

LOCAL AGENCY FORMATION COMMISSION COUNTY OF SAN BERNARDINO

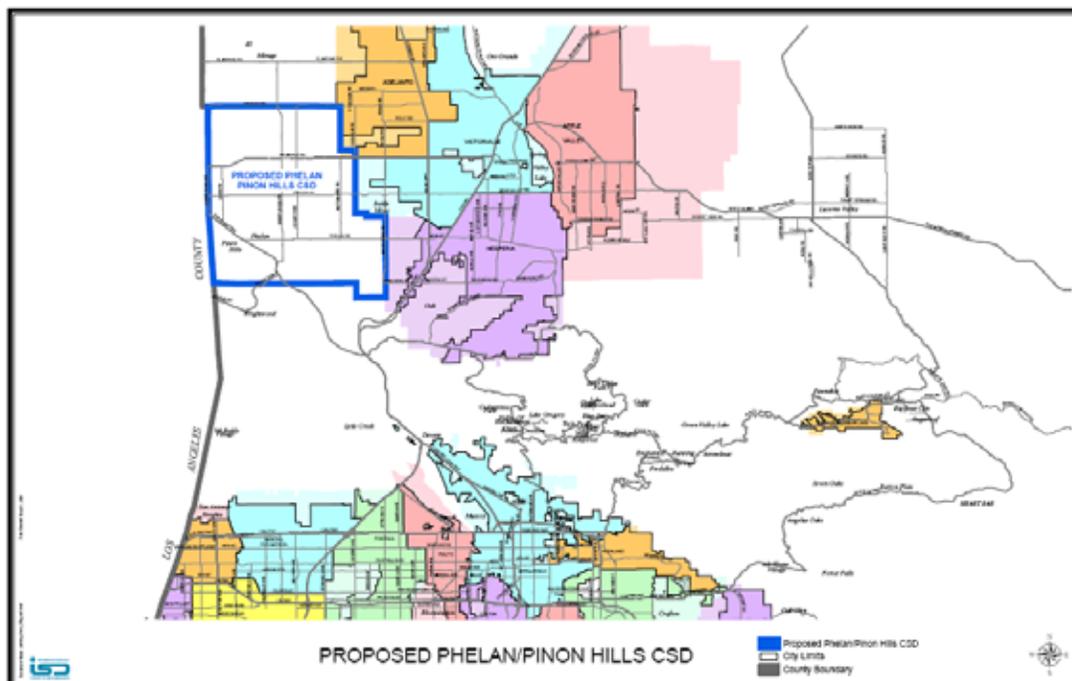
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DATE: MAY 9, 2007
FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #10: LAFCO 3070 – Reorganization to Include Formation of the Phelan Pinon Hills Community Services District, Detachment from County Service Area 56, and Dissolution of County Service Area 9, County Service Area 56 Improvement Zone F-1, and County Service Area 70 Improvement Zones L and P-4

INTRODUCTION

LAFCO 3070 is a proposal to form a Community Services District (hereinafter CSD) for the communities known as Phelan and Pinon Hills, an area of approximately 128 square miles (81,920 acres) located north of the San Bernardino National Forest boundary, east of the Los Angeles County Line, south of the community of El Mirage, and west of the sphere of influence and/or boundary of the Cities of Adelanto, Victorville and Hesperia. The general location of the area proposed to be formed into a new Community Services District is outlined below:



The proposal provides for the assumption of responsibility, through dissolution and detachment of the four existing service providers in the area: (a) County Service Area (hereinafter CSA) 9 (for the community of Phelan), which provides for streetlighting and park and recreation services, is proposed to be dissolved and its responsibilities transferred to the new CSD; (b) CSA 56 is proposed for detachment from the Pinon Hills area, but it does not currently provide service to the community, while the revenues generated will be reallocated; (c) CSA 56 Improvement Zone F-1, which provides fire protection and park and recreation services to the Pinon Hills community, is proposed to be dissolved, but only its park and recreation function, responsibilities, and revenues are to be transferred to the new CSD. Its fire function is anticipated to be reallocated during the County Fire Reorganization (LAFCO 3000); and (d) CSA 70 Improvement Zone L, which provides for the provision of domestic water service to the bulk of the Phelan and Pinon Hills communities, will be dissolved and its responsibilities, obligations, and revenues transferred to the new CSD. In addition, staff has modified the proposal to include the dissolution of CSA 70 Improvement Zone P-4 (CSA 70 Zone P-4), an entity created in the early 1980's to address regional park and recreation funding which was proposed by a ballot measure. This regional effort failed but CSA 70 Zone P-4 has remained on the books. In order to clarify park and recreation responsibilities, staff has included this dissolution as a part of the reorganization.

The proposal was initiated by Board of Supervisor resolution, adopted August 22, 2006, in response to requests made by the Phelan Pinon Hills Community Services District Feasibility Committee (Committee). The Committee's request related to timing for consideration and the need to gather signatures of 25% of the registered voters to initiate the proposal. The Committee provided to the County Administrative Office, County Special Districts Department and First District Supervisorial Office its feasibility study evaluating the option of formation of a CSD. Thereafter, the Board of Supervisors, as the governing body for each of the affected special districts and the County, adopted Resolution No. 2006-302, formally initiating the application.

PURPOSE OF THIS HEARING

The purpose of this hearing is to open the consideration of the municipal service reviews for the Phelan Pinon Hills communities and to begin the discussion of the issues required for the formation of a new independent Community Services District. The evaluation of the reorganization will include a review of issues outlined by the Community Services District Law (Government Code Section 61000 et seq.), and by the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Government Code Section 56000 et seq.), as well as a number of Commission policy issues relevant to the review of the formation of an independent form of special district to govern the services of the community.

The Board of Supervisors' initiation of this proposal was in response to a community-based Feasibility Study Committee which, after several years of review, recommended the formation of a Community Services District to provide for a single, multi-purpose special district as the preferred form of government for its community. Its choice was based upon the legislative intent provisions of CSD Law defined as follows:

"The Legislature finds and declares that for many communities, community services districts may be any of the following:

- (1) A permanent form of governance that can provide locally adequate levels of public facilities and services.*
- (2) An effective form of governance for combining two or more special districts that serve overlapping or adjacent territory into a multifunction special district.*
- (3) A form of governance that can serve as an alternative to the incorporation of a new city.*
- (4) A transitional form of governance as the community approaches cityhood."*

The recommendations of the Committee identified a consolidated, multi-purpose entity with a locally-elected board of directors as the preferred form of governance fulfilling the intent provisions of items (2), (3) and (4) outlined above. The Committee has outlined the assumption of responsibility for the existing services of water, park and recreation and streetlighting, with all other services available to a CSD to be considered latent powers, subject to further LAFCO review. In addition, it has been requested that the matter be considered by the electorate on the November 2007 ballot to maximize voter participation and to reduce the cost for the election. If the proposal is successful, the new district will pay the cost of the election; however, if it fails, the cost is borne by the County.

The timeline of Commission actions necessary to place this item before the electorate on the November ballot is as follows:

- The Commission must take its final action on June 20, 2007, if the determination is to approve the formation of the CSD and adopt its resolution setting forth the terms and conditions imposed upon LAFCO 3070;
- The adoption of the Commission's resolution starts the 30-day reconsideration period required by Government Code Section 56895 – June 20 through July 20th;
- During this reconsideration period, the Board of Supervisors will be requested to direct that the Registrar of Voters place the matter on the November 2007 ballot at the request of the Commission.

