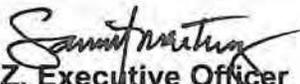


LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

1170 West Third Street, Unit 150, San Bernardino, CA 92415-0490
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www.sbclafco.org

DATE: AUGUST 13, 2018
FROM:  SAMUEL MARTINEZ, Executive Officer
MICHAEL TUERPE, Project Manager
TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: SUPPLEMENTAL STAFF REPORT
Agenda Item #7: LAFCO 3190 - Countywide Service Review for
Wastewater (Collection, Treatment, Disposal)

Following release of the staff report for LAFCO 3190 dated August 8, 2018, the City of Adelanto provided a comment letter regarding LAFCO staff's recommendation in the service review for the Commission to initiate a sphere of influence amendment to determine the appropriate sphere of influence for the City. The City's letter identifies that it is addressing the issues raised in this service review and requests deferral of LAFCO staff's recommendation to initiate a sphere of influence amendment to March 2019 [completion of the Countywide Service Review for Fire Protection, most likely to be July 2019]. The City's comment letter and LAFCO staff's response is included as an attachment to this staff report.

Please note that the City's request is to defer the sphere of influence amendment for one-year, not to forgo the sphere amendment altogether. After reviewing the City's letter, LAFCO staff maintains its current recommendation to the Commission - to initiate a sphere of influence amendment for the City at the August 15, 2018 hearing. At this hearing, the City will have the opportunity to present its request to the Commission.

Should the Commission desire to initiate the sphere amendment at this hearing, then LAFCO staff recommends that the Commission direct that this process include a meeting between City and County representatives to discuss the current sphere area and LAFCO staff's proposed sphere amendment. This will also allow both parties to explore methods to reach agreement on development standards and planning and zoning requirements to ensure that development within the sphere occurs in a manner that reflects the City's concerns and promotes the logical and orderly development of the identified areas.

Should the Commission desire to approve the City's request, LAFCO staff recommends that the Commission direct LAFCO staff to continue to monitor the City of Adelanto, and direct staff to return to the Commission six months following the completion of this service review with an update.

SM/MT

Attachment

August 9, 2018

Sent via U.S.P.S. and Email

Jesse Flores, Interim City Manager
City of Adelanto
11600 Air Expressway
Adelanto, CA 92301

RE: Response to Comments regarding LAFCO Draft
Countywide Service Review for Wastewater

Dear Mr. Flores:

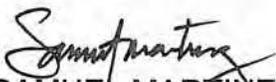
Thank you for taking the time to review the draft Countywide Service Review for Wastewater. On August 9, LAFCO received your letter dated August 8 regarding LAFCO staff's recommendations for Commission action in the service review.

Your letter identifies that the City is addressing the issues raised in the service review. The letter also requests deferral of LAFCO staff's recommendation for the Commission to initiate a sphere of influence amendment for the City to March 2019 [completion of the Countywide Service Review for Fire Protection].

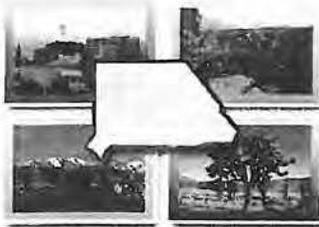
After reviewing your letter, LAFCO staff will maintain its current recommendation to the Commission at the August 15 hearing - to initiate a sphere of influence amendment for the City. At this hearing, the City will have the opportunity to present its request to the Commission.

This letter will be included in the LAFCO supplemental staff report dated August 13, 2018 and be included in Appendix A of the final service review. Should you have any questions on this letter or the service review in general, please feel free to contact me at smartinez@lafco.sbcounty.gov or 909-388-0480.

Sincerely,


SAMUEL MARTINEZ
Executive Officer

SM/MT



LAFCO

**Local Agency
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for San Bernardino County

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MICHAEL TUERPE
Project Manager

LA TRICI JONES
Clerk to the Commission

LEGAL COUNSEL

PAULA DE SOUSA MILLS



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Council Member

Joy Jeannette
Council Member

Jessie Flores
Interim City Manager

August 8, 2018

Sam Martinez
Executive Officer

RE: Update on the City of Adelanto's
Response to LAFCO's Proposed Sphere of Influence ("SOI") Reduction

Dear Sam:

The City of Adelanto ("City") would like to thank you for allowing the City to meet with you and address several key issues addressed by LAFCO over the past two years.

Specifically, the City respectfully asks that you support and afford the City the time schedule originally proposed by LAFCO in addressing the City of Adelanto's Sphere of Influence ("SOI"). LAFCO had stated previously that the SOI for Adelanto would be reviewed and considered in March 2019 when certain LAFCO reviews were completed. The City requests that this proposed LAFCO schedule be maintained and defer the current City SOI to the later date in 2019 as originally proposed by LAFCO.

The City would like to update the Commission of the City of Adelanto's efforts to address key items listed in the Draft LAFCO 3190 Countywide Service Review for Wastewater (Collection, Treatment, Disposal) of 7-18-2018, ("Draft Report").

We recognize that this Draft Report was only issued as a working copy to the previously scheduled July 18 LAFCO hearing and that the final version will be released before the next scheduled August 15, 2018 meeting, nevertheless, we believe the Commission should be aware of the following circumstances.

