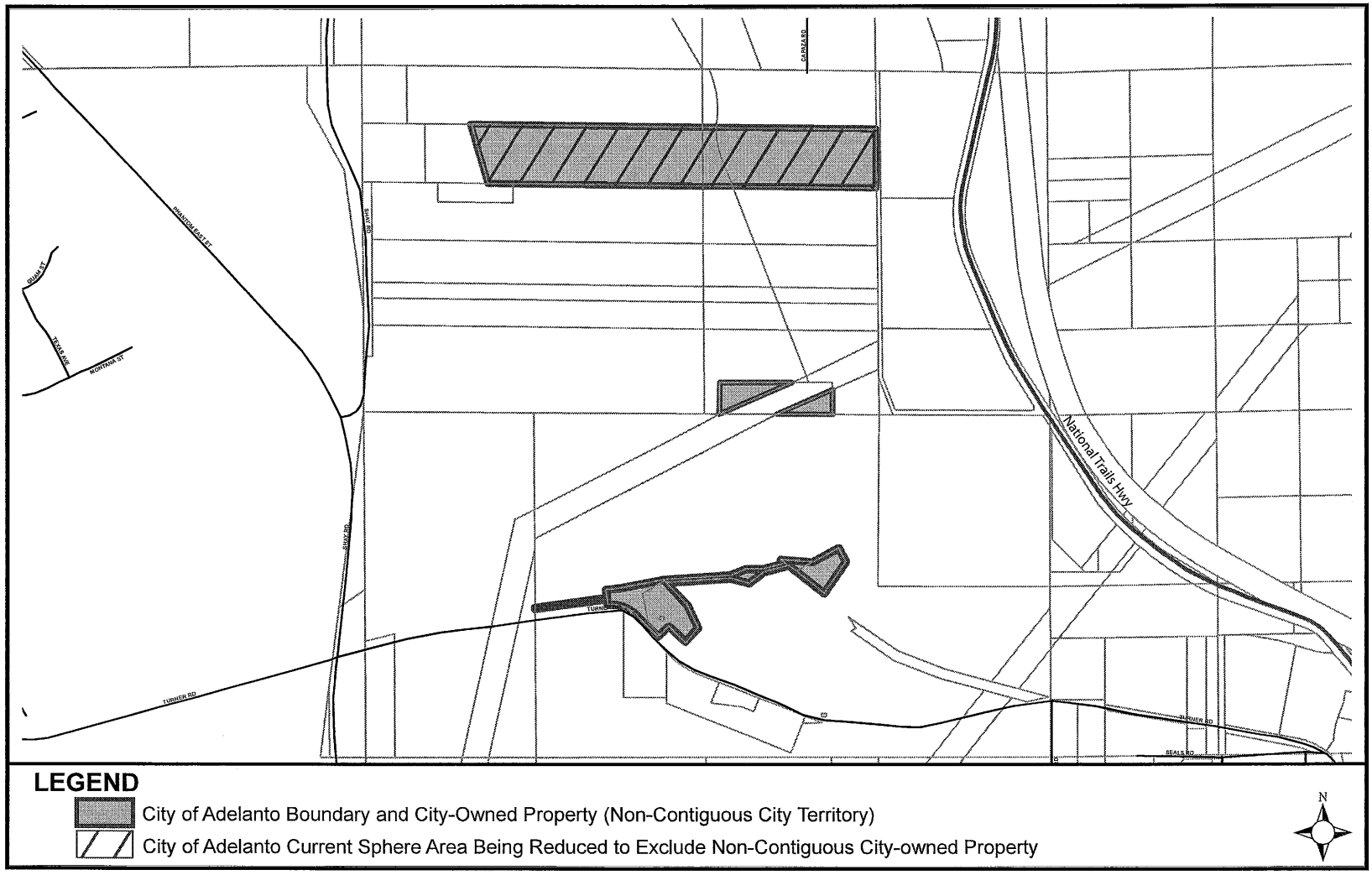
Exhibit A



LAFCO 3080 - SPHERE REVIEW AND SPHERE OF INFLUENCE UPDATE FOR THE CITY OF ADELANTO

AREA 1 DETAIL MAP - SPHERE OF INFLUENCE REDUCTION OF AREA OVERLAYING THE PHELAN PINON HILLS COMMUNITY SERVICES DISTRICT

Exhibit A-1



LAFCO 3080 - SPHERE REVIEW AND SPHERE OF INFLUENCE UPDATE FOR THE CITY OF ADELANTO

AREA 2 DETAIL MAP - SPHERE OF INFLUENCE REDUCTION OF NON-CONTIGUOUS CITY-OWNED PROPERTY

Exhibit A-2