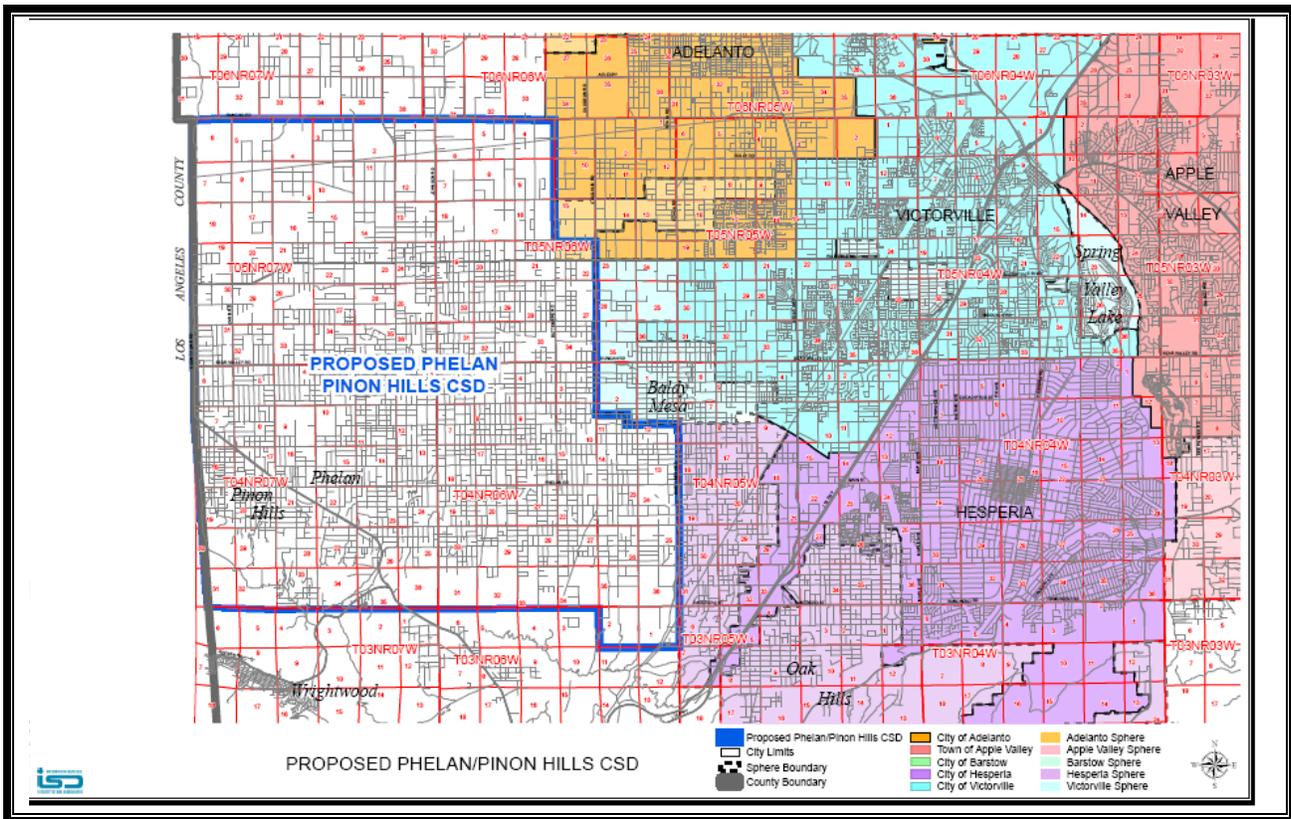
As the evaluation of this proposal begins, State law requires that the Commission's decision must include, but not be limited to, answers to the following questions:

1. Do the boundaries of the proposed new district make sense from a service delivery perspective for current and future growth? Are the boundaries reasonably recognizable? Do they promote efficient service delivery? Do they represent a community of interest? Do the proposed boundaries infringe on other established spheres of influence that might impede achievement of Commission goals in those areas?
2. Would the formation of the new district impair the ability of any other agency to continue providing services? Would there be any adverse financial or service impacts on other agencies that would damage their ability to maintain service levels in other areas?
3. Is the proposed new district financially feasible? Can it, at least, maintain the pre-formation service levels that are currently provided within the study area?
4. Does the proposed formation represent the best available service option for the community? Are there better alternatives for the provision of the range of services within the study area? Does the proposed formation provide for a more efficient and accountable form of government?
5. Would the proposed formation have any adverse environmental effects that cannot be mitigated to a level of non-significance? If it does, can those adverse effects be overridden by other benefits?

Although the Commission's response to some of these questions may not be politically popular, the unique role defined for the Commission in State law requires that the answers to these be the focus of its consideration. At the May 16th hearing, answers to questions related to the boundaries and environmental determinations will be discussed, while the balance of the discussion will need to be continued to the June 20, 2007 hearing to allow for receipt of additional information from the County. The boundary and environmental issues are discussed in the narrative which follows.

THE STUDY AREA

The map below provides the outline of the boundaries proposed for the Phelan Pinon Hills CSD (PPHCSD) and its regional location:



The boundary presented for the PPHCSD is reflective of the identified community, as it is the boundary identified in the County’s recent adoption of the Phelan Community Plan (February 2007). The proposed CSD does infringe upon the City of Adelanto sphere of influence at its southwestern edge reflecting the existing service boundary of CSA 70 Zone L. LAFCO staff has reviewed this question with staff representatives of the City of Adelanto who have expressed no opposition to the inclusion of the area and ultimate exclusion of the territory from the City’s sphere of influence. No other infringement upon any other established or presently-proposed sphere of influence determinations has been identified. The existing agencies within the area and/or whose sphere of influence includes the area are:

- CSA 9, which serves the community of Phelan, whose sphere is coterminous with its boundaries.
- CSA 56, which serves the communities of Wrightwood and Pinon Hills.
- CSA 70 (which includes the entirety of the County’s unincorporated territory), whose sphere is coterminous with its boundaries.

