

# LOCAL AGENCY FORMATION COMMISSION COUNTY OF SAN BERNARDINO

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**DATE:** NOVEMBER 30, 2010

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**TO:** LOCAL AGENCY FORMATION COMMISSION

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**SUBJECT:** Agenda Item # 10: Service Reviews for the Lake Arrowhead Community

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**INITIATED BY:** San Bernardino Local Agency Formation Commission

## **INTRODUCTION**

The Lake Arrowhead community is located in the mountain region of the County and includes most of the Lake Arrowhead Community Plan area (designated by the County General Plan) situated along State Highways 18, 173, and 189. Within the general Lake Arrowhead community are the unincorporated areas known as Rimforest, Twin Peaks, Blue Jay, Crest Park (Meadowbrook), Skyforest, Cedar Glen, Deer Lodge Park, and Lake Arrowhead. Geographical features include Lake Arrowhead, Grass Valley Lake, and Papoose Lake. Historical monuments include Indian Rock Camp, Daley Canyon Monument, and 101 Mile Scenic Highway Monument.

Agenda Item 8 on this month's agenda discusses road maintenance and snow removal throughout the Mountain region and includes service reviews for the road agencies in the Lake Arrowhead community. Reviews for the agencies in the Lake Arrowhead community that provide road and/or snow removal service are included in a separate report -- Agenda Item 8 -- which is intended to be read in conjunction with this report. These agencies include:

County Service Area 59  
County Service Area 69  
County Service Area 70 Zones R-4, R-7, R-13, R-22, R-35, R-40, R-46

Agenda Item 9 on this month's agenda discusses the interplay of services between the Crest Forest and Lake Arrowhead communities to include streetlights and fire protection. Additionally, that report provides staff's recommendation in defining the boundary between

the Crest Forest and Lake Arrowhead communities. Reviews for the agencies that considerably cross between these two communities are included in that separate report which is intended to be read in conjunction with this report. These agencies include County Service Area 54 (streetlights) and Crest Forest Fire Protection District. County Service Area SL-1 (streetlights – Lake Arrowhead portion) is included in Agenda Item 9 due to its unique nature as CSA SL-1 is associated with the Valley region of the county.

This report contains service reviews and sphere of influence updates for the remainder of the agencies within the Lake Arrowhead community. These agencies are:

Lake Arrowhead Community Services District  
County Service Area 70 Zone CG (water)  
County Service Area 70 Zone D-1 (flood control/dam [construction and maintenance] and park and recreation)

The San Bernardino County Fire Protection District Service Zone PM-1 exists as a funding mechanism for paramedic service in the Lake Arrowhead community. The sphere of influence proposal for the reorganization of County Fire, LAFCO 3001, included a service review for the former county service areas and zones that provided fire protection. Therefore, a service review for County Fire Service Zone PM-1 (CSA 70 PM-1 as its predecessor) is not provided in this report.

This report is organized as follows:

- Community Discussion – to include community history and recommendations on modifications to the Lake Arrowhead Community Services District sphere of influence
- LAFCO 3110 - Service Review and Sphere of Influence Update for Lake Arrowhead Community Services District
- Service Reviews
  - County Service Area 70 Zone D-1 (dam maintenance and park and recreation)
  - County Service Area 70 Zone CG (Cedar Glen – water and roads)
  - City of Big Bear Lake Department of Water and Power, Alpine Water Users Association and Arrowhead Villas Mutual (major private retail water entities)

## **COMMUNITY HISTORY**

The following provides a historical perspective of the community. The first section is a narrative history and includes information from the Lake Arrowhead Community Services District website<sup>1</sup>, the Department of Water Resources<sup>2</sup>, Crestline-Lake Arrowhead Water Agency website<sup>3</sup>, materials submitted from Lake Arrowhead Community Services District, and the Lake Arrowhead Community Plan<sup>4</sup>, unless otherwise cited.

The first white settlers arrived in Little Bear Valley (now known as Lake Arrowhead) in the 1820s. At that time, a small number of Paiute Indians, a warlike tribe, used the mountains for their hunting grounds. Likewise, a more peaceful tribe of Indians, the Serranos, lived in nearby Bear Valley, an area now known as Rock Camp, on the north side of the mountain.

In 1851, logging from Waterman Canyon to the crest of the San Bernardino Mountains began. By 1854 the San Bernardino Mountains were a main source of lumber for Southern California and small communities formed in the mountains. In the 1860s, as the area attracted settlers into the valley, there was heavy demand on the lumber mills that were scattered across the mountain top.

In 1891, a group of investors implemented a plan to contain the water draining into the Little Bear Valley as a part of a larger irrigation project. The Arrowhead Reservoir Company was formed and the company commenced construction of a dam at the east end of Little Bear Valley.

Further development occurred due to the construction of the 101-mile Rim of the World Highway in 1915 and Arrowhead Village in 1921. Post-WWII development ensued and resulted in a population boom for the area. As a result of a court decision which prevented delivery of the stored water to customers outside the natural watershed area, the Arrowhead Reservoir and Power Company ceased operations in 1921.

The Arrowhead Lake Company, a corporation formed by a group of Los Angeles businessmen, bought Little Bear Lake and the surrounding properties (approximately 4,800 acres) and changed the name to Lake Arrowhead and Arrowhead Woods respectively (deriving the name from the rock formation in the form of an arrowhead on the face of the San Bernardino Mountain, near Arrowhead Hot Springs). The company's plan was to develop the man-made lake into a summer resort with residential development.

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<sup>1</sup> Lake Arrowhead Community Services District. website. Accessed 11 August 2010. Last update unknown. <http://www.lakearrowheadcsd.com/Index.aspx>.

<sup>2</sup> California Department of Water Resources. Bulletin 119-19. "The Feasibility of Serving the Crestline-Lake Arrowhead Water Agency Area from the State Water Project". 1965.

<sup>3</sup> Spindler, Jennifer. Untitled. Excerpt from project at California State University San Bernardino Water Resources Institute. Undated. As accessed from the CLAWA website on 27 April 2010. Last update unknown. [www.clawa.org](http://www.clawa.org).

<sup>4</sup> County of San Bernardino. 2007 General Plan. Lake Arrowhead Community Plan. Adopted 13 March 2007.

In 1960, the Lake Arrowhead Development Corporation (LADC) assumed control and built the present 18-hole golf course and club house, subdivided 18 residential tracts, and purchased an additional 120 acres of land. A water filtration plant was built to filter domestic water supplied to the Arrowhead Woods residences.

To address the water challenges throughout the state, in 1957 the California Department of Water Resources issued the "California Water Plan". In order to provide for a system to provide supplemental water delivery to Southern California, in 1959 the *Burns-Porter Act* passed the State Legislature, authorizing construction of the State Water Project (formerly known as the Feather River Project). In November 1960, the voters in the state approved the project and the bond to finance the State Water Project.

During this same time, local concern over the declining ground water occurred due to the expansion in population. A 1961 California Department of Water Resources study<sup>5</sup> found that local groundwater supplies were declining confirming local suspicions. One year later, the Crestline-Lake Arrowhead Water Agency (CLAWA) was formed by an act of the California Legislature for the primary purpose of bringing supplemental water to the Crestline, Lake Arrowhead, and Hilltop communities. The original legislation introduced by Senator Shaw included the Arrowhead Woods area within CLAWA's boundaries. However, developer of Arrowhead Woods requested to be excluded from CLAWA's boundaries, confident that local water supplies in Lake Arrowhead would be sufficient to satisfy the consumptive needs of that area. While this exclusion was granted, the water allocation was not reduced which has benefited CLAWA in times of State Water Project reductions.

In 1967, LADC merged with Boise Cascade Corporation of Boise, Idaho (Boise). Boise continued the subdivision of properties and developed five additional residential tracts and continued to operate the water utilities.

In the early 1970s, the Division of Safety of Dams, Department of Water Resources, determined that the Lake Arrowhead Dam was unsafe and issued an order that if there was no action towards the correction of the dam, then the level of the lake would be lowered significantly, thus affecting the size of the lake. However, Lake Arrowhead and its dam are privately owned by the Arrowhead Lake Association ("ALA"), the property owners association of the area known as Arrowhead Woods. Instead of making significant repairs to the Lake Arrowhead Dam located at east side of the lake, the recommended course of action to come into safety compliance was to construct an additional dam easterly of the Lake Arrowhead Dam. Due to the cost of constructing the New Lake Arrowhead Dam, the ALA could not obtain independent financing. Therefore, public assistance was needed.

Given the public interest and necessity, specific legislation through SB 2141 was needed to allow San Bernardino County to construct, repair, and maintain dams by using a county service area. County Service Area 70 Improvement Zone D-1 was formed in July 1974 by action of the County Board of Supervisors. With Zone D-1

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<sup>5</sup> California Department of Water Resources. "The Feasibility of Serving the Crestline-Lake Arrowhead Water Agency Area from the State Water Facilities". 1961.

formed, the Board of Supervisors placed a special bond and maximum tax rate election on the ballot and the electorate approved both measures. The area of benefit is generally known as Arrowhead Woods and includes the owners of that area who receive benefit of lake privileges contained in the deed to their property and defined in the agreement signed with the LADC (with Boise as successor) in 1964.

In 1977 Boise sold their remaining holdings in Lake Arrowhead. In 1979, the old Lake Arrowhead Village was burned down and a new village was then constructed in much the same architecture as the old village. The new Arrowhead Village includes a complete convenience shopping center with restaurants, factory outlets, galleries, boutiques, gift and specialty shops, including a mini-amusement park.

As a scenic mountain resort in the San Bernardino Mountains, Lake Arrowhead's economy is almost completely supported by tourism, both by vacationers and part-time residents. The primary thoroughfares through the community are State Highways 18, 138, and 173.

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

- |         |  |
|---------|--|
| 1939    | The County Board of Supervisors and the electorate approved the formation of the Lake Arrowhead Fire Protection District as a board-governed special district.   |
| 1948    | The County Board of Supervisors and the electorate approved the formation of the Lake Arrowhead Sanitation District as a board-governed special district.  |
| 1966    | The Commission approved applications converting the independent Crest Forest Lighting District and Crestline Lighting District into board-governed agencies - County Service Area 54 (LAFCO 397) and County Service Area 55 (LAFCO 399), respectively.<br><br>The Commission reviewed and the County Board of Supervisors approved the formation of County Service Area 59 to provide road maintenance within Deer Lodge Park (LAFCO 437).                   |
| 1969    | The Commission reviewed and the County Board of Supervisors approved the formation of County Service Area 69 to provide road services within Lake Arrowhead (LAFCO 822). The staff report for this proposal stated LAFCO staff's concern that this proposal, if approved, would establish a precedent for road standards and governmental services in the mountain area and that a number of similar areas would ask for this type of service in the future. |
| 1972-73 | The Commission established the spheres of influence for the Lake Arrowhead Sanitation District (LAFCO 1283) and Lake Arrowhead Fire Protection District (LAFCO 1286) generally as that of the boundaries of the Lake Arrowhead   |

Fire Protection District. The spheres of influence were established for County Service Area 59 (LAFCO 1284), County Service Area 69 (LAFCO 1285), County Service Area 54 (LAFCO 1351), and County Service Area 55 (LAFCO 1355) as coterminous with their respective boundaries.

1974 County Service Area 70 Improvement Zone D-1 was formed by action of the County of San Bernardino Board of Supervisors for the purpose of constructing and providing a financing mechanism for the New Lake Arrowhead Dam, located on the east side of Lake Arrowhead. With Zone D-1 formed, the Board of Supervisors placed a special bond and maximum tax rate election for the November election and the electorate approved both measures. The area of benefit is generally known as Arrowhead Woods and includes the owners of that area who receive benefit of lake privileges contained in the deed to their property and defined in the agreement signed between the property owners and the Lake Arrowhead Dam Corporation in 1964. This formation and construction of the New Lake Arrowhead Dam creating the public Papoose Lake maintained Lake Arrowhead as a private lake.

1976 When special districts were seated on San Bernardino LAFCO, all special districts were limited to the functions/services actively provided at that time. The County responded to LAFCO's request for statements regarding active service provision as follows:

- County Service Areas 54 and 55 - streetlighting
- County Service Areas 59 and 69 - roads
- Lake Arrowhead Fire Protection District - fire protection
- Lake Arrowhead Sanitation District - sanitation (sewer)

Pursuant to adoption of the *Rules And Regulations of The Local Agency Formation Commission Of San Bernardino County Affecting Functions And Services Of Special Districts* in 1976 and amendments thereafter, the functions and services active for districts have been specified on the documents titled "Exhibit A", and the procedures required to apply to the Commission for activation of any other latent powers have been defined.

1977 The Arrowhead Lake Association (representing the property owners of the association – the Arrowhead Woods area) submitted an application to exclude the bodies of water of Grass Valley Lake and Lake Arrowhead from the boundaries of all the districts that overlaid those lakes (LAFCO 1641). The applicants claimed that because these bodies of water do not receive services from all these units of government, the taxes imposed should not apply to the lakes. The staff report for this proposal recommended denial of the detachments because the lakes and the shorelines are benefit receiving entities (for example fire protection and flood control), and that the lakes and the shorelines are extensions of the holdings of the people who own them. The Commission agreed with staff's recommendation and denied the proposal.

1977-78 The Arrowhead Lake Association (representing the property owners of the association – the Arrowhead Woods area) submitted an application to form an independent community services district with boundaries that generally coincide with the boundaries of the Arrowhead Lake Association and County Service Area 70 Improvement Zone D-1 (dams) for the purpose of acquiring the Arrowhead Utility Company and assuming its water distribution responsibilities (LAFCO 1730). In general, the applicants cited their reasons for the application as: lower operating and capital costs through local control, preservation of water rights, eligibility for future state and federal funding, and implementation of conservation and reclamation plans.

Even though a community services district could provide a wide range of services, the applicants only requested that water service powers be authorized upon formation. The theory expressed was that if the application was approved, the nascent district would need to dedicate its time and resources to assuming control of the water operations. The staff report for this proposal indicates the applicants' desire to take over dam maintenance from County Service Area 70 Improvement Zone D-1, but that special legislation [at that time] would need to be passed to allow a community services district to perform such a service. The Commission approved the formation of the Lake Arrowhead Community Services District which included the following conditions:

- That the proposed district be governed by a five member elected board at large,
- That the election ballot specifically provide that no tax rate is authorized,
- That the district's powers be limited to water service only,
- That the district continues to explore possibilities of adding additional services at the earliest possible time.

Following approval by the Board of Supervisors, the electorate approved the formation by a vote of 585 (yes) to 31 (no) on March 7, 1978.

1981 The Board of Supervisors, as the governing body of county service areas, initiated a reorganization application to consolidate the streetlighting services of two county service areas due to reduced property tax revenues following passage of Proposition 13 (LAFCO 2146). The County's rationale for the consolidation was for greater flexibility in allocation of resources, reduced overhead and more consistent administration of streetlighting services. The Commission approved the proposal to dissolve County Service Area 55 and annex that territory into County Service Area 54.

1982-83 The Lake Arrowhead Community Services District initiated an application for expansion of powers to include sewer service and to provide such service within its boundaries and outside its boundaries to the area of the Lake Arrowhead Sanitation District (LAFCO 2184). The impetus for the application

was due to degradation in the lake's water quality and the need to protect the integrity of Lake Arrowhead as a domestic water source. Therefore, the district desired to assume responsibility for both water and sewer service within Arrowhead Woods.

However, the boundaries of the sewer provider (Lake Arrowhead Sanitation District) were much larger than that of Lake Arrowhead CSD, and the application as submitted would leave many outside of the Lake Arrowhead CSD boundaries but subject to its decisions. Given this, LAFCO amended the application to include a reorganization to expand the boundaries of the Lake Arrowhead CSD to encompass the boundaries of the Lake Arrowhead Sanitation District, transfer of operations and assets of Lake Arrowhead Sanitation District to the Lake Arrowhead CSD, and dissolution of the Lake Arrowhead Sanitation District (LAFCO 2186).

The Commission approved the proposals with the conditions that the ad valorem tax share assigned to the Lake Arrowhead Sanitation District transfer to the Lake Arrowhead CSD and the proposals would be subject to voter approval within both districts. Following approval by the Board of Supervisors, the electorate approved the expansion of powers and the reorganization by the following vote:

Reorganization – 315 For and 236 Against

Expansion of Powers – 222 For and 130 Against

- 1983 The Commission established the sphere of influence for the Lake Arrowhead CSD as being coterminous with its boundaries (LAFCO 2242).
- 1980-84 In 1980, interest within the community to incorporate was expressed. A citizens committee was formed to study incorporation, and petitions were circulated to gather the required signatures. In 1984, the Commission received a proposal being the first formal attempt to incorporate the Lake Arrowhead community (LAFCO 2275). However, due to lack of sufficient signatures, LAFCO issued a Certificate of Insufficiency stating that the incorporation proponents fell 29 valid signatures short. The application for Commission consideration could not continue and was filed as public document.
- 1985 The Commission received a proposal initiated by registered voter petition as the second formal attempt to incorporate Lake Arrowhead (LAFCO 2333). This proposal included a reduced area from the previous proposal (including the communities of Lake Arrowhead, Cedar Glen, Twin Peaks, and Deer Lodge Park). However, due to lack of sufficient signatures, LAFCO issued a Certificate of Insufficiency stating that the incorporation proponents fell 18 valid signatures short. The application for Commission consideration could not continue and was filed as a public document.

Lake Arrowhead Community Services District assumed ownership and control of the failing Deer Lake Water Corporation (at no cost), which provided water to residents of Deer Lodge Park. The same year it formed the



Deer Lodge Park Water system assessment district for infrastructure upgrades needed for water quality control purposes.

- 1991 The Lake Arrowhead Communities Chamber of Commerce commissioned a feasibility study in order to incorporate Lake Arrowhead. Due to lack of widespread support the matter failed to materialize.
- 2002-04 A group composed of local citizens funded the preliminary analysis of incorporating Lake Arrowhead. Two proposals were considered for incorporation: using the boundary of the Arrowhead Lake Association (Arrowhead Woods) and Peak-to Peak. Ultimately, the groups decided not to proceed with filing an incorporation application with LAFCO due to the stated reason of the pressing issue of the Old Fire.
- 2004-05 In 2004, the State Water Resources Control Board reduced Lake Arrowhead Community Services District's entitlement to lake water by over 40%. To address this water reduction, one option would have been to directly receive State Water Project from Crestline-Lake Arrowhead Water Agency ("CLAWA"). However, the Arrowhead Woods area is not within the boundaries of CLAWA, the State Water Project contractor in the area. CLAWA Law and its contract with the State Department of Water Resources prohibit CLAWA from delivering any portion of its imported water supply for use outside of its boundaries. As outlined in the Service Review for CLAWA, it opposed the annexation of the Lake Arrowhead Woods area. Instead it chose the option to enter into a three-party agreement with the San Bernardino Valley Municipal Water District ("Muni") and Lake Arrowhead CSD for the purchase of water from Muni, and treatment and transportation of that water through CLAWA's transmission system (as capacity may be available in CLAWA's system during periods of off-peak demands) for delivery of that treated water into Lake Arrowhead CSD's system for its use in lieu of water from Lake Arrowhead.
- 2005 The County of San Bernardino Board of Supervisors approved the formation of County Service Area 70 Improvement Zone CG for the purposes purchasing and transitioning the privately-owned Arrowhead Manor Company that was in receivership, to a public entity, and begin the process of providing water and future road maintenance service to the area impacted by the Old Fire of 2003.
- 2005-06 LAFCO staff apprised all the community services districts within the county of the rewrite of Community Services District Law (Senate Bill 135), effective January 1, 2006. The update of CSD Law included new provisions related to governance and latent powers for community services districts.
- Pursuant to the 2006 re-write of CSD Law, those services that LAFCO determined that a district did not actively provide prior to January 1, 2006 were to be designated as a "latent power" (Government Code Section 61002[h]). The Lake Arrowhead CSD identified that it provided water (retail,

domestic, operation of water) and sewer (collection, transportation, treatment, reclamation, and disposal).

2008

The reorganization of the San Bernardino County Fire Protection District (LAFCO 3000), effective July 1, 2008, included:

- The dissolution of the Lake Arrowhead Fire Protection District and transfer of responsibility for fire protection services within its boundaries to County Fire (administration) and its Mountain Service Zone (fire and emergency medical response), and
- The dissolution of County Service Area 70 Zone PM-1 (a taxing entity for paramedic services in the Lake Arrowhead area) and the formation of County Fire Service Zone PM-1. During the processing of the County Fire Reorganization, it was identified that the territory of CSA 70 Zone PM-1 overlaid a portion of Crest Forest Fire Protection District. The boundaries of the new Service Zone PM-1 were modified to exclude the territory within the existing boundaries of the Crest Forest Fire and a condition of approval was added to transfer the existing PM-1 special tax (\$17.30 per parcel) within that area to Crest Forest Fire for its funding of paramedics.