1. New Committed Leadership

The City has continued to enhance its leadership in the City Council. The City has filled a Council Vacancy. On a day to day, operations basis, to stabilize the City leadership, the Council has selected a City Manager, Jessie Flores, the former Economic Development Director. This position has been a transitional one over the last 3 years and as such, several City Managers overlooked responding to LAFCO inquiries. The City Manager has finalized a team that is critical to working with LAFCO to address issues raised. Primarily these issues revolve around the financial aspects of the City and the City's request to defer LAFCO's current recommendation for reducing Adelanto's SOI. Misty Cheng has been hired as a special finance advisor. She previously served as interim staff and was able to complete earlier audits which were not completed. The City has retained Ms. Cheng and her firm to specifically address the items in the LAFCO report. Ms. Cheng's 20 years plus experience in public finance and former City experience coupled with her expertise with assisting numerous cities through audits will assist her to effectively oversee the implementations of the needed policies and procedures.

2. LKQ Proposal to be Annexed to the City

There is a current project proposal by an Adelanto business, LKQ Lakenor Auto & Truck Salvage, Inc. ("LKQ") that would benefit the City and involves the SOI being addressed in the LAFCO Report. LKQ is expanding their salvage operation and adding additional land for vehicle storage and operational facilities as needed in various phases of expansion. Phase I expansion will be 44.35 acres and subsequent phases will look to add another 100+ acres in the next 2+ years depending upon obtaining County unincorporated available land.

The LKQ project manager has met with LAFCO staff and County staff for advice and review. Both agencies support this proposed annexation to the City. The proponent and the City believe that the following public benefits would result from this proposed project:

- a) Phase I Annexation will extend City boundaries and increase the existing business model adding up to 50 new businesses to this future area,
- b) Increase commercial and industrial development for new businesses,
- c) Increase re-seller license tax,
- d) Generate new business taxes,
- e) Increase property tax base,
- f) Increase local population by up to 1000 people,
- g) Expand the local skilled labor force and housing market,
- h) Increase City sustainability of retail centers, schools and community facilities,
 - a. Multiplier effect of generating other spin off businesses and employment opportunities,
- i) Increase real estate values for both housing, commercial and industrial,

- j) Finally, the State planned bypass road from SR-220 (High Desert Corridor) to the Victorville Logistic Airport, will afford greater and more efficient access for this proposed new annexation to the City of Adelanto, (area located in SOI addressed in the LAFCO report) providing more direct access the City of Adelanto.

3. City's efforts to address LAFCO's concerns/comments of financial management

In 2017, LAFCO stated that it had not viewed any improvement from when it brought up City issues in its previous service review in 2009.

However, it is important to note that the City has prioritized resolution to all the items addressed in the past LAFCO report as well as the current Draft Report. Specifically, noted City action on previously stated issues include:

- APUA satisfied the \$7.7M settlement by incurring bonded debt, secured by water and wastewater rates. LAFCO acknowledged that it was finally addressed and that the audits after 2014 did not have a going concern commented by the auditors.
- Additional historical financial information has been provided to LAFCO to address the lack of current financial statements. The most recent completed audit for the APUA was FY 2016-17. The City audit for FY 2014-15 will commence on August 13, 2018.
- LAFCO's updated reviews of APUA audits to date show that operating revenues substantially cover operating expenses.
- The Independent Auditor's comments referred to in the Draft Report do not reflect APUA's most recent completed audit for FY 2016-17, which resolved two of the comments referred to below, namely the Outstanding Checks Detailed Listing and Capital Asset Valuation Report Review. The following auditor comments have been repeated from the FY 2015-16 report to the FY 2016-17 report and the responses are as follows:
 - Material Weaknesses
 - Financial Close and Reporting Process: *The City's Finance department is continuing to recommend the use of their outside accounting consultant in order to work towards timely year-end closing.*

- Formal Written Payroll and Accounting Policies and Procedures Manual: *The Finance department recognizes the need to develop a policies and procedures manual after the delinquent City audits and delayed tasks have been completed.*
- Outstanding Checks Detailed Listing: *Once the Finance department is current on their bank reconciliations, an escheat property process (Unclaimed Funds) will be implemented.*
- Bank Accounts Authorized Signers: *An accountant has been tasked with performing the bank reconciliations, who is not a signer on the bank account.*
- Significant deficiencies
 - Cash Disbursement and Purchasing Policies: *The City recognizes the need for consistency in its application of various administrative policies, and the municipal code. Steps should be taken to ensure both the administrative policies and practices are reflected and updated in the municipal code.*
 - Bank Reconciliations: *Another accountant has been assigned the bank reconciliation function and strives to complete and maintain the bank reconciliations within a timelier manner.*
 - Capital Asset Valuation Report Review: *The City recognizes the need for a capital asset valuation and will contract with a consultant to perform such a task*
 - Maintenance of Minutes: *A current contract is in place with a consultant to get the public meetings up to date.*

Given the progress and commitment that the City has demonstrated by addressing the issues LAFCO has raised, we would like the Commission to continue its consideration of the SOI reduction until March of 2019, so as to maintain the forward momentum and not lose the opportunity to pursue a development proposal that will benefit the community. Additionally, this will send a positive signal to our investors and builders that the City is turning a new corner and diversifying its economic base.

We welcome the opportunity to discuss this further.

Sincerely,



Jessie Flores
Interim City Manager