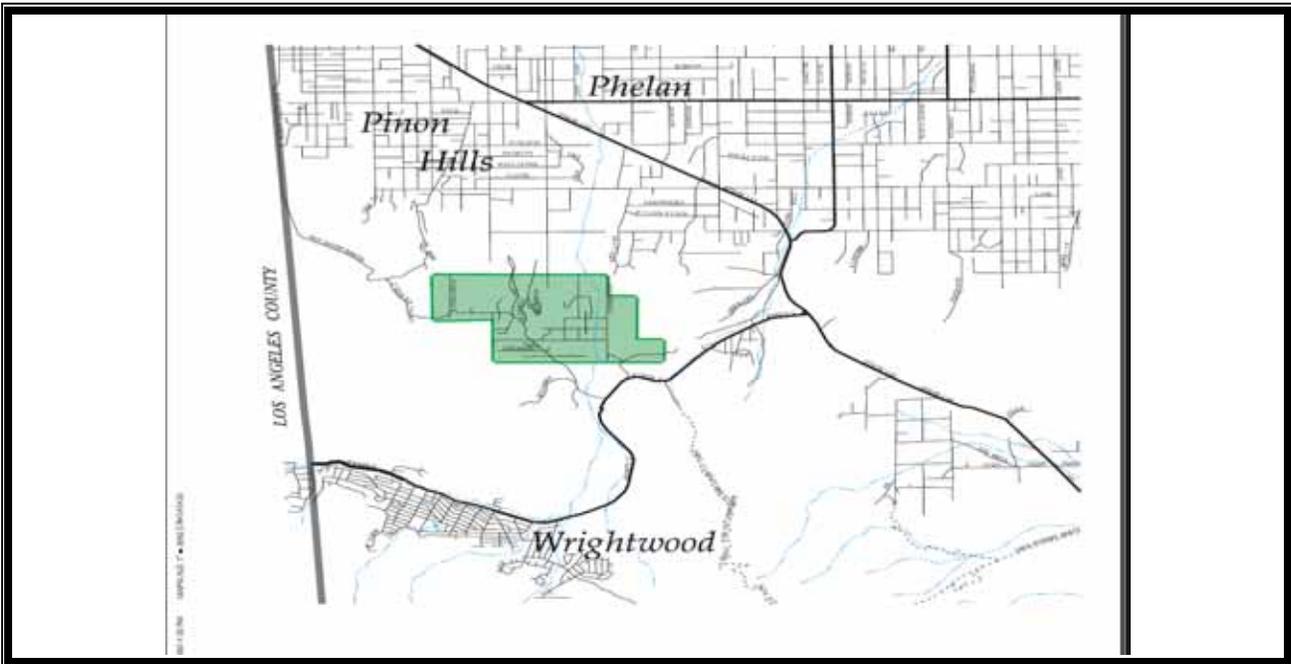
- CSA 56 Zone F-1, CSA 70 Zones L and G, which have no sphere of influence designation by the Commission.
- County Service Area 38, whose sphere of influence is the unincorporated territory of the County of San Bernardino, overlays the Phelan Community for fire protection purposes.
- County Service Area 60 overlays the entirety of the area for purposes of financing the operations of the Apple Valley Airport and is within its sphere of influence.
- Mojave Water Agency overlays the entirety of the area and is included within its sphere of influence.
- Mojave Desert Resource Conservation District overlays the entirety of the territory and is included within its sphere of influence.
- Sheep Creek Mutual Water Company (a shareholder-owned company) overlays the central portion of the Phelan community, which has no sphere of influence designation by the Commission.

The Cities of Adelanto, Victorville and Hesperia have been provided copies of the proposal for formation of the PPHCSD. None of the Cities have provided a response in opposition to the proposal.

As a part of the Commission's review of the reorganization proposal to consolidate the Board-governed agencies into a new independent CSD, it is necessary to conduct the municipal service review for these communities to determine the appropriateness of the boundaries presented.

MUNICIPAL SERVICE REVIEW FOR THE PHELAN/PINON HILLS COMMUNITIES

The Commission has chosen to implement its statutory requirement to conduct municipal service reviews on a regional basis, further defined by its community-by-community policy approach to sphere of influence identification. In the present circumstance, the community of Phelan/Pinon Hills is served by multiple agencies which provide for the full range of services. In some instances these agencies served the combined communities, in others they are limited to one or the other. For the Phelan/Pinon Hills community the only municipal services not discussed in detail will be fire protection, paramedic and ambulance services. These services will be considered when the Commission conducts its review of LAFCO 3000 et al. the "County Fire Reorganization". The information provided by the County Special Districts Department personnel for these reviews is included as Attachments #3 through #5 of this report. These responses are briefly summarized below.



While its parent district, CSA 70, is authorized the full gamut of urban services, CSA 70 Zone L is only authorized the provision of retail water service within its boundaries.

The water supply for CSA 70 Zone L is pumped from the local groundwater basin. The groundwater levels in this basin have been declining for a number of years and development within the entirety of the Victor Valley will continue to contribute to the basin's overdraft issues. However, the basin has been adjudicated as a result of a lawsuit over these continuing overdraft conditions and the stipulated judgment specifies the amount of water that can be annually extracted by each of the major water producers. Since the amount of groundwater production is limited, water producers using more than their Free Production Allowance (FPA) incur an obligation to buy imported water to offset excess groundwater use. CSA 70 Zone L has purchased unused water resources from other County-governed entities to cover its replacement water offset requirements in the past. In addition, due to the high cost for purchase of replacement water necessitated by the terms of the adjudication, CSA 70 Zone L has purchased property outside the jurisdiction of the Mojave Water Agency (MWA), water master for the adjudication. These properties within Los Angeles County include a well site and pumping facilities which provide a supplemental source of water for the District which provides for a portion of the replacement water.

During 2000 and 2001, the County Special Districts Department commissioned studies of the water production and delivery system for CSA 70 Zone L. The conclusions of the study conducted by Engineering Resources of Southern California (ERSC) were that there were a number of system improvements required to resolve deficiencies in supply to meet minimum daily requirements, capacity

deficiencies which involved the construction of four additional 1.0 million gallon reservoirs, and transmission facilities deficiencies to meet mandated fireflow requirements. While there are naturally-occurring water quality problems throughout the basin, staff is not aware of any naturally-occurring arsenic problems within the Phelan/Pinon Hills community; but these do occur in the communities to the east.

Growth and Population Projections:

Zone L currently serves an estimated population of 19,226 through 6,000 connections. The District’s total service population is projected to increase as identified by the Table below taken from the Phelan Community Plan. Of importance is that the current population estimated through service connections is 63% of the 2030 population projection of the Community Plan.

Table 3: Population, Households and Employment Projection 2000-2030

	1990	2000	Projection 2030	Average Annual Growth Rate: 1990-2000	Average Annual Growth Rate: 2000-2030	Maximum Policy Map Build-Out	Ratio of 2030 Projection to Land Use Policy Map Build-out
Population	11,586	16,298	30,434	3.5%	2.1%	110,959	0.27
Households	3,866	5,450	10,202	3.5%	2.1%	36,260	0.28
	1991	2002		1991-2002	2002-2030		
Employment	1,515	1,939	3,372	2.3%	2.0%	43,740	0.08

Source: Stanley R. Hoffman Associates, Inc.
 Note: The population estimates for 1990 and 2000 were based on the U.S. Census. The employment estimates for 1991 and 2002 were based on data from the EDD (Employment Development Department).

Growth within Zone L has fluctuated from year to year with a growth between 1996 and 2006 of 1,564 connections which represents an estimated population of 5,865. As identified in the Special Districts Department response to the municipal service review factors, a continued building boom within this area will continue to burden the system and supplies of Zone L unless the recommendations of the Urban Water Management Plan and the ERSC Report are implemented.

Financing Opportunities and Constraints:

Zone L is funded through: (a) customer fees/charges; (b) a share of the 1% ad valorem property taxes, totaling \$692,877 in FY 2006-07 as identified by the County Auditor/Controller; and (c) special assessments. Pursuant to the Audit Report performed for Fiscal Year 2005-06 (which included the operations of CSA 70 Zone G, Zone L and Zone L-1 for water), it has an operating budget of approximately \$5.6 million, with the largest expenditures resulting from labor, power and services and supplies costs. Revenues during that period were approximately \$6.6 million, with water sales (\$3.2 million), connection fees (\$2.2

million), property taxes and special assessments (\$1 million) and other charges (\$302,119) as the largest listed sources. The District has an existing loan with the California Economic Development and Infrastructure Bank (CIEDB) for approximately \$4.0 million dollars to fund the construction of required capital improvements including four storage reservoirs, the drilling and equipping of one new production well, and the construction of approximately five (5) miles of transmission pipeline. The District has pledged its water enterprise fund revenue stream to secure the loan rather than its property tax revenue receipts. This pledge was determined to be the appropriate method based upon the CIEDB view that the property taxes for this entity were not an acceptable security source since they had never been voted upon by the electorate. While the District's fund balance at the end of Fiscal Year 2005-06 was only \$208,975, it has an enterprise fund current asset of \$12.3 million dollars per the Audit Report.