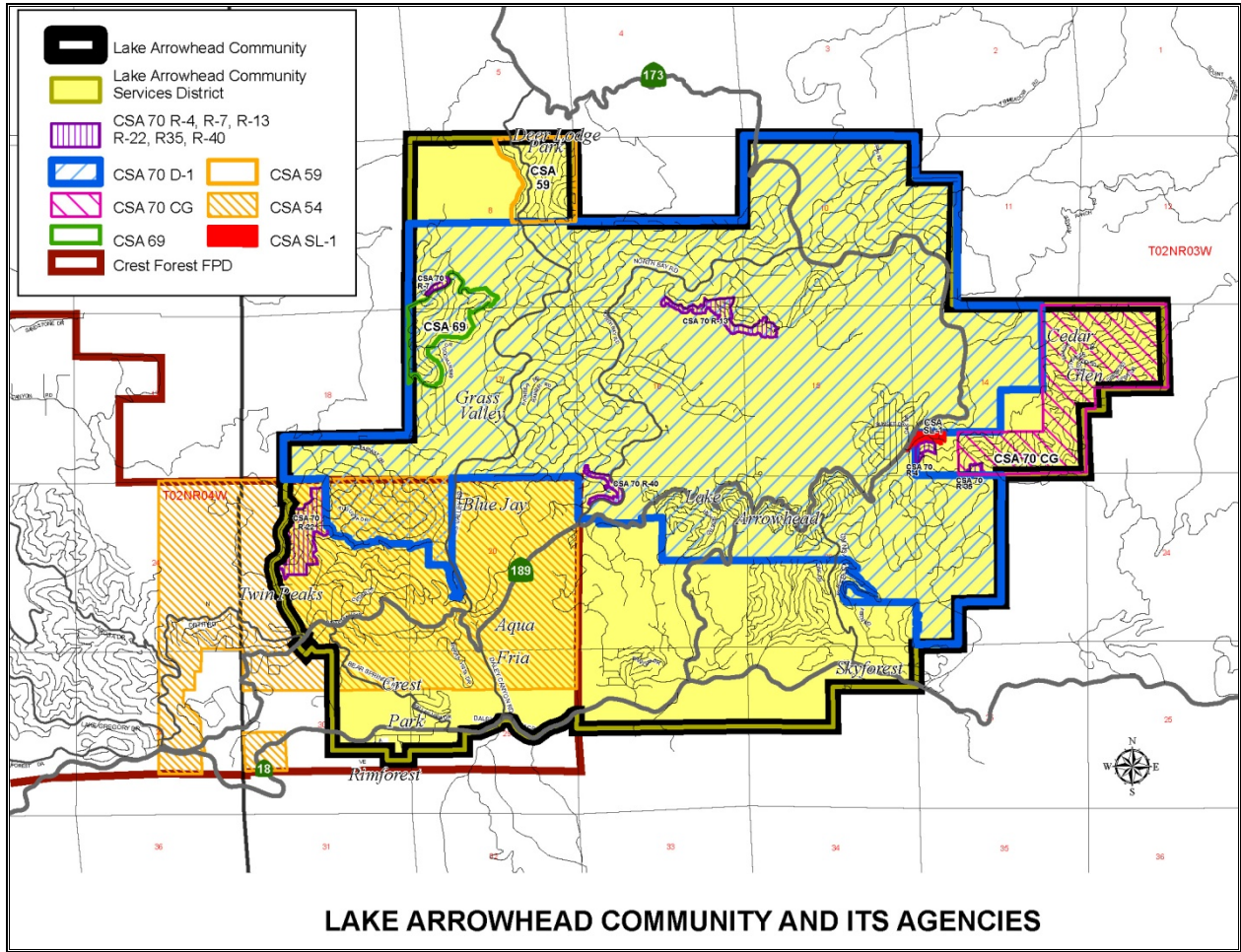
The County Board of Supervisors, as the governing body of County Service Area 70 Zone D-1, adopted a resolution to add park services to Zone D-1 (park and recreation was already authorized for Zone D-1's parent agency, County Service Area 70) so that it could continue with its efforts to design and construct a park adjacent to Papoose Lake.

## **LAKE ARROWHEAD COMMUNITY DISCUSSION**

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

In 1973, the Lake Arrowhead community was defined when the Commission established spheres of influence for the Lake Arrowhead community-based districts (Lake Arrowhead Fire Protection District and Lake Arrowhead Sanitation District). In 1983, the Commission dissolved the Lake Arrowhead Sanitation District and expanded the Lake Arrowhead Community Services District ("LACSD") boundary and sphere to encompass the former Lake Arrowhead Sanitation District. Since that time, the community has been defined as the sphere of influence of the LACSD.

Wholly within the sphere of influence and boundary of the LACSD are numerous, smaller, single purpose county service areas and zones to county service areas. Additionally, County Service Area 54 (streetlights) is split between the Crest Forest and Lake Arrowhead communities. A considerable portion of the Crest Forest Fire Protection District extends into the Lake Arrowhead Community. The sphere of influence updates for these agencies are included in Item 6A. Below is a map illustrating the local service providers that serve the general Lake Arrowhead community, a copy of which is included in Attachment #1.



Agenda Item 9 on this month’s agenda recommends that the Commission maintain the Lake Arrowhead community definition as that of the LACSD sphere of influence. This report adheres to that definition but recommends that the Commission approve amendments to the LACSD sphere to include surrounding private parcels and territory used for effluent disposal. These sphere recommendations are included in the LACSD service review/sphere update portion of this report.

Government Code Section 56076 defines a sphere of influence as a “plan for the probable physical boundaries and service area of a local agency, as determined by the commission”. Any sphere modifications would not affect any agency’s current boundary or the services that they actively provide.

## **LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT Service Review and Sphere of Influence Update**

### **INTRODUCTION:**

LAFCO 3110 consists of a service review pursuant to Government Code Section 56430 and sphere of influence update pursuant to Government Code 56425 for the Lake Arrowhead Community Services District (“LACSD” or “District”).

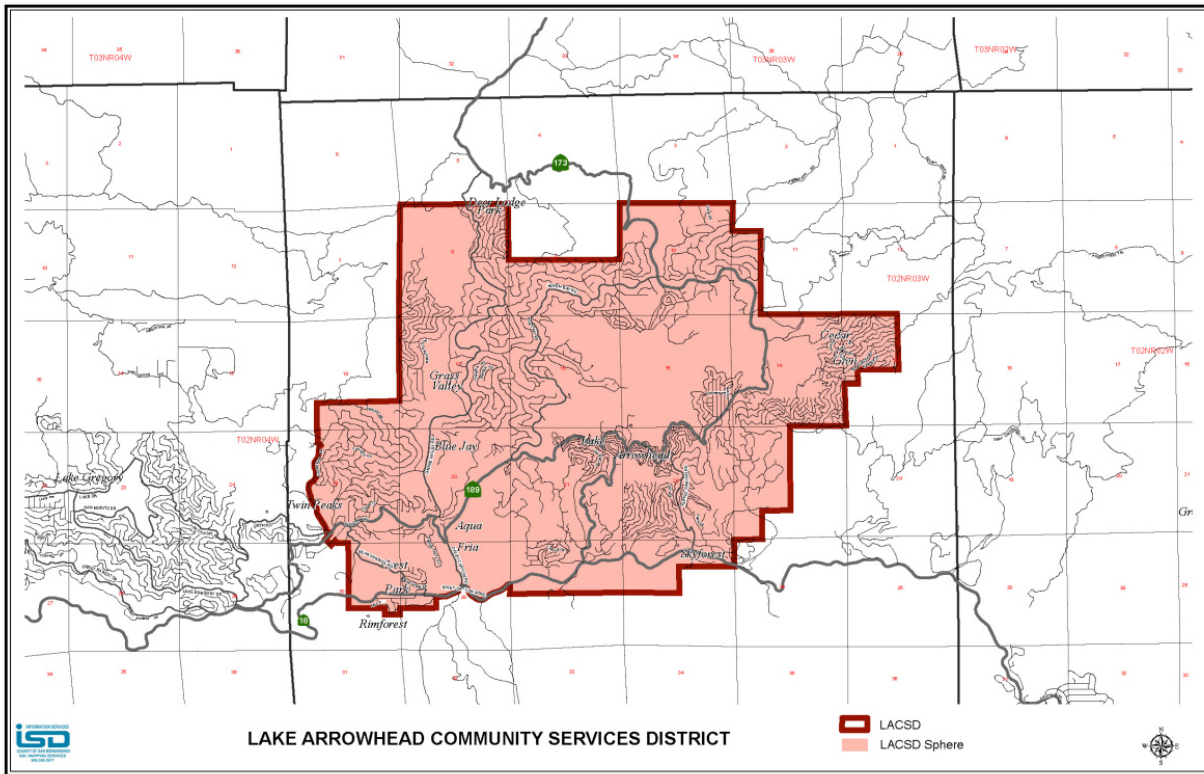
LACSD was formed in 1978 in order to purchase a privately owned water system serving properties in the community of Arrowhead Woods which surrounds Lake Arrowhead. LACSD is an independent special district with a five-member board of directors and operates under *Community Services District Law*, Government Code Section 61000 et seq. Currently, LACSD is authorized by LAFCO to provide the function and service of water and sewer pursuant to the *Rules and Regulations of the Local Agency Formation Commission of San Bernardino County Affecting Functions and Services of Special Districts*.

As discussed in detail in this report, staff is recommending the following sphere of influence amendments:

1. Expand LACSD’s sphere to include ten parcels located within and adjacent to the City of Hesperia. The properties are owned by LACSD which uses it for effluent disposal and agricultural production. Since the territory is outside the boundaries of the District is pays ad valorem property taxes. As a cost savings measure, if LACSD were to annex these parcels and continue its existing use, it could file for removal from the tax roll as an exempt property and eliminate the financial obligation for payment of ad valorem property tax.
2. Expand the sphere for LACSD to encompass the Lake Arrowhead community, as defined by the Commission. Additional sphere modifications include surrounding private lands, to adjust for parcel lines, and to conform to the Lake Arrowhead community definition.

### **LOCATION AND BOUNDARIES:**

LACSD is located in the Lake Arrowhead Community which includes the areas commonly known as Lake Arrowhead, Cedar Glen, Grass Valley, Twin Peaks, Crest Park, Rim Forest, Skyforest, Deer Lodge Park, and Blue Jay. The District’s boundary and sphere of influence are currently coterminous and encompasses approximately 13 square miles generally bordered by a combination of section lines, parcel lines, and the Crestline Village Water District sphere on the west; a combination of section lines and parcel lines on the north and east; and parcel lines (north and south of State Route 18) on the south. A map of LACSD is shown below and is included as a part of Attachment #3.

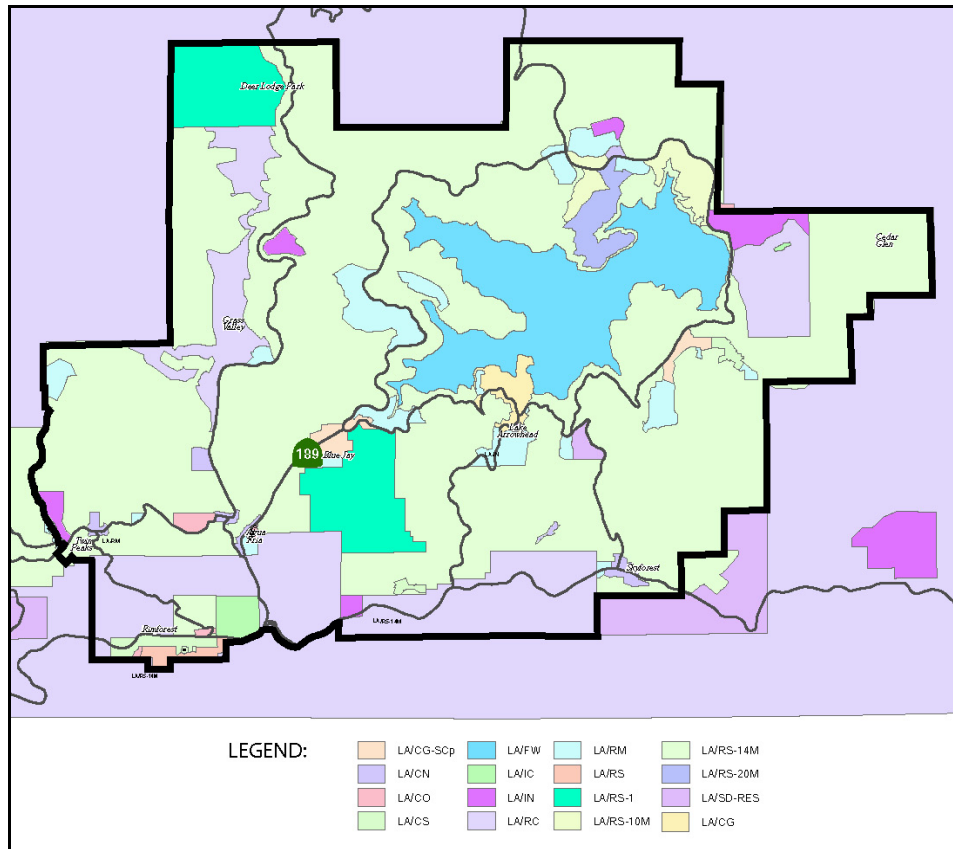


## ***LAKE ARROWHEAD CSD SERVICE REVIEW***

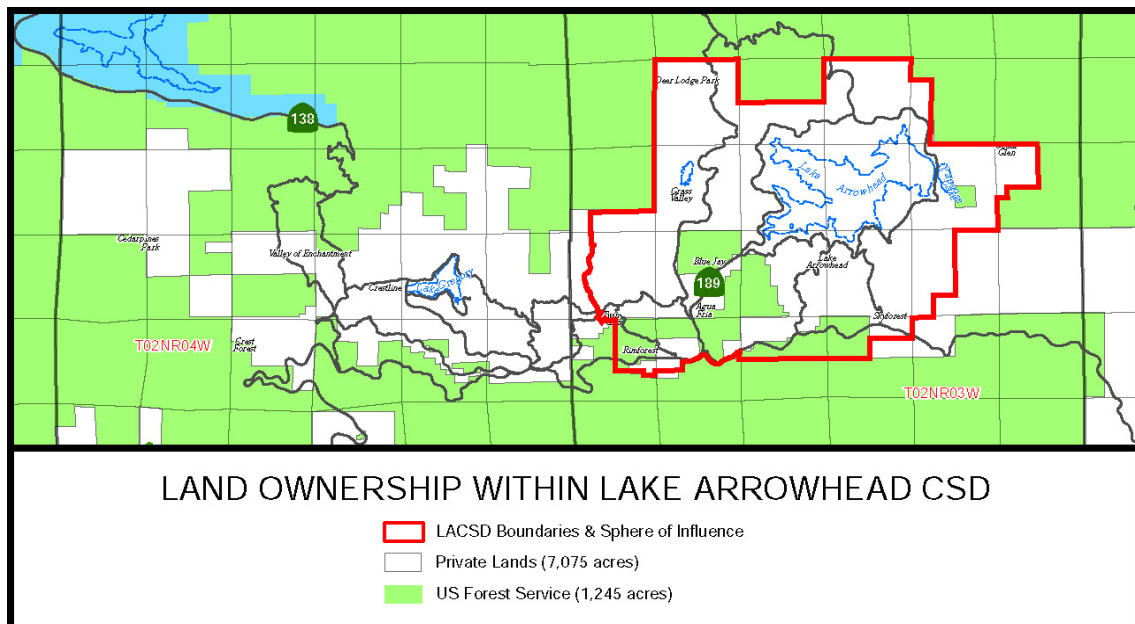
At the request of LAFCO staff, LACSD prepared a service review pursuant to San Bernardino LAFCO policies and procedures. The response to LAFCO's original and updated requests for materials includes, but is not limited to, the narrative response to the factors for a service review, response to LAFCO staff's request for information, and financial documents (included as Attachment #3). LAFCO staff responses to the mandatory factors for consideration for a service review (as required by Government Code 56430) are identified below and incorporate LACSD's response and supporting materials.

### **I. Growth and population projections for the affected area.**

Development in the San Bernardino Mountains is naturally constrained by rugged terrain, public land ownership, limited access, and lack of support infrastructure, as well as by planning and environmental policies which place much of the area off limits to significant development. Maximum build-out potential is substantially constrained by the slope-density standards and fuel modification requirements of the County General Plan Fire Safety Overlay. As shown on the map below, the Lake Arrowhead Community Plan identifies the private lands within the district as generally residential (RS-14M and RS-1) with scattered commercial along State Route 189, 173, Rim Forest and along the lake (Lake Arrowhead Village). The public lands within the district are designated Resource Conservation.



The land ownership distribution and breakdown within the LACSD boundary are identified on the map below. Roughly one-fifth of LACSD's area is within the San Bernardino National Forest (owned by the federal government), which are devoted primarily to resource protection and recreational use.



In general, the San Bernardino Mountains is one of the most densely populated mountain areas within the country, and is the most densely populated urban forest west of the Mississippi River. However, there is a large seasonal population component as well as a substantial influx of visitors to the mountain resort areas (approximately 25% of the residents are full-time). The seasonal population and visitors are not reflected in available demographic statistics, which count only year-round residents. It is estimated that the seasonal factors can approximately double the peak population.

Utilizing the Lake Arrowhead Community Plan, LACSD is estimated to have about 14,800 full-time residents in 2010. However, the District estimates its current population to be around 16,620. Either way, by 2030 the permanent population is estimated to reach over 22,000. This figure does not take into account seasonal population and tourism. Even with the large increase in population, the District's area is not anticipated to reach its build-out population by the 2030 horizon of this report. However, its water service area, generally that of the Arrowhead Woods, has denser land use which has impacted LACSD's ability to provide water.

Year	2000	2005	2010	2015	2020	2025	2030	2000 to 2030 growth rate
Lake Arrowhead CSD	12,040	13,364	14,834	16,466	18,278	20,288	22,520	87.0%
<b>TOTAL</b>	<b>12,040</b>	<b>13,364</b>	<b>14,834</b>	<b>16,466</b>	<b>18,278</b>	<b>20,288</b>	<b>22,520</b>	<b>87.0%</b>

Build-out	2030 as % of Build-out
61,871	36%

Source: County of San Bernardino 2007 Lake Arrowhead Community Plan

Notes: Does not include seasonal population or visitors

Italicized figures are calculated by LAFCO staff

Methodology for LAFCO staff calculations<sup>6</sup>

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

LACSD provides wastewater (sewer) services throughout the district. The LACSD's primary water service area encompasses approximately 4,900 acres and is essentially the same boundary as the development area known as the Arrowhead Woods (also that of the Arrowhead Lake Association - an association formed for use of the private lake, membership is voluntary and is available to anyone who owns property in Arrowhead Woods). This reflects the District's boundary at the time of its formation.

There is one improvement district in Deer Lodge Park where water is supplied by the Crestline-Lake Arrowhead Water Agency and groundwater wells but managed by LACSD. In 1985, the District assumed ownership and control of the Deer Lake Water Corporation, which provided water to the residents of Deer Lodge Park ("DLP"). Deer Lodge Park is outside of the District's water service area which uses Lake Arrowhead as source water;

<sup>6</sup> Methodology for LAFCO staff calculations.

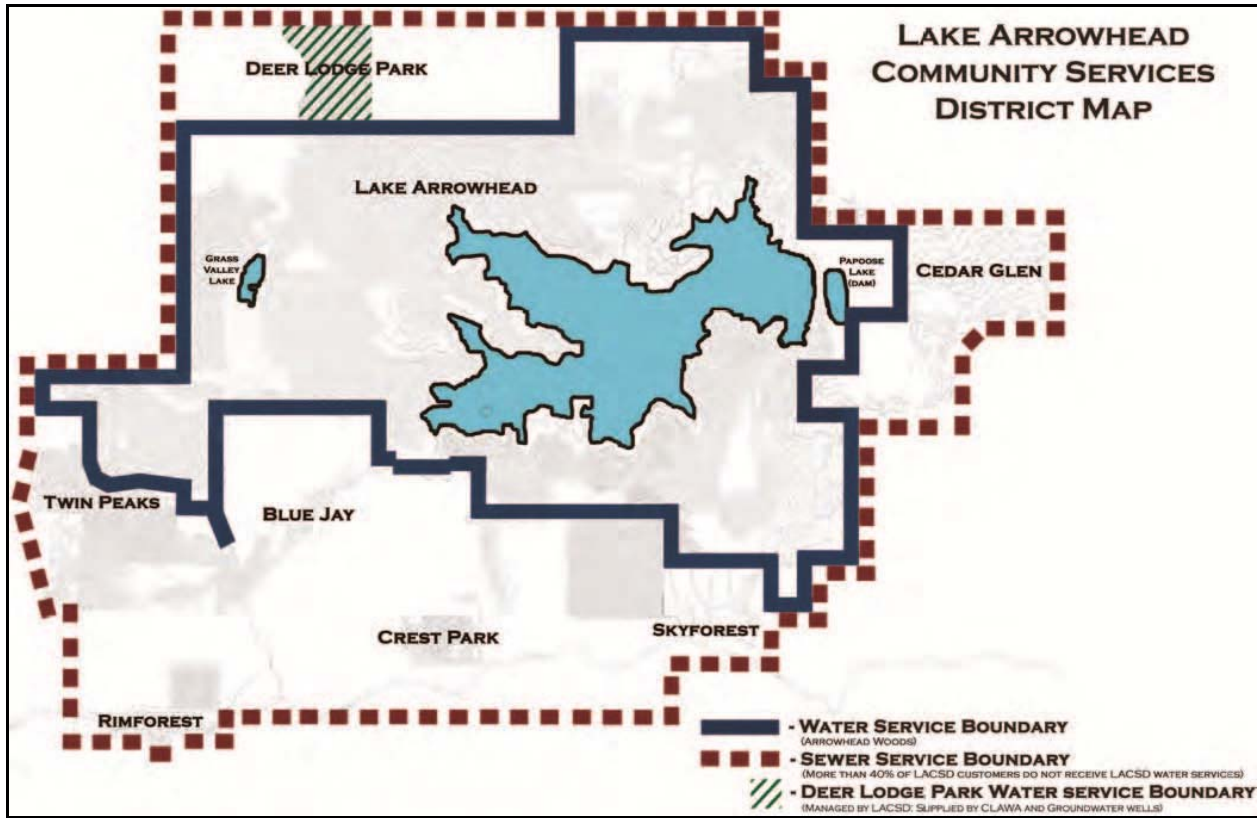
Population between 2005 and 2030 represent the average five year growth rate from 2000 to 2030. The rate is identified as 6.5% increase every five years, or 1.5% increase each year.

LACSD comprises 95% of the private parcels of the Lake Arrowhead Community Plan area.



therefore, all water sold in Deer Lodge Park is either produced from existing wells within the area or purchased from the Crestline-Lake Arrowhead Water Agency (a State Water Project contractor) for sale in Deer Lodge Park. In 1985, the District formed the Deer Lodge Park Water system assessment district for infrastructure upgrades needed for water quality control purposes.

The service areas for water and wastewater are shown on the map below.