The District has adopted financial policies consistent with industry standards, and has submitted its audited financial statement for Fiscal Year 2005-06 as requested by LAFCO staff.

Rate Issues and Restructuring:

The County Special Districts Department, as the administrators of all Board-governed special districts, examines rates annually, provides for a public hearing process for their adoption and adjusts rates as needed. These rates are based on encouraging conservation and are a combination of a monthly meter fee and commodity rates. The District increases the commodity rate to encourage more conservation. The following table provides a comparison of rates within this general region during 2005-06 as outlined in the materials submitted for the municipal service review:

WATER RATES FOR FISCAL YEAR 2005-06						
AGENCY	FLAT RATE	TIER ONE \$/HCF	TIER TWO	TIER THREE	MONTHLY METER CHARGE (1" METER)	COST BASED ON AVERAGE CONSUMPTION
APPLE VALLEY RANCHOS WATER COMPANY	\$1.34				\$40.03	\$121.60
BALDY MESA WATER DISTRICT		\$0.59	\$0.84	\$0.92	\$14.48	\$57.04
HESPERIA WATER DISTRICT		\$0.59	\$0.70	\$0.87	\$29.28	\$78.93
VICTOR VALLEY WATER DISTRICT		\$0.23	\$0.70	\$0.81	\$18.72	\$55.26
SOUTHERN CALIFORNIA WATER COMPANY	\$2.29				\$37.25	\$145.49
CSA 70 ZONE L		\$1.65	\$1.83	\$1.89	\$16.95	\$131.12

(HCF is the abbreviation for hundred cubic feet)

Information contained in the municipal service review information indicates that the average consumption in CSA 70 Zone L with a 1 inch meter is 75 HCF of water during a bi-monthly period. Average cost for consumption among the agencies

identified is \$98.24. It was identified that the water rates were estimated to increase by 2% for Fiscal Year 2005-06, 3% for Fiscal Year 2006-07 and 3% for Fiscal Year 2007-08.

Cost Avoidance Opportunities:

As a mechanism to control costs, the County Special Districts Department has consolidated many of the administrative and technical functions necessary to manage the provision of water service into its Water and Sanitation Division. Therefore, CSA 70 Zone L has no direct employees on its payroll; it pays for an annual Full-time Equivalent (FTE) of the estimated number of positions necessary to serve it; it pays a proportional share of the administrative costs of the Water and Sanitation Division; and it pays a proportional cost of the administrative functions of the County Special Districts Department.

In addition, CSA 70 Zone L pays into the funds for the purchase of joint use equipment, such as billing systems, graders, backhoes, etc., based upon its number of connections in proportion to other water service entities; therefore, the number and types of equipment in the name of CSA 70 Zone L are limited to only those exclusively used for its service and paid through its operational funds.

Local Accountability and Governance:

The governing body of CSA 70 Zone L is the County Board of Supervisors, which has instituted a Water Advisory Commission which meets within the community to review development projects and advise on water-related issues. The representatives of the Water Advisory Commission are appointed to four-year terms. Funding for the activities of the Water Advisory Commission is provided by CSA 70 Zone L.

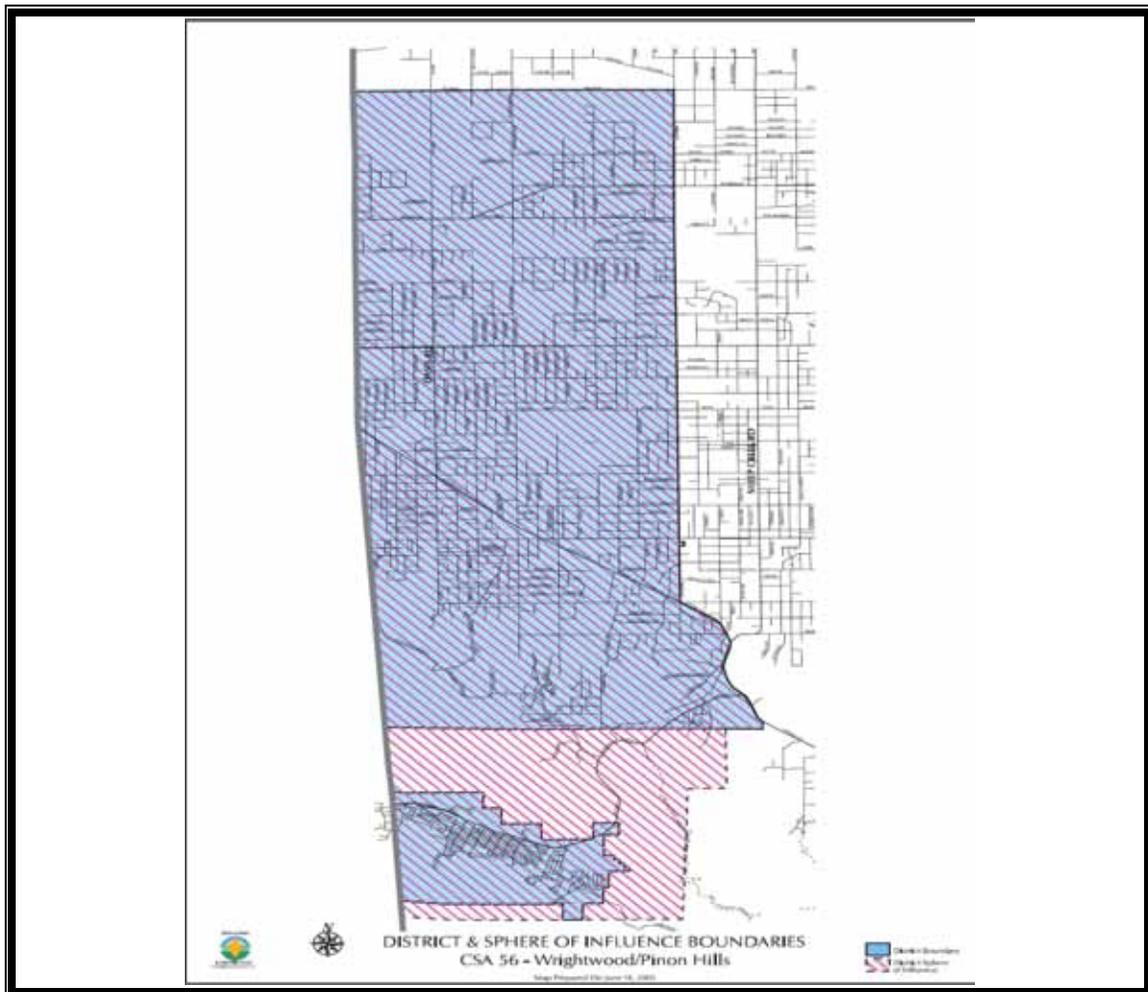
Other Governmental Service Options:

County Special Districts staff in preparing the municipal service review indicated that there were no consolidations or other activities available for the operation of CSA 70 Zone L. LAFCO 3070 initiates the reorganization to consolidate CSA 70 Zone L with the other Board-governed agencies within the Phelan/Pinon Hills communities into a single, independent community services district to achieve local control and a single administrative entity for the community.

Staff found no other factors relevant to this consideration. CSA 70 Zone L does not have a sphere of influence assignment, as it is not under the jurisdiction of LAFCO for boundary changes. However, LAFCO 3070 proposes to dissolve CSA 70 Zone L and declare the PPHCSD as the successor district for its operations, responsibilities, assets and liabilities.

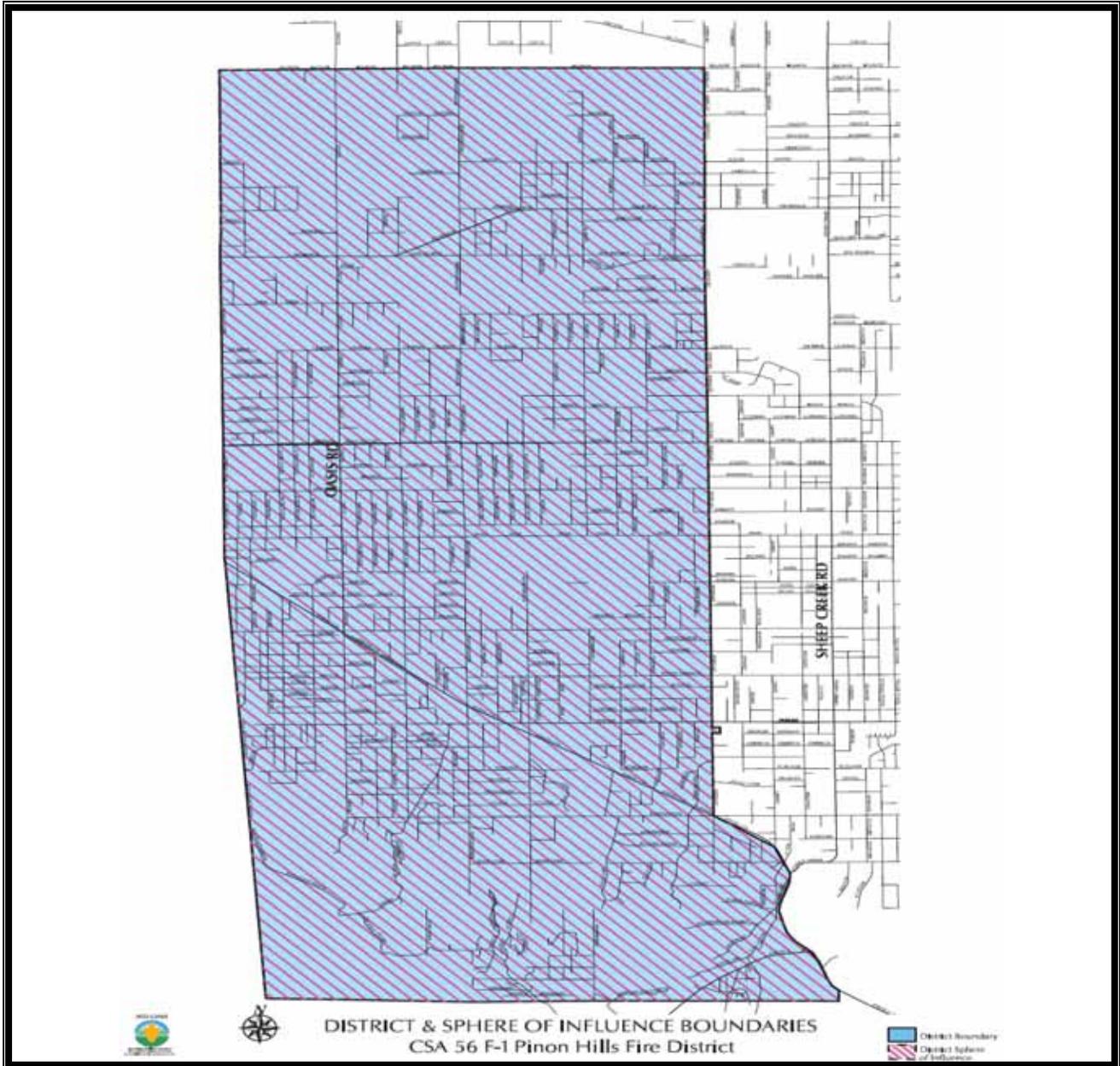
COUNTY SERVICE AREA 56 AND CSA 56 IMPROVEMENT ZONE F-1

County Service Area 56 was formed September 19, 1966 to serve the Wrightwood community with park and recreation, streetlighting and animal control services. In 1980, the County Board of Supervisors initiated, and LAFCO approved, a reorganization to consolidate the services to the Wrightwood community under a single entity, CSA 56; this action dissolved the Wrightwood Fire Protection District, expanded the services authorized CSA 56 and annexed additional territory. As previously noted, fire protection services are being reviewed as a part of LAFCO 3000 "County Fire Reorganization", are not directly affected by this reorganization to include formation, and are not reviewed in this document except in explanation of jurisdictional changes to the parent district. In 1983, the Pinon Hills community requested annexation to CSA 56, which was approved. A map of CSA 56 is provided below:



In 1983, when the Pinon Hills community requested annexation to CSA 56, it also requested the creation of an improvement district to address their local fire protection services. This request stemmed from concerns regarding the cost of

providing fire protection services through CSA 38 and CSA 38 Improvement Zone F, operated at that time by the California Department of Forestry (CDF). The map below illustrates the boundary of CSA 56 Zone F-1:



So for the past twenty plus years, the jurisdiction for the administration of the majority of services received by the Pinon Hills community has been joined with that of the community of Wrightwood.

CSA 56 is authorized by LAFCO the active functions to provide the services of: fire protection, ambulance, park and recreation, streetlighting, sewers, and animal

control. However, according to information provided by the County Special Districts Department it only actively provides fire protection, ambulance, park and recreation and streetlighting at the present time within the Wrightwood community. CSA 56 Zone F-1 is authorized by the County Board of Supervisors; LAFCO is only involved with the services authorized to the parent district, to provide fire protection and park and recreation services.

Of concern to LAFCO staff, and the overall processing of LAFCO 3070, is the sustainability of CSA 56 to provide its range of services following completion of the reorganization. This concern stems from 45% of the property tax revenue stream to fund the services of CSA 56 being derived from within the community of Pinon Hills, territory proposed to be removed through detachment. The information provided by the County Special Districts Department identifies that both CSA 56 and CSA 56 Zone F-1 are having difficulty funding ongoing maintenance and operation of park and recreation services through their assigned share of the ad valorem property taxes; therefore, the reduction of 45% of the revenue stream would make CSA 56 no longer able to sustain its services.

While it may be argued that the Wrightwood community has received the benefit of this level of funding in error, LAFCO is required to address the existing situation and determine a mechanism to keep CSA 56 in a comparable financial position as a part of this formation process.