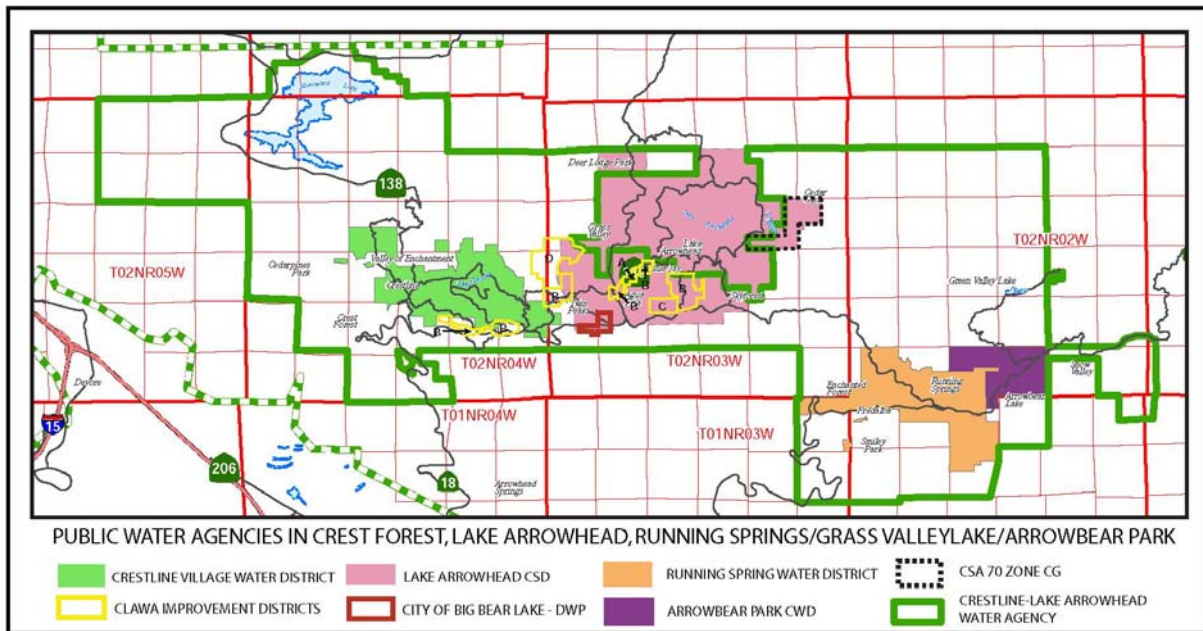
However, the area shown on the map above as being within the Sewer Service Boundary between Deer Lodge Park and the existing Water Service Boundary is not a part of LACSD or its sphere of influence. This is shown by comparison of the District's boundary on maps above. It is unclear whether or not LACSD uses this boundary for master planning of sewer services.

## Water

Crestline-Lake Arrowhead Water Agency ("CLAWA") is a State Water Project contractor and delivers wholesale water within its boundaries to private and public retail water providers. This area is located in the South Lahontan Hydrologic Region, as designated by the California Department of Water Resources, and is in the Mojave Watershed.<sup>7</sup> The map below shows CLAWA and its four improvement zones, and the other public water retailers

<sup>7</sup> California Water Plan, Update 2009, Integrated Water Management, DWR, Bulletin 160-09, Vol. 3, South Lahontan.

within CLAWA's boundaries. Since CLAWA provides wholesale water to over twenty public and private water purveyors and camps, the map below is limited to public water agencies.



As LAFCO staff has stated on many occasions, water is the lifeblood for communities due to its limited nature. This statement is as true for the San Bernardino Mountains as other areas of the County because it is one of the most densely populated mountain areas within the country and in general relies upon imported water from the State Water Project for domestic use. Therefore, the most significant regional issue is present and future water supply. The *2007 State Water Project Delivery Reliability Report* indicates that 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.

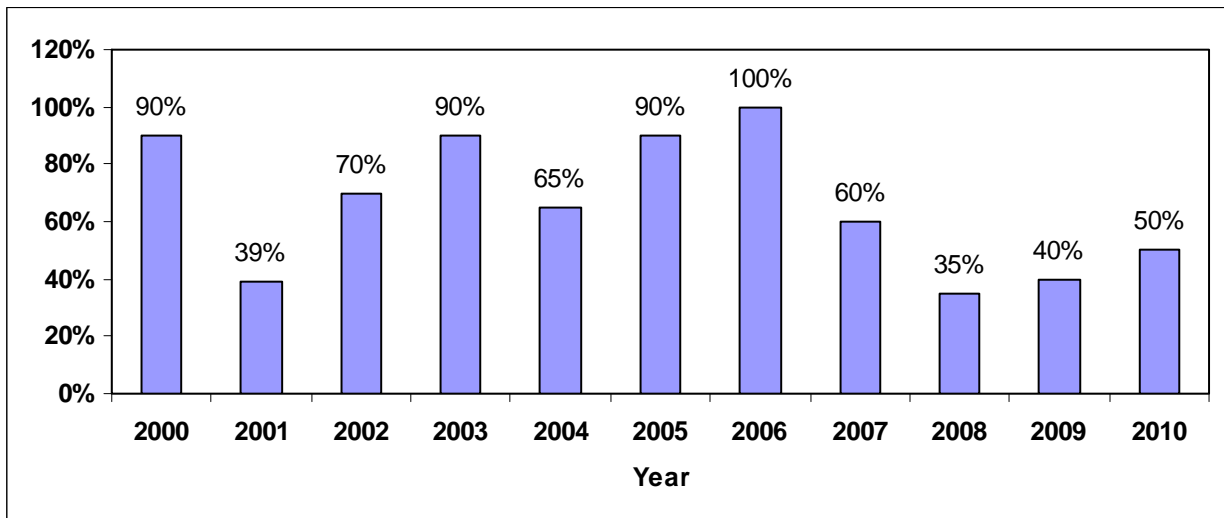
The 2007 Reliability Report concluded that contractors to the SWP could anticipate average reliability of 66-69% through the year 2027. The range was provided to account for variable impact associated with different conclusions about the potential effects of modeled climate change. The average assumes that in some years contractors are likely to be allocated less than the stated average and in some years contractors are likely to be allocated more than the stated average.

In 2009 the DWR provided an updated reliability report incorporating new biological opinions in place of the referenced interim rules promulgated by the Federal Court. The new biological opinions were significantly more restrictive than the interim rules and consequently the 2009 reliability analysis indicated a reduction in reliability to 61% for long-term (2029) conditions.

Since preparation of the 2009 Reliability Report, the same Federal Court has found the new biological opinions to be unacceptable (and inappropriately restrictive to Delta water exports) and has ordered them to be redone. At this writing yet another set of interim operational guidelines are being developed with the Court and are expected to be less restrictive to water exports than the biological opinions that were included in the DWR modeling for the 2009 Reliability Report. There is also a major effort underway to develop a habitat conservation plan to address the myriad of issues impacting water supply exports from the Delta. That effort, if accomplished in a manner consistent with the “co-equal goals” of ecosystem restoration and water supply reliability envisioned by the State Legislature’s 2009 Comprehensive Water Package, is anticipated to significantly increase reliability of the SWP water supply. The eventual success and/or resulting increase to reliability are unknown at this time; however, the outcome will eventually be reflected in the biennial DWR reliability assessments.

The figure below shows the allocation percentage that State Water Contractors were allowed to purchase since 1998. For example, CLAWA (the State Water Contractor for the area) is entitled to purchase up to 5,800 acre-feet of imported water per year. As of June 23, 2010, for 2010 the allocation percentage is 50%<sup>8</sup>; therefore, CLAWA can purchase up to 2,900 acre-feet in 2010. This sharp reduction in supplemental water supply will reduce the amount of water that CLAWA can deliver to its retail and wholesale customers. 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.

**Department of Water Resources State Water Project  
Allocation Percentages Statewide (1998-2010)**



source: Department of Water Resources

<sup>8</sup> State of California. Department of Water Resources. “Late Spring Weather Allows DWR to Increase Water Allocation”, Press Release. 23 June 2010.

A complete service review was conducted for CLAWA in July 2010 (LAFCO 3107). The following are key points identified in the CLAWA service review.

- To date, CLAWA has indicated that the SWP allocation reductions have not adversely impacted the agency's ability to serve its retail and wholesale customers. CLAWA's retail deliveries averaged roughly 270 acre-feet/year for the past 10 years, which is a fraction of total water deliveries (16% of total deliveries to CLAWA from Lake Silverwood). Wholesale deliveries comprise the majority of CLAWA's water deliveries and the local retailers use this water to supplement their own local groundwater resources. CLAWA staff indicates that the local groundwater supply has been sufficient to date to satisfy local demand. Given this, retail and wholesale demand has not exceeded CLAWA's SWP allocation to date.
- CLAWA's SWP contract allows it to carry-over the unused portion of its allocation in the San Luis Reservoir in Merced County for use by CLAWA in a later year. The carry-over of water is subject to Department of Water Resources determining that there is adequate storage space in the reservoir. Anticipating that local and imported supply is not static, CLAWA has indicated that as of March 2010, it had 2,398 acre-feet of accumulated carry-over water at San Luis Reservoir for use in subsequent years if needed, dependent upon storage space in the reservoir.
- CLAWA pumps surface water from Silverwood Lake, treats and disinfects the water at a "multi-barrier" treatment plant located near the south shore of the Lake, then pumps the treated water uphill to CLAWA's storage and pipeline distribution system. Once the water is treated and pumped up the mountain, it can then be delivered to its wholesale purveyors and retail customers. However, some retail water purveyors may provide additional treatment for their own local water supplies and blend the supplemental supply with their groundwater resources.

### Community Water

In the Lake Arrowhead Community, water is produced from local groundwater sources, Lake Arrowhead, and imported State Water Project Water. Lake Arrowhead Community Services District is the main retail water provider in the community and provides retail water from wells and Lake Arrowhead. Other public retail water providers include four improvement districts to CLAWA, County Service Area 70 Zone CG, and the Rimforest portion of the City of Big Bear Lake Department of Water and Power. Big Bear Lake - DWP succeeded to the water service territory previously assigned the Southern California Water Company – Big Bear District through the State Public Utilities Commission upon its acquisition by the City of Big Bear Lake. As a condition of the City's condemnation for acquisition, it was required to assume service responsibility for all of Southern California Water Company's service area in the mountains – including the Rimforest portion. In 1995, LAFCO granted the City of Big Bear Lake an exemption from the provisions of Government Code Section 56133 for the provision of water service within this certificated service area.

The larger private retail water entities include Alpine Water Users Association, Arrowhead Villas Mutual, Sky Forest Mutual, and Strawberry Lodge Mutual. Not all areas in the

community have direct access to a municipal water provider; therefore, it is understood that water service to those developed properties is provided through on-site wells.

Water Rates

Retail water purveyors within CLAWA's boundaries are charged the same wholesale water rate no matter the location. The wholesale water rate has not been adjusted for over 15 years and is \$1,150 per acre-foot. A sampling of the residential retail water rates of the larger agencies within the CLAWA service area is identified in the chart below.

**Residential Water Rate Comparison (2010)**

(rates measured in units, or one hundred cubic feet)

Agency	Water Use Rate				Monthly Meter Charge (3/4" Meter)	Monthly Avg. Cost (20 units of water)
	Tier One	Tier Two	Tier Three	Tier Four		
<b>Alpine Water Users Association</b>	\$3.30	\$6.60	-	-	\$30.00	\$112.50
<b>Arrowbear Park County Water District</b>	-	4.90	-	-	19.50	88.10
<b>Cedar Pines Park Mutual Water Co.</b>	5.50	7.00	10.00	-	30.76	179.76
<b>County Service Area 70 Zone CG</b>	4.69	5.21	5.73	6.30	61.80	158.72
<b>Crestline-Lake Arrowhead Water Agency (Improvement Districts A &amp; C) <sup>1</sup></b>	-	\$7.25	-	-	15.00	141.88
<b>Crestline-Lake Arrowhead Water Agency (Improvement District B) <sup>1</sup></b>	-	\$5.00	-	-	10.00	97.50
<b>Crestline-Lake Arrowhead Water Agency (Improvement District D) <sup>1,2</sup></b>	-	\$7.25	-	-	25.00	151.88
<b>Crestline Village Water District</b>	4.20	6.30	-	-	19.75	118.45
<b>Department of Water &amp; Power City of Big Bear Lake</b>	4.43	-	-	-	40.60	129.20
<b>Green Valley Mutual Water Company</b>	2.40	7.75	-	-	30.50	137.35
<b>Lake Arrowhead Community Services District (Arrowhead Woods)</b>	0.68	1.74	6.21	12.93	20.60	79.27
<b>Lake Arrowhead Community Services District (Deer Lodge Park)</b>	3.27	3.90	-	-	22.52	94.22
<b>Running Springs Water District</b>	3.26	-	-	-	18.15	83.35

Rates rounded to the nearest hundredth

<sup>1</sup> CLAWA retail rates are for 5/8" meter

<sup>2</sup> \$25 monthly meter charge includes \$10 charge for loan repayment

Supply

The District currently has three sources of water for potable use to serve its primary water service area also known as the Arrowhead Woods; (1) groundwater from six wells located in the Grass Valley Basin, (2) surface water from Lake Arrowhead, and (3) State Water Project water delivered by Crestline-Lake Arrowhead Water Agency (described in detail below).

*(1) Groundwater from five wells located in the Grass Valley Basin*

The Lake Arrowhead water service area comprises approximately 4,900 acres of mountainous terrain where about 40% of the land has slopes of more than 30% grade. The ground underneath the surface is mostly dense, fractured and jointed granite. This terrain is very difficult to develop groundwater wells. In contrast, the Big Bear area is comprised mostly of loose gravel, sand, and silt which allows for an ample storage capacity of groundwater.

Nevertheless, LACSD currently has five productive wells in the Grass Valley area that provide approximately 200 acre feet of groundwater. There are two production wells in the Deer Lodge Park service area; they are currently out of service awaiting installation of a treatment system to remove uranium. It expects their return to service in 2011. Although the wells have been recently renovated, their historic production is roughly of 24-36 acre-feet/year each. LACSD has no plans in the foreseeable future to construct additional wells.

LACSD has base annual production (water rights) of 658 acre-feet per year in the Alto sub-basin through the adjudication of the Mojave River basin. Alto is currently at 80% rampdown, which allows LACSD to produce 527 acre-feet per year. LACSD did not purchase any water rights in the Alto sub-basin of the Mojave groundwater basin. The District acquired an agricultural entitlement from many years of growing alfalfa on the property and upon adjudication received the 658 acre-foot right. The well for the caretaker's house is the only current active use and represents usually less than one acre foot of use per year (the well production is metered). For the last several years LACSD has sold its available 527 acre-feet of Free Production Allowance to various other water users within the Alto basin. The District views this asset as a potential tool for negotiations for some sort of long-term permanent supplemental water supply or transportation agreement with the Mojave Water Agency.

*(2) Surface water from Lake Arrowhead*

The Arrowhead Lake Association (ALA) (owners of Lake Arrowhead and Grass Valley Lake) oversee the recreational use of Lake Arrowhead and the immediate lake shoreline and owns the land under the lake as well. In general, ALA has control over the lake's recreational use and LACSD has entitlement over the lake's retail water use. After experiencing near average precipitation during 2007-08, the precipitation in the Mojave River Watershed during 2008-09 as measured at Lake Arrowhead amounted to 13.76 inches, which is about 33 percent of the base period average of 41.50 inches.

During the recent period of drought, the level of Lake Arrowhead dropped dramatically causing many of the Arrowhead Woods residents to complain. As a result of inquiries made regarding the extraction of water from the Lake, the Department of Water Resources reconfirmed its original permit and ordered that the level of the lake be maintained for recreational uses, restricting the extractions for water consumption. In 2006, the State Water Resources Control Board issued Order No. WR 2006-001 (Order). The Order limits the District's withdrawals from Lake Arrowhead to 1,566 acre feet per year (afy) beginning in 2008 (a reduction of over 40%) and determines the lake level set at a specific elevation point. This prompted the LACSD to scale back

consumption, to aggressively promote water conservation measures, and to find efficiencies in managing the limited supply. As a result, the District entered into a Memorandum of Understanding with the Arrowhead Lake Association to establish a goal to maintain the elevation of Lake Arrowhead at or above 5,100 foot elevation. The water master plan identifies that the District does not have adequate water supplies to meet the long-term demands of its current customer base as a result of a 40% reduction in the District's entitlement to Lake Arrowhead water.

Currently the District has not developed a reserve policy since it essentially has no reserve capacity due to the reduction in lake consumptive capacity.

*(3) State Water Project water delivered by CLAWA*

When CLAWA was originally proposed for formation in the State Legislature, its boundaries included Lake Arrowhead and the surrounding community of Arrowhead Woods. At the last minute, however, the major property owner of Lake Arrowhead elected to exclude the Lake Arrowhead community (Arrowhead Woods) from CLAWA's boundaries, confident that local water supplies in Lake Arrowhead would be sufficient to satisfy the consumptive needs of that community. The amended legislation excluded the Lake Arrowhead community but the original State Water Project entitlement amount (Table A water) of 5,800 acre-feet/year remained. The result through the years has been a lesser population repaying the debt service of the original 5,800 acre-feet/year entitlement.

As described above, the Department of Water Resources restricted the Lake Arrowhead water extractions for water consumption and determined that the lake be set at a specific elevation point. One option considered by LACSD was to import State Water Project Water directly from CLAWA. However, Arrowhead Woods is not within the boundaries of CLAWA, and pursuant to CLAWA Law and its contract with the State, CLAWA could not provide supplemental water outside of its boundaries.

To address water shortage concerns in Lake Arrowhead while also strengthening the reliability of CLAWA's supply to its own customers, in 2005 CLAWA entered into short term agreements with San Bernardino Valley Municipal Water District ("Muni") and with LACSD for the purchase of water from Muni, treatment and transportation of that water through CLAWA 's transmission system (as capacity may be available in the CLAWA 's system during periods of off-peak demands) for delivery of that treated water into the LACSD's system for its use in lieu of water from Lake Arrowhead. A significant element of the arrangement is that CLAWA has pre-purchased 7,600 acre-feet of water from Muni, which will be taken from Muni's future allocations of imported water from the State Water Project. During August 2005, and in accordance with the agreement, CLAWA paid to Muni the total sum of \$4,006,680 as full payment for the Exchange Water, approximately \$527 per acre foot.

This arrangement does not involve the delivery of any portion of CLAWA's State Water Project water, since the water comes from Muni, but it commits virtually all of CLAWA's off-peak treatment and transmission system capacity for the delivery of treated water to LACSD. The term of the arrangement is for approximately ten to fifteen years, or until the total of 7,600 acre-feet of water purchased from Muni has been delivered to LACSD.

However, the arrangement has produced only a temporary solution to the water supply issues confronting the Lake Arrowhead area. CLAWA anticipates that the parties may wish to extend the short-term arrangement into a long-term arrangement designed to address the water shortage concerns in the Arrowhead Woods area.

CLAWA has issued the following as an explanation of the project and the significant terms of the arrangement<sup>9</sup>:

1. *Muni receives an annual allocation of imported water from the State Water Project. Its allocated water flows into Silverwood Lake, then through the San Bernardino Tunnel for delivery to Muni in the valley below. Unlike CLAWA, Muni has the unique right to sell and deliver its annual allocation of State water to areas beyond its boundaries.*
2. *CLAWA has facilities in place to take water from Silverwood Lake, treat the water at its treatment plant on the south shore of the lake, pump the water uphill nearly 2,000 feet to Crestline, store the treated water, and then pump it eastward through transmission pipelines to a location near the retail water system of the LACSD.*
3. *CLAWA has purchased from Muni the right to take 7,600 acre-feet of imported water over a period of 15 years from Muni's future allocations of water from the State Water Project.*
4. *CLAWA has entered into an agreement with LACSD for the purchase, treatment, pumping, transportation and delivery of that water to LACSD's retail water system through CLAWA facilities as capacity in those facilities may be available. This capacity is in excess of the capacity needed by CLAWA to treat and deliver water to its own customers. None of the water delivered to LACSD pursuant to this arrangement will come from CLAWA's annual allocation of water from the State. All of it will come from Muni's allocation.*
5. *CLAWA's charge to LACSD for the purchase, treatment, pumping, storage, transportation and delivery of this water consists of several elements as follows:*
  - a. *The price which CLAWA must pay to Muni in the year of delivery for water taken from Muni's allocation of imported water that year, which is equal to Muni's actual charges paid to the State for the water (not including Muni's capital costs). That charge is estimated to be \$527.19 per acre-foot, but may vary from year to year, to reflect what Muni must pay to the State that year for water delivered to Silverwood Lake.*
  - b. *\$100 per acre-foot of water delivered to LACSD, to recover lost earnings on funds advanced by CLAWA to pre-purchase 7,600 acre-feet of water.*
  - c. *Approximately \$2,000 per acre-foot for the cost of treating the water, pumping it up the mountain to the LACSD system, and recovery of an*

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<sup>9</sup> CLAWA. "News and Notes". website, [www.clawa.org](http://www.clawa.org), Accessed 27 April 2010, Last update unknown.



*amortized portion of the capital cost of CLAWA's intake facilities, treatment plant, pump stations, reservoirs and pipeline facilities to treat, pump, store, transport and deliver the water to the LACSD's retail water system. This charge is subject to adjustment each year to reflect changes in the actual cost of energy incurred in treating, pumping and transporting the water.*

The total charge to LACSD is roughly \$2,627 per acre-foot (subject to annual adjustment) for purchase, treatment, pumping, storage, transportation, and delivery of the supplemental water. As of June 30, 2009, LACSD has purchased 1,221.59 acre-feet from CLAWA, at an estimated cost of \$2,787.83 per acre-foot. A summary of the LACSD purchases of Exchange Water is shown in the figure below:

Year Ending June 30	Lake Arrowhead CSD Purchase		Exchange Water Remaining
	acre-feet	cost	
2007	81.49	\$230,012	7,518.51
2008	970.52	\$2,716,345	6,547.99
2009	169.58	\$459,237	6,378.41

Source: CLAWA Financial Statements for FY 2007-08 and FY 2008-09

### Demand

The District owns and operates three water treatment plants with a combined permitted treatment capacity of seven million gallons per day (mgd). The current average annual daily demand on the water system is 2.3 mgd. However, because the residential makeup of the District is highly seasonal, daily demand increases during weekends and holidays. Summer holiday peak daily demand can reach six mgd and at full build out the peak daily demand is estimated to be 7.25 mgd, which will require an upgrade to one of the two water treatment plants. Build out of the District's water service area is not expected to occur until sometime after 2025 depending on the rate of growth and the number of buildable lots. The District currently maintains 18 water storage reservoirs, nine pressure tanks, and 22 water pumping stations.