Financing Opportunities and Constraints:

The ad valorem property tax revenues which are attributable to CSA 56 and CSA 56 F-1 for Fiscal Year 2006-07 are:

CSA 56	\$658,417
CSA 56 Zone F-1	\$233,372

Pursuant to the existing formula for division of property revenues between fire and other operations, the ad valorem property tax revenues evaluated in this service review are identified as follows:

CSA 56	\$59,258	(91% Fire/9% CSA 56)
CSA 56 Zone F-1	\$42,007	(82% Fire/18% CSA 56 Zone F-1)

However, as a part County Fire Reorganization, the County Administrative Office, County Fire and Special Districts Department have negotiated the permanent transfer of property tax revenues from multi-function entities, such as CSA 56 and CSA 56 Zone F-1. This agreed to formula is outlined in a letter to LAFCO dated April 13, 2007 (copy included as Attachment #6 to this report). The new formula would retain the following non-fire revenues:

CSA 56	\$59,258	(91% Fire/9% CSA 56)
CSA 56 Zone F-1	\$35,006	(85% Fire/15% CSA 56 Zone F-1)

It was noted in the municipal service review materials that the fire fund currently funds the streetlighting within the Wrightwood community (22 lights as of the date of these materials) which will need to be resolved prior to completion of the County Fire Reorganization. The municipal service review materials identify the need to identify new revenue sources to maintain existing levels of service.

Cost Avoidance Opportunities:

The materials provided identify that the County Special Districts Department, as a mechanism to control costs, has consolidated many of the administrative and technical functions necessary to serve the Board-governed districts. Therefore, CSA 56 and CSA 56 Zone F-1 have no direct employees on their payroll, they pay for an annual Full-time Equivalent (FTE) of the estimated number of positions necessary to serve them, and they pay a proportional cost of the administrative functions of the County Special Districts Department.

Local Accountability and governance

The Board of Supervisors is the governing body of CSA 56 and CSA 56 Zone F-1. It has instituted a local advisory commission to respond to questions of the community and to advise the Board of Supervisors on areas of interest within the purview of the Districts. The advisory commission for CSA 56 is the Wrightwood Municipal Advisory Council (MAC) and the advisory commission for CSA 56 Zone F-1 is the Pinon Hills MAC. The members of the MAC are appointed to four (4) year fixed terms. Funding for the activities of the MACs is provided through their respective Districts.

Other Governmental Service Options:

County Special Districts staff in preparing the municipal service review indicated that there were no consolidations or other activities available for the operation of CSA 56 or for CSA 56 Zone F-1. However, LAFCO 3070 initiates the reorganization to consolidate CSA 56 Zone F-1 with the other Board-governed agencies within the Phelan Pinon Hills communities into a single, independent community services district to achieve local control and a single administrative entity for the community. In addition, the reorganization proposes the detachment of the parent district, CSA 56, from the area, reducing its boundaries to those of the Wrightwood community.

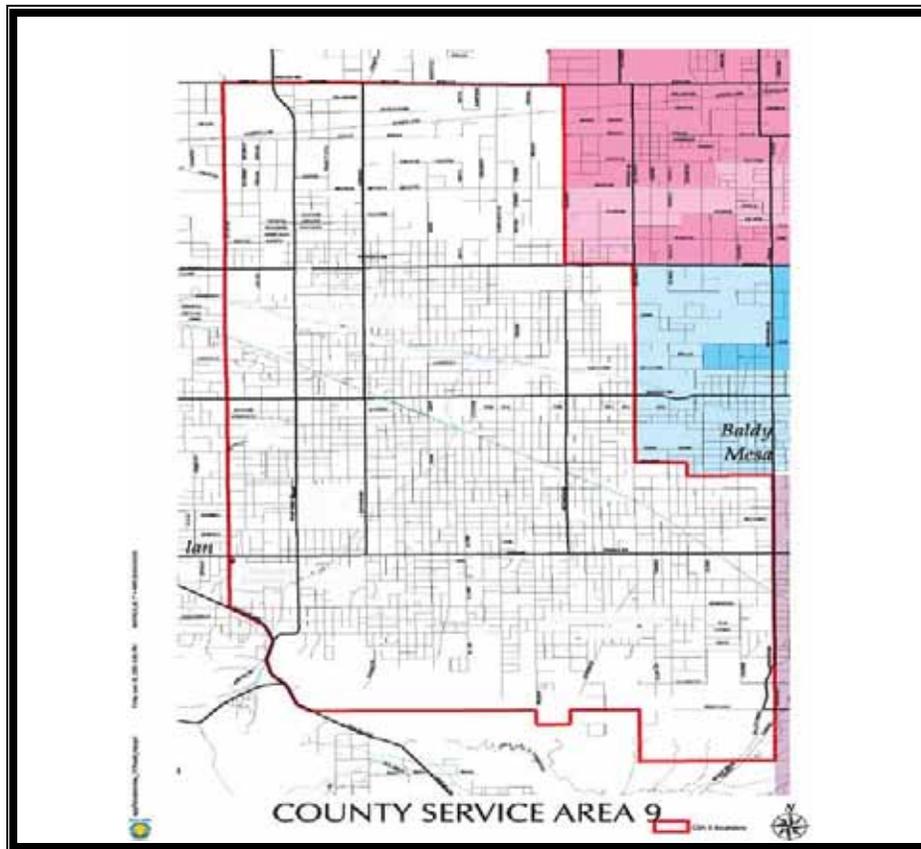
Staff found no other factors relevant to this consideration. CSA 56 has a sphere of influence assignment that currently includes the Pinon Hills community. As a result of this municipal service review and processing of LAFCO 3070, a sphere of influence change will be required to reduce the sphere of influence to represent the Wrightwood community. It is being recommended that the Commission direct staff to provide for an environmental evaluation of this sphere of influence reduction and return with a recommendation at the June 20, 2007 hearing.

COUNTY SERVICE AREA 9

County Service Area 9 was formed on January 8, 1962 with the authorized function to provide streetlighting services to a nine (9) square mile area then defined as the community of Phelan. Between 1962 and 1997, no changes in the boundaries of CSA 9 were processed. In 1997, three separate actions were processed to:

- (a) expand the powers authorized CSA 9 to include park and recreation and road maintenance;
- (b) expand the sphere of influence to include the whole of the Phelan community as defined by the then adopted community plan; and
- (c) annex 45,000 acres to CSA 9 for the provision of its authorized services.

Following these changes, the existing boundaries of CSA 9 are shown below:



At present, CSA 9 provides funding for 108 streetlights within the community and the operation and maintenance of the park located at the corner of Sheep Creek Road and Warbler. It was indicated that the park development was through the

receipt of a Proposition (Prop.) 12 grant from the State and County General Fund revenues, with ongoing maintenance and operation a function of the property tax revenues of CSA 9.

Financing Opportunities and Constraints:

The ad valorem property tax revenues which are attributable to CSA 9 for Fiscal Year 2006-07 are \$50,513, which support the streetlighting service (108 streetlights) and the park and recreation services for operation of the park dedicated in November 2004. In the municipal service review materials it outlined that the District had an outstanding loan of \$80,000 from the County's CSA Revolving Loan Fund, which had a ten-year term, for its matching fund obligation for the Prop. 12 Grant for park installation. This obligation has been repaid.

The cost for administration and operation of the District's park and its streetlights exceeds the annual ad valorem property tax revenue of the District. The municipal service review materials identify the need to identify new revenue sources to maintain existing levels of service.

Cost Avoidance Opportunities:

As identified for the other agencies, CSA 9 has no direct employees but participates in the pooled resource of County Special Districts Department personnel. It is billed for the costs for administrative support through an annual allocation of full-time equivalent units and direct payment for Department administrative costs.

Local Accountability and Governance:

The governing body of CSA 9 is the County Board of Supervisors, which utilizes the Phelan MAC as the advisory commission for this CSA. Its membership is appointed to four (4) year fixed terms.