The District currently has roughly 8,200 water connections in the Arrowhead Woods water service area and over 200 connections in the Deer Lodge Park service area with new water connections averaging less than one percent per year for the period 1995 through 2009. In order to help maintain this rate of new water connections, in June 2006 the District adopted Ordinance 65 to limit the number of new water connection permits to five per month. This was in response to State Water Resources Control Board Order WR 2006-0001 (described further below). The chart below taken from the FY 2008-09 audit shows the number of connections since 2000.

Fiscal Year	Arrowhead Woods				Deer Lodge Park (DLP)			
	New Water Connections	Water Connections (1)		% Increase	New DLP Connections	DLP Connections		% Increase
2000	88	7,294		1.22%	1	164		0.61%
2001	81	7,375		1.11%	0	164		0.00%
2002	84	7,459		1.14%	2	166		1.22%
2003	67	7,526		0.90%	0	166		0.00%
2004	64	7,590		0.85%	1	167		0.60%
2005	65	7,655		0.86%	1	168		0.60%
2006	171	7,826		2.23%	7	175		4.17%
2007	34	7,860		0.43%	7	182		4.00%
2008	43	8,289	(2)	0.55%	2	209	(2)	1.10%
2009	24	8,187	(4)	-5.89%	0	209		-11.96%
<b>Average</b>	<b>72</b>				<b>2</b>			

After reaching a peak water usage in 2002, water use per customer has declined with a sharp drop in 2008 (as shown on the table below). After reviewing the District's water conservation programs this past year, the Board adopted Ordinance 69 to enable the District to restrict certain types of non-essential water uses and prioritize local water supplies for essential uses. The effect of this new ordinance should reduce average water use even further. According to the FY 2008-09 budget, the three largest rate payers were Lake Arrowhead County Club (210.31 acre-feet), Lake Arrowhead Resort (25.83 acre-feet), and Rim of the World Unified School District (28.04 acre-feet).

Calendar Year	2000	2001	2002	2003	2004	2005	2006	2007	2008
Avg. acre-foot per customer	0.29	0.29	0.30	0.25	0.25	0.23	0.23	0.24	0.18

source: Lake Arrowhead CSD FY 2008-09 Financial Statements

## Wastewater

The sewer system consists of approximately 200 miles of sewer pipelines and 21 lift stations that convey wastewater to one of the two wastewater treatment plants. The District currently has nearly 10,600 wastewater connections in its service area. Shown on the chart below is the connection activity since 2000. According to the FY 2008-09 Financial Statements, the three largest sewer customers were Lake Arrowhead Resort (\$54,203), Lake Arrowhead Village (\$50,450), and Rim of the World Unified School District (\$47,735).

Wastewater				
Fiscal Year	New Wastewater Connections	Wastewater Connections		% Increase
2000	90	10,088		0.90%
2001	103	10,191		1.02%
2002	84	10,275		0.82%
2003	68	10,343		0.66%
2004	64	10,407		0.62%
2005	67	10,474		0.64%
2006	105	10,579		1.00%
2007	106	10,695	(3)	1.10%
2008	46	10,741		0.43%
2009	39	10,592	(4)	-1.39%
<b>Average</b>	<b>77</b>			

The two treatment plants have a combined permitted treatment capacity for dry weather average daily flow of 3.75 mgd. Partially treated effluent is conveyed from the Willow Creek treatment plant to the Grass Valley treatment plant for final treatment. Treated wastewater is then conveyed through the District's 10-mile outfall pipeline where the water is used for crop irrigation and also to infiltrate effluent through percolation ponds on a 350 acre facility owned by the District in Hesperia, approximately two miles north of the Mojave Forks Dam.

LACSD is required to send effluent to the Mojave Basin as a result of *City of Barstow et al. v. City of Adelanto et. al.* Superior Court Case No. 208568, Riverside County, CA (1990). The LACSD water/wastewater service area is not within the Mojave Basin adjudication. Currently all water transported to the Hesperia disposal site is percolated into the Mojave Basin. LACSD has delivered reclaimed wastewater to the Mojave Basin Area for disposal in the following amounts<sup>10</sup>:

Water Year	Acre-feet
2002-03	1,740
2003-04	1,498
2004-05	2,451
2005-06	1,504
2006-07	1,677
2007-08	1,277
2008-09	1,432

The District's Wastewater system is operated under a set of Waste Discharge Requirements (WDR) as part of Regional Board Order No. R6V-2009-0037 issued June 10, 2009 by the Regional Water Quality Control Board. The District developed and implemented a Sewer System Management Plan to improve its spill prevention and prevention programs as required by the WDR. The primary goal of the program is to eliminate all spills from the Collection System. In an effort to bring the District in to compliance, the District is in the process of upgrading and expanding its Grass Valley

<sup>10</sup> Mojave Basin Watermaster. Watermaster reports for Water Years 2002-03 through 2008-09.

Wastewater Treatment Plant to meet California Department of Public Health Title 22 tertiary standards for wastewater treatment and obtaining an emergency discharge permit so that in extreme wet weather events the District may discharge flows that exceed the capacity of the treatment and disposal system to Grass Valley Creek.

### Reclamation

Prior to 2004, reclaimed (recycled) water was not permitted by the Lahontan Regional Water Quality Control Board in the Mountain region. In April 2004, the District's request for an amendment to the State Water Quality Control Board Lahontan Region Basin Plan to allow the use of reclaimed water for outdoor irrigation at elevations above 3,200 feet was approved. Phase 1 was completed in the summer of 2010. A portion of funding for the project is through an Environmental Protection Agency (EPA) grant.

The District is in the process of designing and constructing facilities to deliver reclaimed water to large irrigation users. The first phase of the Recycled Water Project is complete and has delivered water for irrigation of the Lake Arrowhead County Club golf course and immediate surrounding areas such as Grass Valley Lake Park.

### Las Flores Ranch Corporation and Mojave River County Water District v. Lake Arrowhead Development Company

The Mojave River County Water District (Mojave River CWD) obtained a Judgment in 1966 to limit the amount of water that could be taken by entities upstream of the Mojave River CWD. In 1995, LAFCO approved the dissolution of the Mojave River CWD (LAFCO 2795), and as a condition of the dissolution the Mojave Water Agency (MWA) succeeded to the responsibilities of the Mojave River CWD related to the judgment. Specifically, MWA intervened in the lawsuit *Las Flores Ranch Corporation v. Lake Arrowhead Development Company*. By intervening in the case, MWA "shall monitor compliance with the Judgment". The monitoring effort involves determination of minimum water flows through a metered facility from Grass Valley Lake into Grass Valley Creek, a tributary to the Mojave River, as prescribed by the Judgment.

The actual responsibility to monitor and report the data resides with the Arrowhead Lake Association, and the Arrowhead Lake Association uses data collected from the LACSD for monitoring and reporting. MWA's role is to maintain water transfer records of discharge into Grass Valley Creek and to maintain water transfer records from Grass Valley Creek and Grass Valley Lake into Lake Arrowhead. MWA is fulfilling its obligation by maintaining the discharge and transfer records. To ensure consistent and accurate reporting and to share costs related to the operation of Lake Arrowhead, Arrowhead Lake Association and Lake Arrowhead CSD have entered into a memorandum of understanding to address a comprehensive monitoring program at Lake Arrowhead and the division of costs. A copy of the updated agreement, dated November 2007, is available through LACSD, MWA, or LAFCO.

### **III. Financial ability of agencies to provide services.**

For this section of the report, staff has reviewed the District's budgets, audits, 2008 Financial Master Plan, and State Controller reports for special districts.

Funds and General Operations

In reviewing the financial documents, the District has been operating with an annual positive change in net assets since at least FY 2005-06, as shown on the figure below. For FY 2007-08 and FY 2008-09, net assets increased by \$5.76 million and \$8.98 million, respectively. As of June 30, 2009, LACSD had \$74.80 million in net assets. Not including capital assets value and debt, the District had roughly \$15.67 million in restricted and unrestricted net assets. Of this amount \$11.59 million is unrestricted.

	Fiscal Year				
	2005	2006	2007	2008	2009
Business-type activities:					
Invested in capital assets, net of related debt	28,277,098	30,227,499	34,945,404	42,757,347	59,231,500
Restricted	8,786,694	10,457,876	11,280,883	10,333,134	3,971,746
Unrestricted	<u>13,104,460</u>	<u>13,024,649</u>	<u>13,835,208</u>	<u>12,732,250</u>	<u>11,594,330</u>
Total business-type activities net assets	<u>50,168,252</u>	<u>53,710,024</u>	<u>60,061,495</u>	<u>65,822,731</u>	<u>74,797,576</u>

source: FY 2008-09 financial statements

The accounts of LACSD are organized into three enterprise funds considered as separate accounting functions. Therefore, general administrative costs, operations, fees paid, and corresponding expenses are separated as follows:

- Water Enterprise – Accounts for the retail water operations confined to the water service area. In the past audited fiscal year, net assets increased by \$7.4 million (23%) due to investment in recycled water projects, automatic meter reading upgrade, and water pipeline installation. In 2004, LACSD implemented a new Supplemental Water Supply Fee in order to diversify the district’s water supply to eliminate reliance on the lake as the sole source of water supply.
- Wastewater Enterprise – Accounts for the wastewater operations throughout the district. For FY 2008-09, net assets increased by \$1.7 million (5%) due to investment in pipeline rehabilitation and improvements made to Lift Stations 9 and 10.
- Deer Lodge Park Enterprise – Accounts for the purchase of water or pumping activities of the Deer Lodge Park 94-1 assessment district. For FY 2008-09, net assets decreased by \$163,000 (8%) due to a write-off of \$166,000 of the assessment receivable as uncollectible.

Revenues

Revenues are derived primarily from 1) charges for services, 2) share of the one percent general levy property tax, 3) supplemental water supply fee, 4) interest, and 5) grant income

1. *Charges for Services*

The main source of revenue income for the District is from charges for water and sewer services. Rates for residential water service include a fixed monthly charge for water service based on meter size applicable to each property, even if unoccupied, and a consumption charge for water service based on a tiered rate. Both water and wastewater customers are billed on a monthly basis. However, wastewater only customers are charged a fixed fee equivalent to \$40.16 per month billed on the annual property tax bill.

During fiscal year 2008-09, the District finalized a comprehensive Financial Master Plan to ensure the continued financial stability of the District. The water and wastewater rates have been restructured based on the Financial Master Plan and the District moved from bi-monthly billing to monthly billing. The rate structure adjusts fixed charges and volume charges so that the net effect more fairly allocates costs to those customers that are high volume users and enhance the positive economic signal to users that conserve. A three percent rate increase was approved with the adoption of the FY 2009-10 Budget, effective January 1, 2010.

2. *Share of One Percent General Levy*

LACSD receives a share of the one percent general ad valorem tax levy. The receipt of a share of the general levy is to the District as a whole and it has chosen to restrict these revenues to its wastewater activities. When the LACSD assumed responsibility for the wastewater activities of the former Lake Arrowhead Sanitation District, the Sanitation District's share of the general levy was transferred to LACSD (LAFCO 2186).

3. *Supplemental Water Supply Fee*

The Supplemental Water Supply Fee was put in place in 2004 to collect fees to: 1) pay for the cost of importing State Water Project water; and 2) pay for the cost of permanent water supply projects such as groundwater wells, recycled water for outdoor irrigation, and additional imported water. The Supplemental Water Supply fee is collected through the County of San Bernardino Property Tax Rolls. It is not part of a customer's regular monthly water bill. The fee consists of a fixed annual charge for all water connections and a variable water charge based on previous calendar year water usage. The fixed annual charge increases each year by two percent and is \$242.13 for FY 2010-11. Parcels already paying a CLAWA fee and those without a meter are exempt from the supplemental fee. The fee was established for 15 years and FY 2010-11 is the sixth year of the fee. The District Board of Directors has taken action to restrict use of the Supplemental Water Fee Funds by way of Ordinance 61.

Through December 31, 2009, the Supplemental Water Fees have generated \$20.4 million along with \$7.1 million in funding provided by the State Revolving Fund grant and loan proceeds. The use of the funds totals \$23.0 million comprised of \$4.4 million in water purchases from CLAWA and \$18.6 million in capital projects. The

largest of the capital projects is Phase 1 of the Recycled Water project at \$12.3 million through December 31, 2009.

#### 4. *Interest*

The District has approximately \$40 million in its reserve accounts which generates considerable interest. However, interest earnings have dropped significantly due to market conditions, which also affect the three enterprise funds.

#### 5. *Grant Income*

The District actively pursues grant funding for its projects. Over the last five audited fiscal years, it has received over \$3.7 million in grant funding to include:

- \$431,000 from the Environmental Protection Agency (EPA) for the District's recycled water program. The District has received the total grant amount and applied it towards the engineering services during construction and other professional services related to the Recycled Water Phase I project.
- \$250,000 from the United States Bureau of Reclamation for a portion of the Integrated Water Regional Plan (IWRP) related to groundwater management.
- \$492,000 from the Bureau of Reclamation portion of the House Energy and Water Appropriations Bill to develop the IWRP. The District and the Bureau worked together to complete the IWRP Final Report in 2007 and the next steps are to begin implementation including surface and groundwater management activities.
- \$208,000 from the Bureau of Reclamation toward an Automatic Meter Reading conservation program.
- The District has secured another appropriation totaling \$1,000,000 in the Federal Fiscal Year 2010 Bureau of Reclamation portion of the House Energy and Water Appropriations Bill. The funds are to be used for a reservoir hydrodynamic study (\$139,792), USGS Precipitation and Stream Gauge Stations (\$167,625), and Water Supply-Renewable Energy Appraisal Study (\$560,038). The District was unable to fully utilize the \$1 million and the agreement with the Bureau is for \$867,455.

#### Expenditures

As shown below, for FY 2010-11 personnel, materials and supplies, and utilities and waste disposal comprise the majority of the major expenditure categories. The percentage representation below generally is the same for the past few years, with the exception of water purchases increasing in cost for some years.

Activity	Expenditure	Percentage
Personnel	\$5,853,562	58%
Materials & Supplies	\$1,240,420	12%
Utilities & Waste Disposal	\$1,061,050	11%
Professional & Other Services	\$807,560	8%
General Liability Insurance	\$300,000	3%
Water Purchases	\$253,000	3%
Maintenance, Contracts & Permits	\$217,760	2%
Training & Travel	\$186,860	2%
Rebate Programs	\$150,000	1%
<b>TOTAL</b>	<b>\$10,070,212</b>	<b>100%</b>

Based on recommendations in the Financial Master Plan adopted on September 9, 2008, the District is pursuing debt financing and has taken advantage of low costs loans and grants through the State Revolving Fund. The major addition to capital assets this year was the completion of the Automatic Meter Reading project, water pipeline replacement and sewer pipeline rehabilitation along with lift station upgrades and equipment purchases.

In November 2009, the District sold \$22 million of Certificates of Participation. Approximately \$6 million was to pay-off the outstanding balance of the 1999A debt with a net present savings of over \$300,000. Approximately \$15 million was new money for capital improvement projects in water (25%) and wastewater (75%). The capital improvement projects will also be partially funded with existing District reserves, according to LACSD.

Capital improvement activity focuses heavily on recycled water projects. These projects include replacing aging infrastructure and will provide efficiencies to both the water and wastewater systems. Funding for these projects are from the 2009 certificates of participation proceeds, district reserves, and state and federal grants. The number of projects is still robust, but several significant projects, including the recycled water Grass Valley Wastewater Treatment Plant upgrade, recycled water transmission line, and conversion of the Lake Arrowhead Country Club golf course for recycled water use were completed in the prior budget year.

### Long-Term Debt

Long-term liabilities are \$17.8 million as of June 30, 2009. Of this amount, the District had \$15.3 million in outstanding long-term debt, compared to \$14.6 million in fiscal year 2007-2008, a net increase of \$2.6 million. On September 4, 2007 the State Water Board adopted the 2007-08 State Revolving Fund (SRF) Loan Program which included the District's Recycled Water Phase 1 Project. The total amount approved for the District's SRF loan is \$6,220,000 that will be disbursed to the District as reimbursement requests based upon project expenditures are submitted to the State Water Board. The loan has a repayment period of twenty years, with the first repayment due one year after completion of construction, with an interest rate of 2.5%. As of June 30, 2009 the total amount drawn down of the SRF loan was \$2,895,655.



The outstanding debt at June 30, 2009 and 2008 is shown in the following figure.

	Water	Wastewater	Total 2009	Total 2008	Total % Change 2008- 2009
2002 Revenue Refunding Bonds	\$ -	\$ 6.1	\$ 6.1	\$ 7.5	(18.7%)
1993 Revenue Refunding Bonds	-	-	-	-	0.0%
1999 CSCDA Revenue Bonds	2.8	3.5	6.3	7.1	(11.3%)
State Revolving Fund	2.9	-	2.9	-	100.0%
	\$ 5.7	\$ 9.6	\$ 15.3	\$ 14.6	4.8%

In addition, the Deer Lodge Park fund owes the Water fund \$183,855 as of June 30, 2009 for an advance to pay for legal fees. The amount is being paid off over a 20-year period with an interest rate of five percent.

### Additional Information

#### *Regular Audits*

Government Code Section 26909 requires all districts to provide for regular audits; LACSD conducts annual audits and meets this requirement. Section 26909 also requires districts to file a copy of the audit with the State Controller and county auditor within 12 months of the end of the fiscal year. According to records from the County Auditor, the last audit received was for FY 2008-09.

#### *Appropriations (GANN) Limit*

Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), LACSD is subject to the Gann limit. Therefore, an agency is restricted as to the amount of annual expenditures from the proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller or returned to the taxpayers through revised tax rates, revised fee schedules or other refund agreements. As a part of the annual budget process, the District adopted by resolution the appropriation limit for the wastewater function for FY 2010-11. A review of the financial statements for the fiscal years ended June 30, 2008 and 2009 show that proceeds of taxes did not exceed appropriations and the wastewater expenditures did not exceed its adopted appropriation limit.

#### *Awards*

The California Society of Municipal Finance Officers awarded a Certificate for an Award for Outstanding Financial Reporting to LACSD for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2008. This was the eighth year that the District has achieved this award.

### *Pension Obligations*

A review of the most recent audited financial statements indicates that LACSD has a zero net pension obligation. In addition, LACSD does not pay for post-employment benefits.

### **IV. Status of, and opportunities for, shared facilities.**

As discussed above, LACSD has entered into short term agreements with San Bernardino Valley Municipal Water District ("Muni") and with the Crestline-Lake Arrowhead Water Agency ("CLAWA") for the purchase of water from Muni, then treatment and transportation of that water through CLAWA's transmission system (as capacity may be available in the Agency's system during periods of off-peak demands) for delivery of that treated water into the LACSD's system for its use in lieu of water from Lake Arrowhead. All of the water supplied by CLAWA is treated to the California Department of Public Health standards at the agency's Silverwood Water Treatment Plant.

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

#### Local Government Structure and Community Service Needs

LACSD is an independent special district governed by a five-member board of directors. Members are either elected by the electorate at the November consolidated election in odd numbered years or are appointed in-lieu of election by the County Board of Supervisors to four-year staggered terms. The most recent selection round in November 2009 produced three appointed members. The current board, positions, and terms of office are shown below:

<b>Board Member</b>	<b>Title</b>	<b>Term</b>	<b>Selection</b>
Geoffrey Goss	President	2013	Appointed in Lieu of Election
David Ben-Hur	Vice President	2011	Elected
Joyce Barkley	Director	2013	Appointed in Lieu of Election
Glenn Goodwin	Director	2013	Appointed in Lieu of Election
Ralph Wagner	Director	2011	Elected

Regular Board meetings occur on the second and fourth Tuesday of each month at 6:30 p.m. at the Willow Creek Board Room in Lake Arrowhead. Notice of each Board meeting is posted for public review and on the agency website at least 72 hours in advance and is also mailed to anyone who may have requested notice in writing. LACSD's office is located in Lake Arrowhead and is open Monday through Friday 7:30 a.m. to 5:00 p.m.

#### Operational Efficiency

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

- The District participates in a joint venture with forty-three other participants in California Sanitation Risk Management Authority ("CSRMA") for workers' compensation and forty members pooled liability insurance. CSRMA has a self-

insured retention of \$750,000 per occurrence for workers' compensation and pooled liability, workers' compensation does not have a deductible and pooled liability has a \$50,000 deductible.

- Beginning March 1, 2003, the District contributes to the California Public Employees Retirement System ("PERS"), a cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investments and administrative agent for participating public entities with the State of California. On March 11, 2009 the remaining 16 participants of the 401(a) pension plan rolled over their investment to PERS giving the District 100% participation in PERS.
- The County of San Bernardino has transferred approximately 12.88 acres previously purchased by County Service Area 70 Zone D-1 to LACSD. LACSD plans to use this site for a new district office and maintenance yard.

### 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:*

CLAWA Law and its contract with the State Department of Water Resources prohibit CLAWA from delivering any portion of its imported water supply for use outside of its boundaries. However, as noted throughout this report, there is a three-party agreement between CLAWA, San Bernardino Valley Municipal Water District ("Muni"), and LACSD for the purchase of water from Muni, treatment and transportation of that water through the CLAWA's transmission system (as capacity may be available in CLAWA's system during periods of off-peak demands) for delivery of that treated water into the LACSD's system for its use in lieu of water from Lake Arrowhead.

#### *Government Structure Change Options:*

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

- Annexation of surrounding territory. LACSD, landowners, or registered voters could submit an application to expand the sphere of influence of LACSD and annex surrounding territory. However, much of the surrounding lands are either served by another district or are public lands not requiring municipal level services through LACSD or any other public agency. Further, the District does not have any specific

policies related to annexation but it has stated its past practice has been to refuse to annex new territory to the primary water service area. However, it has assumed the obligation for water service under a separate system.

- Annexation of district-owned land in Hesperia. LACSD desires to bring into its sphere of influence and annex ten parcels in the City of Hesperia. The property is owned by LACSD which it uses for effluent disposal and agricultural production. As a cost savings measure, if LACSD 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.
- Assumption of streetlighting and road maintenance responsibility as well as other municipal level services for the community. LACSD overlays CSA 59 and CSA 69 (roads) and a portion of CSA 54 (streetlights). As a multi-function, independent special district, LACSD has the statutory authority to provide streetlighting and road maintenance services (although activation of such service is subject to LAFCO authorization). In this scenario, LACSD could assume responsibility for providing the services within its boundaries.

Such a change is in concert with the Commission's community service ideology, there would be a single agency providing the full range of municipal services within a community (along with a transfer of the property tax share of each respective agency) and reduction of multiple agencies providing the same service. LAFCO staff bases this possibility upon the following:

- The Commission approved the formation of the LACSD with the condition that the district continue to explore possibilities of adding additional services at the earliest possible time,
- Legislature's intent in LAFCO Law and Community Services District Law.
  - The preamble to LAFCO Law reads that while the Legislature recognizes the critical role of many limited purpose agencies, especially in rural areas, it finds and declares that a single multipurpose governmental agency accountable for community service needs and financial resources may be the best mechanism for establishing community service priorities.
  - Government Code Section 61001(b) states:

*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 as the community approaches cityhood.*

(4) *A transition form of governance as the community approaches cityhood.*

The San Bernardino LAFCO has utilized CSD as a service mechanism to nurture communities and protect them from intrusion by other service providers for a future incorporated city.

- Further, the preamble to Community Services District Law states that the intent of the Legislature for CSD Law is to encourage LAFCOs to use their service reviews, spheres of influence, and boundary powers, where feasible and appropriate, to combine special districts that serve overlapping or adjacent territory into multifunction community services districts.

LACSD was requested to provide its response to this option. This option was discussed by the LACSD board at its September 14 meeting and was met with amusement. The District's written response to LAFCO states that the directors considered the request and determined that because the street lighting and road maintenance district were so small, it would not be economical for LACSD to attempt to operate the districts.

LAFCO staff returns to the Legislature's intent in LAFCO Law and Community Services District Law in that a single multi-function agency may be the best mechanism to coordinate and provide service within a community. It is evident that the current situation results in multiple governing bodies, administration, overhead, and financial reporting. It is also apparent that the District currently provides for the receipt of service by contract (as snow removal is accomplished) and through direct payment to Southern California Edison for services.

- Assumption of CSA 70 Zone D-1's dam maintenance (flood control) and park services by Lake Arrowhead Community Services District (LAFCO 3144). This proposal was continued from the July hearing to this month's agenda at the request of the Lake Arrowhead CSD. The proposal was to authorize activation of the District's latent flood control and park and recreation services within its boundaries. The rationale for this request was the future intent to assume responsibility for providing those services currently a function of CSA 70 Zone D-1 along with a transfer of all its assets, revenues, and liabilities. Since that time, LACSD has withdrawn its application. However, as outlined above the transfer of this service obligation remains a long-term option given the primary role of the agency to protect the viability of Lake Arrowhead, the primary source of water for consumption within the District's jurisdiction. However, if the District is not interested in the assumption of regional services, as evidenced by its response on road and streetlighting, the transfer of these services remains problematic. LAFCO staff's position remains that for maintenance of the dam, such an action could reduce the layers of government in the area and provide for local control of the dam and Papoose Lake.

- Assumption of public retail water service within LACSD boundaries. There are three public agencies that provide water within LACSD's boundaries but outside of its water service area. These scenarios would reduce multiple public agencies overlaying the same area that provide the same service. Since the service areas of these agencies are already within the boundaries of LACSD, these scenarios would not require LAFCO approval and would be subject to negotiation between the appropriate agencies or a vote of the electorate.
  - *CSA 70 Zone CG.* In this scenario, LACSD would assume responsibility for County Service Area 70 Zone CG's (Zone CG) water service and would succeed to Zone CG's water system, assets, and liabilities.
  - *Crestline-Lake Arrowhead Water Agency Improvement Districts.* At the time that CLAWA created Improvement Districts A, B, C, and D there was no other public water agency available to provide the service. However, in 1983, LACSD was expanded to include the boundaries of the Lake Arrowhead Sanitation District and assumed that agency's services; the majority of CLAWA's improvement districts are within LACSD. LACSD currently provides water service to the Arrowhead Woods area (its original service area) and the territory within Deer Lodge Park. LACSD could assume the retail responsibility for Improvement District A and C, the majority of Improvement District B and the developed portions of Improvement District D.
  - *City of Big Bear Lake Department of Water and Power.* The City of Big Bear Lake Department of Water and Power succeeded to the water service territory previously assigned the Southern California Water Company – Big Bear District upon its acquisition by the City of Big Bear Lake. As a condition of the City's acquisition through condemnation, it was required to assume service responsibility for all of Southern California Water Company's service area in the mountains – which included the Rimforest portion in the Lake Arrowhead community. In 1995, LAFCO granted the City of Big Bear Lake an exemption from the provisions of Government Code Section 56133 for the provision of water service within the State Public Utilities Commission assigned certificated service area. In 2004, the Commission authorized the expansion of the Rimforest Service to include the Mountain Pioneer Mutual Water Company due to the devastating effects of the Old Fire on the system. LAFCO staff has broached the question of transferring this service obligation to the LACSD due to its proximity (Big Bear DWP is more than 30 miles away). LACSD has indicated its interest in assuming service responsibility for this area as well as succeed to the system's assets; however, no official response has been received from the Big Bear DWP.
- CLAWA annexation of Arrowhead Woods. While CLAWA is willing to continue cooperation with LACSD and assist in delivering supplemental water obtained by alternative means, CLAWA's Board strongly opposes annexation of the Arrowhead Woods area. CLAWA staff has provided two main reasons for the opposition to annexation of the Arrowhead Woods area. First, imported water supply may not be sufficient to satisfy existing and anticipated demand for supplemental water and the

agency would not be comfortable adding demand with no additional supplemental supply. Second, the additional population would alter the board representation with the Lake Arrowhead community possibly comprising two of the five board memberships.

Should Arrowhead Woods ever be annexed into CLAWA, LAFCO staff's analysis indicates that board divisions would need to be realigned to allow for proportional representation. All levels of public agencies are evolving entities and boundary and representation modifications are a common occurrence.

A 2003 study funded by CLAWA indicates that if Arrowhead Woods were to be annexed to the agency, the annexation fee to be paid to CLAWA would be approximately \$39.7 million. This figure was based upon CLAWA's rules and regulations, which state that an annexation fee shall equal the sum of back property taxes and back standby charges. With roughly 9,500 parcels<sup>11</sup> composing the Arrowhead Woods area, the average annexation fee to CLAWA would be roughly \$4,200. Additionally, this figure was derived in 2003 and would increase each year as property taxes and standby charges are levied. However, according to CLAWA's FY 2008-09 Financial Statements, CLAWA's future commitment for State Water Project costs over the years 2009 to 2035 is estimated at \$49.9 million. For illustrative purposes, by simply adjusting the 2003 estimated \$39.7 million annexation fee for inflation, the Arrowhead Woods area would be charged \$47.0 million in 2010. Therefore, the general statement can be made that annexation of Arrowhead Woods to CLAWA along with the annexation fees would roughly equal CLAWA's commitment for State Water Project costs through 2035 and remove that obligation from CLAWA's current residents and landowners. If such annexation were to be proposed, an improvement district could be formed to isolate the Arrowhead Woods area, much like Improvement Districts A, B, C and D, to be responsible for the future State Water Project costs. This scenario would afford the Arrowhead Woods with accessibility to supplemental water and substantially reduce or even eliminate the future State Water Project costs that those currently within CLAWA's boundaries pay. No opinion regarding this possibility has been received by LAFCO staff from CLAWA, LACSD, or those representing the Arrowhead Woods area. However, LACSD states that due to political factions, this option is not likely at this time.

- Consolidation of all public water agencies and/or service areas. Another scenario would be to consolidate all of the public water agencies providing retail water service within CLAWA's boundaries. These agencies include Arrowbear Park County Water District, County Service Area 70 Zone CG, CLAWA, Crestline Village Water District, LACSD, Running Springs Water District, and the Rim Forest portion of the City of Big Bear Lake Department of Water and Power. This option could reduce duplication of administrative efforts and provide the opportunity for economies of scale. Further, it would provide a single voice for this part of the mountain region regarding water issues. This option could also alleviate the need for short-term

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<sup>11</sup> The 2003 study funded by CLAWA identifies that roughly 9,500 parcels are within the Arrowhead Woods exclusion area. A parcel count provided by the County of San Bernardino Information Services Department in May 2010 identifies that there are 9,852 parcels within this area.

solutions for water delivery. This is a viable option, and appears more practical for the Crest Forest and Lake Arrowhead communities. However the details of a possible consolidation would need to consider the other services provided by the agencies and if annexation of additional territory would be included.

- Maintenance of the status quo. At this time, LAFCO has not received any expressed interest from LACSD, landowners, or residents in exploring the options above. Maintenance of the existing organizational structure would maintain the delivery of retail water and sewer within the respective service areas with no additional services provided. However, as described in detail in the LACSD Sphere of Influence Update, LAFCO staff is recommending sphere expansions to include district-owned land in Hesperia and to encompass the Lake Arrowhead community, as defined by the Commission.

## ***LAKE ARROWHEAD CSD SPHERE OF INFLUENCE UPDATE***

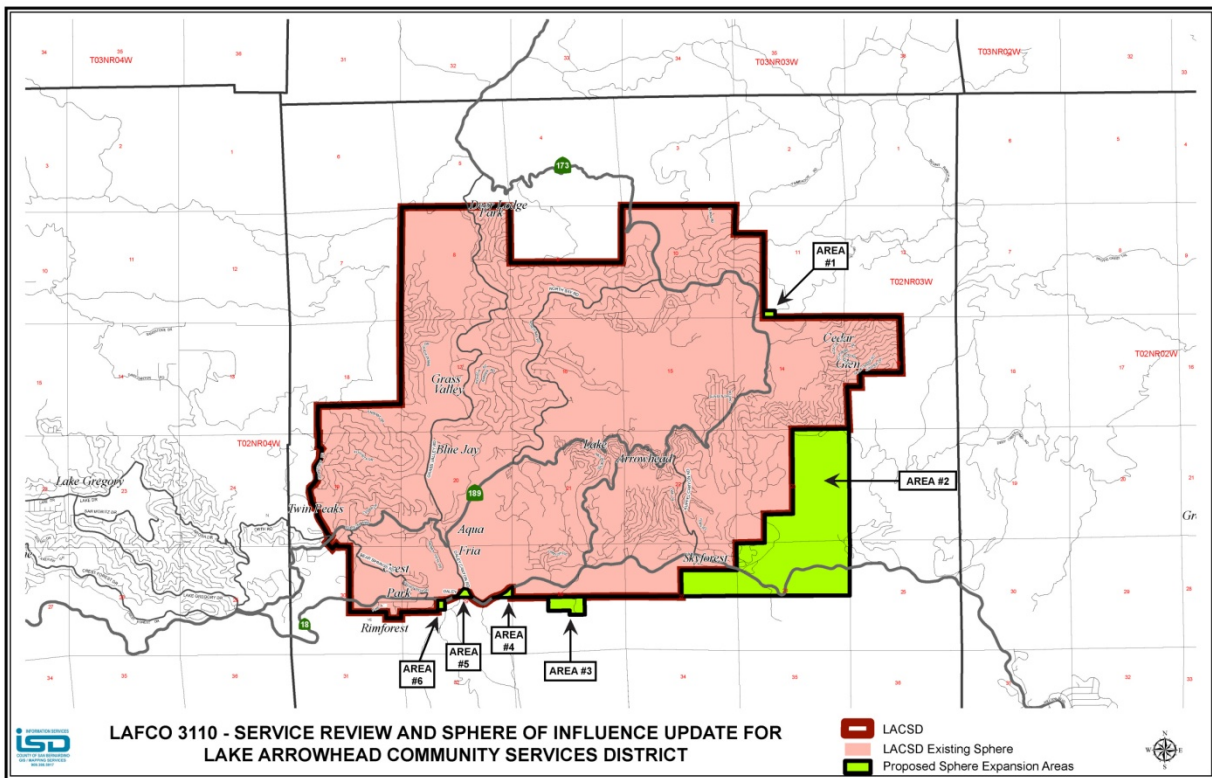
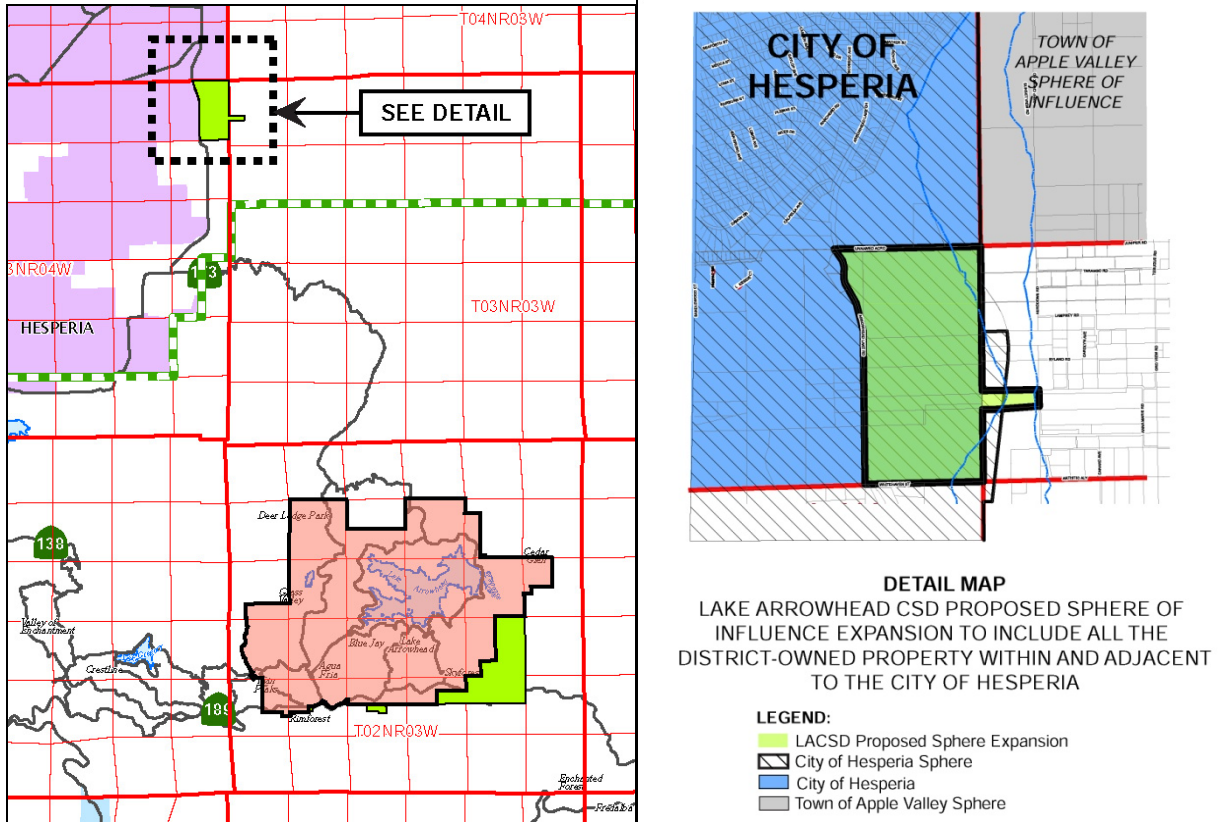
### Sphere of Influence

In 1983, the Commission established the sphere of influence for the LACSD as being coterminous with its boundaries. Since that time, there have been no changes to the LACSD sphere. As discussed in detail in the “Lake Arrowhead Community Discussion” section of this report, for this sphere update staff is recommending the following sphere of influence amendments:

1. Expand LACSD's sphere to include ten parcels located within and adjacent to the City of Hesperia. The properties are owned by LACSD which it uses for effluent disposal and agricultural production. As a cost savings measure, if LACSD were to annex these parcels and continue its public use, then it would benefit from tax exempt status for the parcels and would not be subject to paying the ad valorem property tax. LACSD requested this sphere expansion when it submitted its sphere of influence update materials to LAFCO and recommends that the Commission approve this sphere expansion. Since nine out of the ten parcels are within the City of Hesperia and its subsidiary district the Hesperia Water District, these agencies were requested to respond the proposed sphere expansion. The City and the Water District have not provided statement regarding the proposed sphere expansion other than it wishes to be notified of the sphere expansion.
2. Expand the sphere for LACSD to encompass the Lake Arrowhead community, as defined by the Commission. Additional sphere modifications include surrounding private lands, to adjust for parcel lines, and to conform to the Lake Arrowhead community definition are shown on the second map below.

By placing these areas within the LACSD sphere, it understands that the designation of a sphere of influence requires the district to prepare plans for the extension of service and incorporate all of its sphere of influence within its planning documents.





Authorized Powers

When updating a sphere of influence for a special district, the Commission is required to establish the nature, location, and extent of any functions or classes of services provided by the district (Government Code §56425(i)). LAFCO staff has identified through consultation with LACSD that it provides for the reclamation of wastewater and delivers recycled water for irrigation purposes at the Lake Arrowhead Country Club.

LAFCO staff recommends the Commission modify the water services for the District to recognize its delivery of reclaimed wastewater for irrigation purposes and affirm the sewer services provided by LACSD in the *Rules and Regulations of the Local Agency Formation Commission of San Bernardino County Affecting Functions and Services of Special Districts* as follows:

<u>FUNCTIONS</u>	<u>SERVICES</u>
Water	Retail, domestic, operation of water, conservation, <b><u>reclaimed water for irrigation purposes</u></b>
Sewer	Collection, transportation, treatment, reclamation, disposal

**FACTORS OF CONSIDERATION:**

Present and Planned Uses

Land uses within the district boundaries consist of residential with limited commercial and institutional uses to support regional retail requirements. There is no agricultural use within the District. Open space areas are either not yet developed land (residential), recreational (golf course) or commercial related (conference centers). The three lakes are designated as open space, with one publicly owned (Papoose Lake).

Present and Probable Need for Public Facilities and Services

Due to the high housing density (3 to 4 dwellings units per acre), hard rock soil conditions, and proximity to lake waters present an on going need for water and wastewater services. The population density creates demands that far exceed the ability of local natural water resources to adequately and reliably satisfy. The regulatory reduction in the entitlement to Lake Arrowhead water will require the District to identify and secure an alternative reliable source of imported water to meet existing and future demands.

The present and probable need for supplemental water service in the Arrowhead Woods area (7.4 square miles) has been addressed through the three-party agreement between Crestline-Lake Arrowhead Water Agency ("CLAWA"), San Bernardino Valley Municipal Water District ("Muni"), and the LACSD for the purchase of water from Muni, then treatment and transportation of that water through the CLAWA's transmission system (as capacity may be available in CLAWA's system during periods of off-peak demands) for delivery of

that treated water into the LACSD's system for its use in lieu of water from Lake Arrowhead. However, the three-party agreement is a short-term solution with the contract expiring in 2020. Further, there are no known plans on providing a long-range and comprehensive solution to the water challenges in the mountain area after 2020.

### Present Capacity of Public Facilities and Adequacy of Public Services

The present capacity of the facilities is adequate for the District's services. LACSD states that within the next seven years alternative water supply sources must be identified and secured for long-term water supply reliability.

### Social and Economic Communities of Interest

The social communities of interests are the Rim of World Unified School District, Arrowhead Woods development, and the surrounding communities. The economic communities of interest are Lake Arrowhead, Lake Arrowhead Village, and businesses along the highways.

### **CONCLUSION FOR LACSD:**

LACSD was envisioned to provide more than water and sewer service. It was intended to become the focal government organization for the community.

For the LACSD sphere of influence update, staff recommends that the Commission:

- Amend the sphere of influence to:
  - Include 10 parcels located within and adjacent to the City of Hesperia, which LACSD uses for effluent disposal and agricultural production.
  - Encompass the Lake Arrowhead community, as defined by the Commission. Additional sphere modifications include surrounding private lands, to adjust for parcel lines, and to conform to the Lake Arrowhead community definition.
  - Seek concurrence from the District and the City of Big Bear Lake Department of Water and Power to transfer operations of the Rimforest system.
- Modify the water service to acknowledge the delivery of reclaimed water for irrigation purposes and affirm the sewer functions and service descriptions.