Other Governmental Service Options:

County Special Districts staff in preparing the municipal service review indicated that there were no consolidations or other activities available for the operation of CSA 9. However, LAFCO 3070 initiates the reorganization to consolidate CSA 9 with the other Board-governed agencies within the Phelan/Pinon Hills communities into a single, independent community services district to achieve local control and a single administrative entity for these services.

Staff found no other factors relevant to this consideration. CSA 9 has a sphere of influence assignment coterminous with its existing boundaries. However, LAFCO 3070 proposes to dissolve CSA 9 and declare the PPHCSD as the successor district for its operations, responsibilities, assets and liabilities. Therefore, as a result of this municipal service review and processing of LAFCO 3070, a sphere of influence

change will be required to determine a zero sphere of influence for this entity signaling the appropriateness of the dissolution contemplated by LAFCO 3070. It is being recommended that the Commission direct staff to provide for an environmental evaluation of this sphere of influence reduction and return with a recommendation at the June 20, 2007 hearing.

Based upon the information outlined above, it is the staff's position that:

1. The boundaries presented to the Commission for the PPHCSD through LAFCO 3070 represent the combined communities of Phelan and Pinon Hills, for a cohesive socio-economic community of interest.
2. The boundaries of LAFCO 3070 represent a reasonable service boundary for current and future growth within the community as identified within the Phelan Community Plan.
3. The boundaries represent an efficient service delivery pattern for the full range of services contemplated for the agency through absorption of the existing service providers: CSA 9, CSA 56 Zone F-1, and CSA 70 Zone L.
4. The area of the City of Adelanto sphere of influence which has been included within the PPHCSD is currently provided service through CSA 70 Zone L and cannot be easily transferred to service by the City of Adelanto. Therefore, it should be included within the boundary of CSD. No other entities' established sphere of influence is infringed upon by the boundaries of the PPHCSD.

FINANCIAL CONSIDERATIONS

The Committee submitted a Feasibility Study to the County for its use in determining whether or not to initiate the proposal for formation of the PPHCSD. In turn, the County submitted that Feasibility Study as a part of its application to LAFCO. LAFCO staff, members of the County Administrative Office and Special District Department and Committee members have been working on the evaluation of that study and as well as supplemental information required by LAFCO staff to fully evaluate the implications of the proposal to determine that:

1. The formation of the District is financially feasible;
2. The District has the ability to maintain the pre-formation service levels and sustain those levels of service; and
3. The District will have a reasonable reserve for the first three years of its existence.

As of the date of preparation of this report, the required supplemental information has not been completed. Therefore, staff is not prepared to render an evaluation of the necessary financial considerations at this hearing. This requires that the proposal be continued to the June hearing for final consideration.

However, there are two areas of consideration whose preliminary consideration can be undertaken at this hearing with direction provided to LAFCO staff so that a final determination can be returned at the June hearing. These two areas relate to the required ad valorem property tax revenue transfer and appropriation limits. The following outlines these areas for the Commission:

Property Tax Transfer:

Government Code Section 56810 governs the process for the transfer property tax revenues for the incorporation of a new city and the formation of a new special district. Pursuant to these provisions, LAFCO staff contacted the County Auditor/Controller-Recorder and requested information regarding the property tax revenues attributable to the affected agencies, CSA 9, CSA 56, CSA 56 Zone F-1, CSA 70 Zone L, CSA 70 Zone L-1 and CSA 70 Zone P-4.

The Auditor/Controller has provided an outline of existing entities and their revenues currently within the boundaries of the PPHCSD. Excluded from this list are CSA 70 Zone L-1 (special assessment entity) and CSA 70 Zone P-4 (no property tax revenues). The following lists the entities affected by this reorganization and the Fiscal Year 2006-07 share of the general ad valorem property tax they receive:

CSA 9	\$50,513
CSA 56	\$658,417
CSA 56 Zone F-1	\$233,372
CSA 70 Zone L	\$692,877

The second part of these provisions is to determine whether or not the entirety of the agency would be transferred. In this consideration, the entirety of CSA 9, CSA 56 Zone F-1, CSA 70 Zone L and CSA 70 Zone P-4 will be transferred since LAFCO 3070 proposes to dissolve these agencies and transfer their responsibilities and revenues for park and recreation, streetlighting, and water service to the PPHCSD CSD as the successor agency. However, in the case of CSA 56 Zone F-1, a portion of its funding stream is attributable to its fire protection responsibilities. As outlined in the narrative discussion of the municipal service review the property tax revenues have been historically divided 82% funding fire and 18% funding park and recreation; therefore, the revenue transfer would be \$42,007 to the PPHCSD and \$191,365 to County Fire for continuing operation.

However, as a part of the overall County Fire Reorganization currently in process, LAFCO, County Administrative Office, County Special Districts, and County Fire staffs have been working on a resolution of the permanent transfer of fire funding from multi-purpose County-governed agencies. Pursuant to these discussions,

representatives of the County Administrative Office, Special Districts, and County Fire have provided their agreed upon division of these revenues, which is outlined in the letter dated April 13, 2007 (copy included as Attachment #6). Their determination is that the division for CSA 56 Zone F-1 should be altered to increase fire funding to 85% of the revenues and park and recreation decreased to 15% of the funding. This will change the revenue distribution to \$198,366 to fire and \$35,006 to park and recreation (a \$7,001 per year reduction). This reduction will change the Revenue and Expenditure Projections provided in the Feasibility Study.

In addition, CSA 56 provides service to the Pinon Hills/Wrightwood areas. The proposal anticipates the detachment of CSA 56 from this area which requires a transfer of the property tax revenues to successor agencies. As outlined in the municipal service review discussion above, the problem is that the Pinon Hills community does not receive services through CSA 56; CSA 56 is solely a service provider for the community of Wrightwood for fire protection and park and recreation services. In addition, as outlined above, the County Fire Reorganization anticipates the transfer of the fire revenues generated from CSA 56 to the new Consolidated Fire Agency. According to the April 13, 2007 letter from the County, the historic division of revenues is anticipated to be maintained, with 91% going to fire and 9% going toward park and recreation service. Based upon the \$658,417 in property tax revenues generated within the Pinon Hills community for CSA 56, \$599,159 will be transferred for continuing fire responsibilities in Wrightwood and \$59,258 would be attributable to park and recreation services. However, the park services funded are for Wrightwood, not Pinon Hills. Under the standard process, these revenues would be transferred to the PPHCSD for provision of services to the area. But such an action would represent a 45.25% reduction in revenues to CSA 56 park and recreation property tax revenues to serve the community of Wrightwood and their removal would render that entity unable to continue to sustain its level of service. The Commission would be precluded from approving this proposal on the basis of its impact on the CSA 56 service provision.

While staff could argue that the revenues generated within a given community should be retained to support services to the community, in this case LAFCO must deal with the issue as it presently exists. CSA 56 has been historically receiving these revenues for services provided to the Wrightwood community, right or wrong, and the Commission is precluded from taking an action that renders CSA 56 unable to sustain its service. Therefore, in order to rectify this situation, LAFCO staff will be proposing the requirement to transfer revenues back to the Wrightwood community to maintain the existing level of service through the process outlined in Revenue and Taxation Code Section 99.02 as a condition of approval. Staff is not prepared at this time to outline that condition based upon the change in revenue distribution in the County's April 13th letter and additional information yet to be provided on financial considerations. The staff's recommendation on this issue will be a part of the June 20th hearing staff report.

The property tax revenues that are attributable to CSA 9 and CSA 70 Zone L will transfer in their entirety, \$50,513 and \$692,877, respectively, to the new CSD.