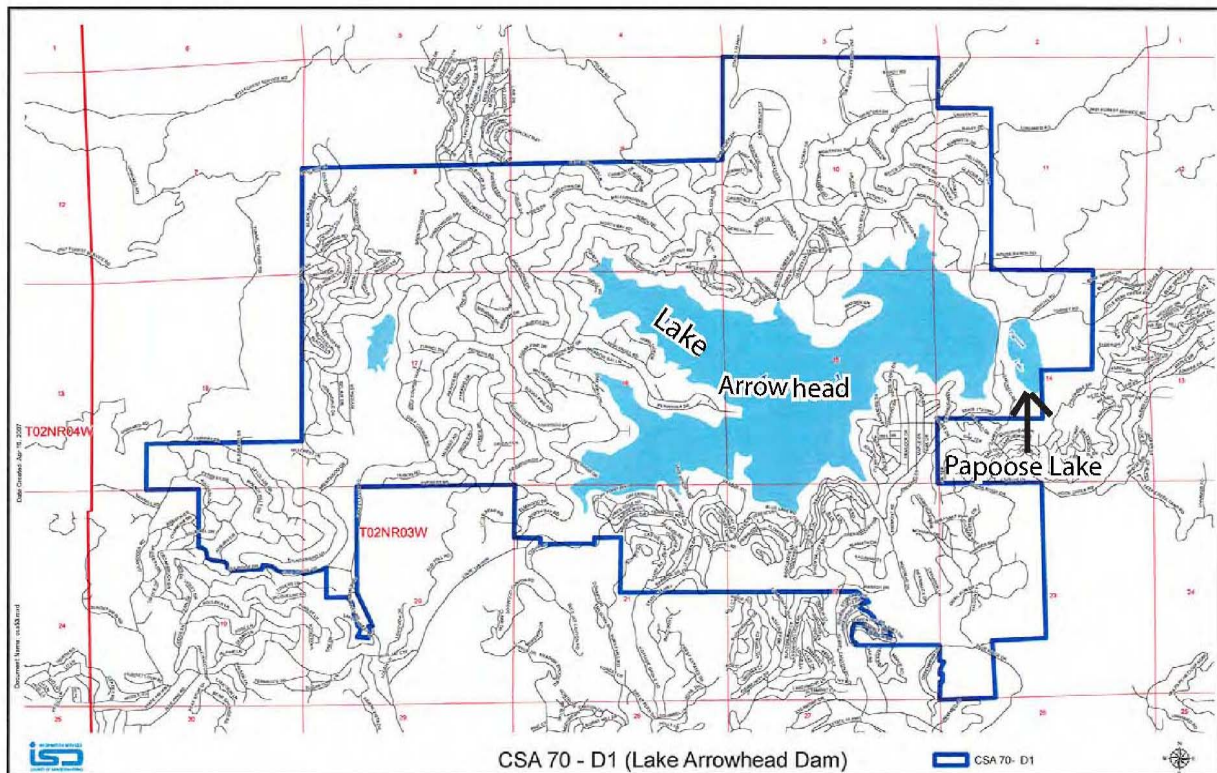
## COUNTY SERVICE AREA 70 ZONE D-1 (LAKE ARROWHEAD) Service Review

### **INTRODUCTION:**

County Service Area 70 Zone D-1<sup>12</sup> (“Zone D-1”) was formed in 1974 for the purpose of constructing and providing a financing mechanism for the New Lake Arrowhead Dam, located on the east side of Lake Arrowhead. In December 2008, the County Board of Supervisors, as the governing body of Zone D-1, adopted a resolution to add park services to Zone D-1 (park and recreation was already authorized for Zone D-1’s parent agency, County Service Area 70). Zone D-1 is not under LAFCO purview, therefore only information related to a service review is provided in this report.

### **LOCATION AND BOUNDARIES:**

Zone D-1 encompasses approximately 7.7 square miles in the Mountain Region of the county and is wholly within the Lake Arrowhead Community. Zone D-1 conforms to the area commonly known as Arrowhead Woods and consists of a planned community surrounding Lake Arrowhead. A map showing Zone D-1 is shown below and is included as a part of Attachment #2.



<sup>12</sup> The zone was formed as “County Service Area 70 Improvement Zone D-1”. With the re-write of CSA Law effective January 2009, all “improvement zones” are now called “zones”.

**ZONE D-1 HISTORY:**

In the early 1970s, the Division of Safety of Dams of the State of California Department of Water Resources determined that the Lake Arrowhead Dam was unsafe and issued an order that if there was no action towards making needed corrections to dam, then the level of the lake would be lowered significantly, thus effecting the size of the lake. The ownership of Lake Arrowhead and its dam were privately owned by the Arrowhead Lake Association (“ALA”), the property owners association of the area known as Arrowhead Woods. The ALA could not obtain independent financing to repair the Lake Arrowhead Dam, but it desired to retain the restricted access to the private lake. Instead of making significant repairs to the Lake Arrowhead Dam located at the east side of the lake, the recommended course of action to come into safety compliance was to construct an additional dam easterly of the Lake Arrowhead Dam. This would create a smaller lake in between the two dams which would in essence provide an equalizing force of water on both sides of the Lake Arrowhead Dam (as shown on the image below). Usually dams are created to protect a downstream area from flooding, but an additional dam (named the New Lake Arrowhead Dam) was constructed to preserve the level of Lake Arrowhead and safety of the original dam. Due to the cost of constructing the New Lake Arrowhead Dam, the ALA could not obtain independent financing. Therefore, public assistance was needed.



Although counties in general were authorized to provide flood control services and facilities through Government Code Section 25680 et seq. in 1974, county service areas were not authorized to provide flood protection. Further, at that time the *San Bernardino County Flood Control Act* did not allow for special zones that would facilitate the proper financing mechanism for the needed corrections. Given the public interest and necessity, specific legislation, SB 2141<sup>13</sup>, was needed to allow San Bernardino County to construct, repair, and maintain dams by either: 1) using a county service area, or 2) a special zone within the San Bernardino County Flood Control District. The course of action chosen by the County was to use County Service Area 70 (unincorporated countywide) for flood protection.

With the County now allowed to use a county service area to provide flood protection, County Service Area 70 Improvement Zone D-1 was formed in July 1974 by action of the County of San Bernardino Board of Supervisors<sup>14</sup>. With Zone D-1 formed, the Board of Supervisors placed a special bond and maximum tax rate election for the November election and the electorate approved both measures. The area of benefit is generally known as Arrowhead Woods and includes the land owners who receive benefit of lake privileges contained in the deed to their property defined in the agreement signed between the property owners and the Lake Arrowhead Dam Corporation in 1964.

### ***CSA 70 ZONE D-1 SERVICE REVIEW***

As outlined at the outset of this section, LAFCO has no direct jurisdiction over Zone D-1; therefore, only service review information is provided. The County Special Districts Department, administrators for board-governed special districts, prepared a service review consistent with San Bernardino LAFCO policies and procedures. The Department's response on behalf of Zone D-1 to LAFCO's original and updated requests for materials includes, but is not limited to, property and financial information. The information submitted is included as a part of Attachment #3 and is incorporated in the information below.

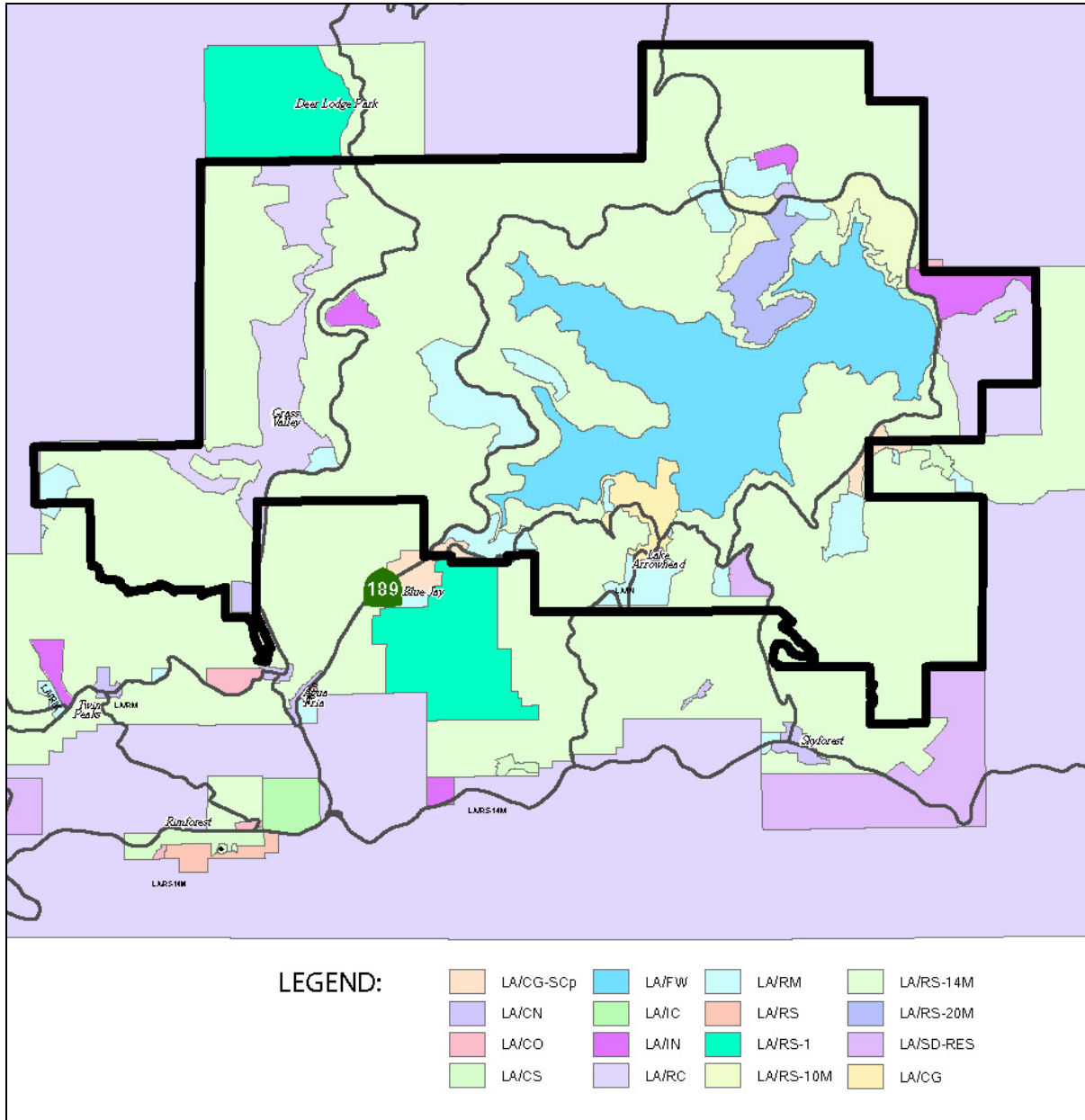
#### **I. Growth and population projections for the affected area.**

Development in the San Bernardino Mountains is naturally constrained by rugged terrain, limited access, and lack of support infrastructure, as well as by planning and environmental policies which place much of the area off limits to significant development. As shown on the map below, the private lands within the Zone D-1 are generally residential (RS-14M and RS-1) with scattered commercial along State Route 189, 173, Rim Forest and along the lake (Lake Arrowhead Village). Maximum build-out potential is substantially constrained by the slope-density standards and fuel modification requirements of the County General Plan Fire Safety Overlay.

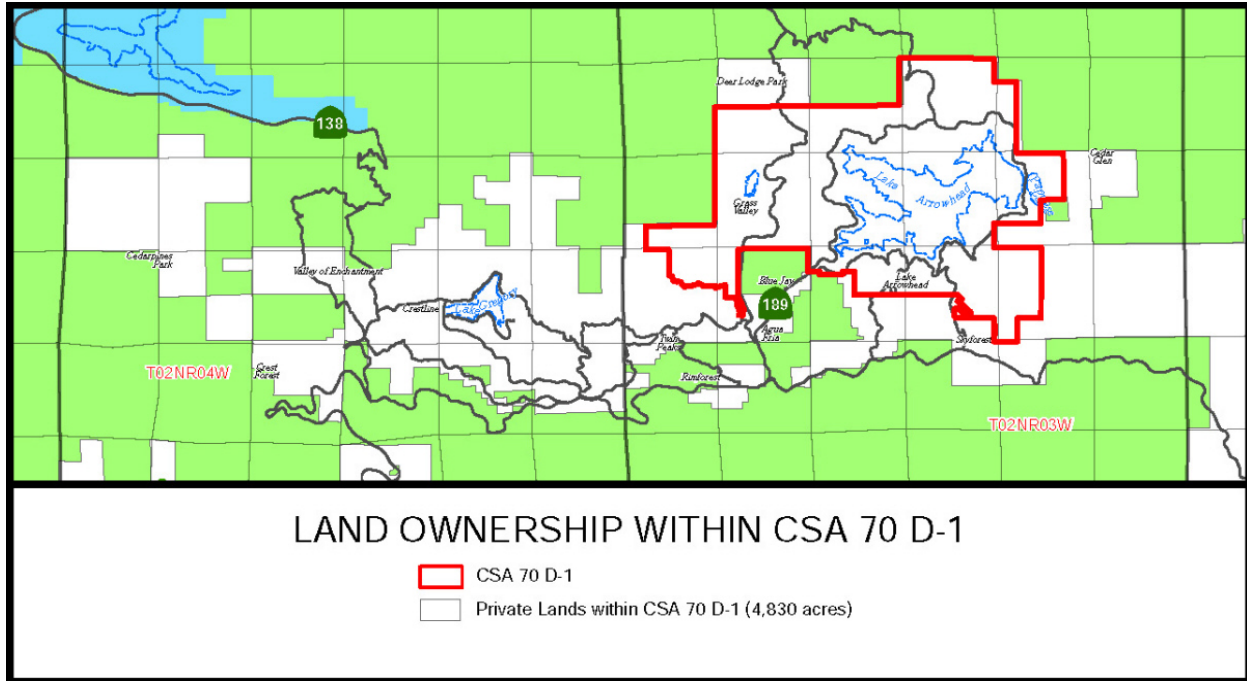
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<sup>13</sup> Senator Ayala (coauthor Assemblyman Lewis) introduced SB 2141, signed into law in 1974. *Stats. 1974, c. 380, pg 941*. SB 2141 added Sections 25210.4d and 25211.7a to the Government Code (CSA Law) and amended Sections 3.1 and 13 of the *San Bernardino County Flood Control Act*. With the re-write of CSA Law effective January 2009, the special language pertaining to San Bernardino County was removed and now Gov Code 25213(v) permits a county service area to provide flood control and drainage services and facilities (subject to LAFCO authorization).

<sup>14</sup> County Board Resolution 74-216, adopted by the Board of Supervisors on August 26, 1974.



As shown on the map below, all the lands within Zone D-1 are privately-owned.



In general, the San Bernardino Mountains is one of the most densely populated mountain areas within the country. The Zone D-1 service area includes commercial uses surrounding Lake Arrowhead oriented to tourists and seasonal residents as well as year-round residents. However, development in Zone D-1 is primarily single-family residential. Zone D-1 currently has an estimated permanent population of approximately 7,714. There is a large seasonal population component as well as a substantial influx of visitors to the mountain resort areas, which are not reflected in available demographic statistics. It is estimated that the seasonal factors can approximately double the peak population.

From 2000 to 2030, the overall permanent population within Zone D-1 is estimated to grow 87% and reach roughly 12,000. This figure does not take into account seasonal population and tourism. Even with the large increase in population, the area is not anticipated to reach its build-out population by the 2030 horizon of this report.

Year	2000	2005	2010	2015	2020	2025	2030	2000 to 2030 growth rate
CSA 70 D-1	6,261	6,950	7,714	8,563	9,505	10,550	11,711	87.0%

Source: County of San Bernardino 2007 Lake Arrowhead Community Plan  
Notes: Does not include seasonal population or visitors  
Methodology for LAFCO staff calculations<sup>15</sup>

<sup>15</sup> Methodology for LAFCO staff calculations.

Population between 2005 and 2030 represent the average five year growth rate from 2000 to 2030. LACSD comprises 65% of the private parcels of the Lake Arrowhead Community Plan area.



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

Zone D-1 was formed in 1974 for the purpose of providing dam operations, maintenance, and repairs of the New Lake Arrowhead Dam. In December 2008, the County Board of Supervisors, as the governing body of Zone D-1, adopted a resolution to add park services to Zone D-1 (park and recreation was already authorized for Zone D-1's parent agency, County Service Area 70).

### Dam Maintenance

The County Special Districts Department did not provide any plans or studies for this service review regarding the New Lake Arrowhead Dam or Papoose Lake.

The County Special Districts Department utilizes a Dam Caretaker for the day-to-day operations of Zone D-1 and contracts with Hilltop Geothermal Incorporated for maintenance and inspection of the New Lake Arrowhead Dam. Prior to FY 2010-11, the dam employee was employed in the name of Zone D-1. As of July 1, 2010, the dam employee is employed in the name of CSA 70 – the countywide county service area. Written correspondence from Hilltop Geothermal to County Special Districts Department on file at the LAFCO office identifies the normal maintenance and inspections that are routinely performed and the timeframe associated with each item.

Papoose Lake receives drainage inflow and has roughly 1970 acre-feet in capacity. LAFCO staff is of the understanding that the capacity and area of Papoose Lake would lend to recreational use, and the State permit to construct the New Lake Arrowhead Dam requires the lake to be open for public use. However, Papoose Lake and the surrounding area are physically restricted to the public by locked gates. Of concern to LAFCO staff is the utilization of public funding to construct a dam and lake for the purpose of maintaining the water level and dam integrity of a private adjacent lake while not allowing public access to the publicly funded Papoose Lake.

### Park Services

In 1996, the County Board of Supervisors approved the purchase by Zone D-1 of 51.35 acres of vacant land located in the Lake Arrowhead area at the northeast corner of State Highway 173 and Torrey Road for \$1.5 million. The land was purchased to construct a debris basin north of Papoose Lake to aid in the control of silt runoff from construction and heavy rain that flowed into Papoose Lake, which was a concern to the California Department of Fish and Game and the Lahontan Regional Water Quality Control Board. The purchase approval by the board also indicates the potential to utilize unused portions of land for the "betterment of the community", which at the time was undefined by the Advisory Commission or Board of Supervisors.

In August 2008, the Board of Supervisors approved the sale of 11.2 acres of the 51.35 acres owned by Zone D-1 to the San Bernardino Mountain Communities Healthcare District for \$500,000. The Board declared that the 11.2 acres in the name of Zone D-1 was no longer necessary for its purposes and declared the property surplus. The intent for use of the funds gained from the sale is to aid in the design, planning, and construction of a park

on approximately two acres of the remaining Zone D-1 land. An additional 12.88 acres has been transferred to Lake Arrowhead CSD for \$1.00. LACSD plans to use this site for a new district office and maintenance yard.

The contract for design of the park was awarded in December 2008, and a concept plan for the "Lake Arrowhead Community Park" was created and approved by the Zone D-1 Advisory Commission and the Board of Supervisors. The park project is broken down into three phases, and the park is planned to include a skateboard park, playground, parking lot, restroom, picnic shelter, footbridge, and walk path. The park design and plan were paid from the \$500,000 property sale to the San Bernardino Mountains Communities Healthcare District.

To pay for the construction of the park, the County submitted a \$1.1 million grant application to the State Department of Park and Recreation. LAFCO staff understands through discussion with County Special District staff that if Zone D-1 is not awarded the grant, the park will not be constructed. Of concern to LAFCO staff is that the grant application states that Zone D-1 was formed for the purpose of dam repair and maintenance and to provide park services. However, County Board Resolution 74-216 in 1974 states that the only service to be provided by Zone D-1 is flood control and the implementation was through the construction of the new Lake Arrowhead Dam. It was not until 2008 that the Board of Supervisors authorized park and recreation services to be provided through Zone D-1. Further, the application states that there are no public recreation facilities in Lake Arrowhead. However, LAFCO staff has verified that the Rim of the World Recreation and Park District owns and operates one community/senior center and one park in the Lake Arrowhead community.

LAFCO staff also questions the information which states that future park operations and maintenance is anticipated to be paid from the ad valorem property tax received by Zone D-1. LAFCO staff understands that the ad valorem property tax received by Zone D-1 has always related to its operation and maintenance of the new Lake Arrowhead Dam and would question how this could be used to support park services when Rim of the World Recreation and Park District already provides that service to the area which is funded through the payment of the District's special assessment on all developed parcels. Having two public agencies in an area actively providing park and recreation services is a duplication of service which is in direct conflict with the principles of LAFCO law.

### **III. Financial ability of agencies to provide services.**

#### **Revenue**

Zone D-1 is not an enterprise function; therefore, it does not receive any outside operating revenues. Zone D-1's primary source of revenue is its share of the one percent ad valorem general levy along with the interest earned on its fund balance, which represents 93% of its annual revenue.

In 1974, the voters within Zone D-1 approved two measures related to the construction of the New Lake Arrowhead Dam. The first measure allowed Zone D-1 to incur bonded indebtedness of \$7 million for the construction of the dam. The second measure allowed

Zone D-1 to levy a tax rate of \$0.10 per \$100 per year of assessed valuation on all taxable property within the boundaries of Zone D-1.

In 1977-78 before Proposition 13, all landowners within Zone D-1 were subject to these two taxes<sup>16</sup>:

- General Administration – tax rate of \$0.3180 per \$100 of assessed valuation.
- Bond Debt – tax rate of \$1.2087 per \$100 of assessed valuation (it is unclear to LAFCO staff how the special tax rate for the bond increased from 10 cents to \$1.2087 within the span of three years).

Following passage Proposition 13, the Legislature enacted statutes to implement its provisions. Under these statutes, a local government's share of the one percent general levy was based on the share of the property tax going to that local government before Proposition 13 (including bond debt). In 2008-09, Zone D-1 received a share between 13.3% and 14.3% of the one percent general levy, which resulted in Zone D-1 receiving roughly \$473,000 (not including taxes owed from prior years). Zone D-1 no longer has any bond debt since the bond was paid off in 2000, 14 years earlier than its 40 year term. However, Zone D-1's current share of the one percent general levy is comprised of the pre-Proposition 13 general administration and bond debt tax rates. The result has been a net gain of over \$200,000 each year.

Shown on the figure below, the revenue line item "Operating Transfer In" for FY 2008-09 for \$688,264 includes the receipt of \$499,100 for the sale of property to the San Bernardino Mountains Healthcare District.

### Expenditures

Expenditures are mainly comprised of services and supplies, salaries and benefits for the one employee, and transfers out to County Service Area 70 (unincorporated area countywide) for operations and management support.

Prior to FY 2010-11, the dam employee was employed in the name of Zone D-1. The employee assigned to Zone D-1 also performed paving and snow-plowing services for other county service areas and zones in the mountain region. Essentially, the Zone D-1 employee was the road operator for the mountain region. As shown on the figure below, for FY 2009-10 Zone D-1 is estimated to be reimbursed \$13,500 in salaries and benefits for share of the road equipment operator. A review of information provided by Special Districts Department and the FY 2008-09 and FY 2009-10 budgets identify the following county service areas and zones that shared the Zone D-1 equipment operator and provided reimbursement to Zone D-1: County Service Areas 18, 59, 68, 69; County Service Area 70 Zones R-2, R-3, R-4, R-7, R-9, R-11, R-12, R-13, R-16, R-21, R-22, R-23, R-33, R-34, R-35, R-36, R-39, R-40, R-41; and County Service Area 79 Zone R-1. For FY 2008-09, Zone D-1 received reimbursement of \$20,343.11 for 375.75 hours at \$54.14 per hour. For FY 2009-10, Zone D-1 received reimbursement of \$19,743.81 for 356.00 hours at \$55.46 per

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<sup>16</sup> County of San Bernardino Auditor-Controller. *Valuations-Tax Rates, Code Area Tax Rates, 1977-78, Bonded Indebtedness June 30, 1977.*

hour. No reimbursement was identified for the use of the equipment in the name of Zone D-1 to perform these services.

As of July 1, 2010, the dam employee is employed in the name of CSA 70 – the county service area for the unincorporated county area. Therefore, Zone D-1 will reimburse CSA 70 for staffing. In turn, the county service areas and county service area zones that shared the Zone D-1 equipment operator will now reimburse CSA 70. Zone D-1 pays for a proportional share of salaries and benefits costs necessary to serve it and pays a proportional cost of the administrative functions of the County Special Districts Department. To pay for these functions, the FY 2010-11 Budget indicates a transfer to CSA 70 Countywide of \$238,868 for salaries and benefits and services and supplies support.

For FY 2008-09 and FY 2009-10, auto repairs, maintenance, and fuel increased sharply while the reimbursements for salaries and benefits decreased. Special Districts Department staff has indicated that the increased services and supply costs were not directly related to more road work. Rather, the Zone D-1 vehicles required additional service due to their age. Services and Supplies are increasing significantly this fiscal year due to the purchase of private liability insurance (\$130,297) and new loader for district maintenance and snow removal (\$165,000). LAFCO staff has raised the question regarding the need for snow removal equipment in the name of Zone D-1. To date, a complete listing of equipment in the name of the District has not been received.

#### Net Gain

As identified in the financial statements and budgets, revenues far exceed operating expenditures each year. Removing the sale of property and the construction of a new park, Zone D-1 annually experiences a net revenue gain of over \$200,000 each year. As of June 30, 2010, Zone D-1 is estimated to have a fund balance of \$1,462,980.

For FY 2010-11, Zone D-1 is anticipated to have a year-end fund balance of zero dollars, as identified in the budget. However, Zone D-1 historically has not utilized the budgeted Contingencies. If Contingencies are not utilized, the estimated fund balance at the end of FY 2010-11 would be \$741,812.

**CSA 70 Zone D-1 Financial Activity  
(General Operations Fund)**

	FY 2006-07 Actual	FY 2007-08 Actual	FY 2008-09 Actual	FY 2009-10 Estimate	FY 2010-11 Budget
<b>Expenditures</b>					
Salaries & Benefits	\$78,577	\$86,504	\$91,454	\$123,183	\$0
Services & Supplies	77,019	113,586	126,243	118,421	327,826
Central Computer	64	66	971	973	1,113
Equipment	0	0	0	0	165,000
Transfers Out	69,715	96,019	123,727	142,286	238,868
Contingencies	0	0	0	0	741,812
Reimbursements	(296)	(8,383)	(12,405)	(13,500)	0
Operating Transfers Out	50,285	0	70,000	500,000	500,000
<b>Total Expenditures</b>	<b>\$275,364</b>	<b>\$287,792</b>	<b>\$399,990</b>	<b>\$871,343</b>	<b>\$1,974,619</b>
<b>Revenue</b>					
Taxes	\$466,831	\$500,593	\$493,321	\$486,639	\$486,639
Use of Money & Property	24,342	37,155	34,511	28,000	25,000
Current Services	(656)	(3,574)	557	1,600	0
Other Revenue	8,704	1,270	6,254	0	0
Operating Transfers In	0	112	688,264	0	0
<b>Total Revenue</b>	<b>\$499,221</b>	<b>\$535,556</b>	<b>\$1,222,907</b>	<b>\$516,239</b>	<b>\$511,639</b>
<b>Net</b>	<b>\$223,857</b>	<b>\$247,764</b>	<b>\$822,917</b>	<b>(\$355,104)</b>	<b>(\$1,462,980)</b>
<b>Fund Balance</b>	<b>\$747,403</b>	<b>\$955,157</b>	<b>\$1,818,084</b>	<b>\$1,462,980<sup>1</sup></b>	<b>\$0<sup>1</sup></b>
Sources: FY 2010-11 Recommended Budget					
<sup>1</sup> Calculated by LAFCO staff					

Self-Insurance

From its construction in 1974 up to FY 2010-11, Zone D-1 and the New Lake Arrowhead Dam were self-insured by the County of San Bernardino. County Special Districts Department staff states County Risk Management reviewed the possibility of Zone D-1 purchasing a separate insurance policy, but it was determined not to be cost effective. The County determined that Zone D-1's fund balance would be sufficient.

During that time, of concern to LAFCO staff was liability of a major repair should natural disaster have occurred. The bonds approved in 1974 for construction of the dam totaled \$7 million (\$7 million in 1974 would have the same buying power as \$31 million in 2010). Should the need arise for major repair, it was possible that the current Zone D-1 budgeted reserve of \$1.27 million might not have been enough to cover the cost. With Zone D-1 and the New Lake Arrowhead Dam being self-insured by the County of San Bernardino, should repair costs exceeded the reserve amount of \$1.27 million, then the County of San Bernardino and the tax payers throughout the county would be liable for the costs of such repairs.

In response to these concerns, the FY 2010-11 Budget includes the purchase of private liability insurance. Purchase of insurance for the dam would reduce the County's liability in

the case of a major repair due to natural disaster. However, should the purchase of private liability insurance not continue, then LAFCO staff's concerns regarding the county's liability would return.

#### Appropriation Limit

An appropriation limit (Gann Limit) is required by Article XIII B of the State Constitution and limits the expenditure of the proceeds of taxes. Action taken on March 2, 2010 by the Board of Supervisors of the County of San Bernardino established the appropriation limit for Zone D-1 at \$5,583,042.

#### **IV. Status of, and opportunities for, shared facilities.**

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

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

##### *Local Government Structure and Community Service Needs*

Zone D-1 is governed by the County Board of Supervisors and administered by the County Special Districts Department; it is within the political boundaries of the Third Supervisorial District. Zone D-1's budgets are prepared as a part of the County Special Districts Department's annual budgeting process. The annual budget is presented to the County Administrative Office and Board of Supervisors for review and approval.

Zone D-1 has a Board-appointed Advisory Commission with members appointed to four-year terms. The purpose of the Advisory Commission, as stated on the Clerk to the Board's website, is "To provide advice and recommendations to the Board of Supervisors on issues related to the operation and maintenance of the Audrey S. Mackay Memorial Dam [New Lake Arrowhead Dam] at Papoose Lake in Lake Arrowhead". No mention is made regarding input on park and recreation activities now under the purview of Zone D-1. Meetings are held as needed on the third Tuesday of the month at 5:30pm at the dam building on Torrey Road at Papoose Lake. The current Advisory Commission is as follows: Billy Dickson, Nancy Noble, Mary Tomlinson, Gary Tompkins, and John Wurm.

##### *Operational Efficiency*

As a mechanism to control costs, the County of San Bernardino Special Districts Department has consolidated many of the administrative and technical functions necessary to manage the various services provided under County Service Area 70. Therefore, Zone D-1 now has no direct employees; it pays for a proportional share of salaries and benefits costs necessary to serve it and pays a proportional cost of the administrative functions of the County Special Districts Department. To pay for these functions, the FY 2010-11 Budget indicates a transfer to CSA 70 Countywide for salaries and benefits and services and supplies support.

### *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:

Direct service is not provided outside the boundaries of Zone D-1. However, as outlined in other parts of this report, equipment in the name of the District is utilized to provide for road maintenance and/or snow removal, and the park anticipated to be built by Zone D-1 will be available to all members of the public.

### Government Structure Change Options:

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

- Expansion or reduction. One possibility would be to expand or reduce the boundaries of Zone D-1. However, Zone D-1 was formed for the purpose of dam construction and maintenance (flood control) with boundaries representing the area of benefit. Therefore, in the LAFCO staff’s view, expansion or reduction of Zone D-1 would not make sense and is not a viable option.
- Assumption of CSA 70 Zone D-1’s dam maintenance (flood control) and park services by Lake Arrowhead Community Services District. Continued from the July and September hearings to this month’s agenda is an application from the Lake Arrowhead CSD requesting authorization to provide flood control and park services within its boundaries with the intent to assume responsibility for providing those services along with a transfer of assets from CSA 70 Zone D-1. The LACSD has submitted a request to withdraw its application on the basis of its negotiations with Zone D-1 over the transfer of property for its office and maintenance facility. As outlined in this report, this option does remain a long-term option which would consolidate the municipal services for the community under the umbrella of a single service provider. For maintenance of the dam, this possibility could reduce the layers of government in the area and provide for local control of the dam and lake which is the primary reservoir for the LACSD retail system.

Additionally, Lake Arrowhead CSD has an interest in the protection of the lake because it is used as a water source. Lake Arrowhead CSD participates in monitoring the water of lake and assumed sewer responsibility due to adverse effects on the quality of the water. Similar, assumption of dam maintenance would include Lake Arrowhead CSD in the protection of the water storage facility.

- Assumption of Zone D-1's dam maintenance (flood control) service by the San Bernardino County Flood Control District. Another possibility would be for the San Bernardino County Flood Control District to form a service zone and assume responsibility for the maintenance and operations of the New Lake Arrowhead Dam. Such an action would not be subject to LAFCO purview, as LAFCO has no direct authority over flood control districts or zones to county service areas. Currently, the New Lake Arrowhead Dam is the only dam operated by the County Special Districts Department. Further, the primary function of flood control districts is flood control, which includes the operation of dams. This could allow for operational efficiencies and would reduce a layer of government. Therefore, this is a viable possibility.
- Contract with Rim of the World Recreation and Park District to operate the Zone D-1 park. There is already an authorized park and recreation provider overlaying Zone D-1. Rim of the World Recreation and Park District (ROWRPD) is authorized by LAFCO to provide park and recreation services within its boundaries, which includes the area of Zone D-1. Having two public agencies in an area actively providing park and recreation services is a duplication of service. It is the understanding of LAFCO staff that Zone D-1 plans to construct and fund the new park and is currently negotiating with ROWRPD for administration (Attachment #3). No plans have been provided to LAFCO staff breaking down the construction project timeline.



## **PRIVATE RETAIL WATER PURVEYORS Service Reviews**

### **INTRODUCTION:**

Within the Lake Arrowhead community are numerous private water companies and water camps as well as the City of Big Bear Lake's Department of Water and Power – Rimforest system. The DWP Rimforest System is unique in that it was acquired through the condemnation of the former SoCal Water Company (a PUC governed private system) in the mountain region by the City of Big Bear Lake.

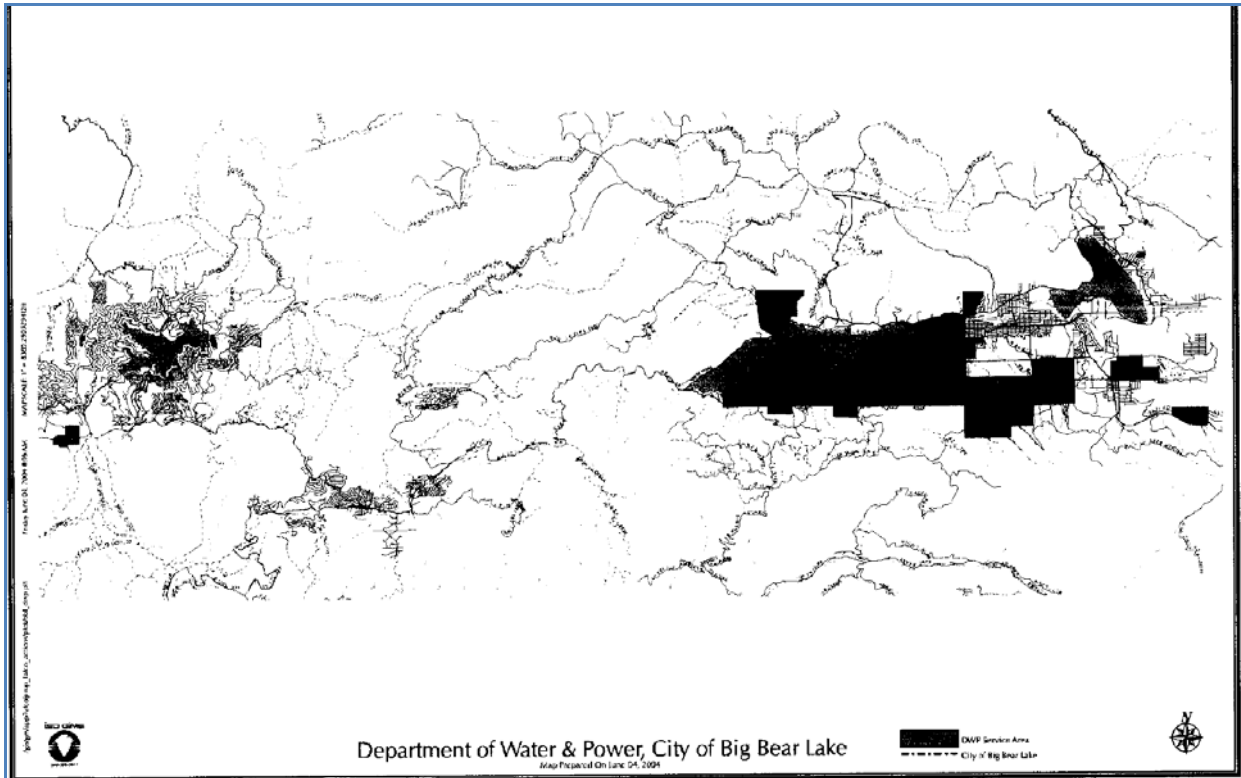
The larger of the private agencies are the Alpine Water Users Association (a mutual water company) and Arrowhead Villas Mutual Service Company. Information regarding these companies was obtained from the Crestline-Lake Arrowhead Water Agency (the State Water Project contractor for the area) and the California Department of Public Health (the reporting agency) to allow staff to better process the service reviews for the communities which LAFCO reviews as a part of its Service Review responsibilities. These companies are regulated by the California Department of Public Health and primarily serve residential customers and can be classified as community water systems. As a mutual water company, Arrowhead Villas provides water to shareholders and is required to file with the California Department of Corporations. These agencies are not under LAFCO purview, therefore only information related to a service review is provided for this report.

### **SERVICE INFORMATION:**

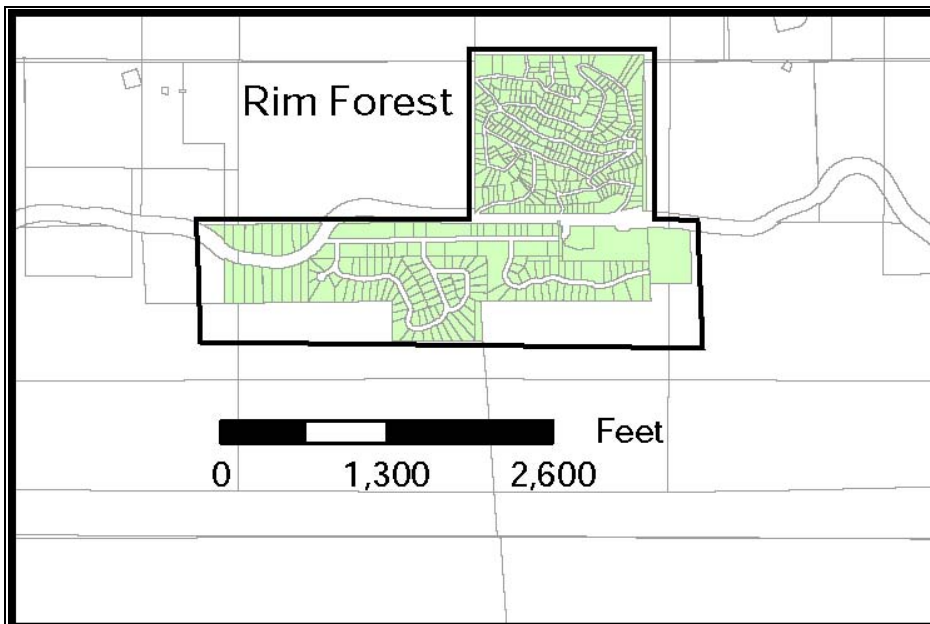
#### **DWP Rim Forest System**

The Big Bear Lake Department of Water and Power (DWP) Rim Forest System is one of the certificated service areas of the Southern California Water Company which the DWP succeeded to upon its successful condemnation of the system. This system is located 30 miles from the remaining service area of the DWP in the City of Big Bear Lake, and Sugarloaf and Fawnskin communities. The water system is supplied through a single connection to Crestline-Lake Arrowhead Water Agency (CLAWA). In June of 2004, the Department of Water and Power Rimforest System acquired the operations of the Mountain Pioneer Mutual Water Company, encompassing 18 lots within the eastern Rimforest community due to the impacts of the Old Fire on the system.

The regional relationship of the Rimforest System to balance of the DWP service area is shown on the map below:



The service area of the Rimforest System is shown on the map below:



DWP's 2006 Master Plan indicated that it assumes that CLAWA would secure enough supplies to meet the system's projected demand and that CLAWA will continue to implement long term supply and delivery plans to meet the water demand requirements of the mountain communities it serves. Therefore, no supply shortages are anticipated for the system. Financial obligations of the system are paid through a surcharge for the

assessment for condemnation and acquisition of the system. At this time, LAFCO staff is not aware of whether or not the Mountain Pioneer Mutual Water Company has been included in the surcharge.

*Connections:*

As of June 30, 2006, there were 297 active connections in this system.

*Supply Requirements:*

Current supply requirement is at 50 acre feet/year

*Supply Source:*

Crestline-Lake Arrowhead Water Agency

**System Facilities**

- *Storage Facility:*

Existing storage capacity of the Rim Reservoir (1998) is 0.5 MG. Current storage requirement is 0.28 MG. DWP's 2006 Master Plan indicates that existing storage capacity for the system is sufficient to meet current and projected requirements.

- *Distribution Facility:*

Total pipeline for the system is approximately 19,350 linear feet. The large majority of its distribution facilities are 8 inches and larger and capable of meeting fire flow requirements.

Diameter	Linear Feet
4	363
6	5,742
8	11,752
10	331
12	1,165
Total	19,352

DWP's 2006 Master Plan identified no improvements necessary for its distribution system.

ALPINE WATER USERS ASSOCIATION – 931 Services

P.O. Box 122, Twin Peaks, CA 92391

745 Rose Lane, Twin Peaks, CA 92391

E-mail Address: [gadams@awwa.org](mailto:gadams@awwa.org) ; [pabroda@aol.com](mailto:pabroda@aol.com)

Business Phone and Emergency Phone: (909) 337-2845 FAX: (909) 336-0026

Manager: Phillip Broda

Secretary and Office Manager: Gwen M. Greive

Servicemen: Gary Adams

President of the Board: Tom Burke

Board Members: Ted Jenkins, Lydia Glembotzki, William Thompson & Mike Eshleman

Board Meeting Date: First Saturday in every even month

Board Meeting Location: 745 Rose Lane, Unit 'B,' Twin Peaks, CA 92391

Retail Water Charge: \$3.30 per 100 cubic feet for 0-1500, \$6.60 per 100 cubic feet over 1501

Commercial Water Charge: \$4.40 per 100 cubic feet 0-1500, \$6.60 per 100 cubic feet over 1501

Construction Water Charge: N/A

Special Assessments: \$90.00 per share

Connection Fees & Meter Charges: Connection Fees are case by case; Meter Charge \$30.00/billing

Delinquent Payments & Lock off Charge Amounts: \$25.00 Delinquent Fee & \$50.00 Disconnect Fee

Population: 3,000

Connections: 910 residential, 25 commercial, zero industrial and agricultural

7 groundwater wells, no standby wells, no emergency interconnections

35.8 million gallons produced in 2009, 13.2 million gallons purchased

Well 11 was taken offline in 2009

Emergency response plan was adopted in 2009

Secretary of State Business Portal: license filed in 1927, currently active

ARROWHEAD VILLAS MUTUAL SERVICE CO. – 781 Services

P.O. Box 77, Skyforest, CA 92385

767 Community Drive, Skyforest, CA

Website Address: [www.arrowheadvillas.ning.com](http://www.arrowheadvillas.ning.com)

Email Address: [Arrowheadvillas@verizon.net](mailto:Arrowheadvillas@verizon.net)

Business Phone: (909) 337-4259 Emergency Phone: (909) 864-9110 FAX: (909) 336-4326

Manager: Elizabeth Smith

Servicemen: Jose Garcia, Juan Garcia

President of the Board: Victoria Wood

Board Members: Ivan Golden, Tisha Biggs, James Grant & Larry Fehrenbach

Board Meeting Date: Third Friday of every month

Board Meeting Location: 767 Community Drive, Skyforest, CA 92385

Retail Water Charge: \$830.00 Yearly

Connection Fees & Meter Charges: \$1,500.00

Population: 500, can increase to 2,500 during high season

Connections: 779 residential, 2 commercial, zero industry and agricultural

2 wells, zero standby wells, no emergency interconnection

19.1 million gallons produced in 2009, 10.9 million purchased

Emergency response plan was adopted September 2000

Secretary of State Business Portal: license filed in 1927, currently active

## **COUNTY SERVICE AREA 70 ZONE CG (CEDAR GLEN) Service Review**

### **INTRODUCTION:**

County Service Area 70 Zone CG<sup>17</sup> (“Zone CG”) was formed in 2005 for the purpose of providing water and road services to a portion of the Lake Arrowhead community known as Cedar Glen. Zone CG is not under LAFCO purview, therefore only information related to a service review is provided in this report.

In November 2004 the Cedar Glen Disaster Recovery Redevelopment Project Area was approved by the County Board of Supervisors to assist with the rebuilding of an area destroyed by the 2003 Old Fire. The major goal of the project is to construct improvements within the Project Area that will promote the reconstruction of homes destroyed in the fire, and to provide infrastructure improvements to assist in preventing future disasters from causing this degree of devastation in the future. The total Project Area is approximately 837 acres.