Calculation of Appropriation Limit:

For the formation of any new special district, the Commission is required to establish its provisional appropriation limit. Government Code Section 56811 sets forth the required method to be utilized in calculating the provisional appropriation limit for the new Phelan Pinon Hills CSD. Under typical circumstances, the appropriation limit of the dissolving entities would be identified and transferred to the new agency, with an estimated change in the cost-of-living applied. However, CSA 70 Zone L has no appropriation limit assigned and the appropriation limit for CSA 56 F-1 is identified as being for fire protection purposes only. As noted above, CSA 70 Zone L received approximately \$692,877 in property tax revenues during Fiscal Year 06-07 and has received property tax revenues since its formation in 1972. The Audit Report prepared for CSA 56 does not differentiate between CSA 56 and CSA 56 Zone F-1 and the Audit Report for CSA 70 Zone L also includes Zones G and L-1 and does not differentiate between those entities.

Therefore, prior to the final hearing on LAFCO 3070, a mechanism to determine the provisional appropriation limit will need to be finalized in order to comply with Section XIII B of the State Constitution and the requirements of Government Code Section 56811. If the formation of the PPHCSD is approved and successful, the new District will be required to set its permanent appropriation limit at the first District election held following the first full fiscal year of operation.

Additional requirements to evaluate the financial considerations and the impacts on other entities to continue to provide their services, such as the County Special Districts Department and CSA 56 – as outlined above – will need to be addressed at the June hearing following submission of the additional data.

ENVIRONMENTAL CONSIDERATIONS:

The Commission is the lead agency for review of the potential environmental consequences of this change. In order to fulfill that requirement, the Commission's Environmental Consultant, Tom Dodson and Associates, prepared, and LAFCO staff reviewed, advertised and circulated, an Initial Study and a Mitigated Negative Declaration for this proposal. The documents were forwarded, by certified mail, to all interested and affected agencies as well as the State Clearinghouse for review by State agencies. The comment period closed at 5:00 p.m on April 30, 2007.

The only comments received to the circulation of the materials were indications of no comment from the State Clearinghouse and comments from Mr. Charlie Johnson, Chairman of the Feasibility Committee. Therefore, the original Initial

Study will be utilized as the description of environmental impacts anticipated by this project.

Included in the Initial Study is a discussion of the requirement to transfer a level of funding to CSA 56 to assure the continued operation of its park program following the detachment of the Pinon Hills community from its boundaries. The Initial Study includes the following mitigation measure to address this situation:

“LAFCO shall ensure that the existing tax rate allocation within CSA 56 is revised/modified to shift either \$40,000 or other specific amount of funds generated for park and recreation services in Fiscal Year 2006-07 to Wrightwood. This revision shall result in adequate funding being made available to the Wrightwood portion of CSA 56 to meet current park and recreation service levels.”

As identified in the discussion under financial considerations, a condition of approval will need to be made that requires the transfer of funds to continue the park operation. Without the additional information needed to discuss the financial implications of this proposal, no final recommendation on the language of that condition has been provided; however, it will be addressed in the staff report presented for the June 20th Commission hearing. A copy of the Initial Study and Negative Declaration are included as Attachment #7 to this staff report. Mr. Dodson has indicated that the following actions must be taken by the Commission prior to consideration of the proposal:

- a) Certify that the Commission and its staff have reviewed and considered the environmental assessment and Negative Declaration prepared by the Commission’s Environmental Consultant, Tom Dodson and Associates; has reviewed and considered any comments received; and provided a response to those comments;
- b) Adopt the Negative Declaration, including the mitigation measure, including the related De Minimis Impact Finding Statement;
- c) Find and determine that the Commission does not intend to adopt alternatives but does include the mitigation measure related to the transfer of funding for CSA 56 for the project; and,
- d) Direct the Clerk to file a Notice of Determination together with a Certificate of Fee Exemption within five (5) days;

CONCLUSION:

The purpose of this hearing is to provide an outline of the municipal service review materials for the Phelan/Pinon Hills communities and to open the discussion of LAFCO 3070 proposing formation of the PPHCSD. The staff has outlined a determination that the boundaries as presented for this reorganization meet the

objectives of Community Services District Law, LAFCO statutes and policies of the Commission as follows:

- The boundaries of the proposed new District make sense from a service delivery perspective for current and future growth as they are reflective of the Phelan Community Plan adopted February 2007 by the County of San Bernardino.
- The boundaries are reasonably recognizable in that they follow the Community Plan delineation. Except for a single instance of overlap with the City of Adelanto, they are based upon the exclusion of other municipal spheres of influence. The exception relates to an existing service responsibility that is not opposed by the City of Adelanto and will not impede the Commission's goals for the area.
- The boundary promotes efficient service delivery since it represents the area requiring the full-level of planning for the services to be offered by the PPHCSD as identified in the Community Plan.
- It represents a community of interest as such is defined by the adoption of the Phelan Community Plan.

Therefore, staff believes that these boundaries should be utilized by LAFCO staff as it prepares the final financial and service considerations for LAFCO 3070.

RECOMMENDATION

Staff recommends that the Commission at this time make determinations upon the municipal service review for the communities of Phelan and Pinon Hills, make determinations regarding the environmental assessment for LAFCO 3070 and continue this consideration to the June 20, 2007, hearing for the final consideration of LAFCO 3070. Therefore, staff recommends that the Commission take the following actions:

1. With respect to environmental review:
 - a) Certify that the Commission and its staff have reviewed and considered the environmental assessment and Negative Declaration prepared by the Commission's Environmental Consultant, Tom Dodson and Associates; it has reviewed and responded to any comments received;
 - b) Adopt the Negative Declaration, including the mitigation measure and related De Minimis Impact Finding Statement;
 - c) Find and determine that the Commission does not intend to adopt alternatives for the project but does intend to include a mitigation

measure related to sustained funding for CSA 56's park and recreation operations;

- d) Direct the Clerk to file a Notice of Determination, together with a Certificate of Fee Exemption within five (5) days.
2. Receive and file the municipal service review for the communities of Phelan and Pinon Hills – addressing CSA 9, CSA 56, Improvement Zone F-1 of CSA 56, and Improvement Zone L of CSA 70 and direct staff to return at the June 20, 2007 hearing with environmental determinations related to the sphere of influence updates as appropriate and the provision of draft resolutions for Commission consideration.
3. Continue the consideration of LAFCO 3070 to the June 20, 2007 hearing with direction to staff to finalize the ad valorem property tax transfer and appropriation limit considerations.

KRM/

Attachments:

- 1 -- Maps – Vicinity, Location, and Proposal Maps for the Phelan Pinon Hills CSD, CSA 9, CSA 56, CSA 56 Improvement Zone F-1 and CSA 70 Improvement Zones L and G
- 2 -- Application Including Feasibility Study
- 3 -- Audit Report and Municipal Service Review Information for CSA 9
- 4 -- Audit Report and Municipal Service Review Information for CSA 56 and CSA 56 Improvement Zone F-1
- 5 -- Audit Report and Municipal Service Review Information for CSA 70 Improvement Zones G, L and L-1
- 6 -- Letter Dated April 13, 2007 Regarding Transfer of Fire Funding From Multi-Purpose Special Districts
- 7 -- Letter from Tom Dodson and Associates Responding to Comments and the Environmental Assessment, Initial Study and Proposed Negative Declaration