In June 2005, the County Board of Supervisors approved an action to set aside \$800,000 from the County General Fund to purchase the privately-owned and failing Arrowhead Manor Water Company serving the Cedar Glen area from the court appointed receiver. In order to purchase and transition the Arrowhead Manor Water Company to a public entity and begin the process of providing water and future road maintenance service to the area, the Board of Supervisors approved the formation of Zone CG.<sup>18</sup> Subsequent to the formation of Zone CG in July 2005, the \$800,000 approved by the County became a loan between the County and Zone CG. The County, on behalf of Zone CG, negotiated with the court appointed receiver to purchase the Arrowhead Manor Water Company for \$305,000. Additionally, the County negotiated with the California Department of Water Resources on the existing Arrowhead Manor Water Company loan debt service payment schedule and reconciliation/payoff terms. To date, Zone CG has not provided road services within its boundaries. However, redevelopment funds are in the process of being allocated for future road service.

On October 17, 2006, the Zone CG and the receiver entered into an operations and management agreement which required the District to take over operations of AWMC beginning November 1, 2006 until the close of escrow on January 30, 2009, on which date the agreement ended. Based on the agreement, the District agreed to provide the services necessary to operate and maintain the water system and all related improvements and equipment, including insurance. The District was required to bill customers and provide normal and customary management, collections, enforcements, and bookkeeping services. The agreement authorized the District to retain all revenues for all services provided on and after November 1, 2006. The water system now is fully owned, managed, and operated by the County of San Bernardino, under the auspices of Zone CG.

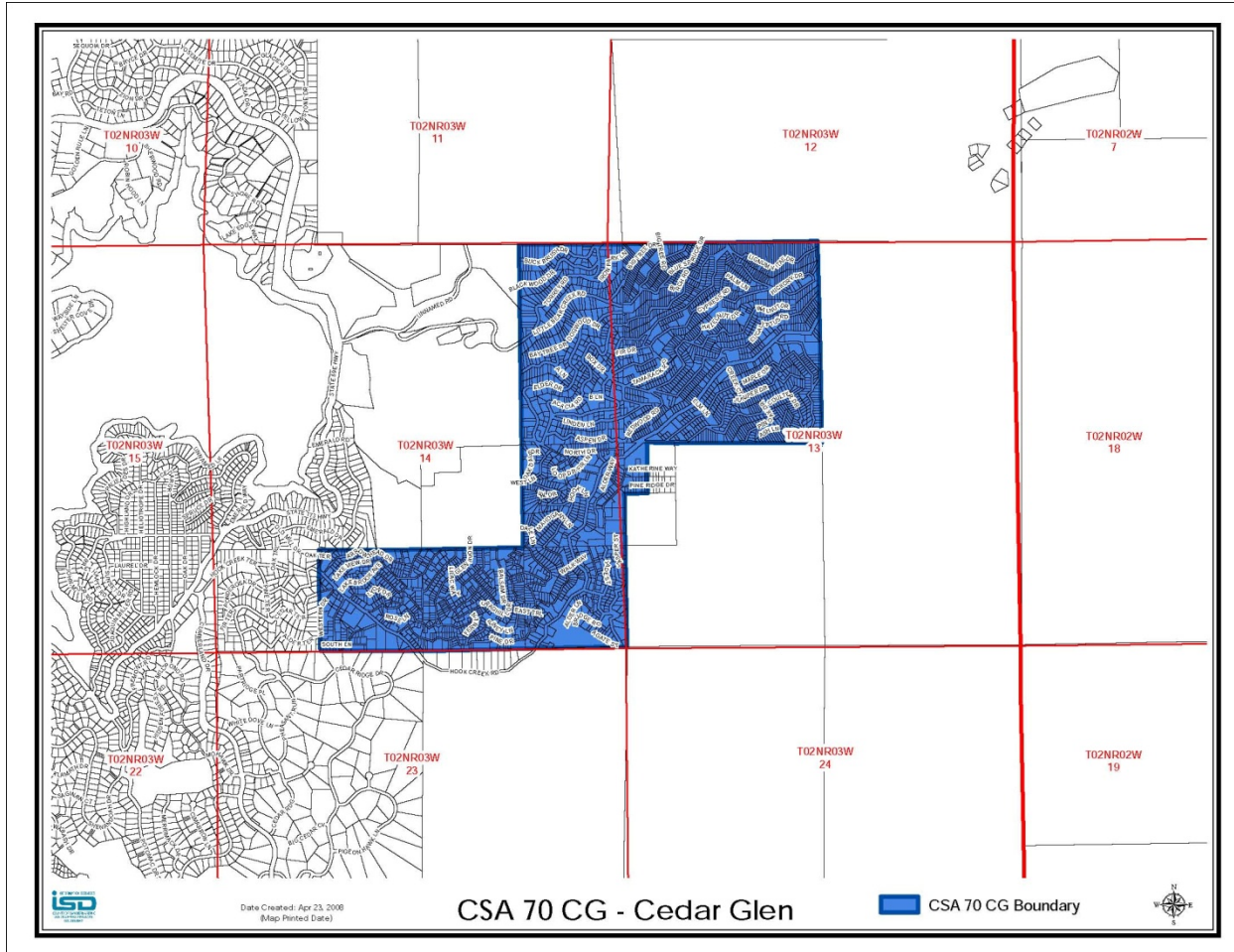
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<sup>17</sup> The zone was formed as “County Service Area 70 Improvement Zone CG”. With the re-write of CSA Law effective January 2009, all “improvement zones” are now called “zones”.

<sup>18</sup> County of San Bernardino. Board of Supervisors. Resolution No. 2005-259. July 12, 2005.

**LOCATION AND BOUNDARIES:**

Zone CG encompasses a portion of the Cedar Glen area and is wholly within the Lake Arrowhead Community. Zone CG comprises portions of Sections 13 and 14 in T2N, R3W and is approximately 420 acres. A map showing Zone CG is shown below and is included as a part of Attachment #4.



***CSA 70 ZONE CG SERVICE REVIEW***

LAFCO has no direct jurisdiction over Zone CG; therefore, only service review information is provided. The County Special Districts Department, administrators for board-governed special districts, prepared a service review consistent with San Bernardino LAFCO policies and procedures. The Department's response on behalf of Zone CG to LAFCO's original and updated requests for materials includes, but is not limited to, property and financial information. The information submitted is included as a part of Attachment #4 and is incorporated in the information below.

**I. Growth and population projections for the affected area.**

The FY 2009 Water Quality Report estimates that CG serves approximately 342 connections. Utilizing the 2.2% annual growth rate identified in the Lake Arrowhead Community Plan this calculates to 1,714 customers by 2030.

Year	2010	2015	2020	2025	2030
Population	1,129	1,253	1,391	1,544	1,714

Source: County of San Bernardino 2007 Lake Arrowhead Community Plan  
Note: Does not include seasonal population or visitors

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

Zone CG was formed to provide water and future road services within its boundaries. To date, it has not provided road services. Redevelopment funds are in the process of being allocated for future road service; although it has not been identified how future road maintenance will be funded.

The water system consists of two wells, four booster stations, and reservoirs that store 660,000 gallons that serve approximately 342 connections. A review of the 2009 Water Quality Report does identify that there are any violations for constituents in the water.

County Special Districts Department has taken a multi-phase approach for the capital improvement project to upgrade system infrastructure. Capital assets added during FY 2008-09 included \$1,507,971 in land and construction, as well as water purchases. Construction estimated for completion in 2010 includes \$1,590,010 for water system improvements and phase 1 of a road and water design. A listing of the improvement projects for 2009 and 2010 are listed below:

- Improvement Projects recently completed include:
  - New water production well drilled producing 60-80 gallons per minute.
  - Constructed 14,500 feet of new 8 inch diameter waterline.
  - Forty-five new hydrants were installed.
  - A new 450,000 gallon steel water tank was erected.
  
- Improvement Projects currently in process or are planned are:
  - Finish the new 3,100 feet of 8 inch waterline with hydrants.
  - Construct an additional 20,000 feet of waterline with hydrants.
  - Drill a second production well northeast of Papoose Lake.
  - Construct three new 250,000 gallon water reservoirs.
  - General road improvements including grading, turn-outs, and drainage crossings
  - Continued implementation of the housing programs that include the Home Rehabilitation Grant, Home Rehabilitation Loan, and Land Use Services Grant programs. These programs are coordinated by the County Redevelopment Agency.

The County Redevelopment Agency has produced a status report for the Cedar Glen Project which is included as a part of Attachment #4.

### **III. Financial ability of agencies to provide services.**

#### Revenue

Revenue consists of water sales, special taxes and interest earnings. For FY 2009-10, the monthly user charges for debt service was eliminated because Zone CG received \$460,520 board elective funding from the County of San Bernardino for the payment of the outstanding SDWBA loan balance relative to the acquisition of the AMWC.

#### Expenditures

For FY 2010-11, Services and Supplies of \$133,142 include utilities, other professional and specialized services, laboratory testing, fuel and other miscellaneous costs. Other Charges of \$362,885 represents the County Service Area Revolving Fund loan and County loan debt service payments and is increasing this fiscal year by \$132,069 due to adjustment in debt service schedule.

Zone CG has no direct employees; it pays for a proportional share of salaries and benefits costs necessary to serve it and pays a proportional cost of the administrative functions of the County Special Districts Department. To pay for these functions, the FY 2010-11 Budget indicates a transfer of \$313,019 to CSA 70 Countywide for management and operations support.

#### Net Gain

For FY 2010-11, Zone CG is anticipated to have a year-end fund balance of zero dollars, as identified in the budget. However, Zone CG historically has not utilized the budgeted Contingencies. If Contingencies are not utilized, the estimated fund balance at the end of FY 2010-11 would be \$336,238.



**CSA 70 Zone CG Financial Activity  
(General Operations Fund)**

	FY 2006-07 Actual	FY 2007-08 Actual	FY 2008-09 Actual	FY 2009-10 Estimate	FY 2010-11 Budget
<b>Expenditures</b>					
Services & Supplies	\$71,415	\$203,393	\$109,464	\$116,890	\$133,142
Other Charges	0	0	910,520	230,816	362,885
Land & Improvements	0	0	300,126	0	0
Equipment	0	0	0	40,560	0
L/P Struct/Equip/Vehicle	0	0	0	0	0
Transfers	0	257,172	128,050	303,925	313,019
Contingencies	0	0	0	0	336,238
Reimbursements	0	0	(7,134)	0	0
<b>Total Expenditures</b>	<b>\$71,415</b>	<b>\$460,565</b>	<b>\$1,441,026</b>	<b>\$692,191</b>	<b>\$1,145,284</b>
<b>Revenue</b>					
Use of Money & Property	\$28,803	\$26,982	\$8,089	\$4,500	\$5,500
Current Services	208,313	176,381	220,449	653,503	685,367
Other Revenue	838,960	36,046	563,361	0	0
Other Financing Sources	0	0	0	27,560	0
Operating Transfers In	0	0	770,520	0	0
<b>Total Revenue</b>	<b>\$1,076,076</b>	<b>\$239,409</b>	<b>\$1,562,419</b>	<b>\$685,563</b>	<b>\$690,867</b>
<b>Net</b>	\$1,004,661	(\$221,156)	\$121,393	\$6,628	(\$454,417)
<b>Fund Balance</b>	<b>\$547,552</b>	<b>\$326,396</b>	<b>\$447,789</b>	<b>\$454,417<sup>1</sup></b>	<b>\$0<sup>1</sup></b>
Sources: FY 2010-11 Recommended Budget					
<sup>1</sup> Calculated by LAFCO staff					

County General Fund Loan

On July 1, 2006, the District received an \$800,000 loan from the County's General Fund. The \$800,000 loan was used to initiate various road and water improvements that included the purchase of the Arrowhead Manor Water Company (AMWC) for \$305,000. Pursuant to the terms of the loan, to the extent that funds are available, the County loan will also be used by Zone CG to (i) provide funds to cover any defaulted amount or amounts AMWC may owe the State of California for outstanding bond transactions; (ii) provide initial funding for the upgrade of road and AMWC water systems within the Cedar Glen Project Area; (iii) for any Special Districts Department administrative and environmental-related expenses, with respect to the formation of the district and acquisition of AMWC and any legal or consultant costs related to the acquisition. The term of the loan is 10 years with a simple interest rate of 5%. The payments are deferred during the first five years, payment of interest only is due the next four years, and then an interest and balloon payment of the principal amount will be due on July 1, 2016.

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u> <u>Payments</u>	<u>Total</u>
2009	\$ -	\$ -	\$ -
2010	-	-	-
2011	-	-	-
2012	-	40,000	40,000
2013	-	40,000	40,000
2014-2016	800,000	320,000	1,120,000
<b>Total</b>	<u>\$ 800,000</u>	<u>\$ 400,000</u>	<u>\$ 1,200,000</u>

County Service Area Revolving Loan

On January 6, 2009, the Zone CG received a \$450,000 loan from the County Service Area Revolving Loan Fund for additional funding needed to fully repay the outstanding loan balance to the California Department of Water Resources relative to the acquisition of the AMWC. The term of the loan is 10 years. The rate as of June 30, 2009 was 1.70 percent. The following is a summary of long-term liabilities transactions for the year ended June 30, 2009 (not shown is the \$400,000 in interest payments for the County General Fund liability through 2016):

	<u>Principal</u> <u>Balance</u>			<u>Principal</u> <u>Balance</u>	<u>Amounts</u> <u>Due Within</u>
	<u>July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2009</u>	<u>One Year</u>
County General Fund	\$ 800,000	\$ -	\$ -	\$ 800,000	\$ -
CSA Revolving	-	450,000	-	450,000	-
Total long-term liabilities	<u>\$ 800,000</u>	<u>\$ 450,000</u>	<u>\$ -</u>	<u>\$ 1,250,000</u>	<u>\$ -</u>

Assumption of State Loan

On October 17, 2006, the Zone CG and the court-appointed receiver for AMWC entered into an asset acquisition agreement for the purchase of AMWC. The agreement states that Zone CG will purchase AMWC for \$305,000. Additionally, Zone CG was requested to assume the State Safe Drinking Water Bond Act (SDWBA) Loan that AMWC previously received. The balance of the loan was \$910,520 after the passage of Assembly Bill Number 2680 on September 30, 2008, effective January 1, 2009. To cover the cost of the Special Item, Zone CG received a loan for \$450,000 and County Board elective funding for \$460,520; this money is a grant and does not have to be repaid to the County. Zone CG received \$460,520 board elective funding from the County of San Bernardino for the payment of the outstanding SDWBA loan balance relative to the acquisition of the AMWC.

County Redevelopment Agency

To initiate activities, County RDA received a \$10 million loan in 2005 from the County to finance housing improvement grants and loans, land acquisition, business assistance and infrastructure improvements within the Cedar Glen Disaster Recovery Redevelopment Project Area (December 6, 2005, Item No. 91). The loan agreement delineated the purpose and distribution of the funds. On November 18, 2008, County RDA requested the release of a portion of the funds from contingency to continue to implement projects and programs.

County RDA provided a status report on the use of funds disseminated and also identified the use of contingency funds. Based on project estimates it was determined that the County loan proceeds would be insufficient to fund all phases of the water and road improvements. At this time, County RDA began exploring the issuance of bonds to fully fund the infrastructure improvements.

On October 5, 2010, the County Board of Supervisors approved a resolution to issue tax allocation bonds for County Redevelopment Agency for the project area and provide approximately \$5,000,000 in proceeds to fund the completion of the water and road improvements. Annual debt service will be approximately \$450,000 through 2035 and will be paid with future tax increment generated by the Cedar Glen Project Area.

#### Other Information

As of June 30, 2009 cash and investments totaled \$281,292.

Zone CG received notification in July 2007 that it was approved for reimbursements up to \$2,998,531 from a Community Development Block Grant for improvements and upgrades. For FY 2008-09, the most recent audited year, Zone CG incurred \$1,222,134 in expenses that would be eligible for reimbursement through this grant, of which \$896,414 is classified as outstanding from other governments.

An appropriation limit (Gann Limit) is required by Article XIII B of the State Constitution and limits the expenditure of the proceeds of taxes. Action taken on March 2, 2010 by the Board of Supervisors of the County of San Bernardino established the appropriation limit at \$541,136.

#### **IV. Status of, and opportunities for, shared facilities.**

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

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

##### *Local Government Structure and Community Service Needs*

Zone CG is governed by the County Board of Supervisors and administered by the County Special Districts Department; it is within the political boundaries of the Third Supervisorial District. Zone CG's budgets are prepared as a part of the County Special Districts Department's annual budgeting process. The annual budget is presented to the County Administrative Office and Board of Supervisors for review and approval. Zone CG does not utilize an advisory commission or municipal advisory council.

##### *Operational Efficiency*

As a mechanism to control costs, the County of San Bernardino Special Districts Department has consolidated many of the administrative and technical functions necessary to manage the various services provided under County Service Area 70. Therefore, Zone

CG has no direct employees; it pays for a proportional share of salaries and benefits costs necessary to serve it and pays a proportional cost of the administrative functions of the County Special Districts Department. To pay for these functions, the FY 2010-11 Budget indicates a transfer to CSA 70 Countywide for salaries and benefits and services and supplies support.

Zone CG is insured through the County's self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$2 million per occurrence. Excess insurance coverage over the Self Insured Retention (SIR) up to \$50 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA) Liability Program II.

### *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:

Direct service is not provided outside the boundaries of Zone CG.

Government Structure Change Options:

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

- Expansion or reduction. One possibility would be to expand or reduce the boundaries of Zone CG. However, Zone CG conforms to the redevelopment project area and was formed for the purpose of providing water to the former Arrowhead Manor Water Company as well as road service to the same area. Therefore, expansion or reduction of Zone CG is not a viable option.
- Assumption of Service by Lake Arrowhead CSD. Zone CG is within the boundaries of the Lake Arrowhead Community Services District ("LACSD") but not within its water service area. In this scenario, LACSD would assume responsibility for Zone CG's water service and would succeed to Zone CG's water system, assets, and liabilities. This scenario would reduce multiple public agencies overlaying the same area. Since Zone CG is already within the boundaries of LACSD, this scenario would not require LAFCO approval and would be subject to negotiation between the County and LACSD or a vote of the electorate.

- Consolidation of all public water agencies and/or service areas. Another scenario would be to consolidate all of the public water agencies providing retail water service within the boundaries of the Crestline-Lake Arrowhead Water Agency (CLAWA). These agencies include Arrowbear Park County Water District, County Service Area 70 Zone CG, CLAWA, Crestline Village Water District, Lake Arrowhead Community Services District, and Running Springs Water District. This option could reduce duplication of administrative efforts and provide the opportunity for economies of scale. Further, it would provide a single voice for this part of the mountain region regarding water issues. This option could also alleviate the need for short-term solutions for water delivery. This is a viable option, and appears more practical for the Crest Forest and Lake Arrowhead communities. However the details of a possible consolidation would need to consider the other services provided by the agencies and if annexation of additional territory would be included.

### **ADDITIONAL DETERMINATIONS**

1. The Commission's Environmental Consultant, Tom Dodson and Associates, has indicated his position that the options outlined in this report for the various agencies are statutorily exempt from environmental review. Mr. Dodson's response for each of the reviews is included in their respective attachments to this report.
2. For the proposed Lake Arrowhead Community Services District sphere expansion in Hesperia, as required by State Law individual notice was provided to all landowners and registered voters within 1,350 feet of the proposed sphere of influence change.

As required by State Law notice of the hearing was provided through publication in a newspaper of general circulation, the *Alpenhorn News*. Individual notice was not provided as allowed under Government Code Section 56157 as such mailing would include more than 1,000 individual notices. As outlined in Commission Policy #27, in-lieu of individual notice the notice of hearing publication was provided through an eighth page legal ad.

3. As required by State law, individual notification was provided to affected and interested agencies, County departments, and those agencies and individuals requesting mailed notice. In addition, on November 17<sup>th</sup> LAFCO staff held a meeting with affected agencies to review the staff reports and the recommendations to be made to the Commission.
4. Comments from landowners/registered voters and any affected agency will need to be reviewed and considered by the Commission in making its determinations.

### **RECOMMENDATIONS**

Staff recommends that the Commission take the following actions:

1. Receive and file the service reviews for the Lake Arrowhead Community; make findings related to the service review for Lake Arrowhead Community Services District required by Government Code 56430 as outlined in the staff report.
2. For environmental review, certify the sphere of influence expansions for Lake Arrowhead Community Services District (LAFCO 3110) and modification of the service description to the water function to recognize its delivery of reclaimed wastewater for irrigation purposes are statutorily exempt from environmental review and direct the Executive Officer to file the Notice of Exemption within five (5) days.
3. Approve the sphere of influence expansions and modify the service description to the water function to recognize its delivery of reclaimed wastewater for irrigation purposes for the Lake Arrowhead Community Services District as identified in this report.
4. Adopt Resolution No. 3117 for LAFCO 3110 - Service Review and Sphere of Influence Update for Lake Arrowhead Community Services District reflecting the Commission's determinations.

KRM/SM/MT

## **ATTACHMENTS**

1. [Map - Lake Arrowhead Community and its Agencies](#)
2. Lake Arrowhead Community Services District
  - a. [Map – Current Boundary and Sphere](#)
  - b. [Map – Proposed Sphere Expansion](#)
  - c. [Service Review and Sphere Update Response](#)
  - d. [Financial Information: Budget and Audit](#)
  - e. [Response from Commission's Environmental Consultant](#)
  - f. [Draft Resolution No. 3117 for LAFCO 3110](#)
3. County Service Area 70 Zone D-1
  - a. [Map](#)
  - b. [Financial Information: Budget and Audit](#)
  - c. [Letter from Rim of World Recreation and Park District Regarding Maintenance of CSA 70 Zone D-1 Park](#)
4. County Service Area 70 Zone CG
  - a. [Map](#)
  - b. [Financial Information: Budget and Audit](#)
  - c. [Cedar Glen Project Status Report](#)